Chapter-II

2. Reviews in respect of Government companies

2A. REVIEW ON THE WORKING OF ORISSA RURAL HOUSING AND DEVELOPMENT CORPORATION LIMITED

Highlights

Investment of surplus funds in equity-oriented and risky mutual funds instead of investment in Term Deposits resulted in loss of Rs.1.18 crore towards interest and Rs.0.87 crore towards reduction in the face value of scrip.

(Paragraph 2A.8)

Disbursement of assistance of Rs.57.21 crore to beneficiaries in Community Management Groups without ensuring adherence to prescribed guidelines resulted in non-recovery of Rs.8.90 crore as on March 2001.

(Paragraph 2A.10)

The Company could furnish Utilisation Certificate for only Rs.8.37 crore though grants amounting to Rs.13.50 crore were received from the State Government. Delay in furnishing Utilisation Certificate led to Government of Orissa withholding release of the grant (Rs.2.10 crore) which could have subsidised construction of 7,000 houses.

(Paragraph 2A.11.1.2.1)

Failure to follow instructions of Board not to avail of high cost loan coupled with delay in pursuance with the State Government resulted in high cost borrowings being lent at a lower rate with loss of interest of Rs.0.64 crore.

(Paragraph 2A.11.1.3)

During the period from 1996-97 to 2000-01, the Company disbursed Rs.15.57 crore towards project finance loan of which Rs.9.61 crore is overdue as on March 2001. No action was initiated to recover the over dues amount.

(Paragraph 2A.12.1)

Grant of project finance without adequate project appraisal, market survey or collateral security coupled with failure to take effective action to recover dues led to non-recovery of Rs.2.66 crore.

(Paragraphs 2A.12.1.2, 12.1.3 & 12.1.4).

The Credit Linked Housing Scheme failed to provide *Pucca Cyclone Proof* houses to the cyclone victims despite disbursement of Rs.141.71 crore due to non-availability of cost effective building material and delay in mobilisation / disbursement of funds by the Company.

(Paragraph 2A.13.1)

Company was entrusted with re-construction of 1,37,500 houses affected in the super cyclone of October 1999. While loan had been partly disbursed (Rs.141.71 crore), 6,182 eligible beneficiaries were deprived of the balance loans (Rs.7.42 crore) due to injudicious decision of the Board. Further, 10,809 beneficiaries were deprived of the benefit of assistance due to non-inclusion in the waiting list in lieu of those dropping out on inclusion under other schemes.

(Paragraph 2A.13.2)

Physical verification of implementation of the scheme at ground level in Gram Panchayats of 5 severely affected districts revealed that only 13 per cent of loanees physically verified had completed their houses even after one year after the cyclone. There were also cases of irregular selection of beneficiaries, unrealistic disbursement of assistance and lack of awareness which retarded the rehabilitation effort.

(Paragraph 2A.13.4)

2A.1 Introduction

The Orissa Rural Housing and Development Corporation Limited (ORHDC) was incorporated on 19 August 1994 as a wholly owned Government company with the main objective of financing, promoting and developing rural housing and related activities and to provide financial assistance for rural housing purposes either directly to the individual or through Voluntary Groups like Community Management Groups, etc.

Since financing of rural housing activities did not leave an adequate margin of return, the Company adopted (June 1995) a policy of financing rural housing activities up to 60 per cent of its business and devoting the balance 40 per cent to urban housing finance and other high yielding housing finance activities with a view to cross subsidising the meager income from rural housing activities.

2A.2 Organisational Set up

The management of the Company is vested in a Board of Directors consisting of eight Directors including a Chairman-cum-Managing Director (CMD). The day to day management of the Company was controlled by the CMD upto 4 January 2000 and thereafter by a Managing Director who is assisted by a Company Secretary and two Executive Directors. The Company has fourteen District Offices which are managed by Assistant Administrative Officers.

2A.3 Scope of Audit

The working of the Company for the period from 1996-97 to 2000-2001 with emphasis on implementation of Housing Finance Schemes was reviewed in audit during October 2000 to February 2001 and the results thereof are discussed in the succeeding paragraphs.

2A.4 Capital Structure and Borrowings

As against the authorised share capital of Rs.60 crore (Equity: Rs.50 crore and Preference: Rs.10 crore), the paid-up capital of the Company as on 31 March 2000 was Rs.7.75 crore (Equity: Rs.7 crore and Preference: Rs.0.75 crore). The borrowings of the Company as on 31 March 2000 stood at Rs.175.85 crore.

2A.5 Financial Position and Working Results

The Company had finalised its accounts up to 1996-97 and prepared provisional accounts upto 1999-2000. The financial position and working results of the Company for the last four years are given in Annexure-10.

As would be seen from the working results, the Profit (before Tax) had declined from Rs.144.75 lakh in 1996-97 to Rs.94.24 lakh in 1999-2000. The reduction in profit was due to decline of profit margin from 35.82 per cent in 1996-97 to 16.48 per cent in 1999-2000 and some of the main reasons for the decline in profit as observed in audit were as follows:

(i) Poor recovery of dues from Economically Weaker Section (EWS) beneficiaries (Kalinga Kutira Scheme) which restricted revenue availability for recycling of funds (Paragraph 2A.11.1.1), and

(ii) Heavy burden of interest on deposit from EWS beneficiaries utilised for disbursement to loanees under Project Finance Scheme from whom the corresponding recoveries were not forthcoming (Paragraph 2A.12.1).

While accepting the audit comments, the Management stated (July 2001) that it was planning for better fund management and higher profitability.

2A.6 Lack of Budgetary Control

The Company places its Annual Budget before the Board and obtains its approval before commencement of each financial year. It was observed in audit that though the percentage of shortfall in achievement in disbursement of housing loans during the four years ending 1999-2000 ranged between 39 and 88 (rural sector) and 42 and 86 (urban sector), the shortfalls in achievement of the targets were neither analysed by the Management nor were they placed before the Board for consideration thus denying the Board an opportunity to exercise meaningful control over the budget.

The Management noted (July 2001) the observation of audit for future guidance.

2A.7 Cash Management

The Company had neither evolved a system of forecast of funds required nor prepared periodical cash/fund flow statements. Board desired (April 1998) that fortnightly or monthly cash flow statements be prepared and placed before them periodically to ensure a match between resourcing and utilisation of low cost/high cost funds so as to arrest any cash loss. It was observed in audit that cash flow statements had never been prepared and placed before the Board since its inception till date (August 2001). In this connection, the following observations are made:

(i) There was no proper maintenance of records at Head office indicating the total funds required to be released under each scheme or released from time to time;

Non-investment of the surplus funds resulted in loss of interest of Rs.0.17 crore.

(ii) Funds were released to District Offices without considering the cash and Bank balances available with them resulting in substantial accumulation of funds. A test check revealed that in five District Offices (Cuttack, Kendrapara, Jagatsinghpur, Jajpur and Puri) the surplus funds were not judiciously deployed to earn interest. Non-investment of such funds ranging from Rs.1.13 crore to Rs.9.52 crore for the periods from 7 to 132 days resulted in loss of interest of Rs.17.18 lakh (calculated at 8 per cent per annum applicable for short-term deposits);

(iii) Periodical reconciliation of funds released to District Offices was not done;

(iv) Physical verification of cash was never conducted in any of the District Offices and Corporate Office;

(v) There were no instructions to District Offices for transfer of funds to Head Office; and

(vi) A test check of records of Head Office revealed that the Company was carrying heavy cash balances ranging from Rs.0.39 lakh to Rs.13.22 lakh due to non-assessment of daily requirement of funds for expenditure. There is no stipulation as to the minimum cash balance to be maintained. Closing balance of cash was not authenticated on daily basis.

The Management noted (July 2001) the observations of audit for future guidance. The fact remains that there had been lack of adequate financial control by the Management.

2A.8 Investment

Failure to adhere to Government instruction and disinvest the risky mutual funds resulted in loss of interest of Rs.1.18 crore.

Instead of investing funds in approved securities, the Company invested Rs.1.50 crore (January 1995) in the equity linked Mutual Fund of General Insurance Company (Fortune 1994) and Rs.1 crore (April 1995) of Canara Bank (Canganga) at face value of Rs.10 per unit. The State Government issued instructions (November 1996) that Public Sector Undertakings should not invest their surplus funds in equity oriented or risky Mutual Funds. It was stipulated that investments already made which were not in conformity with the above guidelines should not be renewed after maturity and were to be retired to fall in line with the above mentioned guidelines. The Net Asset Value (NAV) in March 1997 aggregated to Rs.1.95 crore. However, the Company did not liquidate (disinvest) the units held by it. The value of investment in March 2001 declined to Rs.1.62 crore.

Thus, by not complying with the instructions of the State Government in March 1997, the Company lost Rs.87.15 lakh due to declining NAV and also the opportunity of earning interest of Rs.1.18 crore by deploying the realisations in fixed deposits.

The Management stated (July 2001) that it would dispose of the units soon after the unit price becomes at least at par. It added that instructions of Government would be adhered to in future. The reply is not tenable since the NAV of the Mutual Funds were in declining trend and early compliance was not shown to Government instructions.

2A.9 Sanction, Disbursement and Recovery of Loans

The sanction and disbursement of loans to Rural Housing and Urban Housing Schemes during the last four years upto1999-2000 are given in Annexure-11. It would be seen from the Annexure that the percentage of disbursement in case of urban housing finance has gone up from 11 (1996-97) to 75 (2000-01). The irregularities in sanction, disbursement and recovery noticed in audit under various schemes have been discussed in paras 2A.11, 2A.12 and 2A.13 infra.

2A.10 Community Management Groups (CMG)

One of the primary objectives of the Company was to provide financial assistance for rural housing through involvement of the local people by means of Community Management Groups (CMG). CMGs are organised by the people themselves as per bye-laws approved by the Company and registered under the Societies Registration Act, 1860.

Before availing financial and other assistance from the Company, every member of the CMG should open a Savings Bank Account with minimum deposit of Rs.400. The Company would hold a lien over this fund and the CMG should ensure *inter alia* the daily/weekly/monthly deposits as prescribed from time to time by the Company towards repayment of loans taken by its members.

Disbursement of Rs.57.21 crore to 713 CMGs without observing the terms of CMG bye-laws.

Scrutiny of the records of the Company revealed that the Company disbursed (upto March 2001) Rs.57.21 crore to 27,820 EWS beneficiaries of 713 CMGs despite non-observance of the following conditions required as per the bye-laws:

(i) required undertaking from the CMGs was not obtained before granting financial assistance to them;

(ii) designated Officers were not appointed by the Company in any of the CMGs to monitor the funds;

(iii) Chartered Accountants were not appointed to audit the funds of the CMGs nor were utilisation certificates obtained from them;

(iv) daily savings through Women Saving Promotion Groups (WSPG) was not ensured which affected the recovery of loans from the EWS beneficiaries; and

(v) completion report of construction of houses was not received from any of the CMGs.

The Company could not recover Rs.8.90 crore from the CMGs.

In the absence of exercise of such control by the Company over the CMGs, the Company could neither ensure the disbursement of loan to actual beneficiaries nor could it recover its dues from the CMGs amounting to Rs.8.90 crore as on March 2001.

The Management stated (July 2001) that the deficiencies observed by audit would be taken care of before any further release to CMGs.

2A.11 Implementation of Rural Housing Schemes

Implementation of different Housing Schemes undertaken by the Company for the benefit of EWS and SC/ST loanees with the finance from State Government, HUDCO and Commercial Banks are discussed below:

2A.11.1 Kalinga Kutira Scheme

The Company has an ongoing programme called 'Kalinga Kutira Scheme' (KKS) for grant of loans to EWS beneficiaries under CMG mechanism for construction of fire proof houses. Under the scheme, each beneficiary was to get loan of Rs.19,500 against the unit cost of Rs.26,400 of the house which were revised to Rs.25,000 and Rs.35,000 respectively with effect from April 1997. The year-wise target and achievement *vis-a-vis* amount sanctioned and disbursed by the Company to the beneficiaries under KKS during the period 1995-96 to 2000-01 was as follows:

Year	Target of loanees (No)	Sanctioned		Actual Disbursement as on 31 March 2001		Physical progress of construction of houses			Percentage of completion of houses to loanees (Cumulative)
		No. of loanees	Amount (Rs. in crore)	No. of loanees	Amount (Rs. in crore)	Not started	In progress	Completed	
1995-96	10000	8216	18.64	7810	15.54	510	4400	2900	37
1996-97	15000	12418	31.00	9607	21.36	957	6490	2160	22
1997-98	10000	10190	25.50	5791	11.86	1142	3664	985	17
1998-99	10000	537	1.34	398	0.77	18	266	114	29
1999-00	12000	9667	24.29	4164	7.62	1524	2319	321	08
2000-01	-[φ]	97	0.29	50	0.06	50	-	-	-
Total	57000	41125	101.06	27820	57.21	4201	17139	6480	23

It would be seen that only 72 per cent of the target of sanction of loans could be achieved over the 6 years from 1995-96 to 2000-01. It was observed in audit that one of the reasons for the low percentage of completion of houses was the inadequate amount of assistance of Rs.15,000/Rs.16,000 actually rendered to the beneficiary as a part of the loan amount (Rs.4,500/Rs.9,000) was retained as fixed deposit of the loanee to ensure repayment in terms of the provisions of the Scheme. The position was further aggravated by non-release of Central/State grant to the beneficiaries for physical progress of the houses and non-supply of cost effective building material by the building centres to whom part of the loan amount was paid directly. In view of the above defective schematic provisions, the very aim of the Scheme of enabling homeless people to secure affordable shelter was defeated.

Further, as per the agreement made by the beneficiaries with the Company, the beneficiaries were to avail the loan within 14 months from the date of sanction failing which the loan was to be cancelled by the Company. It was observed in audit that in spite of non-drawal of loan by 16,109 beneficiaries within the

[φ] No target was fixed due to implementation of Credit Linked Housing Scheme for cyclone victims.

stipulated period, the Company has neither cancelled the loan amount not yet disbursed (Rs.10.17 crore) nor initiated recovery action for the disbursement made (Rs.29.70 crore) so far (August 2001).

The Management accepted (July 2001) the facts.

2A.11.1.1 Demand and Recovery of loans from beneficiaries under Kalinga Kutira Scheme

The loans sanctioned to beneficiaries under Kalinga Kutira Scheme was recoverable at the interest rate of 11 per cent per annum in 180 monthly instalments and recovery would start after full disbursement of loan with no moratorium. The cumulative position of demand, collection and balance as at the end of each of the five years up to 2000-01 was as follows:

(Rs. in lakh)

Year	Cumulative demand	Collection		Balance at the end of the year	Percentage of cumulative collection to demand
		During the Year	Cumulative		
1996-97	19.64	0.40	0.40	19.24	2.04
1997-98	85.11	0.40	0.80	84.31	0.94
1998-99	255.54	1.93	2.73	252.81	1.07
1999-00	547.14	3.24	5.97	541.17	1.09
2000-01	902.27	6.59	12.56	889.71	1.39

The main reasons attributed for the poor recovery position was that the Company was not equipped with the field machinery required for recovery, non-initiation of legal action for recovery, non-implementation of saving schemes by the CMGs and poor repayment capacity on the part of beneficiaries. The Company has not devised a system of maintaining loan ledgers and issue of demand notices to facilitate pursuance of collection.

Since the physical recovery of rural housing loans through CMGs was not satisfactory, Board advised (November 1997) the Company to set up a recovery mechanism by adopting the following strategies:

(i) to obtain individual as well as group guarantee from all the members of the CMG and to obtain mortgage of individual properties of the executive committee members of the CMG;

(ii) to involve Gram Panchayat functionaries in the recovery process on payment of incentives; and

(iii) to involve revenue authorities in the recovery process on payment of incentives.

Audit noticed that neither were the above proposals implemented till date (March 2001) nor was the Board ever appraised of the action taken in the matter.

The Management stated (July 2001) that the Company had opened district level offices and staff was entrusted with disbursement and recovery action. It was added that Government had been requested to include the recovery of

EWS* housing loans under the Orissa Public Demand Recovery Act. The fact remains that the Company opened district offices belatedly in January 2000 which could have been done much before to improve the recovery position.

2A.11.1.2 Utilisation of Grant Received under Kalinga Kutira Scheme

2A.11.1.2.1 State Government Grants

The Company receives grants from Government of Orissa towards construction assistance for disbursement (at the rate of Rs.3000 per beneficiary) to EWS beneficiaries under Kalinga Kutira Scheme to meet the transportation cost of building material and to meet the shortfall, if any, for repayment of loan which arises only after full disbursement of the loan. During the period from 1994-95 to 1998-99, the Company received grants of Rs.13.50 crore in respect of 45,000 beneficiaries. In this connection, audit noticed that:

(i) as against Rs.13.50 crore received, the Company furnished Utilisation Certificates (UCs) for only Rs.8.37 crore including diversion of Rs.72 lakh to Orissa State Housing Board;

(ii) out of Rs.3 crore of grant relating to 1997-98, grant of Rs.2.10 crore was withheld by the Government of Orissa for want of UCs. Audit noticed that no action was taken by the Company for release of the grant. The unreleased grant of Rs.2.10 crore could have subsidised construction of houses for 7,000 more beneficiaries. Due to non-submission of UCs, Government of Orissa stopped release of grants from 1999-2000; and

Irregular adjustment of Rs.2.59 crore towards recovery from loanees.

(iii) the grants (Rs.7.65 crore) utilised for repayment of loans includes irregular adjustment of Rs.2.59 crore towards recovery from 8,642 loanees who availed only a part of the loan.

The Management stated (July 2001) the balance amount of grant could not be disbursed because of non-release of housing loan by HUDCO. It was added that since the repayment of loan from EWS beneficiaries was not certain, the grant was adjusted against their repayment. The reply is not tenable since the Company disbursed loans to 27,820 beneficiaries but adjusted the grant against only 25,500 beneficiaries and there was scope for further utilisation of the grant to the extent of Rs.69.60 lakh.

2A.11.1.2.2 Central Government Grants

During the period from 1994-95 to 1996-97, Company received grants of Rs.6.04 crore from the Central Government for disbursement to EWS beneficiaries under the Kalinga Kutira Scheme. The grant was to be disbursed at the rate of Rs.5,400 for construction of new houses. As per the guidelines, at least 75 per cent of amount drawn was to be utilised before release of further Central grant. Following observations are made in audit:

* EWS- Economically Weaker Section

Non-submission of UC led to non-release of grant of Rs.8.95 crore.

(i) though Rs.6.04 crore was stated to have been utilised, utilisation certificates have not been furnished so far (March 2001) in spite of repeated requests by the State Government. As a result, the Company could not avail a further grant of Rs.8.95 crore in respect of 16,580 beneficiaries for the period from 1997-98 to 2000-01; and

(ii) instead of utilising the grant for disbursement to the beneficiaries as per the guidelines (September 1994) for expanding the physical programme, the Company adjusted the same towards recovery at the rate of Rs.4,300 per loanee which adversely affected the completion of the houses.

The Company's reply (July 2001) was silent about non-furnishing of utilisation certificates to Government in support of the grant utilised which would have enabled release of further Central grant.

2A11.1.3 Non-disbursement of high cost borrowings to beneficiaries

During 1994-95, the Company availed long-term loans at 9 per cent interest per annum from State Government for disbursement to beneficiaries under the Kalinga Kutira Scheme at the rate of 10 per cent interest per annum. In February 1996, the State Government while releasing the loan of Rs.2 crore enhanced the interest rate on borrowings under the scheme from 9 to 13.5 per cent which resulted in the scheme becoming unaffordable for the EWS. Board resolved (November 1997) i.e. after a lapse of more than one and half years, that Government should be requested either to subsidise the interest burden or allow the Company to utilise the funds for disbursement of housing loans to beneficiaries other than EWS or otherwise not to avail of the loans at all. Government of Orissa was requested (April 1998) after a further delay of six months to accord approval to the Company to utilise the borrowings for lending to low income groups and middle income groups for housing purposes at interest rate of 13.5 per cent and above under the overall scheme. The Company availed an amount of Rs.5.04 crore (March 1997) and Rs.5 crore from November 1998 to March 1999 out of the amount sanctioned during 1997-98 at higher rate of interest and utilised it for disbursement to EWS beneficiaries at a lower rate of interest (10 per cent). Government of Orissa intimated (September 1999) that diversion can not be permitted and directed the Company to refund the entire high cost borrowings along with interest at 13.5 per cent per annum if the Company was unwilling to take up the scheme. Thereafter, the Company decided (January 2000) to repay the high cost borrowings and accordingly the amount of Rs.10.04 crore along with interest at 13.5 per cent (Rs 2.49 crore) was repaid (April 2000).

Delay in refund of high cost borrowings resulted in loss of interest of Rs.0.64 crore.

Thus, due to delay in pursuance of the matter with the State Government, the Company saddled itself with high cost of borrowings with loss of interest of Rs.64.43 lakh which could have been avoided/reduced had the Company followed the Board's instruction of November 1997.

The Management stated (July 2001) that funds received by the Company were in the shape of basket of borrowings and lent with average margin in rural and urban sector yielding appropriate profit. The fact remains that the Company had to sustain a loss as it continued to avail loans even after coming to know of Government's decision to raise the interest rate without first resolving the matter.

2A.11.1.4 Non-application of enhanced interest rate

One of the sources of financing of the rural housing scheme is borrowings from HUDCO at 9 per cent rate of interest per annum. HUDCO enhanced (August 1999) the rate of interest on rural housing scheme loan from 9 to 10 per cent with effect from 20 March 1999. However, the Company enhanced the lending rate with effect from 1 October 1999 for fresh sanctions only.

Non-incorporation of a condition in the agreement with loanees to reset the interest rate resulted in loss of Rs.1.17 crore.

It was observed in audit that as per the terms of the agreement between HUDCO and ORHDC, the former reserved the right to re-set the interest rate after interval of 5 years. However, this contingency was not taken into account by ORHDC while entering into agreements with the beneficiaries i.e. incorporating an enabling clause for revision of interest rates from dates intimated by HUDCO. Failure to incorporate such a clause to enhance the rate of interest led to loss of Rs.1.17 crore on 4,041 nos. of fresh loans amounting to Rs.10.17 crore sanctioned by the Company between April to September 1999.

The Management accepted (July 2001) the facts.

2A.11.1.5 Avoidable payment of Penal Interest

In terms of the loan agreement with HUDCO, in the event of default in payment of instalment of loan and/or interest on the due dates, the Company was liable to pay penal interest for the defaulted period at the rate equivalent to the average cost of borrowing of HUDCO over and above the other charges.

Delay in repayment resulted in payment of penal interest of Rs.0.51 crore.

Audit observed that there were delays ranging from 16 to 86 days on three occasions in repayment of dues for the quarters ending June 1999 and from June 2000 to March 2001 despite availability of funds which resulted in avoidable payment of penal interest to the extent of Rs.51.38 lakh. The penal interest occurred due to lack of any system of checking demands raised and adjustment made by HUDCO.

The Management stated (July 2001) that HUDCO had been requested for waiver of the penal charges and the Company was hopeful that it would be considered sympathetically by HUDCO. The fact remains that had the Company paid the instalments of loan in time, question of payment of penal interest would not have arisen.

2A.11.2 Differential Rate of Interest (DRI) Scheme for Scheduled Caste and Scheduled Tribe Beneficiaries

To provide housing to rural SC/ST beneficiaries, Board decided (June 1995) to finance 10,000 SC/ST beneficiaries by availing low cost funds of DRI Scheme (at the interest rate of 4.25 per cent) through the Indian Bank. The Scheme envisaged construction of 10,000 houses at a cost of Rs.22.50 crore (unit cost Rs.22,500) which was to be shared by Indian Bank Rs.5 crore, ORHDC

Rs.14.50 crore and the beneficiaries Rs.3 crore. The Company availed Rs.5 crore from Indian Bank in September 1995 which was to be repaid within 7 years from the date of availment. Audit scrutiny revealed the following:

Disbursement of Rs.2.81 crore was not verifiable in audit due to absence of documentary evidence.

(i) The Company utilised only Rs.2.81 crore against 5,616 beneficiaries at the rate of Rs.5,000 each till March 1998 which was just 56 per cent of the low cost funds available from Indian Bank for the scheme. In the absence of list of beneficiaries along with individual loan agreements, sanction letters and recovery details, the authenticity of disbursement of Rs.2.81 crore could not be verified in audit, and

(ii) The Company diverted (December 1997) Rs.1.61 crore towards repayment of instalments of loan thus defeating the objective of the scheme. The balance amount of Rs.3.39 crore was repaid by December 2000 to the Bank without actual recovery from the beneficiaries and the loan was fore-closed. Further, such decision was not placed before the Board.

The Management stated (July 2001) that in the absence of demand from SC/ST people, the loan account was closed out of the available resources. The reply is not tenable since the loan account was closed (partly out of the loan fund) due to non-arrangement of matching contribution by the Company. Further, the Company did not mention any thing regarding authenticity of the disbursement observed by audit.

2A.11.3 Implementation of Credit-cum-Subsidy Scheme

Government of India launched (April 1999) a Credit-cum-Subsidy Scheme to meet the housing needs of rural poor having income upto Rs.32,000 per annum and not covered under Indira Awas Yojna (IAY). The State Government entrusted the Company with implementation of the Scheme. As per the Scheme, the unit cost of the house would range from Rs.20,000 to Rs.40,000 with subsidy component of Rs.10,000 to be shared in the ratio of 75:25 between Central and State Government. The following irregularities were noticed in the implementation of the Scheme:

Utilisation of Rs.17.02 crore could not be verified in the absence of documentary evidences.

(i) Though the Company had submitted the progress reports/utilisation certificates (May 2001) against Rs.17.02 crore (29,458 loanees) received, the authenticity of these could not be verified in audit in the absence of the required records viz. registers showing the number of applications received and detailed list of beneficiaries sanctioned/disbursed;

(ii) Guidelines for opening separate bank account and separate receipts and payments were not followed; and

(iii) Though the Company was to avail loan from HUDCO for granting loan to the beneficiaries under this scheme, no arrangement was made by the Company to avail such loan as a result of which the authenticity of disbursement of subsidy is doubtful.

The Management stated (July 2001) that it had fully utilised the subsidy component received under the scheme and utilisation certificate had been furnished to Government in May 2001. The reply is not tenable due to the fact that the detailed list of beneficiaries was not made available to audit despite repeated requests and hence the authenticity of disbursements could not be verified in audit. Further, there was need for arrangement of loan funds for completion of the houses as per the terms of the scheme launched before the cyclone.

2A.12 Urban Housing Scheme

2A.12.1 Project Finance scheme for companies and corporate bodies

As a part of Urban Housing Scheme, the Company provides financial assistance to companies and corporate bodies engaged in construction of residential flats in urban areas. Disbursement of sanctioned loan commences after submission of detailed project report, ensuring title deeds, hypothecation of mortgage deeds and execution of agreement by the loanee. Loan is recoverable over a maximum period of 15 years at 17 to 21 per cent rate of interest in monthly/quarterly/half yearly instalments. Disbursement is made depending upon matching capital contribution of the promoter and physical progress of the project and pre-disbursement inspection conducted by the Company.

Non-recovery of overdues of Rs.9.61 crore adversely affected the financial position.

During the period from 1996-97 to 2000-01, the Company disbursed Rs.15.57 crore towards project finance loan to 27 projects. The amount recovered and overdue as on March 2001 was Rs.5.08 crore and Rs.9.61 crore respectively. No action had been initiated by the Company for recovery of the overdue amount which adversely affected the financial position of the Company as discussed in the following paragraphs. Further, in terms of loan agreements, the Company was to recover penal interest at the rate of 3.5 per cent per annum on the defaulted amounts. However, the Company had not claimed penal interest amounting to Rs.23.49 lakh (up to December 2000) from the defaulted loanees so far (February 2001).

The Management stated (July 2001) that action had been initiated for collection of overdues including money suits from chronic defaulters.

2A.12.1.1 Ineffective Project Appraisal

Audit scrutiny of the project appraisal made by the Company revealed that the Company had not established a Project Appraisal Cell with expert professionals for sound and effective project appraisals as a result of which many projects were not successful resulting in poor recovery of dues of the Company. A test check of projects implemented revealed various deficiencies viz. irregular disbursement of loans, lack of monitoring/inspection, selection of inefficient promoters and inaction for recovery as discussed below:

2A.12.1.2 Loss due to improper disbursement of Term Loans

A term loan of Rs.1 crore was sanctioned (December 1997) to Pawani Foundation Pvt. Ltd. (PFPL), Bhubaneswar, for construction of a housing project viz. "Saradhapooree" at Puri. The principal amount of Rs.1 crore was repayable on 2 April 2000. The loan was to be disbursed on receipt of mortgage of the project land and constructions thereon along with collateral security of additional freehold land, lien on 18 flats in the project to be constructed, personal guarantee of the Directors and demand promissory note of Rs.1 crore. The project cost of Rs.4.79 crore was to be funded by promoter (Rs.0.35 crore), advance from customers (Rs.3.44 crore) and loan from the Company (Rs.1 crore). The Company released Rs.30 lakh in January 1998. Following observations are made in audit:

(i) No tripartite agreement binding the loanees legally to pay the dues was made between the land owners, Builder and ORHDC;

(ii) The term loan was disbursed on various dates without due verification of contribution/investment brought in by the builder and physical progress of construction certified by technical experts. Thus, utilisation of loan for the purpose of sanction was not ensured; and

(iii) Though PFPL was not able to execute the project due to paucity of funds, yet the Company disbursed (April to September 1999) the balance undrawn loan (Rs.70 lakh) to the new joint venture of PFPL and JP Constructions without proper appraisal and without placing the proposal before the loan sub-committee and without tripartite agreement with the land owners and promoters. Further, the amount invested by the builder upto March 1999 was just Rs.7.75 lakh. Despite knowing the dismal financial position of the builder, the Company released further instalments of Rs.70 lakh which lacked justification.

Non-recovery of Rs.1.43 crore due to inadequate security

Thus, disbursement of loan without obtaining adequate security coupled with failure to take legal action for recovery or by invoking personal guarantee resulted in non-recovery of Rs.1.43 crore which had become overdue since July 1999 (Interest) and April 2000 (Principal Rs.1 crore).

The Management stated (July 2001) that tripartite agreement was not done as per legal opinion and registered Power of Attorney was created by the land owners. However, the reply of Management is silent about the recovery of outstanding dues and completion of the project. Further, in the absence of tripartite agreement, one of the landowners cancelled (June 1999) the Power of Attorney due to which the Company was not able to enforce the security created.

2A.12.1.3 Defective project appraisal

Sarthak Builders (P) Limited (SBPL), Cuttack had availed (March-September 1995) a term loan of Rs.75 lakh from LIC Housing Finance Limited (LICHFL) for construction of a Housing Project viz. 'Sarthak Tower' at Cuttack at a project cost of Rs.1.71 crore. The Project could not come up because of differences amongst the Directors of SBPL leading to a deadlock in the management. On a revival proposal (24 February 1998) of SBPL, the Company disbursed a term loan of Rs.50 lakh (August and November 1998) carrying an interest rate of 19 per cent against an equitable mortgage of land

and building on pari passu with LICHFL and personal guarantee of Managing Director (MD) and Directors of SBPL. The repayment of principal was to commence from February 1999 and interest from August 1998. The Company received only Rs.10.29 lakh out of its interest dues of Rs.24.10 lakh and did not receive any amount towards principal resulting in overdue of Rs.63.81 lakh (March 2001) since February 1999. Following irregularities were noticed in audit:

(i) the Company disbursed another term loan of Rs.22.50 lakh between June 1998 and June 1999 to Sri S.K.Mohanty, MD of SBPL, out of sanctioned loan of Rs.25 lakh against the same personal security obtained from the MD for the first loan without executing agreement. Against this second loan, the Company received only Rs.6.90 lakh and the overdue stood at Rs.25.74 lakh since June 1999 (Interest) and August 1999 (Principal);

(ii) the Company had not collected demand promissory note for its dues as a token of security as specified in the sanction order; and

(iii) the Company sanctioned and disbursed the loans to SBPL without verifying the viability of the project.

Disbursement of loan without ensuring viability of the project and without proper security led to recovery of Rs.0.90 crore being rendered doubtful.

Thus, disbursement of loan without proper appraisal and security resulted in the locking up of borrowed funds of the Company to the tune of Rs.89.55 lakh (Principal Rs.69.16 lakh and interest Rs.20.39 lakh). Further, the chances of recovery of the amount is doubtful in view of pari passu agreement with LICHFL as well as lack of sale of flats.

The Management stated (July 2001) that project viability was estimated on the basis of available residential flats and the builder was asked to provide collateral security towards the personal loan. The reply is not tenable since the assumptions as to marketability of the flats had not been properly supported by survey/market data which resulted in their non-disposal.

2A.12.1.4. Disbursal of loan without proper documentation

A term loan of Rs.20 lakh was disbursed (between May and June 1997) to Raj Bahadur Associates (RBA), Visakhapatnam, for construction of the housing project viz. Surya Enclave at Bhubaneswar at a cost of Rs.63.73 lakh against the mortgage of the project land, personal guarantee of the partner Sri S.R.K.K. Raj Bahadur and collateral security in the form of guarantee deed by Sri Prafulla Kumar Puhan who had the Power of Attorney over another land. The loan was repayable in 2 instalments on 15 August 1998 and 15 November 1998 and the interest (21 per cent per annum) was payable monthly commencing from June 1997. The Company received only Rs.3.06 lakh out of its interest dues of Rs.16.15 lakh upto March 2001 and did not receive any amount towards principal.

It was noticed in audit that:

(a) the Company sanctioned and disbursed the loans to RBA without executing tripartite loan agreement between the owners of the project land, RBA and the Company;

(b) the landowners had not executed affidavit towards clear title over the land as stipulated by the legal adviser of the Company. The landowners subsequently cancelled the Power of Attorney given to RBA and executed the same in favour of Surya Enclave Welfare Society which had since taken possession of the project. Hence, the chance of realisation of the loan is remote;

(c) the Managing partner of RBA, Mr. S.R.K.K. Raj Bahadur, had absconded (February 2001) without completing the construction work. As his whereabouts were not known, the legal notice issued after lapse of 26 months (September 2000) could not be served to him to enforce personal guarantee deed; and

(d) the collateral security was inadequate as Mr. Prafulla Kumar Puhan did not own any land and was only holder of Power of Attorney over another land. However, no attempt has been made to enforce collateral security till date (March 2001).

Failure to properly execute mortgage deed and to enforce collateral security resulted in non-recovery of Rs.0.33 crore.

Thus, disbursement of loan without properly executing mortgage deed along with inaction to enforce collateral security resulted in non-recovery of overdue amount of Rs.33.09 lakh (including interest of Rs.13.09 lakh since February 1998).

The Management stated (July 2001) that legal action was being taken against the builder.

2A.12.2 Individual Housing Scheme

In order to reduce losses, Company decided (June 1995 and May 1996) upon cross subsidisation of higher income group financing in the urban sector with that of rural housing scheme and to diversify its activities. Board approved (December 1998) the detailed guidelines of urban housing scheme for individuals, companies and corporate bodies. The Company disbursed Rs.42.68 crore to 2,846 number of loanees under the Scheme during the period from 1996-97 to 2000-01. Following observations were made in audit:

(i) though the Pre-Equated Monthly Instalment of Interest (PEMII) are required to be recovered till commencement of Equated Monthly Instalment (EMI), it was seen that the Company could recover only Rs.88.41 lakh (49 per cent) against the dues of Rs.180.24 lakh including realisation of Rs.69.04 lakh (70 per cent) from the fully disbursed loanees. The reasons for non-realisation/adjustment of the balance PEMII (Rs.29.97 lakh) dues even from the fully disbursed loanees were not on record; and

No efforts were taken for realisation of overdue of Rs.1.45 crore.

(ii) from 12 January 2001 onwards, the Company was to recover the EMIs through bank. Prior to that, cash/cheques were accepted directly. It was observed in audit that as at the end of March 2001, the Company could realise

Rs.7.69 crore (83 per cent) against the cumulative demand of Rs.9.14 crore (1,624 loanees) and the amount overdue was Rs.1.45 crore for a maximum period of 64 months. Out of 1,123 defaulter loanees, 286 loanees having overdues of Rs.62.26 lakh for a period ranging from one to 52 months did not pay even a single EMI and no efforts were made by the Company to realise the overdues.

Audit scrutiny was undertaken of all cases of loan sanctioned (Rs.5.86 crore) during period of review exceeding Rs.5 lakh. Out of 75 such cases, 30 (viz.40 per cent) were defaulters (Rs.27.88 lakh). Out of the 30 defaulters, there were 12 cases (as detailed vide Annexure-12) of default (Rs.18.61 lakh) exceeding Rs.1 lakh. It was noticed that the recovery from these loanees ranged between 'Nil' and 79 per cent with the period of overdue ranging between 151 to 516 days upto March 2000. The irregularities noticed in various cases are as under.

(i) Sanction of loan amount beyond eligibility: In case of Sri Dolagobinda Nayak, the then M.L.A of Aul (Sl. No. 2 of Annexure-12), housing loan of Rs.8 lakh was sanctioned (January 1999) as against the eligibility of Rs.6 lakh. However, the loanee had not repaid any instalment though Rs.1.40 lakh was overdue since April 1999. Similarly, in case of Sl. Nos. 6 and 11 of Annexure-12, loans of Rs.10 lakh and Rs.6 lakh were sanctioned against their eligibility of Rs.7.62 lakh and Rs.3 lakh respectively. No action had been taken by the Management to initiate recovery (August 2001).

The Management stated (July 2001) that the loan was sanctioned as a special case to Sri Nayak since he was a Member of the Assembly and the Company is hopeful of recovery of the loan. Regarding eligibility of the two others, it was stated that the loans were sanctioned as per their eligibility. The reply is not tenable since loans should have been disbursed as per the scheme criteria and timely action should have been taken for their recovery.

(*ii*) *Undue favour to the then CMD*: It was seen that a housing loan of Rs.9.75 lakh was sanctioned and disbursed (November1998) to Sri Indramani Rout (Sl.No.9 of Annexure-12), the then CMD of ORHDC, without taking approval from the Government of Orissa as per Section 295 of Companies Act, 1956. Loan was disbursed without obtaining approved plan and estimate, non-encumbrance certificate and without guarantee deed. Though sanction was with the condition that the repayment period would be either 15 years or till the end of tenure of Shri Rout as CMD, whichever is earlier, the same was not incorporated in the loan agreement with the result that after the cessation of tenure of Sri Rout (October 1999), the amount of outstanding (Rs.12.96 lakh) is still pending (March 2001) for recovery.

The Management stated (July 2001) that since the loan was sanctioned under normal terms, approval of Government was not considered. The reply is not tenable since permission of Government was not obtained as per the Companies Act and moreover the loan agreement was not made as per the conditions of sanction.

(iii) Undue favour to Builders: In case of Sl.Nos.4 and 11 of Annexure-12, loans were disbursed without security/mortgage. It was seen that the loanees furnished an undertaking that flats from Metro Complex would be mortgaged and the title transferred to the Company. However, Metro Complex was earlier mortgaged with the Company against loan of Rs.1 crore and hence considering the part of same property as security was unjustified as the security will not be enforceable for the present loan. Till date, not a single instalment of loan had been paid nor had recovery action been taken.

(iv) Inadequacy of value of security obtained**:** It was seen that in three cases (Sl. Nos.3, 5 & 8 of Annexure-12), as against loans of Rs.10 lakh each, the amount of security obtained was only Rs.0.48 lakh, Rs.1.46 lakh and Rs.0.15 lakh which was clearly inadequate.

The Management stated (July 2001) that the loan was sanctioned against land value as well as cost estimate of the building thereon. The reply is not tenable since estimated cost of the building should not have been considered as security.

(v) Sanction of additional loan despite non-realisation of a single EMI against earlier loan disbursed by the Company: In case of Sl. No.1 of Annexure-12, a loan of Rs.1 lakh was sanctioned in 1997. Though not a single instalment was paid, yet another loan of Rs. 9 lakh was sanctioned in 1998.

(vi) Disbursement made without ensuring the progress of construction as well as ensuring promoters contribution**:** In seven cases (Sl. Nos.1, 3, 4, 7, 10, 11 & 12 of Annexure-12), the disbursements were made without ensuring progress of construction as required under the terms of the loan. The Management noted (July 2001) the observations of audit for future reference.

(vii) Disbursement of loan for repayment of loan availed earlier from other sources**:** In case of Sl. Nos.1 & 6 of Annexure-12, the loan was sanctioned and disbursed to enable the repayment of earlier loan taken for the same property. The property was not mortgaged in favour of the Company making the loan security fragile.

(viii) Improper execution/non-execution of Guarantee Deed: The Guarantee Deed mentioning details of assets owned by the guarantor was either not executed or was incomplete in 7 cases (Sl. Nos.1, 3, 4, 7, 10, 11 & 12 of Annexure-12).

The Management stated (July 2001) that guarantee deeds had been executed in 5 cases and for others steps would be taken for proper execution of the same. The fact remains that the guarantee deeds stated to be executed were not as per requirement.

2A.13 Reconstruction of houses affected by Super Cyclone in October 1999

In the aftermath of the super cyclone which struck coastal region of the State in October 1999, the State Government embarked on a massive programme of relief and rehabilitation of the affected people. ORHDC was engaged as one of the agencies for re-construction of damaged/destroyed housing stock by providing financial assistance to build up 87,500 fully collapsed houses and 50,000 partly collapsed houses of beneficiaries in EWS category through borrowings from HUDCO under Credit Linked Housing Scheme.

2A.13.1 Financial Progress

HUDCO sanctioned (November 1999/October 2000) Rs.306.25 crore and Rs.175 crore for fully collapsed and partly collapsed houses respectively against which Rs.239.34 crore was released (upto March 2001) for only fully collapsed houses. The Company released Rs.141.71 crore (upto March 2001) to 1,09,008 beneficiaries of both the categories. Under the Scheme, Company was to release Rs.35,000 per beneficiary in four instalments i.e. Rs.6,000, Rs.7,000, Rs.12,000 and Rs.10,000 respectively. However, the Company was directed (May 2000) by the State Government to release the 1st and 2nd instalments (Rs.13,000) simultaneously and also to retain the last instalment (i.e. 4th. instalment of Rs.10,000) as fixed deposit of the beneficiaries to ensure repayment. Hence, the Company did not disburse the balance amount of Rs.97.63 crore to the beneficiaries. Following observations are made in audit:

i) No separate accounts were maintained for fully collapsed and partly collapsed houses in the absence of which disbursement of funds to partly collapsed beneficiaries against whom no funds were released by HUDCO could not be verified in audit;

Retention/adjustment of loan instalments meant for beneficiaries defeated the objective of the scheme.

ii) In addition to the retention of the last instalment towards fixed deposit (Rs.10,000), Board also decided (August 2000) to adjust the 3rd instalment (Rs.12,000) towards the repayment of loan already disbursed. Hence, the net release would be only Rs.13,000 which is quite inadequate for completion of houses and defeated the objective of enabling EWS beneficiaries for re-constructing their destroyed dwellings; and

iii) Funds amounting to Rs.97.63 crore retained by the company was diverted for disbursement to Government/Public Sector Employees.

The Management stated (July 2001) that the net release to the beneficiary being Rs.25,000 would be adequate for completion of the house. The reply is not tenable since after retaining Rs.10,000 as fixed deposit and adjustment of Rs.12,000 towards repayment, only Rs.13,000 was left towards construction of house which was inadequate. Non-disbursement of the full instalments thus deprived the intended EWS beneficiaries of the benefits of the Scheme.

2A.13.2 Physical Progress

Against the target of 1,37,500 beneficiaries (87,500 fully collapsed houses and 50,000 partly collapsed houses) sanction and disbursement was made (upto March 2001) to 1,30,046 and 1,09,008 beneficiaries respectively. Neither the State Government nor the Company has laid down any time frame for completion of the houses. Following observations are made in audit:

(i) Though 1,09,008 beneficiaries were disbursed assistance, the Company could inspect (up to February 2001) construction of only 69,052 houses (63.35 per cent) out of which 3,951 (6 per cent) only were completed whereas 33,018 (48 per cent) were not even started. Further, due to injudicious decision of the Board for adjusting the 3rd instalment towards repayment of loan already disbursed, 6,182 eligible loanees (constructed upto roof level) were deprived of 3rd instalment (Rs.7.42 crore) thus hampering the completion of construction of their houses;

Non-consideration of the waiting list resulted in depriving 10,809 cyclone victims from the benefit of the scheme.

(ii) Out of 1,30,046 beneficiaries sanctioned financial loan for construction of houses, 3,355 beneficiaries (Jagatsinghpur, Jajpur and Puri districts) dropped out subsequently due to inclusion of their names under IAY* Scheme (2,189), CMG** loan (146), not interested cases (205) and lack of proper documentation (815). Audit noticed that the beneficiaries under waiting list (13,750) were not considered in place of the dropouts (3,355) and the gap between target and sanction (7,454) was not filled in spite of the fact that each district office is having the list of beneficiaries approved by State Government. As a result, at least 10,809 beneficiaries were deprived of the benefit of availing housing loan for construction of houses; and

(iii) No action for cancellation of loan and recovery proceedings was initiated against the beneficiaries who had not started construction of houses (33,018) even after disbursement of Rs.42.92 crore.

The Management stated (July 2001) that due to non-availability of funds on account of non-release of 2nd instalment of loan by HUDCO, the 3rd and subsequent instalment could not be released to the beneficiaries. It was added that notice has been issued to those who had not started construction even after receipt of loan and proceedings under OPDR# Act would be initiated after obtaining clearance from Government. The reply is not tenable as the non - release of funds by HUDCO was due primarily to the Company utilising funds specifically released for EWS beneficiaries for providing loan to Government and Public Sector employees at higher rate of interest without obtaining concurrence of HUDCO which was objected by HUDCO.

Thus, the Credit Linked Housing Scheme for cyclone affected people failed to achieve the prescribed targets despite disbursement of Rs.141.71 crore.

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* IAY- Indira Awas Yojana
** CMG- Community Management Group
# OPDR Act- Orissa Public Demands Recovery Act, 1962

2A.13.3 Irregularities in the implementation of the Credit Linked Housing Scheme

Further, a test check of records at District Offices (established in January 2000) for the implementation of the Credit Linked Housing Scheme for cyclone affected victims revealed:

Identification of the beneficiaries was not done as per the prescribed procedures.

(i) As the total number of damaged houses assessed by the State Government was 21.87 lakh (Fully collapsed - 8.86 lakh and Partly collapsed - 13.01 lakh), beneficiaries were selected by the District Collectors through lottery. However, no identification was made in respect of beneficiaries belonging to Above Poverty Line/Below Poverty Line/EWS category though loan was sanctioned by HUDCO only for EWS category;

(ii) Twenty-eight loanees (Puri and Jagatsinghpur district) who were not selected in the lottery were assisted under the scheme thereby resulting in irregular sanction of loans to the extent of Rs.9.80 lakh (Rs.35,000X28) and disbursement of Rs.3.64 lakh. Audit noticed that no enquiry was initiated against the officials for the lapse (January 2001);

(iii) Three hundred fifty eight cheques dated between July and December 2000 amounting to Rs.44.03 lakh were not delivered to the beneficiaries (January 2001) the reasons for which were not on record; and

(iv) Affidavits from the loanee indicating his annual income and solvency as required under the scheme were not obtained in the absence of which the realisation of loan is doubtful.

The Management stated (July 2001) that the District Offices had been instructed recently to produce the category-wise list and audit observations against other items were noted for verification.

2A.13.4 Physical Inspection

In order to verify the implementation of the scheme at the ground level and to assess the extent to which the scheme had been successful in reaching assistance to the cyclone affected persons, Gram Panchayats (GP) of five most affected districts (Cuttack, Puri, Kendrapara, Jajpur and Jagatsinghpur) were selected by audit for physical verification of construction of houses. Accompanied by the staff of the Company, audit could inspect 1,821 loanees (51 per cent) out of 3,602 loanees in the GPs selected during the period November 2000 to January 2001. Out of the total beneficiaries inspected, 761 had not even started construction and for 824 the work was in progress. Only 236 (13 per cent) had completed their houses (January 2001) despite lapse of more than one year since the cyclone. This occurred due to late receipt of loan (294 cases), high cost/non-availability of building materials and engagement in agricultural work after the monsoon. The physical inspection brought out the following:

(i) Irregular selection of beneficiaries: One hundred and fifty six beneficiaries were disbursed Rs.20.28 lakh though their houses were not

affected in cyclone. Hence, the list of the Revenue Department on the basis of which loanees were selected was clearly defective;

(ii) *Non-disbursement of final instalment*: Non-disbursement of final instalment of Rs.12,000 to the beneficiaries (386 nos.) despite completion of construction till roof level resulted in non-completion of housing units defeating the purpose of the loan;

(iii) *Unrealistic assistance disbursed*: Retention of Rs.10,000 as fixed deposit resulted in lack of adequate funds for construction (for 202 beneficiaries) while others had to arrange loan from other sources (103 loanees). Thus, loan assistance to the extent of Rs.26.26 lakh to 202 beneficiaries became unfruitful; and

(iv) *Non-availment of facility of concessional cement*: As per decision of Central Government (February 2000), excise duty exempted cement was to be supplied for houses under this scheme which could not be availed by 1,046 beneficiaries due to lack of awareness of such scheme. Further, in case of 226 beneficiaries, funds/entitlement vouchers were not made available while 438 beneficiaries could not avail the facility as stocks were not available with the dealers.

Hence, it was evident that there were severe short-comings in extending of actual relief to the cyclone affected persons and only a small percentage of those affected had been afforded relief despite lapse of over a year.

2A.13.5 Establishment of Building Centres in the Cyclone affected Districts

For production and supply of cost effective building materials required for the cyclone affected victims, HUDCO decided (January 2000) to provide grant of Rs.2.50 crore for setting up 20 Building Centres (BC) by March 2000 under the aegis of the Company. The Board resolved (February 2000) that over and above the grant from HUDCO, loan assistance of Rs.20 lakh each would be given to these BCs to be managed by NGOs. It was also decided to set up another 60 BCs through private entrepreneurs by extending loan assistance of Rs.25 lakh each. During April 2000 to January 2001, the Company extended loan assistance of Rs.4.14 crore to 51 BCs (10 NGOs Rs.1.15 crore and 41 private Rs.2.99 crore).

In this connection, the following was observed in audit:

Non-submission of UC resulted in non-availment of grants of Rs.2.20 crore.

(i) Due to non-submission of Utilisation Certificates (UC) for the grants received (Rs.30 lakh) and non-documentation for the balance grants, the Company could not avail the balance grants of Rs.2.20 crore (February 2001);

(ii) Non-stipulation of any time schedule by the Company for commencement of production by the BCs defeated the very objective of financing the BCs; and

(iii) Though 14 BCs started production, the utilisation of their product by the beneficiaries as well as the cost effectiveness of the material had never been examined by the Company.

The Management stated (July 2001) that balance grant was not received from HUDCO due to non-submission of UC and certificate for possession of land and the observations of audit against items (ii) and (iii) were noted for future guidance. The fact remains that the Management could have taken timely action to overcome this problem.

2A13.6 Unfruitful expenditure on procurement of machinery for the Building Centres (BCs)

To meet the urgent need of 15 BCs managed by NGOs, the Company placed (February 2000) orders on Victor Electrical and Machinery Manufacturer (VEMM), New Delhi, the sole licensee of Building Materials and Technology Promotion Council (BMTPC) of Government of India, for supply of 15 sets of machinery by March 2000 at a cost of Rs.79.87 lakh inclusive of Rs.16.63 lakh towards cost of installation, training and setting up of service center.

Non-installation of machinery led to idle investment of Rs.0.80 crore.

It was noticed in audit that the delivery of the machinery was made in phases by July 2000 and the Company released (February to October 2000) the full cost of the machinery (Rs.79.87 lakh) though VEMM did not fulfil the conditions like installation of machinery, training and setting up of service centre. Further, the machines were yet to be installed which led to idle investment of Rs.79.87 lakh. Due to non-submission of C-form, the Company also incurred an additional expenditure of Rs.4.78 lakh.

The Management accepted (July 2001) the facts.

2A.14 Internal Audit

Board appointed (October 1994) Patra & Co, Chartered Accountants, Bhubaneswar, for conducting the internal audit of the Corporate Office on continuous basis with effect from September 1994. However, only two half-yearly reports for the year 1997 were submitted. Further, 13 district offices formed in January 2000 had not been subjected to internal audit so far (January 2001). The Company has neither taken any action on the reports nor placed them before the Board. Thus, expenditure incurred towards internal audit to the extent of Rs.4.96 lakh proved unfruitful.

Conclusion

Audit review revealed poor financial management of available resources and investments of funds in violation of instructions of State Government resulting in avoidable losses. The Company also failed to effectively implement the Housing Schemes meant for Economically Weaker Sections and for

Scheduled Castes and Scheduled Tribes due to operational deficiencies and unrealistic assumption which resulted in depriving the beneficiaries of the intended benefits and frustrating the objective of the Scheme. The Company was entrusted with providing financial assistance to persons in EWS category whose houses had been destroyed in the super cyclone of October 1999. Here again, irregularities in implementation coupled with failure to disburse full loan amount resulted in depriving a large number of EWS beneficiaries of the intended benefits thus defeating the objective of the assistance for re-construction of houses of those rendered homeless.

The above matters were reported to Government (April 2001); their reply was awaited (December 2001).

2B. REVIEW ON THE WORKING OF THE INDUSTRIAL DEVELOPMENT CORPORATION OF ORISSA LIMITED (IDCOL)

Highlights

Injudicious investment decisions and poor operational performance led to accumulated losses of Rs.31.95 crore as on 31 March 2000 which wiped out the earlier profits and eroded 56 per cent of the paid-up capital.

(Paragraph 2B.5)

Non-charging of interest on the sales consideration (Rs.51.37 crore) of Hira Cement Works treated as unsecured loans resulted in loss of Rs.7.59 crore.

(Paragraph 2B.6.2)

Investment in Equity shares of 5 companies and in Preference shares of 2 companies from borrowed funds coupled with delay in redemption of the Preference shares resulted in loss of Rs.3.07 crore.

(Paragraph 2B.7.1.)

Injudicious decision to reimburse the cash loss of ORICHEM Limited instead of pursuing its closure ignoring the fact that it was an irretrievably sick company led to loss of Rs.2.97 crore which further aggravated its liquidity position.

(Paragraph 2B.8.2)

Uneconomic coke mix resulted in excess consumption of 46,979 MT of coke valued at Rs.15.95 crore during the period 1996-97 to 1999-2000 in KIW.

(Paragraph 2B.10.2.1)

Conversion of 6.5 MVA slag furnace meant for production of LCFC into a furnace for production of HCFC despite the dwindling market for HCFC led to unfruitful investment of Rs.1.59 crore with consequential loss of interest.

(Paragraph 2B.11.2)

The Company received coke without proper assessment of the size which resulted in generation of excess breeze coke and consequential loss of Rs.10.01 crore.

(Paragraph 2B.11.4.2)

Purchase of fourth TG set without actual requirement resulted in futile investment of Rs.7.81 crore.

(Paragraph 2B.11.5)

Delay in finalisation of work order for modification of furnace No.1 of KIW resulted in cost overrun of Rs.3.50 crore with consequential loss of production of pig iron valued at Rs.57.69 crore.

(Paragraph 2B.11.6)

Non-recovery of conversion cost for production of HCFC as per the agreement with TISCO resulted in cash loss of Rs.1.28 crore.

(Paragraph 2B.12.2)

2B.1 Introduction

The Industrial Development Corporation of Orissa Limited (IDCOL) was incorporated as a wholly owned Government Company on 29 March 1962 with the following main objectives:

(i) to promote, establish and execute industries, projects or enterprises for manufacture and production of plant, machinery, tools, implements, material, substances, goods or things of any description which in the opinion of the Company are likely to promote or advance the industrial development of Orissa;

(ii) to aid, assist and finance any industrial undertaking, project or enterprise whether owned or run by Government, statutory body, private company, firm or individual, with capital, credit, means or other resources for prosecution of its work and business; and

(iii) to promote subsidiary companies for the purpose of implementing any of the objectives of the Company.

The Company set up (1963 to 1968) three units viz. (a) Kalinga Iron Works (KIW), (b) Ferro Chrome Plant (FCP) and (c) IDCOL Rolling Mill (IRM). The Company's investment in the three units was Rs.104.60 crore as on 31 March 2000 whereas the accumulated loss in these units stood at Rs.17.78 crore. The Company had invested Rs.69.60 crore in eight subsidiary Companies from 1974 to 1998.

The Company also invested Rs.6.29 crore in eight joint sector/joint ventures and other companies from 1962 to 1998 but realised only Rs.2.05 crore from disinvestment in one company with a profit of Rs.35 lakh up to 31 March 2000.

The Company had not formulated any policy for disinvestment at the appropriate time as a result of which the objective of re-cycling of funds in promotion of many industries was not achieved. No new industry could be promoted by the Company during the period from 1996-97 to 1999-2000 except one subsidiary (November 1998) called IDCOL Software Limited. Thus, the primary objective of the Company to accelerate industrial growth in the State remained unfulfilled.

2B.2 Organisational set-up

The management of the Company is vested with a Board of Directors consisting of 12 members including one Chairman cum Managing Director who is the Chief Executive with the powers to control the day to day management of the Company with the assistance of five General Managers and a Company Secretary at Corporate office and three General Managers in the three units of the Company.

2B.3 Scope of Audit

The investments and loans and advances made by the Company were reviewed and commented in the Report of the Comptroller and Auditor General of India (No.2) for the year ended 31st March 1993 (Commercial). Recommendations of the COPU are contained in Fourth Report (12th Assembly) presented to the Assembly in March 2001. Action Taken Notes on the recommendations are still awaited (August 2001). The present review covers the working of the Company for the period from 1996-97 to 2000-2001 with particular reference to the losses incurred by the Company and the findings are discussed in the succeeding paragraphs.

2B.4 Share Capital and Borrowings

The authorised share capital of the Company is Rs.75 crore. The paid-up share capital of the Company as on 31 March 2000 was Rs.57.12 crore.

The borrowings of the Company as on 31 March 2000 amounted to Rs.300.92 crore which was availed from State Government (Rs.24.99 crore), Central Government (Rs.0.01 crore), Banks (Rs.30.82 crore), issue of bonds (Rs.225.59 crore) and others (Rs.19.51 crore). Unsecured loans had increased from Rs.126.78 crore in 1998-99 to Rs.268 crore in 1999-2000. Current Assets and Loans and Advances, Miscellaneous Expenditure not written off and accumulated losses had also increased from Rs.130.86 crore in 1998-99 to Rs.268.71 crore in 1999-2000, Rs.0.05 crore in 1998-99 to Rs.6.42 crore in 1999-2000 and Rs.17.17 crore in 1998-99 to Rs.31.95 crore in 1999-2000 respectively which affected the liquidity position of the Company.

Government stated (August 2001) that the Company was resorting to borrowings mainly due to continuous loss as the market for all its products was crashing down due to post liberalisation effect. The reply is not tenable as the main reason of increase in borrowing was due to infusion of funds in subsidiary companies, joint sector companies and incurring cash losses in own units.

2B.5 Financial Position and Working Results

The Company had finalised its accounts up to the year 1999-2000 and accounts for the year 2000-01 were stated to be under finalisation (August 2001). The financial position and working results of the Company for the last four years is given in Annexure-13. The net-worth of the Company had come down from Rs.101.66 crore as on 31 March 1997 to Rs.26.31 crore as on 31 March 2000 due to continuous losses made from 1996-97 onwards.

It would be observed from the working results that the losses had increased to Rs.32.95 crore in 1998-99 as against a loss of Rs.12.41 crore in 1996-97. It decreased to Rs.14.95 crore in 1999-2000 owing to write back of Rs.13.05 crore being excess provision of depreciation in previous years.

Accumulated losses stood at Rs.31.95 crore as on 31 March 2000 after erosion of earlier profits.

It was noticed in audit that the Company was earning profit up to the year 1995-96. Thereafter, the Company continuously sustained losses and the accumulated loss stood at Rs.31.95 crore as on 31 March 2000 after erosion of earlier profits. This has also eroded 56 per cent of the paid up capital. The main reason for such huge losses was attributed by the Company to low sales realisation owing to industrial recession coupled with high cost of production. But it was observed in audit that the main reasons for the losses were attributable to:

(i) Injudicious investment in subsidiaries and other joint sector companies out of borrowed funds without any return; (Paras 2B.6 & 2B.7);

(ii) Poor operational performance of its own units (Paras 2B.10 & 2B.11); and

(iii) Blocking up of funds in loans and advances (Para 2B.8).

These are discussed in detail in the succeeding paragraphs:

2B.6 Investment in Subsidiaries

Investment of borrowed funds led to loss of Rs. 41.95 crore.

Investment in subsidiaries and other companies by IDCOL were commented in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1993 (Commercial). The COPU had recommended (March 2001) that "IDCOL had failed in all fields of management and monitoring of Subsidiaries and Joint Sector Companies and was increasing liabilities only." Hence, the Committee felt that quick disinvestment was the panacea to all the problems of the Company. Though the Company had invested an amount of Rs.69.60 crore in these eight subsidiaries as on 31 March 2000, it did not receive any dividend from these subsidiaries for the period from 1996-97 to 1999-2000 except from Hirakud Industrial Works Limited [Rs.0.29 crore for 1996-97 (10 per cent) and Rs.0.24 crore for 1997-98 (5 per cent)]. As the investments were made from borrowed funds, the company sustained a loss of Rs.41.95 crore at the average interest rate of 16 per cent per annum for the last four years ending 31 March 2000.

Government stated (August 2001) that since the investments were made either out of Government Fund or from internal generation of the Company, the investment at 16 per cent rate of interest is unrelated. The reply is untenable in view of the fact that the equity was Rs.57.12 crore as on 31 March 2000 whereas fixed assets was Rs.71.16 crore and capital work-in-progress was Rs.0.71 crore. Hence, investment of Rs.69.60 crore in subsidiary companies could only have been met from borrowings. Further, any investment whether from own funds or borrowed funds should earn a return.

Detailed examination of two cases revealed the following:

2B.6.1 Improper investment in equity of Hirakud Industrial Works Limited (HIW)

Non-charging of interest on unsecured loans resulted in loss of Rs.1.72 crore.

Hirakud Industrial Works (HIW), a loss making unit of IDCOL, was incorporated (18 January 1993) as a wholly owned Company and re-named as Hirakud Industrial Works Limited (HIWL) and taken over (31 March 1993) by IDCOL as a subsidiary. The sales consideration was fixed at Rs.4.90 crore which was to be treated initially as unsecured loan. The right thereafter to convert the whole or part of the loan into equity or preference share capital was left to IDCOL. The Company opted for conversion of the whole amount into equity i.e. Rs.2.90 crore in March 1994 and Rs.2 crore in February 1998. Further, an amount of Rs.49.17 lakh being sales consideration for merger (February 1997) of Hira Cable Works (HCW) (another own unit) with HIWL was also treated as unsecured loan and was lying as such (July 2001). No interest was charged on the sales consideration converted as unsecured loan resulting in loss of Rs.172.22 lakh.

Government stated (August 2001) that there was no provision in the agreement for charging interest on the loan as the position of HIWL from day one was not good. The reply is not acceptable in view of the fact that since the investment was made out of borrowed funds, provision should have been made in the agreement for charging interest.

2B.6.1.1 Merger of Hira Cable Works (HCW) with Hirakud Industrial Works Limited (HIWL)

As part of its efforts to improve functioning of State Public Sector Undertakings, the State Government had offered two options for restructuring of HCW viz. (i) privatisation of HCW or (ii) integration with HIWL. The Company accepted the second option (June 1996) in order to bring about synergy in operation of both the units and in anticipation of HIWL being in a position to obtain turn key orders at economical rates. It was however observed in audit that after conversion into a subsidiary company, HIWL had earned profit (Rs.2.71 crore) from 1994-95 to 1998-99. But after merger of HCW in February 1997, the financial position of HIWL deteriorated resulting in loss of Rs.1.18 crore in 1999-2000; one of the reasons for this being poor performance of HCW. Thus, decision to integrate a loss making unit with a profit making concern (HIWL) was clearly injudicious as it converted the latter into a loss making company thereby negating the returns from the investment thereon.

Government stated (August 2001) that the profitability of HIWL was gradually reducing due to loss of other units of HIWL and was not due to merger of HCW. The reply is not tenable as HIWL's profit started dwindling after merger of HCW with HIWL.

2B.6.2 Investment in IDCOL Cement Limited (ICL)

Non-charging of interest on the sales consideration resulted in loss of Rs.7.59 crore.

Hira Cement Works (HC), a profit making unit of IDCOL, was converted (February 1993) into a subsidiary company under the name IDCOL Cement Limited (ICL) to enable it to avail finance from the market for its modernisation and expansion project. The sale consideration of HC amounting to Rs.51.37 crore was initially treated as an unsecured loan and subsequently converted into equity on 21 April 1994. As per the agreement (March 1993) between IDCOL and ICL, interest at the rate of 14 per cent per annum was to be charged on the unsecured loan. However, the Company had not charged any interest on the unsecured loan up to the date of conversion as equity resulting in a loss of Rs.7.59 crore.

Further, ICL incurred loss continuously up to 31 March 1999 and the profit of Rs.1.35 crore for the year 1999-2000 was due to write back of interest of Rs.146.32 crore waived by financial institutions.

Government stated (August 2001) that interest on the sales consideration of Rs.51.37 crore was not charged since ICL was just stabilising its operation after implementing the modernisation scheme. The reply is not tenable as the Company did not adhere to the agreement (March 1993) between IDCOL and ICL for charging of interest.

2B.7 Investment in other companies

2B.7.1 Loss on investment in shares

The Company, expecting an yield ranging from 16 to 28 per cent, invested Rs.4.76 crore in equity shares of five companies out of borrowed funds carrying 16 per cent (average) rate of interest per annum during 1996-97 to 1999-2000 and Rs.1.13 crore as preference shares in two companies during January 1990 to September 1996 to be redeemed between January 1997 and May 1998. During this period, the Company earned dividend amounting to only Rs.40.53 lakh on equity shares and Rs.99.01 lakh on preference shares resulting in loss of interest of Rs.2.76 crore. Further, there was delay in redemption of preference shares ranging between 258 days and 1 year as a result of which there was additional loss of interest of Rs.9.79 lakh.

Investment of borrowed funds in shares of other Companies resulted in loss of Rs.3.07 crore.

Further, the Company invested (December 1997) Rs.47 lakh in Rights issue of Equity shares of NICCO Corporation Limited (NICCO), an assisted unit of IDCOL, even though the financial soundness of NICCO was not good as they had asked for extension of three years to redeem the preference shares which were due for redemption in September 1997 and also the Company (IDCOL) was facing liquidity problem and operating cash credit. Against this investment, the Company received only 4 per cent dividend in the first year i.e. 1998. Thereafter, no dividend was received. Thus, the Company incurred loss of Rs.20.68 lakh (difference between interest on borrowing and dividend received) on this investment. Thus, improper management and investment of borrowed funds resulted in loss of Rs.3.07 crore.

Government stated (August 2001) that actual rate of return on the investments varied from case to case and from time to time depending on the prevailing economic situation. The reply is not acceptable as the Company had invested in originally profit making companies but had not closely monitored the performance of the companies subsequently nor taken timely remedial action for disinvestment to safeguard the interest of the Company.

2B.7.2 Loss of revenue due to delay in selling the shares

Loss of revenue of Rs.0.82 crore as shares could not be sold in time.

The Company decided (July 1999) to sell all the shares worth Rs.164.50 lakh in NICCO as the dividend was low. The Company sought (December 1999) permission from the Government of Orissa to sell the shares in the open market which was received only in April 2001. In the meantime, the price of shares increased from Rs.10 to Rs.15 during January 2000 and thereafter fell (April 2000) to Rs.10. Due to non-receipt of the approval of the Government and lack of adequate pursuance, the Company could not sell the shares at the appropriate time when the price of the shares had reached Rs.15 and was thus deprived of a gain of Rs.82.25 lakh.

Government stated (August 2001) that approval of Government had been accorded and the shares would be disposed of at the opportune time depending on the market behaviour. The reply is not convincing as the approval was obtained only in April 2001 and thus the opportunity of selling of shares at higher price was lost by the Company. Besides the Company did not furnish the reasons for obtaining Government's approval in such case.

2B.7.3 Failure of Joint Venture Project with Snehadhara Industries Limited

A Joint Venture was entered into with Snehadhara Industries Limited (SIL) for raising lime stone from Ampavalli Mines for ten years from 25 July 1992 without any independent assessment of the financial and technical capability of the promoters of SIL. As per the agreement, SIL was to pay all the government dues like royalty, dead rent, etc. to IDCOL. It was also to pay agency fees subject to a minimum of Rs.3 per MT of limestone raised since the mining lease was in the name of IDCOL. In this connection, the following points were noticed in audit:

(i) As against 11 per cent of equity envisaged in the agreement, IDCOL contributed 11.55 per cent of equity (excess contribution Rs.8.78 lakh) after some private promoters refused to bring in their share of contribution (IDCOL contributed Rs.146 lakh in July 1992 and Rs.39 lakh in September 1996);

(ii) IDCOL did not receive any dividend as SIL was continuously incurring losses;

(iii) The amount outstanding from SIL was Rs.43.40 lakh towards government dues including interest up to 30 June 2001 and Rs.24.99 lakh towards agency fees, survey expenses etc.; and

(iv) SIL was referred (April 1999) to BIFR which ordered that the Company be wound up (July 2000). Action for winding up is yet to be taken (August 2001).

Entering into a joint venture without ensuring its viability resulted in loss of Rs.2.53 crore.

Thus, entering into a Joint Venture without ensuring the financial or technical viability or capability of the joint venture partner resulted in a loss of Rs.253.39 lakh.

Government stated (August 2001) that the viability of the Cement Plant was examined by the Company, State Government and the Financial Institutions and found good but it could not sustain due to lack of infrastructure development such as road and rail communication, electricity and water supply, etc. The reply is not tenable as the viability of a cement plant can not be considered good in the absence of above infrastructure facilities.

2B.8 Loans and Advances

The outstanding balances of loans and advances had gone up to Rs.184.31 crore in 1999-2000 as against Rs.57.57 crore in 1996-97 indicating more than a three-fold increase. This was mainly due to advances (June 1999 to January 2000) of Rs.126.28 crore out of Bond proceeds to ICL (IDCOL Cement Limited) for settlement of dues of financial institutions under One Time Settlement.

2B.8.1 Loans and advances to Subsidiaries and Joint Sector Companies

Loss of Rs.47.07 crore due to non-charging of interest on loans and advances.

The Company extends loans and advances to subsidiaries and Joint Sector Companies to meet their shortfall in working capital as these companies are continuously incurring cash losses. It was observed in audit that a sum of Rs.172.50 crore was outstanding as on 31 March 2000 from the subsidiaries and joint sector companies. However, no interest was charged nor was there any stipulation for recovery/repayment of those loans and advances except in the case of Konark Jute Limited, HIW and ORICHEM Limited on whom interest was charged on a portion of the loan. Consequently, the Company incurred a loss of Rs.47.07 crore during the period 1996-97 to 1999-2000 due to non-charging of interest.

Government stated (August 2001) that due to severe financial constraints faced by the subsidiaries, loans and advances were given to them and as these advances were to be written off/converted as equity, no interest was charged. The reply is not acceptable as the Company had neither specified the terms of repayment of advance nor payment of interest before giving financial assistance as a result of which subsidiaries did not try to improve their performance and refund the advances.

2B.8.2 Reimbursement of cash loss to ORICHEM Limited (OL)

Mention was made in Paragraph 2B.5.2 (iii) of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1993 (Commercial) – Government of Orissa about the losses arising from the investment made by the Company in OL. COPU had recommended (March 2001) that "the Company was started 30 years back and the Company was still incurring losses and the mis-management could not be detected .The nominees of IDCOL should be held responsible for such lapses and departmental inquiry should be conducted to find out whether the mis-management was prompted by inaction or vested interest". However, action in this regard had not been initiated by the Company so far (August 2001).

Injudicious decision to reimburse the cash loss of OL led to loss of Rs.2.97 crore.

It was further noticed in audit that due to heavy losses, OL was initially declared (November 1987) sick by BIFR with effect from 31 December 1986. In January 1993, BIFR suggested a rehabilitation scheme whereby IDCOL had to bear the cash loss and also agree to meet the shortfall in cash flow projections. As IDCOL agreed to this stipulation, BIFR sanctioned the scheme. It was observed in audit that the decision of IDCOL to reimburse the cash loss instead of proposing its closure was injudicious in as much as it ignored the fact that OL was a sick company with no hope of revival and its continuance would only be a continuing burden on the Company. Due to this injudicious decision, the Company had to reimburse a further amount of Rs.2.97 crore to OL for the period from 1994-95 to 1999-2000 which aggravated its own liquidity position. OL was ultimately closed in October 2000.

Government stated (August 2001) that the very objective of industrial development of the State would have been defeated in case IDCOL had shied away from its responsibility. The reply is not tenable in view of the fact that

OL could not be revived and was ultimately closed in October 2000. The objective of industrial development cannot be achieved unless investments are made in a judicious manner.

2B.9 Guarantee given for Subsidiaries

The COPU in its Fourth Report (12th Assembly) observed (March 2001) that extending guarantee to unviable units was a natural follow up to unwise decisions to invest in losing concerns. The Company has been giving Corporate Guarantees to Banks and Financial Institutions for providing working capital facilities as well as term loans to the subsidiary companies from 1990-91. The Company provided guarantees to the tune of Rs.49.24 crore as on 31 March 2000. As per the Section 370 of the Companies Act, 1956, a wholly owned Government company should obtain the approval of the Central or State Government before giving any guarantee to a company under the same management. It was noticed that the Company had given the guarantees without obtaining the approval of the Government of Orissa in contravention of the requirements of the Companies Act.

Government stated (August 2001) since IDCOL has given guarantee to its subsidiaries, the provisions of Section 370 are not applicable. The reply is not correct as the approval of the State Government is necessary as per Section 370 of the Act ibid.

2B.10 High Cost of Production

The main products of the Company are High Carbon Ferro Chrome (HCFC) from FCP, Graded Pig Iron (GPI) and Spun pipe from KIW and MS Rod from IRM.

The cost of sales and the selling price of various finished products of the Company for the last four years ending 1999-00 are given in the table below:

Product	**1996-97**		**1997-98**		**1998-99**		**1999-00**	
	Cost	**Sale Price**	**Cost**	**Sale Price**	**Cost**	**Sale Price**	**Cost**	**Sale Price**
HCFC	26373	24099	29788	24729	27466	21955	28053	23541
GPI	7765	7111	7340	6192	8895	6181	7007	6094
Spun Pipe	12924	13929	13466	14410	14200	14215	14111	14340
M.S.Rod	15634	12456	16714	13563	21680	14104	Production stopped.	

HCFC: High Carbon Ferro Chrome

GPI: Graded Pig Iron

Sales below the cost price resulted in loss of Rs.71.72 crore.

It would be seen that the cost of sales was always more than the selling price except for spun pipe which resulted in loss of Rs.71.72 crore including cash loss of Rs.2.83 crore on the sales of GPI at lesser price than the variable cost in the years 1997-98 (Rs.1.75 crore) and 1998-99 (Rs.1.08 crore) to the Company. The high cost of production was due to low capacity utilisation and excess consumption of raw material as detailed below:

2B.10.1 Capacity utilisation

The capacity utilisation of various plants of the Company during the last four years is given in Annexure-14. There was under-utilisation of capacity in all the plants ranging between 18.02 and 97.51 per cent except in Pig Iron Division during 1996-97 and 1997-98 and in Ferro Chrome Plant during 1996-97.

Government stated (August 2001) that low capacity utilisation was due to maintenance problems, want of working capital and market recession. The reply is not tenable in view of the fact that the Government had also accepted the fact that sales target were not achieved due to poor production. Evidently, the Company failed to take coherent steps to either increase sales and turnover which would have eased the working capital position or otherwise increase production by removing maintenance bottle-necks.

2B.10.2 Excess consumption of raw material

The Company had not determined any permanent norm for consumption of raw material. However, norms were fixed annually in the annual budgets based on previous year's consumption. The details of excess consumption of raw material over the budgeted norms from 1996-97 to 1999-00 are given below:

Name of the Unit	Raw-material	Excess consumption	
		Quantity	Value (Rs. in lakh)
Ferro Chrome Plant	Power	3.56 MU	101.63
	Furnace oil & Lube oil	1883.235 KL	98.81
Kalinga Iron Works	Limestone	6584 MT	29.04
	Dolomite	5049 MT	19.78
	Quartzite	888 MT	2.34
	Manganese Ore	1596 MT	7.12
	Total		**258.72**

Excess consumption of raw material led to loss of Rs.2.59 crore.

Thus, the Company sustained a loss of Rs.2.59 crore due to excess consumption of various raw material during the years 1996-97 to 1999-00.

Government stated (August 2001) that excess consumption of each raw material was due to factors like excess chromium content, high ash content in coke and inferior quality of Quartzite. The reply is not convincing as the aforesaid factors were taken into account at the time of fixing norms in the budget and even then the norm was not adhered to.

2B.10.2.1 Loss due to Uneconomic Coke Mix

Uneconomic coke mix resulted in loss of Rs.15.95 crore.

In KIW, different grades of coke such as Hard Coke, Nut Coke and Pearl Coke are to be blended and charged to the furnaces in such a manner that maximum output is achieved at minimum cost. It was noticed in audit that the budgeted norms were not adhered to and in many cases the blending was done using more quantity of costlier varieties of coke though output remained the same in all cases. This uneconomic coke mix resulted in excess consumption of 46,979 MT of coke valued at Rs.15.95 crore during the period 1996-97 to 1999-2000.

Government stated (August 2001) that due to non-availability of coke as per the budgeted requirement, blending was done according to availability of coke which led to excess consumption. The reply is not tenable in view of the fact that the Company did not utilise facilities available for conversion of coal into coke resulting in extra expenditure of Rs.15.95 crore.

2B.10.3 Short Output of Finished Products

The inputs and outputs of High Carbon Ferro Chrome (HCFC) in FCP and Graded Pig Iron (GPI) in KIW during the period 1996-97 to 1999-2000 were as follows:

Year	Actual consumption of raw material (MT)	Standard output (MT)	Actual output (MT)	Short output (MT)	Rate per MT (in Rupees)	Value (Rupees in lakh)
Graded Pig Iron						
1996-97	119985	82749	82342	407	6546	26.64
1997-98	190480	131454	129734	1720	6364	109.46
1998-99	46117	32941	32679	262	6356	16.65
1999-2000	87360	64712	63657	1055	5291	55.82
Total						**208.57**
HCFC						
1997-98	22164	10406	10139	267	18939	50.57
1998-99	23538	10767	10224	543	18446	100.16
1999-2000	26483	12115	11519	596	19640	117.05
Total						**267.78**

Short output of finished products resulted in loss of Rs.4.76 crore.

It was observed that there was short output valued at Rs.4.76 crore in comparison to the norms fixed by the Company though the norm was fixed every year taking into account the prevailing operating conditions and available raw material.

Government stated (August 2001) that due to actual operating condition and actual raw material, there was short output in some years and excess output in some years and finally there was no short output. The reply is not tenable since the short output of a furnace can not be adjusted against the excess output of another furnace.

2B.10.3.1 Loss due to excess rejection of C.I. Pipes over norms during manufacture

Rejection in excess of norms led to loss of Rs.0.53 crore.

C.I. Pipes are manufactured through three processes viz. melting, spinning and finishing. No fixed norms were prescribed for rejection. However, the Company determined norms for rejection in spinning process at 6 per cent for 1996-97 and 1997-98 and at 7 per cent for 1998-99 and 1999-2000 based on past performance. In respect of finishing process, the rejection norm was fixed at 6 per cent for all the years. It was noticed that Kalinga Iron Works (KIW) sustained a loss of Rs.52.59 lakh (after deducting the value of scrap) due to excess rejection over norms for respective years in the above two processes during the period 1996-97 to 1998-99.

Government stated (August 2001) that excess rejection was due to operational parameters and size mix in the production and the actual loss was only Rs.19.02 lakh based on realisable value of the scrap. The reply is not acceptable as the norm was fixed after considering all these factors which was also achieved by the Company in some years. Further, loss of Rs.19.02 lakh was not correct as it was arrived at after adjustment of savings in one process against the shortage of another process.

2B.11 Other cases of infructuous/avoidable expenditure

Few interesting cases of avoidable/infructuous expenditure as noticed in audit are discussed below:

2B.11.1 Avoidable payment of delayed payment surcharge on power bills

NESCO[*], the electricity supply utility, claimed Rs.22.40 crore towards their dues up to January 2001 whereas Ferro Chrome Plant (FCP) calculated the dues as Rs.19.61 crore. The difference of Rs.2.79 crore was yet to be reconciled (March 2001). The dues as calculated by FCP include Rs.81.06 lakh towards Delayed Payment Surcharge (DPS) at the rate of 24 per cent per annum. It was observed in audit that the Company had not prioritised its liabilities as it could have met its outstanding liabilities on electricity charges through over-subscription (retained) of Rs.33.86 crore received on the issue of bonds to meet working capital requirement thereby reducing its liability on DPS.

Government stated (August 2001) that the extra fund received from bond issue was utilised for repayment of other interest bearing liabilities. The reply is not convincing as DPS was at 24 per cent per annum whereas other liabilities bear lesser interest ranging between 12 and 20 per cent per annum and hence the Company should have paid the electricity charges first to avoid loss.

[*] NESCO - North Eastern Electricity Supply Company of Orissa Limited

2B.11.2 Modification of 6.5 MVA slag Furnace (FCP)

Modification of slag furnace despite a dwindling market led to infructuous expenditure of Rs.1.59 crore besides loss of Rs.1.22 crore on account of operation of Furnace No.2

The 6.5 MVA slag furnace of FCP (Furnace No.2) meant for production of Low Carbon Ferro Chrome (LCFC) was kept idle since 1983 due to dwindling market of LCFC. In September 1997, the Company decided to convert the furnace for production of HCFC at a cost of Rs.2.30 crore and entrusted the work to RgCON Services, Visakapatnam, even though the Company was aware at that time (March 1996) of the declining market trend for HCFC. The Company completed (June 1998) the project by spending Rs.1.59 crore out of borrowed funds and commercial production started on 26 June 1998. It however stopped from 17 December 1998 due to high rate of consumption of power and raw material (i.e. as against Rs.12,182 per MT it was Rs.22,064 per MT) and poor marketing condition. The Company sustained a loss of Rs.48.68 lakh during the period from June to December 1998. As there was no clause in the agreement for consumption parameters, the Company could not get the excess consumption in the furnace rectified by the contractor. The furnace was again put into operation from December 1999 to February 2001 without any remedial measures and again stopped in March 2001 due to fall in price of HCFC in the market. The company suffered loss of Rs.73.23 lakh from December 1999 to February 2001 due to operation of Furnace No.2. Since capacity of Furnace No.1 was sufficient to meet the annual sales made, there was no need of operating Furnace No.2. Thus, the decision to take up modification of the furnace despite lack of market and without ensuring consumption parameters was clearly injudicious which led to the capital investment of Rs.1.59 crore becoming unfruitful with consequential loss of interest of Rs.25.44 lakh per annum due to blocking up of the funds to that extent. In addition, the Company suffered a loss of Rs.1.22 crore on account of excess consumption of material by the re-furbished Furnace.

Government stated (August 2001) that FCP is able to sell the entire production leaving some marginal stock but due to decline in sales price the product is being sold at below cost of production. It was added that the contractor did not agree to guarantee consumption norms and the modification was not total due to fund constraints. The reply is not convincing as the Company had decided to take up the modification work in spite of declining trend of market and fund constraints which resulted in partial modification of furnace and ultimately the product was sold below cost of production.

2B.11.3 Purchase of Dryer system in FCP

To reduce the moisture content of chrome ore from 5-15 per cent to a level of 2-3 per cent in order to get quality briquettes and to reduce the cost of production of HCFC by Rs.148 per MT, the Company decided (March 1998) to install a new Dryer system at an estimated cost of Rs.64 lakh (equipment Rs.38.33 lakh, civil works Rs.11.17 lakh and erection and commissioning Rs.14.50 lakh). A purchase order was placed (May 1998) on Techtran Enterprises Private Limited, Calcutta, (TEPL) for supply of Double Shell Rotary Dryer with a capacity of 10 TPH at Rs.20.70 lakh. Another order was placed (June 1998) on RgCON Services, Vishakapatnam, for detailed design and engineering, fabrication, erection, testing and commissioning of the plant at Rs.14.25 lakh. A sum of Rs.12 lakh was paid to TEPL from May 1998 to

October 1999 towards advance against supply of material and a sum of Rs.7.49 lakh was paid to RgCON Services from June 1998 to March 1999 towards design and engineering and running account bills. Further, a sum of Rs.9.37 lakh was spent during the years 1998 and 1999 towards steel material, civil works etc.

Though the supplier had manufactured (September 1998) the dryer and its accessories, the project was deferred (February 1999) due to paucity of funds. The Company lifted (July 1999) material worth only Rs.16.56 lakh. The Company proposed to complete the project whenever its financial position improved. In the mean time, the guarantee for the equipment expired (October 2000). Due to failure in arranging the funds, the Company lost the opportunity of cost reduction of Rs.148 per MT and hence incurred a loss of Rs.19.25 lakh per annum at the production level of 1999-2000 (13,007 MT). The delay in completion of work resulted in infructuous expenditure of Rs.45.42 lakh i.e. material lifted (Rs.16.56 lakh) advance to TEPL (Rs.12 lakh), payment to RgCON (Rs.7.49 lakh) and steel material and civil works (Rs.9.37 lakh) since the installation of Dryer was doubtful. Further, in view of the fact that guarantee period was already over, any defect or deterioration in quality may not be compensated.

Government stated (August 2001) that the installation of dryer system would be completed once the financial position improves. The reply is not correct as without arrangement of funds, the Company should not have gone for purchase of the dryer.

2B.11.4 Procurement of coke

A test check of cases of procurement of coke revealed the following:

2B.11.4.1 Excess payment of customs duty on import of coke

KIW* entered (February 1999) into an agreement with MMTC TRANSNATIONAL Pvt. Ltd., Singapore, for supply of 10,000 MT of coke which was subsequently increased (July 1999) to 11000 MT ±10 per cent at the rate of US$ 87 per MT. As per the agreement, any increase in moisture level above 5 per cent was to be adjusted/reduced from the weight in the Bill of Lading. A quantity of 11,829 MT of coke was shipped (August 1999) which had 7.42 per cent moisture content. The supplier instead of reducing the quantity for excess moisture from the Bill of Lading as per the agreement reduced the value in the invoice. This resulted in excess payment of customs duty to the tune of Rs.16.28 lakh. The suppliers were requested (September 1999) to refund the above amount but they refused to do so (October 1999) since they were not made aware of the fact. Thus, due to lack of timely action, the Company had to incur an avoidable expenditure of Rs.16.28 lakh towards customs duty.

Government stated (August 2001) that the Company had taken steps for payment of less customs duty which had not fructified. The reply is not

* KIW- Kalinga Iron Works, a unit of the company

tenable as instead of approaching the customs authorities, the Company should have asked the supplier in time to reduce the gross weight in the Bill of Lading.

2B.11.4.2 Loss due to acceptance of Breeze coke

Acceptance of Breeze coke resulted in loss of Rs.10.01 crore.

Though the agreements with the suppliers provided for supply of a specified size of coke, KIW accepted supplies without properly ascertaining the size of coke. It was noticed that the coke purchased contained Breeze coke which was not usable in the furnaces. Hence, the Breeze coke had to be segregated and sold. During the period 1996-97 to 1999-00, KIW consumed 4,67,909 MT of coke (value: Rs.217.36 crore) and generated 84,645 MT of Breeze coke. The loss on this account worked out to Rs.10.01 crore after allowing five per cent normal handling loss and sale value of Breeze Coke.

Government stated (August 2001) that due to scarcity of coke, the Plant had very often purchased coke from Steel Plants on 'no complaint' basis and hence there was no fixed percentage of undersize. The reply is not tenable since the Company is procuring coke not only from Steel Plants but also from foreign suppliers and through conversion of coal into coke.

2B.11.5 Unnecessary purchase of TG Set without actual requirement

The Company entered into an agreement (November 1990) with DLF Energy Systems, New Delhi, for supply, erection and commissioning of one 4 MW Turbine Generator (TG) set at a cost of Rs.7.59 crore to be commissioned at KIW by 31 March 1992. The TG set was commissioned in September 1995 after a delay of about 3 ½ years at a total cost of Rs.7.81 crore. It was noticed that as against 10,920 hours available, the TG set was operated for only 2,533 hours during the period 13 May 1996 to 11 August 1997 due to frequent problems/defects. The generation of power was 2.41 MW per hour as against 4 MW projected in the agreement. The TG set was ultimately shutdown with effect from 11 August 1997 due to failure of super-heater coils and soot blowers.

In September 2000, the Company decided to dispose of the TG set as there were already three TG sets of which two were running and one was kept as stand-by and invited tender for the same (November 2000). It was evident in audit that no assessment had been made of the actual requirement of TG set.

Purchase of TG set without requirement led to futile investment of Rs.7.81 crore.

Thus, the capital investment of Rs.7.81 crore on the fourth TG set became infructuous with corresponding loss of interest of Rs.1.25 crore per annum from September 1995. Further, in response to the Tender Notice for sale of the TG set, the maximum offer received by the Company was only Rs.35 lakh against the cost of Rs.7.81 crore. Disposal of the set is awaited (August 2001).

Government stated (August 2001) that the 4th TG set was procured for diversification programme of KIW which could not be used due to abandoning of the diversification programme. The reply is not tenable as the Company had gone for procurement and commissioning of the TG set before final decision on implementation of diversification programme.

2B.11.6 Cost and time overrun in modification of Furnace No.1 of KIW

The low shaft Blast Furnace which was commissioned in 1959 at KIW became uneconomical due to high consumption of coke. Hence, the Company engaged (September 1994) CMIEC Simplex CERIS (Simplex), Calcutta, who were the Indian representative of CERIS, for preparation of feasibility report for modernisation of furnace according to which the production would be 56,000 MT of Pig Iron per annum and coke consumption would be 850 kgs. per MT as against the existing level of 1,350 kgs. per MT. The cost as per the detailed estimate of the firm was Rs.14.75 crore (November 1994). The Company decided (December 1994) to modify this furnace into a mini Blast Furnace with CERIS technology of China. The work was entrusted (December 1995) to Simplex for Rs.18.25 crore with escalation up to 20 per cent. In this connection, the following points were noticed in audit:

(i) The Company has no prescribed tendering procedure. No open tender was floated even though the project cost was more than Rs.14 crore;

Delay in finalisation of work order resulted in cost overrun of Rs.3.50 crore.

(ii) Instead of placing order on Simplex as per their estimate, the Company again called for an offer from them (March 1995) the reasons for which were not on record. This resulted in cost overrun of Rs.3.50 crore (Rs.18.25 crore - Rs.14.75 crore);

(iii) Even without accepting the revised offer, the Company called (June 1995) for supplementary offers from another three firms and in the meantime, Simplex increased the price escalation ceiling from 10 to 20 per cent. Calling of offers in piece-meal by the Company thus resulted in exposing the Company to further increase of cost by Rs.1.83 crore being the additional 10 per cent escalation;

(iv) As per the contract, the furnace was to be commissioned before 31 January 1998 but it was commissioned on 5 October 1999 due to change of technology and slow progress of work by the firm. This resulted in time over-run of 20 months and consequential production loss of 93,333 MT of Pig Iron valued at Rs.57.69 crore; and

(v) Liquidated damages (LD) amounting to Rs.91.25 lakh were not yet levied on the firm for delay in completion of work (December 2000).

Government stated (August 2001) that time overrun was due to certain difficulties like delay in supply and irregular payment to Simplex and LD would be charged after settlement of their accounts. The fact remains that the Company had not closely monitored the timely execution of the project even after expenditure of Rs.18.38 crore (Final bill not yet passed). Further, LD should have been recovered from the contractor from their bills entertained so far (August 2001).

2B.12 Sales performance

2B.12.1 Sales policy and targets vis-à-vis achievement of sales

The Company had no sales policy of its own. The company had been appointing selling agents on commission basis for selling its products. Though as per agreement, the selling agents were to submit reports every month regarding the market trends, activities of competitors, anticipated sales, etc., this was not followed by the agents nor insisted upon by the Company. Thus, the Company was finalising the selling price without sufficient market information and was not able to increase its sales to meet the break even. Further, the sales targets fixed by the company were not realistic as ad hoc targets were fixed without any apparent basis. It was further observed that the targets were under-pitched in most of the years which enabled 100 per cent achievement.

Government stated (August 2001) that IDCOL had an adequate sales policy, the prices of the products were being finalised with sufficient market information and achievement of sales targets depends upon production. The reply is not acceptable as the Company had not framed any sales policy nor conducted any market survey and curtailed production for want of sales.

2B.12.2 Cash loss from Conversion Sale

Agreement of conversion charges below cost resulted in cash loss of Rs.1.28 crore.

The Company entered into an agreement (January 1995) with Tata Iron and Steel Company Limited (TISCO) for conversion of chrome ore into HCFC. As per the agreement, TISCO had to supply chrome ore and coke free of cost and all other inputs were to be supplied by the Company. Further, the conversion charges were to be fixed according to the change in the market price of HCFC. It was noticed that the conversion charges could cover only the variable cost only during 1995-96. From 1996-97 to 1999-2000, the Company converted 13,484 MT of HCFC and received conversion charges of Rs.19 crore against the variable cost of Rs.20.28 crore (excluding cost of chrome ore and coke) and thus incurred a cash loss of Rs.1.28 crore.

Government stated (August 2001) that when the market price of HCFC was much lower than the actual cost of production, one could not expect to receive full conversion cost in conversion agreement. The reply is not tenable in view of the fact that the Company has not adequately safeguarded its interest to get conversion charges atleast to meet break even point which resulted in the loss.

2B.13 Re-structuring of Units and Subsidiaries

As per the report of the Cabinet sub-Committee on functioning of Public Sector Undertakings, the State Government directed (October 1996) the Company to take up/continue with re-structuring measures for its units and subsidiaries. It is seen that none of the recommendations had been implemented (January 2001) except the merger of Hira Cable Works with

HIWL with effect from February 1997. Detailed scrutiny of three cases indicated the following:

2B.13.1 Non-disinvestment of shares of HIWL due to delay by Government

Three offers were received in response to an advertisement (December 1998) issued inviting offers for takeover of HIWL. The highest offer was from Klen and Marshalls Manufacturers and Exporters Limited, Chennai, at the rate of Rs.31 per share. Negotiations were conducted (May 1999) with the firm who agreed to increase the price to Rs.33 per share. Subsequently, the Government level Committee had a meeting (November 1999) with the firm who further increased their offer to Rs.35 per share. The proposal to accept the above mentioned offer was sent (December 1999) for Cabinet approval. The offer of the firm was initially valid up to 30 June 1999 which was extended from time to time up to 31 July 2000. The Company issued four reminders to the Government from April 2000 to July 2000 requesting approval for the disinvestment proposal. But the approval from the Cabinet had not been received till the validity of the offer i.e. 31 July 2000. The Company requested (July 2000) the firm to extend the validity of their offer up to 31 October 2000. The firm did not extend the validity of their offer and the disinvestment proposal did not materialise.

Thus, the Company lost an opportunity of disinvesting its shares in HIWL for Rs.17.14 crore as against the net worth of Rs.7.02 crore due to unexplained delay by the Government.

Government offered (August 2001) no comments.

2B.13.2 Restructuring of IDCOL Rolling Mill -Non-consideration of Lease Option.

Sixteen offers were received in response to an advertisement (May 1997) inviting offers for take-over/joint venture/lease etc. of IDCOL Rolling Mill (IRM). But only two parties viz. Ardee Business Services Private Limited (ABS), Vishakapatnam, and Concast Ispat Limited (CIL), Calcutta, deposited the requisite EMD. The offer of ABS being unreasonable was not found to be acceptable. CIL offered to take over the Rolling Mill on lease basis for a period of 11 years at a lease rental of Rs.60 lakh per annum for the first three years and at the rate of Rs.84 lakh per annum for the remaining period. They also submitted an offer for outright purchase at a price of Rs 250 lakh. The firm was requested to increase both the offers and submit revised offers (August 1997). The firm submitted a revised offer only for out right purchase at a price of Rs.4 crore when the capitalised cost was Rs.2.29 crore and written down value was Rs.70.59 lakh. As this offer was not considered satisfactory, the EMD was refunded (June 1998). IDCOL did not pursue the lease option. Had the lease option been considered and fructified, the Company would have earned Rs.120 lakh during the last two years ended June 2000. It is pertinent to mention that the Mill had stopped production from August 1998 and was idle. The idle wages amounted to Rs.1.22 crore per annum.

Government stated (August 2001) that the party backed out from the lease proposal when a security deposit of Rs.50 lakh was stipulated. The reply is not correct in view of the fact that the party had agreed to extend Bank Guarantee of Rs.25 lakh and cash deposit of Rs.25 lakh towards security deposit. Hence, his offer for taking IRM on lease should have been accepted.

2B.13.3 Handing over of Management contract of IPEWL to BEPL, Hyderabad

With the approval of the Board of Directors of IDCOL, an agreement was executed (April 1998) between IDCOL Piping and Engineering Works Limited (IPEWL) and Brindavan Engineering Private Limited (BEPL), Hyderabad, wherein it was envisaged that BEPL would provide Management assistance and bring in additional working capital so as to achieve cash profit. Shri E.V.Prasad, Managing Director of BEPL, was appointed as Director (Operation) of IPEWL. As per the agreement, BEPL was entitled to 35 per cent of the profit as management fees and in the event of loss, BEPL was to compensate IPEWL 35 per cent of the loss during the initial period of three months and 100 per cent of the loss thereafter. No security deposit/bank guarantee was however sought or obtained from BEPL. After execution of agreement, the performance of IPEWL instead of improving, deteriorated further. BEPL neither brought in working capital nor reimbursed the cash loss as agreed upon. Management stated (September 2000) that Mr. E.V.Prasad was absconding since 12 February 1999 and the agreement was terminated on 25 March 1999. As no security deposit was obtained, the Company could not recover the amount of Rs.73.88 lakh towards compensation for cash loss and Rs.8.99 lakh taken by BEPL as advance. F.I.R. was lodged (March 2000) with the Vigilance Police Station, Bhubaneswar, and the matter was under investigation. Hence, injudicious decision-making, lack of monitoring of investments made and failure to exercise normal commercial prudence in obtaining security deposit or bank guarantees led to loss of Rs.82.87 lakh.

Government stated (August 2001) that no transfer of any asset or any assignment thereof in favour of BEPL was envisaged and as such it was not considered to stipulate any security deposit. The reply is not tenable as BEPL was to bring in working capital and share the loss during the period of their management for which the Company should have collected security deposit to protect its interest in the event of failure by BEPL.

2B.14 Inventories

The Company had not fixed any norm for the minimum, maximum and re-ordering level of stock for inventories. It was observed that the holding of inventories ranged between Rs.40.48 crore (1996-97) and Rs.46.63 crore (1999-2000). This was mainly due to procurement of raw material and stores and spare parts in excess of actual requirements and on account of huge unsold finished goods in stock. It was noticed in audit that the stock of raw material and stores and spare parts held by FCP during 1996-97 to 1999-2000 represented 7 to 10 months' and 65 to 124 months' consumption and by KIW 9 to 24 months' and 37 to 67 months' consumption respectively. Further, due to excess raising of chrome ore by FCP from its mines in 1996-97, 24,583 MT of chrome ore constantly remained in stock during all the four years ending 1999-2000. Thus, the raising cost of Rs.3.23 crore spent by the Plant out of the borrowed funds was blocked up with consequential loss of Rs.2.07 crore on payment of interest for these four years.

Government stated (August 2001) that the chrome ore should not be a factor of concern as the Company is not purchasing the same. As regards coke, the Company has to procure as much quantity as available without looking into inventory point since it is a very scarce material. The reply is not acceptable as the Company incurs considerable expenditure on raising of chrome ore and coke is being procured very often on no complaint basis.

Conclusion

The Company had failed to achieve its primary objective of promoting industries in the State and had tied up its investments in its three units, eight subsidiaries and eight joint-sector/joint-ventures and other companies. During the period 1996-97 to 1999-2000, no new industry was promoted by the Company except one subsidiary (November 1998) called IDCOL Software Limited. The Company had been continuously incurring losses from 1996-97 onwards due to poor capacity utilisation, excess consumption of raw material, injudicious investment decisions and unfruitful investments in subsidiaries and other companies. The Company lost the opportunity of disinvesting/privatising the losing units owing to non-receipt of approval from State Government.

It is imperative that the Company initiate necessary steps for improvement in its performance. Concerted endeavour need to be taken at Government level to divest the units incurring cash losses.

2C. REVIEW ON PROJECT IMPLEMENTATION OF NEELACHAL ISPAT NIGAM LIMITED

Highlights

Consequent upon refusal of foreign parties to contribute towards equity of the Company to the extent of Rs.130 crore, IDBI revised (February 2001) the project cost to bridge the gap by equity contribution from public issue and supplier of equipment. However, this effort was not successful and the Company was forced to avail more loan amount.

(Paragraphs 2C.2 and 2C.5.1)

Award of the work of basic and detailed engineering of Blast Furnace equipment to three parties instead of getting the work carried out by MECON with the assistance of ITALIAMPIANTI resulted in extra expenditure of Rs.1.32 crore.

[Paragraph 2C.9.1 (ii) (a)]

Failure to identify 1,360 MT steel structure as scrap forced the Company to import this material with Blast Furnace by incurring an expenditure of Rs.1.73 crore towards freight and stevedoring charges.

[Paragraph 2C.10.2.1 (a)]

Unnecessary recovery of cables and pipes from dismantled material resulted in loss of Rs.0.58 crore.

[Paragraph 2C.10.2.1 (b)]

Failure on the part of the Company to ensure proper storage of the refurbished mudguns and drilling machines necessitated a second refurbishing at a cost of Rs.0.39 crore which was clearly avoidable.

(Paragraph 2C.10.2.2)

Non-supply of material by the supplier despite payment of mobilisation advance aggregating Rs.12.56 crore resulted in loss of interest of Rs.1.86 crore.

(Paragraph 2C.10.2.3)

2C.1 Introduction

Neelachal Ispat Nigam Limited (NINL) was set up (1982) by Government of India at Duburi, in district Jajpur, Orissa, for manufacturing pig iron. As there was no progress in the project, Orissa Sponge Iron Limited (OSIL) was inducted as promoter of the Company in 1992. The project was transferred (April 1994) by Government of India to Government of Orissa at a token value of Re.1 against transfer of 77,29,000 equity shares of Rs.10 each amounting to Rs.7.73 crore alongwith the assets and liabilities and the Company became a State Government Undertaking. OSIL withdrew from the project (September 1995) and the amount paid by them (Rs.6.76 crore) was refunded by the Company. The Company in their 52nd Board meeting (October 1995) resolved that Minerals and Metal Trading Corporation (MMTC) would takeover charge as Co-Promoter/Managing Promoter of the Project.

2C.2 Project Appraisal by IDBI

The Industrial Development Bank of India (IDBI), being the lead financial institution, approved (September 1996) the estimated cost of the project for Rs.1,510 crore with debt equity ratio of 1.5:1. It was proposed that NINL would be promoted by MMTC Limited, Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) and Metallurgical Engineering Consultants Limited (MECON) with equity participation from Common Wealth Development Corporation (CDC), UK and LG International Corporation (LGC), Korea. The Company was to set up an integrated Steel Plant for manufacture of 3 lakh ton of steel wire rods, 3.2 lakh ton of steel billets and 4.9 lakh ton of basic grade pig iron per annum.

The IDBI appraisal (September 1996) envisaged that the project would be completed in all respects in 36 months by September 1999 as follows:

Sl. No.	Activity	Projected Month of Completion
1	Acquisition of land	September 1996
2	Civil construction works	To commence from December 1996
3	Arrival of re-furbished component of Blast Furnace from three European firms	September 1997
4	Indigenous re-furbishing to be completed	September 1997
5	Orders for Plant & Machinery to be placed	December 1996 to March 1997
6	Equipment were to start arriving at site	from October 1997
7	Supply was to be completed for Pig Iron Plant (Phase-I)	July 1998
8	For entire Steel Plant	June 1999
9	Commencement of production (i) Pig Iron (Phase I) (ii) Integrated Steel Plant (Phase II)	 October 1998 September 1999

As per the IDBI appraisal (September 1996), the project was to be financed by equity of Rs.603 crore and loan of Rs.907 crore {Rupee Term Loan (RTL) Rs.604 crore (67 per cent) and Foreign Currency Loan (FCL) Rs.303 crore (33 per cent)} with debt equity ratio of 1.5:1. Since the pace of implementation of the project could not be maintained by the Company due to delay in acquisition of land for the project and due to the inability of the Company to achieve financial commitments on account of withdrawal of CDC and LGC from the project due to economic crisis in their countries and non-receipt of public portion of equity, a mid-term review of the project was undertaken by IDBI in February 2001. According to the mid-term appraisal, the means of finance of the project (Rs.1,524 crore) was equity Rs.555 crore and loan Rs.969 crore with debt equity ratio of 1.75:1.

In order to reduce the financial outlay on the project and gap in financing, IDBI modified the scope of the project by excluding the Air Separation Plant (ASP) estimated to cost Rs.65 crore and the Wire Rolling Mill, the original cost of which was Rs.152 crore. As per the revised estimate, Phase-I of the project was to be completed by June 2001 and Phase-II by June 2002. However as on 31 July 2001, the Company had received equity of Rs.200.45 crore {MMTC Rs.115.52 crore (21 per cent), IPICOL Rs.73 crore (13 per cent) MECON Rs.5 crore (1 per cent) and equipment supplier Rs.6.93 crore (1 per cent)} and loan of Rs.586.40 crore {RTL Rs.546.21 crore (56 per cent) FCL Rs.40.19 crore (4 per cent)}.

The sources and utilisation of funds as per the IDBI appraisal (September 1996) and Mid Term Review report (February 2001) have been shown in Annexure-15.

2C.3 Organisational Set-up

The Management of the Company is vested in a Board of Directors consisting of 11 Directors. The Managing Director is the Chief Executive of the Company who is assisted by Executive Director (Project), Director (Finance), Chief General Manager (Works), General Manager (Administration) and a Company Secretary for secretarial and financial matters.

2C.4 Scope of Audit

The review conducted between December 2000 and March 2001 covered the various aspects of project implementation viz. (i) agreements made with various financial institutions for availment of term loans/foreign currency loans, (ii) the system followed for awarding contract for civil works/supply of plant and machinery including erection, supervision and training etc., (iii) the procedure adopted for purchase of project material, (iv) progress *vis-a-vis* the schedule of implementation and (v) analysis of time and cost over run with overall impact on the project cost and the result thereof.

2C.5 Gaps in tying up financing arrangements

2C.5.1 In the mid term review undertaken by IDBI in February 2001, it was envisaged that MMTC would contribute an additional amount of Rs.50 crore towards equity. However, the Company received (July 2001) only Rs.15.52 crore. The unsecured loan of Rs.50 crore to be received from MMTC (considered as equity) had not yet been received (July 2001) by the Company. Further, the Company has received only Rs.6.93 crore from the equipment suppliers as against the assessment of Rs.277 crore from the public/equipment suppliers. Hence, there was a gap of Rs.354.55 crore in the equity of the Company which adversely affected the commissioning of the Phase-I of the project scheduled to be completed by June 2001.

Government stated (August 2001) that IDBI sanctioned Rs.50 crore towards equity participation in the Company which is expected to be received during August/September 2001 after additional equity of Rs.50 crore of MMTC is received during July/August 2001 and balance Rs.30 crore is being tied up through private placement. It was observed in audit that the gap in financing arrangements remained unfilled as MMTC had intimated (June 2001) that they would not contribute the unsecured loan of Rs.50 crore in which case the receipt of equity from IDBI is also doubtful. The Company had also not made any arrangement for public issue of equity so far (July 2001).

2C.5.1.1 Mannesmag Demag-Metallurgy (MDM) Germany and their Indian Associate Indomag Steel Technology (IST) Limited, New Delhi, offered (November 1998) to contribute Rs.20.70 crore (equity Rs.12.85 crore and preference shares of Rs.7.85 crore) to the equity of the company in view of Letter of Award placed on them (December 1998) for supply and erection of equipment worth Rs.150.88 crore. However, MDM paid only Rs.6.43 crore (November 1998 and January 1999) and refused (May 1999) further contribution unless guarantee from MMTC/IDBI for buy back of their share was furnished to them.

Subsequently (September 1999), MDM was merged with SMS Demag AG Germany and the Company signed (April 2001) a Memorandum of Understanding (MOU) with SMS Demag (SMSD) according to which SMSD agreed to contribute balance equity (Rs.6.42 crore) in three instalments and 50 per cent of preference share after opening of Letter of Credit against supply of equipment. The balance amount of preference share would be paid by SMSD after issue of Performance Acceptance Certificate from the Company. However, execution of agreement with SMSD is still pending (July 2001) and the Company had not received any amount from SMSD (August 2001).

Government stated (August 2001) that shareholders agreement was being executed wherein buy back clause would be incorporated as per the provisions of the Companies Act.

2C.5.1.2 Two contracts were entered into by NINL with GA Danieli India Limited, Calcutta, in September 1999. As per Article 13 of the contract, the firm was to pay Rs.1 crore towards equity of NINL (50 per cent before issue of LOA and balance 50 per cent in three instalments after expiry of 45 days from the date of contract). Though LOAs were issued in July 1999, the firm paid (21 September 1999) only Rs.50 lakh towards equity and no further payment was received by NINL, till July 2001.

Government stated (August 2001) that negotiations were in progress for re-validation of the contract and matter regarding equity would be re-negotiated in view of delay in execution of the contract.

Thus, the assumption of the Company to meet initial project expenditure through equity was belied and consequently more loan funds had to be availed which adversely affected the financial viability of the Project.

2C.6 Progress of Project: Cost and time overrun

Failure to adhere to time frame led to cost overrun of Rs.232 crore.

As per original project appraisal report of IDBI, the project was to be completed by September 1999. The land for the project was acquired from the State Government between March 1997 and June 1998 as against the scheduled date of September 1996. In view of delay in handing over the land by the State Government, the Company fixed the zero date of the project as 15 January 1998 with the stipulation for completion of the project by March 2001 (Phase I and II both). However, it was noticed in audit that the Company could not adhere to time schedule because of the following reasons:

(a) Failure on the part of the Company to tie up financing arrangements as discussed in para 2C.5 supra;

(b) Civil construction work awarded to the contractor (August 1997) for completion by November 1998 were still in progress (July 2001) due to awarding of extra items of work on piecemeal system discussed vide para 2C.10.3 infra;

(c) In case of 22 packages, the placement of supply orders and in case of 20 packages (Phase I) approval of vendors drawings from Company's consultant were still pending (July 2001). Similarly, in case of 30 packages of Phase II, there was no progress of work at all discussed in para 2C.7 infra. Subsequently (February 2001), IDBI undertook a mid-term review of the project and assessed the project cost at Rs.1,524 crore with scheduled date of completion of Phase I and Phase II in June 2001 and June 2002 respectively. Audit scrutiny revealed the following:

(i) The initial estimated cost of the project was Rs.1,510 crore had gone up to Rs.1,524 crore even after exclusion of the (a) Air Separation Plant (Rs.65 crore) and (b) Wire Rolling Mill (Rs.152 crore). Further scrutiny in audit revealed that the revised project cost did not include computer hardware and software estimated to cost Rs.1 crore included in the initial project estimate (Rs.1,510 crore). Hence, there is a cost overrun of Rs.232 crore which could have been avoided had the project been implemented as per schedule;

(ii) As against the revised project cost of Rs.1,524 crore, the order placed (capital commitment) for acquisition of plant and machinery, execution of civil works etc. stood at Rs.832.30 crore as on July 2001. However, the actual expenditure during the corresponding period was Rs.785.65 crore; and

(iii) The Company had awarded the work of Basic Oxygen Furnace (BOF), Continuous Casting Plant (CCP) and Gas Cleaning Plant (GCP) of Phase-II to SMSD which was to be executed after 22 months from the date of re-validation of the Contract. Since the Contract had not been re-validated so far (July 2001) as discussed vide paragraph 2C.10.2.3 infra, the completion of the work by June 2002 (schedule date of completion of the Project) appears to be remote which may lead to further time overrun and cost overrun.

Government stated (August 2001) that the revised project estimate has been approved and the delay as well as cost overrun had been analysed by IDBI and other lenders. The reply is untenable since the delay in implementation of the project had been attributed by IDBI to lapses on the part of the Company. Thus, the time overrun and cost overrun should have been avoided by better management control.

2C.7 Completion of project as per revised schedule

2C.7.1 As per the revised project estimate (February 2001), Phase-I was to be completed by June 2001 and commercial production of pig iron was to commence from October 2001. However, against the projected cash flow of Rs.125.16 crore for completion of Phase-I, the Company received only Rs.18.97 crore (equity Rs.15.52 crore and FCL-Rs.3.45 crore) up to July 2001 as a result of which Phase-I could not be completed in time. Taking into consideration the anticipated receipt of Rs.84.48 crore by September 2001 as discussed in para 2C.5.1 supra and available balance of Rs.1.20 crore as on July 2001, the completion of the Phase-I of the Project appears to be doubtful. Further, in the absence of any tie-up arrangement of funds for Phase-II, the chance of completion of Phase-II by June 2002 was also bleak.

Delay in implementation of packages ranged from 3 to 32 months.

2C 7.2 There were 226 number of major packages (Phase-I-157, Phase-II-69). Out of 157 packages for Phase-I, 106 Packages were reviewed in audit and it was noticed that works for 31 packages had been completed at a cost of Rs.76.36 crore with time overrun ranging between 2 and 28 months in comparison to the scheduled date of completion while in case of 53 packages the work valued at Rs.377.05 crore was still continuing (July 2001) against which an expenditure of Rs.230.88 crore had been incurred (July 2001) even though their target date of completion had since expired. The time overrun in these cases as on July 2001 varied from 3 to 32 months. The reasons for non-completion of work of these packages were delay in obtaining approval of vendors drawings from the Company's consultant (20 cases), non-completion of erection work (9 cases), non-supply of material by the supplier, non-conducting of inspection of material by the Company and defective submission/non-submission of drawings by vendors (24 cases). For 22 packages, LOAs are yet to be issued (July 2001) by the Company. In case of

Phase II, 10 cases were under execution, in 6 cases placement of orders were not fully completed, in 23 packages percentage of tendering varied from 0 to 75 and there is no progress in balance 30 cases (July 2001).

Government stated (August 2001) that there was delay in supply of drawings by vendors due to non-payment of mobilisation advance in time and the contracts were being extended in line with the revised schedule. The reply is untenable in view of the fact that the Company had paid mobilisation advance as per the terms of the Contract but failed to ensure timely submission of drawings by vendors.

2C.8 Borrowings

During the period from June 1997 to July 2001, the Company availed (both foreign currency and Rupee term loan) term loans aggregating Rs.586.40 crore against the projected amount of Rs.969 crore. The Company paid the instalments of interest till September 2000. Thereafter, no further repayments were made either for interest or principal. The instalment of interest liability as worked out by the Company as on March 2001 stood at Rs.37.19 crore. The Company submitted (December 2000) proposal for re-phasement of loan to the FIs/Banks which was considered by IDBI in May 2001 with the following main conditions:

(a) Funded Interest Term Loan (FITL) was granted for Rs.33.50 crore during the construction period of October 2000 to June 2002;

(b) FITL loan of Rs.33.50 crore would bear interest at the rate of 12.5 per cent being the minimum term lending rate (MTLR);

(c) The Company would pay 3.5 per cent interest over and above MTLR;

(d) Additional interest at the rate of 1 per cent shall also be payable on FITL;

(e) Up front fee at the rate of 1 per cent would also be payable on FITL; and

(f) Loan agreements were to be executed within four months from the date of receipt of Letter of Intent (10 May 2001).

Re-phasement of borrowings resulted in additional financial burden of Rs.6.04 crore.

Thus, the re-phasement would result in additional financial burden of Rs.6.04 crore to the company. However, the loan agreement has not been executed by the Company so far (July 2001). Approval of the rephasement by other financial institutions except Syndicate Bank was also awaited (July 2001).

2C.9 Consultancy Services

The Company made a contract (January 1998) with MECON as its consultant at a fee of Rs.36 crore (Phase-I & II) based on 2,000 man months for site services at the rate of Rs.43,300 per month as against which Rs.35 crore was incorporated in IDBI project appraisal report (September 1996). The contract was given effect from January 1997 with a validity of 52 months ending June 2001. The Committee of Directors while approving (May 1997) the contract for Rs.36 crore urged for inclusion of 1,000 mandays for expediting services at the rate of Rs.3,050 per manday in addition to 2,000 man months but this element was neither included in the contract nor were the fees got reduced by Rs.30.50 lakh.

The scope of services to be rendered by MECON included Package-I (Design and Engineering Services and Procurement Services), Package-II (Project monitoring services), Package-III (Detailed supervision services and assistance in commissioning services) and Package-IV (Expediting and Inspection services and reporting of status of manufacture and supply of indigenous equipment).

2C.9.1 Performance of contractual activities

Tardy progress coupled with deviation from contractual terms resulted in extra expenditure of Rs.2.60 crore.

(i) It was seen in audit that 2,182 man months had already been utilised for site service Phase-I alone as of February 2001 as against 2,000 man months. As per discussion held on March 2001 between representatives of the Company and MECON, it was assessed that 418 man months more (upto June 2001) was required for completion of Phase-I of the project. This would result in an extra expenditure of Rs.2.60 crore for Phase-I of the project alone. Since Phase-I had not been completed (July 2001), more man-months would be required for completion of the work.

Government stated (August 2001) that since the Blast Furnace could not be commissioned within the stipulated period, MECON's man-months deployed for this project exceeded the man-month provided in the contract. It was added that efforts were still being made to complete the entire project within the limit of Rs.36 crore. The reply is not tenable since no arrangement had been made with MECON for limiting the expenditure within Rs.36 crore despite delay in completion of the Project.

(ii) The following further irregularities were noticed in audit in performance of contractual activities:

(a) Clause 5.12 of the contract envisaged that NINL would ensure assistance form ITALIAMPIANTI/original designer to enable MECON to carry out basic and detailed engineering of the Blast Furnace. However, though the required drawings and details were obtained from ITALIAMPIANTI, preparation of detailed engineering drawings were awarded to three parties (Paulwurth India, GHH-Borsig and BHEL India) at a total cost of Rs.1.32 crore and MECON was not asked to furnish the detailed engineering drawings as per clause 4.1.2.2 (c) (ii) of the contract.

Government stated (August 2001) that since Paulwurth and GHH-Borsig were original suppliers for Blast Furnace Bell Less Top (BLT) system and Electric Turbo Blowers respectively, drawings and documents were received from them. It was added that turn key job of Blast Furnace (BF) Electrics was awarded to BHEL because the whole electrics of BF Complex were procured new except for few panels brought from Italy.

The reply is not tenable because as per the terms of contract with MECON, the work should have been carried out through MECON with assistance from ITALIMPIANTI who was the original designer even though material was procured form different parties.

(b) As per clause 4.1.2.2 (e) of the contract, MECON was to scrutinise spares and spare parts list of the dismantled equipment of Blast Furnace and certify its adequacy/assessment of further requirement for proper operation of the plant. However, it was seen in audit that instead of getting the assessment from MECON and purchasing the material directly from the suppliers, the Company allowed BHEL to purchase from other suppliers on payment of 15 per cent overhead charges. The Company paid Rs.27.73 lakh to BHEL towards 15 per cent overheads on procurement of material worth Rs.1.85 crore from other suppliers.

Government stated (August 2001) that assessment of MECON was done for refurbishing of the equipment. The parts which were required during the course of refurbishing could only be ascertained by BHEL who was doing the refurbishing job. The reply is untenable since as per scope of work of MECON, it was to certify the adequacy of available spare parts as well as to certify the assessment of further requirement for proper operation of the related plant

2C.10 Procedure for purchase/execution of work orders

2C.10.1 ***Process of Tender****:* The Company adopted (August 1997) the following procedure for purchase/execution of work orders:

	Basis	Criteria
Single Tender	Past/reputed supplier meeting delivery and quality requirement	Urgent/emergency purchase and contract job/civil, structural, mechanical and electrical, not exceeding Rs.5 lakh in each case.
Limited Tender	Out of a panel of reputed firms pre-assessed by consultant from their approved and qualified vendor list	Specialised plant and equipment, civil structural, mechanical and electrical contract jobs.
Open Tender	Short listed out of pre-qualification bids received through news papers/trade Journals/advertisements	Specialised plant and equipment of complex technology and large packages.

Purchase/Work order valued at Rs.6.97 crore placed on single tender basis.

Scrutiny of records revealed that on 38 occasions, the Company placed purchase/work orders valued at Rs.10.12 crore on single tender basis between November 1997 and December 2000. Out of these 38 occasions, purchase/work orders were placed in 8 occasions with money value ranging between Rs.11.70 lakh and Rs.246.30 lakh against limit of Rs.5 lakh in each case on single tender between March 1998 and December 2000. The aggregate value of the purchase/work order was Rs.6.97 crore. The criteria for urgent purchase was also not met as there was delay ranging from 2 to 12 months in the purchase.

2C.10.2 Execution of contracts

As on 31 July 2001, the Company incurred an actual expenditure aggregating Rs.785.65 crore towards acquisition of plant and machinery and execution of civil works etc. The points noticed in audit are as follows:

2C.10.2.1 Purchase of Second Hand Blast Furnace

(i) Orissa Sponge Iron Limited (OSIL), the earlier promoter of the project, had purchased (May 1992) a second hand Blast Furnace from Steel Works Sud, ILVA, Italy, at a lump sum cost of US$ 7 million with the available spare parts and technical documents on "as is where is as seen basis" with FOB delivery without any warranty. Payment to the supplier was to be made within July 1992 beyond which interest at the rate of 6 per cent per annum was payable. As per terms of the contract, the firm was also entrusted with the job of dismantling the Blast Furnace at a cost of US$ 6.3 million. After OSIL ceased to be the promoter (October 1995), the new management was actively involved in carrying out the inspection of dismantled material for which a team of Engineers from the Company/MECON visited ILVA Workshop, Italy, from 10 April 1995 to 31 January 1996 and again in July 1996 to inspect and supervise the work. An amount of US$ 16.54 million aggregating Rs.56.81 crore was paid (December 1994 to September 1996) including interest (US$ 0.77 million) and extra items (US$ 0.36 million) and landed cost (US$ 2.11 million).

In this connection, the following points were noticed in audit:

Avoidable expenditure of Rs.1.73 crore incurred on transportation of material unfit for use in the project.

(a) Lack of identification of scrap resulting in extra expenditure: Dismantled material of 8,446 MT was shipped to India in three shipments between February and August 1996 at an expenditure of Rs.10.75 crore incurred towards freight and stevedoring charges. From the monthly progress report (February 2001) of MECON, it was seen in audit that out of 5,250 MT of steel structure given to Hindusthan Steel Construction Limited (HSCL) for refurbishing, only 3,890 MT of Steel structure could be refurbished. The balance of 1,360 MT (23.90 per cent) was discarded as scrap as this quantity was beyond refurbishing.

It was noticed that though the representatives of the Company/MECON identified (July 1996) 1,300 MT of cast house structure as abandoned material not fit for transportation in view of the expenditure involved even before HSCL could take up refurbishing, they did not exercise the same expertise to identify 1,360 MT steel structure as scrap despite their presence at ILVA workshop from April 1995 to April 1996 at the time of dismantling. The failure of the Company/MECON to identify 1,360 MT of scrap steel structure resulted in avoidable expenditure of Rs.1.73 crore towards freight and stevedoring charges.

Government stated (August 2001) that after visual inspection during the time of dismantling, the equipment thought to be fit for use were brought and redundant items could be salvaged and utilised in future course of plant operation. The reply is not tenable in view of the fact that new structures were fabricated and erected in place of the redundant structures brought from Italy. Hence, the Company should not have brought those items from Italy considering the cost of freight and stevedoring charges.

Injudicious decision to recover cables and pipes from dismantled material resulted in loss of Rs.0.58 crore.

(b) Unnecessary recovery of copper cables and pipes: Though the recovery of copper cables and pipes from the dismantled material was beyond the scope of SWS, ILVA, recovery of 6,715 meters of cables and 3,284 number of pipes was carried out at ILVA at a cost of US $ 0.16 million (Rs.57.94 lakh). It was subsequently seen from the store report (January 2000) that the cables were damaged and their insulation value was low and 2,681 number of pipes out of 3,284 pipes were unserviceable. Since the Company had replaced cables (1,200 meters) and 367 pipes valued at Rs.30.47 lakh and Rs.7.89 lakh respectively, the possibility of total replacement of copper cables and pipes cannot be ruled out. Hence, injudicious decision of the Company to recover copper cables and pipes from the dismantled material resulted in loss of Rs.57.94 lakh towards payments to SWS.

(ii) Injudicious decision to purchase second hand Blast Furnace

MECON being the Company's consultant in August 1996 made a comparison between the cost of old Blast Furnace and new Blast Furnace. As per the comparison, the cost of old Blast Furnace including refurbishing charges worked out to Rs.99 crore while the cost of new Blast Furnace (1992 price) including cost of escalation, engineering charges, structural material, etc. was fixed for US$ 72.9 million equivalent to Rs.262 crore (at the exchange rate of Rs.36 per US$). Thus, there was an envisaged saving of Rs.163 crore.

Expenditure of Rs.262.80 crore incurred on purchase of second hand BF with life of 20 years whereas new BF would have cost same amount but with life of 50 years.

However, it was noticed in audit that the Company brought dismantled Blast Furnace including landed cost at a price of Rs.56.81 crore. Thereafter, the Company spent Rs.205.99 crore towards the cost of refurbishing of Blast Furnace, procurement of imported and indigenous equipments for the blast furnace, etc. Hence, the total expenditure incurred on the old Blast Furnace for bringing it into operational condition stood at Rs.262.80 crore with an available life period for 20 years. Had the Company purchased a new Blast Furnace, its cost would have been Rs.262 crore with a life period of 50 years. Hence, the decision to purchase the second hand Blast Furnace seems to be imprudent.

2C.10.2.2 Avoidable expenditure on refurbishing machinery

Two numbers each of Mudguns and Drilling machines were brought from SWS, Italy, alongwith the Blast Furnace. These machines were got refurbished (complete over hauling) in 1995 by the above firm at a cost of US$ 29,000 (Rs.10.30 lakh) being an extra item of work. Since August 1996, these machines were kept idle over a period of three years at Duburi plant yard of the Company. A visual inspection (March 1999) by the management revealed that (i) all of the equipment and specifically the base pedestals were heavily rusted, (ii) all hydraulics and pneumatic pipes, fittings, rotary seal were partly damaged and rusted, (iii) some of the relief valves were broken and lubrication system was damaged and (iv) the machines required maintenance prior to installation.

Failure to ensure proper storage of re-furbished material led to avoidable expenditure of Rs.0.39 crore.

With a view to refurbishing these machines for a second time, limited tender enquiry was made with three parties (March 1999). Out of these, two parties submitted (April/May 1999) their offers viz. (a) Rotomac India Limited (RIL), Calcutta (Rs.21.20 lakh) and (b) Paramount Sinter, Nagpur (Rs.34.80 lakh). Instead of finalising the tender, the Company invited (January 2000) fresh tenders from two firms viz. HEC, Ranchi and Paramount Sinter, Nagpur. Since HEC did not quote any rate, Letter of Award (LOA) was issued (February 2000) to Paramount Sinters, Nagpur, at their quoted rate of Rs.33 lakh with the stipulation for completion of the work within 15 weeks from the date of issue of LOA. The total amount to be paid to Paramount Sinters was Rs.38.62 lakh including spare parts, excise duty and overhead charges.

Thus, failure to ensure proper storage of machine already refurbished by the supplier resulted into avoidable expenditure of Rs.38.62 lakh.

No responsibility had been fixed on the erring officials responsible for the lapses, which led to second time re-furbishing of the equipment.

Government stated (July 2001) that an amount of US$29,000 was charged by SWS Italy towards dismantling of the equipment, inspection, cleaning, lubrication and painting and not towards refurbishing of equipment. The reply is untenable as US$ 29,000 was paid for complete overhauling including refurbishing.

2C.10.2.3 Non supply of material by MDM/IST

For purchase of material and installation of Basic Oxygen Furnace (BOF), Continuous Casting Plant (CCP) and Gas Cleaning Plant (GCP) for Phase II of the project, global tender was initiated by the Company in July 1996 and the contract for supply of equipment for BOF, CCP and GCP was awarded to Mannesmag Demag Metallurgy (MDM), Germany, and its Indian partner Indomag Steel Technology Limited (IST), New Delhi. Contracts were signed (December 1998) for a value aggregating Rs.150.88 crore. The scheduled date of completion of the contract was December 2000.

As per terms of the contract, 10 per cent mobilisation advance amounting to Rs.2.35 crore was paid to MDM in June 1999 and Rs.10.21 crore was paid to

IST through LC opened in January 1999. As against the payment of mobilisation advance, the Company obtained (January 1999) three BGs aggregating Rs.10.05 crore from IST with validity period upto 5 November 2001. The basic and detailed engineering documents (373 number each) were to be supplied by them by June 1999.

Against supply of drawing, MDM was paid Rs.7.36 crore through LC opened in May 1999. Similarly IST, New Delhi was paid Rs.1.25 crore in June 1999 through LC. However, MDM/IST submitted (June 1999) only 311 basic engineering drawings and 46 detail engineering drawings.

Failure to compel supplier to adhere to term of contract led to loss of interest of Rs.1.86 crore.

In the mean time (September 1999), Metallurgical Division of MDM was merged with SMS Demag (SMSD). The Company entered into (April 2001) a Memorandum of Understanding with SMSD according to which SMSD agreed to execute the Contract at the same price and within 22 months from the date of re-validation of the contract. Study of the MOU revealed that since re-validation of the contract with the supplier had not been finalised so far (July 2001), the execution of the contract would not be feasible before June 2003 as against the scheduled date of completion of December 2000. Hence, failure on the part of the Company to compel MDM/IST to complete the work as per schedule resulted in delay in completion of the work by 29 months and loss of interest of Rs.1.86 crore at the rate of 14 per cent per annum on the mobilisation advance paid to MDM/IST excluding the equity received from them (Rs.6.43 crore) for a period of 26 months (June 1999 to July 2001).

Government stated (August 2001) that it was not considered prudent to take any adverse action on the contractor by invoking the BG as the advantage of putting up the Plant at a highly competitive price would have been lost. The reply is untenable as the Company should have taken up the matter with SMSD soon after the merger in order to avoid the delay in completion of the Project.

2C.10.3 Execution of Civil Works

2C.10.3.1 Site levelling

Hindustan Steel Construction Limited (HSCL), Calcutta, was awarded (April 1997) the work of civil construction of Blast Furnace including site levelling of the project area and an agreement for a contract value of Rs.22.66 crore was entered into with the firm (August 1997) for completion by November 1998. As per the contract, the rate for site levelling of all kinds of soil (excluding hard rock requiring blasting/chiseling) and excavation in foundation with hard rock requiring blasting and chiseling was fixed at Rs.43.50 and Rs.46 per cum. respectively. The rate for site levelling on hard rock requiring blasting and chiseling was not provided for in the contract. In course of execution of work, the contractor encountered hard laterite rock in site levelling 56,674 cum. and requested (October 1998) the Company to treat the work as an extra item.

As per clause 3.8.1 of the contract, the rate for extra work of similar nature appearing in schedule of items shall be derived from contract rates of similar/closest item of work. In order to arrive at the rate for extra item of work, Rs.46 per cum. should have been taken as the basis for calculation by the Company. Instead, the Company adopted rates of Rs.218 per cum. (November 2000) and Rs.236 per cum. (February 2000) for excavation of hard laterite rock in foundation and Rs.186 per cum. for excavation of hard laterite rock in site levelling and allowed (May 2000) Rs.172 per cum. (218 ÷ 236 x 186) for excavation of hard rock in site levelling with retrospective effect from April 1997 without approval of the Board of Directors. This resulted in extra expenditure of Rs.71.41 lakh.

Government stated (August 2001) that no loss was sustained as the contractor was paid at the rate of Rs.172 per cum. against his demand for Rs.1,714 per cum. The reply is not tenable because the rate of Rs.1,714 per cum was not claimed by contractor and rather they claimed workable rate. Further, the rate for excavation of hard laterite rock in site levelling allowed in November 1999 being lower than the rate allowed for excavation of hard laterite rock in foundation, the rate of Rs.46 per cum. available in the contract for similar work should have been fixed for excavation of hard laterite rock in site levelling.

2C.10.3.2 Removal of studded boulders

The Company fixed (July 2000) a rate of Rs.172 per cum. for removal of studded boulders. However, the Company paid at the rate of Rs.601 per cum. for removal of 7,494 cum. of studded boulder in the Railway Exchange Yard which resulted in extra expenditure of Rs.32.15 lakh.

Government stated (August 2001) that the contractor submitted a rate of Rs.759 per cum. for removal of studded boulders against which MECON recommended a rate of Rs.601 per cum. and the same was approved in February 1999. The reply is not tenable as the rate of Rs.601 per cum. allowed (February 1999) in the area where blasting operation was not possible should not have been allowed in the area where blasting operation was possible. Further, the Company provided a rate of Rs.172 per cum. for removal of studded boulders in Amendment No.5 of May 2000 to the contract with the knowledge of MECON.

It was also seen in audit that the execution of civil work was still continuing (July 2001).

2C.10.4 Use of excess material due to bad workmanship

MMTC Transnational PVT limited (MTPL) along with the Trading Company Nissho Iwai (NIC), Japan, were engaged (November 1998) to supply hearth refractory lining material of Blast Furnace manufactured by the Nippon Electrode Company Limited (NDK), Japan at a contract price of 22.46 crore Japanese Yen (JY) (Rs.7.86 crore).

In January 2000, NDK supplied 2 MT of carbon ramming mix RP-3F at a cost of Rs.3.46 lakh for use below the bottom plate of the Blast Furnace. These quantities were sufficient for only 60 per cent of the requirement. However, on the advice of NDK, 2 MT of Carbon Mortar CC-3B at a cost of Rs.1.08 lakh was also used for this work. The use of CC-3B did not yield the desired result and both RP-3F and CC-3B aggregating 4 MT (valued at Rs.4.54 lakh) were wasted. Thereafter, in order to re-fix the bottom plate, the Company was forced to procure 4.5 MT of an indigenous substitute material from Industrial Associates, Calcutta, at a cost of Rs.10.33 lakh and had to spend additional Rs.3.90 lakh for completing the work through HSCL.

The foreign consultant of the Company (DI) expressed (January 2000) the view that the under bottom plate was not done in a workmanship manner and the mean space between the bottom plate and the carbon ramming was greater than 10 mm. which resulted in the shortage of RP-3F. Hence, due to poor workmanship, the Company incurred an extra expenditure of Rs.15.30 lakh (including cost of 2 MT CC-3B) which could have been avoided had the Company taken the expert opinion of DI before the work was started.

Government stated (August 2001) that fixing of the bottom plate as shown in DI drawing was not possible because the plate could not be put in two pieces from top as the top equipments were already erected. It was added that to tide over the situation, it was decided to take the plate in 38 pieces and weld it inside the furnace as a single plate after which the gap was found to be 10 mm. instead of 2 mm. as a result of which excess material had been necessitated.

The reply is indicative of the fact that had the Company obtained the expert opinion of DI before execution of the work the loss would not have arisen.

2C.10.5 Undue favour shown to the contractors

MECON prepared (January 1997) an estimate duly segregating the refurbishing work into 7 groups viz.: (i) hydraulic equipment and system, (ii) cranes and hoists, (iii) various types of pumps, (iv) valves and condensers, (v) fans and impellers, (vi) technological equipment and components and (vii) miscellaneous. MECON invited (April 1997) quotations from 13 firms with a list indicating the quantum of refurbishing required for the blast furnace. Out of 11 offers received (July 1997), offers of 9 parties were found to be techno-commercially suitable. Out of 9 parties, 7 parties were asked (October 1997) to submit their revised offer. Following irregularities were noticed in audit:

(i) Excess expenditure due to not awarding the works to lowest tenderer: It was seen that though Beekay Engineering Corporation (BEC), Mumbai quoted the lowest rate of Rs.7.90 lakh, Rs.19 lakh and Rs.79 lakh for Group I, III and IV, the works were awarded (December 1997) to HEC Ranchi at a price for Rs.11.70 lakh, Rs.25.12 lakh and Rs.79 lakh respectively. Though the Company awarded the Group IV work at the quoted price of BEC (against the offer of Rs.80.52 lakh), the works for Group-I and III were awarded to HEC Ranchi at their quoted price resulting in undue favour of Rs.9.92 lakh.

Government stated (August 2001) that selection of parties for particular groups was made considering the specialisation achieved by them in respective groups of equipment. The reply is untenable as BEC was also assessed as a techno-commercially acceptable party and the Company should have negotiated with HEC to award the Group I and III work at the lowest rate offered by BEC as was done in case of Group IV work.

(ii) Undue payment for rejected items: The work of Group VII was awarded (February 1998) to Indfab for Rs.47.56 lakh. As per terms of the contract, no payment was to be made for items rejected at the time of inspection. However, the Company paid Rs.4.63 lakh to Indfab even after rejection of works at the time of inspection resulting in undue favour to the party to that extent since the equipment were rejected due to technological deficiencies and not due to any faulty refurbishing.

Government stated (August 2001) that it was recommended to pay the party since the party was not responsible for any rejection. The reply is not tenable since the Company should not have paid for the rejected items as per the terms of the contract.

2C.10.6 Laying of Pipe line for infrastructure Water Supply facility on disputed land

HSCL, Calcutta, was awarded (November 1997) the infrastructure water supply facility on the basis of lowest offered price of Rs.27.90 crore for manufacture, supply and laying of spiral welded pipes and the contract was signed in January 1998. The entire work was to be completed by February 1999.

Non-adherence to terms of contract led to avoidable expenditure of Rs.0.12 crore.

Even though extensions were allowed three times upto October 2000, the work could not be completed till July 2001 due to non-acquisition of land for 2.7 km (out of 16.6 km). The contractor was specifically instructed (April 2000) not to resort to laying of pipes on the disputed land and that any work on disputed land would be at their risk and cost. However, HSCL laid (April 2000) pipes covering 1,456 meters on the disputed land but could not thereafter complete the trenches. Subsequently, the trenches collapsed causing damage to the insulators. After the land dispute was solved, the Company decided (January 2001) to complete the work of re-excavation of trenches, repair of damaged insulators and re-laying of pipes to be executed by HSCL as an extra work subject to the condition that the value of the work was to be determined by a Committee constituted for the purpose. However, it was seen that HSCL had submitted (December 2000) an estimate for Rs.22.51 lakh as against which a sum of Rs.11.97 lakh was approved by the Committee (May 2001) for payment in view of the completion of work by the contractor. Thus, the Company's approval to bear the cost amounting to Rs.11.97 lakh constituted an extension of undue financial benefit to HSCL.

Government stated (August 2001) that "no extra payment was made in this account and we have only kept a recording of the work done". The reply is not tenable since HSCL was allowed Rs.11.97 lakh for payment by the Committee considering an extra item of work already executed.

2C.10.7 Avoidable payment to Bharat Heavy Electrical Limited (BHEL)

The Company awarded (May 1998) the work of unloading, storage, handling, transportation to erection point, erection, start up, trial run, commissioning and performance guarantee test of refurbished and new electrical items at a cost of Rs.1.51 crore to BHEL, Bangalore.

BHEL claimed (February 2000) Rs.14.30 lakh towards additional items not included in the contract. MECON considered (January 2000) that all these items were already included in the schedule of contract and should not be considered as additional items. Despite the above, the Company paid Rs.14.30 lakh to BHEL as extra items which constituted an extension of undue financial benefit.

Government stated (August 2001) that the electrical panels received from ILVA, Italy, had been modified totally to make completely new panels to suit the project requirement. Hence, that was not covered under the original contract. The reply is untenable as the items of works stated to be not covered under the contract was considered by MECON to be included in the contract.

2C.11 Non-moving store material

Excess purchase led to Company having to incur avoidable interest liability of Rs.0.40 crore.

It was seen from the Bin cards maintained in the store that various types of steel plates, checker/refractory bricks and castables valued at Rs.1.75 crore had been lying in store from 1 to 3 years. This indicates that these material worth Rs.1.75 crore was purchased without assessing the actual requirement. As these purchases were effected from loan funds, the company incurred an avoidable interest liability of Rs.39.80 lakh.

Government stated (August 2001) that to maintain economy and to avail price discounts, bulk purchases of items were made keeping in view the future requirements of the project like erection work of BOF, GCP and CCP etc. and they had saved about Rs.5 crore. The reply is not acceptable as the Company should not have purchased material for Phase II (BOF, GCP and CCP) work when its Phase I work was affected due to fund constraint. As to the saving of Rs.5 crore, the company failed to produce documentary evidence to establish the fact.

2C.12 Loss of interest on mobilisation advance

Release of instalment of payment to contractors despite work not being started led to loss of interest of Rs.0.29 crore.

As per terms of the contract, the Company paid mobilisation advance aggregating Rs.6.10 crore to 12 contractors between March 1998 and June 1999 in order to mobilise men and material at the site of the work. Despite payment of mobilisation advance and even after expiry of the scheduled date of completion of the contracts (contract period expired between February and September 1999), no work was started. Work was eventually started after allowing extension and these were still in progress (July 2001). Thus, release of second and subsequent instalments even though work had not started resulted in idle investment of the borrowed fund with consequential loss of interest of Rs.28.82 lakh.

Government stated (August 2001) that mobilisation advance was paid as per agreed terms and conditions to facilitate mobilisation of men, material and resources at site. Since the project work of the Company had been divided into several packages and in most of the cases the work of one package was inter dependent on the other, the work could not commence. The reply is not tenable since in case of non-commencement of work, second and subsequent instalment of mobilisation advance should not have been released to the parties to save loss of interest.

Conclusion

The project implementation of NINL has been suffering due to lack of adequate equity arrangements forcing the Company to resort to high cost loan funds which undermined the financial viability of the project. This led to revision of project implementation three times (October 2000, April 2001 and June 2001) for Phase-I alone. Though target has been fixed for completion of Phase-II of the Project by June 2002, this would not be possible due to failure to tie-up financial resources. Inadequate monitoring coupled with poor contract implementation resulted in time overrun of 33 months (Phase-I) and in cost overrun of Rs.232 crore (Phase-I & II). The commercial viability of the Project is uncertain since the Company will be able to produce value-added products such as billets and wire rods and earn profit only after completion of Phase-II.