Overview

1. Overview of Government Companies and Statutory Corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government Companies are audited by Statutory Auditors appointed by the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2012, the State of Odisha had 36 working PSUs (33 Companies and 3 Statutory Corporations) and 28 non-working PSUs (all Companies), of which working PSUs employed 0.23 lakh employees. The working PSUs registered a turnover of ₹11,450.16 crore for 2011-12 as per their latest finalised accounts as on 30 September 2012. This turnover was equal to 5.06 per cent of State GDP indicating an important role played by State PSUs in the economy. The working PSUs earned an aggregate profit of ₹1,296.02 crore for 2011-12 and had accumulated profits of ₹2,439.63 crore as on 31 March 2012.

Investments in PSUs

As on 31 March 2012, the investment (capital and long term loans) in 64 PSUs was ₹10,058.34 crore. It increased by 5.29 per cent from ₹9,553.38 crore in 2006-07 to ₹10058.34 crore in 2011-12. The increase in investment was mainly due to increase in capital and loan in the power sector. The share of investment in the power sector marginally increased from 79.60 per cent in 2006-07 to 81.30 per cent in 2011-12.

Performance of PSUs

During the year 2011-12, out of 36 working PSUs, 23 PSUs earned profit of ₹2,305.81 crore and seven PSUs incurred loss of ₹1,009.79 crore as per their latest finalised accounts as on 30 September 2012. The major contributors to profit were The Odisha Mining Corporation Limited (₹1,880.59 crore), Odisha Power Generation Corporation Limited (₹206.29 crore), Odisha Hydro Power Corporation Limited (₹95.61 crore) and Odisha State Beverages Corporation Limited (₹40.02 crore). Heavy losses were incurred by GRIDCO Limited (₹936.81 crore), Orissa Rural Housing and Development Corporation Limited (₹31.71 crore), IDCOL Kalinga Iron Works Limited (₹27.03 crore) and Odisha Power Transmission Corporation Limited (₹12.73 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹6485.01 crore and infructuous investments of ₹7.59 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits/minimise losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. All 30 accounts finalised during October 2011 to September 2012 received qualified certificates. There were 32 instances of non-compliance with Accounting Standards in 11 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty nine working PSUs had arrears of 45 accounts as of September 2012. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 28 non-working companies. As no purpose is served by keeping these PSUs in existence, these need to be wound up expeditiously

(Chapter 1)

2. *Performance Audit relating to Government Companies*

Performance Audit relating to 'Transmission Activities of **Odisha Power Transmission Corporation Limited**' and 'Construction Activities of **Odisha Construction Corporation Limited**' were conducted. Executive summary of the Audit findings are given below:

Transmission activities of Odisha Power Transmission Corporation Limited

The Company, incorporated in March 2004 as a wholly owned Government Company, is engaged in the business of Transmission of electricity and Grid operations. The activities of the Company include construction and operation of Extra High Tension (EHT) transmission network, i.e. 400 KV to 132 KV level Sub-stations (SSs) and lines. As of March 2012, the Company had 100 SSs with installed capacity of 10,262.50 MVA and transmission lines of 11295.963 Ckm. The Performance Audit of the Company for the period from 2007-08 to 2011-12 was conducted to assess the economy, efficiency and effectiveness of its operations and ability to meet the objectives of its establishment.

Capacity Additions

The Company could add 19 EHT SSs, 3,105 MVA transformer capacity and 1,809.121 Ckm EHT lines during the five year period 2007-12 as against its actual planned addition of 33 EHT SSs, 6,227.50 MVA transformer capacity and laying of 2,987.768 Ckm of EHT lines. Achievement was 57.58, 49.86 and 60.55 per cent respectively. The shortfall was attributed to delay in execution of projects beyond the scheduled dates. Delayed execution of projects resulted in cost overrun of ₹165.56 crore, blockade of fund of ₹328.52 crore and non-achievement of projected benefits of ₹650.18 crore.

Project Management

The Company could not complete its projects as per the original schedule. In respect of 22 cases, the time overrun was between 15 and 154 months. The mismatch between generation capacity and evacuation system resulted in non evacuating the share of the State from one IPP and two hydro power stations forgoing benefit of earning ₹97.98 crore towards transmission charges on 4067.68 MU of energy. The capacity of the SSs at different voltage levels exceeded the norms fixed. The Company installed inadequate number of capacitor banks in its SSs to regulate fluctuation in the voltage and failed to install the required software to bill the DISCOMs for reactive energy charges.

Grid Management

Absence of SCADA/RTU connectivity in all the SSs despite investment of ₹108.85 crore, the SLDC function was not integrated resulting in inadequate monitoring of transmission system. SLDC did not enforce Grid discipline through operation of ABT and DISCOMs were not penalised for overdrawal of power over the approved schedules.

Transmission Losses

Transmission losses though reduced from 4.82 per cent in 2007-08 to 3.97 per cent in 2011-12, the same was, however, above the approved norms of OERC. Energy Audit has so far not been conducted to identify factors contributing to such losses and arresting the same.

Financial Management

The Company incurred losses in all the years 2007-11 and the accumulated loss as at the end of March 2012 was ₹181.98 crore. The Company's borrowing as of March 2012 was ₹818.63 crore. Due to incorrect filing of ARR, the Company could not recover ₹77.27 crore through the tariff.

Material Management

The closing stock of the Company ranged between 13 and 40 months of consumption. As of March 2012 there was a huge surplus/non-moving stores valued at ₹38.93 crore awaiting disposal.

Monitoring and Control

Monitoring by the Management was inadequate and there were deficiencies in internal control system prevailing in the Company.

Conclusion and Recommendation

Proper planning for capacity addition and project management could have enabled the Company to meet the peak demand, avoid cost overrun, supply stable power, earning benefits towards reduction in transmission loss and additional revenue.

The Performance Audit contains eight recommendations to improve the performance of the Company i.e., preparation of capacity addition plan in line with the NEP; creation of adequate transmission facilities for evacuation of State share of power from generators; execution of the transmission projects as per the recommendation of Task Force Committee of MoP, GoI; adherence to the norms of MTPC/Grid Code for

effective functioning and maintenance of transmission network; installation of adequate number of capacitor banks and bus bar protection panels to protect the lines and SSs; maintenance of strict Grid discipline and operation of intra State ABT; earn additional revenue through reduction of transmission losses by enforcing energy audit; and strengthening inventory management to avoid blockade of funds.

(Chapter 2.1)

Construction Activities of Odisha Construction Corporation Limited

The Company was incorporated in May 1962 with the main objective of executing works like dams, barrages, reservoirs, power houses, canals etc., on allotment basis as well as through tenders. The present Performance Audit covers activities of the Company in the areas of Planning, Preparation of estimates, Execution of works, Material Management, Financial Management, Monitoring and Internal Control mechanism for the five year period from 2007-08 to 2011-12 with a view to assess economy, efficiency and effectiveness of its operations and ability to meet its stated objectives.

Planning for execution of works

Though the Company was in existence for more than five decades, it did not attempt to evolve any long term Corporate/Perspective Plan for effective utilisation of its resources. The Company largely depends on the works allotted by DoWR. However, it never raised the issue of a long term Perspective Plan with DoWR. Budgetary control was deficient as the annual budgets were prepared without obtaining inputs from GoO and without assessing adequacy of budget proposals based on physical parameters. During 2007-12 the Company could execute works valued at ₹654.85 crore which was only 45 per cent of the financial targets.

Preparation of estimates

The Company prepares the estimates for the allotted works based on fair market rates and submits the same to DoWR for scrutiny by the Project Level Technical Committee and Tender Committee before award of work. There were deficiencies in preparation of estimates such as less provision on hire charges of machinery, non inclusion of VAT/Service Tax/Cess component, incorrect provision for lead distance and quoting lower coefficient for construction materials etc. As a result the Company sustained a loss of ₹19.41 crore besides extra expenditure of ₹49.62 crore by DoWR due to acceptance of inflated offers.

Execution of Works

The Company had 93 spill over works valued at ₹397.47 crore as on March 2007 and was entrusted with 185 works during 2007-12. It completed 157 works and executed works valued at ₹777.99 crore against completed/121 ongoing works. There were delays of more than two years in 93 completed and 57 ongoing works which resulted in cost overrun and non-achievement of intended benefits. Delay in completion of 15 works resulted in cost overrun of ₹161.99 crore for which Government would be further burdened with an extra cost of ₹141.11 crore with a resultant loss of ₹17.88 crore to the Company. Price escalation for an amount of ₹4.72 crore was disallowed and the Company sustained loss of ₹6.11 crore due to excess consumption of material, execution of extra work without approval etc. Award of work at higher rate without analysing the cost of execution resulted in extension of undue favour to the tune of ₹27.61 crore to the subcontractor.

Engagement of Job Workers

Terms and conditions of engagement of job workers indicated subletting of works in violation of the terms of entrustment of works to the Company. Further, even these engagements were not made in a transparent manner. The Company had an accumulated balance of ₹14.47 crore under EPF due to empanelment of job workers without EPF registration certificate violating provisions of the EPF Act.

Material Management

The Company had neither adopted any purchase manual nor prepared materials budget though materials constituted around 60 to 70 per cent of the estimated cost of the works. The Company sustained loss of ₹2.15 crore due to procurement of cement at higher rates and excess consumption of cement/steel. Despite availability of new machinery worth ₹8.50 crore, the Company could

not gainfully utilise the same in execution of works resulting in short recovery of ₹13.53 crore from the job workers towards hire charges.

Financial Management

The Company incurred excess expenditure of ₹2.19 crore towards payment of VAT by way of composition. Deficiencies in operation of current accounts, short term deposits and security deposits resulted in loss of interest of ₹1.53 crore.

Monitoring and Internal Control

Deficient monitoring and internal control system of the Company resulted in accumulation of spill over works, non-realisation of dues against completed works, release of advances to job workers in violation of the provisions of the agreement and discrepancy in stores.

Conclusion and Recommendations

Despite the Company being largely dependent upon the works allotted by the DoWR of the State Government it did not prepare the annual plan/target in line with the completion schedule of the works stipulated by DoWR resulting in huge spill over of the works. The Company sustained significant losses due to preparation of deficient work estimates, inordinate delays in commencement/completion of works, delayed engagement of job workers, poor material management and deficient monitoring and internal control mechanism.

Performance Audit contains recommendations on the need to prepare Annual Action Plan prioritising the works duly linked with the schedule of completion of the works; participate in open tenders to get more work orders and reduce dependence on the allotted works of Government; factor in all costs while making offers and enter into proper agreements with the Clients; dispense with subletting of works and ensure engagement of agencies in a transparent manner; frame a suitable material management policy and reassess its manpower requirement; strengthen its Project Monitoring and Internal Control mechanism; scrutinise offers with reference to prescribed guidelines; formulate a suitable policy for release of work advances so as to avoid the accumulation thereof with the Company; and monitor the execution of works for their timely completion.

(Chapter 2.2)

3. Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 36.78 crore in five cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 3.1, 3.3, 3.9, 3.15 and 3.18)

Loss of ₹ 75.68 crore in five cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.2, 3.7, 3.10, 3.11 and 3.14)

Loss of ₹ 292.38 crore in five cases due to defective/deficient planning.

(Paragraphs 3.6, 3.8, 3.12, 3.13 and 3.16)

Loss of ₹ 14.75 crore in one case due to lack of fairness, transparency and competitiveness in operations.

(Paragraph 3.4)

Loss of ₹ 5.67 crore in two cases due to inadequate/deficient monitoring.

(Paragraphs 3.5 and 3.17)

Gist of some of the important audit observations is given below:

Irregularities in selection of partner/formation of Joint Venture by **The Odisha Mining Corporation Limited** violating the Coal Mines (Nationalisation) Act, 1973 and coal block allocation orders.

(Paragraph 3.1)

Sale of iron ore fines without segregation of the grades by **The Odisha Mining Corporation Limited** resulted in a short realisation of sales price by ₹ 36.25 crore.

(Paragraph 3.2)

Inaction of **The Odisha Mining Corporation Limited** in adhering to the statutory requirements resulted in degradation of environment coupled with a loss of stock of ₹ 34.45 crore.

(Paragraph 3.3)

The Odisha Mining Corporation Limited suffered a loss of revenue of ₹ 14.75 crore from the sale of chrome concentrate in the domestic market due to short fixation of domestic sale price of chrome concentrate.

(Paragraph 3.4)

Imprudent fund management in **The Odisha Mining Corporation Limited** led to loss of interest ₹ 4.87 crore.

(Paragraph 3.5)

Avoidable delay in procurement and blending of imported coal by **Odisha Power Generation Corporation Limited** led to non-generation of additional power of 1099 MU valued at ₹ 251.82 crore with consequential loss of incentive of ₹ 32.17 crore.

(Paragraph 3.8)

Failure of internal check over the payment towards reimbursement of Income Tax by **GRIDCO Limited** resulted in excess payment of ₹ 34.11 crore with consequential loss of interest.

(Paragraph 3.10)

Failure of **Odisha Hydro Power Corporation Limited** in maintaining a spare transformer and commissioning of an underrated one coupled with inordinate delay in synchronisation resulted in a loss of ₹ 3.77 crore towards capacity charges.

(Paragraph 3.12)