OVERVIEW

This volume of Audit Report represents reviews on 13 selected areas of operation involving 13 Public Sector Undertakings under eight Ministries. These areas were selected in audit for review on the basis of their relative importance in the functioning of the concerned organisation. The total financial implication of these reviews is Rs.2744.63 crore.

DEPARTMENT OF ATOMIC ENERGY

Electronics Corporation of India Limited

❖ **Computer Education Division**

- Electronics Corporation of India Limited started the business of computer education without conducting any objective and detailed assessment of the business potential or its own strengths and weaknesses. The Company did not formulate any policy with regard to appointment of franchisees and as a result faced problems in implementing the franchisee agreements. It had to cancel as many as 63 franchisee agreements during the first five years of operation ending March 2005. There was lack of effective internal control due to which the franchisees worked on their own and exploited the name and repute of the Company. In one agreement alone, the Company had to suffer a loss of Rs.67.13 lakh during 2001-02 and 2002-03. The Company also undertook school projects in different States wherein too, it worked through the franchisees. Due to problems in controlling the functioning of these franchisees, the Company had to take a decision to not undertake such projects in future. The Company failed to achieve the target turnover and also suffered losses during the years 2001-02, 2002-03 and 2004-05 in this business segment.

MINISTRY OF CIVIL AVIATION

Air India Limited

❖ **Fleet Utilisation and Maintenance**

- Air India Limited had a fleet of 36 aircraft as on 31 March 2005, out of which 18 were owned by the Company and remaining were on dry lease. No aircraft was purchased after 1996. The Company resorted to taking aircraft on dry lease for augmentation of fleet since the year 2000 due to absence of an effective fleet replacement policy.
- The Company cancelled/rescheduled the flights in 3.05 to 12.04 per cent cases and delayed it by more than 20 minutes in 17.35 to 21.87 per cent cases during the last three years ended 2004-05, but it did not maintain the industry data in regard to adherence to flight schedules for evaluation of its own performance *vis a vis* the other airlines. The utilisation of the available fleet, however, was more than the industry average as well as the planned hours in most cases.

- The Company incurred expenditure of only Rs.6.14 crore in creation of repair and maintenance facility as against the capital budget of Rs.99.98 crore for the last three years ended 2004-05. As a result of non-setting up facilities and non-procurement of equipment as per the capital plan, it had to incur avoidable expenditure of Rs.8.21 crore on outside repairs in three cases.
- The Company had prescribed norms for completing various checks prescribed by the Director General of Civil Aviation, but the actual time taken for completion of the checks far exceeded the norms. This resulted in excess grounding of aircraft and consequent loss of potential contribution amounting to Rs.93.04 crore based on the loss of flying hours.
- The Company sent 13 aircraft for overseas repairs and spent Rs.57.37 crore on major maintenance such as 'C' and 'D' checks during the last three years ended March 2005, on grounds of capacity constraints and lessor's requirement, despite having the in-house capability to carry out these checks. There was shortage of technical manpower but no comprehensive study was conducted to assess the long-term requirements of the technical manpower.
- No case of accident was noticed during the last three years but there was scope for reduction in number of incidents. The Company did not have industry data for benchmarking its performance on the air safety aspects.

DEPARTMENT OF COAL

Mahanadi Coalfields Limited

- ❖ **Project Implementation, Performance of HEMM, Manpower Analysis, Fund Management and Environmental Planning**

- The Company could not complete the implementation of advance action plan of seven projects even after time over run of one to 10 years leading to cost overrun of Rs.66.29 crore as on March 2005. Due to resistance from land oustees, the Company could not produce coal valued at Rs.118.25 crore during 2004-05 in six projects of Talcher Coalfields.
- The Company incurred avoidable extra expenditure of Rs.4.46 crore in 2002-03 by awarding the contract of hiring of surface miner at a higher rate.
- There was no scientific assessment of manpower requirement. The Company had a workforce of 21298 out of which 66 *per cent* was in unskilled category at the end of March 2005. The Company's control on overtime remained ineffective and despite the negative growth in OB removal, there was increase in overtime by Rs.8.73 crore and Rs.13.96 crore in 2003-04 and 2004-05 respectively.
- Despite holding huge surplus fund ranging between Rs. 29.37 crore and Rs.97.10 crore per month from April 2002 to February 2004, the Company did not invest the same with Coal India Limited (CIL) and lost an interest of Rs.4.04 crore.

- The Company could not recover loading charges of Rs.17.34 crore up to March 2005 in the absence of any agreement with the customers. Further, crushing charges of Rs.8.12 crore could not be recovered from customers in the absence of a notification for revision of prices of coal produced through surface miner for the period from June 2000 to January 2001.

Neyveli Lignite Corporation Limited

Neyveli Lignite Corporation Limited (Corporation) was incorporated in November 1956 with the main objective of excavating lignite in the Neyveli area and generating power therefrom. The Corporation has three mines with lignite excavating capacity of 24 million tonne per annum and three lignite based Thermal Power Stations (TPS) with generating capacity of 2490 MW. Each TPS has a dedicated mine to meet its fuel requirement.

❖ **Performance of Bucket Wheel Excavators**

- The Hanumantha Rao Committee appointed by the Government of India determined the norms in 1983 for operation of Bucket Wheel Excavators based on the data available for the period 1969 to 1982. The Company subsequently procured new Bucket Wheel Excavators with upgraded technology but adopted the norms already fixed for the old machines and thus ignored the technical superiority, which enhanced the designed capacities of the Bucket Wheel Excavators.
- Neither the Hanumantha Rao Committee nor the Corporation fixed achievable capacities for the Bucket Wheel Excavators (BWEs) deployed in the lignite bench/bottom bench.
- The BWEs worked for more hours than norms but the output rate was lower than the achievable capacity resulting in short removal of overburden of 21.55 million cubic metres and short extraction of 12.22 MT lignite in Mine I and II during the five-year period ending March 2005.
- There was excess consumption of power and teeth in operating the Bucket Wheel Excavators amounting to Rs.17.73 crore and Rs. 10.43 crore in Mine I and II respectively during the period under review.
- The stoppages under the planned and breakdown categories exceeded the norms and led to short extraction of 24.27 MT lignite during the five-year period ending March 2005.

DEPARTMENT OF HEAVY INDUSTRY

HMT Limited

❖ **Marketing activities of Tractor Business Group**

- The Tractor Business group (Group) comprises the tractor manufacturing division at Pinjore set up in 1971, (with a licensed capacity of 25,000 tractors and an installed capacity of 18,000 tractors per annum), marketing division at Chandigarh and Area Offices. Marketing of tractors is done through a net work of dealers who are the only link with the customers.

- The Company's market share of tractors declined from 6.1 per cent (1999-00) to 2.9 per cent (2004-05) due to working capital constraints resulting from slow recovery of funds locked up in the market and production constraints.
- The Group resorted to aggressive marketing techniques through advance of tractors to dealers through Area offices. Dealers in turn advanced most of the tractors to customers to show higher sales. The unsold tractors with dealers were taken back irrespective of their physical condition and credit was given to the dealers accounting the same as sales return. The sales returns, thus, amounted to Rs.3.68 crore, Rs.17.25 crore, Rs.9.42 crore and Rs.1.18 crore representing 1.28 per cent, 6.66 per cent, 5.76 per cent and 0.58 per cent of sales in 2001-02, 2002-03, 2003-04 and 2004-05 respectively. Thus, the aggressive marketing practice of the Group ended up in huge sales returns.
- The mounting Sundry debtors to turnover of the Group (43.55 per cent in 1999-00 to 89.59 per cent in 2002-03) were due to the injudicious practice of dumping tractors on dealers resulting in cash crunch and subsequent low volume of production/sales.

MINISTRY OF PETROLEUM AND NATURAL GAS

GAIL (India) Limited

❖ **Telecom business**

- The Company started its GAIL-Tel project with an investment of Rs. 262.95 crore without preparing Detailed Project Report. It also implemented Phase IIB of the project without considering the actual unsatisfactory performance of the previous phases. The project could not achieve its targets in terms of capacity sales or sales revenue during any of the four years of its operations till March 2005. The project had been incurring losses since 2003-04 and the cumulative loss of the project till September 2005 was Rs. 9.03 crore.
- The Company also lost projected revenue of Rs. 442.19 crore due to delays ranging from nine to 19 months in the completion of various phases of the project. Internal delays in the processing of tenders and placement of orders contributed to the project delay.
- An investment of Rs. 36.66 crore on Dense Wavelength Division Multiplexing equipment, Rs 11.48 crore on the Optical Fibre cables and Rs. 12.99 crore on second duct made by the Company could not be put to fruitful use.

Oil and Natural Gas Corporation Limited

❖ **Availability and utilization of critical equipment of offshore installations in Mumbai Region**

- The production of Mumbai High Offshore of ONGC comprising three fields (assets) made a sizeable portion of the country's hydrocarbon production. For ensuring uninterrupted production, ONGC had fixed targets of 100 per cent system availability and 95 per cent equipment availability of critical equipment engaged in production in the offshore fields.

- ONGC achieved the targeted system availability of critical equipment in Mumbai Offshore but could not achieve the targeted equipment availability due to maintenance related problems.
- There did not exist any policy in regard to maintenance, revamping and replacement of critical equipment, though the Management had since initiated corrective actions in this regard.
- Non-adherence to overhaul and preventative maintenance schedule of critical equipment caused high tripping, unplanned shutdown and pre-mature failure of the equipment. Deferment of production/revenue in Mumbai High due to maintenance reasons amounted to Rs.61 crore in 2003-04. The delay in procurement of spares and shortages of maintenance manpower further led to high down time of equipment and consequent lower availability of critical equipment.
- The utilisation of most of the equipment was below the minimum run hours requirements due to changing behaviour and depletion of fields but the equipment requirements were not reassessed in time to ensure its optimum utilisation. The utilisation of turbine generators on low load factor revealed excessive fuel gas consumption as compared to norms.
- In Neelam field, the installed capacity of gas compression was below the actual gas production since inception and delayed action for enhancement of gas compression facility resulted in flaring of gas valued at Rs.126.39 crore for the period 1998 to 2005.

MINISTRY OF POWER

NTPC Limited

❖ **Gas Based Power Stations**

- The Company commissioned six gas-based plants at Anta, Auraiya, Kawas, Dadri, Gandhar and Faridabad with generating capacity of 3657.64 MW. Though 14.17 MCMD of gas was required to utilize this capacity, the actual commitment from GAIL (India) Limited was for 12.75 MCMD only, which was sufficient to operate the plants at 66 per cent of the capacity. Thus, even at the initial stage, there was a mis-match between the requirement of gas for generating capacity and the quantity tied up by the GOI. Further, GAIL did not supply gas even up to the committed level. The GOI, which was primarily responsible for assignment of requisite gas for power stations, did not ensure availability of requisite gas.

- As the quantity of gas supplied by GAIL declined, the plants increasingly depended on generation through alternate fuel of naphtha/ high speed diesel. As the variable cost of generation of power on alternate fuel was four to five times the cost of generation on gas, the beneficiaries were reluctant to purchase costlier power resulting in impairment of the efficient working of the power stations.

- In the agreement entered into with GAIL, the Company was required to pay for the minimum guaranteed quantity of gas in the event of short lifting of gas, while there was no corresponding compensating clause in case of short supply of gas by GAIL. The Company's financial interests were not, thus, guarded.

- The tariff fixation policy of Central Electricity Regulatory Commission allowed the Company to recover full fixed charges based on declared capacity, even when actual generated units were below the declared capacity. As a result, the beneficiaries had to bear an excessive charge of fixed cost for Rs.123.45 crore during 2003-04.

- Despite underutilization of the existing capacity due to inadequate gas supply, the Company planned to expand the capacity of four gas-based plants in the IX Five Year Plan. As the beneficiaries declined to take costlier power generated on naphtha, it deferred the expansion after incurring an expenditure of Rs.23.68 crore, out of which the sum of Rs.17.56 crore was not likely to be utilized till the end of 2011-12.

North Eastern Electric Power Corporation Limited

❖ **Gas Based Power Stations**

- The gas supply agreements with GAIL (India) Limited /Oil and Natural Gas Corporation Limited did not provide for waiver of Minimum Guaranteed Offtake (MGO) payment due to lower generation in Agartala Gas Turbine Project (AGTP) arising out of grid failure and no/low grid demand over which the Corporation could not exercise any control. As AGTP failed to draw/consume even the MGO quantity of gas due to evacuation constraints and low drawal of power by the beneficiaries, the project had to incur infructuous expenditure of Rs. 3.16 crore.

- The Management failed to take timely initiative to enhance the quantity of gas to be supplied keeping in view the availability and future requirement. While working out the gas requirement, the impact of steadily falling calorific value of gas over the years and a higher actual heat rate higher as compared to the norm was not considered.

- The Assam Gas Based Power Project (AGBPP) could not achieve the target availability because of lack of tie-up for supply of gas in requisite quantities. As a result, there was under-recovery of fixed charges of Rs. 9.94 crore.

- Main causes for lower generation in AGBPP were transformation and transmission limitations in the North-Eastern Region (NER), lower generation schedule given by North Eastern Regional Load Dispatch Centre and priority given to maximization of hydel generation during monsoon period.

- Under-utilisation of capacity of AGBPP and AGTP was also due to non-availability of associated transmission line and weak state-owned transmission system, import of power by Assam State Electricity Board from Eastern Region due to high cost of AGBPP power and commissioning of gas based power stations by Government of Tripura during 2002-03.

- Despite the gas-based stations not achieving the normative auxiliary consumption as well as Gross Station Heat Rate, the Corporation had not conducted any Energy Audit since the commissioning of the plants in July 1998.
- The Corporation had not developed any documented maintenance policy incorporating its own inspection schedules and associated procedures as well as defining responsibility of various functions even after seven years from the date of commissioning of the plants.
- Manufacturer's recommended periodicity of preventive maintenance of the machines was not adhered to in AGBPP and AGTP.
- Non-commissioning of the fire protection system and De-mineralised plant resulted in non-compliance of mandatory environmental requirements stipulated by various statutory authorities.

MINISTRY OF STEEL

Bharat Refractories Limited

❖ **Working of Bharat Refractories Limited**

- Bharat Refractories Limited (BRL) was incorporated in July 1974 as a Government Company. BRL and India Firebricks and Insulation Company (a subsidiary of BRL) were referred to Board of Industrial and Financial Reconstruction (BIFR) in 1992. The BIFR and the Government of India sanctioned three revival schemes during the period January 1997 to June 2002 under which, apart from other concessions, the Company received cash assistance of Rs. 234.60 crore in the shape of loan and equity. Despite these concessions, the Company did not achieve the targets of manpower reduction, production, sales and profitability set forth in the Techno-Economic Viability Report prepared by MECON Limited and it continued to incur losses. The accumulated losses on 31 March 2005 were Rs. 352.56 crore.
- The overall production of refractories was only 39 and 87 per cent of the re-assessed capacity during 2001-02 to 2004-05 and the shortfall in production was 1.19 lakh tonnes due to under-utilisation of capacity, non-availability of working capital leading to shortage of raw materials and excess manpower leading to increased labour cost of Rs. 9 crore annually.
- The Company was supplying magnesia carbon bricks and slide gate refractory under performance guarantee clause to Bokaro Steel Plant, who recovered/received materials free of cost amounting to Rs. 6.33 crore and Rs. 1.97 crore respectively due to non-achievement of the committed heats under the guarantee clause.
- As against the re-assessed capacity of 12,000 tonnes of silica bricks at BRP, the plant actually produced only 1790 tonnes during 1999-2000 to 2004-05 and there was no production during 2003-04, though the product had good contribution margin and market demand. The management was silent on the issue and had not examined the reasons for negligible/nil production.

- The actual rejection of bricks in the process of manufacture from green bricks (un-burnt bricks pressed in Presses) to saleable bricks was much higher than 10 per cent considered in TEV report. The management neither fixed norms for rejection nor analyzed the reasons.
- The utilisation of a 2500 tonne Sacmi Press procured at a cost of Rs. 7.53 crore was only 37 per cent during 2000-01 to 2004-05. A press of lower capacity of 2000 tonne, which was considered earlier, could have well served the purpose.
- The Company could not implement the technology for manufacturing continuous casting refractories purchased from Japan in October 1991 at a fee of Rs. 1.12 crore, rendering the expenditure infructuous.

MSTC LTD

❖ **Performance Audit of High Seas Sale Activity**

- The Company's International Market Division was primarily engaged in 'back to back' sales and despite being planned in the MOU, failed to meet the target of ensuring that at least 20 per cent of the imports were for non-captive buyers.
- Specific profit contribution of High Seas sale to the overall financial performance could not be ascertained as no separate cost records for or allocation of overheads made to High Seas sale transactions were maintained by the Company.
- During the last five years ending 31 March 2005 maximum business was derived from four to five items. Growth in overall sales of the Company had been price driven and not volume driven. Concentration of sales on limited number of products and reliance on a single customer i.e. HPL involved attendant risk of loss of flexibility and sudden decline in volume of business in future. It also indicated that the Company had failed to widen its market base and product basket despite the same being planned in the strategic plan.
- The Company frequently failed to ensure adherence to the condition of the MOA by the customers. Due to deviation and relaxation given in the terms and condition of MOA to the parties, the Company had suffered a loss of Rs.4.85 crore.

Steel Authority of India Limited

❖ **Import of Coking Coal**

- Steel Authority of India Limited (SAIL) does not have captive coking coal mines and is dependent on outside suppliers. Its main suppliers of indigenous coking coal are the subsidiaries of Coal India Limited. In order to improve the technical parameters through blending with indigenous coal and meeting the gap between actual requirement and availability of indigenous coal, the Company had been importing coking coal since 1978-79. Such procurement was made through Long Term Agreements, Spot Tenders and Term Agreements.

- Due to the shortage of imported coking coal, there was a decline of 12 per cent (0.31 million tonnes) in SAIL's production of saleable steel for the first quarter of 2004-05.
- Failure by SAIL to take adequate and timely action through properly planned purchase of hard coking coal resulted in avoidable expenditure of Rs. 344 crore.
- In view of SAIL's current time frame for spot tendering, its poor past record in tendering whereby only one per cent of the quantity tendered between November 2000 and December 2004 was actually received and lack of adequate testing and quality assurance, it should consider spot tendering as the least preferred option for SAIL for meeting its planned or urgent requirements of coking coal.
- SAIL incurred avoidable additional expenditure of Rs. 87 crore and Rs. 89 crore, by signing term agreements for hard and soft coking coal with two foreign suppliers while simultaneously keeping deliveries under the Long Term agreements with them in abeyance.
- Failure by SAIL to exercise the mutual option quantity of 0.150 million tonnes of soft coking coal in the LT agreement with a supplier for 2003-04 resulted in a loss of Rs.32 crore.
- Failure by SAIL to take advantage of existing offers for hard coking coal and acquire 0.46 million tonnes of hard coking coal in 2003-04, resulted in excess expenditure of Rs.232 crore on spot purchases of hard coking coals.

MINISTRY OF TEXTILES

Cotton Corporation of India Limited

❖ **Trading activities**

- The National Commission of Agriculture recommended (1975) that the Corporation should endeavour to purchase 25 to 30 per cent of the total cotton production of the country by strengthening its network of offices. However, the Corporation's market share during the six years ending March 2005 ranged from 4.31 to 11.91 per cent.
- As per the textile policy (June 1985) of the Government of India, the Corporation has to undertake Minimum Support Price (MSP) operations without any quantitative limit. During the years 2001-02 and 2002-03, though the Corporation undertook MSP operations, it purchased only nine lakh bales representing 8.2 per cent of the total reported production of 109 lakh bales in MSP covered areas.
- One of the primary objectives of Corporation is to make available cotton at reasonable prices to the textile mills and other end users. During the six years ended March 2005 the Corporation paid commission of Rs.35.89 crore to the commission agents in the regulated markets where purchase of cotton through them was mandatory under the local APMC Act, thereby increasing the cost of procurement. The Corporation did not explore the possibility to get itself registered

as an agent in such regulated market yards in order to avoid payment of commission.

- The review of the cost sheets of the Ahmedabad branch of the Corporation during the five years ended March 2004 revealed that it did not emphasise purchase of varieties with higher contributions.
- Lapse on the part of the Corporation to obtain adequate security in the form of bank guarantee, letter of credit etc., resulted in non-recovery of Rs.111.53 crore on account of loss in disposal of unlifted bales at the risk and cost of the original buyers.
- The Corporation's achievement in exports fell short by 35 to 97.6 per cent of its targets during the six years ending March 2005.