CHAPTER – II

REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 REVIEW ON THE WORKING OF ORISSA MINING CORPORATION LIMITED

Highlights

The Orissa Mining Corporation Limited was established in May 1956 as a wholly owned Government company for commercial exploitation of mineral resources.

(Paragraph 2.1.1)

Injudicious decision to repair the old primary crusher instead of replacing the same led to revenue loss of Rs.75.79 crore during December 2001 to December 2003.

(Paragraph 2.1.13)

Shortfall in production of Calibrated Lump Ore (CLO) led to loss of revenue of Rs.45.37 crore.

(Paragraph 2.1.14)

The Company fixed the sale price lower than the prevalent market price resulting in revenue loss of Rs.2.15 crore.

(Paragraph 2.1.29)

The Company, at the behest of State Government, sold ore to Neelachal Ispat Nigam Limited below the market price which led to loss of revenue of Rs.11.28 crore.

(Paragraph 2.1.30)

Export of iron ore fines at lower price resulted in loss of Rs.3.83 crore.

(Paragraph 2.1.33)

Investment of Rs.4.26 crore without resolving the key issues for implementation of the Joint Venture project proved wasteful.

(Paragraph 2.1.36)

The process of computerisation started during 1992-93, could not be completed till date rendering the expenditure of Rs.0.48 crore unfruitful.

(Paragraph 2.1.38)

Introduction

2.1.1 Orissa Mining Corporation Limited with its Head Office at Bhubaneswar was incorporated as a wholly owned Government company on 16 May 1956 with the main objective of commercial exploitation of mineral resources. The State Government had leased out total mineral resources of 41,098 ha of iron ore, 7,129 ha of manganese ore and 7,563 ha of chrome ore, out of which, 9,662 ha of iron ore (23.51 per cent), 1,821 ha of manganese ore (25.54 per cent) and 5,835 ha of chrome ore (77.15 per cent) were leased to the Company. The leases were initially granted for 20 years and renewed for another 20 years thereafter.

Scope of audit

Extent of coverage

2.1.2 The marketing operations of the Company were reviewed and commented upon in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial) - Government of Orissa. The report is yet to be discussed in COPU (September 2004).

The present review covers the overall activities of the Company for the five years ending 31 March 2004. The records of the Head office at Bhubaneswar and all the five zonal offices situated at Barbil, Gandhamardan, J.K.Road, Daitari and Rayagada, one shipment office at Paradeep Port were test checked in audit and the results thereof are discussed in succeeding paragraphs.

Audit Review Committee for State Public Sector Enterprises (ARCPSE)

2.1.3 The draft comprehensive appraisal was discussed by the ARCPSE in their meeting held on 13 July 2004. The State Government was represented by Additional Secretary, Steel and Mines Department, Government of Orissa and the Company was represented by its Managing Director.

Organisational set up

2.1.4 The Management of the Company is vested in a Board of Directors consisting of 12 Directors including one part time Chairman as on 31 March 2004. The Managing Director is the Chief Executive of the Company, assisted by three General Managers (GMs) and two Deputy General Managers. There was no regular GM (Sale & Marketing) and GM (Finance) from January 1998 and August 2003 respectively and their jobs were managed by other GMs of the Company.

Capital structure and borrowings

2.1.5 The paid-up capital of the Company as on 31 March 2004 was Rs.31.45 crore consisting of 31,45,480 equity shares of Rs.100 each wholly contributed by the State Government. As on 31 March 2003, the borrowings of the Company stood at Rs.50.39 crore comprising loans from State Government (Rs.24.18 crore) and banks (Rs.26.21 crore) taken for advance to the employees and packing credit loans. The Company defaulted in repayment of loans to State Government (repaid the loan in March 2004) despite availability of fund in Short Term Deposits and incurred additional liability of Rs.2.09 crore as penal interest for the period from March 1994 to March 2004.

Financial position and Working results

2.1.6 The accounts of the Company were finalised up to the year 2002-03. The financial position and the working results of the Company for five years ending March 2003 are given in **Annexure-9.**

The Company had accumulated profit of Rs.66.68 crore as on 31 March 1998. Thereafter, the Company continuously sustained losses (Rs.42.87 crore) for four years up to 2001-02. After setting off these losses, the accumulated profit came down to Rs.23.81 crore as on 31 March 2002. Losses during four years up to 2001-02 were mainly attributed by the Company to lack of demand for iron ore and manganese ore by steel plants due to global recession in steel industry, reduction in chrome ore price in domestic and export market and lease of chrome ore mines by State Government to permanent customers of the Company coupled with high cost of production.

Audit observed that certain irregularities further contributed towards avoidable losses to the Company which are discussed in the succeeding paragraphs:

- Non-levy of penalty on raising contractors for short production of ore (Paragraph No 2.1.11);
- Sale of lump ore without conversion into Calibrated Lump Ore (CLO) (Paragraph No 2.1.12);

- Delay in repair of primary crusher at Daitari (Paragraph No 2.1.13);
- Shortfall in production (Paragraph No 2.1.14);
- Undue concessions given to contractors (Paragraph Nos. 2.1.15 and 2.1.17 to 2.1.20);
- Sale of ore below market price in export sales as well as to domestic buyers (Paragraph Nos.2.1.29, 2.1.30 and 2.1.33).

Activities of the Company

2.1.7 The activities of the Company were mainly to explore and develop mining leases and to raise, assemble and transport different minerals for the purpose of sale or export.

Mining Leases

2.1.8 The Company had 38 mining leases covering 18,977 ha as on 31 March 2004. This includes one mine covering 1,012 ha on agency basis on which the Company undertakes mining work on behalf of the State Government as their agent by paying agency fee in addition to royalty. The Company operated 28 leases and 10 leases were not operated as geological investigation was not complete.

Company had taken substantial mining areas on lease but it had exploited only 10 per cent of the reserve.

As per the geological reports of the Company, the total reserve of ore was 4,380.63 lakh MT of iron ore, 96.14 lakh MT of manganese ore, 361.41 lakh MT of chrome ore and 146.48 lakh MT of other minerals (lime stone and china clay). The Company extracted iron ore of 362.72 lakh MT (8 per cent), manganese ore 34.62 lakh MT (36 per cent), chrome ore 99.94 lakh MT (28 per cent) and other minerals 2.34 lakh MT (2 per cent) at the end of March 2004. The Company had taken substantial mining areas on lease but it had exploited only 10 per cent of the reserve. Out of 28 operating leases (22 mines), six leases operated earlier were not operated during last five years due to lack of forest clearance and unviable mining. The Company operated 22 leases (19 mines) during the last five years ended 31 March 2004.

The mine-wise profitability is given in **Annexure-10** which shows that in respect of 18 mines, the Company suffered loss of Rs.82.83 crore during the four years up to 2002-03. Out of 18 mines, 10 mines suffered losses continuously for four years ending 31 March 2003. The reasons for such losses were never analysed by the Management. Audit, however, observed that the reasons for continuous losses were due to low production of ore, non-production of chrome ore in Sukarangi mine, high incidence of establishment expenses and reduction in export sales.

Forest clearance

2.1.9 In order to undertake mining activities, approval for the Forest Diversion Proposal (FDP) is to be obtained from Government of India (GoI).

Audit scrutiny revealed that the Company has its own geological wing to look after forest clearance. In spite of this, the Company engaged two private agencies to obtain FDP clearance from GoI for 23 leases and paid Rs.54.84 lakh between November 1995 and March 2004. In terms of the work orders, the work was to be completed within six months i.e., between March 1996 and June 1998. The Agents, however, obtained clearance from GoI (between March 1999 and December 2003) in four cases only. The Company could not take any action against the agencies in the absence of any penal provision in the work orders.

Failure to obtain approval for Forest Diversion Proposal led to payment of agency commission of Rs.1.63 crore.

Due to non-approval of FDP, the Forest Department did not allow the mining work at Gandhamardan Block-B. Nishikhal mine was also closed. Besides, the Company took up mining work of the SGBK mine on agency basis for which the Company paid agency commission of Rs.1.63 crore between April 2001 and March 2004.

The Management stated (May 2004) that the preparation of FDP was a time-consuming process and required participation and co-operation of various Government authorities. The reply is not acceptable as engagement of private agency for forest clearance lacked justification in view of the fact that the Company has its own geological wing for such jobs.

Raising of ore

2.1.10 The main minerals raised by the Company are iron, manganese and chrome. Production targets are fixed considering the demand in the market. The targets of production/sale and the actual production/sale for the five years up to 2003-04 are given in **Annexure-11.**

It would be observed from the annexure that production of iron ore and manganese ore in all the five years was less than the targets. As a result, there was short production of 54.81 lakh MT of iron ore and 3.37 lakh MT of manganese ore. The percentage of production to target in respect of iron ore ranged between 52 and 73 per cent and for manganese ore between 29 and 72 per cent.

The Management stated (May 2004) that the shortfall in production was due to market condition. The reply is not tenable in view of the fact that there was heavy demand for iron ore in 2001-02 and thereafter. Even though the Company had increased the production targets, it was unable to supply ore to the buyers due to low production. The production of chrome ore ranged only between 22 and 45 per cent of the State's production, though 77 per cent of the chromite leases of the State were held by the Company.

Non-levy of penalty for short production

Failure of the Company to levy penalty of Rs.3.04 crore as per the agreements.

2.1.11 The Company raises ore mainly through raising contractors. The agreements executed with the contractors stipulate penalty for short production. Audit scrutiny revealed that even though the contractors did not raise the quantity as per the agreements, the Company failed to levy penalty of Rs.3.04 crore from five contractors as per details indicated in the **Annexure-12**.

Further, due to shortfall in production of 5.36 lakh MT by these five contractors, the Company suffered a loss of revenue of Rs.21.99 crore.

The Management stated (May 2004) that:

- in respect of R.C. Maharana and Adhunik Steels Limited (Sl.No.1 and 3 of Annexure-12), final bills of the contractors have not been finalised and the aspect of penalty would be examined by the Company;
- in respect of Jyoti Construction (Sl.No.2 of Annexure-12), penalty and cost of materials would be recovered from the final bills of the contractor;
- in respect of K.D. Sharma and EPI Limited (Sl.No.4 and 5 of Annexure-12), the process of advance planning for retendering was initiated without any malafide intention.

The replies are not tenable as:

- the short production in respect of Sl. No.1, 2 and 3 was on account of the fault of the contractor and penalty should have been recovered from the bills received once the shortfall is detected so as to discourage the short production;
- in respect of Sl.No.4 and 5, Company made delay in handing over the working site and notice for retendering was issued prior to issue of the show cause notice to the contractor for their failure.

Loss on sale of lump ore

2.1.12 The Company engaged (July 2003) Orissa Stevedores Limited for raising and processing of iron ore at BPJ mines initially for a period of three years from 01 July 2003 by fixing yearly targets. As per the contract, the contractor was to install a crusher within three months and raise and process three lakh MT of iron ore in the first year @ Rs.298 per MT for 5-18 mm size and @ Rs.120 per MT for lump ore.

Sale of lump ore without crushing led to loss of Rs.9.65 crore.

The Contractor did not install the crusher till date (February 2004). Instead of producing calibrated lump ore (CLO), the contractor raised 1,78,130 MT of lump ore. Sale of CLO fetches more price than lump ore. Thus, due to sale of lump ore (1,78,130 MT) without crushing, the Company sustained loss of Rs.9.65 crore between July 2003 and February 2004. The Company did not

impose any penalty on the contractor.

The Management stated (May 2004) that if lump ore would not have been sold, the processing yard would have been totally jammed. The reply is not tenable as jamming could have been avoided by sending 50 per cent of production for crushing at designated crushers in terms of agreement.

Crushing operation

Improper handling of Primary Crusher at Daitari

2.1.13 The Ore Handling Plant (OHP) at Daitari comprises two primary crushers known as ‘A’ line and ‘B’ line crushers and two secondary crushers with a capacity to crush 800 MT per hour. The Company, in July 1995, noticed the need for replacement/ overhauling of both the primary crushers which was, however, not carried out. Primary crusher ‘A’ broke down in January 1997 which was repaired in August 1997 at a cost of Rs.33.27 lakh by McNally Bharat Engineering Private Limited (MBE) who had the original drawings for the crusher. While commissioning, MBE recommended (August 1997) procurement of some spares including the thrust roller bearing which was most critical and vital component of the crusher to meet the eventuality of breakdown.

The proposal (May 1998) for such procurement was, however, not acted upon for reasons not available on record. The ‘A’ line primary crusher was dismantled again in April 2000 due to failure of the thrust roller bearing. The Company, however, placed (June 2001) work order for repairing of the crusher and supply of spares excluding the bearing.

MBE did not attend to the work even after receiving payment of Rs.35 lakh. In the meanwhile, the ‘B’ line crusher also developed defects and was dismantled in November 2001 due to failure of bearing. The Company was managing production by feeding friable ore[*] from selective benches bypassing the primary crusher unit. The Company was also unable to meet its target production due to breakdown of primary crushers.

In August 2002, MBE suggested that the thrust roller bearing being very old was not easily available and offered for replacement of the crusher at Rs.80 lakh. The offer of MBE to replace the crusher was not considered for reasons not on record. Instead, the Company placed (October 2002) order for procurement of the bearing on MBE. The crusher was made operational without replacement of the bearing as late as January 2004.

[*] comparatively soft ore which is easily crushable.

Failure to replace the primary crusher led to revenue loss of Rs.75.79 crore.

The Company had, thus, failed to replace the crusher which was vital for the proper functioning of the OHP and it was necessitated as early as July 1995. Such failure resulted in short production of 12.73 lakh MT[**] between December 2001 and December 2003 leading to revenue loss of Rs.75.79 crore to the Company.

Management stated (May 2004) that despite sincere effort, old spares were not available. Reply is not tenable as the decision of the Management for repair of the equipment instead of its replacement was not prudent in view of the fact that the need for its replacement was considered as early as in July 1995.

Other crushers

2.1.14 To meet the growing demand for CLO, the Company installed two crushers at Khandbandh (40 TPH) and BPJ mines (75 TPH) between April 1984 and October 1998 and engaged two more private crushers at SGBK and Dubna mines in September 1999 and May 2002 respectively.

In terms of the agreements, the processing contractors at BPJ and Khandbandh mines were to produce CLO by lifting ore from the mines and in case of SGBK and Dubna, the Company was to supply lump ore to the processing contractors.

In this regard the following deserve mention:

Shortfall in production of CLO led to revenue loss of Rs.45.37 crore.

- The Company suffered a loss of Rs.39.31 crore due to shortfall in production of 8,92,582 MT in BPJ and Khandbandh crushers.

  In the SGBK mine, production was stopped between July 2003 and November 2003 due to non supply of ore to the contractor which resulted in production loss of 75,000 MT valued at Rs.6.06 crore.

Sale of lump ore instead of supplying to processing contractor led to loss of Rs.12.46 crore.

- The Company further suffered a loss of Rs.12.46 crore due to sale of lump ore without supplying to the processing contractor at SGBK and Dubna mines.

- The percentage of recovery of CLO in case of BPJ crusher was between 66 and 68 as against stipulation of 75 per cent during the period between April 1999 and August 2002 resulting in short recovery of 8,766 MT valued at Rs.33.46 lakh.

- The crusher contractor was paid Rs.30.41 lakh towards transportation of 71,571 MT ore in Khandbandh mine though he had not transported the same from mines to crusher which was done by the raising contractor.

The Management stated (May 2004) that in respect of Khandbandh, the shortfall in production was due to deficiency of the crusher and scope of transportation was not included in the work order awarded to the raising

[**] shortfall has been arrived at based on the sales targets for Daitari unit for the period reported.

contractor and in respect of Dubna, the Management stated that the Company could not supply ore to crusher due to forest problems.

The reply is not tenable since the departmental crusher was handed over to the crushing contractor after spending Rs.4.41 lakh towards repair of the crusher. As per the contract, the raising contractor was also required to transport the ore. Further, the Company could have transported lump ore to crusher in the same manner in which the ore was sold to the buyers.

Outsourcing of Operation, Repair and Maintenance of Long Distance Belt Conveyor

2.1.15 The Company was operating its Long Distance Belt Conveyor (LDBC) of OHP at Daitari departmentally. For achieving the production target of one million tonne per year, the Company awarded (May 2001) the work of operation and maintenance of LDBC @ Rs.34.20 lakh per annum with required stores and spares for five years to Spark India Private Limited. The contract was to be renewed after the end of each year on the basis of performance of the contractor.

Poor maintenance of LDBC led to revenue loss of Rs.2.21 crore on account of short production of iron ore.

The engagement of proper manpower was the responsibility of the contractor. The contractor commenced the work in July 2001 and failed to engage skilled manpower and to mobilise sufficient tools which led to poor maintenance from the beginning. In September 2001, the plant could produce only 13,700 MT against a target of 50,000 MT. Consequently, the Company suffered a revenue loss of Rs.2.21 crore on account of short production of 36,300 MT. In spite of serious shortcomings in the performance, the contractor was continued up to March 2003. Maintenance was thereafter done departmentally.

It was revealed in audit that the Company had incurred an expenditure of Rs.3.51 lakh per month by outsourcing during the period July 2001 to March 2003. During the subsequent period from April to December 2003, when the work was managed departmentally, the average monthly expenditure was only Rs.1.26 lakh. Thus, by outsourcing, avoidable expenditure of Rs.47.25[*] lakh was incurred.

The Management stated (May 2004) that annual maintenance of LDBC involves hazardous/critical nature of work and also demands expertise and experienced crew, which the Company was unable to provide out of its existing manpower. The reply is not tenable as the Company has been carrying out maintenance of LDBC departmentally from March 2003 with the existing manpower at a much lower cost.

Avoidable expenditure on account of non-operation of 100 TPH tertiary crusher

2.1.16 In order to meet the growing demand for calibrated ore (CLO), Daitari

[*] (Rs.3.51 lakh - Rs.1.26 lakh) x 21 months

unit installed one 100 Tonnes per Hour (TPH) tertiary[**] crusher in the washing plant in December 2000.

Audit observed that though the 100 TPH tertiary crusher was capable of handling the entire production of lump, it was not operated to the level of installed capacity, for which reasons were not available on record. As a result, 1,54,587 MT of lump ore was crushed between March 2001 and November 2003 in the 50 TPH crusher being operated by contractors. The Company thereby incurred avoidable expenditure of Rs.40.97 lakh towards conversion charges @ Rs.26.50 per MT.

The Management stated (May 2004) that the lump ore generation was very minor in quantity and was bypassed without feeding to tertiary crusher. The reply is not tenable as quantity crushed i.e. 1,54,587 MT was significant.

Extra expenditure in maintenance of Dumpers at Daitari

2.1.17 In Daitari Iron Ore mechanised mine, the repair and maintenance of mining equipment, dumpers, etc. was being done departmentally. In order to achieve the target of one million tonne production, the Company decided (December 2000) to entrust repair work of equipment to contractor. In April 2001, the Company engaged New India Supply Agencies, Bhubaneswar for the repair and maintenance job of 10 dumpers at a cost of Rs.34.80 lakh for one shift. In terms of Clause 5 of the work order, rate was to be increased with increase in plant operation hours. Even if the fleet strength were reduced on account of major breakdown, the rate would not be decreased. This clause was against the interest of the Company since the Company was well aware of the fact that there were only seven dumpers in working condition.

Company suffered loss of Rs.1.05 crore in the maintenance of dumpers.

Scrutiny of records revealed that the Company sustained a loss of Rs.1.05 crore due to extra payments towards non-operational dumpers, wrong calculation of availability percentage and non-analysis of related cost-benefits which are discussed in succeeding paragraphs.

2.1.18 During December 2001 and June 2002, the contractor undertook repair and maintenance of only seven dumpers as three were non-operational. The extra payment on account of three non-operational dumpers amounted to Rs.25.83 lakh.

Management stated (May 2004) that the contractor had to be paid the fixed cost of maintenance as per the contract because of the force majure provision. The reply is not tenable because this could have been avoided by making the agreement for seven available dumpers only.

2.1.19 While calculating availability of hours, the dumpers under breakdown were taken as 100 per cent available. Due to such wrong calculation, the Company paid an excess amount of Rs.6.01 lakh to the contractor. No responsibility for giving such wrong certificate had been fixed by the

[**] Tertiary crusher is a part of washing plant which recycles the lump ores, not crushed in the process, back to the process for crushing.

Company.

2.1.20 In October 2002, while reviewing the performance of the contractor, Management observed that despite the fact that the availability hours did not improve and remained almost the same as under departmental maintenance, the contractor was being paid Rs.4.25 lakh as per agreement while his actual expenditure per month was only Rs.1.82 lakh. It was, thus, evident that due to lack of proper cost benefit analysis before engaging the contractor, monthly rate was fixed at higher side. Despite knowing such higher rate, the agreement was not terminated which resulted in extra expenditure of Rs.72.90 lakh from July 2001 to December 2003 without any additional benefit.

Idle investment in procurement of dumpers

Procurement of new dumpers without requirement led to unfruitful investment of Rs.1.41 crore.

2.1.21 Daitari unit of the Company had seven working dumpers. During the period from June 2001 to June 2002, the dumpers were utilised for 10,953 hours as against 31,688 hours available (35 per cent of the available hours). The Company purchased two dumpers in March 2002 at a cost of Rs.1.41 crore, when the unit was unable to utilise the existing dumpers. The new dumpers were put to use in July 2002. During the period from July 2002 to October 2003 the dumpers were utilised for 16,544 hours as against the available 59,072 hours (28 per cent of the available hours). Thus, procurement of new dumpers without requirement was not justified leading to unfruitful investment of Rs.1.41 crore.

The Management stated (May 2004) that in anticipation of the repair of primary crusher, the procurement was done.

The reply is not tenable as the Company was fully aware of difficulty in repairing the old primary crusher. Since the existing dumpers were not being fully utilised, the procurement of additional dumpers was not justified.

Non realisation of cost for missing trips of fines/CLO

2.1.22 In order to meet the increasing demand of iron ore for export as well as sale to Neelachal Ispat Nigam Limited (NINL), the Company engaged (September 2001) B.D. Mohta, a raising contractor for raising of four lakh MT of iron ore at Daitari on open tender basis. In terms of the contract, the contractor was to raise iron ore, screen in the Dry Screening Plant and then transport the ore to Baliparbat stockyard/Daitari Railway siding. Payment to the contractor was to be made fortnightly on the basis of certificate given by the Mines Manager regarding actual transport and weighment of ore.

Scrutiny of Vehicle Movement Register maintained at Daitari main gate and payment particulars revealed that there was discrepancy between the number of loaded vehicles (trips) despatched from the mines as per the challans recorded at the main gate and the trips weighed and received at Baliparbat. The scrutiny of records for the fortnight period between 1 February 2003 and 15 February 2003, 1 April to 15 April and 1 June to 15 June revealed that 2,236 trips (fines-1,518 CLO-718) despatched from the mines passed through the main gate and were entered in the vehicle movement register. As against

this, only 1,287 trips of fines and 526 trips of CLO were weighed at the weigh bridge as per the weighment records. Audit observed that 231 trips of fines and 192 trips of CLO valued at Rs.70.88 lakh were not reconciled.

The Management stated (May 2004) that the space available at DSP for storage of finished products was limited; consequently, the CLO and fines evacuated from hilltop were stacked at Baliparbat and were not being weighed whenever weighbridge remained under breakdown. After repairing of the weighbridge the said stacked materials were weighed and transported to different destinations.

The reply is not tenable as the weigh bridge was under breakdown only for five days. Further, the accounts of unweighed stock and its disposal were not shown to audit.

Transportation of Ore

2.1.23 The following irregularities in transportation were observed in audit.

Extra expenditure due to adoption of costlier route for transportation of iron ore

2.1.24 The Company awarded (September 2001) all the activities of raising, screening and transportation of ore to a single firm B.D. Mohta. As per the agreement, the ore raised at Daitari iron ore mine was to be transported to Baliparbat for weighment. The same was either to be unloaded there or to be transported direct to the OMC Railway Siding at Daitari without unloading. Due to failure to issue clear instructions 4.72 lakh MT of ore, which was to be transported directly to Daitari Railway Siding (DRS) after weighment, was erroneously unloaded at Baliparbat. Subsequently, it had to be re-transported (between October 2001 and September 2003) to DRS incurring an additional expenditure of Rs.49.14 lakh. No responsibility has been fixed on the Mines Manager.

The Management stated (May 2004) that synchronisation of transportation of ore from the mine with transportation by railway was not always possible and the space at DRS was also limited. The reply is not tenable since the DRS is for exclusive use of the Company. There being no other user of the siding, transportation from mine could have been synchronised with transportation by railway keeping in view the limited space.

Loss in transportation of chrome from Kaliapani to Paradeep port

2.1.25 The Company awarded (May 2001) the work of transportation of chrome ore from Kaliapani to Paradeep Port to Ballabh Carrying Corporation. As per Clause 9 (c) of the agreement, penalty at double the rate of sale price for weight loss above 0.5 per cent (allowed) was to be levied on the contractor.

Audit scrutiny revealed that the weight loss during July and August 2001 ranged between 3 and 13 per cent. While forwarding the bills of the

transporter for July and August 2001 to Head Office for payment, the Manager (Mines) intimated (October 2001) that there was shortage in weighment at Paradeep and the transporter had also delivered inferior grade materials at Paradeep than what was loaded at the mine end on two occasions (19 and 29 July 2001). Though delivery of inferior grade of ore was a serious matter this was neither investigated nor any penalty was levied on the contractor.

The Management stated (May 2004) that the Purchase Contract Committee (PCC) allowed weight loss up to 0.76 per cent against permissible limit of 0.5 per cent considering field report and ground realities. The reply is not tenable as the weight loss, ranged between 3 and 13 per cent. The acceptance of weight loss and quality loss by the PCC without analysing the same on case-to-case basis was detrimental to the interest of the Company which led to undue benefit of Rs.12.84 lakh to the contractor.

Sales

2.1.26 The Marketing Department of the Company is being headed by the Deputy General Manager (Geology) who is assisted by one Manager and two Deputy Managers. The post of General Manager (Sales and Marketing) has been lying vacant since January 1998. All sales and transportation contracts are finalised at head office.

Marketing Policy

2.1.27 In respect of domestic sales, the price was fixed quarterly for different grades of ore by the Board of Directors on the recommendation of the Sales Committee. Further, as per the sales policy of the Company, domestic sales of chrome ore are made to the buyers for their own consumption and not for trading. No such policy was adopted for other minerals.

Domestic sales are made on ex-mine basis. The Regional Offices are responsible for execution of sales contracts, raising of bills and realisation of sale proceeds in respect of domestic sales through their unit offices situated at the mines. All export sales are looked after by head office. Execution of export sales is effected through the shipment office at Paradeep port. Most of the operations are undertaken through contractors. The selling prices of these ores are fixed by a committee formed by the Company.

For iron ore (+64 per cent Ferrous), manganese (+46 per cent Manganese) and chrome ore, which are canalised items, the Company has not obtained the export license and exports these minerals through MMTC. Export of other grades of iron ore mainly fines, manganese ore and chrome concentrate was being done by the Company itself on open tender basis.

Sale price of different ores are regulated according to the ore content (grade) which is analysed by private analyst (except Daitari mines where the Company has its own laboratory) at the mine head before despatch to customers or transported to stock yard of the Company. When ore is sold from

the stock yard it is again analysed by private analysts, acceptable to the Company and the buyer.

Sales performance

2.1.28 The mineral wise production and sales for five years up to 2003-04 is given in the **Annexure-13**. It would be seen from the Annexure that:

- during the years 2002-04, domestic sales of iron ore and chrome ore increased and export sale decreased compared to the year 2001-02 when the export price was on increasing trend;
- the sale of chrome ore was below its production in all the five years ranging between 69.76 per cent (2001-02) to 92.33 per cent (2003-04) of production resulting in accumulation of stock;
- the percentage of sales to total stock in respect of iron ore ranged between 38.08 and 78.78 per cent, manganese ore ranged between 40.39 and 54.49 per cent and chrome ore ranged between 38.62 and 60.48 per cent. This has resulted in accumulation of stock of 3.23 months' sales of iron ore, 10.12 months sales of manganese ore and 7.84 months sales of chrome ore as on 31 March 2004.

Domestic Sales

Fixation of sale price below the prevailing market price

Fixation of sales price lower than the prevalent market price led to loss of Rs.2.15 crore.

2.1.29 The sale price of ore was fixed on quarterly basis by the Board of Directors on the recommendations of the Sales Committee. Test check of records revealed that the Regional Office, Barbil, collected the price list of other local private producers in Barbil sector on two occasions i.e. in August 2002 for iron ore and in December 2002 for manganese ore and communicated the same to the Sales and Marketing wing of the Company for fixation of sale price. The sale price fixed by the Company was, however, lower than the lowest market price prevailing in the Barbil sector. As a result, the Company sustained a loss of Rs.2.15 crore between August 2002 and December 2002.

The Management stated (May 2004) that the private agencies normally fix their market price higher than OMC price so that OMC will fix the price at their level. Subsequently, they give credit facility, other discounts in various ways which OMC, being a Government concern, can not facilitate. The game played by private producers was, therefore, carefully examined by OMC and decision taken in such a way that the product moves safely at the real prevailing market price instead of published price of private producers.

The reply is not tenable as the Company did not increase the prices even though the Committee during the survey in the field had recommended (August 2002) increase in price considering the market condition. Further, there was heavy demand in 2002-03 and the Company was unable to supply due to low production. Thus, the fixation of lower price by the Company was

not justified.

Loss in sale of Iron ore

2.1.30 Daitari unit of the Company has been supplying iron ore to Neelachal Ispat Nigam Limited (NINL) since June 2001. The Company supplied Calibrated lump ore (CLO) @ Rs.310 per MT for the period from June 2001 to August 2002, @ Rs.341 per MT from September 2002 to March 2003 and @ Rs.419 per MT from April 2003 to March 2004 as against the market price ranging between Rs.364 and Rs.656 during the said period. Similarly, in respect of iron ore fines, the rate was fixed at Rs.273 per MT from April 2003 as against the market price of Rs.320. These rates were fixed under the instructions (April 2001) of the State Government.

Sale of ore to NINL below the market price led to loss of Rs.11.28 crore.

Audit scrutiny revealed that the price fixed for NINL was far below the average market price and even below the average cost of production (Rs.396) (September 2001 to March 2003). Since the Company was incurring losses continuously from 1998-99, the decision to sell at concessional rates was against the interest of the Company. The Company, thus, sustained a loss of Rs.11.28 crore in the sale of ore to NINL during 2001-04 (up to December 2003).

Irregular payment of cash discount

2.1.31 Scrutiny of records of J.K.Road unit revealed (March 2004) that the Company was allowing cash discount and volume discount on sale of chrome ore to domestic buyers. Volume discount was allowed for lifting more than a targeted quantity of ore within a stipulated period, whereas cash discount was allowed for paying the price in advance. It was noticed that cash discount was calculated on the gross sale value before volume discount instead of calculating after volume discount. As a result, there was a loss of Rs.17.35 lakh during the years 2001-03.

The Management stated (May 2004) that the Company extended cash discount on the published sales price of chrome ore. The reply is not correct as the Company had directed (March 2001) the unit office to extend cash discount after volume discount. The action of the Management, as such, was not in the interest of the Company. The Company also allowed cash discount on net sale price instead of published sale price during 2003-04.

Export Sales

2.1.32 The Company makes export sales on tender basis. It was observed in audit that in export sales, the Company did not refer to prevailing international prices. Further, export of iron ore was reduced from 20 per cent of the total export of the State in 2001-02 to 10 per cent in 2002-03 and further reduced to seven per cent in 2003-04. Similarly, though 77 per cent of chromite leases of the State were held by the Company, export of chrome ore ranged between 28 and 51 per cent during the five years ending March 2004.

Irregularities noticed in the export sales are discussed in succeeding

paragraphs.

Export of iron ore fines at lower price resulted in loss of Rs.3.83 crore.

2.1.33 Test check of records revealed that in respect of four shipments (2,20,653 MT), out of eight shipment between December 2002 to January 2004, the tender prices were below the price at which other exporters exported during the same period. Due to export of 2,20,653 MT of iron ore fines at lower price, the Company sustained a loss of Rs.3.83 crore.

The Management stated (May 2004) that the producers who were exporting iron ore fines at higher price must have better quality. The reply is not tenable in view of the fact that the comparison has been made between the Company's rates and rates of other exporters calculated on pro rata basis within the range of same grade.

2.1.34 Despite substantial increase in average export price of iron ore from Rs.540 per DMT in 2001-02 to Rs.625 per DMT in 2002-03 and Rs.1,698 per DMT in 2003-04, export of iron ore by the Company was decreased to 4.64 lakh MT in 2002-03 and further decreased to 4.49 lakh MT in 2003-04 from 6.99 lakh MT in 2001-02. Considering the minimum export of iron ore at 6.99 MT per year, the shortfall in export for the years 2002-03 and 2003-04 worked out to 4.85 lakh MT. Similarly, export of chrome ore/concentrate was also decreased in 2002-04 by 2.90 lakh MT.

Management stated (August 2004) that export of iron ore was decreased due to plot constraints at Paradeep and supply of ore to NINL. The reply is not tenable as the Company exported 6.99 lakh MT in 2001-02 with the same plot at Paradeep and only a small quantity of iron ore fines was supplied to NINL from December 2003 only.

Investment in Joint Venture

2.1.35 The Company has not laid down any policy for investment in Joint Venture. It had, however, signed seven agreements with private parties from time to time for different mining activities as a measure of expansion and diversification, of which, in two cases, the Company had invested funds in equity while other five cases were still in the process of finalisation of the project. The Company had also invested funds in a Public Sector Undertaking viz. Konark Met Coke Limited. The irregularities in investment of funds in the following two cases are discussed below.

Wasteful investment in RIOTINTO Minerals Development Limited

2.1.36 With a view to meet the iron ore requirements of new steel plants set up in the State and to export surplus quantities, the Company signed (February 1995) a joint venture agreement (JVA) with RIOTINTO (RT), UK to set up an integrated iron ore project of 15 million TPA at an estimated cost of $800 to $900 million. The project involved mining lease of Gandhamardan and Malangtuli mines, dedicated rail link to Paradeep Port and development of Paradeep Port.

In terms of the JVA, a Joint Venture Company was incorporated on 18 September 1995 as RIOTINTO Orissa Mining Private Limited (RTOM). During the phase-I of the work, the Company invested (August 1998) Rs.98 lakh. Subsequently, the Company invested Rs.3.28 crore between November 1998 and January 2001 without approval of the Board. The project could not be implemented because of non-finalisation of the key issues (clearance of Malangtuli mining lease, clearance of rail and port development projects and direct export of iron ore) with the Government of India, though these were known to the Company from the beginning (1994) i.e. prior to entering the JVA. During the period 1995-2003, no tangible efforts were made to implement the project or to rescind the JVA.

Investment of Rs.4.26 crore without resolving the key issues for implementation of the Joint Venture project proved wasteful.

As per the decision of the Board, the status of the JVA was referred (August 2003) to the Solicitor General of India who opined (November 2002) that the JVA having not been formally extended, stood terminated. Meanwhile, the Board of Directors had written off (June 2004) Rs.0.82 crore out of Rs.4.26 crore invested in the project.

Management stated (August 2004) that assets of Rs.1.97 crore created out of such investment were in possession of the Company which could not be called as wasteful. The reply is not tenable as the project has been finally shelved. The investment of Rs.4.26 crore, thus, proved wasteful.

Investment in Konark Met Coke Limited (KMCL)

2.1.37 At the instance of the State Government, the Board of the Company approved (November 1997) the investment of Rs.12.50 crore in KMCL. Department of Steel & Mines asked (February 1999) the Company to execute agreement with KMCL. In response, the Company observed that investment of Rs.12.50 crore was not prudent considering the bad financial condition of the Company. In view of the financial inability of the Company, State Government decided (January 1999 and November 2000) that MMTC would provide additional business (export of ore) to the Company to enable it to invest in KMCL. The Company released (June 1999 to May 2002) Rs.16.25 crore (Rs.11.92 crore in cash and the balance by conversion of receivables from NINL).

Injudicious investment of Rs.16.25 crore without availing the agreed consideration led to loss of interest of Rs.3.78 crore.

Audit observed that even as of July 2004, MMTC had not provided additional business to the Company in terms of the assurance given to the State Government. The investment of Rs.16.25 crore, without assured commitment from MMTC was, thus, not prudent. This resulted in consequential loss of interest of Rs.3.78 crore at the borrowing rate of 12 per cent on the cash investment up to March 2004.

Management stated (May 2004) that the investment was made as per the direction of the State Government. The fact remains that the considerations on which investment was made, were not complied with, making the investment unfruitful.

Computerisation

2.1.38 Computerisation of various activities of the Company started during 1992-93. The process could not be completed till date (July 2004). The following irregularities were observed in audit:

The Company assigned (February 1993) the work of computerisation to Orissa Computer Application Centre (OCAC) at a cost of Rs.11.60 lakh. OCAC left the work incomplete and was paid Rs.5 lakh.

In September 2000, the Company noticed that the computers procured during 1992-94 were malfunctioning. The Company procured computers valued at Rs.30.82 lakh between June 1999 and September 2002 for Head Office as well as unit offices to connect all the zones and mines through a Wide Area Network (WAN).

Process of computerisation started during 1992-93, could not be completed till date rendering the expenditure of Rs.0.48 crore unfruitful.

Subsequently, in March 2002 the Company observed that the system of stand alone PCs without integration leads to duplication, inconsistency and delay in generation of information and decided to adopt the concept of Enterprise Resource Planning (ERP) as computerised solution for business management. The Company engaged Dr. K. Sunder, Associate Professor of Indian Institute of Management, Bangalore as the ERP consultant at a fee of Rs.7.42 lakh. The ERP was to be implemented in two phases i.e. first phase by March 2003 and second phase by January 2004 at an estimated cost of Rs.95.40 lakh. The Company paid Rs.12.35 lakh (including TA, DA, etc.) up to March 2003 to the consultant. After expiry of deadline for the first phase (March 2003) the consultant opined (September 2002) that top management was not interested in implementation which was causing delay.

The indecisiveness of the Management, thus, led to failure of computerisation process till date (July 2004) and rendering the expenditure of Rs.48.17 lakh unfruitful.

Internal Audit and Internal Control

Internal Audit

2.1.39 The Internal Audit Wing of the Company is headed by the General Manager (Finance). There were only two assistants in Internal Audit Wing as on 31 March 2004 against the sanctioned strength of six assistants. The main function of the Wing was to conduct internal audit of field offices and Head Office. Internal audit after January 2003 was not conducted. In spite of adverse comments made by the Statutory Auditors in their report on accounts repeatedly up to 2001-03, the Company had not strengthened the Internal Audit Wing. The Board of Directors, however, decided (26 June 2004) to outsource the Internal Audit work to Chartered Accountants firms.

Internal Control

2.1.40 One of the essential features of internal control is ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information. For this purpose and for systematic and methodical functioning of any organisation, well laid out procedures duly codified in a manual are very essential.

The cases noticed in audit where the Company sustained losses due to deficiencies in internal control system are contained in **Annexure-14**. Few are illustrated below:

- lack of effective physical verification of ore stock over the years, resulted in missing of 1,45,871 MT of lump ore valued at Rs.13.65 crore (Sl.No.1 of Annexure-14);
- despite theft of iron ore valued at Rs.4.71 crore by the contractors, neither FIR was lodged nor penalty imposed (Sl.No.2 of Annexure-14);
- the departmental production of 1.80 lakh MT was recorded as 1.27 lakh MT leading to loss of Rs.8.26 crore due to shortage (Sl.No.3 of Annexure-14);
- lack of supervision of the work of the contractor led to theft of 34.45 MT of tin ore valued at Rs.1.75 crore (Sl.No.5 of Annexure-14).

Other topics of interest

Under utilisation of Tippers

2.1.41 For removal of over burden/ore, the Kaliapani unit of Chrome Zone had seven Tippers between 2000-01 and 2002-03. In addition 13 tippers were brought to Kaliapani unit from other units during 2003-04. As against 94,300 hours available for operation during the years from 2000-01 to 2003-04, the vehicles were utilised only for 14,868 hours resulting in under utilisation of 79,432 hours.

Under utilisation of own tippers led to hiring of tippers with avoidable payment of Rs.1.70 crore.

Although the Company's own tippers were being under utilised, the Company had taken tippers on hire for 73,382 hours resulting in avoidable payment of Rs.1.70 crore to private agencies in the Chrome Zone.

The Management stated (May 2004) that departmental tippers being old were idle due to non-availability of spares, non-availability of heavy vehicle drivers. The reply is not tenable as these problems could have been easily sorted out and few tippers could have been diverted to other mines of chrome zone.

Excess payment towards Sales Tax

2.1.42 Daitari unit of the Company procured POL from IOC, on production of

Form-IV for availing concessional Sales Tax. Sales Tax on POL was reduced from 20 per cent to four per cent with effect from 1 March 2002 against production of Form-IV. Despite reduction in Sales Tax to four per cent, Sales Tax @ 20 per cent amounting to Rs.26.98 lakh excess was paid to the agency for the period from 1 March 2002 to 6 October 2003 against the purchase of POL from IOC. When this was pointed out by Senior Manager, Daitari and Manager, Kaliapani, IOC stated (November 2003) that the amount would be repaid/adjusted in future consignment in case the Sales Tax authority agreed to refund the same. The formal acceptance of refund of excess payment was yet to be received. Similarly, Kaliapani unit paid a sum of Rs.23.87 lakh between March 2002 and April 2003 towards higher Sales Tax due to non-submission of Form IV. The Company had not fixed responsibility for such excess payment.

The Management stated (May 2004) that IOC had erroneously charged 20 per cent Sales Tax as against four per cent actually chargeable. The reply is not acceptable as the unit did not submit Form IV to avail concessional Sales Tax.

Avoidable extra expenditure towards payment of energy bills at Daitari

2.1.43 The Daitari Unit of the Company executed an Agreement with the erstwhile Orissa State Electricity Board (now Grid Corporation of Orissa Limited) for a contract demand of 2000 KVA for its Ore Handling Plant and Colony. GRIDCO allowed maximum 10 per cent of the total consumption towards colony consumption at domestic tariff as the contract was a composite one and no separate contract for domestic consumption was made.

Failure to execute separate agreement for energy consumption in colony resulted in extra expenditure of Rs.1.34 crore.

Audit scrutiny revealed that during the period from 1994-95 to 2003-04 (up to December 2003), the actual colony consumption as per meter reading ranged between 22 and 55 per cent of the total consumption. No separate agreement for colony was made till date (July 2004). By not entering into a separate agreement, the Company incurred an extra expenditure of Rs.1.34 crore.

The Management stated (May 2004) that NESCO (the distribution company) had issued permission for bulk domestic power supply in July 2002 and the execution of agreement was delayed due to non-separation of commercial load. The fact remains that extra expenditure could have been avoided by entering into separate agreements with separation of commercial and domestic load.

The above matters were reported to Government (May 2004) and also discussed in ARCPSE (July 2004); their replies had not been received (September 2004).

Conclusion

The Company was established in May 1956 to undertake exploring, exploitation and marketing of minerals in the domestic and export

market. Though the Company had taken substantial mining areas on lease, it had exploited only 10 per cent of the reserve.

The Company incurred heavy losses due to delay in repair of primary crusher at Daitari, under utilisation of crushers, undue concessions given to raising contractors, non-levy of penalty on raising contractors for short production of ore, sale of lump ore without conversion into CLO, export

of ore below other exporters' price and sale of ore to domestic buyers below market price.

To overcome the above weaknesses, the Company should take steps for (i) closely monitoring the production of ore by contractors, (ii) proper fixation of rates in the contracts, (iii) grade/moisture analysis of its products departmentally, (iv) avoidance of selling of ore to the traders and (v) export sale to the buyers directly without routing through MMTC.

2.2 REVIEW ON FUND MANAGEMENT IN GRID CORPORATION OF ORISSA LIMITED

Highlights

The Company failed to submit tariff increase proposal in time which led to revenue loss of Rs.117.55 crore.

(Paragraph 2.2.7)

Failure to finalise the accounts for the year 2000-01 delayed the submission of bills with consequential loss of interest of Rs.15.30 crore.

(Paragraph 2.2.8)

The Company accepted claim for higher tariff from NALCO in violation of OERC tariff which resulted in extra expenditure of Rs.9.76 crore.

(Paragraph 2.2.9)

Due to acceptance of fall back arrangement for liquidation of dues, the Company had to bear interest burden of Rs.166.56 crore.

(Paragraph 2.2.12)

Charging of higher rate of interest by Government of Orissa led to extra financial burden of Rs.19.37 crore.

(Paragraph 2.2.15)

Delay in swapping high cost borrowings led to additional interest burden of Rs.11.34 crore.

(Paragraphs 2.2.16 and 2.2.17)

Refund of Rs.0.57 crore to United Commercial Bank without any conclusive assertion lacked justification.

(Paragraph 2.2.21)

Introduction

2.2.1 Management of funds involves projections for inflow/outflow of cash, financial requirement and strict cash control of an organisation. Efficient fund management provides for establishing a sound system of cash and credit control, which serves as a tool for decision making for investment of surplus funds and optimum utilisation of available resources and borrowings at the most favourable terms.

In pursuance to Power Sector Reforms, Grid Corporation of Orissa Limited (GRIDCO) and Orissa Hydro Power Corporation Limited (OHPC) were incorporated as wholly owned Government companies in April 1995 for transmission and distribution of power and generation of hydro power respectively. The assets and liabilities of erstwhile Orissa State Electricity Board were initially transferred to these two companies in April 1996. The State Government after consultation with GRIDCO, transferred (November 1998) the distribution activities of GRIDCO to four* distribution companies (hereto referred as DISTCOs). The DISTCOs were privatised in April and September 1999.

Organisational set up

2.2.2 The Management of GRIDCO is vested in a Board of Directors consisting of nine Directors including a full time Chairman-cum-Managing Director (CMD). The CMD is the Chief Executive of the Company. The Finance and Accounts Wing of the Company is headed by Director (Finance). The Company has 60 accounting units. The Assistant Manager/Junior Manager (Accounts) of the units are primarily responsible for maintenance of accounts and control over expenditure at unit level.

Scope of audit

Extent of coverage

2.2.3 Execution of funded projects by GRIDCO and outstanding dues against GRIDCO was reviewed and commented upon in the Report of the Comptroller and Auditor General of India for the year 1998-99 (Commercial), Government of Orissa. Tariff, billing and revenue collection of GRIDCO was reviewed and commented upon in the Report of the Comptroller and Auditor General of India for the year 1999-2000 (Commercial), Government of Orissa. Above Reports had not been discussed by the COPU so far (September 2004).

The present review covers deficiencies and lapses in revenue receipts, its

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* Central Electricity Supply Company Limited (CESCO), Northern Electricity Supply Company Limited (NESCO), Southern Electricity Supply Company Limited (SOUTHCO) and Western Electricity Supply Company Limited (WESCO).

appropriation for meeting various items of expenditure, borrowings from financial institutions, repayment of loan and payment of interest, raising of funds through placement/issue of bonds and investment of funds by GRIDCO during 1999-2004.

Audit Review Committee for State Public Sector Enterprises (ARCPSE)

2.2.4 The draft review on the fund management in Grid Corporation of Orissa Limited (GRIDCO) was discussed by ARCPSE in their meeting held on 15 July 2004. The State Government was represented by Joint Secretary, Energy Department, Government of Orissa and the Company was represented by Chairman-cum-Managing Director of the Company.

Sources and Utilisation of Funds

2.2.5 The details of sources and utilisation of funds of the Company during 1999-2000 to 2003-04 are tabulated below:

(Rupees in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04 (Provisional)	Total
Sources						
Paid up capital	29.91	0.31	2.88	1.94	--	35.04
Reserves and Surplus	78.99	9.54	161.26	51.07	37.03	337.89
Borrowings	192.52	474.34	873.48	841.11	371.68	2753.13
Funds from Operation	88.76	--	163.49	--	462.22	714.47
Decrease in working capital	124.17	--	--	--	--	124.17
Total	**514.35**	**484.19**	**1201.11**	**894.12**	**870.93**	**3964.70**
Utilisation			-	-	-	
Gross Block	111.79	115.48	83.75	132.17	52.00	495.19
Work in Progress	151.36	159.37	73.17	36.56	119.66	540.12
Investment	251.20	(-)65.91	21.03	79.05	18.81	304.18
Deficit in revenue	--	8.83	--	508.18	--	517.01
Increase in working capital	--	266.42	1023.16	138.16	680.46	2108.20
Total	**514.35**	**484.19**	**1201.11**	**894.12**	**870.93**	**3964.70**

It would be observed from the table that there was substantial increase in the working capital during previous four years ending March 2004. This was mainly due to locking up of substantial funds in sundry debtors as a result of non-realisation of receivables from the DISTCOs/Government resulting in the resource gap. Due to insufficient generation of funds from internal sources, the Company had to resort to borrowings to meet the gap. The borrowings, which constituted 69.44 per cent of the total funds raised during the years, were main

source of funding. The major factors responsible for low generation of funds from internal sources and increased dependence on borrowings and related deficiencies are discussed in the succeeding paragraphs.

Sale of power

2.2.6 The Company, between May and September 1999, executed agreements with four DISTCOs for supply of power in bulk at the rates approved by Orissa Electricity Regulatory Commission (OERC).

The details of power sold and their collection for the years 1999-2000 to 2003-04 are given in **Annexure-15** which indicates that the percentage of collection to current dues was ranging between 69.83 and 95.06. The percentage of collection against total outstanding declined from 60.62 in 1999-2000 to 52.68 in 2003-04 leading to accumulation of arrears against DISTCOs from Rs.580.75 crore in 1999-2000 to Rs.1334.35 crore (provisional) in 2003-04.The collections made during the years were even below the current bills of the respective year.

Even though a Committee* was constituted (4 May 2000) by the Board of Directors of the Company to review the collection of dues and to ensure full payment by DISTCOs as per the terms of agreement on regular basis, there was no improvement in the collection of dues from DISTCOs as the Committee was non-functional due to vacant post of Director (Commercial) from March 2000.

Management, while confirming the fact, stated (July 2004) that the monthly Bulk Supply Tariff (BST) dues of the Company were being collected through LC regularly from February 2004 and position has improved over the years. The contention of the Management is not acceptable as the percentage of collection to total outstanding declined from 60.62 in 1999-2000 to 52.68 in 2003-04.

Loss due to delay in submission of tariff increase proposal

Failure to submit tariff increase proposal in time led to revenue loss of Rs.117.55 crore.

2.2.7 Mention was made in paragraph 2B.4(c) of Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial) regarding loss of revenue due to delay in submission of tariff increase proposal for the year 1998-99 under section 114(1) of OERC (Conduct of Business) Act, 1996. The Report had not yet been discussed in COPU. Further, it was revealed that the Company failed to submit tariff increase proposal for the years 1999-2000 and 2000-01 in complete shape within the stipulated dates (December 1998 and December 1999). As a result, OERC issued tariff notification after a delay of 10 months i.e. on 30 December 1999 and 19 January 2001 effective from 1 February 2000 and 1 February 2001 for the

* Members: Director (Finance), Director (Commercial), Company Secretary and Superintendent Engineer (Power Purchase)

year 1999-2000 and 2000-01 respectively. The delay of 10 months in implementation of revised tariff resulted in loss of revenue of Rs.117.55 crore.

Management stated (July 2004) that Bulk Supply Tariff and revised Revenue Requirement application for 1999-2000 and 2000-01 were made in line with the provision of the Act and the past losses were likely to be adjusted in tariff of subsequent years. The reply is not tenable as loss on account of delay in filing tariff increase proposal was never submitted to OERC to pass through in the subsequent years' tariff.

Delay in raising bills on DISTCOs

2.2.8 As per OERC order (19 January 2001), the expenditure on excess drawal of power over the allotment was to be reimbursed by DISTCOs to the Company. The Company was to raise bills for the excess drawal at purchase cost (including transmission charges and transmission losses) supported by Auditor's certificate.

Failure to finalise accounts in time led to delay in raising bills with consequential loss of interest of Rs.15.30 crore.

During the year 2000-01, DISTCOs drew 269.690 MU of power in excess of the allotment. The Company purchased the excess power of 269.690 MU at a cost of Rs.58.84 crore from NTPC. The Company raised provisional bills only for Rs.23.07 crore in April 2001 and another provisional bill for Rs.33.87 crore in July 2001. The final bill for the balance dues of Rs.1.90 crore was raised without Auditor's certificate in August 2003. The Auditor's certificate was submitted only in October 2003 due to delay in finalisation of accounts for the year 2000-01 by 24 months (October 2001 to September 2003).

Thus, due to delay in finalisation of accounts for the year 2000-01 the Company failed to bill and realise the dues of Rs.58.84 crore in October 2001 leading to loss of interest of Rs.15.30 crore between October 2001 and September 2003.

Management accepted (July 2004) the fact.

Additional burden due to acceptance of retrospective enhancement of cost of power

2.2.9 National Aluminium Company Limited (NALCO) injects power from its Captive Power Plant (CPP) at Angul to State grid for wheeling the same to its unit at Damanjodi through the Company's transmission line. Out of gross injection after considering the consumption including transmission loss for Damanjodi, the balance was to be taken as consumption by the Company.

On the basis of the application of the Company, OERC approved (January 2001 and April 2002) the procurement cost of power from NALCO CPP at 93.76 paise per unit for 2001-03 and 96.63 paise per unit for the year 2003-04.

Acceptance of higher tariff in violation of OERC tariff led to extra expenditure of Rs.9.76 crore.

Audit scrutiny revealed that the Company consumed 342.117 MU of NALCO power during 2001-02. The Company accepted (July 2002) the claim of NALCO at the rate of 96.63 paise per unit instead of Rs.93.76 paise with effect from 1 February 2001 with a suggestion that excess expenditure could be included in the next tariff as past period adjustment. This was, however, not done. Acceptance of higher rate by the Company violating the tariff fixed by OERC resulted in extra expenditure of Rs.9.76 crore.

Management stated (July 2004) that the claim of NALCO @ 96.63 paise per unit with effect from 1 February 2001 was as per the provision of Minutes of Meeting (MOM) dated 1 June 1994 between erstwhile OSEB and NALCO. The reply is not tenable in view of the fact that OERC was formed in the year 1995 and has not recognised the transactions reflected in the MOM.

Sundry Debtors

2.2.10 Due to non-realisation of revenue from sale of power and wheeling charges in full, the sundry debtors of the Company increased from Rs.964.07 crore in 1999-2000 to Rs.1930.85 crore (provisional) in 2003-04. Non-realisation of revenue from sale of power to DISTCOs had been discussed in paragraph-2.2.6 supra.

The party-wise position of sundry debtors as on 31 March 2004 is given below:

(Rupees in crore)

Sl. No.	Consumers' Category	2003-04 *(Provisional)*
1.	CESCO	655.51
2.	NESCO	300.27
3.	WESCO	249.58
4.	SOUTHCO	128.99
	Sale to DISTCOs	**1334.35**
	Wheeling & Other charges	273.96
	Power Trading	99.56
	Provision for bad debts	(26.81)
	Government Departments & others	249.79
	Total	**1930.85**

The Company had not maintained party-wise and age-wise details of bills raised and adjustment of collection there against. In the absence of such records, the exact reasons for accumulation of arrears could not be ascertained in audit. The increasing trend of arrears was indicative of inefficient debt management and might increase the chances of further doubtful debt in future.

Instances of non-realisation of wheeling charges are discussed in the succeeding paragraphs.

Non-realisation of arrear dues from Gujarat State Electricity Board

2.2.11 Gujarat State Electricity Board (GSEB) was availing NTPC power by wheeling through Company's transmission line. The Company was raising bill on Madhya Pradesh State Electricity Board (MPSEB), the nodal agency, for realisation of wheeling charges. As GSEB defaulted in payment of wheeling charges, MPSEB did not agree (October 1998) to act as nodal agency. Subsequently, the Company agreed (December 1998) in the Central Electricity Authority meeting to raise bills directly to GSEB but failed to execute an agreement with GSEB in this regard. The Company raised the bills for the period from May 1998 to November 1999 @ 17.5 paise per Kwh which was paid by GSEB. The bills for December 1999 to March 2004 for Rs.29.77 crore raised at the above rate were not accepted by GSEB on the plea that CERC had allowed 10 paise per Kwh to MPSEB and accordingly their bills should also be revised at 10 paise. The dues of Rs.29.77 crore were not yet realised (March 2004). The Company was unable to enforce any legal action in the absence of agreement with GSEB.

In absence of agreement, the Company failed to realise the dues of Rs.29.77 crore.

Management stated (July 2004) that as per Open Access Order (6 May 2004) of CERC there was indication that wheeling charges would vary from 2 to 6 paise per unit. As such, the claim @ 17.5 paise per unit by the Company might not stand. The reply is not acceptable as the Open Access Order came into force in May 2004 and was not applicable for the prior periods. In the absence of an agreement, the Company has lost the opportunity to enforce the claim by legal action.

Undue benefit to DISTCOs under fall back arrangement of bond towards NTPC dues

2.2.12 The Company held (October 2000) a joint meeting with NTPC and three DISTCOs (WESCO, NESCO and SOUTHCO) to liquidate NTPC dues towards purchase of power. As per decision, DISTCOs were to issue bonds in favour of the Company and the Company was to re-assign the said bonds to NTPC to liquidate outstanding dues as a fall back arrangement.

The DISTCOs issued (October 2000) bonds for Rs.400 crore (WESCO:Rs.103 crore, NESCO: Rs.167 crore and SOUTHCO: Rs.130 crore) in favour of the Company and the Company re-assigned the same to NTPC. The Bond carried interest @ 12.50 per cent per annum payable half yearly to be redeemed fully at the end of the seventh year. The DISTCOs were free to exercise call option at any time to redeem the bond by giving two months' advance notice. Further, DISTCOs were to service these bonds and in case of default, NTPC was holding the first charge on receivables of the Company in payment of interest and redemption of bonds.

Due to acceptance of fall back arrangement for liquidation of dues, the Company had to bear interest burden of Rs.166.56 crore.

Audit scrutiny revealed that after re-assignment of the bonds to NTPC, DISTCOs had paid only Rs.8.44 crore (NESCO: Rs.0.50 crore, SOUTHCO: Rs.0.50 crore and WESCO: Rs.7.44 crore) between April 2001 and March 2004. NTPC claimed (March 2003) Rs.118.58 crore on the Company towards interest on bonds. Since DISTCOs did not pay interest dues of Rs.166.56 crore up to March 2004, NTPC had referred (June 2004) the matter to the State Government, whereby the Company was liable to bear the entire burden of interest and repayment of bond amount as per the fall back arrangement.

Management stated (July 2004) that as per OERC order (September 2003) three distribution companies have started servicing bonds partly which has reached a level of Rs.4 crore per month at present.

The reply is not correct. NTPC had referred the matter to the State Government in June 2004 since the average collection from DISTCOs between January 2004 and March 2004 was only Rs.2 crore against the outstanding of Rs.166.56 crore.

Recovery of loan dues from DISTCOs

2.2.13 The Company transferred (November 1998) the distribution activities to its subsidiary companies (CESCO, WESCO, NESCO, and SOUTHCO). As per clause 7 of the transfer notification, 1998, separate loan agreements were signed on 28 October 1999 with SOUTHCO for Rs.105.66 crore, WESCO for Rs.116.96 crore, NESCO for Rs.104.84 crore and on 18 September 1999 with CESCO for Rs.164.65 crore (as provisional amount), subject to changes based on audited accounts of DISTCOs for the year 1998-99.

In accordance with the loan agreements, DISTCOs were to pay the agreed amount towards loan instalment together with interest @ 13.837 per cent per annum plus interest tax at the prevailing rate. Non payment of instalments on due date attracted penal interest @ 17.837 per cent per annum.

The loan amount to DISTCOs as on the date of their privatisation was determined at Rs.622.40 crore after finalisation of accounts (1998-99). The original loan agreements were executed with DISTCOs for Rs.492.11 crore. The loan amounts in the agreement were not revised even though the total loan to DISTCOs stood at Rs.1011.16 crore up to March 2004.

The Company failed to levy penal interest of Rs.179.06 crore as per the loan agreement with DISTCOs.

Audit observed that DISTCOs defaulted in repayment of instalments of loan dues to the Company. The outstanding amount of interest was Rs.509.74 crore as on 31 March 2004. The penal interest of Rs.179.06* crore on outstanding principal amount up to March 2004 was not levied by the Company.

Management stated (July 2004) that penal interest was accounted for on cash

* In the absence of details of instalment dues, the penal interest has been worked out on loan outstanding at the end of previous year.

basis as per accounting policy of the Company and the provision for penal interest would give a misleading picture of the financial position. The reply is not acceptable as the Company should have claimed the penal interest from DISTCOs as per the terms of the loan agreement.

Borrowings

2.2.14 The borrowings (including interest) of the Company increased from Rs.2777.57 crore in 1999-2000 to Rs.5338 crore in 2003-04 mainly due to securitisation of dues of NTPC and increase in loans of REC, PFC, IBRD, etc as detailed in **Annexure-16**.

Irregularities noticed in borrowings are discussed in the succeeding paragraphs.

Additional interest burden due to higher rate of interest charged by Government of Orissa on IBRD Loan

2.2.15 The World Bank releases IBRD loans through Government of India (GoI) and Government of Orissa (GoO) to the Company. Besides, GoI releases direct payment to suppliers for World Bank funded projects by way of deemed loans to the Company.

The Company received Rs.615.16 crore up to January 2004 as IBRD loans comprising Rs.532.53 crore routed through GoO and Rs.82.63 crore by way of deemed loans. As per GoO notification (29 January 2003) Rs.430.61 crore (70 per cent of the total receipt) was treated as loan and Rs.184.55 crore (30 per cent) as grant.

Charging of higher rate of interest by Government of Orissa led to extra financial burden of Rs.19.37 crore.

Audit scrutiny revealed that GoI released funds to GoO at interest rates ranging between 10.5 and 13 per cent per annum and GoO released the same loan to the Company at interest rates of 13 to 13.5 per cent per annum. The higher interest charged by GoO resulted in extra financial burden of Rs.19.37 crore to the Company up to March 2004. The levy of higher rate of interest by Government of Orissa was detrimental to the growth of the Company.

Management while confirming the fact stated (July 2004) that they had approached the Government in August 2003 for reduction in rate of interest and the approval was awaited.

Delay in swapping high cost loans

2.2.16 State Government approved (19 November 2001) guarantee for Rs.1000 crore to the Company for availing loans from open market carrying

lower interest for swapping high cost loans. The guarantee order envisaged repayment of Bond Series I/98 (Rs.110 crore at 15 per cent interest), PFC loan (Rs.600 crore at 16.05 per cent interest) and REC loan (Rs.290 crore at 12.5 to15 per cent interest).

Out of loans of Rs.300 crore (carrying 10 to 11.25 per cent interest per annum) sanctioned by banks between December 2002 to December 2003, the Company drew Rs.263.13 crore and swapped out power purchase dues of Rs.45 crore and bonds of Rs.218.13 crore. The Company's loans against high cost bonds Series I and II were Rs.149.43 crore as on 31 March 2004. The Company had neither drawn the sanctioned loan of Rs.36.87 crore up to February 2004 nor availed of any fresh loans to swap high cost borrowings of Rs.149.43 crore even though sufficient Government guarantee was available. As a result, the Company had to bear additional interest burden of Rs.7.65 crore per annum on Rs.149.43 crore. Even if the undrawn loan of Rs.36.87 crore been utilised in swapping, interest payment of Rs.0.94 crore could have been avoided.

Delay in swapping high cost borrowings led to additional interest burden of Rs.0.94 crore.

Management stated (July 2004) that the entire amount of Rs.300 crore had been utilised and the Company had not borne any additional interest burden. The reply is not tenable as the Company had not drawn the sanctioned loan of Rs.36.87 crore up to February 2004 nor arranged fresh loan to swap the high cost borrowing of Rs.149.43 crore.

Loss due to delay in swapping of State Government dues

2.2.17 The State Government constituted (May 2001) a Committee of Independent Experts to review the Power Sector Reform in the State. Based on the recommendation of the Committee, the State Government decided (29 January 2003), inter alia, for swapping of Government dues against the Company and vice-versa.

In pursuance to notification, the Company arrived at Rs.93.09 crore (provisional) as receivable from State Government after adjusting Government dues including the loan of Rs.120 crore carrying 13 per cent interest per annum. The Company forwarded (October 2003) the proposal to the State Government to notify the adjustment based on the provisional figure. Neither the Government had issued necessary adjustment notification nor the Company had pursued the matter with the State Government till date (June 2004). The delay in implementation of swapping proposal resulted in interest burden of Rs.10.40 crore (November 2003 to June 2004) to the Company on the loan of Rs.120 crore.

Delay in swapping State Government's loan resulted in additional interest burden of Rs.10.40 crore.

The Management stated (July 2004) that Government order to this effect was awaited. The fact, however, remains that there was no follow up action by the Management for early swapping of loan to avoid payment of interest.

Avoidable payment of syndication fees

2.2.18 As per the decision of the Bond Committee, the Company engaged (6 April 2002) Centrum Finance Limited, Mumbai (CFL) as Merchant Banker for syndication of loan of Rs.100 crore at a fee of 0.5 per cent of the amount mobilised.

The CFL was to complete the process of syndication within 90 days from the date of order. CFL failed to mobilise the loan within the stipulated period (3 August 2002). No further extension for mobilisation of fund was allowed. CFL could arrange loan of Rs.100 crore from Union Bank of India (UBI) only on 11 December 2002. The Company paid Rs.27.50 lakh in February 2003 and Rs.22.50 lakh in April 2003 towards syndication fees to CFL in respect of loans received in December 2002 and January/ March 2003 from UBI. Due to failure of CFL in mobilisation of loan within stipulated period, the proposal for redemption of Bond of Rs.50 crore against UBI and Rs.5 crore against Syndicate Bank could not be made on 20 October 2002. This led to extra burden of interest of Rs.28.82 lakh paid to the bond holders from 20 October 2002 to the date of arrangement of loan (11 December 2002).

Avoidable payment of syndication fees of Rs.0.50 crore.

It would be pertinent to mention here that the Company was having business relation with UBI and it could have arranged the loan directly from UBI as a loan of Rs.100 crore was arranged (December 2002) from Allahabad Bank without engaging Merchant Banker. Further, these loans were fully backed by State Government guarantee. The payment of Rs.50 lakh towards syndication fee to CFL was avoidable.

Management stated (July 2004) that despite Government guarantee no financial institution would lend without satisfying the financial viability of the Company. As such engagement of Merchant Banker was necessary.

The reply is not tenable as major part of the Company’s business was being transacted by UBI who was well aware of the financial stability of the Company and direct dealing rather than through a broker was preferable.

Utilisation of funds

Penal interest on PFC loans

2.2.19 The Company was repaying the Equated Monthly Instalment (EMI) of PFC loans through cheque/demand draft drawn on UBI, Lajpat Nagar, New Delhi. PFC complained (December 2000 and January 2001) that the EMI was not credited to their account on the same day of remittance and requested to make future remittance by Demand Draft (DD) or Telegraphic Transfer (TT) through State Bank of India (SBI), Main Branch, New Delhi. Despite the request of PFC, the Company continued to remit EMI through Union Bank of India till March 2002 though the Company was having bank account in SBI, Bhubaneswar. The EMIs were not received in time as UBI delayed in crediting the EMI to PFC accounts ranging between one and 10 days and the

Company had paid interest and penal interest of Rs.27.09 lakh for the period April 2000 to March 2002.

Management, while confirming the fact stated (July 2004) that it was not practicable to remit the funds as per requirement of PFC. Reply is not acceptable in view of the fact that the Company was having account in SBI, Bhubaneswar and EMI to PFC could have been remitted therefrom to avoid delays.

Cash and bank balance

Avoidable payment of interest on cash credit account

2.2.20 The Company availed (1999-2000) cash credit facility up to Rs.7.40 crore from State Bank of India, Bhubaneswar for meeting its working capital requirements. The rate of interest ranged between 13 and 15 per cent per annum during 2000-04. The Company paid Rs.2.85 crore towards interest on cash credit during the years 2000-04 (up to December 2003).

Analysis of current accounts maintained in 11 banks revealed that during 2000-2004 (up to December 2003) the consolidated minimum and maximum balance in a month was ranging between Rs.17.26 lakh (August 2000) and Rs.239.49 crore (August 2003) respectively as shown below.

Year	*Minimum Balance*	*Maximum Balance*
	(Rupees in crore)	
2000-01	0.17 (August 2000)	26.63 (February 2001)
2001-02	0.84 (September 2001)	60.16 (April 2001)
2002-03	0.75 (October 2002)	58.66 (April 2002)
2003-04 (December 2003)	0.93 (May 2003)	239.49 (August 2003)

The Company could have reduced the cash credit loans by utilising at least the minimum balance and avoided the payment of interest of Rs.37.74 lakh on cash credit loan for the period 2000-04 (up to December 2003).

Management stated (July 2004) that the balance taken in audit was as per bank pass book on a particular date and the maximum balance pointed out by Audit was different from the balance as per cash book. The reply is not tenable as Audit had taken the minimum balance available with bank through out a particular year which has no relevance to actual cash balance in the cash book.

Irregular refund

2.2.21 United Commercial Bank, Bhubaneswar informed (January 2000) the Company that Rs.62.90 lakh was wrongly credited to erstwhile OSEB cash credit account on 6 December 1982 instead of Rs.6.29 lakh received through telegraphic transfer from Rajgangpur Branch. The Bank also requested the Company to return the excess credit of Rs.56.61 lakh after lapse of 17 years.

The Board of Directors approved (29 January 2003) the refund of excess credit of Rs.56.61 lakh to United Commercial Bank. The amount was paid on 31 March 2003 on an undertaking for refund of the same if it was found wrong.

Refund of Rs.0.57 crore to bank without any conclusive assertion lacked justification.

Audit scrutiny revealed that this claim was not known at the time of transfer of assets and liabilities as on 1 April 1996. The Executive Engineer, Rajgangpur could not furnish the required details for verification as they were old and not available. The fact of excess credit of Rs.56.61 lakh was, thus, not established. The refund of Rs.56.61 lakh to the bank without conclusive assertion in support of the excess credit was not prudent and lacked justification.

Management stated (July 2004) that it was prudently decided to refund the excess credit to OSEB account. The reply is not tenable as the Company refunded the amount without establishing the excess credit. Moreover, the claim pertained to the year 1982.

Non-realisation of cash from DISTCOs

2.2.22 The notification on transfer of assets and liabilities of GRIDCO to DISTCOs was based on provisional balance sheet as at 31 March 1999. As per transfer notification (25 November 1998), the cash and bank balances as on 31 March 1999 as per audited accounts were to be adjusted by injection or withdrawal of funds by the Company to match with the balances stated in the provisional balance sheet of the DISTCOs. In the audited balance sheet of the DISTCOs as on 31 March 1999, the cash and bank balances were Rs.56.42 crore as against Rs.44.37 crore shown in the provisional balance sheet. As per provisions of the notification, DISTCOs were to pay Rs.12.05 crore to the Company in cash which was yet to be recovered (June 2004).

Dues of Rs.12.05 crore from DISTCOs were blocked up since March 1999.

The Management while accepting the facts (July 2004) stated that the amount receivable from DISTCOs were categorised as "loans and advances" and there was no loss of interest as such. Reply is not acceptable as the Company had not taken any tangible efforts to collect the dues of Rs.12.05 crore since 1999-2000.

The above matters were reported to Government (June 2004) and also discussed in ARCPSE (July 2004); their replies had not been received (September 2004).

Conclusion

Due to lack of control over the realisation of power dues, delay in filing tariff increase proposal before OERC and delay in raising bills, the Company could not generate funds in time and resorted to huge borrowing of funds at higher interest for meeting capital needs. Further, in spite of availability of Government guarantee, delay in swapping high cost borrowings by availing of loans at lower rate and payment of penal interest for the default in repayment of loan dues, the Company burdened itself with additional interest liability.

The Company should make concerted efforts to examine and improve the existing system of recovery of its mounting dues from DISTCOs in order to minimise the borrowings and also evolve better mechanism ensuring economy, efficiency and effectiveness in funds management.

2.3 REVIEW ON PROJECT IMPLEMENTATION OF KONARK MET COKE LIMITED

Highlights

Konark Met Coke Limited was established in July 1996 with the main objective to produce coal, coking coal and coke besides establishing a generation station. The Company deferred the allotment of shares for more than five years to PSUs despite retaining share money of Rs.69.57 crore received from them. The accounts for first five years ending 31 March 2001 remained out of the purview of Section 619 of the Companies Act despite being a Government Company.

(Paragraph 2.3.1)

The commissioning date of the project was revised three times and the project was delayed by 32 months as on 30 April 2004 with cost overrun of Rs.213 crore.

(Paragraphs 2.3.6 and 2.3.7)

Failure to define and freeze the man-month by BoD, the Company incurred extra expenditure of Rs.5.97 crore. The Company also failed to raise claim for Rs.6.30 crore due to the failure on the part of the consultant to provide the know-how.

(Paragraphs 2.3.9 and 2.3.10)

Insistence on specific automation led to procurement from a specified source at an extra expenditure of Rs.2.42 crore.

(Paragraph 2.3.17)

Failure to determine the right time for procurement of third boiler in consultation with MECON, resulted in payment of penalty of Rs.4.75 crore.

(Paragraph 2.3.24)

Excess consumption of power for auxiliary purposes and non-recovery of variable cost in full in tariff led to a revenue loss of Rs.12.17 crore.

(Paragraphs 2.3.26 and 2.3.27)

The Company incurred an avoidable expenditure of Rs.0.45 crore towards excess consumption of liquefied petroleum gas due to early heating up of the battery contrary to the advice of MECON.

(Paragraph 2.3.28)

Introduction

2.3.1 Konark Met Coke Limited (KMCL) was established in July 1996 by carving out of Neelachal Ispat Nigam Limited (NINL) as a separate company under the same management. The main objectives of the Company are to produce coal, coking coal, coke and its by-products besides establishing a generation station in the nature of a captive power plant for own and NINL requirement at 8.11 lakh tonnes per annum. Based on demand of NINL and other neighbouring industries and on a market survey conducted by Metallurgical & Engineering Consultants (India) Limited (MECON), the capacity of coke oven plant was fixed. Coke was mainly to be sold to NINL (6.01 lakh tonnes) and surplus be sold to other neighbouring industries (2.10 lakh tonnes). A captive power plant (CPP) of 62.5 MW was also to be set-up at Duburi. The various aspects of project implementation is the subject matter of this review.

The Company deferred the allotment of shares for more than five years to PSUs despite retaining share money of Rs.69.57 crore received from them.

While approving the capital base, the Board (September 1996) envisaged that Rs.136 crore would be from private sector while Rs.54 crore from public sector undertakings. The Company, however, did not enter into shareholders agreement with the private sector promoters. Even as of July 1997, based on MMTC's contribution of Rs.3.10 crore towards the equity of the Company, it was clearly a Government Company. Despite retaining Rs.69.57 crore of share amount belonging to other PSUs, the Board deferred the various proposals for allotment of shares to the PSUs. The Company consciously continued to defer the allotment of shares in respect of share amounts received even after June 2001. Out of Rs.69.57 crore of share money only Rs.6.20 crore (8.9 per cent) were allotted to four PSUs[*] and one private firm and Rs.63.37 crore[**] of share money remained unallotted as on 30 June 2001.

Despite being a Government Company, the accounts for first five years ending 31 March 2001 remained out of the purview of Section 619 of the Companies Act.

Consequently, despite being a Government Company ab initio, the Accounts for the first five years from 1996-97 to 2000-01 remained out of the purview of Section 619 of the Companies Act, 1956.

Organisational set up

2.3.2 The Company is managed by a Board of Directors consisting of

[*] IPICOL-Rs.1.50 crore , OMC-Rs.1.50 crore, MMTC-Rs.1.50 crore, BHEL-Rs.1 crore and BECO-Rs.0.70 crore.

[**] MMTC-Rs.47.38 crore IPICOL-Rs.7.24 crore, OMC-Rs.4.75 crore and BHEL-Rs.4.00 crore.

10 Directors as on 31 March 2004. The Company has no whole time Managing Director. The Managing Director of NINL is the Director-in-Charge (DIC) of the Company who looks after the day-to-day affairs of the Company. The Director (Finance) of NINL is also the Director (Finance) of the Company. The DIC is assisted by one Joint Managing Director. Project Implementation Review Committee was set up (June 1998) to monitor the project implementation. MECON is solely responsible for project implementation and monitoring under the consultancy agreement.

Scope of audit

Extent of coverage

2.3.3 The review covers the project implementation with reference to:

- agreements made with various financial institutions for term loans;
- system followed for awarding contracts for civil work/supply of plant and machinery including erection, supervision, commissioning and training;
- procedure adopted for purchase of project materials;
- implementation of the project work at various stages vis-à-vis achievement;
- analysis of time and cost overrun and the over all impact on project cost; and
- performance of various plants commissioned from September 1996 to March 2004.

Out of 119 packages*, 89 packages were reviewed in audit and the results emanating therefrom are discussed in the succeeding paragraphs.

Audit Review Committee for State Public Sector Enterprises (ARCPSE)

2.3.4 The draft review on Project Implementation of Konark Met Coke Limited was discussed in the ARCPSE meeting held on 27 July 2004. The State Government was represented by Additional Secretary, Steel and Mines Department, Government of Orissa and the Company was represented by Director-in-Charge of the Company.

Capital Structure and Borrowings

2.3.5 The paid up capital of the Company as on 31 March 2004 stood at Rs.132.71 crore contributed by Mineral and Metals Trading Corporation Limited (Rs.48.88 crore), National Mineral Development Corporation Limited (Rs.49 crore), Bharat Heavy Electrical Limited (Rs.5 crore), Industrial

* Individual contracts executed by the Company

Promotion and Investment Corporation of Orissa Limited (Rs.12.88 crore), Orissa Mining Corporation Limited (Rs.16.25 crore) and Bhilai Engineering Corporation Limited* (Rs.0.70 crore). The means of finance and actual financial closure achieved by March 2004 are given in **Annexure-17**.

The Company was yet to tap the equity of Rs.79.30 crore, from its suppliers and public as envisaged in April 2001.

The Company availed term loans of Rs.282.56 crore as on 31 March 2004 against Rs.372.15 crore sanctioned. The banks did not release loan amount after March 2003 due to delay in completion of the project and failure to comply with the pre-disbursement condition of maintenance of debt equity ratio.

Project appraisal and implementation

Project appraisal by IDBI

Delay in commissioning the project led to cost overrun of Rs.213 crore.

2.3.6 The Industrial Development Bank of India (IDBI), being the lead financial institution, approved (September 1996) the estimated cost of the project at Rs.480 crore. As per appraisal, the project was to be completed within 30 months by April 1999. The IDBI revised (April 2001) the date of completion to October 2001 with revision of project cost to Rs.665 crore. The Company rescheduled (July 2002) the commissioning date to March 2003 and revised (September 2003) the project cost to Rs.693 crore resulting in cost overrun by Rs.213 crore. Details indicating the project cost break-up, estimates, reasons for cost overrun are indicated in **Annexure-18**. It would be seen therefrom that increase in cost was mainly due to additional machinery (Rs.123.90 crore), foreign exchange fluctuation (Rs.25.50 crore), improvements to shop electrical to suit automation of Coke Dry Cooling Plant (CDCP) (Rs.11.20 crore) and interest during construction (Rs.73.40 crore). The project was yet to be completed (April 2004).

With a view to reduce the requirement of equity funds, the IDBI revised (April 2001) the debt equity ratio from 1.5:1 to 2.2: 1. As on 31 March 2004 the debt equity ratio, as per drawal and as per tie up, stood at 2.8:1 and 3.5:1 respectively which was mainly due to equity gap of Rs.81.30 crore. The Company failed to raise equity from public.

Project implementation

The commissioning date of the project was revised three times and the project was delayed by 32 months as on 30 April 2004.

2.3.7 The original scheduled date of commissioning the project was April 1999. The Company revised the scheduled date three times (August 2001, October 2001 and March 2003). The project was yet to be commissioned (April 2004) and the overall delay caused to the project worked out to 32 months.

The main reasons for delay were attributable to:

* A private company

- delay of nine months in acquisition of land;
- inability of the Company to achieve financial closure;
- delay in finalisation of tenders and issue of drawings by MECON (Paragraph 2.3.9);
- improper selection of contractors by the Company leading to frequent offloading of work and retendering (Paragraph 2.3.12);
- delay in handing over of front and inadequate site mobilisation by civil contractors and delay in fixing rates for laterite cuttings;
- delayed supply of materials by supply-cum-erection contractors and
- funds constraints faced by the Company.

Consultancy contract

2.3.8 Based on the recommendation (July 1997) of Board of Directors (BoD), the Company entered into a contract (May 1998) with MECON as consultant for the establishment and commissioning of a coke oven battery and a captive power plant. Under the consultancy contract, MECON is solely responsible for project implementation and monitoring. The following short comings were noticed in the consultancy contract.

Avoidable extra expenditure

2.3.9 MECON undertook the consultancy work at a negotiated fee of Rs.18 crore based on 950 man-months for site services at the rate of Rs.43,300 per man-month. The contract was effective from 1 January 1997 with a validity period of 52 months (April 2001) inclusive of 12 months for post commissioning services. As per the contract, the Power Plant and Coke Oven Plant were to be commissioned by May 1999 and November 1999 respectively. The project was mainly delayed due to delay in release of drawings and finalisation of tenders for certain packages by MECON. As per the provisions of contract, the consultancy service was extended (November 2002) up to December 2003 at a negotiated rate of Rs.57,000 per man-month as against the original rate of Rs.43,300 per man-month.

The contract did not spell out the definition of man-month. In August 1998, MECON clarified that the man-month was taken at 19.8 mandays per month excluding holidays and earned leave. Different view points remained between MECON and the Company which were finally settled in April 2004, when MECON agreed to 24 mandays per month.

Due to not defining the mandays per month by BoD, the Company incurred extra expenditure of Rs.1.28 crore.

Audit scrutiny revealed that MECON had actually engaged only 807 man-months (at 19 mandays per month) against 950 man-months provided in the contract for the period up to April 2001. Based on 24 mandays per month, the actual utilisation up to April 2001 worked out to 639 man-months leading to excess payment of Rs.72.80 lakh for 168 man-months (807-639 man-months). Further, the savings in man-months worked out to 113 man-months which could have been adjusted against the extra man-months for extended period of contract and extra expenditure to the extent of Rs.49.02 lakh* could have been avoided. Due to not defining the mandays per month, the Company, thus, incurred extra expenditure of Rs.1.28 crore (including Service Tax of Rs.6.18 lakh).

Further, as the contract was extended up to December 2003, the Company incurred extra expenditure of Rs.2.52 crore (including Service Tax) between May 2001 and December 2003 for 418.9 man-months at the rate of Rs.57,000 per man-month. The Company instead of entering into a fresh contract, extended the validity and terms of the contract beyond December 2003 and agreed to bear 345.83 man-months for the period from January 2004 to June 2005 at Rs.60,000 per man-month. This would entail an extra expenditure of Rs.2.17 crore (including Service Tax) between January 2004 and June 2005.

Failure of the BoD in freezing the man-month claim led to extra expenditure of Rs.4.69 crore between May 2001 and June 2005.

Audit observed that while finalising the contract, the Company did not consider the terms under which MECON was executing similar consultancy works for others. Bokaro Steel Plant had not paid any extra man-months to MECON for delay in execution of contract**. The failure of the BoD in freezing the man-month claim, as fixed, led to extra expenditure of Rs.3.42 crore (including Service Tax) between May 2001 and July 2004. The extra expenditure on this account for the periods between August 2004 and June 2005 worked out Rs.1.27 crore (including Service Tax).

Management stated (July 2004) that the project was delayed due to funds constraints and extensions of consultancy which became necessary for reasons largely not attributable to the consultant. The savings in man-month were considered on overall basis taking the extra man-month deployed in NINL project.

The reply is not acceptable as the Company did not analyse the reasons for delay attributable to the consultant before taking decision on extension of man-months for completion of the balance work. Further, the savings in man-month considered on overall basis, is not correct as the extra man-month claim was disallowed (July 2003) by NINL as it related to deployment of non-technical personnel by MECON.

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* Savings in man-months contracted (950) vis-à-vis actuals (807) = 143 man-months which is equivalent to 113 man-months on the basis of 24 mandays per month.

** Paragraph 4.6.3 of Audit Report No. 6 of 2004 of Union Government (Commercial).

Extra expenditure on consultancy

2.3.10 Clauses 3.1.3, 4.1.2. (x) and 7.2.8 of the contract (May 1998) envisaged that MECON was to provide automation facility to Coke Dry Cooling Plant (CDCP) as at Visakhapatnam Steel Plant (VSP). In the event of providing new features of CDCP as at Rahe Steel Plant, Finland, there would be no additional cost. In November 1998, MECON stated that they were unable to supply the know-how and related engineering services for automation of CDCP as per Rahe design. MECON also informed (November 1998) that they had not undertaken such kind of automation of CDCP either at VSP or elsewhere and any attempt in this regard would be their first attempt. They also expressed inability to make large investment to procure the know-how from Rahe Plant. The Committee of Directors, however, procured (January 1999) the Rahe Plant know-how from Rautaruukki, Finland (RROY) at a cost of Rs.7.80 crore. As per the above mentioned clauses, the Company was to recover Rs.7.80 crore from MECON. The Company had claimed (January 1999) Rs.1.50 crore on adhoc basis from MECON. The reasons for such adhoc claim were not on record. The Company, thus, failed to raise claim for the balance amount of Rs.6.30 crore due to the failure on the part of MECON to provide the know-how (June 2004).

The Company failed to claim Rs.6.30 crore due to the failure on the part of the consultant to provide the know-how.

The Company stated (July 2004) that the Committee of Directors decided that an amount of Rs.1.50 crore was reasonable to claim from MECON. The reply is not acceptable as MECON failed to provide the required technology for CDCP. Besides, Director in Charge also reported (August 2003) to MECON that the deduction of Rs.1.50 crore was only a nominal amount.

Deficiencies in project monitoring services

2.3.11 MECON in their monthly monitoring reports did not highlight the reasons for slippage in the programme by 32 months. Further it had also not identified the agency* responsible for the slippage. As a result neither the Company nor MECON placed on record the agency responsible for the delay. Under the contract, the Company was yet (June 2004) to levy liquidated damages of Rs.36 lakh against MECON for the overall slippage in the commissioning of the Project.

Management stated (July 2004) that the identification of agencies responsible for delay shall be reviewed at the time of finalisation of contract. The reply is not acceptable as the Company should have insisted upon MECON to furnish on monthly/ quarterly basis the reasons for slippage for each package and also the agencies responsible for such slippage.

* MECON/Contractor/Company

Civil works

Incorrect selection of contractor

2.3.12 MECON suggested (April 1997) 10 contractors for execution of civil works of the Project. The BoD while approving (May 1997) the list had deleted Rashtriya Pariyojna Nirman Nigam Limited {later known as National Projects Construction Limited, (NPCC)} and included three other contractors. Accordingly, MECON issued (May 1997) tender enquiry to 12 contractors. Subsequently, on a representation from NPCC, tender was also issued (May 1997) to them. Tenders were opened in July 1997. In response to Company's enquiry, MECON had informed (September 1997) the Company that the performance of NPCC in execution of a similar Coke Oven Plant at Vizag Steel Plant (VSP) was not satisfactory. Its general philosophy was dependence on sub-contractors and daily wage personnel, offloading practically the entire job. Despite being aware of the technical deficiencies of NPCC, the Committee of Directors (COD) awarded (October 1997) the work to NPCC at Rs.22.85 crore being the lowest bidder.

The Company is yet to recover Rs.1.31 crore towards risk and cost in respect of offloaded works.

As against the scheduled date of completion of civil works for Battery Proper (July 1998) and Captive Power Plant (CPP) (February 1999) no work was started in CPP, in wagon tippler and Coke Dry Cool Plant for the Battery Proper (September 1998). In other segments the progress was only up to 35 per cent. Due to delayed execution of work, the Company offloaded about 64 per cent of works in Battery Proper between January 1999 and May 2001 to various contractors at risk and cost of NPCC. The risk and cost recoverable from NPCC worked out to Rs.1.31 crore which has not been recovered so far (July 2004).

Under the contract, NPCC was permitted to offload the works through a tendering process by advertising in newspaper. On the contrary, after a lapse of 12 months, NPCC offloaded (October 1998) the entire civil works of power plant valued at Rs.3.98 crore to Mukund Engineering Limited (MEL) through a Memorandum of Understanding between NPCC and MEL.

Despite the fact that NPCC did not possess any of required qualifications, the injudicious selection of contractor by the Company led to delay in completion of the project.

The Company stated (July 2004) that the work was awarded to NPCC with corporate guarantee and undertaking to the effect that there shall be no cost and time overrun and the risk and cost in offloading would be worked out after the completion of the entire scope of work under NPCC.

The reply is not acceptable, as the report of MECON on the performance of NPCC was an indicative of incapability of the contractor in completion of the project in time. Further, the corporate guarantee and undertakings did not help in timely completion of the project.

Undue favour to contractor

2.3.13 Despite extending mobilisation advance of Rs.1.90 crore between March 1998 and August 1998, NPCC did not show progress in work as per schedule due to the financial and managerial inability of NPCC to mobilise the required resources. At the request of NPCC and on the recommendation of the Director in Charge and Executive Director (Project) of the Company, the Company also paid interest free advances of Rs.1.19 crore, between June 1998 and March 2000, to meet their working capital requirement though it was not stipulated in the agreement. The Director-in-Charge/ Executive Director also recommended to defer the recovery of advances from their running bills. As a result the Company did not recover the advances from the running bills and sustained an interest loss of Rs.98.01 lakh at 15.33 per cent per annum between June 1998 and April 2004.

The Company suffered interest loss of Rs.0.98 crore in extending advances beyond the scope of contract.

The Company while accepting the facts stated (July 2004) that it had adequate bank guarantee to recover mobilisation advances. The reply is not acceptable as the Company did not hold any security for recovery of other advances.

Procurement policy

2.3.14 The Board of Directors approved a procurement policy in July 1997 and also constituted (July 1997) a Committee of three Directors (COD). For speedy finalisation of tenders, the Board delegated the financial powers to Director in Charge (Contract up to Rs.5 crore) and Committee of Directors (COD) (Contracts above 5 crore and up to Rs.50 crore). Irregularities noticed in Audit are discussed in succeeding paragraphs.

Plant and Machinery

Coke oven plant

Import of coke oven gas exhauster without arranging funds for Customs Duty

2.3.15 The Company placed (June 2000) purchase order on FTF 'DALTURBO' Khabarovsk, a Russian firm, for supply of two Coke Oven Gas Exhausters with motors at FOB price of US$ 8,17,800. As per the purchase order, materials were to be delivered within 12 months from the date of opening of irrecoverable Letter of Credit (LC) at sight. The required LC was opened in August 2000 (when exchange rate was US$1 = Rs.45.05), with a validity period of 12 months (August 2001), which was later extended up to November 2001.

The consignment arrived at Mumbai in March 2001. The consignment was kept in bonded warehouse till July 2002 due to non-payment of Customs Duty of Rs.2.16 crore even though Rs.59.68 crore was available as undrawn Rupee

Term Loan[*] (RTL) from eight banks as of March 2001. Under the warehouse provisions of the Customs Act, the Company could store in bonded warehouse at free of interest for 90 days (up to June 2001). Even though sufficient time was available to draw RTL, the Company failed to draw the available RTL. The materials were kept in the warehouse for more than one year up to July 2002 leading to payment of avoidable interest of Rs.17.13 lakh at 8.67 per cent, being the differential interest on unpaid Customs Duty (at 24 per cent) and RTL and warehousing charges of Rs.1.99 lakh. The Company incurred additional expenditure of Rs.19.05 lakh towards exchange variation from the date of opening of LC till remittance (March 2001-November 2001). Besides, the warranty period of 24 months from the date of shipment was over by February 2003. The Company as such sustained loss of Rs.38.17 lakh.

The Company stated (July 2004) that due to delay in execution of the project the banks and financial institutions did not release the balance loan even though sanctions existed.

The reply is not acceptable as the banks and financial institutions had stopped disbursing loans against sanctions after March 2003 only. The equipment, however, arrived much before March 2003 and the Company failed to draw the required funds.

Failure to avail concessional Customs Duty

Failure to apply for concessional duty led to extra expenditure of Rs.0.33 crore.

2.3.16 As per Chapter 98 of Customs Manual, the Company was eligible for concessional custom duty (25 per cent) on import of "industrial plants" under Projects Imports Regulations 1986 (PI). The General Manager (Commercial) (GMC) was to apply through its administrative department (Steels and Mines) for concessional duty. The failure to apply for such concessional duty led to payment of Customs Duty of Rs.3.07 crore at normal rate (30 per cent) on import of Mill Fans, Auxiliary Fans, Exhauster and Hydraulic Controllers between June and July 2002 instead of Rs.2.74 crore at concessional rate. As a result, the Company incurred extra expenditure of Rs.32.55 lakh.

The Company accepted (July 2004) that they had released the material at 30 per cent Customs Duty prevailing at that time.

Extra expenditure due to specific source purchase

2.3.17 The Company invited (January 1998) offers through international competitive bidding process (ICB) for supply and erection of Coke Dry Cooling Plant (CDCP) with improved features and automation conforming to Vizag Steel Plant (VSP).

While opening the bids (March 1998), the tender evaluation committee (TEC) observed that the offer of Rautaruukki Finland (RROY) was as per technical specification (TS) and the offer of Tyazh Prom (India) New Delhi (TPI), though conforming to TS, lacked in full automation. The offer of TPI and

[*] At an average borrowing rate of 15.33 per cent per annum.

RROY was Rs.98.82 crore and Rs.224.12 crore respectively. The Committee of Directors decided (March 1998) to consider the price of TPI as a reference price even though it lacked in full automation. The Committee of Directors reduced (July 1998) the scope of work to supply of four equipments (out of seven for CDCP), automation and instrumentation and asked both the parties to quote their offer by inducting indigenous collaboration for equipment in place of imported equipment. As a result RROY entered (August 1998) into a cooperation agreement with Bhilai Engineering Corporation Limited (BECO) for the supply of equipments. RROY retained itself the provision of automation and related instrumentation. In August 1998, RROY and TPI offered their rates for the revised scope of work at Rs.64.22 crore (with full automation) and Rs.45.71 crore (without automation) respectively. On negotiation, RROY and TPI finally offered their rates for full automation at Rs.50.24 crore and Rs.47.82 crore respectively. The Company placed (January 1999) order with RROY at Rs.50.24 crore of which the cost of indigenous supply of four machineries by Bhilai Engineering Corporation Limited works out to Rs.26.70 crore. The Company procured other three equipments* indigenously.

Scrutiny in audit revealed that:

- since the scope of work was reduced considerably, the Company should have gone for fresh tender for the automation and instrumentation as the mechanical part of the contract was indigenously available;

- as per procurement policy of the Company, the contract above Rs.50 crore required the approval of the Board of Directors which was not complied with;

- while the tender document specified equipment similar to VSP, insisting for automation conforming to RROY plant led to procurement at very high cost from specified source vitiating the tender process; and

- though TPI agreed (November 1998) to provide full automation at Rs.47.82 crore and their rates being taken as reference price all along, the action of COD in not considering their rates was not in order.

Insisting on specific automation led to procurement from a specified source at an extra expenditure of Rs.2.42 crore.

The Company's failure to retender for revised scope of work and awarding the work to RROY at higher rate led to extra expenditure of Rs.2.42 crore.

Management stated (July 2004) that there would not have been any better response even if a fresh tender was floated.

The reply is not acceptable as the Company should have issued fresh tender for automation and instrumentation when all the equipments were indigenously available in order to obtain competitive rates.

* Waste heat recovery boiler, Dust transportation system and Dust pneumatic transport system.

Failure to place order at lowest offer

2.3.18 The Company invited (February 1997) limited tenders for design, manufacture, supply, erection, testing, commissioning of coke pusher car, charging car and door extractor. Out of five bids received, the offer of Heavy Engineering Corporation Limited (HEC) was lowest one for coal charging car (Rs.7.81 crore) and door extractor (Rs.5.90 crore) and Bhilai Engineering Corporation Limited (BECO) was lowest one for coke pusher car (Rs.18.95 crore). Tender Evaluation Committee (TEC) called for (February 1998) revised offer from these two bidders, as these rates were higher than the estimated cost (Rs.27 crore).

In the revised offer (April 1998), HEC became lowest one for all the equipments. On the recommendation of COD, the Company placed order (August 1998) for door extractor at Rs.5 crore on HEC and negotiated with BECO to match the price of Rs.24 crore for pusher car and charging car offered by HEC in April 1998. The Company after negotiation placed (August 1998) order for pusher car and charging car at Rs.23.55 crore on BECO.

Audit scrutiny revealed that:

- BECO had never manufactured/supplied pusher car while HEC had already supplied to Bhilai Steel Plant and they were also considered as experts in the field;

Company incurred an extra expenditure of Rs.1.80 crore by not considering HEC offer.

- HEC also agreed to indemnify the Company against any risk arising out of design and technological issues by providing bank guarantee (BG) for Rs.1.20 crore. HEC confirmed that the design offered was developed in house by them. Further, in June 1998, HEC further reduced their price from Rs.24 crore to Rs.21.75 crore, which was not considered.

The Company, thus, incurred an extra expenditure of Rs.1.80 crore by not considering HEC offer.

The Company stated (July 2004) that HEC failed to provide any acceptable clarification with regard to the threat by Schalke in regard to use of their technical know-how and as such the offer of HEC was not considered. The reply is not acceptable as HEC clarified that the technology was developed in house and also offered bank guarantee of Rs.1.20 crore to cover risk of technology.

Extra expenditure due to failure to retender

2.3.19 Tender call notice was issued (November 1998) to the approved vendors for the dust free coke discharge system and no response was received. The Company retendered in November 1999 and the work was awarded (December 2000) to Andrew Yule and Company Limited (AYCL) being lowest one at Rs.1.24 crore. The work was to be completed by October 2001. AYCL did not commence the work till September 2001 and asked for the

payment through Letter of Credit. The Company did not agree to this and negotiated (October 2001) with second lowest bidder.

As the negotiation failed, the Director-in-Charge decided (April 2002) to reduce the scope of work and awarded (August 2002) the work to AYCL at a negotiated cost of Rs.68.37 lakh at 50 per cent higher than their original rate. Besides, the Company decided to make full payment on the ground that without financial support AYCL would not be able to execute the work. It is pertinent to mention here that, another work (supply of Dust Extraction System) was also awarded (August 2000) to AYCL at a cost of Rs.1.98 crore to be completed by May 2001. AYCL failed to execute even that work up to February 2004. The Company reduced (February 2004) the scope of work by reducing the cost to Rs.72.15 lakh which was also higher by 21 per cent of their original rate.

Audit observed that the Company had awarded the work to AYCL by reducing the scope without going for retender. Further, the Director-in-Charge allowed higher rates for reduced work by which AYCL was extended undue benefit of Rs.48.16 lakh in both the work, which was also an extra expenditure to the Company.

The Management stated (July 2004) that the revised scope of work was awarded to AYCL in August 2002 against their quoted price of November 2000. The reply is not acceptable as AYCL was awarded the work at 50 per cent higher than the price quoted in November 2000.

Advance to contractors

2.3.20 The Company is extending unsecured advances in the form of cash and materials. The deficiencies in the system of cash advances and material control are discussed below:

Release of interest free advances to contractor beyond the scope of contractual terms

2.3.21 HEC requested (August 2003) the Company to issue required pipes on chargeable basis at purchase cost. The Company accordingly placed order (August 2003) on India Seamless Metal Tubes Limited (ISMT) for supply of pipes at Rs.1.08 crore being 39 per cent of value of works entrusted to HEC and advanced Rs.1.08 crore to ISMT against proforma invoice on various dates. As per terms of the work order, the payment was to be made against receipt and acceptance of materials by HEC. ISMT supplied entire materials directly to HEC. The Company had also advanced Rs.43.34 lakh to the other sub-contractors of HEC in March 2004. HEC supplied the equipment in April 2004.

Audit observed that the supply of material to the contractors was against the terms of supply-cum-erection contract. The unintended benefit was extended to the contractor by way of supplying material worth Rs.1.08 crore. The loss of interest worked out to Rs.10.85 lakh for the period between November 2003 and April 2004.

The Company stated (July 2004) that advance beyond contractual terms have become necessary in the interest of execution and completion of works. The reply is not acceptable as payment of interest free advances beyond contractual terms was not in the interest of the Company.

2.3.22 The Company granted unsecured advances of Rs.32.58 crore to various contractors/suppliers during 2003-04 of which Rs.7.22 crore was outstanding as on 31 March 2004. Of these Rs.2.23 crore was outstanding against two contractors*.

Audit observed that at the request of these contractors, the Company on the grounds of interest of the project advanced to contractors and to their sub-contractors though not covered within the scope of the agreement. The Company also recommended not to recover the advances from the running bills of the contract and to adjust against the retention money.

Audit further observed that though the procedure was in deviation of the contractual terms it was not brought to the notice of the Board. The Company, thus, sustained loss of interest of Rs.27.36 lakh on such advances up to March 2004.

Power plant

Creation of excess capacity

2.3.23 Considering the requirement of power at 80.32 MW comprising 10 MW for Coke oven plant, 8 MW for power plant, 46.76 MW for iron and steel plant up to billet production (phase-I) of NINL and 15.56 MW for wire rod production (phase II) of NINL, the Company placed order (July 1998) on Bharat Heavy Electricals Limited (BHEL) for setting up of the Captive Power Plant (CPP) of 62.5 MW capacity at Rs.168 crore (excluding Phase-III). The purchase order for Phase-III was yet to be placed (June 2004).

The Phase-I and II of the plant was to be set up as under:

Phase	Equipment	Cost (Rs. in crore)	Contractual Completion Date
Phase - I	First steam generator with two boilers - 19.5 MW	101.19	January 2000
Phase-II	Second steam generator and gas turbine generator - 43 MW	66.81	April 2000
TOTAL		**168.00**	

As on 31 July 2003, the Company paid Rs.102.83 crore. The Phase-I of the CPP was operational from April 2002. Phase-II was yet to be commissioned (May 2004). NINL had also entered into an agreement (May 2000) with Grid Corporation of Orissa (GRIDCO) to draw power to the extent of 10 MW.

* Fenner India and OTTO India

Creation of excess capacity in advance led to blocking up of funds and avoidable payment of interest of Rs.0.88 crore.

Scrutiny in audit revealed that since the Company was well aware that the steel rolling mill of NINL would be commissioned after 2007 and the demand for 15.56 MW was not of immediate concern, it could have deferred the placement of order for second steam generator valued at Rs.11.63 crore of which Rs.8.10 crore was paid as on 30 April 2004. Audit further observed that even though the Company assessed the surplus power generation at 25 MW on commissioning of Phase-II, it had not yet tied up a power purchase agreement for sale of such surplus power as GRIDCO and Northern Electrical Supply Company of Orissa expressed their inability to procure power from the Company.

The Company, thus, invested Rs.8.10 crore in creation of excess capacity under Phase II far in advance resulting in unnecessary blockage of funds and avoidable payment of interest of Rs.88.09 lakh (up to April 2004).

The Management stated (July 2004) that surplus power now available was not a long term situation. The surplus power was arising due to delay in establishing steel making units. The reply is not convincing as the Company should have deferred the placement of order for second steam generator considering the delay in establishment of steel making units.

Payment of penalty

Failure of the Board of Directors to ensure the right time for procurement of third boiler led to payment of penalty of Rs.4.75 crore

2.3.24 As per the work order placed on BHEL in July 1998, the Company was to pay Rs.4.75 crore as penalty if the order for third boiler was not placed within April 2000 for Phase-III. The Company did not seek the advice of the consultant to spell out the right time for such capacity addition and also failed to place order within April 2000. In September 2003, the Company agreed to pay Rs.4.75 crore as penalty to BHEL. Moreover, the third boiler was required after installation of second boiler which was scheduled to be commissioned by January 2000. As the Company failed to ensure the right time for procurement of third boiler in consultation with MECON, the Company had to pay Rs.4.75 crore as penalty.

The Management while confirming the facts stated (July 2004) that it had received offers at cheaper rate than the rates quoted by BHEL earlier. The reply is not convincing as the Company could have avoided the penalty besides availing the cheaper rate had it not committed to place order for third boiler with BHEL.

Performance of plants

2.3.25 The Power Plant, Nitrogen Gas Plant, Liquefied Petroleum Gas plant and De Mineral Water Plant were commissioned as on 31 March 2004. Heating up of the chimney and coke oven battery was started in December 2003. Irregularities noticed in audit are discussed in succeeding paragraphs.

Power plant

Low capacity utilisation and higher auxiliary consumption

2.3.26 The percentages of plant availability, plant load factor and capacity utilisation in respect of steam generator-I and II and steam turbine generator-I are given in the following table:

(in per cent)

Plant	2002-03			2003-04 (Up to December 2003)		
	Plant Availability	Plant Load Factor	Capacity Utilisation	Plant Availability	Plant Load Factor	Capacity Utilisation
Steam Generator - I	75.82	82.66	109.03	91.32	80.85	88.53
Steam Generator- II	41.72	39.05	93.61	90.12	73.04	81.04
Steam Turbine Generator - I	84.84	42.31	49.87	87.80	63.83	72.70

The above fact established that the plant was put on partial load. Reasons for low capacity utilisation had not been analysed by the Company. Further, the Company neither maintained the planned or forced outages nor formulated any operational norms.

Excess auxiliary consumption of power led to loss of revenue of Rs.8.53 crore.

The auxiliary consumption of the power plant worked out to 35.36 per cent and 22.80 per cent for 2002-03 and 2003-04 respectively as against eight per cent fixed by Government of India. The auxiliary consumption as per design parameters worked out to only 4110 KW for gas turbine and heat recovery steam generator (16.1 per cent) which was also not in tune with GoI norm of one per cent. The Company had not analysed the reasons for such high consumption of power for auxiliary purposes. The excess consumption of power for auxiliary purposes worked out to 30591 Mwh[*] during 2002-04 (up to December 2003). The high rate of consumption resulted in loss of revenue of Rs.8.53 crore (30591 Mwh X Rs.2.79 per Kwh).

The Management stated (July 2004) that the capacity utilisation depends on availability of Blast Furnace Gas and LDO. The fact remains that the Company had not made a critical analysis of plant outages.

Loss in sale of power to Grid Corporation of Orissa Limited (GRIDCO)

2.3.27 Due to delay in commissioning of steel making unit by NINL, the Company approached Orissa Electricity Regulatory Commission (OERC) to sell its surplus power to GRIDCO. OERC permitted the Company to sell its power to GRIDCO. Accordingly the Company, while quoting (August 2002) the rates to GRIDCO, mentioned the variable and fixed cost per Kwh of power produced as Rs.1.62[**] and Rs.0.92 respectively. Based on the above GRIDCO fixed (January 2003) the purchase rate at 0.96 per Kwh. On this account the

[*] 1000 kilo watt hour is equal to one mega watt hour (Mwh).
[**] Blast Furnace Gas-89 paise, LDO-37 paise, other expenses like water, chemical and operation and maintenance cost-36 paise.

revenue foregone by the Company worked out to Rs.3.64 crore on 55195 Mwh of power sold to GRIDCO during 2002-04 as the Company could not recover even the variable cost by Rs.0.66 per Kwh.

The Management stated (August 2004) that had the power not been generated and sold to GRIDCO, the loss would have been more on account of non-utilisation of internally generated gas.

Due to erroneous quotation of variable cost the Company had foregone revenue of Rs.3.64 crore.

The reply is not tenable as the Company did not internally generate gas as its project was yet to be completed. During 2002-04, the Company procured gas from NINL and Light Diesel Oil (LDO) from Indian Oil Corporation Limited for the production of power. The variable cost per Kwh of power produced worked out to Rs.1.62. The fact remained that the Company sustained loss of Rs.3.64 crore on sale of 55,195 Mwh of power.

Coke oven battery

Excess consumption of LPG

2.3.28 As per recommendation of MECON, the battery of the plant requires 85 days to heat up to $1{,}050^{0}$ C. On 85th day coking coal is to be charged and under firing commenced for production of coke. MECON intimated (15 December 2003) the Company that a large number of equipments were pending for erection/testing to take up battery heating. Contrary to the advice of MECON, the Director-in-Charge decided (26 December 2003) to take up heating the battery from 28 December 2003. Accordingly, the battery was lighted up on 28 December 2003.

Pending commissioning of major works, the Company decided to keep the heat on hold between 80^{0} C and 97^{0} C from 1 February 2004 to 15 April 2004.

Due to heating up of battery much in advance , the Company incurred an avoidable expenditure of Rs.0.45 crore.

Audit scrutiny revealed that due to keeping the heat on hold, the Company consumed 566.34 MT of Liquefied Petroleum Gas (LPG) for reaching the heat of 140^{0} C (as on 15 April 2004) as against 380 MT required. Due to heating up the battery much in advance without readiness, the Company, thus, incurred an avoidable expenditure of Rs.45.16 lakh towards excess consumption of 186.34 MT of LPG.

The Management stated (July 2004) that the battery was kept on hold from 1 February 2004 to 1 April 2004 to dry out excess moisture in the bricks due to super cyclone. The reply is not acceptable as the Management had kept the heat on hold due to pending commissioning of major works.

Flaring of coke oven gas

2.3.29 The Company decided (May 2004) to commission the multi fuel gas turbo generator of power plant with LDO as against coke oven gas envisaged. The decision was taken due to delay in installation of gas cleaning plant to clean the coke oven gas received from battery. The supply and commissioning of the gas cleaning plant (GCP) was scheduled to be completed by September 2004 and the coke oven plant by July 2004.

Audit scrutiny revealed that the available gas from battery per day, after meeting the under firing requirement of battery, worked out to 3.51 lakh Nm^{3*}. As the gas turbine in power plant was not ready to use this gas till September 2004, the gas generated at 3.51 lakh Nm^3 per day had to be flared up in air. Non-readiness of GCP and synchronising with the lighting up of the battery would lead to a loss of Rs.4.84 crore between July 2004 and September 2004 (till the readiness of GCP). Further, the cost of power produced would be costlier due to use of costlier fuel (LDO). Till the commissioning of GCP, the investment of Rs.17.60 crore in gas turbine and waste heat recovery boiler under Phase - II of power plant would render idle.

Untimely decision to light up the battery would lead to a loss of Rs.4.84 crore between July 2004 and September 2004.

The Management stated (July 2004) that the untimely light up of battery would lead to a loss is not correct as the coke oven gas available would be limited as it takes time to stabilize and gas was being supplied to NINL.

The reply is not tenable as the surplus gas generated and flared up mentioned in the paragraph was only considering 66 per cent of production capacity during stabilization period and also after meeting the under fire requirement of battery and sales to NINL. It is pertinent to note that the present capacity utilisation within 15 days of commissioning (7 July 2004) was 50 per cent.

Other topic of interest

Avoidable payment of interest

2.3.30 In terms of the agreements, loans were to be disbursed by the banks in lump sum or in agreed instalments so as to conform to the phasing of the capital expenditure. In the latter case, the Company was to send schedule of disbursement programme to the banks.

Scrutiny of the records revealed that the Company had drawn the sanctioned loan without projecting the disbursement programme and restricting its drawal of loan to actual requirement. The capital budgeting was also not done on quarterly basis based on the actual progress of work. As a result, the surplus funds drawn were deposited in short-term deposits with banks carrying interest ranging between 4 per cent and 7.25 per cent per annum. The Company deposited Rs.152.54 crore in short-term deposits between 1999-2000 and 2002-03 varying from 15 to 770 days and earned Rs.0.61 crore as interest on such deposits. The Company paid Rs.0.23 crore as interest tax on the interest earned. On other hand, the Company paid Rs.1.85 crore towards interest on loan for similar amount during the same period. Thus, the Company incurred an avoidable expenditure of Rs.1.47 crore due to drawal of loans much in advance of its requirement.

Company incurred an avoidable expenditure of Rs.1.47 crore due to drawal of loans much in advance of its requirement.

The Company stated (July 2004) that requisitions were sent to banks for quarterly drawal of loans while the expenditure was incurred on day to day basis. The drawal of the same in lump sum necessitated for keeping the amount in short term deposits.

[*] NM^3 means natural cubic meter.

The reply is not acceptable as the Company could have matched the schedule of disbursement programme with the phasing of capital expenditure in terms of the agreement.

Extra expenditure on issue of bonds

2.3.31 The Company awarded (May 2002) the work of raising bonds of Rs.40 crore to Allianz Securities (AS), New Delhi, at 10.15 per cent coupon rate through private placement to bridge the financial gap of the project. AS could, however, raise only Rs.8.60 crore up to September 2002. The Company again assigned (February 2003) the raising of bonds to ICICI Securities at a coupon rate of 8.75 per cent with arranger fee of 0.25 per cent. This issue also did not materialise due to non-furnishing of corporate guarantee by MMTC. The corporate guarantee by MMTC was kept reserve for obtaining a loan from Power Finance Corporation (PFC). PFC, however, did not accept (April 2003) the corporate guarantee and as such the PFC loan could not be availed of. The Company again awarded (May 2003) the raising of bonds to AS at a coupon rate of 10 per cent and arranger fee of 0.95 per cent. The Company could arrange Rs.24 crore as on 31 May 2003.

Audit scrutiny revealed that the Company did not raise the funds through ICICI by extending corporate guarantee from MMTC even after PFC's refusal and raised through AS at higher rate of interest by 1.25 per cent per annum and also higher arranger fees by Rs.16 lakh. As a result, the Company incurred avoidable expenditure of Rs.30 lakh towards interest for 2003-04 besides extra expenditure of Rs.16 lakh towards arranger fee.

Management stated (July 2004) that non-availability of corporate guarantee from MMTC for raising bonds through ICICI Security Limited was not an issue. Further, it stated that as ICICI could not mobilise required funds by 2 April 2003 the mandate was cancelled and funds were arranged through AS.

The reply is not acceptable as the mandate given to ICICI was cancelled as corporate guarantee was not made available to them.

The above matters were reported to the Government (June 2004) and also discussed in ARCPSE (July 2004); their replies had not been received (September 2004).

Conclusion

The project implementation of the Company moved at slow pace due to lack of adequate equity arrangements from private promoters and public. This led to revision of project implementation three times (June 2000, April 2001 and July 2002). Improper selection of contractors leading to frequent offloading of work and retendering, delay in issue of drawings by MECON and delay in handing over of front by civil contractors to erection contractors resulted in time overrun of 32 months as on 30 April 2004 and cost overrun of Rs.213 crore. The project is still incomplete (April 2004). The project suffered losses due to untimely lighting up of battery, non-readiness of GCP synchronised to lighting up of battery and creation of excess capacity far in advance.