Chapter-III

Transaction Audit Observations

Government companies

Orissa State Beverages Corporation Limited

3.1 Short realisation of Excise Duty/Sales Tax

Collection of Excise/Sales Tax at lower rate on account of incorrect classification of Scotch blended Indian Whisky led to loss of Rs.31.50 crore to State exchequer.

By an amendment of the Bihar and Orissa Excise Act, 1915 the wholesale trade of India Made Foreign Liquor (IMFL) in the State of Orissa was entrusted to Orissa State Beverages Corporation Limited with a view to check the evasion of Excise Duty and Sales Tax. The Company set up (November 2000) with the aim of checking evasion of Excise Duty was, therefore, responsible for implementing the Excise Policy formulated by the State Government each year.

The Company is required to collect Excise Duty from the manufacturers and deposit the same with the Excise Department of the State and obtain transport passes for removal of IMFL from the factory of the manufacturers to the Company's depots for sale.

The Excise Policy for the years 2001-02 and 2002-03 prescribed the rate of Excise Duty at Rs.200 per LPL[*] on Whisky, Rum, Brandy and Vodka made from imported base.

Scrutiny in audit revealed (January 2004) that between 2001 and 2003, the Company collected Excise Duty at the rates ranging between Rs.90 and Rs.120 per LPL instead of Rs.200 applicable to the India made Whisky made from imported base (i.e., by blending with Scotch). As a result, there were short realisation of Excise Duty of Rs.11.18 crore in 2001-02 and Rs.14.64 crore in 2002-03. The Company had also not collected Sales Tax of Rs.5.68 crore (including surcharge) on the Excise Duty of Rs.25.82 crore.

Failure of the Company to collect Excise Duty at the prescribed rate led to loss of revenue of Rs.31.50 crore (Excise Duty:Rs.25.82 crore and Sales Tax:Rs.5.68 crore) to the State Government.

[*] London Proof Litre

The Government stated (July 2004) "Scotch is a Whisky and because it is made in Scotland, it is called Scotch". It further stated that unless it was established and proved that India made Whisky was made from imported base, Excise Duty @ Rs.200 per LPL could not be charged.

The reply is not tenable as scrutiny of the labels of 16 brands of India made Whisky[*] as well as statement furnished by the Company clearly indicated "blended with finest imported Scotch"/ "blended with aged Scotch"/ "a superior blend of premium Scotch", etc. The loss of revenue pointed out in the paragraph related only to blended Indian Whisky made from imported base (Scotch). Thus, non-classification of these brands under the higher slab of duty resulted in loss of revenue of Rs.31.50 crore, besides failure to implement the Excise Policy as formulated by the State Government.

3.2 Loss of revenue due to revision of landing cost

Acceptance of downward revision of landing cost by the Company contrary to Clause 1.2 A (1) of the Agreement resulted in loss of revenue of Rs.1.98 crore.

The Excise Policy of the State Government for the year 2002-03 prescribed Excise Duty at Rs.120 per LPL on 'Premium India Made Whisky' having landing cost of Rs.800 or more per case and at Rs.92 per LPL having landing cost less than Rs.800 per case. The import fee (a component of the landing cost) was revised from Rs.8 to Rs.10 per LPL with effect from 1 April 2002.

Scrutiny of records in audit revealed (January 2004) that in the case of Imperial Blue Superior Grain Whisky (180 ml) with the increase in import fee the landing cost worked out to Rs.807.81, whereas the manufacturer (Seagram Manufacturing Limited) was allowed (April 2002) to reduce the basic price from Rs.743.01 to Rs.734.20 and thereby keeping the landing cost one rupee below the slab at Rs.799 per case. The intention to avoid duty at the higher rate was evident from the letter of the manufacturer (March 2002) to the Company that they have kept the landing cost below Rs.800 with a view to avail lower rate of Excise Duty at Rs.92 per LPL instead of Rs.120 leviable.

Thus, the increase in import fee of Rs.12.96 (from Rs.51.84 to Rs.64.80 per case of 180 ml), which was envisaged, was being blatantly offset by the Company by allowing the manufacturers to keep the landing cost within Rs.800. The Company procured 5,96,450 LPL (equivalent to 91,060 cases) of Imperial Blue Superior Grain Whisky (180 ml) from Seagram Manufacturing Limited during 2002-03 on which Excise Duty @ Rs.92 per LPL was charged instead of Rs.120 per LPL, resulting in loss of revenue of Rs.1.67 crore to the State Exchequer.

[*] Royal Stag Deluxe Whisky, Blender's Pride Whisky, Oaken Glow Whisky, Signature Whisky, 8 PM Whisky, Aristocrat Black Whisky, Bagpiper Gold Premium Whisky, Bagpiper Whisky, McDowell's Diplomat Whisky, No.1 McDowell Whisky, Imperial Blue Whisky, McDowell's No.1 Reserve Whisky, Black & Gold Rare Whisky, Royal Challenge Whisky, Whitehall Classic Deluxe Whisky and Royal Arms Real Whisky.

The Company also procured 1,11,647 LPL (17,049 cases) of Green Label whisky from UDV India Limited during 2002-03 who were also allowed to reduce the landing cost from Rs.801 to Rs.799 per case to offset the effect of Entry Tax over the landed cost which led to short realisation of Excise Duty amounting to Rs.31.26 lakh.

The Company stated (January 2004) that where duty was calculated on ad valorem basis, such a risk was inherent and as per agreement the suppliers were allowed to reduce the rates up to six times during the currency of the contract and the rates were deliberately allowed to be reduced to enhance their sales. The reply is not tenable as Excise Duty was not determined on ad valorem basis.

Government stated (July 2004) that the agreement allowed reduction up to six times in a year. The reply is silent regarding Clause 1.2 A (1) of the Agreement with the manufacturers which provides for "revision of prices consequent upon variations in the statutory duties and taxes". Contrary to this provision, the Company permitted the manufacturers to reduce the price despite increase in statutory duties, which was against the revenue interests of the State. Due to acceptance of deliberate downward revision of landing cost by the manufacturers contrary to the provisions of the agreement, the Company extended undue financial benefit to the suppliers and made the State Government lose the revenue of Rs.1.98 crore.

3.3 Loss of interest due to idle retention of funds

Due to parking of funds in current accounts instead of short term deposits, the Company sustained a loss of Rs.0.19 crore towards interest.

The Company was maintaining 21 bank accounts mainly in State Bank of India, IDCO Towers branch (10), Vysya bank (10) and Union Bank of India (1). After closure of the Vysya bank accounts on 5 July 2003, the Company is maintaining 11 bank accounts for its daily transactions.

Audit scrutiny revealed (December 2003) that huge balances were lying in the current accounts daily during 2002-03. Since State Bank of India offered interest on short term deposits even for seven days, the General Manager (Finance) and the CMD of the Company should have assessed the surplus funds by taking into account the average requirement of funds to invest at least for a minimum period of seven days. The funds ranging between rupees one crore and Rs.3 crore were lying for periods varying from seven to 78 days without any return in the current accounts. This resulted in loss of interest income of Rs.19.04 lakh based on the minimum rate of interest of four per cent per annum offered by SBI for seven days.

The Company and Government stated (January 2004 /July 2004) that since the suppliers very often ask for payment of dues, it was difficult on the part of the Company to ascertain the actual surplus and go in for short term deposit. The reply is not tenable as only the funds lying for more than seven days have been treated as surplus meriting investment in term deposits.

Neelachal Ispat Nigam Limited

3.4 Avoidable payment of consultancy fees

The Company paid extra consultancy fee of Rs.1.91 crore (including Service Tax) for 419.58 man-months.

The Company entered into a contract (January 1998) with MECON as its consultant for setting up of a steel plant at Duburi at a fee of Rs.36 crore, based on 2000 man-months for site services at the rate of Rs.43,300 per man-month.

Audit scrutiny revealed (July 2004) that the man-month was not defined in the contract. In August 1998, MECON clarified that the man-month was taken at 19.8 mandays per month excluding holidays and earned leave. In April 2004, MECON and the Company had finally agreed to 24 mandays per man-month effective from May 2001.

MECON had deployed 2,287 man-months (at 19 mandays per month) against 2,000 provided in the agreement for the period up to April 2001. The Company admitted 2,014 man-months and disallowed 273 man-months on the ground that they related to deployment of financial and administrative personnel. Based on 24 mandays per man-month as finally agreed, the actual man-month worked out to 1,594.42 man-months. The Company, thus, paid extra consultancy fee of Rs.1.91 crore (including Service Tax) for 419.58 man-months of work not carried out.

The above matter was reported to the Management/ Government (July 2004); their replies had not been received (September 2004).

3.5 Avoidable payment of Sales Tax

Failure of the Company to obtain Sales Tax exemption certificate in time to avail the IPR benefit resulted in avoidable payment of Rs.1.16 crore towards Sales Tax.

As per the Industrial Policy Resolution-1992 (IPR-92) of Government of Orissa (GoO), all new small industrial units including pioneer units were eligible for exemption of Sales Tax on raw materials, spare parts and finished products for a period of five years from the date of commercial production. The units are to obtain production certificate from Director of Industries, Orissa (DoI) to avail the benefit.

The Company started commercial production in December 2001 and applied (March 2002) to General Manager, District Industries Centre, Bhubaneswar, (GM, DIC) for issue of production certificate for availing IPR benefits. The application was received by the DoI in July 2002 from GM, DIC. The DoI informed (July 2002) the Company to submit the "consent to operate" certificate from Orissa State Pollution Control Board (OSPCB).

The Company applied (July 2002) for the certificate and obtained the same in January 2003. The Company could, however, obtain the production certificate from DoI in January 2003.

The Company applied (February 2003) for Sales Tax exemption to the DoI through GM, DIC who recommended the application to DoI in April 2003. The DoI issued the exemption certificate in July 2003, applicable for five years from the date of commercial production (11 December 2001).

Audit scrutiny revealed (November 2003) that the delay in submitting the application for production certificate, obtaining certificate from OSPCB and lack of follow up with DoI contributed to delay in receiving the Sales Tax exemption certificate by 1½ years. As a result, the Company failed to avail the Sales Tax exemption benefit of Rs.1.16 crore on purchase of raw material, machinery and spare parts during 2002-03.

The Government stated (June 2004) that only after receipt of production certificate, the Company could apply for exemption of Sales Tax and there was a time gap between the actual date of production and date of issue of certificate for Sales Tax exemption. The Management had stated (February 2004) that the matter was being taken up with GoO for refund of Sales Tax already paid on purchase of raw materials.

The reply is not tenable as the Sales Tax on purchase of raw materials was paid to the suppliers and the possibility of refund from GoO is remote. The Company had not yet filed refund claim before Sales Tax authority (July 2004).

The failure of the Company to obtain Sales Tax exemption certificate in time to avail the IPR benefit resulted in avoidable payment of Rs.1.16 crore towards Sales Tax.

3.6 Loss due to failure to revise sale price

Failure to revise sale price by the General Manager (Sales) deprived the Company of earning revenue of Rs.1.60 crore.

The Company entered into a contract (August 1999) with the Minerals and Metal Trading Corporation Limited (MMTC) for marketing its products. According to the contract, the Steering Committee consisting of two members each nominated by the Company and MMTC was to fix the sale price of the products from time to time. The Chairman and the convenor of the committee were the nominees of MMTC. Further, MMTC was also to conduct the transactions in a manner to take full advantages of the exemptions from the Sales Tax.

The Company started commercial production on 11 December 2001 and received the production certificate from the Director of Industries in January 2003. The Company also received (July 2003) the Sales Tax exemption certificate under Industrial Policy Resolution-1992 (IPR-92) incentive effective for five years from the date of commercial production.

Meanwhile, the Board of Directors of the Company decided (February 2003) to discontinue collection of Sales Tax from the customers and to determine the prices of the finished goods appropriately. The Company discontinued the collection of Sales Tax with effect from June 2003 and sold 74,881 MT of pig iron between June and August 2003 at the basic price.

Audit scrutiny revealed (November 2003) that:

- the Steering Committee was formed in November 2001. The minutes or decision of the Committee on the fixation of sales price were not on record;
- the General Manager (Sales) failed to increase the sale price taking the Sales Tax component appropriately as directed by the Board of Directors and also did not take up the matter with MMTC for revision of basic price. As a result, the benefit of Rs.1.60 crore towards Sales Tax exemption on the sales of 74,881 MT of pig iron during the period from June to August 2003 was foregone.

The Government stated (August 2004) that consequent to grant of IPR incentives, selling price of pig iron had been determined taking into account the benefit derived and that selling price was being fixed inclusive of Sales Tax from March 2003 onwards. The reply is not tenable as the benefit of Sales Tax exemption was wrongly passed on to the customers and the Company had taken the corrective action only after August 2003.

The Company was, thus, deprived of earning revenue of Rs.1.60 crore due to failure to raise the sale price.

3.7 Avoidable payment of Special Additional Duty

Failure of the General Manager (Commercial) to clear imported consignments under Duty Entitlement Pass Book led to loss of Rs.0.75 crore.

As per the Export Import Policy (1997-2002) of Government of India, Government provides incentives to exporters through export credits. The amount of incentives available and availed is recorded in the Duty Entitlement Pass Book (DEPB). The objective of DEPB is to neutralise the incidence of Customs Duty on the import content of the export product. The neutralisation is provided by way of grant of duty credit against the export product. The DEPB credit can be utilised for payment of Customs Duty. Clearances made against DEPB are exempted from payment of Special Additional Duty (SAD).

The Company started (June 2001) import of coke from China. The first and second consignments were received in June 2001 and October 2001 respectively. The Company cleared (June 2001 and February 2002) both the consignments on payment of five per cent Customs Duty (Rs.1.62 crore) and four per cent SAD (Rs.1.36 crore).

Audit scrutiny revealed (November 2003) that the Company did not avail the exemption of SAD for Rs.1.36 crore due to failure of the Company to procure DEPB licence for clearance of the first and second consignments under DEPB. The Company subsequently procured (February 2002) DEPB license for clearance of third consignment on payment of premium at 38 per cent of the basic Customs Duty. Considering the rate of premium at 38 per cent, the amount of premium for the clearance of first and second consignment under DEPB worked out to Rs.61.41 lakh (38 per cent of Rs.161.60 lakh). The Company has been availing DEPB benefits for the succeeding consignments.

The Government, while confirming the facts, stated (August 2004) that the loss calculated by Audit is hypothetical as there was no fixed rate of premium and it was determined by market forces. The reply is not tenable as the loss has been worked out considering the premium paid for third consignment (February 2002) as the basis as all three consignments were received between June 2001 and February 2002. Further, DEPB licence for third consignment was procured in February 2002 when second consignment was also cleared.

Due to failure of the General Manager (Commercial) in obtaining DEPB licence for clearance of first and second consignments under DEPB, the Company was, thus, put to loss of Rs.74.65 lakh (Rs.136.06 lakh minus Rs.61.41 lakh).

Industrial Promotion and Investment Corporation of Orissa Limited

3.8 Undue favour to loanee

Extension of undue favour to the unit in extending loans time and again in violation of the provision of the scheme coupled with disbursement of loans without adequate security and lack of suitable recovery measures caused a loss of rupees one crore to the Company.

The Board of Directors of the Company approved (September 1996) a scheme for providing short-term loan assistance. The objective of the scheme was to strengthen working capital of projects assisted by the Company and other industrial projects in the State. The units earning profits for preceding two years with a track record in repayment of loans were eligible for loans under the scheme. The maximum loan assistance under the scheme was Rs.60 lakh and the maximum repayment period was six months.

The Short Term Loan Committee of the Company sanctioned short term loan of Rs.60 lakh each on three occasions (August 1998, February 2000 and December 2000) to Pipili Cold Storage Private Limited at an interest rate of 18 per cent per annum repayable within six months from the date of first disbursement. The said loans were disbursed in March 1999, February 2000 and March 2001 respectively. Out of the third loan disbursement (March 2001), Rs.41.70 lakh was adjusted towards overdues of the sister units of the loanee. The unit repaid the first and second loans including interest after a delay of four months but did not repay the third loan.

In addition, the Company also disbursed (January 2000) a term loan of Rs.39 lakh to the unit under Special Cyclone Relief Package at an interest rate of 13.75 per cent per annum repayable in eight years without obtaining any additional security. The unit defaulted the payment of instalments. The outstanding dues were Rs.1.33 crore (principal: Rs.0.99 crore and interest: Rs.0.34 crore) as on 31 October 2003.

Audit scrutiny revealed (March 2003) that:

- short term loans were sanctioned though the unit had incurred losses during 1997-2001 except a nominal profit in 1998-99;
- the very objective of the scheme to provide working capital assistance was defeated;
- the Company last recovered Rs.17.20 lakh (March 2002) by way of an adjustment against the disbursement of loans to the sister unit of the primary loanee and had failed to initiate recovery action under Section 29 of SFCs Act (except issuing of demand notices) even after expiry of two years; and
- out of the total outstanding dues of Rs.1.33 crore as on 31 October 2003, Rs.1.07 crore was overdue. As the security against the loan available with the Company as on October 2003 was only Rs.32.54 lakh, the chance of recovery of the outstanding is remote.

Extension of undue favour to the unit in extending loans time and again, in violation of the provision of the scheme, coupled with disbursement of loans without adequate security and lack of suitable recovery measures caused the recovery of rupees one crore (Rs.1.33 crore-Rs.0.33 crore) to be doubtful unless urgent steps for recovery are initiated by the Company.

The above matter was reported to the Government (February 2004); their reply had not been received (September 2004).

IDCOL Ferro Chrome & Alloys Limited

3.9 Undue favour to purchaser

Undue favour to a purchaser by extending credit beyond the limit, laxity in timely action for collection of cheques on due dates and non-charging of interest on default amount led to loss of Rs.1.05 crore.

The Ferro Chrome Plant, a unit of Industrial Development Corporation of Orissa Limited (IDCOL), was incorporated as a subsidiary company of IDCOL in March 1999. The assets and liabilities of the Plant were transferred to the Company on 1 April 2002. The Company is producing different grades of High Carbon Ferro Chrome and selling it either against Letter of Credit (LC) or against Post Dated Cheques (PDC). The Company extends 45 days credit. Interest of 16 per cent per annum is added to the sales price for sales against PDC.

Audit scrutiny revealed (November 2003) that:

- though the Executive Committee of IDCOL had decided (January 1998) to sell High Carbon Ferro Chrome only against cash/LC, the Managing Director, IDCOL extended (March 1998) credit sales against PDC to Rathi Ispat Limited (RIL), Ghaziabad allowing 45 days credit and a credit limit of Rs.1.50 crore;
- the cheques were not presented in the bank on due dates in order to accommodate the specific request of RIL for deferring the presentation. As a result, the outstanding against RIL stood more than the maximum credit limit of Rs.1.50 crore between April 2000 and November 2002, which ranged up to Rs.2.25 crore;
- the Company presented (September 2002) 94 cheques of Rs.2.33 crore at a time which were dishonoured on the ground of "exceeds arrangement". In November 2002, the Company and RIL reconciled the accounts jointly and determined the outstanding dues at Rs.1.41 crore. The RIL submitted (November 2002) 56 fresh cheques for Rs.1.40 crore with the request to present the cheque for Rs.5 lakh every month from December 2002. All the cheques presented in March 2003 were dishonoured on the ground of "payment stopped by drawee". The Company filed (May 2003) a criminal case under Negotiable Instrument Act, 1881 for dishonoured cheques; and
- on a joint meeting in October 2003, RIL paid Rs.10 lakh and agreed to pay the remaining dues of Rs.1.30 crore in 20 monthly instalments with effect from November 2003 without any interest. RIL paid only Rs.20 lakh (@ Rs.5 lakh per month) till February 2004 and Rs.1.10 crore remained outstanding.

As the Company depends on cash credit at an average rate of interest of 16 per cent per annum, failure to recover the dues within 45 days and non-levy of interest on the defaulted amount resulted in loss of Rs.1.05 crore for the period April 2000 to February 2004.

Government/Management stated (June 2004) that the Managing Director, IDCOL had no role either in fixing the terms of payment or credit limit and the waiver of interest would be considered by the Board only after liquidation of principal outstanding. The reply is not tenable since the credit limit was extended up to Rs.1.50 crore under the direction of the Managing Director. Further, it is pertinent to mention that no interest was charged on credit sales to RIL from April 2000.

The Company, thus, extended undue favour to RIL by allowing credit much in excess of the limit, laxity in timely action for collection of post-dated cheques on due dates and non-charging of interest on default amount, causing a loss of Rs.1.05 crore.

IDCOL Kalinga Iron Works Limited

3.10 Loss due to placement of supply order for oversize coke

Placement of supply order for oversize coke led to avoidable expenditure of Rs.0.79 crore to the Company.

The Company had an agreement with Utkal Moulders Limited (UML), Dhanbad since 1992 for supply of hard coke of 15 mm to 70 mm after conversion of coking coal. The work orders issued from time to time stipulated for tolerance of five per cent undersize and 10 per cent oversize. In case of undersize exceeding five per cent, payment for such quantity in excess of five per cent was to be made at the rate of breeze coke[*] and in case of oversize exceeding 10 per cent, breaking charges at the prevailing rate was to be deducted for that quantity.

The Company had also entered (September 1993) into an agreement with UML for setting up a coke oven plant (COP) adjacent to its factory at Barbil for conversion of coking coal into coke to meet its requirement. UML, however, commissioned the COP at Barbil in December 1999 and started supply of coke from COP. Though the supply of coke from the COP started from December 1999, the General Manager had issued work order only in November 2001 with retrospective effect. The work order for supply of coke from the COP stipulated for supply of 15-150 mm with maximum limit of five per cent breeze coke.

Scrutiny of records in audit revealed (April 2003) that the Company placed (November 2001) work order for supply of 15-150 mm coke against 20-40 mm required for the furnace. As the coke supplied by UML was of higher size than the required size, the Company installed (October 2000) a

[*] Breeze coke is undersize coke (< 15 mm) not suitable for blast furnace.

coke cutting machine in its premises for cutting the oversize coke. UML supplied 26,382 MT coke of 15-150 mm as per the work order between October 2000 (installation of coke cutting machine) and July 2002 (up to closure of COP). While cutting the oversize (> 40 mm) coke into required size (20-40 mm), 3,162 MT of breeze coke was generated from the total supply of 26,382 MT. Considering the maximum generation of breeze in the supply at five per cent, the excess breeze coke generated in cutting was 2,001 MT. As the landing cost of coke supplied from COP was Rs.5,024 per MT and the sales price of breeze coke was only Rs.1,079 per MT, the loss on account of excess generation of breeze coke to the Company worked out to Rs.78.94 lakh.

The Government while confirming the facts stated (August 2004) that as the sizing facility was not available in coke oven plant of UML, the party agreed to supply at a lower conversion charge. The reply is not tenable as the coke cutting machine installed by the Company was supplied by UML which could have been installed in COP.

The placement of supply order for oversize coke led to an avoidable expenditure of Rs.78.94 lakh to the Company.

3.11 Avoidable payment of energy charges

Supply of CPP power to its colony instead of plant resulted in additional expenditure of Rs.0.24 crore towards energy charges.

The Company draws power from Northern Electric Supply Company Limited (NESCO) for its plant and colony. Besides, the Company generates power in its Captive Power Plant (CPP) by utilising the waste gas from the blast furnace.

The Company was drawing power from NESCO for its plant and colony under Large Industrial Tariff (LIT) up to March 1999. Meanwhile, in February 1999 the Company entered into a separate agreement with NESCO for power supply to its colony under Bulk Domestic Tariff (BDT).

Scrutiny of records in audit revealed (November 2003) that even after separate agreement for power supply to its colony under BDT, the Company continued to supply power from the CPP partly to its colony. As the LIT was higher than the BDT, the Company could have supplied the power from the CPP to its plant instead of colony.

During April 1999 to October 2003, the Company supplied 31,44,420 Kwh power to the colony from the CPP. During this period, the differential price between Large Industrial Tariff and Bulk Domestic Tariff was Re.1 per Kwh up to January 2000 and Re.0.70 thereafter. The Company could have saved Rs.23.60 lakh by utilising the above power in the plant.

The Government/Management stated (May 2004 and August 2004) that when surplus power was available from CPP after meeting the requirement of plant, the same was supplied to colony to reduce the power supply from NESCO.

The reply is not acceptable in view of the fact that the CPP power supplied to the colony was not surplus power as 13.72 crore units of power was generated in CPP against 15.60 crore units consumed in the plant.

The Company, thus, incurred an additional expenditure of Rs.23.60 lakh towards energy charges due to supply of CPP power to its colony instead of plant.

3.12 Undue favour to supplier

Undue favour was shown to a supplier by allowing unilateral alteration of the quality specifications in the Purchase Order leading to loss of Rs.0.25 crore.

The Company placed (October 2002) a purchase order (PO) with Durgapur Projects Limited (DPL) for 5,400 MT low ash metallurgical (LAM) hard coke per month at a price of Rs.5,500 per MT. As per terms of PO, the maximum moisture content in coke was fixed at six per cent.

DPL supplied 20,025.800 MT coke between October 2002 and March 2003 containing moisture between 8.12 and 15.5 per cent. The excess moisture quantity (over six per cent) worked out to 949.204 MT. Accordingly, the Senior Manager of the Company lodged (May 2003) a claim for Rs.56.86 lakh with DPL towards value of excess moisture quantity. DPL did not agree to the claim and unilaterally revised (May 2003) the stipulation from the agreed six per cent. to eight per cent moisture content with retrospective effect from June 2002. The Managing Director (MD) of the Company accepted (June 2003) the revision by DPL without registering any protest and reduced the claim to Rs.32.29 lakh.

Audit scrutiny revealed (November 2003) that although the Company had stipulated the clause in the PO for moisture content of maximum six per cent, it failed to include the penalty clause for supply of coke beyond six per cent moisture. Further, acceptance of revision of the stipulation of moisture content from six per cent to eight per cent retrospectively from June 2002 was not justified as DPL had clearly stipulated the maximum moisture content at six per cent in their sale order for the month of October 2002. The claim of the Company towards excess moisture quantity was yet to be realised (July 2004).

The Government/ Management while accepting the facts stated (June 2004) that the upward revision of moisture content with retrospective effect was accepted to keep continuity of supply and to maintain cordial business relationship with DPL.

The reply is not acceptable as the failure to include penalty clause in the purchase order led to such a helpless situation. The acceptance of revision of moisture content should have been from prospective date.

The Company, thus, extended undue favour to the supplier by allowing unilateral alteration of the quality specifications in the Purchase Order which led to loss of Rs.24.57 lakh.

Orissa Construction Corporation Limited

3.13 Loss due to incorrect fixation of contract price

Incorrect adoption of price index by the Technical Sub-committee resulted in loss of Rs.0.96 crore to the Company.

The State Government, in August 1998, had rejected the lowest offer of Rs.20.09 crore received against the work "Design, manufacture, supply, erection and commissioning of Naraj barrage gates". In May 2001, the Chief Engineer, Naraj and Chitrotpala projects, Cuttack requested the Managing Director (MD) of the Company to submit offer for the said work. The Technical Sub-committee of the Company updated the contract price of Rs.20.09 crore to Rs.21.83 crore taking into account price escalation (material, labour and POL) for the quarter ending September 1998 to June 2001 which was approved (June 2001) by the MD. Accordingly, the General Manager (Mechanical) submitted (June 2001) the offer and executed (July 2001) the agreement for execution of the work in F-2[*] format.

As per the agreement, the work was to be completed by 31 December 2003 and the price escalation for material component was to be regulated as per the wholesale price index (all commodities). As of May 2004, the Company executed works valued at Rs.18.32 crore (84 per cent of work) and scheduled to complete the balance work by December 2004.

Audit scrutiny revealed (March 2004) that while computing the contract price based on the escalation for material component, the Committee adopted the average price index of iron and steel for the quarter ended September 1998 and June 2001 at 132.77 and 138.54 respectively as per ICB[**] format while the wholesale price index (all commodities) at the corresponding dates were 140.77 and 160.30 as per the Reserve Bank of India bulletin. Therefore, the adoption of average price index of iron and steel instead of wholesale price index (all commodities) in computation of contract price led to loss of Rs.0.81 crore in the works already executed (up to May 2004) with further loss of Rs.0.15 crore on balance works.

[*] It is a standard form of contract adopted for civil work contracts

[**] International Competitive Bidding is a standard form of terms and conditions adopted for submitting tender.

Government stated (August 2004) that the Company had requested the Government for updating the L1 rate on the basis of escalation formula in F2 contract. This was not accepted due to the fact that had the work been awarded to the earlier L1 bidder, he would have claimed the escalation as per the terms of ICB (i.e. average price index of iron and steel only). Therefore, Government suggested the Company to update the contract price as per terms of ICB.

The reply confirms that the Company sustained a loss of Rs.0.96 crore by accepting the suggestion of the Government to update the contract price as per terms of ICB.

Orissa State Civil Supplies Corporation Limited

3.14 Injudicious investment

Investment of surplus funds without adhering to Public Enterprises Department guidelines resulted in loss of Rs.0.50 crore.

The Public Enterprises (PE) Department, Government of Orissa issued (November 1996) guidelines for investment of surplus funds by Public Sector Undertakings (PSUs). The guidelines, inter alia, stipulated that the investment decision should be based on sound commercial judgement, investment may be made in any scheduled commercial banks and it was to be placed immediately in the next meeting before the Board of Directors of the Company to evolve a suitable procedure to cover investment of surplus funds.

Audit scrutiny revealed (November 2002) that in three banks viz. State Bank of India, Union Bank of India and Corporation Bank offering “at par*” facilities, the CMD invested Rs.132.90 crore in 34 term deposits between March 2001 and September 2003. The interest rates ranged between 5 and 9.25 per cent per annum for periods ranging from 15 days to one year. Audit observed that the investments were made at lower rate of interest while other scheduled banks were offering higher rate of interest ranging between 5.25 and 10.50 per cent per annum during the same period. As a result, funds of Rs.132.90 crore were invested at rates of interest which were lower by 0.25 to 1.25 per cent per annum, whereby the Company sustained loss of Rs.49.81 lakh.

Management stated (November 2002) that the Board of Director had approved (March 2001) the investment of major portion of funds in State Bank of India, Union Bank of India and Corporation Bank which were providing "at par" remittance facilities.

* Without any charges for transfer of funds and encashment of cheques.

The paragraph was discussed (March 2004) with Government/Management. Though they had stated to furnish the profitability on availing "at par" facility alongwith the reply, the same had not been received so far (July 2004).

Investment of surplus funds without adhering to PE Department guidelines, thus, resulted in loss of Rs.49.81 lakh to the Company

The matter was reported to Government (January 2004); their reply had not been received (September 2004).

Grid Corporation of Orissa Limited

3.15 Injudicious decision to construct multi-storeyed corporate office building

Injudicious decision of the Board based on a faulty proposal submitted by Director (T&D) resulted in wasteful expenditure of Rs.1.44 crore compounded by loss of Rs.0.19 crore per annum towards interest liability.

With a view to accommodate the units of the Company functioning in rented buildings in Bhubaneswar, the Board of Directors approved (May 1997) the proposal of the Director (Transmission and Distribution) for construction of a multi-storeyed corporate office complex in phases and also decided the first phase construction (nine storeyed) covering a plinth area of 65,000 square feet at a cost of Rs.3.83 crore.

The Company awarded (April 1998) the work to Orissa Industrial Infrastructure Development Corporation (IDCO), a State Government undertaking, at Rs.3.77 crore to be completed by April 2000.

Considering the poor financial position of the Company and its reduced manpower due to privatisation of distribution activities[*], the Board of Directors again decided (October 2000) to short close the work up to fourth floor and directed IDCO to complete the work by January 2001 at the revised cost of Rs.5.23 crore.

IDCO stopped the work from July 2001 for want of approval of extra items of work by the Company after half way construction of only 11 items of work out of 33 contracted. The Company had paid Rs.1.44 crore (IDCO-Rs.1.34 crore, consultant-Rs.6.40 lakh and other-Rs.3.52 lakh).

Audit scrutiny revealed (October 2002) that:

- the Company, in 1996 itself, was aware of the fact of restructuring which would reduce the manpower. The Director (T&D)'s proposal

[*] GRIDCO transferred (November 1998) the distribution activities to four DISTCOs (incorporated in November 1997). The DISTCOs were privatised in April and September 1999.

was placed before the Board of Directors only in May 1997 for construction of 49,250 sq. ft. to accommodate 18 offices functioning in rented buildings. Out of those 18 offices, only 11 offices requiring space of 29,715 sq. ft. were of the Company while seven others were of DISTCOs/private consultants. Further, out of the 11 offices, nine offices requiring 24,992 sq. ft. were later accommodated by December 2001 in the existing buildings of the Company. Only two offices were functioning in rented space of 4,723 sq. ft. at a rent of Rs.2 lakh per annum. The Company's decision for construction of huge building despite knowing the actual requirement, was totally unjustified;

- the construction done by IDCO was not usable. The chance of further construction by arranging funds of Rs.3.89 crore (minimum) was also bleak as the Company incurred heavy losses continuously with huge debts including securitisation of NTPC dues of Rs.1,102.88 crore up to September 2001.

The injudicious decision of the Board based on faulty proposal submitted by Director (T&D) resulted in wasteful expenditure of Rs.1.44 crore coupled with loss of Rs.18.66 lakh per annum being interest liability.

The above matter was reported to the Company (April 2004)/ Government (May 2004); their replies had not been received (September 2004).

Orissa Hydro Power Corporation Limited

3.16 Wasteful expenditure

Despite Board's instruction, the Company failed to terminate the contract even after unfavourable test report resulting in wasteful expenditure of Rs.0.64 crore.

With a view to overcome the problems of choking of the trash-rack of Chiplima Power House (CPH) by aquatic weeds, the Board of Directors of the Company decided (April 2002) to award the work of clearing of weeds from the ponds and power channels of CPH to Orissa Industrial Infrastructure Development Corporation (IDCO) at a cost of Rs.1.50 crore to increase the flow of water into the power generation turbine.

As per the work order issued in July 2002 the work was to be completed by December 2003. IDCO commenced (16 July 2003) the work after a delay of six months due to delay in importing weed cutting boats from Italy. The Company paid (August 2002) an interest free mobilisation advance of Rs.45 lakh to IDCO against bank guarantee for an equal amount. The Company also extended (May 2003) the contract period up to 30 April 2004 with extension of the validity of bank guarantee up to 30 June 2004. IDCO completed the cutting of weeds in an area of only 25.67 lakh square metres against 60 lakh square metres contracted till the end of March 2004 and submitted bills for Rs.64.18 lakh which were pending payment (May 2004).

Audit scrutiny revealed (April 2004) that:

- as per terms of work order, IDCO was to submit a detailed proposal for de-rooting of weeds, which was not submitted as on 31 May 2004;
- test cutting of weeds and their growth thereafter in patches conducted by the Company between June 2002 and January 2003 revealed that growth of weeds become dense after the cutting. Following the unfavourable test results, the Board of Directors decided (January 2003) to take up the matter with IDCO and terminate the contract unless the method had guaranteed benefits. In a meeting between the officials of IDCO and the Company (February 2003), IDCO was however, only asked to explore the possibility of de-rooting the weeds as per the work order; and
- the Company placed (February 2004) a work order with Metallurgical and Engineering Consultants (India) Limited, Ranchi, for providing consultancy for designing a bridge-cum-trash rack at a fee of Rs.7.55 lakh towards a permanent solution for the problems of aquatic weeds.

Since the weeds grew more densely after cutting, the Company should have terminated the contract in January 2003 itself by exploring a more permanent solution to the problem. The Company eventually terminated the contract only in April 2004 after being pointed out in audit.

The expenditure of Rs.64.18 lakh on the works executed up to March 2004 thus proved wasteful against which Rs.45 lakh had already been paid as advance.

The Management stated (April 2004) that “the de-rooting proposal to be submitted by IDCO was suggestive in nature and had nothing to do with the present contract for clearance of weeds”. They further contended that the improvement in generation was attributable to clearance of weeds undertaken by IDCO. The reply is not tenable, as the Company had not taken any action on IDCO even though IDCO did not submit the de-rooting proposal, violating the terms of contract. The improvement in generation was not due to clearance of weeds but was attributable to running of an additional unit (Unit-III).

The above matter was reported to the Government (June 2004); their reply had not been received (September 2004).

3.17 Loss due to delay in filing refund claims

Failure to point out the wrong classification made by Custom Authorities followed by payment of Customs Duty without protest compounded by failure to prefer the refund claim within stipulated period resulted in loss of Rs.0.61 crore to the Company.

The Company obtained (April 1996) the necessary recommendation from the Ministry of Power for availing concessional Customs Duty on imported goods. Audit observed that while importing the spares for use in renovation and modernisation of its Hirakud Power Plant, the Company paid (April 1996) Customs Duty of Rs.1.11 crore at standard rate under different tariff headings charged by the Custom Authorities without any protest.

In August 1996, the Company filed a refund claim for Rs.12.86 lakh against four items on the ground of charging higher rates than the concessional rates applicable to power plants. Another refund claim for Rs.60.59 lakh was filed as late as August 1999 against other item.

The Deputy Commissioner, Customs rejected (August 2001) the second claim of Rs.60.59 lakh as the claim was not submitted within the prescribed period i.e., by 13 October 1996 and accepted only the first refund claim of Rs.12.86 lakh.

The Company filed (October 2001) an appeal before the Commissioner of Customs (Appeals) against the above order. The Appellate Authority rejected (January 2003) the appeal stating that the claim was clearly time barred as the refund claim was lodged well after the expiry of six months from the date of payment of duty as provided under the statute and the duty was neither paid under protest nor the original assessment was provisional.

Audit scrutiny revealed (January 2004) that though the Company was well aware of the fact that the equipment so imported was subject to concessional duty, it failed to point out the wrong classification made by the Customs at the time of assessment and paid the Customs Duty without any protest. The Company had also failed to lodge the refund claim within the statutory limit period of six months. No responsibility for these lapses was fixed by the Company.

Due to failure to point out the incorrect levy of Customs Duty based on wrong classification followed by payment of duty without protest compounded by failure to prefer the claim within stipulated period, the Company suffered a loss of Rs.60.59 lakh.

The above matter was reported to the Management/Government (April 2004); their replies had not been received (September 2004).

3.18 Wasteful expenditure

Injudicious decision for insurance renewal by the Director (Finance) resulted in wasteful expenditure of Rs.0.24 crore.

The Company was taking annual insurance policies for its power houses and stores at the corporate office level. These policies were being renewed once in a year. The renewals of the policies were at different dates.

On the suggestion of the Assistant General Manager (Finance), the Director (Finance) of the Company approved (March 2002) extension of the existing policies to a common date (30 August) so as to have a single date for renewal of all policies. Accordingly, all the existing annual policies (except for Balimela Project) were extended up to 30 August 2002 by taking short period policies for one to five months at a premium on short period scale ranging from 30 to 60 per cent of the annual premium. The extra cost involved in this process was Rs.23.71 lakh on account of higher rate of premium for short period policies.

Audit scrutiny revealed (April 2004) that the grounds for the synchronisation of the insurance policies to a common date were 'proper monitoring', 'effective management' and 'favourable cash flow'. Since each power house was to be covered under a separate policy, the exorbitant cost of synchronisation of the insurance policies of different power houses to a common date outweighed the envisaged benefits accruing from common renewal dates. Monitoring was possible even without any such costly exercise. Even for purpose of easy cash flow, the expenditure on insurance, being a non-deferrable item, it was advantageous to have different dates/months for payment of insurance premia rather than having the outflow all at once.

The Company had, within two months, decided (May 2002) for taking up insurance policies at unit level. Hence, the decision of the Director (Finance) to have a common date for the existing policies by taking short period policies at an extra cost was not justified.

Management stated (August 2004) that the synchronisation of insurance policy to a common date helps the Company in assessing the services of insurance company for whole year at a time for taking appropriate decisions for awarding policy to a company. The reply is not tenable since the Company had decided for taking up insurance policies at unit level and reversed its decision within two months.

The injudicious decision of the Director (Finance) of the Company in switching over to a common insurance renewal date resulted in wasteful expenditure of Rs.23.71 lakh to the Company.

The above matter was reported to the Government (June 2004); their reply had not been received (September 2004).

3.19 Generation loss

Indecisiveness of the unit management in taking timely action for repair of the servomotor of Unit-II resulted in revenue loss of Rs.1.66 crore.

The Company is having seven generation units at Hirakud Power Systems (HPS), Burla. The period of monthly and annual maintenance of the unit is termed as 'planned outage' and period of shut down due to defects/break down in machineries is termed as 'forced outage'. Any forced outage during the monsoon period (July to October) results in loss of generation of power due to spillage of water.

The SDO, Maintenance Sub-Division of the Unit-II informed (January 2003) the Manager, Maintenance Division regarding problem in servomotor cylinder of Unit-II and requested for taking up the repair of the same. The Manager, Maintenance Division proposed (7 March 2003) to the Senior General Manager, HPS to take up the repair work through a private agency during the proposed planned outage period (between 15 March 2003 and 30 April 2003).

The unit level Tender Coordination Committee approved the proposal and sought (16 April 2003) the approval from Head Office to award the work to PES Engineers Private Limited, Hyderabad (PES), a firm which was already engaged in the renovation and modernisation of the unit–III and IV, to make the unit available for operation before the onset of monsoon.

Director (Operation) of the Company approved (21 April 2003) the same with the direction to complete the work before onset of monsoon. Accordingly work order was issued (26 April 2003) to PES with the stipulation to complete the work within five weeks i.e. by 30 May 2003. PES could not, however, start the work up to 21 July 2003 as the dam top gantry crane required to start the work was out of order. The work was completed only on 2 September 2003 after a delay of three months from the scheduled date. As a result, the Unit-II remained idle especially during monsoon period (July and August 2003) and generation of 60.753 MU power was foregone which would have fetched revenue of Rs.1.66 crore.

The Management, while confirming the facts, stated (May 2004) that the repair of the dam top gantry crane was under the purview of dam authorities and it could be brought back to operational condition only on 21 July 2003. It further stated that the Company had not sustained any loss as any quantum generated over and above the approved quantum of energy would have been adjusted towards excess power procurement cost of GRIDCO for 2002-03.

The reply is not tenable as there was a delay of 2½ months in sending the proposal to Head Office and the availability of gantry crane was not ensured before placement of order on PES. Further, due to hydrology failure in 2002-03 the Company had failed to generate approved quantum, GRIDCO had to incur extra cost by procuring power from other costly sources. By operating unit-II in July and August 2003, the loss towards such extra expenditure to GRIDCO during 2002-03 could have been reduced by Rs.1.66 crore as per the Bulk Supply Tariff order of OERC for the year 2003-04.

The Company, thus, sustained a loss of Rs.1.66 crore due to indecisiveness of the unit management in taking action for repair of the servomotor of Unit-II.

The above matter was reported to the Government (May 2004); their reply had not been received (September 2004).

Grid Corporation of Orissa Limited and Orissa Hydro Power Corporation Limited

3.20 Avoidable payment of interest

Delay in finalisation of accounts by Directors (Finance) of GRIDCO and OHPC led to non-availability of interest rebate on PFC loans with consequential loss of Rs.4.55 crore to GRIDCO (Rs.2.65 crore) and OHPC (Rs.1.90 crore).

According to Section 10 (23G) of Income Tax Act, 1961, interest income of Power Finance Corporation Limited (PFC) from long term finance to any enterprise wholly engaged in generation, transmission or distribution of electricity is exempted from tax provided such enterprise has obtained the approval of Central Government through Central Board of Direct Taxes (CBDT) regarding eligibility of the project for claiming the exemption. In turn, PFC passes certain percentage of tax benefits to the enterprise in the form of lowering the rate of interest on loans.

For obtaining approval of the Central Government, the concerned enterprises were required to furnish Balance Sheets and Profit and Loss accounts for the three previous years before 31 October of the assessment year, confirmation through an affidavit that the work of developing, maintenance and operation of infrastructure facility was being carried out by separate and distinct enterprise having separate books of account and bank accounts and an undertaking that long term finance raised/to be raised was being/shall be used only for the designated purpose.

Audit scrutiny of records of GRIDCO and OHPC revealed (February and March 2004) that due to delay in finalisation of accounts and failure to maintain separate books of accounts for each project resulted in incurring of extra expenditure of Rs.4.55 crore by GRIDCO (Rs.2.65 crore) and OHPC (Rs.1.90 crore) as discussed below.

The CMD of GRIDCO applied (February 2000) to Central Board of Direct Taxes (CBDT) for approval of Central Government under Section 10(23G) of Income Tax Act, 1961 without furnishing the previous year’s audited accounts (1998-99) due to delay in submission of accounts for audit. The audit of the accounts for 1998-99 could be completed only in January 2002. Further, separate books of accounts and bank accounts (project wise) had not been maintained. As a result, the Company was still (April 2004) to obtain the approval of Central Government regarding eligibility of the project for exemption. The Company, therefore, had to pay Rs.2.65 crore towards additional interest on the loans of Rs.60.12 crore availed between April 1999 and March 2003 (at two per cent for loans availed during 1999-2000 and one per cent for 2000-01 to 2002-03).

In respect of OHPC, the Central Government had approved (May 1999) three units* of the Company under Section 10 (23G) of Income Tax Act, 1961 for the assessment years 1999-2000, 2000-01 and 2001-02.

The Company availed the rebate of one per cent interest on PFC loans for the years 1999-2000 and 2000-01. The approval expired on 31 March 2001.

The Director (Finance) of OHPC applied (May 2001) for extension of approval for these units for next three assessment years without submitting certified copies of the Balance Sheets and Profit and Loss accounts for the last three years up to 1999-2000 as the accounts for the year 1999-2000 were certified by the statutory auditor only in September 2001. The Company had not yet obtained the approval and paid additional Rs.1.90 crore towards interest (at one per cent) on the loans of Rs.63.48 crore availed between July 1999 and August 2000.

Due to delay in finalisation of accounts by the Directors (Finance) of both the Companies, the opportunity for availing rebate on interest on PFC loans was lost with consequential loss of Rs.4.55 crore (GRIDCO: Rs.2.65 crore and OHPC : Rs.1.90 crore).

The above matter was reported to the Managements/Government (June 2004); their replies had not been received (September 2004).

Statutory corporation

Orissa State Financial Corporation

3.21 Grant of loans in violation of guidelines

Grant of loans in violation of the terms of the guidelines and sanction orders coupled with disbursement against inadequate security and lack of proper follow up led to recovery of Rs.2.94 crore being doubtful.

The Corporation sanctioned (April 1997) a term loan of Rs.1.50 crore to Shree Mahavir Carbon Limited (SMCL) for setting up a metallurgical coke manufacturing unit at Jagatpur which was cancelled (December 1998) as SMCL did not avail the loan. In January 1999, the Corporation sold a seized unit to SMCL at Rs.14 lakh with down payment of Rs.7 lakh treating the

* Upper Indravati Hydro Electric Project, Mukhiguda, Hirakud-II (Unit-I) and Hirakud-I (Burla-I and II).

balance Rs.7 lakh as term loan. The earlier cancelled loan of Rs.1.50 crore was revived (February 1999) and disbursed between February and October 1999. The Corporation also disbursed cyclone loan of Rs.22 lakh between December 1999 and January 2000 and funded the overdue interest of Rs.9.44 lakh up to September 1999.

SMCL started commercial production in April 2000. On the request of SMCL, a short term working capital (STWC) loan of Rs.50 lakh was sanctioned (April 2001) and disbursed (May 2001) after adjustment of Rs.10 lakh towards default dues against term loan of Rs.1.50 crore. The STWC loan was to be repaid by November 2001.

SMCL repaid only Rs.10 lakh against STWC loan as on 31 March 2002. The Corporation rephased (March 2002) the balance STWC loan of Rs.40 lakh repayable by September 2002. The Corporation failed to recover both the STWC loan and term loans. The total outstanding dues (December 2003) stood at Rs.2.94 crore (principal: Rs.2.28 crore and interest: Rs.0.66 crore) of which Rs.1.92 crore (principal Rs.1.26 crore and interest Rs.0.66 crore) was overdue for which a recall notice was issued (November 2003). No follow-up action was taken thereafter.

Scrutiny in audit revealed (December 2003) that:

- the arrangement of working capital loan by SMCL was a pre-requisite for disbursement of term loan as per terms of the sanction order. The entire loan (Rs.1.50 crore) was disbursed by October 1999 whereas working capital was arranged by the party only in July 2000 after its commercial production;
- SMCL registered continuous losses up to 2000-01 and was a defaulter of loan dues. The current ratio, return on capital employed and turnover ratio were also below the standard provided in the STWC guidelines. The STWC loan was sanctioned by the MD arbitrarily in violation of guidelines;
- the STWC loan of Rs.50 lakh was extended by MD against inadequate security of Rs.42.55 lakh as against required security of Rs.65 lakh; and
- as per latest Balance Sheet as on 31 March 2002 of SMCL, the value of fixed assets was only Rs.1.64 crore against the loan dues of Rs.2.94 crore.

While accepting the facts of relaxation of special conditions, the Management stated (June 2004) that the SBI had given assurance for providing working capital loan but subsequently backed out. Management further stated that there was surplus security. The reply is not tenable as the surplus was arrived by the Corporation without considering the outstanding interest (Rs.29.45 lakh) and the required margin (Rs.45.53 lakh) for term loan.

Extension of loan to the unit by the Managing Director in violation of the terms of the guidelines and sanction orders coupled with disbursement against inadequate security and lack of follow up action for recovery led to recovery of Rs.2.94 crore being doubtful.

The above matter was reported to the Government (April 2004); their reply had not been received (September 2004).

General

3.22 Delay in finalisation of Accounts by State PSUs

Statutory provisions for finalisation of accounts

3.22.1 According to the provisions of Section 210(3) read with Section 166 of the Companies Act, 1956, audited accounts of a company should be approved and adopted in the Annual General Meeting (AGM) of the shareholders within six months of the close of its financial year. Further, as per provisions of Section 619A(3) of the Act, ibid, the State Government should place an Annual Report on the working and affairs of each State Government company together with a copy of the Audit Report and comments there on made by the Comptroller and Auditor General of India (CAG) before the State Legislature within three months of its AGM. In case of Statutory corporations, their accounts are to be finalised, audited and presented to the State Legislature as per the provision of their respective Acts.

Management's/Government's responsibility for preparation of accounts

3.22.2 Under the provisions Section 210(1) read with Section 216 and 218 of the Company Act, 1956, the Board of Directors of a company is required to lay in every AGM an audited copy of the annual accounts i.e. balance sheet and profit and loss account for the financial year along with the Auditors' Report and other specified Annexures.

In case of Statutory corporations, the accounts are to be prepared as per provisions of the respective Acts. The Administrative Departments concerned were also required to oversee and ensure that the accounts were finalised and adopted by the PSUs within the prescribed period.

Procedure for finalisation of accounts

3.22.3 The annual accounts prepared by the Companies are approved by its Board of Directors and then audited by the Statutory Auditors appointed by the CAG. As per provisions of Section 619(4) of the Companies Act,1956, the CAG conducts supplementary audit of the accounts of the Company and such accounts along with the comments of the CAG are placed before the AGM of the Company for adoption.

Risk involved due to delay in finalisation of accounts

3.22.4 The finalised accounts of companies/corporations reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remain outside the scrutiny of the Audit/State Legislature. As a result corrective measures required, if any, cannot be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

Extent of arrears

3.22.5 As on 31 March 2004, there were 67 Government companies (32 working companies and 35 non-working companies) and three Statutory corporations (all working). Out of 32 working Government companies and three Statutory corporations, only six Government companies and one Statutory corporation had finalised their accounts for the year 2003-04 as on 30 September 2004. The accounts of remaining 25* working Government companies and two Statutory corporations were in arrears for the period ranging from one to six years as on 30 September 2004.

Out of 35 non-working Government companies, only two companies had finalised their accounts for the year 2003-04 as on 30 September 2004. The accounts of remaining 33 non-working Government companies were in arrears for the period ranging from one to 33 years as on 30 September 2004. The position of arrears in accounts of these companies was not reviewed in Audit as they were defunct/under closure or liquidation.

Comparative position of clearance of arrears

3.22.6 The table given below indicates the position of number of accounts in arrear and clearance thereof (up to September in each year) during the last five years ending 2003-04.

Year	Total number of accounts due		Number of accounts cleared		Closing balance of accounts in arrear		Percentage of accounts cleared to accounts due	
	GC**	SC**	GC	SC	GC	SC	GC	SC
1999-00	114	14	20	3	94	11	18	21
2000-01	125	14	24	3	101	11	19	21
2001-02	132	14	32	4	100	10	24	29

* Excluding one Government company (Orissa Power Transmission Corporation Limited) whose first accounts not due.
** GC: Government companies, SC: Statutory corporations

Year	Total number of accounts due		Number of accounts cleared		Closing balance of accounts in arrear		Percentage of accounts cleared to accounts due	
2002-03	132	13	46	4	86	9	35	31
2003-04	116	12	43	7	73	5	37	42

The above table revealed that the percentage of clearance of arrear of accounts ranged between 18 and 37 per cent in respect of Government companies and between 21 and 42 per cent in respect of Statutory corporations. Accounts of seven companies were in arrears for more than four years.

The positions of delay in finalisation of accounts and holding of AGM along with the reasons for delay in case of nine companies test checked are detailed in **Annexure-19**. The reasons for delay in finalisation of accounts were attributed to:

- shortage of qualified staff and frequent re-organisation of divisions/Units (Orissa State Civil Supplies Corporation Limited and Orissa Lift Irrigation Corporation Limited);
- delay in certification of accounts by Statutory Auditors (Orissa State Civil Supplies Corporation Limited and Orissa Rural Housing and Development Corporation Limited);
- delays in reconciliation of inter unit accounts (Orissa Rural Housing and Development Corporation Limited);
- delay in holding AGMs after issuance of CAG comments (Orissa State Beverages Corporation Limited, Orissa Lift Irrigation Corporation Limited, Orissa State Civil Supplies Corporation Limited, Orissa Bridge and Construction Corporation Limited, Orissa State Cashew Development Corporation Limited and Orissa State Small Industries Corporation Limited); and
- lack of time bound schedule for clearance of arrear accounts (Orissa State Electronics Development Corporation Limited, Orissa Bridge and Construction Corporation Limited and Orissa State Beverages Corporation Limited).

Weakness in accounting management set up and functions

Accounting system

3.22.7 Accounting manual contains guidelines and instructions for maintenance and preparation of accounts and acts as a vital document in guiding the efforts of the organisational units towards timely preparation of accounts in a uniform reporting format.

Audit observed that, five PSUs out of nine test checked had not initiated any action for preparation of accounting manuals. Two PSUs (Orissa Small

Industries Corporation Limited and Orissa Bridge and Construction Corporation Limited) although prepared accounting manual 18 years ago but the same had not been updated thereafter.

Absence of trained staff

3.22.8 Audit observed that in two Companies (Orissa Lift Irrigation Corporation Limited and Orissa State Civil Supplies Corporation Limited) the delay in compilation of accounts were due to shortage of qualified staff. No efforts were, however, made to provide any training to overcome their deficiency.

System of supervision

3.22.9 In accounting functions, supervision of the work of maintenance of books of accounts and other related work is a necessary control mechanism to ensure timeliness and quality of the work. Three of the PSUs (Orissa State Electronics Development Corporation Limited, Orissa Bridge and Construction Corporation Limited and Orissa State Beverages Corporation Limited) out of 15 test checked in audit, had not prepared any time-schedule at various levels for timely preparation of the accounts.

Steps taken by the State Government

3.22.10 The Government exercises its control over the companies through the concerned Administrative/Finance Department. In terms of the Memorandum and Articles of Association of the Companies, the Government had the power to issue directives in the interest of companies.

Audit Committee

3.22.11 In six[*] cases out of nine companies test checked, though their paid up capital exceeded Rs.5 crore, Audit Committee as required under Section 292(A) of the Companies Act, 1956 was not formed to recommend on any matter relating to financial management and to review the financial statement. This could have helped in liquidating the arrear in accounts.

Assistance provided by audit for liquidation of arrears

3.22.12 State Government created (January 1991) the Department of Public Enterprises (PE) as the nodal Department to look into the finalisation of accounts and audit of PSUs. The Committee on Paper Laid on Table constituted in 1992 by the State Legislature, inter alia, has been examining the

[*] Orissa Lift Irrigation Corporation Limited, Orissa state Civil Supplies Corporation Limited, Orissa Small Industries Corporation Limited, Orissa Rural Housing Development Corporation Limited, Orissa State Electronics Development Corporation Limited and Orissa Bridge and Construction Corporation Limited.

reasons for the delay in presentation of Annual Reports by the defaulting PSUs and in consultation with the AG fixing the time schedules for liquidation of arrears. As a result of coordinated action by the Committee, AG and PE Department, the total accounts cleared during 2001-02, 2002-03 and 2003-04 were 34, 69 and 80 respectively (up to March of each year).

Recommendations

As updating of accounts is necessary not only for meeting the compliance of law in case of going concerns, but also for winding up in case of defunct/ closed PSUs, the following measures are recommended to update the accounts.

- PE Department should prepare company wise plan of action involving the company and the concerned Administrative Department;
- responsibility on CEOs/CFOs of the defaulted companies should be fixed;
- State Government should take up with Registrar of Companies for imposing penal provisions of the Act in the appropriate cases to act as a deterrent;
- the State Government should pursue for suitable modification/ relaxation in the Simplified Exit Scheme for closed/defunct companies as well as extension of the benefits of the scheme to non-working PSUs; and
- assistance of professional bodies for writing books of accounts for past periods may be sought, if the Management is unable to take up the work due to large scale reduction of Accounts staff due to VRS.

The above matter was reported to Government (June 2004); their reply had not been received (September 2004).

3.23 Implementation of Voluntary Retirement Scheme in State PSUs

3.23.1 The State Government constituted (October 1995) a Cabinet Sub-committee to examine the functioning of the PSUs and recommend remedial measures for improvement in their performance. The Sub-committee in its report (August 1996) observed that all public enterprises had surplus personnel since the PSUs did not follow any rational personnel policy. Each enterprise was to make an assessment of realistic needs of personnel within three months and take steps for retrenchment of surplus personnel through due process of law in accordance with the Industrial Disputes Act, 1947. The recommendations of the Sub-committee, inter alia, included downsizing the surplus personnel introducing Voluntary Retirement Scheme (VRS).

With a view to implement the recommendations of the Sub-committee, the State Government formulated (June 1998) a Model Voluntary Retirement

Scheme (MVRS) for the regular staff of State PSUs. The scheme was further extended (September 2001) for non-regular staff covering the Normal Muster Roll (NMR)/Daily Labour Roll (DLR) employees with seven years uninterrupted service. A separate scheme i.e, Voluntary Separation Scheme (VSS) was also formulated (September 2001) by the State Government to cover up the regular and non-regular staff of all sick and unviable state PSUs.

Empowered Committee

3.23.2 For effective and expeditious processing of VR applications, an Empowered Committee (EC) was constituted (September 2001) in the Public Enterprises Department. The EC was responsible for scrutinising the proposals of individual PSUs, according sanction and overall monitoring and disposal of the cases within a definite time frame.

Audit observed that no meeting of the EC was held till date (May 2004), whereby the very purpose of constitution of EC was defeated.

The Government stated (August 2004) that subsequently it was decided to obtain VR application directly from the concerned PSUs rather than routing the same through the Administrative Department to avoid delay.

Financial arrangement for MVRS

3.23.3 In order to meet out the VRS expenditure of PSUs, MVRS (June 1998) prescribed for financial assistance by the State Government and International Financial Institute like DFID, etc. The MVRS further envisaged creation of State Renewal Fund (SRF) by the State Government in 1998-99 with a corpus of about Rs.40 crore initially. Profit making PSUs were to contribute five per cent of their profit each year to supplement the corpus. The State PSUs were also allowed to implement their own VR Scheme out of their own funds.

As per agreement executed in January 1991, DFID agreed to provide 60 per cent which was later revised to 80 per cent (July 2002) on three components of VR benefits (i.e., 21 days of Ex-gratia payment for each completed year of service + Gratuity + Leave Salary as per last pay drawn). The balance was to be provided by the State Government out of SRF. Each profit making PSU was required to make a matching contribution of 50 per cent of the requirements for sanction of funds from the corpus.

Implementation of the Scheme

3.23.4 As on March 2004, 19,741 employees were retired under VRS/VSS on payment of Rs.246.85 crore. Though, in terms of the MVRS, SRF was to be created by the Finance Department, the same was not created as on 31 March 2004. In the absence of the SRF, the State Government's entire contribution of Rs.103.68 crore was met out of budgetary provisions against prescribed contribution of Rs.40 crore to SRF in terms of MVRS. Due to non-creation of SRF, the State Exchequer had, thus, to bear an extra burden of Rs.63.68 crore.

Audit scrutiny revealed the following:

Non-compliance of Cabinet Sub-committee direction

3.23.5 Though the Cabinet Sub-committee directed (August 1996) the PSUs to assess realistic needs of personnel within three months for taking steps for retrenchment of surplus personnel under Industrial Dispute Act, 1947, no PSU had complied with the directions.

Government stated (July 2004) that the State PSUs have taken recourse to retrench their workers and 1,441 employees in nine PSUs were discharged between May 1998 and July 2002 on closure. The reply is not tenable as the discharge of 1,441 employees was in the normal course of closure of few selective PSUs. The directions of the Cabinet Sub-committee, as such, remained un-implemented in majority of State PSUs.

Delay in release of DFID assistance

3.23.6 The State Government released DFID assistance to three PSUs (Orissa State Road Transport Corporation, Orissa Forest Development Corporation Limited and Industrial Development Corporation of Orissa Limited) with delays ranging between four and 12 months from the date of acceptance of VRS as against 30/60 days as per MVRS.

The Government stated (July 2004) that release of funds under the approval at different stages caused the delay.

PSU-wise test check revealed the following:

Orissa State Road Transport Corporation (OSRTC)

3.23.7 As per Para 4.1 of MVRS (June 1998), the State Government was not to provide financial assistance to meet the terminal benefits towards arrear salary/ PF dues of the retiring employees. Such expenditures were to be met by the PSU itself. An amount of Rs.15.27 crore was, however, paid for such expenditure by the State Government.

Government stated (August 2004) that the assistance was provided as a conscious decision to cover the employees under VSS.

Industrial Development Corporation of Orissa Limited (IDCOL)

3.23.8 In terms of MVRS (June 1998), PSUs introducing their own VR Scheme were to arrange funds out of their own resources. Instead, the

Company was provided Rs.26.46 crore in respect of its own VR Scheme out of joint contribution of Government of Orissa and DFID.

Government stated (August 2004) that the assistance was provided to implement the VRS with a view to facilitating expeditious rationalisation of the work force of the Company. The reply is not tenable as the Company should have adopted MVRS instead of its own VR scheme.

Orissa Lift Irrigation Corporation Limited (OLIC)

3.23.9 The Company though identified for DFID assistance was not provided any DFID assistance and the Government in PE Department spent Rs.59.05 crore out of budget in 2003-04 for 4,299 surplus staff.

Irregular Payment

3.23.10 As per Cabinet decision (September 2002) only ex gratia was to be paid to the employees on the basis of revised scale of pay notionally increased with effect from 1 January 1996. All other benefits as such, were to be worked out on the basis of last pay drawn by the employees.

In violation of the decision, 4,299 employees of the Company (OLIC) were paid Rs.5.01 crore towards gratuity and Rs.2.85 crore towards leave salary in excess due to payment on notionally revised scale instead of last pay drawn.

Government stated (August 2004) that the decision of the Cabinet was not appropriately worded and minuted, hence the gratuity and leave salary were calculated as per the notionally revised scale of pay adopting a harmonious view of the Cabinet decision with the concurrence of DFID and Finance Department. In the absence of any amendment to the minutes of decision of the Cabinet, the reply is not tenable.

Thus, lack of timely action by the PSUs in identification of surplus manpower and non-creation of corpus fund led to delay in implementation of VRS in State PSUs with consequential payment of idle wages of Rs.30.60 crore by four[*] PSUs.

3.24 Deficiencies in internal control/internal audit system of Grid Corporation of Orissa Limited and Orissa Hydro Power Corporation Limited

Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and adequate manner. A good system of internal control should comprise, inter alia, proper allocation of functional responsibilities within the organisation,

[*] Orissa Lift Irrigation Corporation Limited (Rs.21.62 crore), Orissa State Road Transport Corporation (Rs.7.71 crore), Industrial Development Corporation of Orissa Limited (Rs.1.04 crore) and Konark Jute Limited (Rs.0.23 crore).

proper accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties and review the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Erstwhile Orissa State Electricity Board (OSEB) was unbundled (April 1996) by transferring generation function to Orissa Hydro Power Corporation Limited (OHPC) and transmission and distribution functions to Grid Corporation of Orissa Limited (GRIDCO). The distribution function was further transferred (November 1997) to four wholly owned subsidiaries. The Government of Orissa divested 51 per cent equity in distribution companies during February 1999/September 1999.

Audit noticed the following deficiencies in the implementation of Internal Control by two power sector companies viz. GRIDCO & OHPC.

3.24.1 In GRIDCO revised budget estimates for the last four years ended March 2002 were approved only after closure of the financial year (April/June of next year), on the basis of actual expenditure. The intended purpose for control of the expenditure was, thus, defeated.

3.24.2 There was no system of regular reconciliation and adjustment of advances to suppliers against their bills in GRIDCO and OHPC. Outstanding advances of Rs.3.14 crore paid to suppliers were carried forward by EHT (Construction) Division, Bhubaneswar of GRIDCO since long. Management could not furnish the exact reasons for non-adjustment of these advances when called for (April 2004). Work advances of Rs.3.40 crore paid by Upper Indravati Hydro Electric Project, an unit of OHPC, between 1980-81 and 1998-99 to Government Departments were not adjusted/recovered till date (July 2004).

3.24.3 Daily closing of Cash/Bank book and periodic surprise verification of cash was not done in three divisions of GRIDCO.

3.24.4 Tower materials worth Rs.44.22 lakh in four divisions[*] of GRIDCO were stolen during the years 2000-01 to 2002-03 due to inadequate safeguard of the assets.

3.24.5 Fixed Assets Registers were not maintained at units of GRIDCO.

3.24.6 The physical verification of stores and site materials was not conducted for the years 2000-01 and 2002-03 in two divisions of GRIDCO.

In OHPC, the closing stock of stores and spares increased to Rs.21.17 crore in 2002-03 from Rs.8.60 crore in 1999-2000. This indicated that the materials were procured without assessment of actual requirement by the Company.

Insurance claims of Rs.2.52 crore were pending settlement between January 1999 and October 2003 in three units of OHPC (Balimela, Rengali and Upper Kolab) due to poor follow up.

[*] EHT, Maintenance Division at Bhubaneswar, Rourkela, Joda and Balasore.

Surplus and unserviceable materials worth Rs.39.38 lakh held in Burla, an unit of OHPC, were not disposed off since inception of the project (1962-63) due to poor follow up action.

Audit Committee

3.24.7 In terms of Section 292A of Companies (Amendment) Act, 2000, GRIDCO and OHPC had constituted the Audit Committees in May 2001/ March 2001.

The Audit Committee of GRIDCO held 13 meetings up to March 2004 and no specific recommendations were made for strengthening internal control system. The committee only recommended (March 2004) to comply with the internal audit reports and place compliances before them at regular interval. The same were neither placed before the Committee nor to the Board of Directors for appraisal.

The Audit Committee of OHPC held 10 meetings up to March 2004. The Committee only recommended (March 2003) that the unit managements should furnish compliance to internal audit observations and take corrective measures. Audit observed that there was no follow up action to the recommendations.

Comments of Statutory Auditors

3.24.8 The Statutory Auditors of GRIDCO/OHPC in their reports on annual accounts for the years 2001-02 and 2002-03 pointed out inadequacy of internal control in respect of the following:

- maximum and minimum level of stores and spares and economic order quantity for procurement of stores were not maintained (GRIDCO and OHPC);
- priced stores ledger was not maintained (GRIDCO);
- balance in Subsidiary Ledgers for loans and advances to employees was not reconciled with General Ledger (GRIDCO);
- monitoring system for timely recovery of outstanding dues was not adequate (GRIDCO);
- physical verification of fixed assets was not done during 2002-03 in units of OHPC (Balimela, Burla and Upper Indravati); and
- internal audit function in Upper Indravati Hydro Electric Project was not adequate (OHPC).

Internal audit

3.24.9 Internal audit is a part of internal control which is used to detect irregularities, fraud, manipulation, embezzlement, etc and to see whether rules, instructions issued from time to time are being followed or not.

GRIDCO had been engaging Chartered Accountants' firms for internal audit since 1996-97. In addition, the Company created (November 2000) its in-house audit wing and formed four internal audit zones. The in-house internal audit wing had not been strengthened due to inadequate experienced manpower.

The internal audit of OHPC was conducted by firm of Chartered Accountants up to 2001-02. The Company formed (November 2001) its own internal audit wing but has not created separate cadre for internal audit set up.

The Companies (GRIDCO and OHPC) had not prepared internal audit manuals.

Performance of Internal Audit

3.24.10 GRIDCO appointed annually Chartered Accountants' firms for internal audit of field units with prescribed scope of work, remuneration and time for completion of audit whereas the in-house internal audit was being conducted on quarterly basis after creation of the in-house Internal Audit Wing in November 2000. In OHPC the in-house internal audit was conducted half yearly up to 30 September and second half up to 31 March.

In-house internal audit of GRIDCO was taken up from the year 2000-01. Out of total 60 accounting units, audit of 27 units had been taken till March 2004. The audit of only 10 units was conducted for the year 2002-03. The in-house internal audit reports were of routine nature and do not contain appraisal of various operations of the Company (GRIDCO).

Findings of Internal Audit

3.24.11 A gist of major findings of internal audit in GRIDCO and OHPC were as under:

- stock registers were not maintained properly;
- supplier control account and contractors account were not maintained properly;
- expenditure was incurred beyond revised budgetary provision; and
- revenue remittances in UIHEP, an unit of OHPC, were delayed between three and 124 days involving amount of Rs.80 to Rs.9.50 lakh.

Inadequate follow up to internal audit reports

3.24.12 No follow up action was taken by any of the companies for compliance to internal audit observations by in-house audit wing and by Chartered Accountants' firms.

The lapses in preparation of budget, maintenance of records, physical verification of fixed assets, functioning of in house audit wing and Audit Committees, thus, contributed to deficiencies in internal control of the Companies.

The above matter was reported to Government (July 2004); their reply had not been received (September 2004).

3.25 Follow-up action on Audit Reports

Outstanding Action Taken Notes

3.25.1 The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Orissa issued instructions (December 1993) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 1993-94 to 2002-03 were presented to the State Legislature, 13 out of 17 departments which were commented upon did not submit explanatory notes on 55 out of 238 paragraphs/reviews as on 30 September 2004, as indicated below.

Year of the Audit Report (Commercial)	Date of Presentation	Total Paragraphs/ Reviews in Audit Report	No. of paragraphs/ reviews for which explanatory notes were not received
1993-94	September 1995	28	3
1994-95	March 1996	24	3
1995-96	March 197	23	2
1996-97	July 1998	27	3
1997-98	July 1999	15	Nil
1998-99	July 2000	26	11
1999-2000	August 2001	29	5
2000-01	March 2002	25	2
2001-02	March 2003	17	8
2002-03	December 2003	24	18
Total		**238**	**55**

Department-wise analysis is given in **Annexure-20**. Energy, Industries, Science and Technology and Forest and Environment Departments were largely responsible for non-submission of explanatory notes. Government did not respond to even reviews highlighting important issues like system failures, mis-management, non-adherence to extant provisions and poor implementation of Power Sector Reconstruction Project.

Outstanding Compliance to Reports of Committee on Public Undertakings (COPU)

3.25.2 Replies to 218 recommendations pertaining to 42 Reports of the COPU presented to the State Legislature between April 1991 and March 2004 had not been received as on 30 September 2004 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where replies not received
1991-92	2	1
1993-94	2	1
1995-96	1	5
1997-98	1	1
1999-2000	12	71
2000-01	12	93
2001-02	5	26
2002-03	7	20
Total	**42**	**218**

The replies to 218 recommendations were required to be furnished within six months from the presentation of the Reports.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.25.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 42 PSUs disclosed that 5,096 paragraphs relating to 1,023 Inspection Reports remained outstanding at the end of September 2004. Of these, 427 Inspection Reports containing 2,064 paragraphs had not been replied to for one year to five years. Department-wise break-up of Inspection Reports and Audit observations outstanding at the end of September 2004 is given in **Annexure-21**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 26 draft paragraphs and three draft reviews forwarded to the various departments between January 2004 and August 2004, as per details in **Annexure-22**, replies to all reviews and 13 draft paragraphs were awaited (September 2004). The reviews were, however, finalised after discussion with the Management and the Government in the Audit Review Committee for Public Sector Enterprises Meetings held on 13-15 and 27 July 2004.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection Reports/ draft paragraphs/reviews as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/ overpayments in a time bound schedule, and (c) the system of responding to the audit observations is revamped.

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