OVERVIEW

This volume of Audit Report represents reviews on nine selected areas of operation involving eight Public Sector Undertakings under seven 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.4284.19 crore.

MINISTRY OF CHEMICALS AND FERTILISERS

The Fertilisers And Chemicals Travancore Limited

❖ **Working of Udyogmandal Division**

The Fertilisers And Chemicals Travancore Limited (Company) was incorporated in September 1943 and commercial production of Ammonium Sulphate commenced in 1947. Plants for manufacturing Ammonia, Phosphoric Acid and Sulphuric Acid were set up between 1960 and 1973. The Company's production facilities are located at Udyogamandal and Ambalamedu in Cochin. The Company's product line included 16 intermediaries and final products but as of 31 March 2007, the Udyogamandal Division (Division) was producing only Ammonium Phosphate and Ammonium Sulphate as final products and Ammonia, Sulphuric Acid and Phosphoric Acid as intermediates. The Company was incurring losses since 1998-99 except during 2005-06 when it recorded a profit of Rs.236 crore, due to receipt of financial assistance of Rs.670.37 crore from Government of India. Audit of performance of Udyogamandal Division covering the period from 2002-03 to 2006-07 revealed that the Division also reported losses during the review period. The main reasons for the losses incurred by the Company and the Division were high cost of Naphtha which was the feedstock, adverse impact of changes in fertiliser pricing policy, high cost of production, and ageing and inefficient plants. The increase in the prices of Sulphur and Rock Phosphate also adversely affected performance of the Division. The capacity utilisation of the intermediary plants was low and the Division had to procure the intermediary products to manufacture the final products. The Company was referred to the Bureau of Reconstruction of Public Sector Enterprises in 2004-05 and it approved an Action Plan for improvement of the Company's performance. On review of implementation of the measures contemplated in the Action Plan for revival, Audit observed that due to paucity of funds, the revamping and replacement of plant was carried out as and when an equipment malfunctioned rather than complying with the annual maintenance plan. As per Action Plan, the Company planned to switchover to using LNG as the feedstock in 2009-10. However, the LNG terminal was expected to be set up at Kochi in February 2011. The Company took abnormally long time in modifying the existing ammonia plant for low load operations to enable it to use the cheaper imported ammonia instead of the ammonia produced captively using high priced Naphtha as feedstock. The Company also delayed the modification works of the ammonia storage and handling facilities at the Cochin port to facilitate import of ammonia. Further, the relief package granted by Government of India in April 2006 was in the form of waiver of interest and conversion of loans into equity without infusion of fresh funds to meet the immediate working capital requirements. As such, non-availability of an economical feedstock, inefficient ageing plants and lack of adequate working capital rendered its operations inefficient and uneconomical; and hence more concerted efforts were required to revive the Company

MINISTRY OF COAL

Eastern Coalfields Limited

❖ System of transportation of coal

Eastern Coalfields Limited has estimated coal reserves of 44.49 billion MT and operates in 14 areas in West Bengal and Jharkhand with 87 underground mines, 15 open cast mines and four mixed mines. The transportation of coal from pithead/depot to railway siding is done through contractors and the cost is recovered from the customers at fixed rates. The remaining expenditure is borne by the Company. The transportation cost comprised 14 *per cent* of the total variable operating cost of the Company. The issues relating to transportation of coal were reviewed in audit with regard to selection and measurement of transport routes, handling of coal, weighing facilities at the loading and unloading points, incurrence of demurrage, and management of loading of wagons and short lifting of contracted quantities of coal. During the course of audit instances of using longer routes for transportation of coal and avoidable rehandling of coal were noticed. The review revealed that the Company failed to install weighbridges at the loading and the unloading points in a large number of collieries. This resulted in uncertainty in the actual weight of coal transported and consequent leakages, losses and levy of penalties. The Company failed to ensure that adequate stocks were transported to the sidings by the contractors to ensure loading of contracted quantities. Audit observed that the incidence of demurrage could be minimised by the Management by more vigilant supervision of the work executed by the contractors and rationalising its requirement of wagons.

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited

❖ Revenue earnings from leased line services

Bharat Sanchar Nigam Limited (BSNL) provides leased line services to subscribers for a specific period as dedicated telecommunication links for internal communication between offices at various sites within a city or different cities on point-to-point basis or on a network basis.

Revenue from leased line services of BSNL had grown at a relatively slower pace in the five year period from Rs.349 crore in 2001-02 to Rs.522 crore in 2006-07. Audit found leakages in revenue of over Rs.517 crore, including potential loss of revenue, delays in billing and accumulation of outstandings. This was mainly on account of delays in provision of leased circuits, lack of a proper database on services and subscribers, incorrect application of tariff, and allowing dues to accumulate over the years, especially from private parties.

BSNL needs to take corrective and time bound measures to minimise and control revenue leakage. It needs to maintain complete and updated database, strengthen internal controls, improve coordination between different branches and between its circles, and monitor recoveries of outstanding bills. Computerizing all activities related to the leased line services would effectively support the Company to ensure maximum output economically and efficiently.

MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Hindustan Paper Corporation Limited

❖ **Production performance of the paper mills and marketing of paper**

Hindustan Paper Corporation Limited (Company) has two paper mills, namely, Nagaon Paper Mill (NPM) and Cachar Paper Mill (CPM), both located in Assam. These mills were commissioned in October 1985 and in April 1988, respectively, with the basic objective of using locally available bamboo resources to produce printing and writing paper for mass consumption in the education sector. The performance of the Company in its production and marketing activities during the period 2002-03 to 2006-07 was reviewed in audit. The performance audit revealed that the Company faced problem of excess downtime due to poor maintenance and pulp shortage leading to consequential loss of production. Consumption of raw materials and other inputs also exceeded the norms. The Company could not make any headway in production of value-added products. The Company’s marketing efforts were inadequate though because of a booming economy and rising paper prices, the Company’s financial performance during the period reviewed in audit had improved. However, to maintain good financial results it is incumbent upon the Company to remove the operational constraints and complete the proposed Mill Modernisation and Technological Up-gradation (MTUP) scheme in time. Above all, the Company should ensure optimum utilisation of existing facilities and widen its product range by expanding the capacities and revamping its marketing efforts.

MINISTRY OF PETROLEUM AND NATURAL GAS

Indian Oil Corporation Limited

❖ **Operation of Haldia Refinery**

The capacity utilisation of Haldia Refinery of Indian Oil Corporation Limited (Company) was low during 2002-03 to 2005-06 and the Company had to bring in products from other regions. Capacities of the secondary processing units like Diesel Hydro Desulphurisation Unit (DHDS) and Resid Fluidised Catalytic Cracking Unit (RFCCU) were not commensurate with the primary crude processing capacity of the refinery. This resulted in diversion of unprocessed feedstock for production of low value products, blending of considerable quantity of distillate products as cutter stock as well as lower crude throughput leading to substantial revenue loss. There was also lack of preparedness for meeting the product (Euro III high speed diesel) specification requirements of Auto Fuel Policy (February 2002) of Government of India. Despite availability of domestic demand for Group II LOBS, there was not only under utilisation of Catalytic Iso-Dewaxing Unit (CIDWU) but the unit was used for generation of Euro III high speed diesel.

❖ **Marketing of petroleum products to bulk consumers**

Indian Oil Corporation is the largest oil marketing company in the country. Bulk sales constituted 41.42 *per cent* of its total sales in 2006-07. With the dismantling of Administered Price Mechanism in April 2002, the market environment became liberal and more competitive. Audit undertook a review of the performance of the Company in marketing of products to bulk consumers during the period 2002-03 to 2006-07. It was observed that while other oil marketing companies (OMCs) were able to maintain or increase their market share during the five years ended March 2007 the Company's market share in products like naphtha, FO/LSHS and bitumen declined. There was a shift of customers to other OMCs and also to other alternative fuels. The Company did not have a well-formulated strategy to arrest its declining market share arising from these market developments. The sale of bulk products (except MS and HSD from 2004-05) was not monitored through performance parameters in the MOU entered with the Government. Discounts were extended beyond the caps fixed without achieving sales targets. There were instances where the Company sold regulated petroleum products like HSD and MS below cost to bulk consumers by extending discounts beyond marketing margins. The Company overlooked the credit limits fixed for the consumers; 25 *per cent* of the outstanding dues, as of March 2007, were beyond the approved credit ceiling. Several infrastructural facilities provided by the Company to bulk consumers were idle or underutilised for three years and more and in some cases had not been used since inception. The Company also under recovered transportation costs incurred by it to deliver products at consumer's destination.

Oil and Natural Gas Corporation Limited

❖ **Deep water exploration**

- Oil and Natural Gas Corporation Limited (Company) acquired ten deep water nomination blocks, 34 deep water blocks in New Exploration Licensing Policy (NELP) rounds (I to VI) and acquired 90 *per cent* participating interest (PI)) in one block from M/s. Cairn Energy India Limited (CEIL) in March 2005. The Company has been engaged in deep water exploration since 1970 and gained momentum with the advent of project 'Sagar Samriddhi' in the year 2003-04.

- The Company took repetitive extensions for the nominated blocks, however it could not drill the committed number of wells in two nominated blocks due to non-availability of rigs capable of drilling in deep waters. The Company had also not made any firm plan to further explore or surrender the nomination blocks (September 2007).

- Lack of scheduling the issuance of Letters of Award for seismic survey contracts**,** non-verification of financial status while awarding the contracts as well as not specifying date of mobilisation of vessels and non-completion of data acquisition before the onset of monsoon had a cascading effect on completion of Minimum Work Programme (MWP) targets.

- As against 51 wells committed, 35 wells were planned in the 10^{th} Five Year Plan (FYP) ended 2006-07. Further, inordinate delay in finalisation of contracts caused postponement of drilling of seven wells resulting in non-fulfilment of the MWP commitments. Five blocks under NELP-II had to be relinquished by the Company for non-completion of MWP committed, after paying an amount of Rs.114.13 crore as penalty to Ministry of Petroleum and Natural Gas **(**MOP&NG). Also, the Company had expended Rs.368.89 crore on the relinquished blocks. The Company paid another amount of Rs.10.02 crore to MOP&NG as penalty in respect of one block for non-completion of MWP of drilling one well.
- The Company could not plan Acquisition, Processing and Interpretation (API) of seismic data and requisite number of wells needed to establish initial-in-place (IIP) reserve. The Company could accrete only 26.30 *per cent* of total reserve accretion from the blocks awarded to it originally. The remaining major portion of the accretion came from the block acquired from CEIL. Five discoveries claimed by the Company in nomination as well as NELP blocks were not acknowledged by the MOP&NG/Directorate General of Hydrocarbons.

MINISTRY OF SHIPPING ROAD TRANSPORT AND HIGHWAYS

Inland Waterways Authority of India

❖ **Performance of the Company**

The Inland Waterways Authority of India was set up (October 1986) on the recommendations of the National Transport Policy Committee to regulate and develop the National waterways in the country for shipping and navigation. The Government of India declared three waterways namely, Ganga-Bhagirathi-Hooghly river between Sagar island to Allahabad, River Brahmaputra between Dhubri and Sadiya and West Coast canal between Kollam and Kottapuram alongwith Champakkara and Udyogmandal canals as National waterways in October 1986, September 1998 and February 1993, respectively. The basic condition for development of waterways for navigation is preparation of fairway or navigational channel, provision of navigational aids for safe day and night navigation, and development of related infrastructure like terminals and mechanical handling equipments.

Performance Audit on the working of the Authority covering the period 2002-03 to 2006-07 revealed that the Authority had not prepared and integrated plan for development of National waterways in any systematic manner; detailed project report in respect of Ganga-Bhagirathi-Hooghly river between Sagar island to Allahabad river had not been prepared as yet. The budgeted funds could not be fully utilised in any of the years reviewed. Consequently, none of the three National waterways could be made fully operational (September 2007). The navigation channels of the three National waterways did not consistently and contiguously meet the least available depth necessary for navigation as the Authority failing to dredge the estimated quantities thereby limiting the navigability of the channels. No expenditure was incurred on permanent measures like bank protection, river training and fixation of prevention of formation shoals and secondary channels. As a result the recurring expenditure on routine bandalling and dredging remained unproductive. Though there was no movement of vessels during night in the three waterways, the Authority provided night navigational aids procured at Rs.4.92 crore and the Authority was incurring unproductive expenditure of Rs.2.55 crore *per annum* (2006-07) on its maintenance. Further, the navigational aids provided were unreliable. The Authority did not follow a logical and judicious sequence of development of fairways and infrastructural facilities. As such provision of infrastructural facilities in places remained underutilised or were not utilised at all as there was no movement of vessels or availability of cargo. The terminals and mechanical handling equipment constructed/procured for the three National waterways remained idle due to limited fairway development and lack of proper navigational aids for day and night navigation. The Inland Water Transport Policy of the Government of India encouraged private participation in development of National waterways, however, the Authority failed to identify projects for public private participation in development of waterways, water based recreational facilities and tourism related activities. Since the Authority had not established milestones and targets in a plan document periodical monitoring of the projects to ensure that the work progressed as per schedule, was also not done.

DEPARTMENT OF SPACE

Antrix Corporation Limited

❖ Performance of the Company

Antrix Corporation Limited (Company) was incorporated in September 1992 to function as a commercial arm of the DOS with access to resources of the DOS and Indian Space Research Organisation (ISRO) to promote the commercial exploitation of space products and to transfer the technology developed by ISRO. Upto August 2007, ISRO had launched nine satellites with an aggregate capacity of 199 transponders catering mainly to Broadcasting/TV/DTH and telecommunication. A performance audit of the contract management by the Company was carried out and the major audit findings were as below:

- The Company credited DOS share of revenue to ISRO instead of directly crediting it to the Consolidated Fund of India. Remittances were also not done in a prompt manner and periodical reconciliation of amounts due and payable to DOS was not being carried out. The Company's interest earnings were on an average 50 *per cent* of its profit after tax which suggested that the Company was being used as a special purpose vehicle for parking of unutilised funds of DOS.
- The functional distinction between the Company and DOS was ambiguous since the officers of DOS were also executives of the Company. There was no clear chart of delegation of powers and segregation of duties consistent with good governance, structure and growth of the Company. Owing to ambiguities in the operating environment of the Company, several control weaknesses were observed in the management of funds and contracts in the Company. Instances were noticed of non-adherence to the conditions of contract and absence of appropriate provisions in the agreements; performance bank guarantee/cash

securities were not collected, and savings on free period were passed on to customers. Service tax was not collected for hired foreign transponders and service charges were reduced in favour of private customers.