REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA

FOR THE YEAR ENDED 31 MARCH 2008

COMMERCIAL

GOVERNMENT OF ORISSA

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Preface

Government commercial enterprises, the accounts of which are subject to audit by the Comptroller and Auditor General of India (CAG), fall under the following categories:

- Government companies,
- Statutory corporations, and
- Departmentally managed commercial undertakings.

2. This report deals with the results of audit of Government companies and Statutory corporations and has been prepared for submission to the Government of Orissa under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil) - Government of Orissa.

3. Audit of the accounts of Government companies is conducted by the Comptroller and Auditor General of India under the provisions of Section 619 of the Companies Act, 1956.

4. In respect of the Orissa State Road Transport Corporation, which is a Statutory corporation, the Comptroller and Auditor General of India is the sole auditor. As per the State Financial Corporations (Amendment) Act, 2000, CAG has the right to conduct the audit of accounts of the Orissa State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panel of auditors approved by the Reserve Bank of India. In respect of the Orissa State Warehousing Corporation, he has the right to conduct the audit of its accounts in addition to the audit conducted by the Chartered Accountants appointed by the State Government in consultation with CAG. In respect of the Orissa State Electricity Regulatory Commission, CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations are forwarded separately to the State Government.

5. The cases mentioned in this Report are those which came to notice in the course of audit during the year 2007-08 as well as those which came to notice in earlier years but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2007-08 have also been included, wherever necessary.

6. Audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

1. Overview of Government companies and Statutory corporations

As on 31 March 2008, the State had 63 Public Sector Undertakings (PSUs) comprising 60 Government companies and three Statutory corporations. Of these, 29 Government companies and three Statutory corporations were working and the remaining 31 were non-working Government companies. In addition, there were three companies under the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2008. Of these two companies were non-working.

(Paragraphs 1.1 and 1.36)

The total investment in working PSUs decreased from Rs. 9,398.67 crore as on 31 March 2007 to Rs. 8,124.56 crore as on 31 March 2008. The total investment in non-working PSUs decreased from Rs. 154.71 crore as on 31 March 2007 to Rs. 140.69 crore as on 31 March 2008.

(Paragraphs 1.2 and 1.15)

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs decreased from Rs. 283.38 crore in 2006-07 to Rs. 142.03 crore in 2007-08. As on 31 March 2008, guarantees of Rs. 1,633.23 crore were outstanding against nine working Government companies and one Statutory corporation.

(Paragraph 1.6)

The accounts of 27 working Government companies and two Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2008. The accounts of 11 defunct non-working Government companies were in arrears for periods ranging from one to 37 years as on 30 September 2008. Only two working Government companies and one Statutory corporation finalised their accounts for the year 2007-08 by September 2008.

(Paragraphs 1.7 and 1.19)

According to the latest finalised accounts, 19 working PSUs (16 Government companies and three Statutory corporations) earned aggregate profit of Rs. 1,317.75 crore. Against this, 11 working Government companies incurred aggregate loss of Rs. 35.81 crore. Of the loss incurring working Government companies, eight companies had accumulated losses amounting to Rs. 263.34 crore which exceeded their paid-up capital of Rs. 33.97 crore.

(Paragraphs 1.8 and 1.10)

2. Performance reviews relating to Government companies

Performance reviews relating to 'Production, Inventory and Cash Management' by **Orissa Mining Corporation Limited, '**Production and Sale of Pig Iron' by **IDCOL Kalinga Iron Works Limited,** 'Recovery of loans' by **Industrial Promotion and Investment Corporation of Orissa Limited**, 'Implementation of State Excise Policy and Trading in India Made Foreign Liquor, Beer and Country Spirit' by **Orissa State Beverages Corporation Limited** and IT review on 'Implementation of Enterprise Resource Planning System' of **Orissa Power Generation Corporation Limited** were conducted and some of the main findings are as follows:

Production, Inventory and Cash Management by Orissa Mining Corporation Limited

Though Orissa Mining Corporation Limited was in existence for more than 50 years it could explore only 63 *per cent* of the total mines area leased to it by the State Government. It failed to achieve the targeted production during 2003-08 in spite of fixation of low target, due to shortfall in production by contractors which resulted in loss of contribution. Improper inventory management system of the Company resulted in non-disposal and shortage of ores as well as increase in slow moving and non-moving store items. There was delay in repayment of loans leading to extra expenditure.

Some of the important points noticed are as under:

- Failure of the Company to install a new chrome ore beneficiation plant to process low grade chrome ore of 9.86 lakh MT to chrome concentrate deprived it and the Government of India the opportunity to earn additional revenue of Rs. 555.81 crore and export duty of Rs. 90.55 crore respectively.

- Increase in target of production without evolving corresponding marketing strategies led to accumulation of stock of 22.54 lakh MT valued at Rs. 71.53 crore resulting in blockage of funds of Rs. 41.59 crore.

- Repayment of loan in deviation from the terms and conditions resulted in extra expenditure of Rs. 22.44 crore.

(Chapter 2.1)

Production and Sale of Pig Iron by IDCOL Kalinga Iron Works Limited

IDCOL Kalinga Iron Works Limited had four low shaft Blast Furnaces to produce pig iron. Though the Company undertook modernisation of the Blast Furnaces to increase the production capacity, it could not be augmented due to mismatch in related infrastructure facilities. The Company failed to take timely action on the recommendations of the consultant to enhance the productivity. It also neither analysed nor took remedial measure to arrest the production of low grade material. There was also lack of planning in procurement of coke, a major raw material, leading to avoidable expenditure.

Some of the important points noticed are as under:

- Despite investment of Rs. 22.56 crore on capacity enhancement in modernisation scheme, the production remained far below the augmented capacity. Due to shortfall in production, the Company sustained loss of contribution of Rs. 45.75 crore during 2003-08 and also could not avail sales tax benefit of Rs. 6.51 crore.

- The Company sustained loss of Rs. 50.62 crore due to consumption of coke in excess of the norm.

- The Company sustained loss of Rs. 21.68 crore during 2003-08 on account of processing loss, higher generation of scrap and lower grade output.

- Due to unplanned procurement of coke and uneconomical conversion of coal, the Company sustained loss of Rs. 19.55 crore.

(Chapter 2.2)

Recovery of loans by Industrial Promotion and Investment Corporation of Orissa Limited

The performance of Industrial Promotion and Investment Corporation of Orissa Limited with regard to recovery of loans was found to be not effective since targets for recovery could not be achieved in spite of fixing low targets to net realisable demand. Improper monitoring of defaulting units resulted in non-recovery of overdues which contributed to increase in non-performing assets. There was shortfall in realisation of dues due to delay in seizure and disposal of securities and non-realisation of shortfall amount due to non-filing and delay in filing of suits as per relevant sections of the State Financial Corporations Act, 1951.

Some of the important points noticed are as under:

- Inadequate monitoring of defaulting borrowers resulted in non-recovery of overdues of Rs. 51.96 crore from 32 defaulting units.

- One Time Settlement schemes finalised by the Company were neither consistent with the RBI guidelines nor in the best interest of the Company which resulted in settlement of dues, foregoing Rs. 18.75 crore in 23 cases.

- The Company failed to take timely action for seizure and disposal under Section 29 of the SFCs Act as a result of which dues amounting to Rs. 143.39 crore relating to 106 units remained unrealised.

- The Company failed to file suits under Section 31 of the SFCs Act for realisation of shortfall amount of Rs. 49.59 crore which arose due to seizure and sale of assets from 54 units under Section 29 of the SFCs Act.

(Chapter 2.3)

Implementation of State Excise Policy and Trading in India Made Foreign Liquor, Beer and Country Spirit by Orissa State Beverages Corporation Limited

Orissa State Beverages Corporation Limited, holding the exclusive right and privilege, was to control the wholesale trade and distribution of IMFL, Beer and Country Spirit in the State. The Company was thus responsible for implementing the state excise policies to the extent applicable to it. It failed to achieve the excise revenue target set for it by the Government. The Company's performance also suffered from delayed formulation of export policy and inappropriate fixation of price of beverages causing loss to Government. The belated as well as inappropriate fixing of maximum retail price for beverages provided the retailers undue benefit.

Some of the important points noticed are as under:

- Non-consideration of entry tax and non/delayed enhancement of offer prices resulted in short-realisation of Rs. 3.98 crore towards Government revenue and the Company's margin.

- Inappropriate determination of MRP resulted in undue favour of Rs. 36 crore to the retailers.

- Application of inappropriate lower slabs for excise duty in the fixation of issue prices resulted in short-realisation of Company's margin of Rs. 0.42 lakh and Government revenue of Rs. 3.50 crore.

- Lack of co-ordination between the Company and the Government as well as absence of policy for export of beverages resulted in loss of Rs. 2.83 crore towards Government revenue and the Company's margin.

(Chapter 2.4)

Implementation of Enterprise Resource Planning System of Orissa Power Generation Corporation Limited

The computerisation of different activities of the Company suffered from improper business mapping and codification which were vital for assuring effectiveness of the system. The system did not have adequate logical access control especially due to deficient number of user licenses which led to lack of accountability on part of the users. As a result, the system remained with deficient data without serving as a reliable Management Information System.

Some of the important points noticed are as under:

- The system had not been designed properly resulting in generation of conflicting data.
- Inadequate input and validation controls resulted in lack of data integrity and incorrect MIS.
- The Company did not explore the utilisation of the facilities though available in the system.

(Chapter 2.5)

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 revenue of Rs. 30.52 crore in six cases due to irregularities in award of work, injudicious decision to sell ore, non-realisation of rent, short recovery of supervision charges, sale of high grade minerals as low grade and improper loading coupled with ineffective supervision.

(Paragraphs 3.1, 3.7, 3.10, 3.12, 3.18 and 3.20)

Undue favour of Rs. 8.95 crore was extended to contractors and client in five cases due to non-imposition of liquidated damages, upward revision of rate of transportation, non-availing cheaper loan, non-realisation of supervision charges and non-recovery of holding charges from Custom Millers.

(Paragraphs 3.3, 3.8, 3.11, 3.13 and 3.16)

Avoidable expenditure of Rs. 14.47 crore in three cases towards guarantee commission, payment of compensation and payment of water cess.

(Paragraphs 3.2, 3.6 and 3.14)

Excess reimbursement/non-realisation of service tax and interest in two cases resulted in loss of Rs. 3.35 crore and in one case Rs. 0.50 crore was recovered at the instances of audit.

(Paragraphs 3.4, 3.9 and 3.19)

Investment of funds in violation of guidelines of Government and inadequate documentation and post disbursement follow-up in two cases resulted in non-realisation of Rs. 5.08 crore.

(Paragraphs 3.15 and 3.17)

Idle investment of funds in one case resulted in loss of interest of Rs. 44.71 lakh besides cost overrun of Rs. 91 lakh.

(Paragraph 3.5)

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

Failure of **Orissa Hydro Power Corporation Limited** to award the work to the Original Equipment Manufacturers as per Government directive led to avoidable loss of Rs. 21.06 crore besides laxity in recovery of liquidated damages of Rs. 48.43 lakh from Bharat Heavy Electricals Limited.

(Paragraph 3.1)

Failure of **Orissa Hydro Power Corporation Limited** to reduce the Government guarantee against the loan repaid from time to time would result in avoidable expenditure of Rs. 7.46 crore towards Guarantee Commission.

(Paragraph 3.2)

Failure of the Management of **Orissa Hydro Power Corporation Limited** to impose liquidated damages timely resulted in non-realisation of Rs. 5.46 crore.

(Paragraph 3.3)

Injudicious decision of **Industrial Development Corporation of Orissa Limited** to sell low grade chrome ore without beneficiation despite availability of plant capacity deprived the Company of additional revenue of Rs. 5.40 crore.

(Paragraph 3.7)

Delay in payment of service tax and failure to claim service tax along with supervision charges from the clients by **Orissa Power Transmission Corporation Limited** resulted in avoidable payment of interest of Rs. 0.40 crore and non-recovery of service tax of Rs. 1.54 crore.

(Paragraph 3.9)

Investment of funds in violation of the guidelines of the Government and lack of effective pursuance by **Orissa Rural Housing and Development Corporation Limited** resulted in non-realisation of Rs. 2.63 crore.

(Paragraph 3.15)

Chapter I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2008, there were 60 Government companies (29 working companies and 31 non-working companies[*]) and three working Statutory corporations as against 61 Government companies (29 working companies and 32 non-working companies) and three working Statutory corporations as on 31 March 2007 under the control of the State Government. During the year one company i.e. ORICHEM Limited was privatised. The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1.	Orissa State Road Transport Corporation (OSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	sole audit by CAG
2.	Orissa State Financial Corporation (OSFC)	Section 37(6) of the State Financial Corporations Act, 1951	audit by Chartered Accountants and supplementary audit by CAG
3.	Orissa State Warehousing Corporation (OSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	audit by Chartered Accountants and supplementary audit by CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2008, the total investment in 32 working PSUs (29 Government companies and three Statutory corporations) was Rs. 8,124.56[#] crore (equity - Rs. 2,254.39 crore and long-term loans -

[*] Non-working companies/corporations are those which are under the process of liquidation/ closure/merger, etc.

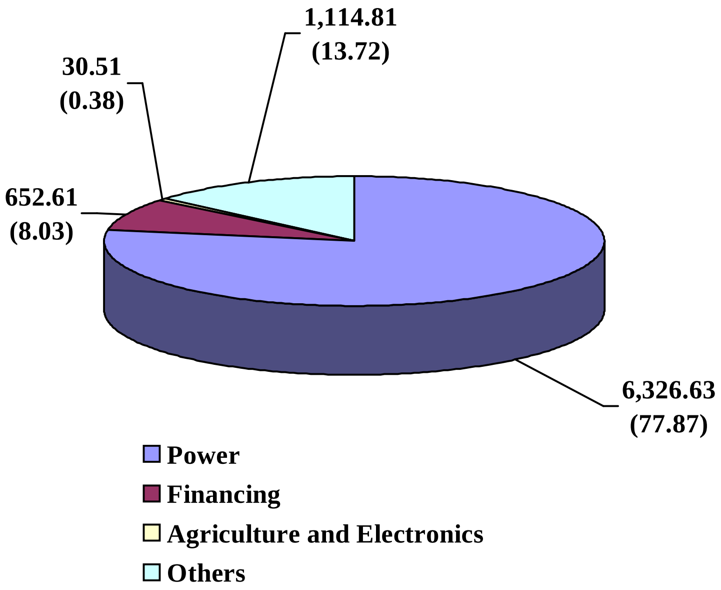
[#] State Government's investment was Rs. 4,640.02 crore (others: Rs. 3,484.54 crore). Figure as per the Finance Accounts, 2007-08 was Rs. 3,205.97 crore. The difference is under reconciliation.

Rs. 5,870.17*crore) as against 32 working PSUs (29 Government companies and three Statutory corporations) with a total investment of Rs. 9,398.67 crore (equity- Rs. 1,973.40 crore and long-term loans- Rs. 7,425.27 crore) as on 31 March 2007. The analysis of investment in working PSUs is given in the following paragraphs.

Sector-wise investment in working Government companies and Statutory corporations

1.3 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2007 are indicated below in the pie charts:

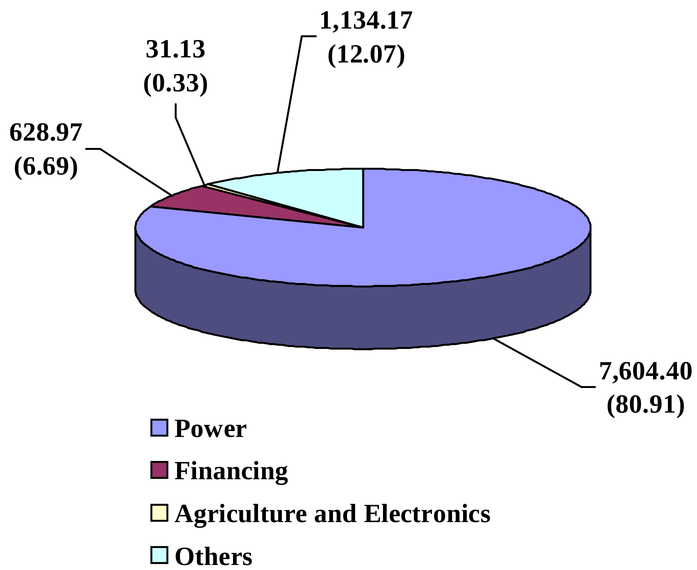
Investment as on 31 March 2008 (Rs. 8,124.56 crore)
(Rupees in crore)



(Figures in brackets indicate percentage)

* Long-term loans mentioned in paragraphs 1.2, 1.3, 1.4 and 1.5 are excluding interest accrued and due on such loans.

Investment as on 31 March 2007 (Rs. 9,398.67 crore)
(Rupees in crore)



(Figures in brackets indicate percentage)

Working Government companies

1.4 Total investment in working Government companies at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Year	No. of companies	Equity	Share application money	Long-term loans	Total
2006-07	29	1,745.74	--	6,952.41	8,698.15
2007-08	29	1,745.74	--	5,646.85	7,392.59

There was decrease in investment during 2007-08 mainly due to decrease in long-term loans of PSUs in power sector, financial sector and in Industrial Development Corporation of Orissa Limited.

The summarised statement of investments in working Government companies in the form of equity and loans is detailed in **Annexure 1**.

As on 31 March 2008, the total investment in working Government companies comprised 23.61 *per cent* of equity capital and 76.39 *per cent* of loans as compared to 20.07 *per cent* and 79.93 *per cent* respectively as on 31 March 2007.

Working Statutory corporations

1.5 The total investment in three working Statutory corporations at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Name of Corporations	2006-07		2007-08	
	Capital	Loans	Capital	Loans
Orissa State Road Transport Corporation[Ψ]	136.49	37.47	146.44	24.86
Orissa State Financial Corporation	87.57	486.03	358.62	193.04
Orissa State Warehousing Corporation[Ψ]	3.60	5.42	3.60	5.42
Total	**227.66**	**528.92**	**508.66**	**223.32**

The summarised statement of the Government investment in working Statutory corporations in the form of equity and loans is detailed in **Annexure 1.**

As on 31 March 2008, the total investment in working Statutory corporations comprised 69.49 *per cent* of equity capital and 30.51 *per cent* of loans as compared to 30.09 *per cent* and 69.91 *per cent* respectively as on 31 March 2007.

Budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity

1.6 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Annexures 1** and **3**.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government companies and working Statutory corporations during 2005-08 are given below:

(Amount: Rupees in crore)

	2005-06				2006-07				2007-08			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	1	7.21	--	--	--	--	--	--	--	--	1	9.95
Loans given from budget	--	--	1	12.00	1	122.42	1	111.70	1	56.66	1	18.74
Grants	2	0.25	--	--	2	0.84	--	--	1	0.50	--	--
Subsidy towards												
(i) Projects/ Programmes/ Schemes	--	--	--	--	--	--	--	--	--	--	--	--
(ii) Other subsidy	3	57.05	2	1.96	4	46.06	2	2.36	4	47.81	2	8.37
Total outgo	**5[#]**	**64.51**	**2[#]**	**13.96**	**6[#]**	**169.32**	**2[#]**	**114.06**	**6[#]**	**104.97**	**2[#]**	**37.06**

[Ψ] Figures for 2007-08 are provisional.

[#] Actual number of companies/corporations which received equity/loan/grants/subsidy from the State Government.

At the end of the year, guarantees amounting to Rs. 1,633.23 crore against nine working Government companies (Rs. 1,606.26 crore) and one working Statutory corporation (Rs. 26.97 crore) were outstanding. The guarantee commission paid or payable to the State Government by seven[$] working companies during the year 2007-08 was Rs. 18.26 crore.

Finalisation of accounts by working PSUs

1.7 The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective statutes.

Out of 32 working PSUs (29 Government companies and three Statutory corporations), only two companies (GRIDCO Limited and Orissa Hydro Power Corporation Limited) and one Statutory corporation (Orissa State Financial Corporation) finalised their accounts for the year 2007-08 by 30 September 2008. During the period from October 2007 to September 2008, 25 working Government companies finalised 29 accounts for previous years and three Statutory corporations finalised three accounts for the previous years.

The accounts of 27 working Government companies and two Statutory corporations involving 62 accounts were in arrears for periods ranging from one to seven years as on 30 September 2008 as shown in the following table:

Sl. No.	Number of working companies/corporations		Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl. No. of Annexure 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1.	1	--	2001-02 to 2007-08	7	A-6	--
2.	1	--	2002-03 to 2007-08	6	A-29	
3.	1	--	2003-04 to 2007-08	5	A-25	--
4.	1	--	2004-05 to 2007-08	4	A-1	--
5.	4	--	2005-06 to 2007-08	3	A-18, 22, 23 & 26	--
6.	5	2	2006-07 and 2007-08	2	A-2,10,11,20 & 21	B-1 & 3
7.	14	--	2007-08	1	A-3,4,5,7,8,9,12,13, 16,17,19,24,27 & 28	--

[$] Two companies (Sl. No.A-1 and 15 of Annexure 1) did not furnish the information while in the case of one Statutory corporation (Sl. No.B-2 of Annexure 1) guarantee fee was waived by the State Government.

Investment made by State Government in PSUs whose accounts are in arrear

1.7.1 The State Government had invested Rs. 331.52 crore (Equity: Rs. 24.71 crore; loans : Rs. 179.07 crore and grants/ subsidy: Rs. 127.74 crore) in six working companies, one statutory corporation and two non-working companies during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not. Thus, Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised each quarter by the Audit of arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in Audit.

Financial position and working results of working PSUs

1.8 The summarised financial position of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in **Annexure 2.** Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years are given in **Annexures 5** and **6** respectively.

According to the latest finalised accounts of 29 working Government companies and three working Statutory corporations, 11 companies had incurred an aggregate loss of Rs. 35.81 crore and 16 companies and three corporations had earned an aggregate profit of Rs. 1,313.22 crore and Rs. 4.53 crore respectively. Two companies, namely Agriculture Promotion and Investment Corporation of Orissa Limited and Orissa State Civil Supplies Corporation Limited were functioning on "no profit and no loss" basis.

Working Government companies

Profit earning working companies and dividend

1.9 Out of the 29 working Government companies, only two companies[#] finalised the accounts for 2007-08 by 30 September 2008 and earned profit of Rs. 566.05 crore and Rs. 121.39 crore respectively for the year but did not declare any dividend.

[#] GRIDCO Limited (formerly Grid Corporation of Orissa Limited) and Orissa Hydro Power Corporation Limited.

Out of 25 companies which finalised their accounts for previous years by 30 September 2008, 13 companies earned an aggregate profit of Rs. 625.74 crore including 11 companies which earned profit for two or more successive years.

The State Government had accepted (August 1996) the recommendations of the Tenth Finance Commission that the State must adopt a modest rate of return on the investments made in commercial, promotional and commercial and promotional public enterprises at the rate of six *per cent*, one *per cent* and four *per cent* respectively, as dividend on equity. As per the latest finalised accounts of 16 profit earning companies, interim dividend of Rs. 100 crore was declared by Orissa Mining Corporation Limited for the year 2006-07 which worked out to 6.99 *per cent* of total equity investment of Rs. 1,430.38 crore by the State Government in working companies.

Loss incurring working Government companies

1.10 Out of 11 loss incurring working Government companies, eight[#] companies had accumulated losses aggregating to Rs. 263.34 crore, which exceeded their aggregate paid-up capital of Rs. 33.97 crore by seven times. None of these companies was extended any financial support by the State Government during the year 2007-08.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.11 Out of three working Statutory corporations only Orissa State Financial Corporation (OSFC) finalised its accounts for 2007-08 by September 2008 and earned profit of Rs. 1.53 crore. Orissa State Road Transport Corporation (OSRTC) and Orissa State Warehousing Corporation (OSWC) which finalised their accounts for previous years by September 2008, earned an aggregate profit of Rs. 3 crore as per their latest finalised accounts. Though two working Statutory corporations (viz. OSRTC and OSFC) earned profit of Rs. 2.99 crore and Rs. 1.53 crore respectively, they had accumulated loss of Rs. 231.75 crore and Rs. 379.38 crore which exceeded their paid-up capital of Rs. 136.49 crore and Rs. 358.62 crore.

Operational performance of working Statutory corporations

1.12 The operational performance of the working Statutory corporations is given in **Annexure 7**. In case of OSRTC, as against a loss of 42 paise per kilometre in 2005-06, the loss had increased to 60 paise per kilometre in 2006-07 and again decreased to 17 paise per kilometre in 2007-08 mainly due to increase in effective kilometre operated. In respect of OSWC, profit per tonne was Rs. 10.75 in 2005-06 which increased to Rs. 14.82 in 2006-07 and decreased to Rs. 11.97 during 2007-08 mainly due to increase in average capacity utilisation and decrease in other expenses during 2006-07 and increase in average expenditure during 2007-08.

[#] Sl. No.A-1,6,7,10,20,22,23 and 29 of Annexure 2.

Return on capital employed

1.13 As per the latest finalised accounts of 29 working companies (up to 30 September 2008), the capital employed[*] worked out to Rs. 8,884.16 crore and total return[℘] thereon amounted to Rs. 1,731.76 crore which was 19.49 *per cent* as compared to total return of Rs. 952.36 crore (11.62 *per cent*) in the previous year (accounts finalised up to September 2007). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to 30 September 2008) worked out to Rs. 550.77 crore and Rs. 22.68 crore (4.12 *per cent*) respectively against the total return of Rs. 19.96 crore (4.10 *per cent*) in the previous year (accounts finalised up to September 2007). The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Annexure 2.**

State Electricity Regulatory Commission

1.14 Orissa Electricity Regulatory Commission (Commission) was formed (12 June 1996) under the Orissa Electricity Reform Act, 1995[#] with the object of regulation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. The Commission is a body corporate and comprises of three members including a Chairman who are appointed by the State Government. The audit of accounts of the Commission has been entrusted to the CAG under Section 104(2) of the Electricity Act, 2003[$]. The Commission, however, had not submitted any of its accounts for audit and the same are in arrears since inception.

Non-working Public Sector Undertakings (PSUs)

Investment in non-working Government companies

1.15 As on 31 March 2008, the total investment in 31 non-working Government companies was Rs. 140.69 crore[ℵ] (equity: Rs. 57.66 crore, long-term loans: Rs. 59.07 crore and share application money: Rs. 23.96 crore) as against the total investment of Rs. 154.71 crore (equity: Rs. 60.43 crore, long-term loans: Rs. 70.32 crore and share application money: Rs. 23.96 crore) in 32 non-working companies as on 31 March 2007. The summarised statement of Government investment in non-working Government companies in the form of equity and loans is indicated in **Annexure 1**.

[*] Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies/corporations where it represents a mean of aggregate of opening and closing balance of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

[℘] For calculating total return on capital employed, interest on borrowed funds is added to net profit/ subtracted from the loss, as disclosed in the profit and loss accounts.

[#] Since replaced with Section 82(1) of the Electricity Act, 2003.

[$] Erstwhile Schedule of the Orissa Electricity Reform Act, 1995 repealed by the Electricity Act, 2003.

[ℵ] State Government investment was Rs. 91.04 crore (others-Rs. 49.65 crore). Figure as per the Finance Accounts, 2007-08 was Rs. 88.52 crore. The difference is under reconciliation.

The classification of the non-working PSUs was as follows:

(Amount: Rupees in crore)

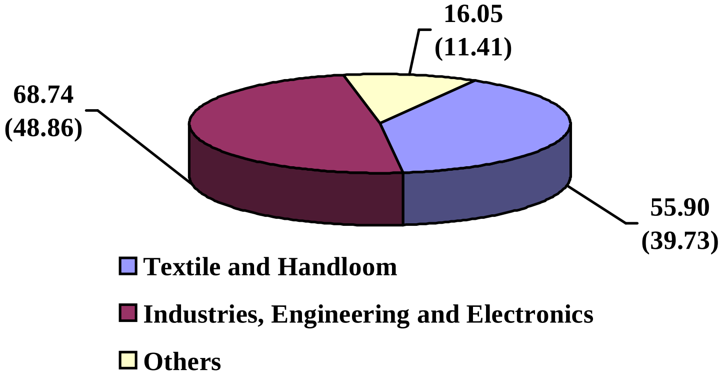
Sl. No.	Status of non-working PSUs	Number of companies	Investment	
			Equity	Long-term loans
1.	Closed[#]	11	17.50	5.47
2.	Under liquidation[$]	20	64.12	53.60
	Total	**31**	**81.62**	**59.07**

Of the 15 closed companies as on 31 March 2007, four companies viz. Orissa State Electronics Development Corporation Limited, Konark Television Limited, Orissa State Handloom Development Corporation Limited and Kanti Sharma Refractories Limited filed petition for liquidation during 2007-08. ORICHEM Limited (which was under liquidation) was privatised during 2007-08.

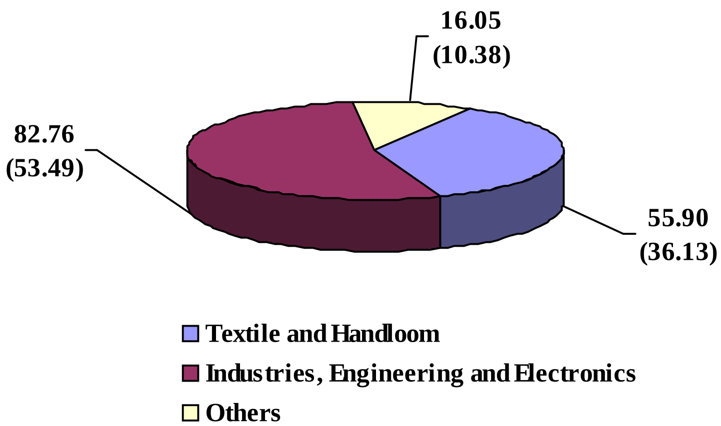
Sector wise investment in non-working Government companies

1.16 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2007 are indicated below in the pie charts:

Investment as on 31 March 2008 (Rs. 140.69 crore)
(Rupees in crore)



Investment as on 31 March 2007 (Rs. 154.71 crore)
(Rupees in crore)



(Figures in brackets indicate percentage)

[#] Sl. No.C-1,2,7,10,18,19,21,24,25,29 and 30 of Annexure 2.
[$] Sl.No.C-3,4,5,6,8,9,11,12,13,14,15,16,17,20,22,23,26,27,28 and 31 of Annexure 2. In respect of Sl.No.C-5,12,13,27 and 28 of Annexure 2 though Government has decided for liquidation, no liquidator has been appointed.

Budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity of non-working PSUs

1.17 During the year 2007-08, the Government had given grants of Rs. 11.46 lakh to two non-working companies and the Government had not given any subsidy to any non-working company. There was also no waiver of dues for non-working companies during 2007-08.

Total establishment expenditure of non-working PSUs

1.18 The year-wise details of total establishment expenditure incurred by non-working PSUs and the sources of its financing during the last three years up to 2007-08 are given below:

(Amount: Rupees in crore)

Year	Number of PSUs (Government companies)	Total expenditure	Sources of financing			
			Disposal of investment/assets	Government by way of		Others
				Loans	Grants	
2005-06	5[¥]	0.20	--	--	--	0.20
2006-07	2[*]	0.35	0.35	--	--	--
2007-08	3[Ψ]	0.68	0.11	--	0.11	0.46
Total	**--**	**1.23**	**0.46**	**--**	**0.11**	**0.66**

Finalisation of accounts by non-working PSUs

1.19 Twenty companies out of 31 non-working Government companies were in the process of liquidation/under liquidation and remaining 11 companies were defunct. The accounts of 11 defunct companies were in arrears for periods ranging from one year to 37 years as could be seen from **Annexure 2**. During the period October 2007 to September 2008, only one defunct company viz. Kalinga Steels (I) Limited finalised its accounts for the year 2007-08 and six[#] non-working companies finalised seven accounts for previous years.

The State Government had invested Rs. 11.46 lakh in two non-working companies by way of grant during the year for which accounts have not been finalised as detailed in **Annexure 4**.

Financial position and working results of non-working PSUs

1.20 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure 2**.

[¥] Sl. No.C-1,8,25,30 and 32 of Annexure 2.
[*] Sl.No.C-24 and 25 of Annexure 2.
[Ψ] Sl.No.C-21,23 and 24 of Annexure 2.
[#] Sl.No.C-9,10,22,23,24 and 31 of Annexure 2.

The summarised details of paid-up capital, net worth[$], cash loss and accumulated loss of 14[@] out of 31 non-working PSUs as per their latest finalised accounts are given below.

(Amount: Rupees in crore)

Particulars	Paid-up capital	Net worth	Cash loss	Accumulated loss
Non-working Companies	64.74	98.10	25.65	228.02

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.21 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of the Statutory corporations as issued by the Comptroller and Auditor General of India in the State Legislature by the Government.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SAR not placed in Legislature	
			Year of SAR	Date of issue to the Government
1	Orissa State Road Transport Corporation (OSRTC)	2005-06	--	--
2	Orissa State Financial Corporation (OSFC)	2006-07	SAR for 2007-08 is under process.	
3	Orissa State Warehousing Corporation (OSWC)	2004-05	2005-06	28 March 2008

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

Restructuring Programme of Government of Orissa

1.22 The State Cabinet accepted (August 1996) the recommendations of the Cabinet Sub-Committee formed (October 1995) for 34 Public Sector Enterprises (PSEs) for disinvestment/ privatisation/ restructuring/ liquidation. The private investors, however, did not show much interest and little progress was made on reforms. As per the record notes of discussions held (15 April 1999) between the Union Ministry of Finance and the State Government for a fiscal reform programme, the State Government was to take up a time bound reform programme for disinvestment and restructuring of certain State level Public Sector Enterprises. A Task Force on Public Enterprises Reform was constituted (10 October 2000) for framing a clear policy framework on Public Enterprises Reform. In accordance with the recommendations of the Task Force, the State Government and the Department of Expenditure, Union Ministry of Finance signed (11 October 2001) an MOU to achieve fiscal sustainability in the medium term in accordance with the Orissa Medium Term Fiscal Reform Programme in two phases (first phase 2002-2005 and second

[$] Net worth represents paid-up capital plus free reserves less intangible assets.
[@] Information in respect of 14 companies was not available and three companies had not started commercial activities.

phase 2005-2007) which included Public Sector Restructuring Programme. In pursuance of the programme, four State Government companies (viz. IDCOL Cement Limited, IDCOL Rolling Mills Limited, Hirakud Industrial Works Limited and ORICHEM Limited) were privatised through disinvestment of shares during the period December 2003 to May 2007.

The present status (July 2008) of the Reform Programme in respect of other Public Sector Enterprises of second phase (2005-2007) is given below:

Name of the enterprise	**Action to be taken**	**Date by which action was to be completed**	**Present status**
IDCOL Piping and Engineering Works Limited	Privatise or close	October 1999*	Entire moveable assets of Stainless Tube Division have been sold to a private entrepreneur with the approval of Hon'ble High Court. Steps are being taken for sale of other assets with the approval of Hon'ble High Court.
IDCOL Ferro Chrome and Alloys Limited (IFCAL)	Partial privatisation	October 1999*	A concrete analysis is to be made to determine the comparative gain if IFCAL is disinvested and not disinvested.
Orissa State Textile Corporation Limited	Closure	March 2000*	Action for privatisation was held up as the acquisition of Bhaskar Textile Mills (a unit of the Company) was challenged by the erstwhile owner and the judgment of the Court was awaited.
Kalinga Studios Limited	Privatisation	2002-05	Privatisation process is in progress.
Konark Jute Limited	Privatisation	--	Bids have been received for privatisation. However, the transaction has been stalled due to a legal challenge.
Orissa State Electronics Development Corporation Limited	Privatisation	--	Steps have been initiated to implement the decision.
ELMARC Limited	Privatisation	--	Twenty employees have been relieved under VRS. Decided to follow the striking-off route.
Orissa Lift Irrigation Corporation Limited	Restructuring	2002-05	Restructuring plan has been approved by the Government. VR financial assistance has been provided for 5,452 employees by the State Government. A total of 8,675 Pani Panchayats have been formed and 6,867 lift irrigation points have been handed over to Pani Panchayats. Implementation of restructuring plan is in progress.
Orissa Construction Corporation Limited	Restructuring	--	Implementation of Government approved restructuring plan is in progress.

* Though the restructuring process started earlier they were included in the first phase (2002-05).

Name of the enterprise	Action to be taken	Date by which action was to be completed	Present status
Orissa Forest Development Corporation Limited	Restructuring	--	Government has approved the restructuring plan. VRS is being implemented to right size the manpower. A high power committee under the chairmanship of the Development Commissioner-cum-Additional Chief Secretary, Orissa has been formed to oversee the implementation of the restructuring plan.
Orissa Agro Industries Corporation Limited	Restructuring	--	VRS benefit to 206 employees has already been released and reform option report prepared and placed for further action.
Orissa State Cashew Development Corporation Limited	Restructuring	--	VRS benefit for 132 employees has already been released by Department of Public Enterprises. The restructuring plan is in the process of finalisation.
Orissa Bridge and Construction Corporation Limited	Restructuring	--	Restructuring plan is under process to obtain Government approval. Instruction has been issued to notify VRS immediately for 200 identified surplus manpower as per restructuring report prepared by National Productivity Council.
Orissa State Seeds Corporation Limited	Restructuring	--	Draft memorandum prepared by the Company will be placed before the Cabinet for approval after finalisation in consultation with related departments.
Orissa State Road Transport Corporation	Formal closure of the Corporation and restructuring by transfer of assets	--	Restructuring plan approved by the State Government. Action initiated on the restructuring plan. Voluntary Separation Scheme was in operation to get rid of the surplus staff and 2,337 staff had taken VRS/VSS from 1999-2000 to 2007-08.
Orissa State Financial Corporation	Restructuring	2002-05	The financial and organisational restructuring of the Corporation had been approved by the State Cabinet in December 2006. The Corporation had adopted VRS/VSS Scheme thereby reducing the staff from 913 to 330 during the year 2005-06. Organisation restructuring is in progress.

Government had also identified Orissa Mining Corporation Limited and Orissa State Civil Supplies Corporation Limited for restructuring. Necessary action is to be taken in respect of the above PSUs in terms of the MOU with the Central Government since privatisation/ restructuring/ closure was not completed (September 2008).

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.23 During October 2007 to September 2008, the accounts of 21 Government companies (working) and three working Statutory corporations were selected for audit. The net impact of important audit observations issued as a result of audit of their accounts is as follows:

(Amount: Rupees in crore)

Details	Number of accounts		Government companies	Statutory corporations
	Government companies	Statutory corporations		
(i) Increase in loss	4	--	45.73	--
(ii) Increase in profit	3	2	18.56	12.46
(iii) Decrease in profit	11	1	18.94	0.25

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above companies and corporations are mentioned below:

Errors and omissions in case of Government companies

Comments by the Statutory auditors

Orissa Power Generation Corporation Limited (2006-07)

1.24 Non-provision of liabilities of Rs. 6.01 crore towards land premium (Rs. 3.37 crore) and interest (Rs. 2.64 crore) up to 31 March 2007 resulted in understatement of liabilities by Rs. 6.01 crore, fixed assets by Rs. 3.37 crore and overstatement of accumulated profit by Rs. 2.64 crore and profit for the current year by Rs. 50.59 lakh.

Orissa Construction Corporation Limited (2005-06)

1.25 Non-provision of shortage of stores at site and workshop had resulted in overstatement of cumulative profit by Rs. 90.63 lakh.

Orissa Power Transmission Corporation Limited (2006-07)

1.26 Non-accountal of penalty of Rs. 1.13 crore from industries as per terms of agreement, as income in the books of account resulted in overstatement of loss by the said amount.

Orissa State Civil Supplies Corporation Limited (2004-05)

1.27 Non-capitalisation of cost of 34 godowns completed and put to use by the Company as on 31 March 2005 resulted in overstatement of Loans and Advances (Advance for construction of Godowns) and understatement of Fixed Assets - Godown by Rs. 7.17 crore. Consequently, depreciation for current year was understated by Rs. 35.85 lakh.

Comments during supplementary audit

Orissa Power Generation Corporation Limited (2006-07)

1.28 Non-disclosure of contingent liability of Rs. 69.24 lakh towards disputed amount of license fee claimed by Bhubaneswar Development Authority for Alokbharati Office Complex.

Orissa Small Industries Corporation Limited (2005-06)

1.29 Understatement of loss by Rs. 9.20 crore due to non-provision for doubtful investments/debts.

Orissa Construction Corporation Limited (2005-06)

1.30 Overstatement of profit by Rs. 1.77 crore due to non-provision for arrear wages payable to employees for the period from January 1996 to December 2004 owing to wage revision.

Orissa Power Transmission Corporation Limited (2006-07)

1.31 Overstatement of loss by Rs. 3.93 crore due to non-accountal of wheeling charges recoverable from GRIDCO Limited as per order of OERC.

Errors and omissions in case of Statutory corporation

Comments during supplementary audit

Orissa State Financial Corporation (2006-07)

1.32 Understatement of profit by Rs. 2.44 crore due to treatment of interest received for rephasement of loan as current liabilities instead of income.

Recoveries at the instance of Audit

1.33 As mentioned in paragraph 3.19, Orissa Mining Corporation Limited recovered a sum of Rs. 91.61 lakh[#] from a raising contractor towards over payment of service tax.

Internal audit/ Internal control

1.34 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which need improvement. An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 14 State Government companies is indicated in **Annexure 8**. It would be noticed from the Annexure that the comments in respect of these companies were of the following nature:

- Internal Audit System was not commensurate and adequate with the size and nature of business of Government companies.

- Audit Committee had not functioned during the year.

[#] Out of Rs. 91.61 lakh recovered, Rs. 50.41 lakh has been mentioned in paragraph 3.19.

- There was no system of monitoring timely recovery of dues.
- Computerisation of functional areas and activities either not done or inadequate.
- Fixed Assets Register was either not maintained or maintained but not updated.
- There was no specific policy with regard to provision for bad and doubtful debts.
- Stores management system was not adequate and according to the prescribed principles.
- Accounting Standard for retirement benefit (AS-15) was not complied.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.35 During October 2007 to September 2008, the Committee on Public Undertakings (COPU) held 15 meetings and discussed 30 paragraphs and seven reviews pertaining to the Audit Reports (Commercial) for the years 1993-94 to 2006-07. The year-wise position of reviews/paras appearing in the Audit Reports (Commercial) and discussed by the COPU as on 30 September 2008 is detailed below:

Period of Audit Report	Number of reviews and paragraphs			
	Appeared in the Audit Report		Discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1993-94	4	24	4	24
1994-95	3	21	3	20
1995-96	3	20	3	19
1996-97	4	23	3	23
1997-98	1	14	1	6
1998-99	4	22	--	14
1999-00	4	25	1	18
2000-01	3	22	1	11
2001-02	3	14	1	7
2002-03	3	21	2	9
2003-04	3	24	1	9
2004-05	3	14	2	2
2005-06	4	17	1	--
2006-07	4	21	--	1
TOTAL	**46**	**282**	**23**	**163**

619–B Companies

1.36 There were three companies (one working[≠] and two non-working) within the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2008. The details of paid-up capital, investment by way of equity, loans, grants and summarised working results of these companies based on their latest available accounts are indicated in **Annexure 9**. During the period from October 2007 to September 2008 two companies viz. Orissa Thermal Power Corporation Limited and SN Corporation Limited finalised their accounts for the period 29 January 2007 to 31 March 2008 and for the year 2006-07 respectively.

[≠] Orissa Thermal Power Corporation Limited (Joint venture of Orissa Hydro Power Corporation Limited and Orissa Mining Corporation Limited) was incorporated on 29 January 2007.

Chapter II

2. Performance reviews relating to Government companies

Orissa Mining Corporation Limited

2.1 Production, Inventory and Cash Management

Highlights

The Company could not achieve the targeted production of ores during 2003-08 (except 2006-07) due to the shortfall in production of iron ore by 45.59 lakh MT by the contractors resulting in loss of contribution of Rs. 350.10 crore.

(Paragraphs 2.1.7 and 2.1.9)

Increase in target of production without evolving corresponding marketing strategies led to accumulation of stock of 22.54 lakh MT valued at Rs. 71.53 crore resulting in blockage of funds of Rs. 41.59 crore.

(Paragraph 2.1.21)

The inventory management was ineffective leading to accumulation of 1.59 lakh MT of iron ore valued at Rs. 19.44 crore from one to four years.

(Paragraph 2.1.22)

Failure of the Company to install a new Chrome Ore Beneficiation Plant to process low grade chrome ore of 9.86 lakh MT to chrome concentrate deprived it and the Government of India the opportunity to earn additional revenue of Rs. 555.81 crore and Rs. 90.55 crore respectively.

(Paragraph 2.1.23)

Inaction of the Company to process/sell 52,253 MT of chrome ore resulted in non-realisation of Rs. 33.49 crore.

(Paragraph 2.1.24)

Repayment of loan in deviation from the terms and conditions resulted in extra expenditure of Rs. 22.44 crore.

(Paragraph 2.1.33)

Introduction

2.1.1 Orissa Mining Corporation Limited was incorporated (May 1956) as a wholly owned Government company with the main objective to develop and operate mines and to sell minerals in the domestic market and also export. The mining operations include removal of overburden, drilling, blasting, raising of Run Off Mines[ø] (ROM) and sizing/crushing which is done departmentally as well as through contractors. The Company mainly raises iron, chrome and manganese ores.

The affairs of the Company are managed by a Board of Directors (BoD). As on 31 March 2008, the BoD comprised of 10 Directors including one part time Chairman and the Managing Director (MD). The MD is the Chief Executive Officer assisted by three General Managers at the Head Office, seven Regional Managers at seven[¥] regional offices for mining operations and one Shipment Officer at Paradeep handling minerals meant for export sales. There were no operating mines under Rayagada regional office since 2002.

The working of the Company was last reviewed and commented in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial), Government of Orissa. The report is pending (September 2008) for discussion in the Committee on Public Undertakings (COPU).

Scope of audit

2.1.2 The present Performance review conducted during December 2007 to April 2008 covers the production, inventory and cash management in the Company pertaining to the five years ending 31 March 2008. Audit selected all six operating regional offices and the Shipment Office at Paradeep for detailed examination. Besides, 41 out of 58 composite contracts (includes raising, crushing and transportation of ores) entered in 2003-08 were examined.

Audit objectives

2.1.3 The Performance Audit was conducted with a view to assess whether:

- targets for raising, transportation and crushing of ores were fixed on the basis of the resources available and marketability;
- variances between targets and achievements were analysed and remedial measures taken;
- an effective inventory management system with regard to procurement, storing, utilisation and disposal was in place;

[ø] The required minerals which are extracted after getting the mine ready i.e. after removal of overburden.

[¥] Barbil, Bangur, Daitari, Gandhamardan, J.K. Road, Koira and Rayagada.

- unsaleable stock of minerals was timely utilised/disposed of;
- spare parts of different plant and equipment were properly utilised during scheduled or regular maintenance to reduce downtime of equipment/plant;
- cash management was adequate, effective and efficient; and
- an internal control system existed in respect of production, inventory and cash management and was being adhered to.

Audit criteria

2.1.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- provisions of various statutes, rules of mining, policies laid down by the State Government and the Company's business plan;
- rules and regulations of the Company for procurement of stores and spares/different types of equipment and their utilisation;
- agreements with the raising/processing/transport contractors, etc.;
- rules and regulations framed by the Company for storage and disposal of minerals, identification of idle, damaged or obsolete inventory and their disposal; and
- General Financial Rules and principles including investment policy of the Company.

Audit methodology

2.1.5 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- examination of agenda notes for meetings of BoD and Audit Committee and minutes thereof, internal audit reports, annual reports, agreements for mining, transportation, etc.;
- scrutiny of records relating to production including target and achievement, monthly production, transport and sales reports;
- examination of files and registers relating to procurement, utilisation, disposal and storage of inventory stores;
- scrutiny of records pertaining to investment of surplus funds; and
- interaction with the Management.

Audit findings

The findings of the Performance Audit of the Company were reported (June 2008) to the Government/Management and also discussed (5 August 2008) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) which was attended by the Commissioner-cum-Secretary, Steel and Mines Department of the State Government and the MD of the Company. The views of the Government/ Management have been considered while finalising the review. The audit findings are discussed in the succeeding paragraphs.

Exploitation of leasehold mines

2.1.6 The State Government had leased out total mines area of 52,651 hectares in the State, out of which the Company was given lease of 19,313 hectares (37 *per cent*) comprising of 34 mines. As on 31 March 2008, the Company was operating in 12,136 hectares (63 *per cent*) comprising 13[*] mines. It, however, could not operate eight[#] mines since the date of receipt of lease (1970 to 2002) for want of forest clearance, operation of 12[&] mines was suspended (1992 to 2008) due to requirement of forest clearance and one[$] mine was kept inoperative by the sub-lessee. During the period under review, three[∇] iron ore mines became inoperative for want of forest clearance.

Production performance

Target and achievement

2.1.7 The minerals raised by the Company mainly are iron, manganese and chrome ore. The Company fixes mine-wise targets of production of minerals based on the market demand, raising capacity and available resources. Besides, the prevailing market situation and the long-term contracts under execution were also considered for fixation of targets. The targets are fixed in the annual budget and approved by the BoD. The actual production and sale of iron, chrome and manganese ore vis-à-vis the targets for the five years upto 2007-08 are detailed in **Annexure 10**.

It would be observed from the annexure that in respect of iron and manganese ore, the target for production was on a reducing trend up to 2006-07, which was increased only in 2007-08. The target in respect of chrome ore was, however, on an increasing trend. The actual production against targets in respect of iron ore, chrome ore and manganese ore ranged between 51.38 and

[*] **Chrome ore**:Bangur, Kaliapani, South Kaliapani, Sukrangi, **Iron ore**: Balda Palsa Jajanga, Daitari, Gandhamardan-A, Gandhamardan-B, Khandabandha and **Iron & Manganese ore**: Dubuna-Sekradihi, Kolha Roida, Kurmitar, Serenda Bhadrasahi.

[#] **Chromite**: Baniapanka, Base of Mahagiri, Saruabil-Sukrangi, **Manganese**: Parlipada, Roida-78, **Gemstone**: Budhapada, Hinjilibaha and Malipada.

[&] **Chromite**: Birasal, Boula, Kalarangi, Kathpal, **Iron**: Banspani, Dalki, Koira-Bhanjapalli, Koira-kasira, Tirinpahar, Rantha, **Manganese**: Nishikhal and **Limestone**: Umpavalley.

[$] Gemstone mine at Jillinghdha.

[∇] Banspani, Koira-Bhanjapalli and Koira-Kasira.

Non-achievement of targets of production resulted in shortfall in production of iron and manganese ore by 47.01 lakh MT and 2.11 lakh MT respectively during 2003-08.

116.15 *per cent*, 83.61 and 159.48 *per cent* and 41.59 and 70.83 *per cent* respectively. The Company could not achieve the targets of production of iron and chrome ore during 2003-08 (except in 2006-07) and in case of manganese ore, the production was less than the targets in all the five years. The non-achievement of targets led to shortfall in production of 47.01 lakh MT of iron ore and 2.11 lakh MT of manganese ore.

The main reasons for shortfall in production of iron ore were attributable to consistent problem in the primary crusher of the Ore Handling Plant (OHP), non-achievement of the targets by the contractors, delay in supply of explosives and handing over of quarries, mines plans, etc. as discussed in paragraph 2.1.9. In case of manganese ore, the shortfall was attributable to restriction imposed by the statutory authorities in all the manganese mines.

Government stated (September 2008) that the shortfalls in production were due to various statutory problems like forest clearance and its effect in executing the contract. The reply is not acceptable as the targets are fixed considering all possible constraints; in fact the achievement was not satisfactory due to lapses on the part of contractors, delay in supply of explosives and delayed handing over of quarries, mines plans, etc. to the contractors by the Company.

Raising of ores

Production of iron and chrome ore was below the targets by 13.05 lakh MT and 3.49 lakh MT respectively in 2005-06 and 2007-08.

2.1.8 The Company did not furnish the records relating to target and achievement of production of ores departmentally and through contractors for the years 2003-04 and 2004-05. Audit observed that the Company produced iron ore and chrome ore mainly through the contractors. The production target of the contractors against total target fixed in respect of iron ore, chrome ore and manganese ore during 2005-06 to 2007-08 ranged between 84 and 93 *per cent*, 90 and 95 *per cent* and 29 and 65 *per cent* respectively. The achievements of the contractors for the years 2005-06 and 2007-08 in respect of iron ore and chrome ore were below the targets fixed and comprised of 75 and 91 *per cent* and 86 and 85 *per cent* respectively. Thus, the shortfalls in production of iron ore and chrome ore were 13.05 lakh MT and 3.49 lakh MT respectively in 2005-06 and 2007-08.

Some of the individual cases highlighting the shortfall in production by the contractors have been discussed in the succeeding paragraphs.

Shortfall in production of iron ore and non-levy of penalty

Despite shortfall in production by the contractors, the Company did not levy penalty of Rs. 0.94 crore.

2.1.9 The Company raises ore mainly through contractors. The agreements executed with the contractors stipulate levy of penalty for short production. Audit scrutiny revealed that even though the contractors did not raise the quantity as per the agreements, the Company did not levy penalty of Rs. 94.29 lakh on four[$] contractors as detailed in **Annexure 11.**

[$] Arun Udyog (3rd year), B. Seenaiah & Co., Pradeep Mining Construction (P) Limited and B.D. Mohata.

Further, shortfall in production by these four contractors including short production by three* other contractors (where penalty was not imposed) was due to fault of the Management viz. delay in installation of weighbridge, delay in preparation of ground work, inadequate/delay in deployment of machineries, repairing of ghat road, short supply of explosives, delay in handing over of the quarries, mining plan, handing over of non-proved reserves quarries, etc. Hence, during the contractual period of September 2003 to July 2007 the total production achieved by the contractors was 35.58 lakh MT against the target of 81.17 lakh MT. This resulted in loss of contribution# of Rs. 350.10 crore on shortfall in production of 45.59 lakh MT.

Failure of the Company in providing required facilities for production led to shortfall in production of iron ore by 45.59 lakh MT resulting in loss of contribution by Rs. 350.10 crore.

Government stated (September 2008) that due to development and restoration of mines in compliance with the Mines Act, infrastructural constraints, restriction imposed by Forest authorities, delay in handing over the quarry, short supply of explosives and inadequate deployment of men and machineries by the contractors, there were shortfalls in production for which penalty of Rs. 62.76@ lakh had been withheld from four contractors. The reply is not acceptable as the targets are fixed considering all possible constraints. The constraints extended by the Government for shortfall in production was required to be handled effectively through proper planning and monitoring of the events. Further, the Company did not recover penalty of Rs. 94.29 lakh from four contractors despite their inability to mobilise required men and machines which led to shortfall in production.

Processing of ore

2.1.10 The ores raised from the mines are generally large sized (ROM) and unsuitable for use as raw material. Therefore, ROM is crushed into lump ore which is further crushed into Calibrated Lump Ore (CLO) and in this process iron ore fines∇ are generated. The purpose of producing CLO is to have easy marketability and to fetch higher price. Thus, adequate and effective crushing operations play a vital role not only in achieving the production target but also in maximising the revenue of the Company. The departmental operations i.e. crushing of ores in OHP is available in Daitari only.

The deficiencies noticed in crushing activities of the Company are discussed in the following paragraphs.

Ore Handling Plant, Daitari

2.1.11 The Ore Handling Plant (OHP), commissioned in 1974, comprises of crusher, long distance conveyor belt and washing plant. The matter relating to shortfall in production in OHP due to non-replacement of the crusher had been commented vide paragraph 2.1.13 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial),

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* Arun Udyog (1st and 2nd year) Synergex Infrastructures (P) Limited and Ares & Sons.

\# Sale price less cost of raising and crushing.

@ AU (Rs. 4.12 lakh), FGMPL (Rs. 35 lakh), BSC (Rs. 16.12 lakh) and PMCPL (Rs. 7.52 lakh).

∇ Iron ore of size less than 10 mm.

Government of Orissa. It was pointed out in the paragraph that 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. The Company appointed a consultant for improving the performance of OHP, who recommended (June 2004) for overhauling/ replacement of OHP. The Company again appointed (September 2006) a consultant (M.N. Dastur & Co) to prepare feasibility report for installation of a new OHP. In spite of receipt (March 2007) of the report from the consultant no final action has been taken.

The following table depicts the installed capacity, targets fixed and achievement thereagainst:

Year	Installed capacity	Target	Percentage of target to installed capacity	Achievement	Shortfall	Percentage of shortfall
	(In lakh MT)			*(In lakh MT)*		
2005-06	20	5	25	4.19	0.81	16
2006-07	20	4	20	4.27	--	--
2007-08	20	3	15	3.45	--	--

Failure of the Company in replacing the OHP, resulted in potential contribution loss of Rs. 144.76 crore during 2005-08.

Thus, failure of the Company in replacing the OHP despite persistent low utilisation of installed capacity, considering 70[Ω] *per cent* utilisation of rated capacity, led to shortfall in production of 30.09 lakh MT of ore resulting in potential contribution loss of Rs. 144.76 crore during 2005-08 besides rendering the mining equipment of the Company idle as discussed in paragraph 2.1.14.

Further, as per feasibility report (March 2007) of M.N. Dastur & Co., the total project cost was Rs. 318.94 crore with a pay back period of around two years only. The funds could have been met from the Company's own resources without any extra financial charges. The cost of production (2006-07) with a new OHP worked out to Rs. 310.36 per MT whereas the cost of production with the existing OHP was Rs. 610.71 per MT. Thus, the Company incurred extra expenditure of Rs. 62.89 crore on production of 20.94 lakh MT of ore during 2003-08.

Government accepted the fact and stated (September 2008) that considering the obsolescence of machineries of the OHP, the targets of production were kept on the lower side. It was added that a new OHP would be installed after getting clearance of the State Government. The fact remains that due to non-replacement of the OHP, the Company continuously incurred loss on account of low production and higher production cost.

Loss due to sale of lump ore

2.1.12 The Company engaged (June 2003) Ares and Sons for raising and processing of iron ore at Sekradihi iron ore mines, Barbil for a period of three

[Ω] Since the Company considered efficiencies of OHP as 70 *per cent* of the rated capacity.

years from 1 July 2003 by fixing yearly targets. The contractor was to install a crusher within three months (30 September 2003) and was to raise and process four lakh MT of iron ore in the first year. The contractor could install the crusher only in November 2004 due to failure of the Company in providing suitable land since the mine is located in a reserve forest. The Company, thus, had to sell 2.24 lakh MT of lump ore instead of CLO resulting in loss of Rs. 3.72 crore towards additional net revenue (i.e. after deduction of cost of crushing).

Sale of lump ore instead of calibrated lump ore deprived the Company of earning additional revenue of Rs. 3.72 crore.

Government while accepting the delay in installation of the crusher stated (September 2008) that for liquidating the huge stockpile and in view of cash requirement of the contractor, lump ore was sold till installation of the crusher. However, Audit observed that due to deficient planning the Company failed to ensure availability of land for installation of the crusher for maximising its revenue.

Shortfall in crushing in Khandabandha Iron Ore Mine

2.1.13 The Company issued (6 July 2005) a work order to Orissa Engineers Private Limited for transportation and crushing of one lakh MT of lump ore into CLO through 40 tonnes per hour crusher of the Company at Khandabandha Iron Ore Mine with a norm of recovery of 65 *per cent* of CLO and 33 *per cent* of fines. The work order also includes repairs and maintenance of the crusher. Though the contract period was valid upto 5 July 2006, the contract was foreclosed in April 2006 for want of forest clearance.

Audit scrutiny revealed that the contractor commenced the work only in November 2005 i.e. after a delay of four months due to delay in repair of crusher by the Company. As against the revised target of crushing into 23,832 MT of CLO during November 2005 to April 2006, the actual crushing was 9,450 MT resulting in shortfall of 14,382 MT. Further, the Company sold the uncrushed lump ore from its crusher head of Khandabandha Iron Ore Mine which resulted in loss of contribution of Rs. 64.24 lakh.

Government stated (September 2008) that due to frequent breakdown of the crusher and non-availability of spare parts, the targeted production could not be achieved. The reply is not tenable since the Company issued (February 2006) purchase order for the spare parts after a delay of eight months of purchase requisition (June 2005) for which there was delay of 14 months in procurement of spare parts resulting in non-achievement of target.

Besides the above, deficiencies in management of contract in the production related areas like utilisation of equipment, loading and transportation of ores were also noticed as discussed in the succeeding paragraphs.

Infructuous expenditure in maintenance of dumpers

2.1.14 The annual repair and maintenance of 10 working dumpers at Daitari was entrusted (April 2002) to New India Supply Agencies at Rs. 48.06 lakh per annum. The rate was revised (December 2005) to Rs. 100 per available hour (Rs. 43.26 lakh[@] per annum) and extra premium at the rate of 1.5 *per cent* was payable for each one *per cent* rise above 80 *per cent* availability (assured level) of dumper hour. During 2003-08, as against the availability of 1,68,882[&] hours, the Company utilised only 37,999 hours (23 *per cent*).

Award of dumper maintenance contract disregarding the available dumper hours required resulted in avoidable expenditure of Rs. 1.53 crore.

Audit observed that while awarding the contract, the Company disregarded the available dumper hours required in view of its low level of production at OHP which rendered 77 *per cent* of dumper hours idle. Thus, the Company paid for the unutilised hours amounting to Rs. 1.29 crore towards maintenance. In addition to this, there was excess payment of Rs. 23.79 lakh towards premium.

Despite observation of audit in paragraph 2.1.20 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial), Government of Orissa, Management did not revise the rate downward during renewal of the contract in December 2005.

Government stated (September 2008) that for outsourcing the work, a minimum contract value was considered to cover the establishment expenses of the contractor. It was added that when the production would go up from OHP, use of dumper would be more by which the situation reported by audit would change. The reply does not explain as to why despite the earlier audit observation, the Company did not improve the utilisation of dumpers and continuously paid higher maintenance charges.

Avoidable engagement of loading contractors

2.1.15 The Company engaged (October 2004) G.C. Mohanta for loading of ore into trucks and tippers at South Kaliapani and Sukrangi chromite mines. During 2004-08, the contractor loaded 12.02[*] lakh MT and was paid Rs. 2.80 crore.

Engagement of a loading contractor despite availability of departmental pay loaders resulted in avoidable expenditure of Rs. 2.53 crore.

Audit scrutiny revealed that the Company had a fleet of three to five pay loaders at the above mines having loading capacity of 237.87 MT per hour. During 2004-05 to 2007-08, the idle hours of those pay loaders were 1,853, 2,494, 4,205 and 4,109 hours respectively. Considering the idle hours and loading capacity of those pay loaders, the volume of ore loaded by the contractor would have required 1,274, 1,461, 1,527 and 794 hours respectively which could have been done by the Company with its available pay loaders. Thus, engagement of a loading contractor despite availability of departmental pay loaders resulted in avoidable expenditure of Rs. 2.53[#] crore.

[@] At hourly rate of Rs.100 for 14 working hours per dumper per day for 309 days in a year for 10 dumpers.

[&] Actual total shift hours available (2,28,856 hours) less total break down hours (59,974 hours).

[*] 2004-05: 3.03 lakh MT, 2005-06: 3.47 lakh MT, 2006-07: 3.63 lakh MT and 2007-08: 1.89 lakh MT.

[#] Rs.2.80 crore paid to contractor *less* average cost of POL and spares (Rs.26.54 lakh) to be spent by the Company.

Government stated (September 2008) that due to breakdown, availability hours of loaders were extremely poor and loading of saleable ore was being done manually to avoid dilution by spurious materials and labour problems. The reply is not acceptable since idle hours were calculated after considering the breakdown hours and other uses. Further, in the mechanised mines loading is done mechanically through loaders, hence, there is no risk of admixture of spurious materials. The Company should handle the labour problems amicably for optimum utilisation of the available resources.

Extra expenditure due to manual loading

2.1.16 The Company engaged (April 2005) Jai Jawan Coal Carriers Private Limited (JJCC) for manual loading of iron ore into rail wagons at Daitari Railway Siding (DRS), who continued the work up to 31 March 2008. The terms of the contract, *inter alia*, envisaged payment of loading charges at half of the agreed rate in case of mechanised loading. During 2005-08, JJCC manually loaded 22.07 lakh MT of iron ore and was paid Rs. 6.42 crore.

Non-insistence for mechanical loading by the loading contractor instead of manual loading resulted in extra expenditure of Rs. 3.21 crore.

Audit observed that despite the fact that mechanical loading was cost effective, the Company did not insist for mechanical loading by the contractor. As a result, the Company had to incur extra expenditure of Rs. 3.21 crore during 2005-08.

Government stated (September 2008) that mechanical loading could not be materialised due to labour problems. The reply is not acceptable as the Company did not force the agency to load mechanically in a phased manner by proper negotiation with labour unions.

Extra expenditure on transportation of fines

2.1.17 During October 2003 to 31 March 2008, the Company engaged four[@] contractors for raising, crushing and transportation of iron ore at Daitari Iron Ore Mines which envisaged transportation of iron ore fines both to the stockyard at Baliparbat as well as to DRS. The fines unloaded at Baliparbat were again transported to DRS for eventual sale through transportation by rail.

Multiple transportation of iron ore instead of direct transportation resulted in extra expenditure of Rs. 1.09 crore.

Audit scrutiny revealed that during October 2003 to March 2008, the Company transported 6.46 lakh MT of iron ore fines from mines to Baliparbat and from there to DRS which resulted in avoidable extra expenditure of Rs. 1.09 crore as the same could have been directly transported to the DRS.

Government stated (September 2008) that due to limited area at DRS all the stocks could not be transported directly. The reply is not tenable as the Company utilised only the platform area of 7,182 square metre out of the total area of 18,000 square metre at DRS.

[@] B.D Mohata (2004-05), Arun Udyog (2004-05 and 2005-06), Faridabad Gurgaon Minerals (P) Limited (2004-05 to 2006-07) and Kalinga Commercial Corporation (2007-08).

Lifting of ore from mine head

2.1.18 As per the terms of the agreement with three[Ψ] raising contractors entered between July 2004 and August 2005, they were required to transport the entire ore raised by them to the stockyard. Audit scrutiny revealed that during 2003-08, in Barbil and Gandhamardan regions, there was sale of 4.77 lakh MT of ore from the mines head managed by three contractors. Since transportation of 4.77 lakh MT of ore from the mines head to the stockyard was not done by the contractors, proportionate deduction should have been made from their bills. The Company, however, released full payment to the contractors which resulted in undue favour to them amounting to Rs. 39.22[β] lakh.

Government stated (September 2008) that owing to sales commitment, buyers were occasionally allowed to lift from the mines head and in absence of separate transportation rate in the agreement, the contractors were paid at the agreed rate.

Inventory management

2.1.19 The inventory of the Company mainly comprises of stock of ores, explosives, stores and spares required for repair and maintenance of mining equipment, etc. The ore stocks are kept at the stockyards of the respective mines, different railheads and portside stockyard maintained by the Company. The inventory of stores and spares are kept in different stores maintained at the mines.

Inventory of ores

2.1.20 The production, sale, shortages and closing balance of different ores during 2003-08 was as follows:

(Quantity in lakh MT)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Stock:					
Iron Ore	8.25	6.84	3.03	3.12	14.14
Manganese Ore	1.20	1.29	1.40	1.67	1.06
Chrome Ore	4.13	3.20	2.07	2.03	3.30
Production:					
Iron Ore	23.53	27.02	31.71	46.46	51.74
Manganese Ore	1.04	0.85	0.47	0.41	0.31
Chrome Ore	7.47	6.92	6.46	12.36	11.58
Sales:					
Iron Ore	25.03	30.38	31.40	35.19	45.10

[Ψ] Pradeep Mining, B.D. Mohata and S.K. Samal.

[β] Pradeep Mining (Rs. 15.53 lakh), B.D. Mohata (Rs. 1.95 lakh) and S.K. Samal (Rs. 21.74 lakh).

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Manganese Ore	0.93	0.74	0.21	1.03	1.34
Chrome Ore	7.41	7.21	5.53	9.89	10.92
Consumption:					
Iron Ore	0.02	0.01	0	0.01	0
Manganese Ore	0	0	0	0	0
Chrome Ore	1.01	0.77	0.88	1.16	0.73
Shortage/ excess:					
Iron Ore	0.11	-0.44	-0.22	-0.24	0.02
Manganese Ore	-0.02	-0.01	0.01	0.01	0.04
Chrome Ore	0.02	-0.07	-0.09	-0.04	-0.03
Closing Balance:					
Iron Ore	6.84	3.03	3.12	14.14	20.80[θ]
Manganese Ore	1.29	1.39	1.67	1.06	0.07
Chrome Ore	3.20	2.07	2.03	3.30	3.20

Increase in production target without evolving corresponding marketing strategies led to accumulation of stock.

It would be seen from the table that during 2006-08 as against production of iron ore of 46.46 lakh MT and 51.74 lakh MT, the actual sales were 35.19 lakh MT and 45.10 lakh MT resulting in increase in closing stock by 11.02 lakh MT and 6.66 lakh MT valued at Rs. 39.26 crore and Rs. 61.11 crore respectively. Excessive accumulation of iron ore stock indicates that the Company had not evolved marketing strategies consistent with its production targets. This has cascading effect of increased inventory carrying cost.

Blockage of fund due to accumulation of ores

2.1.21 Out of total closing stock of iron ore of 14.14 lakh MT and 20.80 lakh MT at the end of 2006-07 and 2007-08 respectively, 9.25 lakh MT (65.42 *per cent*) and 11.78 lakh MT (56.63 *per cent*) of iron were at Kurmitar mine. Similarly, the closing stock of iron ore for 2007-08 comprised 5.20 lakh MT (25 *per cent*) lying at Gandhamardan mine.

The Company awarded (June 2005) a raising contract to Kalinga Commercial Corporation (KCC) for raising iron ore at Kurmitar Iron ore mine for a quantity of 4.20 lakh MT per year. The BoD enhanced (July 2006) the quantity of production to 10.14 lakh MT based on good performance and steady sale of KCC. Similarly, the annual target of production of KCC at Gandhamardan (Hill Top) iron ore mine was increased (April 2007) to 21 lakh MT from 10 lakh MT on the similar ground.

Audit scrutiny revealed that KCC raised 40.06 lakh MT during July 2005 to March 2008 from Kurmitar mine out of which 27.47 lakh MT could be sold.

[θ] Excluding 5.18 lakh MT lying at Gandhamardan mines in contractor's account which had not been booked in the Company's account.

Increase in production led to accumulation of stocks by 22.54 lakh MT of ore resulting in blockage of fund of Rs. 71.53 crore.

Similarly in Gandhamardan (Hill Top) mine, KCC produced 19.30 lakh MT of iron ore during July 2007 to March 2008 out of which 9.35 lakh MT could be sold. Thus, increase in production target without evolving corresponding marketing strategies resulted in accumulation of stock by 22.54 lakh MT valued at Rs. 71.53 crore, which led to blockage of funds towards raising cost paid to the contractor for Rs. 41.59 crore leading to loss of interest of Rs. 17.33 lakh per month.

Government stated (September 2008) that due to booming market, the production was increased in 2006-07, but due to infrastructural constraints adequate quantity of sales could not be effected. The reply confirms the fact that increase in production in absence of required infrastructure was an injudicious decision.

Non-disposal of old stock of iron ore

Failure of the Management in disposing ores resulted in accumulation of iron ore of 1.59 lakh MT valued at Rs. 19.44 crore for more than one to four years.

2.1.22 Scrutiny of records in Barbil and Gandhamardan region revealed that 1.59 lakh MT of iron ore valued at Rs. 19.44 crore was lying undisposed (March 2008) for more than one to four years in the crusher sites and stockyards of the Company.

Though prolonged storage of ore stock is susceptible to theft/shortage/ deterioration in quality, etc., the Management did not initiate action for disposing the same.

Government stated (September 2008) that ores were lying in small quantities in scattered places and steps were being taken to bring the stock to one place for sale. The fact, however, remains that lack of timely steps resulted in non-disposal of ores leading to blockage of funds.

Non-processing of old stock low grade chrome ore

Delay in installation of chrome ore beneficiation plant deprived the Company of earning net revenue of Rs. 555.81 crore and Export Duty of Rs. 90.55 crore to the Government exchequer.

2.1.23 The Company had 9.86 lakh MT of low grade chrome ore (with chrome content ranging from 32 to 40 *per cent*) since 1980. It is beneficial to process low grade chrome ore into high grade chrome concentrate in Chrome Ore Beneficiation Plant (COBP) for export. The BoD approved (March 2004) for installation of a new stand-alone COBP at an estimated cost of Rs. 22 crore with production capacity of 1.50 lakh MT of chrome concentrate per year at Kaliapani. The proposal was sent to the State Government for approval in January 2007 after a delay of about three years. Due to this delay, 9.86 lakh MT of low grade chrome ore could not be beneficiated, which could have been converted into 4.44 lakh MT of chrome concentrate generating net revenue of Rs. 555.81 crore apart from earning export duty of Rs. 90.55 crore to the Government exchequer at price level of March 2008.

Huge quantity of low grade chrome ore at S. Kaliapani

Government while accepting the delay stated (September 2008) that the tendering process had already been initiated for installation of COBP.

Non-disposal of chrome ore of closed mines

2.1.24 In Kathpal, Birasal and Kalarangi though the mines were closed during 2002, 1993 and 1998 respectively, 6,660 MT of high grade chrome ore (valued at Rs. 7.16 crore) and 25,432 MT of low grade chrome ore, respectively was lying undisposed (March 2008) for the last 5 to 14 years. Had the low grade chrome ore been beneficiated, it would have fetched 11,444 MT of chrome concentrate valued at Rs. 14.33 crore. Further, in Boula, Bangur and Sukrangi chromite mines, 20,161 MT of chrome ore valued at Rs. 12 crore was lying undisposed since 1998.

Inaction of the Company to process/sell 52,253 MT of chrome ore may result in pilferage and theft.

Government stated (September 2008) that action had been initiated for disposal of ores.

Non-disposal of manganese ore

2.1.25 In Serenda-Bhadrasahi, SGBK and Dubuna Manganese Mines 8,485 MT of different grades of manganese ore valued at Rs. 12.59 crore was lying undisposed (March 2008) for more than five years.

The mines are closed due to restrictions imposed by the forest and mining officials of the State Government. The temporary work permission also expired in case of SGBK mines. Since the demand for manganese ore had increased remarkably, the Company should have taken steps to dispose of the stock for earning revenue of Rs. 12.59 crore.

Government stated (September 2008) that action was being taken for obtaining statutory clearance for disposal of ore.

Shortages of minerals at mines and railway siding

2.1.26 The stock of iron and manganese ore in different mines and railway sidings were physically verified by the Company as on 31 March of every year. The shortages noticed in physical verification of ore as on 31 March 2007 are indicated in **Annexure 12**.

The Management did not analyse the reasons for shortage of iron and manganese ore valued at Rs. 9.39 crore.

No investigation was made by the Company to ascertain the circumstances leading to shortage of iron and manganese ore of 80,039 MT valued at Rs. 9.39 crore. Although the Company as well as the State Government lost revenue on the shortage quantity, efforts were not made to analyse/investigate reasons for the losses and fix responsibility on the erring officials.

Government stated (September 2008) that due to volumetric measurement of ores in physical verification there may be some differences. The actual figure would be known after sale only and in case of abnormal shortage reasons would be investigated. The fact, however, remains that there was shortage as per physical verification report and book balance which needs investigation.

Excess consumption of explosives

2.1.27 As per Clause 5.01 of the Efficiency Manual of OMC, each mine was required to maintain data for the number of holes made and consumption of drill rods, drilling material and explosives as well as production achieved during the month. For all these inputs, yardstick was to be fixed by a committee formed by the Company in the region for each mine separately. A monthly statement on all the items used vis-à-vis the yardstick was to be submitted by the Mine Manager and Senior Manager (Geology) to the General Manager (Production).

Audit scrutiny of records of Daitari and J.K. Road region revealed the following:

- No committee was formed to fix yardsticks for consumption of explosives in those regions.

- The production of iron ore in Daitari ranged from 3.35 to 5.57 MT per Kg consumption of explosives in departmental mines whereas in case of the mines managed by the contractors, the production ranged from 6.72 to 28.45 MT per Kg consumption of explosives during 2004-07.

- The production of chrome ore departmentally in J.K. Road region ranged from 0.93 to 5.19 MT per Kg consumption of explosives whereas in case of production by the contractor it ranged from 5.39 to 9.71 MT per Kg consumption of explosives during 2003-08 (upto February 2008). The Management, however, did not analyse the reasons for such wide variance in use of explosives.

Government stated (September 2008) that since the consumption of explosives vary depending on the ore strata in the same mine also, a uniform yardstick could not be fixed for the entire area. The fact remains that the Company did not form the Committee to fix the mine-wise yardstick for consumption of explosives as per its manual.

Inventory of stores and spares

2.1.28 The Company procures stores and spares for operation, upkeep and maintenance of OHP and mining equipment.

Audit scrutiny revealed that inventories of stores and spare parts increased from Rs. 7.97 crore in 2003-04 to Rs. 12.39 crore in 2006-07 which was 51 and 105 months' consumption respectively. The purchases of stores and spares were much in excess of the actual consumption leading to heavy accumulation of inventory. As per the Purchase Manual, purchase requisition (PR) was to be created after getting it confirmed that there was no stock of the item or the quantity in stock was less than the required quantity. Scrutiny of store ledgers pertaining to Heavy Earth Moving Machinery (HEMM), Electrical Stores of Daitari Region and COBP of J.K. Road Region revealed that the Regional Offices procured 159 items of stores valued at Rs. 37.56 lakh during October 1997 to December 2007 though there was enough stock to meet the requirement.

The Company had not evolved a system of identification of damaged/surplus/ obsolete items of stores/spares for their disposal so as to reduce carrying of unnecessary stores/spares and blockage of fund. In none of the stores "ABC" analysis of inventories, entries in bin card and age-wise analysis and identification of non-moving, slow moving and obsolete items of stores had been done.

Government stated (September 2008) that accumulation of inventory was due to obsolescence, non-functioning, etc. of some machineries. It was also added that considering the long lead time for procurement, the level of stock holding was more. The reply does not explain why the Company did not take action to identify and dispose of the obsolete and unnecessary inventories for avoiding blockage of funds. Further, the level of stock holding had not been fixed to minimise the stock holding and procedure for purchase was not followed as per the Purchase Manual.

Non-moving stores and spares

2.1.29 Audit scrutiny revealed that in eight[µ] stores 7,400 items of stores and spares valued at Rs. 1.31 crore, procured from 1983 to 2004, were not used at all so far (March 2008). Further, 702 items valued at Rs. 1.59 crore procured between April 2004 and June 2007 were not used at all. The Company neither identified the above mentioned items nor was any action taken for transfer of such items for use in other regions/disposal to avoid the obsolescence of the stores.

Government stated (September 2008) that action had been initiated for identification and disposal of non-moving stores and spares.

Slow moving items of stores

2.1.30 Scrutiny of store records of four[Ψ] stores revealed that 3,126 items valued at Rs. 87.68 lakh and 10,735 litre of lubricant valued at Rs. 7.19 lakh were not issued since September 2004 to February 2008. The purchase of such items during November 2003 to March 2008 without ascertaining the actual requirement led to blockage of funds of Rs. 94.87 lakh.

Government stated (September 2008) that some equipments had already been disposed of and the related lubricants not used for the other equipments would be disposed of through e-auction, which was under process.

[µ] Central store, Barbil, Prospecting camp store, Bangur, Central store, Daitari, Regional office store, J.K. Road, COBP store, Kaliapani, Stores located at Kaliapani, South Kaliapani and Sukrangi.

[Ψ] Central Store (HEMM), Daitari, Central Store (POL), Daitari, Central (OHP), Daitari and Gandhamardan Store.

Non-disposal of scrap material

2.1.31 As per the Purchase Manual, it was the responsibility of the user department to return the scrap of replaced spares to stores. These items were to be kept in the scrap yard earmarked in the store. The store was to maintain a register indicating the quantity/number and category of scrap material to be properly monitored through System Application and Products in data processing (SAP) system.

Test check of records in Audit revealed that in OHP stores at Daitari Mines, no scrap register was maintained as required under the Purchase Manual. Further, 2,520 items of scrap material, 1,694 meters of old and damaged conveyor belt and 56 MT of Mild Steel angle and channels were shown as returned by OHP department to stores between January 2007 and February 2008. These items were, however, not taken into account and hence could not be identified and listed for disposal.

In Gandhamardan store 2,012 different kinds of scrap material were lying in the store for more than two years without any disposal. Similarly, in COBP, Kaliapani though 17 items of new spares valued at Rs. 61.12 lakh were issued between April 2007 and February 2008, the corresponding scrap material was not returned to the stores for their disposal in violation of the extant rules of the Company.

Government stated (September 2008) that some items had already been returned to store and disposed of. The remaining items would be disposed of through e-auction for which action had been initiated except those items which would be reused after repair. The reply is, however, silent about non-maintenance of scrap registers.

Cash Management

2.1.32 Cash Management involves projection and arrangement of cash inflow/outflow as per the financial needs of an organisation. Efficient cash management provides for establishing a sound system of cash and credit control, tool of decision making for investment of surplus cash and optimum utilisation of available resources at the most favourable terms besides avoiding liquidity crunch. The cash inflow of the Company comprises mainly sale of minerals and interest on investments while the cash outflow comprises mainly administrative expenses, capital/operational and maintenance works. The details of sources and utilisation of funds of the Company during 2003-08 is shown in **Annexure 13**.

The deficiencies in cash management as analysed in audit are discussed in the succeeding paragraphs.

Delay in repayment of loan

2.1.33 The Charge Chrome Division of the Company was having liabilities in excess of its assets by an amount of Rs. 41.89 crore. The division was transferred (24 September 1991) to the Government of Orissa (GoO). As per orders of GoO, Rs. 24.18 crore was converted into interest bearing unsecured loan for a period of 12 years and the balance Rs. 17.71 crore was shown as current liabilities. The loan was to be repaid in 20 equal half yearly instalments commencing from March 1994 with interest of 15 *per cent* per annum and penal interest of 1.5 *per cent* extra in case of default in repayment.

Failure to repay the loan in time resulted in avoidable expenditure of Rs. 22.44 crore towards interest.

The Company was irregular in repayment of loan though it had surplus fund every year. It paid interest of Rs. 27.28 crore during March 1992 to October 1999 whereas it did not pay the principal amount. There was no payment thereafter upto January 2004. The Company requested (during September 2000 to August 2002) the GoO for conversion of loan into interest-free loan or equity capital stating that the State Government had neither incurred any expenditure nor sustained any liability in acquisition of the charge chrome plant and had rather made a profit. The requests of the Company were not acceded to (April 2001) by the Government on the ground that this was in violation of the transfer agreement. The Company during February-July 2004 repaid the balance outstanding dues of Rs. 45.71 crore (principal: Rs. 24.18 crore, interest: Rs. 18.13 crore and penal interest: Rs. 3.40 crore). Audit observed that had the loan and interest been paid in time as per terms and conditions of sanction of loan out of cash surplus, the Company would have paid interest of Rs. 26.37 crore and interest of Rs. 22.44 crore could have been avoided.

Government accepted the audit observation and stated (September 2008) that Government of Orissa is the 100 *per cent* shareholder of the Company and thus the ultimate interest of the owner was not affected. However, since the Company is a separate entity and therefore should have been managed professionally and the burden of extra interest should have been avoided.

Loss of interest due to delay in billing and realisation

2.1.34 As per the sales policy of the Company, the buyer after receipt of the allotment order and delivery order indicating grade, quantity and period of lifting is required to deposit the full value of the ore in advance in shape of bank drafts or valid Letter of Credit (LC) at sight duly approved by the Regional Office. Before lifting of ore, the approved common analyst has to draw the sample and submit the analysis report within five days of despatch. The analysis report is required to be submitted along with the bills to the negotiating bank at the end of the week for negotiation of LC.

Scrutiny of records for 2003-08 revealed that there was delay beyond seven days in raising bills in 1,494 cases ranging from 1 to 111 days due to late submission of analysis reports. The Company did not levy any penalty on the approved common analyst during 2003-08 as per the agreements. The delay in billing and consequent delay in realisation of sale proceeds resulted in loss of interest of Rs. 29.63 lakh at the rate of five *per cent* per annum in five regions.

It was further noticed in audit that in 1,494 cases, the bills were presented to the banks for encashment with delays ranging from 3 to 96 days resulting in

Delay in raising bills towards sale proceeds and realisation thereof resulted in loss of interest of Rs. 0.63 crore.

loss of interest of Rs. 33.31 lakh calculated at the rate of five *per cent* per annum. Further, even after commencement of billing through SAP system, the billing system was not streamlined. Thus, delay in raising bills and delay in realisation of sale proceeds resulted in interest loss of Rs. 62.94 lakh.

Government while accepting (September 2008) the fact stated that most of the delays related to the pre-SAP period. In post-SAP period, the delays were mainly due to delay in submission of analysis reports by the analysts. Though the agreements with the analysts had penal clauses, due to fewer number of analysts, it was not possible to blacklist them. The reply is contrary to the fact that out of 1,494 cases of delay in raising bills, 1,064 cases related to post-SAP period. Further, non-invocation of penal provisions of the agreements amounted to extension of undue favour.

Loss of interest due to heavy retention of balance in current account

2.1.35 The Regional Offices of the Company used to deposit the sale proceeds of ore in current account in designated banks and the surplus balance after meeting all expenses were remitted to the Head office for keeping in short term deposits. As per the direction of the Management (March 2006) the maximum ceiling to be kept in the current accounts of the regions ranged from Rupees one crore to Rupees four crore. It was noticed that all the regional offices were keeping balance in excess of the ceiling in current accounts even after meeting all expenses. Had the surplus funds been remitted to Head office for investment in short term deposits, the Company could have earned interest of Rs. 1.21 crore during 2003-08 (upto February 2008).

Government stated (September 2008) that fund was retained for settlement of raising bills in the first week of the month and the delay in remittance was due to waiting for the finalisation of sales transaction and non-availability of banking facilities in some of the remote areas. The fact remains that the Company was not adhering to its own norms for cash remittance.

Loss of interest due to keeping of surplus amount in flexi account

2.1.36 The Company opted (November 2004) for automatic conversion of current account balance to flexi deposit account and reversal for 90 days investment plan. During November 2004 to March 2008, the rate of interest of flexi account ranged from 4.25 to 5.25 *per cent* per annum. For the day to day transaction, the Company required around Rs. 15 crore per day. Accordingly the Company should have chalked out an investment plan and the amount in excess of Rs. 15 crore per day should have been invested in short term deposits where the rate of interest ranged from 6 to 11.75 *per cent* per annum during April 2005 to March 2008.

Belated decision for investing the surplus fund in flexi account led to loss of interest of Rs. 2.18 crore.

Audit observed that though there was monthly surplus funds available in flexi accounts ranging from Rs. 86 lakh to Rs. 26.37 crore, the belated decision in June 2005 and September 2006 to invest the same in term deposits resulted in loss of interest of Rs. 2.18 crore. Further, the Company did not prepare the monthly cash flow statements for proper monitoring of the investment decision.

Government stated (September 2008) that higher amounts were retained in flexi account to meet minimum need towards payment of advance tax, sales tax, income tax, etc. and also in some cases cheques were issued but not presented to bank for encashment. The reply is not relevant as audit has computed the loss of interest on the basis of minimum balance left over after meeting all such expenses during these years.

Internal control and Internal audit

2.1.37 Internal control is a management tool which helps the Management to draw reasonable assurance that its objectives are being achieved in an efficient and effective manner. The internal audit of the Company is done by firms of Chartered Accountants as per the decision of the BoD (August 2003). There was no internal audit during the period January 2003 to September 2004.

Audit scrutiny revealed that the activities were carried out on the basis of annual policies, executive instructions and circulars issued from time to time without formulating manuals even after five decades of the Company's existence. The Manual of Accounting Instructions prepared in 1975 had not been updated (August 2008). The Company had not also prepared manuals relating to its core functions viz. Contract/Production Manual, Cost and Budget Manual, Marketing and Sales Manual, Internal Audit Manual, etc.

Though there were variances in the closing balances of iron and manganese ore as on 31 March 2007 as per the Administrative Reports, report of the Indian Bureau of Mines and Physical Verification Reports of Khandabandha iron ore mine, Gandhamardan iron ore mine and Serenda Bhadrasahi manganese ore mine, the Management did not reconcile the same. Further, the quantity shown against production of iron ore relating to departmental production at OHP, Daitari during the years 2005-06 to 2007-08 was different from the quantity shown by the Mining section of Daitari which was not reconciled. It was further observed that as against the permissible limit for handling loss in HSD oil at 0.25 *per cent,* the total shortage of diesel oil due to handling loss was 1.20 *per cent* during 2003-07 in Central Store, Serenda (Barbil) and Kaliapani, which was not investigated so far (March 2008).

Government stated (September 2008) that the provisions in the manuals had been incorporated into the SAP system and steps were being taken to report the production figure uniformly. The fact, however, remains that in the absence of manuals the correctness of procedures incorporated into the SAP system could not be ensured. It was also added that action had been taken for investigation into the reasons for shortages of HSD oil.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance Audit.

Conclusion

Though the Company was in existence for more than 50 years, it could explore only 63 *per cent* of the mining area leased to it by the Government. Despite being a major stake holder in the mineral resources of the State, its raising and processing activities still remained as areas of concern not only for efficient exploitation of mineral resources yielding more revenue to the State but also for maximising its own revenue. The Company registered shortfalls in value addition activities like production of calibrated lump ore and chrome concentrate thereby depriving it the opportunity of additional revenue. The contract management system of the Company in the areas of raising, crushing and allied activities was inadequate. The inventory management system of the Company suffered from drawbacks like non-disposal and shortages of ore besides increase in slow moving and non-moving store items. The cash management of the Company was ineffective to the extent that there was delay in repayment of loan despite surplus fund resulting in extra expenditure and retention of excess amount in the current accounts. The internal control system of the Company suffered from a number of weaknesses.

Recommendations

The Company may consider:

- **guarding against persistent shortfall in achievement of targets for production and processing;**
- **stopping sale of lump ores and sell only after crushing;**
- **taking expeditious steps for replacement of Ore Handling Plant and installation of new Chrome Ore Beneficiation Plant;**
- **strengthening the contract management system by strict adherence to the terms and conditions of the contracts;**
- **adopting a scientific basis for inventory management;**
- **strengthening the cash management system and being judicious in investment of surplus cash; and**
- **strengthening the internal control system.**

IDCOL Kalinga Iron Works Limited

2.2 Production and Sale of Pig Iron

Highlights

IDCOL Kalinga Iron Works Limited was incorporated in March 1999 and started commercial operation from March 2002 with the main aim of manufacturing and selling pig iron and spun pipes. The production performance during 2003-08 ranged between 45 and 67 *per cent* of the installed capacity.

(Paragraphs 2.2.1 and 2.2.9)

The Company sustained loss of Rs. 50.62 crore due to consumption of coke in excess of the norm.

(Paragraph 2.2.25)

Despite investment of Rs. 22.56 crore on capacity enhancement in modernisation scheme, the production remained far below the augmented capacity. Due to shortfall in production, the Company sustained loss of contribution of Rs. 45.75 crore during 2003-08 and also could not avail sales tax benefit of Rs. 6.51 crore.

(Paragraphs 2.2.8, 2.2.10 and 2.2.14)

The Company sustained loss of Rs. 21.68 crore during 2003-08 on account of processing loss, higher generation of scrap and lower grade output.

(Paragraphs 2.2.18 and 2.2.19)

Due to unplanned procurement of coke and uneconomical conversion of coal, the Company sustained loss of Rs. 19.55 crore.

(Paragraphs 2.2.30 to 2.2.35)

Due to excess consumption of iron ore over the norm, the Company sustained loss of Rs. 14.19 crore.

(Paragraph 2.2.21)

The Company sustained loss of Rs. 11.90 crore due to low plant load factor of the captive power plant and excess consumption of electricity over the norms.

(Paragraphs 2.2.22 and 2.2.24)

Introduction

2.2.1 Kalinga Iron Works (KIW), a former unit of Industrial Development Corporation of Orissa Limited (IDCOL), was incorporated (March 1999) as IDCOL Kalinga Iron Works Limited (Company) and was converted (March 2002) as IDCOL's wholly owned subsidiary Company. The main objectives of the Company were to produce, buy, sell, export and import iron, steel and raw materials used in iron and steel production and to carry on the business of iron and steel products and consultancy in and outside India.

At present, the Company's activities are limited to production of pig iron and spun pipe. It also carries out mining of high grade iron and manganese ores from the captive mines of its holding company mainly for sale outside the State. IDCOL/the Company undertook a capacity expansion programme between 1997 and 2003. The management of the Company is vested in a Board of Directors (BoD) comprising of 13 directors, including the Managing Director (MD) and the Chairman. As on 31 March 2008, all the Directors, except the Managing Director and Director (Works), were non-functional Directors. The day-to-day affairs of the Company are managed by the MD, assisted by Director (Works) and five Deputy General Managers. The Company also has one Zonal office at Kolkata to look after its selling activities. A review of Kalinga Iron Works was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ending 31 March 1994, Government of Orissa. The Report was discussed in September 2001 by the Committee on Public Undertakings (COPU).

Scope of audit

2.2.2 The present performance review conducted during November 2007 to March 2008 covers the modernisation programme, production and sale of pig iron during 2003-08. The audit findings are based on test check of records maintained at the Corporate Office of the Company, Corporate Office of the holding Company (IDCOL) and Zonal office of the Company at Kolkata.

Audit objectives

2.2.3 The Performance Audit was conducted with a view to assess whether:

- the modernisation programme was planned and carried out economically and efficiently to enhance the installed capacity with a view to achieve the desired production level;

- the Company had fixed the targets for production and sale of pig iron considering the installed capacity, availability of raw material and other resources, market demand of products and efficiently utilised the resources to achieve the same;

- regular maintenance was carried out as per planned schedule and forced outages were kept minimum;

- the sale prices were fixed protecting the financial interests of the Company;
- the top management regularly monitored the performance of the Company to ensure optimal utilisation of resources and continuous growth and improved financial results of the Company;
- a professional and adequate internal control system existed and was effectively implemented; and
- the Company complied with the norms for pollution control.

Audit criteria

2.2.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- installed capacity of the plant for production of pig iron, norms established by the Company for consumption of various raw materials and other inputs;
- procurement policy, standard principles of material management and budgeting;
- techno-economic viability (TEV) Report and perspective plan of Metallurgical & Engineering Consultants (India) Limited (MECON) and other reports related to modernisation schemes;
- target for sales of pig iron and granulated slag;
- approved policies for fixation of selling prices of various products, cash discounts, quantity discounts, rebates and credit policy for sale; and
- minutes of meetings of BoD, norms of the State Pollution Control Board and standards in respect of Internal Control System.

Audit methodology

2.2.5 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- examination of records relating to budgets, targets, financial performance and maintenance programme, production, conversion of coke, consumption of raw materials, coke, power and other inputs;
- examination of records involving sales, fixation of sale price agreements relating to selling of pig iron and disposing of slag/scrap;

- examination of records relating to procurement of plant and machinery, equipment, raw materials, stores and spares and purchase of power and other inputs;

- study of detailed project reports, feasibility reports, techno-economic reports, manpower study reports for modernisation and improvement of production, cost audit reports, annual accounts, agenda notes and minutes of board meetings and audit committee meetings; and

- interaction with the Management.

Financial position

2.2.6 The table below summarises the financial position of the Company for the last four years ended 31 March 2007.

(Amount: Rupees in lakh)

Particulars	2003-04	2004-05	2005-06	2006-07
A. Liabilities				
a) Paid up capital	3010.00	4510.00	4510.00	4510.00
b) Reserves and surplus	-----	-----	-----	------
c) Borrowings	9470.64	9530.77	8950.81	7902.34
d) Trade dues and other liabilities	3026.74	7071.21	5605.14	5209.45
Total	**15507.38**	**21111.98**	**19065.95**	**17621.79**
B. Assets				
a) Gross block	10456.89	10479.89	10525.96	10630.38
b) Less: Depreciation	929.42	1409.11	1887.23	2371.48
c) Net fixed assets	9527.47	9070.78	8638.73	8258.90
d) Capital work-in-progress	9.23	--	36.43	--
e) Investments	0.03	0.03	0.03	0.03
f) Current assets, loans and advances	4927.22	8984.51	6704.83	7325.40
g) Miscellaneous expenses including accumulated loss	1043.43	3056.66	3685.93	2037.46
Total	**15507.38**	**21111.98**	**19065.95**	**17621.79**
Capital Employed	**11437.18**	**10984.07**	**9774.85**	**10374.85**
Net worth	**1966.57**	**1453.34**	**824.07**	**2472.54**

Note: Management has not compiled the figures for 2007-08.

Audit findings

The findings of the Performance Audit of the Company were reported (June 2008) to the Government/Management and also discussed (4 August 2008) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) which was attended by the Commissioner-cum-Secretary, Department of Industries of the State Government, the Chairman and the MD of the Company. The views of the Management/Government have been taken into consideration while finalising the review. The audit findings are discussed in the succeeding paragraphs.

Production process

2.2.7 Iron Ore lumps, after crushing and screening into size (10 mm - 30 mm), are washed with water and fed into the scale car through which the ore is transported and fed into the Blast Furnace (BF). The screened coke is then fed as fuel into the BF. Additives like limestone, dolomite, quartzite and manganese ore are also fed into the BF. Hot air (850^0 – 900^0 C) is blown through narrow combustion type stoves into the BF. In the process the ore gets reduced into molten iron, called hot metal. Hot metal is transported to the Pig Casting Machine (PCM) by loco/ladle transfer car where around 94 *per cent* of the hot metal is poured into PCM for production of pig iron and the rest is taken to the spun pipe plant, where Cast Iron (CI) Spun Pipe is manufactured.

Unfruitful implementation of modernisation scheme for capacity augmentation

2.2.8 The Company has four BFs with useful volume of 254 cum (41 cum of BF-1 and 71 cum each of BF-2, 3 and 4) for production of 1.57 lakh MT of pig iron per annum. It has two lines of pig casting machines for conversion of hot metal into pig iron. To meet the enhanced demand for pig iron, IDCOL/ the Company increased (1997 to 2003) the total capacity of all the four BFs to 2.20 lakh MT of hot metal by enhancing the useful volume to 355[#] cum at a cost of Rs. 22.56 crore up to December 2003. The Company, however, could not operate the BFs on a sustained basis. Hence, the Company appointed (December 2003) MECON as a consultant for examining the problems. MECON submitted (February 2004) a Techno-Economic Viability (TEV) report, which stated that non-achievement of the installed capacity by the Company was due to inadequate infrastructure facility, old technology and ageing of equipment.

MECON estimated an expenditure of Rs. 31 crore for balancing the infrastructure for optimum utilisation and maintaining the health of the plant. The Company, after a lapse of three years, decided (January 2007) to implement the recommendations of TEV report and formed a Directors-level Task Force Committee (TFC) to examine and suggest requirement of capital expenditure. The TFC recommended (February 2007) an estimated capital expenditure of Rs. 23.50 crore. The TEV report was approved (April 2007) by the BoD of IDCOL and by the State Government in July 2007. The project was under implementation and actual expenditure incurred was Rs. 2.34 crore upto March 2008.

Audit scrutiny revealed the following:

Mismatch in capacity augmentation with infrastructure rendered idling of one blast furnace valued at Rs. 15 crore.

- Due to delay in taking remedial action to balance the production capacity with matching infrastructure like provision of additional PCM, stoves, etc. the Company could not operate four BFs on sustained basis and thus one BF valued at Rs. 15 crore was kept idle.

[#] BF-1 to 100 cum and BF-2, 3 and 4 to 85 cum each.

The pig iron production remained at the level of 0.99 lakh MT to 1.47 lakh MT as existed prior to capacity enhancement as discussed vide Paragraph 2.2.9.

- In terms of the Industrial Policy Resolution, 1996 of Government of Orissa, the benefit of exemption of sales tax was admissible upto 100 *per cent* of additional capital investment in plant and machineries for six years in respect of incremental sales per annum over the highest sales registered in previous five years. Since the Company spent Rs. 21.13 crore upto 4 October 1999 on modernisation of BF-1 for augmentation of its capacity from 30,000 to 72,000 MT per annum, it could have availed sales tax exemption of Rs. 8.69 crore during 5 October 1999 to 4 October 2005. Due to marginal increase in sales over the highest sale of Rs. 83.97 crore (1996-97) in the last five years, during 2001-02, 2003-04 and 2004-05, the Company could avail sales tax benefit of Rs. 2.18 crore only resulting in lapse of balance amount of Rs. 6.51 crore.

Due to shortfall in production there was non-availment of sales tax benefit of Rs. 6.51 crore.

- Delayed implementation of the TEV report to install balancing equipments resulted in (i) under utilisation of installed capacity (paragraph 2.2.10), (ii) lower productivity of the plant (paragraph 2.2.14), (iii) generation of low grade pig iron and scrap in excess of the approved norms (paragraph 2.2.18) and (iv) production of pig iron at higher cost due to higher rate of coke consumption and other inputs (paragraphs 2.2.24 and 2.2.25).

Government accepted (September 2008) the fact that four BFs could not be operated due to absence of related infrastructure and after increase in the useful volume of BFs, the pouring capacity was not increased to match with increased productivity. It was added that action was being taken to procure one new PCM as per the suggestion of MECON. Further, it was stated that during the period of benefit there was low production due to various reasons for which IPR benefit could not be availed.

Production performance

2.2.9 The production of hot metal during 2003-08 compared to installed capacity after modernisation of blast furnaces vis-à-vis the budgeted targets are indicated below:

Year	Installed capacity (lakh MT)	Budgeted capacity (lakh MT)	Produ-ction (lakh MT)	Achievement (*per cent*) as to		Shortfall in production with reference to installed capacity (lakh MT)
				Installed capacity	Budgeted capacity	
2003-04	2.20	1.59	1.40	64	88	0.80
2004-05	2.20	0.59	0.99	45	168	1.21
2005-06	2.20	1.62	1.27	58	78	0.93
2006-07	2.20	1.45	1.47	67	101	0.73
2007-08	2.20	1.75	1.46	66	83	0.74
Total	**11.00**	**7.00**	**6.59**			**4.41**

It would be seen from the table that during 2003-08, the hot metal production ranged between 45 and 67 *per cent* of the installed capacity and 78 and 168 *per cent* of budgeted production.

Budgeted production was fixed on the basis of anticipated number of days of operation of BFs and was below the installed capacity as BFs were kept idle. The lower production of hot metal was attributable to poor utilisation of BFs and lower productivity of the plants as discussed in paragraphs 2.2.10 and 2.2.14.

Government stated (September 2008) that due to severe market recession during 2003-06 and due to want of matching infrastructure and required man power it was not economical to operate four furnaces. The reply is not acceptable since though the Company could sell 99 *per cent* of the produced quantities with higher contribution during 2003-06, production could not be enhanced as related infrastructure was not envisaged at the time of capacity enhancement of BFs.

Low production due to poor utilisation of BFs

2.2.10 As against availability of 1.68 lakh hours during 2003-08, four BFs were actually operated only for 1.20 lakh hours (71.55 *per cent*). As a result, the Company incurred loss of contribution of Rs. 35.84 crore as detailed below:

Year	Available Hours[β]	Working Hours	Production (MT)	Production per hour (MT)	Loss of production hours	Loss of Production (MT)	Contribution per MT (Rs.)	Amount (Rs. in crore)
2003-04	33600	24330	140130	5.76	9270	53395	2510	13.40
2004-05	33600	20134	99215	4.93	13466	66387	50	0.33
2005-06	33600	23381	126710	5.42	10219	55387	860	4.76
2006-07	33600	25646	147457	5.75	7954	45735	2448	11.20
2007-08	33600	26727	146422	5.48	6873	37664	1632	6.15
Total	**168000**	**120218**	**659934**		**47782**	**258568**		**35.84**

Failure to utilise blast furnaces in the available hours resulted in loss of contribution of Rs. 35.84 crore.

The main factors attributable to loss of production hours (47,782) of BFs resulting in loss of contribution of Rs. 35.84 crore were excess time taken in relining of furnaces (25,920 hours), shortage of raw materials (8,665 hours), and other technical problems (13,197 hours) which are discussed in the succeeding paragraphs.

Shutdown due to relining works

2.2.11 As per norms adopted by the Company, the relining of BFs was to be carried out within a period of 90 days in a span of five to six years. Actual relining time taken by the Company was 548 days, 348 days, 118 days[¥] and 370 days for BF-1, BF-2, BF-3 and BF-4 respectively during 2003-08.

[β] Available hours is based on 350 days in a year considering 15 days (16 days in leap year) for planned shutdown for four BFs running for 24 hours.

[¥] Total relining period was 916 days, but 118 days related to 2003-04 and the balance related to 2000-01 to 2002-03.

Due to lack of proper planning and proper monitoring, the relining of blast furnaces could not be done within the norm of 90 days.

The main reasons for such abnormal higher number of days taken for relining were lack of proper planning and poor monitoring system in the procurement of material and execution of works. In spite of the directive (September 2003) of the BoD that all the required material should be procured first and then shutdown of furnace was to be done, the same was not followed by the Company. Test check of relining activities of two furnaces (BF-1 and BF-2) revealed the following:

- The BoD approved (December 2005) shutdown of BF-1, but the furnace was actually shutdown on 6 March 2006 without procurement of refractories and other required material. Order for supply was placed on Simplex Engineering and Foundry Work Limited on 8 June 2006 with scheduled delivery period of six to eight months. Thus, the entire relining work was completed on 5 September 2007 i.e. after 548 days (13,152 hours) as against the scheduled period of 90 days due to improper planning, monitoring and delayed procurement of material.

- Similarly, BF-2 was shutdown on 2 November 2003 for capital repair/relining and increase of stack height without first indenting the required material. Due to delay of 50 days in procurement of refractory bricks, the furnace relining work was completed only on 20 February 2004 against the scheduled date of 1 January 2004. The operation of furnace was, however, started only on 15 October 2004. The reason for keeping the furnace idle for eight months after repair was not on record.

Government stated (September 2008) that BF-1 was chilled and there was build up inside it for which it was difficult to clean the jam. Further, modification of stoves was carried out during that period and there was delay in receipt of top equipment from the supplier. The fact remains that cleaning of jam is a part of relining work and modification work of stove was not planned before shutdown. Besides, advance planning was not made for procurement of material before carrying out the relining work.

Shutdown for shortage of raw material

Due to shortage of coke, the BFs remained idle for 8,665 hours.

2.2.12 The plant remained shutdown for shortage of raw material, for 8,665 hours during 2003-08. Against monthly consumption of 9,000 MT of coke, the monthly stock holding ranged between 983 MT and 9,860 MT during 2003-08. The Company did not fix the minimum, maximum and re-ordering level of stock holding for coke despite this being the main raw material. The Company also did not have a long term plan for procurement of coke on a sustained basis. Coke was procured on piecemeal basis from different sources leading to mismatch between requirement and consumption resulting in shutdown of the furnaces. The details of improper planning and procurement of coke are discussed in paragraphs 2.2.30 and 2.2.31.

Government stated (September 2008) that coke price was fluctuating widely and it was difficult to keep more stock. Further, when the price of pig iron was also fluctuating it was difficult to fix minimum/maximum/reorder level of coke. However, no arrangement was made to procure coke from suppliers on regular basis to run the furnaces smoothly.

Shutdown for operational and maintenance troubles

2.2.13 The Company neither fixed any norm nor any scheduled shutdown programme for regular repair and maintenance of BFs. The maintenance works were attended to only after actual operational troubles occurred. Hence, the furnaces remained shutdown for 13,197 hours during 2003-08 for operation, maintenance and other technical problems. The impact of unscheduled shutdown is discussed in paragraph 2.2.10.

Government stated (September 2008) that the miniature low shaft type furnaces being very old, required frequent maintenance. The reply is not acceptable as no planned shutdown programme was maintained in spite of Board's decision in this regard in January 2004.

Low production due to lower productivity of the plant

Failure to achieve the envisaged productivity resulted in loss of contribution margin of Rs. 9.91 crore during 2003-08.

2.2.14 On the basis of installed capacity and available hours during 2003-08, the production per hour of BF-1 worked out to 7.07[#] MT and that of BF-2, 3 and 4 worked out to 6.01[$] MT each. The actual production per hour achieved by the Company ranged from 4.18 to 6.41 MT and 4.45 to 5.85 MT respectively for BF-1 and BF-2, 3 and 4 during 2003-08. The low productivity resulted in loss of contribution margin of Rs. 9.91 crore during 2003-08 as per details in **Annexure 14**.

Government stated (September 2008) that due to mismatch between production capacity and required infrastructure, low quality of coke, etc. productivity could not be maintained. The fact remains that required infrastructure was not envisaged along with capacity enhancement of BFs.

Inadequate BF stoves with low blast temperature

2.2.15 Efficient furnace operation depends on temperature of BFs to be maintained at 850^0 to 900^0C. Blast furnaces-2, 3 and 4 were provided with three stoves each whereas BF-1 was provided with only two stoves which were also smaller in size. Though the useful volume for BF-1 was increased from 41 to 100 cum, no action was taken under the modernisation scheme to increase the number of stoves or to augment their capacity. As a result, the required hot blast temperature could not be maintained continuously thereby affecting the production. Further, the BF-3 and 4 were catered to by a battery of six stoves and one common waste gas chimney. As there was increase in the capacity of BFs there was also necessity to enhance the capacity of the chimney to exhaust the increased volume of waste gas. The Company did not take any action despite recommendation by MECON (February 2004) for modification/addition of stove of BF-1 and modification of chimney between BF-3 and BF-4. Had action been taken to maintain the required temperature

[#] {61975 MT/(365x24)}, (Installed capacity of BF is fixed for 365 days operation in a year).
[$] {52675 MT/(365x24)} (Installed capacity of BF is fixed for 365 days operation in a year).

Non-maintenance of the required temperature of BFs resulted in loss of production by 170 MT per day.

continuously, the production could have been increased by at least 170 MT per day as analysed by the Management.

Government stated (September 2008) that action was being taken to modify the brick quality of stoves gradually to get required blast temperature.

Ageing effects of blowers

2.2.16 Oxygen enrichment is required for burning of coke at high temperature and pressure for reduction of iron ore to molten hot metal. Supply of oxygen is done by blowers, which suck air from the atmosphere and deliver the same to the blast furnaces through stoves in the required quantity and pressure. The Company had commissioned five blowers, which were very old (between 36 and 47 years) and were operated below the desired level due to frequent breakdown and less co-ordination between stove and blower operation. Audit scrutiny revealed that frequent problems in the blowers resulted in stoppage of the BFs for 427 hours during 2003-08 leading to loss of production.

Government stated (September 2008) that action had been taken to procure a new blower to match with the increased capacity.

Inadequate casting capacity

2.2.17 Hot metal produced from the BFs is transferred through ladle cars to the PCM for casting into pig iron (saleable product). The plant had two strand PCMs, commissioned in 1968 and 1985 of 40 tonne per hour (tph) rated capacity. Due to ageing, the rated capacity as well as casting speed of PCMs was decreased to 50 *per cent*. Due to inadequate casting capacity production was to be restricted. MECON recommended (February 2004) for installation of one additional PCM at an estimated cost of Rs. 1.80 crore for enhancement of production and reduction of higher generation of scrap. The work had not started (August 2008). Non-modification of the PCMs resulted in the following deficiencies:

- Tapping was delayed due to busy PCM as a result of which production was reduced;
- Delayed pouring resulted in low hot metal temperature and consequential loss of graded pig iron production;
- Spillage in the system resulted in higher scrap generation; and
- There was high maintenance cost due to the old design.

Thus, the Company could have avoided shortfall in production of hot metal as discussed in paragraph 2.2.10 and excess generation of scrap as stated in paragraphs 2.2.18 and 2.2.19 had provision been made for installation of one additional PCM at the time of modernisation of BFs itself.

Government stated (September 2008) that efforts were being made as per the recommendation of MECON to enhance the PCM capacity.

Melting loss and generation of ungraded pig iron

The melting loss and scrap generation was excess over the norm resulting in loss of Rs. 16.96 crore during 2003-08.

2.2.18 In the process of production of pig iron there is process/melting loss from hot metal to cold metal and generation of scrap/ungraded pig iron from cold metal to graded pig iron. The Company's budgetary norm is 1.5 *per cent* for melting loss and 4.5 *per cent* for scrap. The actual melting loss during 2003-08 ranged from 1.95 to 3.83 *per cent* causing excess melting loss of 10,846 MT valued at Rs. 13.97 crore. The actual scrap loss during the period ranged from 5.80 to 6.35 *per cent* causing excess generation of scrap of 6,886 MT valued at Rs. 2.99 crore being difference in price of pig iron and scrap.

Though a committee was formed in February 2004 for identifying reasons for generation of excess melting loss, no analysis had been made so far and no remedial measure was taken to arrest the same. The generation of excess scrap was due to inefficiency of PCM to handle production as delayed pouring was resulting in temperature loss leading to generation of scrap.

Government while accepting the fact stated (September 2008) that due to problems in PCM, ground pouring was done for which there was conversion loss and increase in scrap for which action was being taken to increase the efficiency of PCM and quick movement of ladles.

Generation of lower grade pig iron

Production of inferior grade of pig iron resulted in loss of Rs. 4.72 crore.

2.2.19 The BFs of the Company are designed to produce foundry grade pig iron. The normal production of pig iron (LM 2 grade) by the Company is having above two *per cent* silicon. During 2003-08, instead of LM 2 grade, the Company produced 68,365 MT of LM 3 grade and 14,717 MT of LM 4 grade pig iron having low market price, which resulted in loss of Rs. 4.72 crore. The reasons for generation of grade 3 and 4 pig iron were not available from the records.

Government stated (September 2008) that due to variation in raw material and higher moisture content there was erratic behaviour of BFs and silicon percentage was reduced. The fact remains that the Company did not take remedial action to arrest the same.

Management of inputs

2.2.20 The Company's major inputs (raw material) comprise iron ore lump, metallurgical coke and power. The procurement, consumption and inventory management of major inputs are discussed below:

Iron ore

2.2.21 For production of pig iron, the primary raw material is iron ore lumps. As per the Company's norms, 1.5 MT of iron ore lump is required for

Consumption of iron ore lump in excess of the norm by 1.39 lakh MT during 2003-08 led to excess expenditure of Rs. 14.19 crore.

production of one MT of hot metal. During 2003-08 the Company consumed 11.29 lakh MT of iron ore as against the required quantity of 9.90 lakh MT. The excess consumption of iron ore was 1.39 lakh MT being 14.04 *per cent* of the required quantity. This has resulted in extra expenditure of Rs. 14.19 crore during 2003-08.

The main reasons for excess consumption of iron ore lump was higher percentage of fines (undersize lump) in the iron ore lump. As per requirement of the plant the lump ore size was 10 to 30 mm. The Company was procuring iron ore lumps from outside parties having fines of 7 *per cent*. During 2003-08, fines in iron ore were 1.40 lakh MT being 12.40 *per cent* of iron ore consumed. The reasons for such high percentage of fines in iron ore was not analysed by the Management.

Government stated (September 2008) that iron ore received from the captive mines had larger content of under size fines and more fines were generated due to multiple handling inside the plant. The fact is that the Company used only four *per cent* of captive ore in their consumption which contained seven *per cent* of fines. Further, it neither analysed the reasons nor took remedial measures to stop excess generation of fines.

Power

Consumption, generation and shortfall

2.2.22 The Company has a captive power plant (CPP) with four units of 4 MW each. The gas generated from the blast furnaces is used as fuel in the CPP for generation of electricity. The maximum requirement of power by the Company was 7.7[#] MW for operation of four furnaces.

As against a demand of 200.07 MU, the generation from CPP was only 162.36 MU leading to excess expenditure of Rs. 6.77 crore on purchase of power.

The CPP had the capacity to generate 315.36[$] MU power even at 50 *per cent* load factor (PLF) and 90 *per cent* power factor during 2003-08. The CPP, however, generated only 162.36 MU of power during 2003-08 against a demand of 200.07 MU. As a result, the Company had to purchase 37.71 MU of power from NESCO at a higher rate (Rs. 2.35 / Rs. 3.20 per unit) compared to own cost of generation at Re. 0.96 per unit resulting in avoidable loss of Rs. 6.77 crore. Audit observed that during 2003-08 there was less generation of power from the CPP as its PLF ranged from 18 to 28 *per cent*. Further, there was increased consumption of power in the pig iron division since the per metric tonne consumption of power ranged from 237 to 278 kwh against the norm of 222 kwh. These factors contributed to purchase of power from NESCO at higher rate. The causes of low PLF and increase in consumption of power in pig iron division are discussed in the following paragraphs:

[#] 4.8 MW for four BFs, 1.7 MW for SPD, 0.9 MW for colony and 0.3 MW for CPP

[$] 4 unit x 4 MW x 0.5 capacity x 0.9 power factor x 24 hours x 1,000 (conversion factor MW to KW) x 1,825 days)

Low plant load factor of CPP

2.2.23 The main reasons for low generation of power from CPP were inadequate availability of BF gas and lower steam production from old boilers.

The BF gas available from operation of two boilers is sufficient to generate 7.7 MW of power from CPP. Against rated capacity of generating steam of 40 tph by two boilers the actual generation ranged from 16 to 17 tph due to inefficiency of boilers. Consequently, the actual power generation ranged from 2.13 to 4.80 MW during 2003-08. MECON recommended (February 2004) for health study on all the three boilers at an estimated cost of Rs. 30 lakh. The Company did not take action in this regard so far (August 2008).

Government stated (September 2008) that due to reduction of CO content in gas the maximum amount of steam that could be generated was only 16 to 17 tph which could generate 3 to 3.2 MW of power. Aging factor of boilers also contributed to lower output. However, the reduction in CO percentage was only 16 *per cent* after increase of stack height of the BFs whereas generation of power was only 18 to 28 *per cent* of rated capacity of CPP. The fact remains that the boilers were not operating to the rated capacity since action was not taken for carrying out their health study as recommended by MECON.

Increase in consumption of power

2.2.24 The Company has not fixed norms for consumption of power per MT of hot metal/pig iron despite operation of plant for more than 25 years.

Excess consumption of electricity in the pig iron division beyond the norm resulted in loss of Rs. 5.13 crore.

During 2003-08, the Company consumed 157.92 MU for production of 6,39,189 MT of pig iron. Considering average consumption of 222 kwh per MT of pig iron during 2000-03 as base consumption, the required consumption of power was 141.90 MU[@]. Thus, there was excess consumption of power which worked out to 16.02 MU valued at Rs. 5.13[¥] crore. Audit scrutiny revealed that the decision of BoD in January 2004 to install meters for energy monitoring in high consuming areas like PCM, work shop and conveyors and replacement of less efficient motors was not carried out. Further, the recommendation (June 2006) of Energy Audit Team for installation of one variable speed drive equipment at a cost of Rs. 1.73 crore with pay back period of six years to save one lakh unit of energy every month was not implemented (August 2008).

Government stated (September 2008) that action was being taken for phase-wise replacement of less efficient motors and installation of variable speed drive equipment could not be finalised as it required investment of Rs. 2 crore. However, the Company would recover the investment within six years.

[@] Production 6,39,189 MT X 222 kwh per MT = 14,18,99,958 (say 141.90 MU).
[¥] 157.92 MU – 141.90 MU = 16.02 MU X Rs.3.20 per kwh =Rs.5.13 crore.

Coke

Excess consumption of coke over norm

The Company incurred loss of Rs. 50.62 crore due to consumption of coke in excess of norms by 49,371 MT during 2003-08.

2.2.25 Coke is used in the blast furnace as a raw material. It constitutes about 70 *per cent* of the cost of production of pig iron. As per technical parameter for consumption of coke by BF, 750 kg coke is required for production of one tonne of hot metal. During 2003-08, the Company consumed 5,44,321 MT of coke for production of 6,59,934 MT of hot metal resulting in excess consumption of 49,371 MT of coke valued at Rs. 50.62 crore. The excess consumption during 2003-08 was 6 to 16 *per cent* of the total consumption.

The higher rate of coke consumption was attributable to unfavourable condition of furnace, use of HAM (High Ash Metallurgical) coke in place of LAM (Low Ash Metallurgical) coke, not using sinter[#] in place of coke, as suggested by MECON in September 2004, frequent breakdown/forced shutdown of BFs, etc. as discussed in the succeeding paragraphs.

Government stated (September 2008) that higher coke consumption in 2003-05 was due to high moisture content in the coke. The reply is not acceptable as there was excess consumption of coke during 2003-08 which was calculated in audit after excluding moisture content.

Unfavourable condition of furnace

2.2.26 To ensure efficient furnace operation, the required flow rate and temperature of blast air must be maintained. MECON, in their TEV report (February 2004), suggested for a new stove to raise BF temperature by 150^0C but no action was taken (August 2008). The shortfall of required temperature of the BF is met through excess consumption of coke.

Government stated (September 2008) that order was being placed for procurement of a new stove.

Use of HAM coke in place of LAM coke

2.2.27 Use of HAM coke increases the consumption and adversely affects the health of BF. The Company used only 35.38 and 37.41 *per cent* of LAM coke in the years 2003-04 and 2004-05 respectively and coke consumption rate was higher as discussed in paragraph 2.2.25. From January 2005 procurement of LAM coke was started from Metal and Mineral Trading Corporation Limited (MMTC) and thereafter use of LAM coke in the furnace increased to 86.57 and 81.54 *per cent* in the years 2005-06 and 2006-07 respectively by which the coke consumption was reduced. No techno-economic study was, however, carried out for optimal use of HAM coke in the context of its suitability in the furnaces. Further, MECON in their perspective plan submitted in August 2004 recommended for use of sinter as a substitute for coke up to 80 *per cent* by which the norm of coke consumption would be reduced to 640 kg per tonne of hot metal. During 2003-08 the Company used only 20 to 25 MT of

[#] Sinter is made out of mixture of iron ore and coke fines.

briquette/sinter per day in the furnace which was only six *per cent*. The proposal to increase the use of sinter by upgrading the plant capacity was yet to be implemented (August 2008).

Government stated (September 2008) that more HAM coke was used in the furnace due to non availability as well as higher price of LAM coke in the market and action was being taken to have a sinter unit. The fact remains that the LAM coke was available in the market from the suppliers viz. Durgapur Project limited (DPL), Neelachal Ispat Nigam Limited (NINL) and MMTC. Though an MOU was signed with MMTC in November 2003 to procure LAM coke as well as imported coal (for conversion into coke), the Company did not procure coke/coal as per MOU.

Frequent shutdown of furnaces

2.2.28 Due to frequent breakdown, the furnaces consume more coke for generation of heat during the startup period. During 2003-08 furnaces were shutdown for a total period of 55,174 hours. The BoD recommended (January 2004) that the reasons for shutdown be identified and proper planning be made in such a way that breakdown from May 2004 except planned shutdown should be within the norms of 15 days in a year. The Company, however, did not take remedial measures so far (August 2008).

Government stated (September 2008) that BFs were shutdown for want of matching infrastructure, shortage of raw material and operation and maintenance trouble. Audit, however, observed that the Company did not envisage the installation of infrastructure at the time of capacity enhancement and did not follow definite procurement policy for availability of raw material and no remedial action was taken to arrest forced shutdown.

Procurement of coke

2.2.29 The Company's BFs require LAM coke for production of pig iron. It was meeting coke requirement mainly through imports and partly through conversion of coal into coke in the joint venture coke oven plant of Utkal Moulders Limited (UML). During the year 2003-08 the Company procured 6,75,630 MT of coke at a cost of Rs. 694.67 crore. The Company, however, has not evolved any long term planning for procurement based on realistic assessment. The Company sustained loss of Rs. 10.49 crore due to improper planning and not following commercial prudence in the procurement as discussed below.

Unplanned procurement of coke

2.2.30 The Company requested (December 2006) MMTC to import 30,000 MT of LAM coke. MMTC offered (February 2007) to supply 15,000 MT of Chinese origin coke at CIF price of US$ 219 per MT by 15 March 2007 and 30,000 MT at US$ 211 per MT in April 2007. MMTC also indicated (February 2007) that coke price and freight rate was increasing in the international market. With subsequent time extension the Company accepted (23 February 2007) the offer to procure only 15,000 MT of coke.

Unplanned procurement of coke despite aware of increase in market price resulted in additional expenditure of Rs. 7.35 crore.

The Company again requested (10 April 2007) MMTC to procure 30,000 MT of LAM coke for consumption during May 2007 onwards. In the meantime, the coke price in the international market had gone up and MMTC agreed (30 April 2007) to arrange the coke at US$ 273.25 per MT. The Company purchased (May 2007) 32,519 MT from MMTC and incurred an additional expenditure of Rs. 7.35 crore* compared to the earlier offer due to unplanned procurement.

Government stated (September 2008) that procurement of 30,000 MT was not considered as sulphur content in the offered coke was 0.65 *per cent* against the requirement of maximum 0.60 *per cent*. The contention of the Company is not acceptable as it was procuring coke from MMTC with specification of sulphur content of more than 0.65 *per cent* and from other sources without any specification. Moreover, physico-chemical characteristic of raw material envisaged for the BF does not stipulate any norm for sulphur content in coke.

Procurement of coke on piecemeal basis

Purchase of coke on piecemeal basis resulted in extra expenditure of Rs. 3.14 crore.

2.2.31 The Company proposed (24 March 2006) for procurement of 30,000 MT of imported LAM coke against offer (22 March 2006) of MMTC of 15,000 MT of LAM coke at US$ 152 (Rs. 7045) PMT and 30,000 MT of LAM coke at US$ 150 (Rs. 6950) PMT. The CMD/IDCOL approved (25 March 2006) for purchase of 15,000 MT only at US$ 152 and asked to resort to an alternative long term arrangement with NINL. MMTC supplied (June 2006) 14,524 MT of LAM coke of Rs. 10.22 crore (Rs. 7,038 per MT). The Company procured the balance requirement of 15,614 MT of LAM coke from the local market on piecemeal basis during June-September 2006 at higher price ranging from Rs. 1,563 to Rs. 2,048 per MT. Had the Company procured 30,000 MT of coke from MMTC in June 2006 it could have avoided extra expenditure of Rs. 3.14 crore.

Government stated (September 2008) that procurement of 30,000 MT of coke from MMTC was not considered with the assumption that NINL coke would be available at Rs. 8,250 PMT, selling price of pig iron was not encouraging and the Company was making loss. The reply is not acceptable since the Company was aware of higher price of NINL coke than that of MMTC. Further, in view of contribution of Rs. 860 PMT during 2005-06, the contention of the Company that selling price of pig iron was not encouraging is not correct.

Unfruitful joint venture on coke oven plant

Joint Venture with UML

2.2.32 A Memorandum of Understanding (MOU) was signed (August 1992) by the Company with UML for setting up of a captive Coke Oven Plant (COP) in a joint venture on 23.49 acres of land belonging to the Company and subleased to UML. The COP started functioning (December 1999) and the coke produced was supplied to the Company, which was stopped (August

* {(30,000 X (US$ 273.25 minus US$ 211) X Rs.39.3525 exchange value}

2002) due to a dispute over quantity and quality of coke received from UML. The matter is subjudice (August 2008); the High Court of Orissa directed (August 2003) that pending settlement of the case, the COP should be put into operation.

The Company incurred loss of Rs. 1.56 crore due to uneconomical conversion of HAM coke during April to July 2005.

The COP restored production from March 2005 and the procurement of HAM coke by the Company was resumed from April 2005. The decision to procure converted coke from COP was taken by the Company on the ground that it would be economical. The Company also procured HAM coke from other suppliers upto July 2005 and subsequently procured HAM coke from COP only. A comparison of cost of HAM coke procured from COP and other suppliers during April to July 2005 revealed that considering the cost, moisture content and fines in the converted coke of UML, the landed cost of UML coke was higher than the cost of coke purchased from the market by Rs. 1,480 to Rs. 1,776 per MT. Thus, the Company incurred loss of Rs. 1.56 crore due to uneconomical conversion of HAM coke in JV plant during April to July 2005. Despite costlier HAM coke of COP, the Company continuously procured 1,10,904 MT of HAM coke from COP during August 2005 to March 2008 at a total cost of Rs. 95.03 crore.

Government stated (September 2008) that as per the contract, moisture beyond seven *per cent* was to be computed to tonnage and was to be deducted from the receipt weight and generation of fines was due to internal handling, which may not be compared with purchased coke. It was further stated that quality of HAM coke purchased earlier contained high ash to the extent of 31 *per cent* compared to 27.49 *per cent* in the converted coke, which adversely affected furnace operation. The reply is not acceptable as no deduction was made for the moisture content in the coke supplied by UML while taking coke into stock. The fines were received from the conversion agent and no chemical analysis was done by third party on the coke supplied. Further, though coke supplied by other parties was with ash percentage of 28.28 to 29.83, payment was released restricting ash content to 27 *per cent* as per terms of purchase order. However, in case of UML, though the ash content was 26.94 to 33.77 *per cent,* there was no provision towards reduction of high ash content. In the subsequent period from July 2005 onwards the Company received coke from UML with ash content upto 27.48 to 38.95 *per cent.*

Loss due to higher ash and lower fixed carbon

Receipt of coke having higher ash content than envisaged in the agreement resulted in loss of Rs. 2.21 crore during 2005-08.

2.2.33 As per terms of work order with UML in March 2005, UML was to supply the converted coke with ash content as per actual in consideration of the input percentage of ash and volatile material in the coal supplied by the Company. But the coke received from UML contained higher ash percentage ranging from 2 to 3 than the terms of agreement as a result of which the Company had to incur loss of Rs. 2.21 crore on purchase of 1,21,240 MT of coke during 2005-08.

Government stated (September 2008) that required coal was not provided as per work order for which there was deviation in the coke produced by UML. The reply is not acceptable as loss has been computed on the basis of conversion norm adopted in the agreement on the quality of coal actually supplied and coke received.

Excess generation of fines in coke from joint venture coke oven plant

The Company incurred loss of Rs. 2.14 crore due to generation of excess fines over the norm.

2.2.34 The requirement of coke size of the plant was of 25 to 50 mm. The work order on UML for conversion, however, did not define the size of the coke to be supplied. The plant level committee of the Company decided (December 2004) for acceptance of five *per cent* undersize coke from UML. As per the terms of the work orders, the converted coke was to be analysed by a third party for payment of bills. During April 2005 to 7 May 2006, size analysis was not made for coke supplied by UML. From the subsequent size analysis made against 68,486 MT of coke supplied by UML during 8 May 2006 to 7 February 2008, it was evident that there was generation of 3,082 MT of fines in excess of norms resulting in loss of Rs. 2.14 crore.

Government stated (September 2008) that due to breaking of oversize coke by the Company, the fines proportion was increased. The reply is not acceptable as the under size coke (fines) pointed out in audit was taken from the test reports attached with supply bills.

Supply of oversized coke

Receipt of oversized coke than stipulated in the agreement resulted in loss of Rs. 3.15 crore.

2.2.35 As per agreement with the joint venture partner, UML was required to supply coke with size up to 150 mm. UML supplied 34,135 MT of oversized coke above 150 mm out of total supply of 68,486 MT during 8 May 2006 to 7 February 2008 violating the provisions of the agreement. As a result, the Company had to incur extra expenditure of Rs. 0.39 crore to bring the oversized coke to the required size. Further, 4,044 MT of fines were generated during breaking of oversize material which were sold at a nominal price ranging from Rs. 111 to Rs. 230 per MT and in the process the Company sustained loss of Rs. 2.76 crore.

Government stated (September 2008) that though coke upto 150 mm size was not required by the Company the same was fixed assuming that the coke oven plant would produce upto that size. The fact is that the receipt of coke as per terms of the agreement was not ensured.

Marketing of pig iron

2.2.36 Pig iron produced by the Company has high demand in the market. The Company produced 6.04 lakh MT of graded pig iron during 2003-08 and sold 5.94 lakh MT and the sale ranged from 96 to 100 *per cent* of the production during 2003-08.

Sales performance

2.2.37 The budgeted production and sales to the actual sales are detailed below:

Year	Production of cold metal		Budgeted sales	Actual sales	Achievement with respect to budget
	Budgeted	Actual			
	Million tonne				(*per cent*)
2003-04	1.57	1.35	1.57	1.34	85
2004-05	0.58	0.96	0.58	0.97	167
2005-06	1.60	1.23	1.60	1.20	75
2006-07	1.43	1.42	1.43	1.42	99
2007-08	1.72	1.44	1.72	1.38	80
Total	**6.90**	**6.40**	**6.90**	**6.31**	

It would be seen from the above that except in the year 2004-05 the Company could not achieve the budgeted targets. Sales in the year 2004-05 was achieved as production was more than the budget. Non-achievement of sales target was due to non-achievement of production target.

Price fixation

Sale of pig iron below the market price/ tender price resulted in loss of Rs. 4.38 crore.

2.2.38 The sale activities cover ex-work sale from the plant to northern region as well as inside the state. Besides this, the Company sells pig iron from the stockyard at Kolkata through stock transfer. The price of pig iron for ex-plant sale is fixed through limited tender. For the stockyard at Kolkata, the stocks are being transferred at a provisional price. Actual sales at Kolkata stockyard are made through negotiation. The sales price is finalised by a committee and approved by MD. Individual transactions were reviewed during the course of audit wherein it was observed that the Company had sold 29,987 MT of pig iron below market/tender price resulting in loss of Rs. 4.38 crore as detailed in **Annexure 15**.

Audit observed the following:

- In northern region, 4,685 MT of pig iron was sold on ex-works basis at a lower rate than the prevailing price in Kolkata.

- From Kolkata stockyard 9,828 MT of pig iron was sold on negotiation basis at a price lower than ex-works sale price of northern region.

- Without obtaining full advance, 9,241 MT of pig iron was sold to customers on ex-work basis. The customers booked material by paying token advance. On the date of dispatch, however, there was increase in price and the increased price was not applied to them.

- At negotiated rate, 6,233 MT of pig iron was sold on ex-work basis which was lower than the tender rate.

Government stated (September 2008) that as per the recent pricing policy the price ruling on the date of dispatch is applicable and recently they had introduced tendering system in Kolkata. It was further stated that pricing decision was taken on the basis of landed cost of pig iron. The fact remains that the financial interests were not safeguarded during sale of the above mentioned material. Further, though the landed cost to customers in northern region was more than that in Kolkata still the ex-work realisation to the Company was more from the sales in the northern region.

Payment of demurrage charges

The Company failed to collect demurrage charges of Rs. 1.20 crore from the contractor as per terms of the agreement.

2.2.39 Rakes are indented from Railway authorities for sale of pig iron and placed on the sidings for loading. The Company was required to pay demurrage charges for delay in loading wagons beyond free time of nine hours allowed by the railways. During 2003-08, the Company paid Rs. 1.20 crore towards demurrage charges to Railway authorities due to delay in loading of pig iron in rakes. As per the terms of agreement, the contractor[Ψ] had to deploy sufficient number of labourers to complete the loading within permissible time. The demurrage amount paid to Railway authorities for delay, if any, was to be recovered from the contractor. The delay in loading was attributable to insufficient deployment of manpower by the contractor. No recovery was made from the contractor for the delay.

Government stated (September 2008) that the existing labourers engaged for loading belong to recognised unions and the contractor could not change them and their working hours. Hence, the demurrage charges due to delay in loading, was borne by the Company. However, the Company should have acted as per terms of the agreement with the contractor.

Additional sales tax liability due to non-collection of requisite form

Non-collection of Form-C and Form-12 from the buyers resulted in avoidable burden of Rs. 1.95 crore towards sales tax liability during 2003-06.

2.2.40 As per Section 8 of Central Sales Tax Act (CST), 1956, the seller must collect declaration under Form-C for effecting sales to outside state on concessional tax basis. Similarly for exempted sale/concessional sale within West Bengal the seller has to collect Form-12. Though the Company made sales during 2003-06 amounting to Rs. 26.84 crore in the plant on concessional tax basis, it did not collect the Form-C from the customers as required under the provisions of the CST. As per the assessment order (December 2007 and July 2008) the Company had to bear sales tax liability of Rs. 1.60 crore. Similarly, the Company made sales of Rs. 6.90 crore on sales tax exemption basis and sales of Rs. 7.22 crore on concessional tax basis to customers of the stockyard at Kolkata during the year 2004-05 without collection of Form-12 and had to bear tax liability of Rs. 34.91 lakh.

Government stated (September 2008) that Form-12 in respect of stockyard sales had been collected and would be produced to the Sales Tax authority. The reply was, however, silent about collection of the Form-C in respect of sales inside Orissa. The fact remains that the Company has not devised a system to collect required forms at the time of sale.

[Ψ] Mahima Enterprises, Keonjhar.

Payment of loading charges on the sale of pig iron from plant

Due to non-recovery of loading charges in the sale of pig iron the Company sustained loss of Rs. 1.50 crore.

2.2.41 During 2003-08 (upto February 2008) the Company sold 5.33 lakh MT of pig iron on ex-works/ex-factory basis and incurred Rs. 1.50 crore towards loading of pig iron into rakes/trucks through its contractor. The above amount should have been recovered from the parties as loading activities do not form a part of ex-works sale.

Government stated (September 2008) that in ex-plant price, loading of material into trucks/wagons was to the accounts of the seller. The reply is not tenable since ex-plant price as per commercial practices followed by commercial organisations does not include loading cost and no mention was made in the sale order/tender that the seller would bear the cost.

Internal control and internal audit

Internal control

2.2.42 Internal control is a management tool to ensure that the management’s objectives are achieved in an effective and orderly manner. The following deficiencies were noticed in the internal control system:

- The Company has not prepared manuals and guidelines in respect of activities like purchase, production, storage, sales, accounting etc.
- The MD is the Chief Executive of the Company but all decision making powers lie with the Chairman. Thus, there was no delegation of power to the MD to carry out the day-to-day business of the Company.
- There was no system of identification, declaration, adjustment/ disposal of unused/obsolete/ unserviceable and non-moving items of stores and spares. As on 31 March 2008, non-moving store items worth Rs. 2.20 crore were lying undisposed.
- There was no system of maintaining stock of granulated slag generated from the plants. Considering production of 5.95 lakh MT of hot metal during 2003-08 (October 2007), production of slag should be 2.08 lakh MT as per norm of 35 *per cent*. The Company, however, sold only 1.55 lakh MT during the above period. As no physical verification had been conducted, actual availability of stock or loss on production of slag, if any, could not be verified for an estimated stock of around 53,000 MT.

While accepting the audit findings, Government stated (September 2008) that manuals for production, stores, sales etc. were not available and identification of non-moving items of stores and spares was in process. It added that it did not maintain stock position of slag due to its low value.

Internal audit

2.2.43 The Company did not have own internal audit wing. The internal audit was entrusted to a firm of Chartered Accountants from 2004-05 onwards. The scope, *inter alia*, included pre-audit of almost all transactions and preparation of compliance reports to the audit. The Company constituted (May 2005) Board Level Audit Committee, which held only seven meetings during the last four years ending 31 March 2008. Thus, the meetings of the audit committee were not held at regular intervals to review internal audit queries and their compliance.

Deficiencies in pollution control

2.2.44 Central Pollution Control Board has categorised Pig Iron Industries as high polluting type because of their high pollution potential. The major source of water pollution is the discharge of industrial wastewater due to cleaning of iron ore before feeding to the furnace. Air pollution is caused due to emission from the BF chimney. The relevant pollutants are Suspended Particulate Matters (SPM) and carbon monoxide (CO) etc. The following deficiencies in pollution control by the Company were noticed:

- The discharge of effluent did not comply with the stipulated standard. State Pollution Control Board instructed (February 2004) to install Belt Press Filter/Vacuum Filter to remove the solids from the clarifier underflow before it is discharged to the river so that effluent discharged can comply with the prescribed norms. The Company failed to take up the desiltation work of the lagoons to augment their efficacy.

- There was no cover shed for storing coke and coal besides inadequate number of water sprinkling nozzles in coal/coke handling area to suppress fugitive dust.

- No pollution control measures were adopted in the induction arc furnace to prevent fugitive emission generated from the furnace and the particulate matter emission from the stack attached to the Air Pollution Control system.

- Carbon monoxide is a poisonous gas generated in the BF and used for generation of power. Adequate number of carbon monoxide detectors along with alarms were not installed at different strategic points in the BF, boiler house and gas cleaning plant area with relay system from control room.

- Adequate measures were not taken for plantation and maintaining the green belt around the factory area.

Government while accepting the audit findings stated (September 2008) that action was being taken to clean the lagoons through tendering and for plying water containers in truck with sprinkling pipe line inside the plant and for procuring one carbon monoxide detector in addition to the existing one.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance Audit.

Conclusion

Though the Company spent Rs. 22.56 crore on modernisation scheme, the production virtually remained at the level of pre-modernisation period due to non-operation of all the BFs. The recommendation of MECON of February 2004 to enhance the production capacity at the cost of Rs. 31 crore was not implemented by the Company which resulted in low capacity utilisation, excess consumption of coke and electricity, besides generation of low graded pig iron. The Company also did not adhere to the recommendation of the BoD for taking up relining work, which resulted in shut down of the plant for 25,920 hours during the five years ending 2007-08. There was avoidable expenditure on unplanned procurement of coke. Absence of marketing strategy and sale below market price also added to the loss of the Company. There were deficiencies in the internal control system and pollution control measures also.

Recommendations

The Company should consider:

- **Implementing the proposal submitted by MECON for restoration of health of the plant to augment the production capacity to the optimum level.**
- **Relining of BFs on time with proper planning.**
- **Formulating a sales policy.**
- **Strengthening the internal control system.**
- **Adhering to the pollution control norms strictly.**

Industrial Promotion and Investment Corporation of Orissa Limited

2.3 Recovery of loans

Highlights

Targets fixed by the Company for recovery of loans were very low and ranged between 9.60 and 16.83 *per cent* of net demand; despite this the Company failed to achieve the same, as total recovery to net demand was from 7.46 to 13.51 *per cent* during 2003-07.

(Paragraph 2.3.8)

Non-performing assets, which were 70.08 *per cent* (Rs. 69.31 crore) in 2003-04 further increased to 78.25 *per cent* (Rs. 55.75 crore) in 2006-07 despite Board of Directors' decision to reduce them to 50 *per cent* by 31 March 2006.

(Paragraph 2.3.9)

Inadequate monitoring of defaulting borrowers resulted in non-recovery of overdues of Rs. 51.96 crore from 32 defaulting units.

(Paragraph 2.3.11)

One Time Settlement schemes finalised by the Company were neither consistent with the RBI guidelines nor in the best interest of the Company which resulted in settlement of dues, foregoing Rs. 18.75 crore in 23 cases.

(Paragraph 2.3.14)

The Company failed to take timely action for seizure and disposal under Section 29 of the SFCs Act as a result of which dues amounting to Rs. 143.39 crore relating to 106 units remained unrealised.

(Paragraph 2.3.20)

The Company failed to file suits under Section 31 of the SFCs Act for realisation of shortfall amount of Rs. 49.59 crore which arose due to seizure and sale of assets from 54 units under Section 29 of the SFCs Act.

(Paragraph 2.3.21)

There were deficiencies in the monitoring mechanism and management information system.

(Paragraph 2.3.23)

Introduction

2.3.1 Industrial Promotion and Investment Corporation of Orissa Limited (Company) was incorporated (April 1973) as a wholly owned Government Company with the main objective of promoting large and medium scale industries in the State by providing financial and technical assistance for establishing new industrial units as well as expansion, diversification and modernisation of existing units. The Government of Orissa (GoO) designated (March 2005) the Company as the State Level Nodal Agency (SLNA) to render assistance and feedback in policy formulation for industrial progress as well as guide and assist entrepreneurs to set up industries in the State. The Company disbursed loans of Rs. 242.23 crore to 292 units since inception till August 2006 and there was no disbursement thereafter.

The management of the Company is vested in a Board of Directors (BoD). The Managing Director (MD) is the only functional director and the Chief Executive who is assisted by an Executive Director (ED), a Chief General Manager, four General Managers (GM) and two Deputy General Managers (DGM).

A review on the recovery performance of the Company was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000, Government of Orissa. The Committee on Public Undertakings (COPU) discussed the Audit Report in July 2008 and their recommendations are awaited (August 2008). Subsequently, a Performance Audit on the Internal Control System and Internal Audit was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2005, Government of Orissa, which is yet to be discussed (August 2008) by the COPU.

Scope of Audit

2.3.2 The present Performance review conducted during November 2007 to March 2008 covered the recovery of loans during 2003-08. Out of 218 units (outstanding amount of Rs. 202.26 crore) having unsettled accounts with the Company during 2003-08, records of 77 units (outstanding amount of Rs. 117.93 crore) were selected and examined in audit. The selection was based on the status of repayment by the loanees, magnitude of the loans and the period of default.

Audit objectives

2.3.3 The Performance Audit was conducted with a view to assess whether:

- the terms and conditions adopted for sanction of loan and its recovery were adequate to safeguard the financial interest of the Company and these were followed by the Management without any deviation;

- there existed a system of examining the credit worthiness of the loanees and to identify habitual defaulters by exchanging list of defaulters of other state financing agencies/banks for consideration before sanction of loans;

- timely and effective action had been taken for recovery of loans in adherence to the available legal framework by fixing realistic targets and monitoring its achievement; and

- schemes for One Time Settlement (OTS) of loans were implemented efficiently and effectively in a transparent manner.

Audit criteria

2.3.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- terms and conditions, guidelines/procedures for sanction and recovery of loans;

- targets for recovery of dues and achievement thereof;

- provisions in State Financial Corporations (SFCs) Act, 1951, Orissa Public Demands Recovery (OPDR) Act and general financial procedures and rules; and

- the guidelines of the Government, Reserve Bank of India (RBI) and Industrial Development Bank of India (IDBI)/Small Industries Development Bank of India (SIDBI), decisions of the Board of Directors, executive instructions, etc. towards demand, monitoring and realisation of dues and its compliance.

Audit methodology

2.3.5 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- examination of records relating to various loanees, system for fixing of targets, achievements vis-à-vis targets and periodical reports on recovery;

- examination of agenda and minutes of the Board of Directors, internal committees, loan ledgers, demand notices, policy on one time settlements, provisions, write-off, classification of loan assets, seizure and disposal of defaulting units, correspondence with the borrowers, IDBI/SIDBI, GoO and other agencies; and

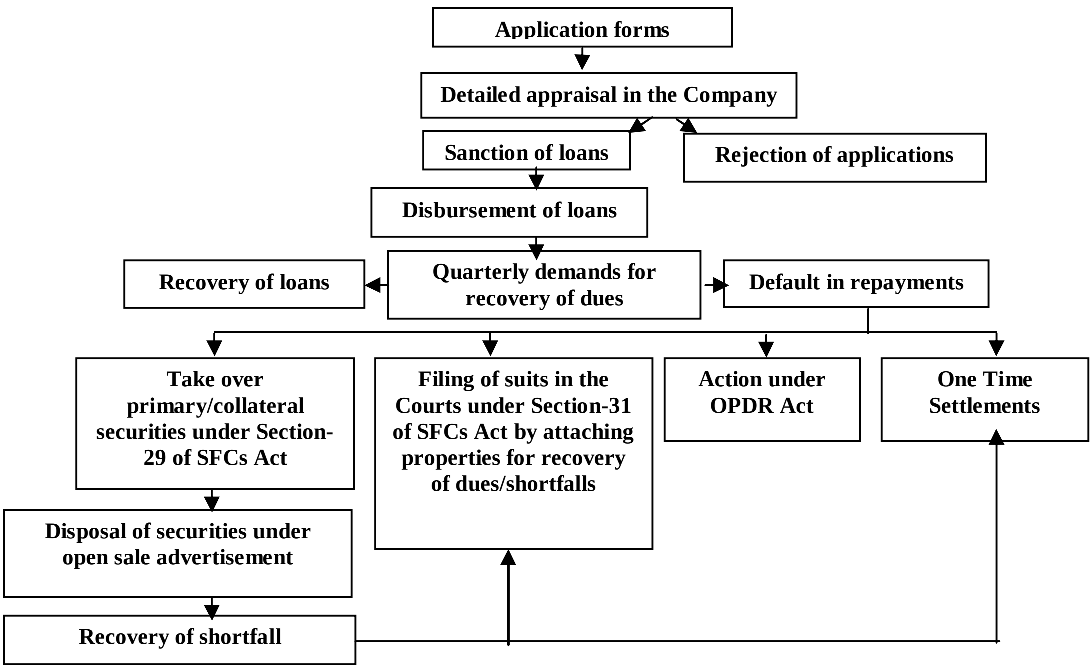
- interaction with the Management and issue of audit queries.

Audit findings

The audit findings as a result of performance audit were reported (April 2008) to the Company/Government and discussed (4 August 2008) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting was attended by the Commissioner-cum-Secretary, Department of Industries, GoO and Managing Director of the Company and their views have been taken into consideration while finalising the report. The audit findings have been discussed in the succeeding paragraphs.

Procedure for financial assistance and recovery

2.3.6 The Company sanctions loans upto Rupees five crore towards Term Loan (TL) and Rs. 60 lakh towards Short Term Loan (STL). The prospective entrepreneur seeking financial assistance is required to present a project proposal to the Business Promotion and Co-ordination Cell (BPCC) of the Company. If the project is *prima facie* acceptable to BPCC, the entrepreneur along with relevant documents appears before the Internal Advisory Committee (IAC). Thereafter, a detailed appraisal memorandum covering the technical aspects, market study and financial analysis is placed before BoD, which sanctions the loan. After execution of the agreement, disbursements are made against the assets created by the promoter and valued by the Company. The TL is repayable in four to ten years including a two and a half year moratorium and STL is repayable in six months. The process of sanction, disbursement and recovery of loan is shown in the following flow chart.



The Company also allows deferred loans (DL) to the buyers, who purchase the primary/collateral securities auctioned by the Company to realise its dues. After receiving down payment, balance sale proceeds is treated as loan to the buyer payable in instalments together with interest as fixed by the Company.

Disbursement of loans

Targets vis-à-vis achievements of loan disbursement

2.3.7 The Company stopped sanction of loans from 2006-07. The disbursement of loans during 2003-07 was Rs. 22.29 crore against the target of Rs. 53.50 crore. Audit noticed deficiencies in sanction and disbursement of loans in four out of 20 cases of disbursement during 2003-07, as stated below:

- The Company disbursed (May 2004 to April 2005) Rs. 37.22 lakh to Mindslot Networks (P) Limited though refinance was not available from SIDBI and IDBI on the ground that loan to small size call centres were to be avoided in view of prevailing market scenario and competition in IT sector. Considering the collateral security of Rs. 6.45 lakh and overdue amount of Rs. 49.31 lakh including interest of Rs. 15.81 lakh as of May 2008, there is likely loss of Rs. 42.86 lakh. Government stated (September 2008) that OTS proposal was under consideration for realisation of dues. The fact remains that the loan was disbursed without availing refinance and ignoring the views of SIDBI/IDBI as a result of which the loan became overdue since February 2005.

- Though term loan of Rs. 47.50 lakh was disbursed (April 2006) to Tatwa Technologies (P) Limited (TTPL) for five years, collateral security in the form of bank guarantee (BG) for Rs. 11 lakh was obtained for one year only. The loan became unsecured due to expiry of BG in March 2007 and outstanding remained at Rs. 41.42 lakh including overdue amount of Rs. 5.56 lakh (May 2008). Government stated (September 2008) that TTPL gave an undertaking to renew/replace the BG. The fact remains that the Company neither obtained BG for five years period, nor initiated action for recovery of the loan.

- Loan of Rs. 2.50 crore was disbursed (2004-05) to Ores Ispat (P) Limited which was in default since November 2006, even after rephasement (August 2006). Prompt action for recovery was not taken which resulted in outstanding of Rs. 3.47 crore including overdue interest of Rs. 0.97 crore (May 2008). Government stated (September 2008) that when recall notice was issued in March 2008, the unit obtained a directive from High Court of Orissa not to take coercive action. The fact remains that the Company neither encashed collateral security of fixed deposits of Rs. 50 lakh, nor took prompt legal action to realise its dues which became overdue since November 2006.

- Additional loan of Rs. 92.80 lakh was disbursed (2003-05) to Magnum Fibres (P) Limited. Due to default and at the requests of the unit, rephasements were allowed in February 2004 and October 2005. Despite this, the unit was in default since February 2007. In view of the value of net fixed assets at Rs. 85.25 lakh (March 2007) as against outstanding of Rs. 141.41 lakh including overdues (Rs. 45.93 lakh) as of May 2008, there is likely loss of Rs. 56.16 lakh. Government stated (September 2008) that market value of fixed assets as per valuation in July 2007 was Rs. 514.76 lakh and thus there was adequate security. However, in spite of default and having adequate security, no recovery action was taken to realise the dues.

Deficiencies in disbursement of loans resulted in non-realisation of overdues of Rs. 1.98 crore and foregoing of Rs. 1.54 crore.

These deficiencies have led to non-realisation of dues of Rs. 5.79 crore including overdues of Rs. 1.98 crore in four cases.

Further, loan of Rs. 2.75 crore was disbursed (October 1998 to August 2000) to BDA Nicco Parks and Resorts Limited for its amusement park, against the collateral security of land in spite of knowing that it had only user rights. Hence, the Company had to accept (November 2007) the OTS proposal for Rupees three crore as offered by the unit, as against the dues of Rs. 4.54 crore after foregoing Rs. 1.54 crore. Government stated (September 2008) that the loan was disbursed as per State Government directive and OTS was approved for negotiated amount of Rupees three crore. The reply is not tenable since despite knowing the risks involved in the business of an amusement park, disbursement of loan without proper collateral security proved to be imprudent.

Recovery of loans

Targets vis-à-vis achievements for recovery of loan

2.3.8 Quarterly demands are raised for recovery of dues from the loanee units in February, May, August and November every year. Project Divisions headed by ED, GM and DGM are responsible for monitoring from sanction of loan till the final recovery. After disbursement of loans, they are required to inspect the units twice during the year to follow up the recovery. In case of default in repayments, show cause notices are issued followed by notices recalling the entire outstanding dues and take over of the assets under Section 29 of SFCs Act, 1951 for eventual sale/transfer through auction/negotiation. Further, the Company may also recover the entire dues through OPDR Act, 1962 from the defaulting units. If the sale proceeds fall short of total dues of the respective units, to realise the same, action is resorted to against the defaulting borrowers/ guarantors/ promoters invoking collateral securities/ personal guarantees under Section 31 of SFCs Act, 1951. The Company, however, did not have a system of exchanging information regarding defaulters of loans with other financing companies/ banks. It also did not take the help of the website of Credit Information Bureau (India) Limited and RBI who keep the data relating to suit-filed and non-suit-filed defaulting units respectively.

The Company fixes targets for recovery of loans in its annual budgets for internal resources mobilisation. Targets are fixed taking into account repayments due from standard units and expected recoveries from defaulted units on resorting to rephasements, disposal of seized assets and settlement of dues under OTS. The details of total dues for recovery, targets fixed and actual recoveries during 2003-08 are given in the table below:

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
	Net realisable demand[$]	***(Amount: Rupees in crore)***				
1.	Arrear demand	127.70	136.90	140.15	146.95	NA
2.	Current demand	33.98	29.48	26.79	35.25	NA
3.	Total net demand (1+2)	161.68	166.38	166.94	182.20	NA
4.	Total targeted recovery	26.50	28.00	22.00	17.50	13.75
	Recovery against					
5.	Arrear demand	4.47	7.22	3.52	2.92	NA
6.	Current demand	17.38	14.88	15.82	10.68	NA
7.	Total actual recovery (5+6)	21.85	22.10	19.34	13.60	15.34
	Percentage of actual recovery against					
8.	Targets (7/4)	82.45	78.93	87.91	77.71	--
9.	Total net demand (7/3)	13.51	13.28	11.59	7.46	--
	Percentage of targeted recovery against					
10.	Net demand (4/3)	16.39	16.83	13.18	9.60	--

Note: Figures for 2007-08 are not available due to non-finalisation of accounts

It would be seen that:

The Company failed to achieve the recovery targets despite fixation of low targets.

- the percentage of recovery targets fixed with reference to net demand ranged from 9.60 to 16.83 and actual recovery to net demand was between 7.46 and 13.51. In spite of low targets, the Company failed to achieve the same;
- targets for recovery were decreasing while net due for recovery was increasing reflecting that targets did not aim for maximising recovery;
- no separate targets against arrear and current dues were fixed;
- annual targets required to be finalised before commencement of financial year, were finalised between June and September of the financial year defeating the very purpose of fixation of targets;
- targeted recovery of Rs. 17.50 crore during 2006-07, against net realisable demand of Rs. 182.20 crore indicated that the Company had remote chances of realisation of major portion of loan of which 78.25 *per cent* was NPA.

Government stated (September 2008) that targets were fixed after assessing the possibility of realisation from the running units and recovery targets could not be achieved mainly due to increase in NPA accounts due to sickness of assisted units. Thus, despite fixing low targets, the same could not be achieved.

[$] Constitutes arrears at the beginning of the year *plus* amount fell during the year *minus* amount rescheduled/waived.

Performing and non-performing loans

2.3.9 In terms of guidelines of Reserve Bank of India (RBI), as modified from time to time, the loan portfolio was classified into four categories i.e. standard[#], sub-standard[*], doubtful[&] and loss[@] assets considering the prospect and period of default in realisation. Standard assets are considered as performing assets. The sub-standard and doubtful assets together are called "Non Performing Assets" (NPA). The details of class-wise loan assets of the Company during 2003-07 are indicated below:

Year	Total principal outstan-ding (Rs. in crore)	Stan-dard assets (Rs. in crore)	No. of standard units	Non-performing assets (Rs. in crore)			No. of NPA units	Percent age of NPA to total outstan-ding	Loss assets written off (Rs. in crore)
				Sub-stan-dard	Doubtful	Total			
2003-04	98.89	29.58	29	17.05	52.26	69.31	109	70.08	0.00
2004-05	88.20	24.17	24	15.84	48.19	64.03	107	72.60	1.38
2005-06	80.43	17.82	15	8.02	54.59[$]	62.61	102	77.84	0.53
2006-07	71.25	15.50	16	0.81	54.94	55.75	92	78.25	1.31
2007-08	Accounts not finalised								

[$] Doubtful assets include Rs. 0.14 crore towards loss asset not written off.

Non-performing assets, which were 70.08 *per cent* (Rs. 69.31 crore) in 2003-04 further increased to 78.25 *per cent* (Rs. 55.75 crore) in 2006-07.

It would be seen that there were 29 standard units (Rs. 29.58 crore) at the end of March 2004, which decreased to 16 units (Rs. 15.50 crore) at the end of March 2007. The percentage of NPA to total outstanding increased from 70.08 to 78.25 during 2003-07. As per the Memorandum for the Cabinet prepared by the Industries Department in respect of Restructuring plan of the Company, the higher percentage of NPA was attributed to promotion of industries in backward areas, term loan assistance on liberal norms and management problems associated with first generation of entrepreneurs, inadequate working capital, poor marketing outreach etc.

Audit scrutiny revealed that improper documentation work (refer to paragraph 2.3.7), absence of appropriate recovery measures (refer to paragraphs 2.3.11 to 2.3.13, 2.3.20 and 2.3.22) and absence of system for physical verification of assets of assisted units (refer to paragraph 2.3.23) were also the reasons for reduction in performing assets. Further, as per terms of sanction, the assisted units are required to take necessary insurance policy to the satisfaction of the Company. The Company, however, did not monitor the renewal of insurance policy after disbursement of loans, which also contributed to increase in NPA. As a result of this, total provision towards doubtful loans made by the end of March 2007 was Rs. 23.02 crore, which was 32.31 *per cent* of the principal outstanding of Rs. 71.25 crore. Though the BoD decided (June 2005) to

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[#] The assets in respect of which there is no default in repayment of principal or payment of interest.

[*] The assets in respect of which loan or interest remain overdue for more than six months but not exceeding 18 months.

[&] Sub-standard assets remain overdue for periods exceeding 18 months.

[@] The assets in respect of which the loan is identified as loss asset not recoverable and not written off.

reduce the NPA to 50 *per cent* through recovery measures by 31 March 2006, no effective action was taken in this regard.

Government accepted (September 2008) that the main reasons for increase in NPA was due to non-recovery from suit filed as well as seized cases and spiraling effect of charging interest on overdue amount. It was also added that decrease in standard loans due to repayment was also the cause of increase in NPA. But the fact remains that the Company failed to achieve the targets for recovery during 2003-08 as discussed in paragraph 2.3.8.

Deficiencies in recovery performance

Non-issue of demand notices to defaulting borrowers

2.3.10 The Company issues quarterly demand notices (May, August, November and February) to borrowers with a request to make timely payment. As of March 2003, loan accounts of 211 units involving Rs. 195.25 crore were pending realisation. By March 2007, dues amounting to Rs. 201.53 crore from 177 units were pending. The details of demands issued to loanee units during May 2003 to February 2008 were as follows:

Details	**April 2003**	**April 2004**	**April 2005**	**April 2006**	**April 2007**
	Number of units				
Number of units from which dues pending	211	200	193	181	177
Number of units for which quarterly demand notices issued in					
May	71	NA	51	33	29
August	81	57	43	28	28
November	57	59	51	28	26
February	74	59	40	27	23

It would be seen from the above that demand notices were issued to 23 to 81 units against 177 to 211 units from which the realisation was outstanding, which indicates a serious deficiency in the first step in recovery mechanism.

Government stated (September 2008) that as a practice, demand notices are not issued to units seized under Section 29 and referred to Board for Industrial and Financial Reconstruction (BIFR). However, only 19 units were referred to BIFR, hence demand notices should have been issued to other units. During ARCPSE meeting the Management accepted to issue demand notices to all the units.

Inadequate monitoring of defaulting borrowers

2.3.11 In order to check default cases and to improve recovery performance, proper monitoring and pursuance with defaulting units is required. Audit observed that in spite of continued default in 92 NPA cases as of March 2007, except issuing demand notices to some units, no further action as per laid down procedures was initiated in 32 cases involving outstanding of Rs. 63.34 crore including overdue amount of Rs. 51.96 crore as of May 2008. The details are shown in **Annexure 16**. Audit scrutiny revealed that no

Inadequate monitoring of defaulting borrowers resulted in non-realisation of overdues of Rs. 51.96 crore.

payments were received at all in 10 cases, no repayments were received towards principal loan in six cases, part payments were received in eight cases and OTS failed in eight cases. In spite of continued default and increase in overdues year after year, the Company did not initiate recovery measures as per procedure mentioned in paragraph 2.3.8, which indicates inadequate monitoring resulting in non-recovery of overdues of Rs. 51.96 crore.

2.3.12 The Company disbursed (November 2001 to March 2002) loan of Rs. 2.50 crore to Cosboard Industries Limited (CIL) for its writing, printing and newspaper project to be repaid within six and a half years with interest. CIL paid Rs. 19.64 lakh only towards interest till March 2004. Though rephasement of the loan was made in July 2004, no payment was made by the unit. By the time the Company issued recall notice (5 October 2004) for recovery of the loan of Rs. 3.48 crore as per direction of the Board, CIL had applied (4 October 2004) to BIFR for declaring the unit as sick which is still pending with BIFR for final orders. As of May 2008, total outstanding against CIL was Rs. 4.92 crore.

Audit scrutiny revealed that:

- The Company was aware that the super cyclone of October 1999 had damaged the plant of the loanee. In spite of poor credit worthiness and financial health, it disbursed loan to the unit and rephased the loan in July 2004.

Sanction of loan to a unit with poor financial health coupled with poor recovery led to non-realisation of Rs. 4.92 crore.

- Though the disbursement letter stipulated (November 2001) moratorium of six months and repayment in 24 quarterly instalments, the demand for first instalment of principal was raised only in November 2003 after a lapse of 18 months from the stipulated period (May 2002).

- In spite of CIL being a chronic defaulter, recall notice was issued in October 2004 after a delay of two years from the stipulated period.

Government while accepting poor financial position of CIL for default in repayment of dues stated (September 2008) that necessary action would be taken for recovery of dues after BIFR order is passed. Thus, sanction of loan to a unit with poor financial health coupled with poor recovery performance resulted in non-realisation of Rs. 4.92 crore (May 2008).

Rephasement/restructuring of overdue loans

2.3.13 The defaulter units generally seek rephasement of loans due to their inability to repay the loan dues. The Company allows rephasement by converting overdue interest (ODI) into funded interest (capitalised interest) and by revising the original schedule for repayment of principal in order to improve the recovery. During 2003-07, the Company approved such rephasement in respect of eight units covering principal loan of Rs. 8.64 crore and conversion of overdue interest of Rs. 2.53 crore into funded interest (FI).

Audit observed that the Company neither fixed any norm for eligibility of the units to avail rephasement, nor ensured any assurance from the units to pay the dues as per the revised schedules. As a result all the eight units failed to comply with the revised schedules of rephasement and overdues continued. After further rephasement, one unit became standard, three units settled the dues under OTS. Default continued by four units, of which assets of one unit were seized (July 2006). Thus, no action for recovery of overdues of Rs. 1.05 crore (May 2008) was taken. Some instances where rephasement was not in the interest of the Company are discussed below:

- Bimala Projects (P) Limited failed in making repayments as per the earlier rephasement in June 2002, but further rephasement was approved in March 2005 for repayment of outstanding loan and FI within nine years. Default by the unit continued in spite of further rephasement. The unit, however, opted (March 2006) for OTS, which was approved (December 2006) and settled at Rs. 1.61 crore restricting to value of securities against total dues of Rs. 2.23 crore. Audit observed that approval for long-term rephasement upto nine years was not in the interest of the Company, when OTS scheme was in operation and the unit was NPA as of March 2004. The Company should have insisted for OTS to realise the then dues of Rs. 1.87 crore, when the value of securities was Rs. 2.24 crore. Due to delayed decision (December 2006) for OTS, the dues increased to Rs. 2.23 crore (May 2006) whereas the value of securities reduced to Rs. 1.61 crore on account of depreciation of assets. As a result the Company had to forego Rs. 0.62 crore and recovered the OTS amounts after 21 months.

Government stated (September 2008) that in spite of several attempts, the revenue generation of the unit was not sufficient for which the loan was finalised under OTS. However, the Company should have insisted for OTS in March 2005 instead of rephasement for realisation of better amount before 21 months when the value of assets was more.

- The Company allowed deferred loan of Rs. 0.55 crore (being Company's share) to Lovely Agro Foods (P) Limited (LAFPL), which took over (March 1998) the assets of Universal Vita Elementere (P) Limited. The unit became NPA by March 2001. The rephasement was allowed (September 2003) with repayment of loan and FI within eight years. Due to continued default, assets were seized (July 2006) and decision for disposal at Rs. 30.50 lakh (Company's share) was taken (December 2007) which was not realised since the matter was subjudice (August 2008). Audit observed that when the unit did not respond to OTS communication in June 2002, the Company should have initiated action for recovery of dues (Rs. 0.93 crore being Company's share), instead of allowing rephasement in September 2003, which unnecessarily delayed the recovery action leading to non-recovery of Rs. 2.01 crore outstanding as of May 2008.

The Company failed to evolve criteria ensuring the repayment in case of rephasement of loan, which resulted in defeating the objective of rephasement.

Government stated (September 2008) that since the matter was subjudice the sale could not be effected. The fact remained that the decision for rephasement in September 2003 was not in the interest of the Company and subsequent seizure of the unit was at the request (September 2005) of LAFPL after theft (July 2005) of machineries worth Rs. 3.09 crore from the unit.

Thus, the Company's failure to evolve criteria ensuring the repayment in case of rephasement of loan resulted in defeating the objective of rephasement.

One Time Settlement schemes

2.3.14 The RBI issued (July 2000) guidelines to commercial banks for recovery of dues from loans (Non-Performing Assets). Other State financial institutions like Andhra Pradesh State Financial Corporation, Orissa State Financial Corporation (OSFC) and State Industrial Development Corporations of Karnataka, Maharashtra and Andhra Pradesh adopted the policy and formula laid down in the above guidelines. In order to settle the outstanding dues, the Company also formulated (April 2002) One Time Settlement (OTS) scheme in line with the guidelines of RBI. Subsequently, the Company adopted (November 2003) modified schemes in contravention of RBI guidelines. The salient features of the OTS schemes formulated by the Company during 2002-08 were as follows:

OTS Scheme and duration	Settlement formula	Applicability
OTS Scheme 2002 (Approved in April 2002) (Valid upto March 2003)	Minimum of 100 *per cent* outstanding loan *plus* interest till classified as doubtful plus other debits upto 31 March 2002 **or** 100 *per cent* loan and interest upto date of recall plus other debits upto 31 March 2002.	NPAs as on 31 March 2002, which became doubtful or loss as on 31 March 1999.
	Minimum of 100 *per cent* outstanding loan *plus* interest till classified as doubtful *plus* other debits upto 31 March 2002 **or** 100 *per cent* loan and interest upto date of recall *plus* other debits upto 31 March 2002, *plus* simple interest from 15 February 1999 till approval.	NPAs as on 31 March 2002, which have been classified as sub-standard as on 31 March 1999 and became doubtful or loss subsequently.
	100 *per cent* outstanding loan *plus* interest *plus* unpaid debits *less* additional penal interest charged during the period in which the loan was irregular.	Other NPAs as on 31 March 2002.
OTS Scheme 2003 (Approved in November 2003) (Extended from time to time and valid upto March 2006)	Parameters of value of securities and formulae devised as stated below are considered for arriving at OTS amounts. If value of securities is higher, OTS amount is to be restricted to formula applicable to the situation. If value of securities is lower than loan outstanding, value of securities less provisions already made.	All NPAs.
OTS Scheme 2007 (Approved in September 2007) (valid upto March 2008)	Loan disbursed *plus* interest rate till cut off date i.e. 30 September 2003 (rate depends on the age of the loan) *less* repayments since inception to date of application or principal loan outstanding as on date of application, whichever is higher. (OSFC's scheme of OTS 2007 for loans beyond Rs. 50 lakh was the basis.)	Assets classified as doubtful/loss category as on 31 March 2007.

OTS schemes finalised by the Company were neither consistent with RBI guidelines nor in the best interest of the Company resulting in foregoing of Rs. 18.75 crore in 23 cases.

During 2002-08, 34 units having outstanding loans of Rs. 59.30 crore were approved for settlement at Rs. 26.71 crore which was 45.04 *per cent* of the outstanding loan, thereby foregoing Rs. 32.59 crore (principal Rs. 4.65 crore and interest Rs. 27.94 crore). Out of these 34 units, OTS in 10 cases did not materialise due to failure of these units to pay balance dues after paying partly Rs. 1.64 crore and one unit updated its accounts by paying the overdue amount. Balance 23 units finally settled their outstanding dues of Rs. 37.69 crore for Rs. 18.94 crore (50.25 *per cent)* resulting in foregoing of Rs. 18.75 crore. Thus, OTS schemes finalised by the Company were neither consistent with RBI guidelines nor in the best interest of the Company resulting in foregoing of Rs. 18.75 crore in 23 cases of which 11 cases are discussed in paragraph 2.3.16.

Audit observed that in line with RBI guidelines, IDBI/SIDBI insisted for payment of 100 *per cent* principal outstanding under OTS settlements for Rs. 45.11 crore and the Company could derive the benefit of Rs. 9.36 crore towards waiver of interest (Rs. 0.38 crore) and saving of interest payable (Rs. 8.98 crore) due to prepayment of principal, which was 21 *per cent* only. Whereas the Company finalised OTS with 34 NPA units, it had foregone 55 *per cent* of total outstanding inclusive of foregoing principal (Rs. 1.63 crore) in nine cases and funded interest (Rs. 3.02 crore) in 10 cases.

Government stated (September 2008) that the Company formulated its own policy in line with OTS policy adopted by various SFCs and Small Industrial Development Corporations. It further added that the amount sacrificed under OTS, which otherwise would have been considered as loss after some years, was definitely in the interest of the Company. Regarding settlement with SIDBI/IDBI by the Company in OTS, the MD stated in the ARCPSE meeting that the OTS scheme operated by the Company was not comparable with OTS finalised with SIDBI/IDBI.

The reply is not acceptable since the Company had to forgo more amounts under OTS besides foregoing some portion of principal and funded interest as discussed in paragraph 2.3.16. Further, though settlements under OTS scheme of the Company and that with SIDBI/IDBI were not related with each other, the level of amount foregone by the Company was comparatively higher than the benefit derived from OTS settled with SIDBI/IDBI.

Delay in scrutiny of applications

Delay in scrutiny of OTS applications resulted in loss of interest of Rs. 0.50 crore.

2.3.15 As per the OTS schemes operative during November 2003 to March 2008, scrutiny of applications was to be completed within 30 days from the date of receipt of applications. Audit scrutiny revealed that there were delays (September 2004 to November 2007) in communication of OTS approvals to those concerned ranging from 2 to 13 months in respect of 12 cases received during December 2003 to March 2007. The delayed scrutiny and communication of approval resulted in delayed realisation of funds of Rs. 16.11 crore from the units resulting in loss of interest of Rs. 50 lakh (considering prevailing interest rate between 4.75 and 9.5 *per cent* per annum).

Government accepted (September 2008) that there were delays in some cases due to delay in submission of papers and valuation of assets.

Settlement of OTS not in accordance with RBI guidelines

2.3.16 As per the settlement formula of RBI guidelines, the minimum amount that should be recovered under compromise settlement of NPAs would be 100 *per cent* of the outstanding balance in the account. Further, as per the OTS scheme approved in November 2003, limiting the settlement value to lower of outstanding dues and value of securities was not consistent with the RBI guidelines and was detrimental to the interests of the Company, as it allowed to forego even the principal loan and funded interest. Audit observed that in 11 cases settlement amounts were not sufficient to cover even entire principal and funded interest (FI) outstanding leaving aside the interest overdues as detailed in the table below:

(Amount: Rupees in lakh)

Name of the unit	Outstanding dues[⊗]			Value of securities	Amount settled under OTS	Amount foregone		
	Principal	Funded Interest	Total			Principal	Funded Interest	Settlement amount less than value of securities
Noble Pharma Care Limited	18.69	--	18.69	--	14.68	4.01	--	--
Bharat Agro Products & Finance Limited	43.26	--	43.26	--	41.47	1.79	--	--
Cold Forge (P) Limited	67.08	--	67.08	65.50	65.50	1.58	--	--
Sahu Gases Limited	51.00	28.00	79.00	--	15.00	36.00	28.00	--
Sakti Sugars Limited	289.97	--	289.97	225.00	216.08[θ]	73.89	--	--
Ashoka Industries Limited	58.50	--	58.50	--	23.48	35.02	--	--
Bimala Projects (P) Limited	133.55	57.29	190.84	160.71	160.50	--	30.13	0.21
TK International (P) Limited	89.96	42.60	132.56	159.43	100.45	--	--	58.98
BDA Nicco Parks and Resorts Limited	272.03	39.40	311.43	--	300.00	--	11.43	--
Puran Metal & Industries (P) Limited	15.33	--	15.33	16.13	15.33	--	--	0.80
Suburban Ply & Panels Limited	56.76	--	56.76	59.84	56.76	--	--	3.08
Total	**1096.13**	**167.29**	**1263.42**	**686.61**	**1009.25**	**152.29**	**69.56**	**63.07**

⊗ Outstanding dues exclude interest dues.

θ Though OTS was approved for Rs. 234.32 lakh, receipt of Rs. 216.08 lakh was treated as OTS amount and unrealised principal loan of Rs. 73.89 lakh was written off in the accounts for 2004-05.

It would be seen that in 11 cases, the Company had foregone Rs. 2.22 crore towards principal and FI and Rs. 0.63 crore due to restricting the settlement values to less than value of securities. Thus, the settlement formulae were neither consistent with RBI guidelines nor in the interests of the Company resulting in foregoing Rs. 2.85 crore.

Government stated (September 2008) that the sacrifice and OTS amounts were arrived at as per the settlement formulae of the schemes duly approved by the BoD. The fact, however, remains that the settlement formulae were neither consistent with RBI guidelines nor in the interests of the Company resulting in foregoing of Rs. 2.85 crore.

Absence of recovery measures on failure of OTS scheme

The Company neither ensured recovery of agreed OTS amounts, nor initiated recovery action under Section 29 and 31 of SFCs Act on failure of OTS cases.

2.3.17 OTS proposals of 10[Ψ] units were finalised between October 2004 and July 2006 at Rs. 6.02 crore against outstanding dues of Rs. 19.23 crore. Payments of the settled amount were to be received between October 2005 and July 2007. These units paid Rs. 1.64 crore partly, leaving balance of Rs. 4.38 crore. As a result, total outstanding dues against these OTS cases increased (May 2008) to Rs. 23.67 crore. As per the OTS terms, in case of failure, the amounts paid under OTS would be adjusted against the outstanding. Thus, the Company neither ensured for payment of agreed OTS amounts, nor initiated recovery action under Section 29 and 31 of SFCs Act on failure of OTS.

Government stated (September 2008) that the request of Ispat Chrome Limited and Ispat Minerals Limited for revalidation of OTS scheme was accepted (April 2008) by the BoD. In respect of Dynamic Studios (P) Limited action was being taken for recovery of its dues. The reply is silent about action to be taken against other seven failed OTS cases.

Poor response to OTS from NPA units

2.3.18 The BoD approved (April 2002) an OTS scheme for reducing NPAs. The Company gave publicity for the scheme by advertisement (May 2002) and sending (June/ July 2002) individual intimations to 174 eligible NPA units. OTS schemes in 2003 and 2007 were made available to the loanees through the Company's website. In spite of wide publicity and individual intimations, the Company finalised 34 cases of which 23 cases were completed during 2002-08. Absence of an enabling clause to bar the eligible NPA units from future OTS was the reason for poor and delayed response. Hence, the very objective of improving recoveries from NPAs through OTS was defeated.

Imprudent fixation of payment terms

2.3.19 As per RBI guidelines, OTS amounts should be paid in one lump sum. If borrowers are unable to pay in one lump sum, at least 25 *per cent* of OTS amount should be paid upfront and balance 75 *per cent* should be recovered in one year together with prevailing interest. The Company, however, relaxed the payment terms stating that OTS amount may be paid in one lump sum within 30 days or 25 *per cent* upfront in 30 days and balance 75 *per cent* to be paid in

[Ψ] 1. Dynamic Studios (P) Ltd; 2.Hotel Torrento (P) Ltd; 3.Ispat Chrome Ltd; 4.Ispat Minerals Ltd; 5. Laxman Chemicals & Pigments (P) Ltd; 6. Magnum Apparel (P) Ltd; 7. Premier Threads (P) Limited; 8. Rishabh Mining (P) Limited; 9. Suburban Hotels & Resorts Limited and 10. Sushila Cements (P) Limited.

six months without interest. In case of payment beyond six months applicable interest[∝] was payable.

Audit scrutiny revealed that in five[Σ] cases, OTS was finalised at Rs. 9.33 crore, of which Rs. 5.18 crore was realised with a delay up to 161 days i.e. beyond 30 days. Had the Company inserted a clause to claim interest for the balance amount paid beyond 30 days, it would have earned interest of Rs. 22.41 lakh.

Government stated (September 2008) that the Company was not coming under RBI guidelines and framed its own rules, which were approved by BoD. However, the rules framed by the Company did not safeguard the interests of the Company, as there was no clause to claim interest for delayed payments beyond 30 days.

Seizure and disposal

2.3.20 In order to expedite recovery of dues from defaulting units, Section 29 of SFCs Act provides for seizure and disposal of assets secured. Section 31 of the SFCs Act provides for filing of suits in the court of law for recovery of balance amounts, not realised through disposal.

The Company seized the assets of 118 defaulting units (including 13 units during 2003-08) so far during February 1983 to March 2008. The Company did not initiate seizure action against 25 defaulting units. The Company disposed of (March 2008) assets of 103[#] units (including 20 units disposed of during 2003-08). Of the remaining 24 (including nine units for which assets disposed of partly) seized units, 22 units are to be disposed of (March 2008) and two units settled their dues under OTS before disposal.

Audit analysed overall status of seizure, disposal and realisation of sale proceeds vis-à-vis outstanding dues. The details are given in the table below:

Details	**Complete disposal**				**Part disposal**		**Awaiting disposal**		
	No loss cases	**Sharing pending with joint financiers**	**Sale deferred**	**Sharing completed with joint financiers**	**Dues realised**	**Dues not realised**	**Pending disposal**	**Recently seized**	**OTS settled units**
Number of units	**8**	**15**	**2**	**69**	**3**	**6**	**11**	**2**	**2**
Period of seizure	Feb'83 to Aug'96	Aug'96 to Dec'06	July'06 to July'07	Sept'87 to Oct'07	Jan'02 to Apr'02	Mar'93 to Jan'02	Dec'86 to Nov'01		
Outstanding dues at the time of seizure (Rs. in crore)	2.26	21.11	3.87	86.21	8.93	5.02	46.25[$]	8.44[&]	5.82

[∝] Fourteen *per cent* during November 2003 to March 2007 and 13.5 *per cent* from September 2007 to March 2008.
[Σ] BDA Nicco Parks and Resorts Limited; Bimala Projects (P) Limited; Corrosion Protection (P) Limited; Puran Metal Industries (P) Limited and Shakti Sugars Limited.
[#] Assets of 94 units disposed of fully and 9 units partly.
[$] Dues outstanding as per Demand Summary for May 2008.
[&] Assets were seized recently in December 2007 and February 2008.

Details	Complete disposal				Part disposal		Awaiting disposal		
	No loss cases	Sharing pending with joint financiers	Sale deferred	Sharing completed with joint financiers	Dues realised	Dues not realised	Pending disposal	Recently seized	OTS settled units
Period of disposal	May'84 to Mar'97	Jul'2000 to Oct'07	Oct' to Dec'07	Sept'87 to Nov'07	Feb'03 to Nov'03	Jul'2000 to Mar'05			
Sale value (Rs. in crore)	5.12	4.05	1.54	52.60	1.93	1.27			
Company's share (Rs. in crore)	2.26	0.00*	0.00**	26.07	1.93	0.00*			1.92@
Total unrealised dues (Rs. in crore)	**Nil**	**21.11**	**3.87**	**60.14**	**7.00**	**5.02**	**46.25**		**No dues**

The Company failed to take timely action for seizure and disposal under Section 29 of SFCs Act which led to non-recovery of Rs. 143.39 crore.

It would be seen from the table that there was huge time gap between seizure and disposal and in the process the sale proceeds were belatedly realised. Taking into account total outstanding and amounts realised/adjusted, unrealised dues from 106 units were Rs. 143.39 crore due to insufficient securities, delay in disposal of seized assets and delay in finalisation of sharing of sale proceeds of disposed assets among joint financiers. Deficiencies in disposal of seized assets of four cases are as detailed in **Annexure 17**.

Government stated (September 2008) that the experience in disposal of seized assets was not encouraging due to various reasons like availability of few buyers/no buyers even after repeated advertisements, offer prices are much below the dues or promoters taking shelter under Court of Law as a result of which the seized assets remain unsold. However, non-disposal of seized units early forced the Company to spend huge amount on watch and ward of seized units. Had the Company taken timely action for seizure of the units when the asset value was higher than the outstanding dues, the problems narrated above could have been avoided.

Irregularities in action under Section 31 of SFCs Act

2.3.21 The Company is entitled to exercise legal action for recovery of balance dues under Section 31 of SFCs Act, where realisation of sale proceeds on disposal of the seized assets falls short of total dues.

Audit scrutiny revealed that:

- Out of 69 cases where there was shortfall of Rs. 60.14 crore, the Company filed suits in respect of 15 units for recovery of balance dues of Rs. 10.55 crore. Out of this, in two cases though decrees were awarded for realisation of Rs. 1.32 crore, execution petitions were not filed. In balance 13 cases though the assets were disposed of between December 1998 and November 2001, the Company filed suits (2003-06) for realisation of shortfall of Rs. 9.01 crore which were still pending (August 2008).

* Sharing of sale proceeds is pending between OSFC and Company.
** Disposal finalised but sale is not effected due to litigation in High Court of Orissa.
@ Before disposal, units settled dues under OTS and loan accounts treated as closed.

The Company failed to file suits under Section 31 of SFCs Act for realisation of shortfall amount of Rs. 49.59 crore.

- The Company, however, did not take action to file the suits in respect of 54 units whose assets were disposed of during September 1987 to July 2006 and there was shortfall of Rs. 49.59 crore.

Government while accepting the delays stated (September 2008) that these were due to delay in sharing of sale proceeds and want of details of personal assets of guarantors. It was added that property details of promoters were not insisted upon in the earlier years and in few cases, promoters/guarantors expired.

Failure to realise other loans

2.3.22 The Company also disbursed STL, cyclone loans, soft loans, bridge loans and foreign currency loans. For the seized assets disposed, deferred loans were allowed as mentioned in paragraph 2.3.6. The status of recovery performance of the STL, cyclone loans and deferred loans during 2003-08 is shown in the table below:

(Amount: Rupees in crore)

Type of loan	Period of disbur-sement	No. of units	Amount disbu-rsed/ allowed	Outstanding principal as of March 2003	Outstanding as of May 2008	
					Principal	Interest
Short term loans	1976-2002	42	23.18	3.66 (19 units)	2.10 (13 units)	16.89
Cyclone loans	1999-2001	19	7.10	5.60 (18 units)	2.30 (10 units)	3.89
Deferred loans	1987-2003	46	11.52	9.18 (43 units)	5.20 (33 units)	17.45

Government stated (September 2008) that wherever possible, action had been initiated to recover the outstanding. The fact remains that out of dues from 37 parties as of March 2003 towards STL and cyclone loan, dues from 23 parties were outstanding (May 2008) indicating that the recovery action was inadequate.

- In respect of deferred loan, the Company recovered Rs. 2.11 crore (principal) only from eight units during 2003-08. In respect of two units the assets were reseized and disposed of for Rs. 0.59 crore with loss of Rs. 1.28 crore. The principal amount of Rs. 5.20 crore and interest of Rs. 17.45 crore remained unrealised from 33 units. This reflects absence of effective recovery measures against the defaulted units thereby defeating the very objective of disposal of secured assets and realising the dues out of sale proceeds.

Government stated (September 2008) that necessary action under Section 29 of SFCs Act was initiated in case of default by new buyers. It was added that the Company was selling the seized units outright without allowing deferment. However, out of 46 cases of deferred loans allowed upto March 2003, assets were re-seized and disposed of only in two[#] cases.

[#] East Land Impex (P) Limited and Maa Budhi Jagulai Polyethylene (P) Limited in 2006-07.

Monitoring mechanism

2.3.23 A well defined monitoring mechanism and Management Information System (MIS) reflect the existence of systems to make available timely, adequate and accurate information to the relevant authority in the organisation. The system of regular preparation of status report on various loanee units, periodical review of annual accounts of units, upkeep of registers for basic data of loanee units by Project Divisions, periodical physical inspections etc., is essential as a part of the best corporate practices. The following deficiencies in the monitoring mechanism were noticed:

- Summary report indicating the unit-wise outstanding dues and recovery position was not submitted to BoD for monitoring the outstanding dues at the highest level.

- The Project Divisions dealing with borrowing units were not maintaining registers containing borrowing unit-wise master data regarding total loan disbursed, dates of disbursements, value of industrial/collateral securities obtained, coverage of insurance and its renewal, personal/promoters' guarantees along with dates of expiry and renewal, property list of guarantors, dates of inspections of the units, dates of defaults, dates of recall notices issued, dates of seizure/disposal, filing of suits under Section 31 of SFCs Act etc. This indicates absence of effective monitoring of loans.

- As per the manual for entrepreneurs of the Company, the Project Divisions concerned were required to inspect the assisted units twice in a year to ascertain the safety and security of financed assets to know the unsecured component of loan as well to monitor and follow up the recovery position to avoid default. There was no evidence on record to confirm that the periodical (six monthly) inspection was conducted by the Project Divisions.

- Though the Company was holding Recovery Committee meetings periodically no such meetings were held after March 2006. Further, the proceedings of those meetings were never placed before the BoD.

There were deficiencies in the monitoring mechanism and Management Information System (MIS).

Government stated (September 2008) that nominee directors were appointed on the Board of borrowing units to review the status and to monitor the project. In the ARCPSE meeting, the Company accepted the audit findings.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance Audit.

Conclusion

The Company was established to provide financial assistance to large and medium scale industries in the State. Sanction of loans was stopped from 2006-07. The Company did not have a system of exchanging information regarding defaulters of loans with other financing companies/banks and using the data on defaulting units available on the websites of Credit Information Bureau (India) Limited and RBI. The targets for recovery of loans were very low and ranged between 9.60 and 16.83 *per cent* of net demand; the Company failed to achieve even the low targets. Percentage of non-performing assets was very high (78.25 *per cent*) due to irregularities in sanction and disbursement of loans as well as absence of proper recovery measures. The OTS schemes followed by the Company were neither in line with the guidelines formulated by RBI, nor in the best interest of the Company, which contributed to loss of the Company. Action for recovery of dues under SFCs Act from defaulting units was not adopted.

Recommendations

- **The Company should fix realistic recovery targets well before commencement of the financial year aiming to maximise recovery of dues.**

- **Recovery measures should be strengthened by demand notices to all outstanding loanees along with regular follow up action.**

- **The Company should insist on valid/adequate collateral security of the assisted units.**

- **The Company should undertake periodical physical verification of the securities at the borrower's site at regular intervals so as to know the unsecured component and to take necessary steps.**

- **The Company should adhere to the time schedule for recovery as per the terms and conditions of the loan agreements and timely action for seizure and disposal under SFCs Act should be taken to avoid erosion in value of securities.**

- **Terms and conditions of OTS schemes devised by the Company should not only be consistent with the RBI guidelines, but also safeguard the interests of the Company.**

Orissa State Beverages Corporation Limited

2.4 Implementation of State Excise Policy and Trading in India Made Foreign Liquor, Beer and Country Spirit

Highlights

Lack of co-ordination between the Company and the Government as well as absence of policy for export of beverages resulted in loss of Rs. 2.83 crore towards Government revenue and the Company's margin.

(Paragraph 2.4.18)

Non-consideration of entry tax and non/delayed enhancement of offer prices resulted in short-realisation of Rs. 3.98 crore towards Government revenue and the Company's margin.

(Paragraph 2.4.15)

Application of inappropriate lower slabs for excise duty in the fixation of issue prices resulted in short-realisation of the Company's margin of Rs. 0.42 lakh and Government revenue of Rs. 3.50 crore.

(Paragraph 2.4.17)

Inappropriate determination of MRP resulted in undue favour of Rs. 36 crore to the retailers.

(Paragraph 2.4.20)

Due to anomalies in the pricing of Country Spirit, the Company, the retailers and the sales tax authorities were benefited by Rs. 10.47 crore, Rs. 6.29 crore and Rs. 1.99 crore respectively at the cost of the suppliers and the consumers.

(Paragraph 2.4.23)

Introduction

2.4.1 Orissa State Beverages Corporation Limited was incorporated (November 2000) as a wholly owned Government company with the main objectives to manufacture, purchase, import and export, carry on business as seller, dealer and distributor, act as stockist, commission agent, manufacturer's representative, selling and purchase agent, etc. of alcohol and other beverages. The legislative intent for creation of this Company was to bring wholesale distribution of foreign liquor and Country Spirit (CS) under Government control with a view to provide hygienic liquor and to check evasion of excise duty. In pursuance of this, the Company had an important role to play for implementing the State excise policies to the extent applicable to it.

The Company commenced its business from January 2001. The State Government conferred on the Company the exclusive right and privilege of importing, exporting and carrying on the wholesale trade and distribution of India Made Foreign Liquor (IMFL) and Beer in the State of Orissa by an amendment of the Bihar and Orissa Excise Act, 1915 with effect from 1 February 2001 and extended the right and privilege to CS from 1 May 2001.

The Company is carrying on the activity of wholesale trade and distribution of IMFL, Beer and CS within the State. The document, though, depicts the Company as the purchaser and seller of the stocks, it acts as a facilitator only without doing the purchase and sale in the strict sense of the term. None of the other activities envisaged in the objectives has been undertaken by the Company.

The Head Office of the Company is located at Bhubaneswar and there are six[*] depots for storing IMFL, Beer and CS. The Management of the Company is vested with a Board of Directors (BoD) consisting of six Directors including the Chairman and the Managing Director (MD). The MD is the Chief Executive of the Company who is assisted by the General Manager (Finance) and the Manager (Administration) at the Head Office and Branch Managers at depots. The sanctioned post of General Manager (Technical) which was to be filled up by an officer of the Orissa Excise Service is lying vacant since inception.

Scope of Audit

2.4.2 The present performance review conducted during November 2007 to March 2008, covers the performance of the Company in respect of wholesale trade of IMFL, Beer and CS and collection of duty and fees as per the State Excise policy during 2003-08. Audit test checked the records maintained at the Head Office and at the three depots (Balasore, Cuttack and Khurda), selected on the basis of turnover which worked out to 65 *per cent* of the total turnover.

Audit objectives

2.4.3 The Performance Audit was conducted with a view to assess whether:

- the targets fixed for the Company by the State Government for collection of Excise Duty/Import fee were achieved and revenue so collected was promptly deposited into the State treasury;
- procurement and storage of IMFL, Beer and Country Spirit was made economically and efficiently;
- the prices were fixed by the Price Fixation Committee (PFC) protecting the financial interest of the Company/Government;

[*] Balasore, Berhampur, Cuttack, Khurda, Rayagada and Sambalpur.

- distribution/sale/export of IMFL, Beer and Country Spirit was made efficiently and effectively; and
- cash discount was availed by the Company and investment of available funds was made prudently.

Audit criteria

2.4.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- revenue targets fixed by the State Government and provisions of the State Excise Policy;
- procurement and distribution/sale/export/investment policy of the Company/Government;
- instructions, decisions, etc. of the State Government and the BoD;
- proceedings and orders of the Price Fixation Committee; and
- agreement with manufacturers/suppliers and good commercial practice.

Audit methodology

2.4.5 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- examination of Memorandum of Association and Articles of Association, year-wise excise policies of the Government of Orissa, minutes of the meeting of the BoD including agenda papers, sub-committee and those of review meetings held by Chairman/MD;
- scrutiny of procurement policy, pricing policy and records of the Price Fixation Committee, collection and remittance of Excise Duty and Sales Tax;
- extraction and analysis of data stored in the digital form through Interactive Data Extraction and Analysis (IDEA) software; and
- interaction with the Management and issue of audit queries.

Audit findings

The findings of the Performance Audit of the Company were reported (June 2008) to the Government/Management and discussed (5 August 2008) in the meeting of the Audit Review Committee on State Public Sector Enterprises (ARCPSE). The meeting was attended by the Commissioner-cum-Secretary, Department of Excise, Government of Orissa and the Managing Director of the Company. The views of the Government/Management have been taken into consideration while finalising the report. The audit findings are discussed in the succeeding paragraphs.

Excise revenue target and achievement

2.4.6 The suppliers of liquor are permitted to release the stock from their premises only after payment of excise duty (ED) and import fee[ø] (IF). As such, collection of ED and IF, which are the major components of excise revenue collected through the Company, depends upon the volume of supply made by the manufacturers as well as eventual sale to the retailers. The table below indicates excise revenue target fixed by the State Government for the Company and achievement thereagainst during 2003-08:

Year	Turnover	Target	Achievement[∞]	Shortfall	Percentage of shortfall
	Rupees in crore				
2003-04	378.01	185.46	140.38	45.08	24.31
2004-05	452.38	172.00	162.59	9.41	5.47
2005-06	522.80	317.00	207.73	109.27	34.47
2006-07	612.23	348.70	240.01	108.69	31.17
2007-08	744.59	325.68	301.89	23.79	7.30
Total	**2710.01**	**1348.84**	**1052.60**	**296.24**	**21.96**

The Company had neither fixed the targets of turnover for individual suppliers (except for 2006-07) nor monitored the target set.

Audit scrutiny revealed that the Company had not fixed the targets for individual suppliers except for the year 2006-07. Though it fixed (June 2006) supplier-wise turnover target for 2006-07 at Rs. 1,009 crore, the achievement was only Rs. 612 crore as neither the monthly targets were fixed nor periodical review was conducted. Further, the Company had not analysed the reasons to take remedial measures for achievement of the targets.

Government stated (August 2008) that the targets set by the Finance Department were without any scientific basis. However, the Company in none of these five years had made representation against higher/unscientific fixation of target.

Procurement performance

2.4.7 The manufacturers/suppliers desiring to sell their products in the State register their brands/ labels with the Excise Department of the State Government. Thereafter, they register themselves with the Company on payment of annual registration fee[£]. The Company enters into agreements with the registered manufacturers/suppliers for procurement of the registered brands of beverages. The Company sells these beverages to the licensed retailers on behalf of the manufacturers/suppliers.

ø In case of supply from outside the State.
∞ It represents only the Excise Duty and Import Fee.
£ Rs.15,000 since inception which was enhanced to Rs.20,000 from January 2004.

Exclusive right and privilege

The Company had no mechanism to ensure that the entire stock of beverages produced by the licensed manufacturers in the State was routed through it.

2.4.8 The Company has exclusive rights for wholesale trade in beverages in the State. It, however, does not have a mechanism to ensure that the entire stock of beverages produced by the licensed manufacturers is routed through it. The Company had neither collected the data on the actual quantity of beverages produced by the licensed manufacturers in the State nor attempted to cross-check with the information available with the Excise Department. During 2003-08, the Excise Department through enforcement activities seized 0.54 lakh litres of IMFL, 0.30 lakh litres of Beer and 0.15 lakh litres of CS valued at about Rs. 1.78 crore.

Government stated (August 2008) that the Company simply acts as an agency of the State Government within the parameters of law and policy determined by it and avoidance/evasion of excise revenue is controlled through its excise enforcement machinery. The fact remains that collection of data on production and distribution of beverages in the State and cross-checking with the information available with the Excise Department would strengthen the control exercised by the State Government.

Selection of manufacturers

2.4.9 For registration of suppliers, the Company invited applications only once in November 2000. Thereafter, the Company did not resort to open advertisement for empanelment of suppliers. Lack of open advertisement thus limited the scope of transacting in a wider range of brands in the State.

Government while accepting the audit observation stated (August 2008) to go for open advertisement every year for registration of more suppliers.

Agreement with manufacturers/suppliers

2.4.10 The Company enters into agreements with various manufacturers/ suppliers annually, which *inter alia*, envisage the offer price of the liquor.

Acceptance of offer prices lower than the agreed prices in fixation of price resulted in loss of revenue of Rs. 1.28 crore.

Audit scrutiny revealed that the copies of the agreements received by the Company were neither signed by any competent authority of the Company nor signed copies were returned to the suppliers for avoiding future legal disputes. The agreements were not made available to audit except for the years 2005-07. Review of the 66 agreements for 2005-07 revealed that in respect of 15 brands, the Company fixed issue prices by considering lower prices ranging from Rs. 5 to Rs. 39 per case[¥] than those offered by the suppliers. The reason for not considering the offer price was not on record. Application of lower offer price thus resulted in loss of revenue of Rs. 1.23 crore to the exchequer towards ED (Rs. 90.27 lakh), Sales Tax (Rs. 30.44 lakh) and tax collected at source (TCS) (Rs. 1.79 lakh) besides loss of margin of the Company for Rs. 5.44 lakh.

[¥] In case of IMFL, one case means 12 bottles of 750 ml or 24 bottles of 375 ml or 48 bottles of 180 ml or 96 bottles of 90 ml, in case of beer 12 bottles of 650 ml or 24 bottles of 330 ml or 24 canes of 500 ml and in case of Country Spirit, it is 50 pouches of 200 ml.

Government stated (August 2008) that since the cost of liquor in neighbouring states was cheap, the increase in the offer price was not considered as it would ultimately increase the consumer price resulting in encouragement of smuggling of liquor. However, the factors stated to have been considered in the fixation of issue price was not on record. The Company also did not have the data relating to cost of liquor in neighbouring states for comparing the cost offered by the suppliers.

Procurement of IMFL, Beer and CS

2.4.11 The table below indicates procurement of IMFL, Beer and CS during 2003-08.

(Quantity in lakh cases)

Year	IMFL			Beer			Country Spirit
	Within the State	Outside the State	Total	Within the State	Outside the State	Total	Within the State
2003-04	10.45	4.49	14.94	10.52	12.86	23.38	7.38
2004-05	15.68	1.98	17.66	16.86	13.55	30.41	7.60
2005-06	17.68	1.31	18.99	18.72	15.68	34.40	7.47
2006-07	19.87	1.85	21.72	20.19	11.45	31.64	8.91
2007-08	22.49	1.13	23.62	36.86	1.84	38.70	9.87
Total	**86.17**	**10.76**	**96.93**	**103.15**	**55.38**	**158.53**	**41.23**

The Company had not evaluated the brand preferences of the consumers for catering to the need of the consumers.

Audit scrutiny revealed that though there was increase in quantity of procurement, it was not indicative of timely catering to the demand and fulfilling the brand preference for the reason that the suppliers were supplying liquor of their own choice. The Company also had not done any demand survey to ensure adequate supply to satisfy the needs of consumers as well to curb the inflow of illicit liquor, besides increasing the revenue.

In the ARCPSE meeting Government accepted the absence of demand survey and assured to take care of this aspect.

Reconciliation of quantity procured

2.4.12 As per the prevalent arrangement, the Company on receipt of deposit towards ED and IF from the manufacturers, obtains transport, import, export (TIE) pass in its favour from the Excise Authorities after remitting the required ED and IF and hands over to the manufacturers. Similarly, the Company permits the suppliers for inter-depot transfer of stock through trade off passes obtained from the Excise Authorities. The Company, as the pass holder, not being involved in the physical release of materials and their transportation to the depots, is responsible to adopt a system to ensure that the entire quantity released from the factory/premises through TIE passes is duly received at the Company's depots. The Company, however, did not reconcile the quantity as per TIE passes with the Goods Received Notes at the godowns. This left room for leakage of the Company's margin and sales tax/value added tax (VAT).

Government stated (August 2008) that the actual receipt of stocks was duly checked up at the depot level with Goods Receipt Note (GRN). However, in the absence of reconciliation of GRNs with the TIE passes, GRN alone did not ensure the receipt of entire quantity released from the factory/depot.

Fixation of price

2.4.13 The suppliers declare the offer price on which entry tax[∝] (ET) and IF are added to arrive at the landing price. Thereafter, State ED and margin of the Company are added to the landing price to arrive at the issue price of IMFL and Beer. ST is imposed on the issue price. The Company remits ET, ED and ST to the State Government. Thus, the offer price is the basis for determination of state levies and the margin of the Company.

Price Fixation Committee

2.4.14 The State Government constituted (April 2003) a Price Fixation Committee (PFC) consisting of five members including MD of the Company as the member convener to determine the price of different brands of IMFL and Beer supplied through the Company with reference to their landing price in the neighbouring states. Audit observed that though the PFC started functioning from 1 April 2003, the prices of IMFL and Beer for the years 2003-04 and 2004-05 (upto June 2004) were fixed by the Company without getting the approval of PFC. The Company also did not put up compliance notes to the various decisions taken by the PFC during 2003-07.

Deficiencies in price fixation

2.4.15 IMFL and Beer are not essential commodities. As per agreement with the suppliers, it is the responsibility of the suppliers to market their products. The Company does not purchase the stocks from the suppliers in the strict sense of the term, rather it acts as an agent on behalf of the suppliers. The PFC also had no mechanism to evaluate the correctness of the price offered by the supplier that forms the basis for determination of issue price. It relied on the price offered by the suppliers. Against this backdrop, the PFC had little scope to control the price except determining it for the purpose of sales tax/value added tax (VAT).

Audit noticed deficiency in fixation of issue price by the PFC in the following cases:

- The PFC approved (October 2004) increase in offer prices of IMFL in respect of 62 brands of 17 suppliers by five *per cent* of the existing offer prices or as demanded by the suppliers whichever was less. The offer letters of the suppliers for revision of prices, which formed the basis for enhancements, were not made available to audit. In 37 items of nine suppliers, ET was not added to arrive at the issue price resulting in short realisation of Rs. 86.04 lakh towards ED, ST, TCS

[∝] Tax on the entry of goods into the local area of the State for consumption, use or sale therein.

and Company's margin during the years 2004-06. Further, for seven brands of Kaleast Bottling (P) Limited, the issue price was fixed taking the old offer price which was lower than the revised offer price resulting in short realisation of Rs. 8.35 lakh towards ST, TCS and Company's margin during 2005-06.

Government while accepting the audit observation stated (August 2008) that ET would be included to arrive at the revised landing cost.

- Agreements with the suppliers provide for enhancement of offer prices due to increase in statutory dues. In the excise policy for 2005-06 bottling fees and franchise fees for IMFL and Beer were enhanced. In respect of five suppliers the PFC enhanced the prices by an amount equal to the actual increase in state levies only with effect from June 2005 though they had applied for enhancement in April 2005. Delayed enhancement resulted in loss of revenue of Rs. 18.95 lakh on sale of 2.09 lakh cases of IMFL. Further, it did not allow any enhancement to SKOL Breweries on the ground that the decision on allowing franchise fees and bottling fees was pending with the Government. Non-enhancement of price on account of increase in bottling fees, which was not under dispute, resulted in loss of revenue of Rs. 1.13 crore on sale of 17.58 lakh cases of Beer during 2005-06.

Non-consideration of the entry tax for fixation of price and delay/non-enhancement of offer price resulted in loss of revenue of Rs. 3.98 crore.

- Though six suppliers had applied for increase in their offer prices, the PFC, for reasons not on record, decided (October 2004) that the existing prices of Beer would continue for the time being. It allowed the enhancement upto a maximum of five *per cent* of the offer price only from June 2005 in respect of five suppliers and by Rs. 13 per case in case of SKOL Breweries. The delayed enhancement by eight months resulted in loss of revenue of Rs. 98.80 lakh towards the Company's margin (Rs. 21.84 lakh) and Government revenue towards ET (Rs. 3.06 lakh), ST (Rs. 69.41 lakh) and TCS (Rs. 4.49 lakh) during October 2004 to June 2005.

- Shaw Wallace Breweries Limited requested (April 2003) the Company for upward revision of the offer prices of two brands of Beer with effect from 1 April 2003. The Company, however, did not increase the prices for reasons not on record and continued to issue these two brands to the retailers at the un-revised price during 2003-05. This resulted in short realisation of revenue of Rs. 73.48 lakh on sale of 21.89 lakh cases towards margin of the Company (Rs. 15.74 lakh), ST (Rs. 51.48 lakh) and TCS (Rs. 6.26 lakh).

Government stated (August 2008) that ramifications of consumer interest, smuggling, etc. were considered by PFC in deciding the price. However, the PFC belatedly approved the enhanced prices for reasons not on record. Moreover, the agreements with the suppliers provide for the price to remain valid at the option of the suppliers.

Switchover of source of supply of IMFL

2.4.16 The PFC decided (October 2004) that the differential transportation cost should be deducted from the offer price of four[β] suppliers who switched over the source of supply from outside to inside the State during 2003-05. The PFC only after seeking opinion of the Excise Commissioner approved (March 2005) for deduction of differential cost of transportation ranging from Rs. 11 to Rs. 17.47 per case from the date of their switchover since the suppliers had not reduced their offer prices in spite of reduction in the cost of transportation. The Company, however, did not implement the decision of the PFC, which amounted to extension of undue favour of Rs. 40.40 lakh to these suppliers.

Government accepted (August 2008) the observations of audit for recovery of the differential amount.

Application of inappropriate slab for excise duty

2.4.17 The annual excise policies for the years 2003-08 provided for assessment of ED on the landing cost of IMFL. The landing price was divided into three to four slabs and the higher slab of landing price attracted the higher ED. The Company defined landing price as the offer price including ET and IF (if any). As per Part-I of the Schedule to the Orissa Entry Tax Act, 1999, ET for IMFL/Beer would be levied at the rate of one *per cent* on the purchase value inclusive of ED. Thus, determination of ET depended upon determination of ED.

The Company, while computing the ET and ED, considered the offer price as landing price and adopted the corresponding ED slab and calculated the ET. The total of ET so calculated and offer price was treated as the dummy landing price on which ED was calculated. Thus, the final dummy landing cost decided the slab of ED. In this process the Company allowed the suppliers to have the benefit of lower ED slab in respect of border line cases. The Company should have considered both the bordering slabs of ED (higher and lower) to arrive at the ET for final settlement of the landing price for determination of the appropriate slab of ED.

Computation of excise duty on the inappropriate lower slabs resulted in loss of revenue of Rs. 3.92 crore.

Test check of records revealed that inappropriate lower slabs for ED was considered in respect of 28 brands of IMFL in the fixation of their issue prices resulting in short-realisation of the Company's margin of Rs. 0.42 lakh and Government revenue of Rs. 3.50 crore towards ED (Rs. 2.86 crore), ST (Rs. 60.10 lakh) and TCS (Rs. 3.53 lakh) during the years 2005-08.

Government stated (August 2008) that higher bordering slabs of ED as per audit observations would be taken care of.

[β] Jagatjit Industries Division-I, Jagatjit Industries Division-II, Radico Khaitan and TDV Limited.

Export management

Absence of terms and conditions for export coupled with delay in according permission for export resulted in loss of revenue of Rs. 2.83 crore.

2.4.18 The Company allowed (March 2001) the manufacturers to export liquor at their own risk by collecting service charges at the rate of one *per cent* of the invoice value. Though, the excise polices during 2001-06 provided for collection of export fees, neither the State Government nor the Company formulated any policy/detailed procedure for export of beverages upto March 2006. Thus, there was no system to ensure that the excise levies and other applicable fees were realised and stock meant for the export actually reached the destination without being misused enroute. After announcement of export policy in March 2006 and approval of detailed procedure for export of IMFL and Beer in October 2006 by the State Government, 2.77 lakh cases of Beer were exported through the Company during November 2006 to March 2008.

Audit observed that Maikal Breweries (Private) Limited (MBPL) applied (July 2006) for export of 10-12 lakh cases of Beer after fulfilling the demand of the State. The Government, however, permitted to export only in March 2007 as a result of which 10 lakh cases of Beer could not be exported. Hence, the Company lost revenue of Rs. 18.90 lakh towards export service charges besides loss to the State Government of Rs. 2.64 crore towards export fee, franchise fee, etc.

As regards delay in according permission to MBPL, the Management stated (July 2008) that permission to export was granted (March 2007) only after submission of wanting documents as per the approved guidelines. The fact of non-submission of required documents by the supplier was, however, not on record.

Display of maximum retail price (MRP)

2.4.19 Following an amendment in the Standards of Weights and Measures (Package Commodities) Rules, 1977, during 2003-04, MRP was to be displayed on the bottles containing alcoholic and spirituous liquor.

Audit observed that the Company displayed MRP from April 2007 after a delay of four years which not only led to violation of statutory provisions but also provided scope to the retailers to charge higher prices. The violations had also entangled (January 2006) the Company/State Government in public interest litigation which was pending in the High Court of Orissa (August 2008). Despite this the Company had not displayed MRP on CS from 1 April 2007 and on the unsold stock of bottles of IMFL and Beer as on 31 March 2007.

Government stated (August 2008) that as per the Packaged Commodities Regulations Order, 1975, it was not necessary to declare price on package of alcoholic beverages and during 2006-07, the Government of India, Ministry of Food Processing amended the said regulations requiring declaration of price on alcoholic beverages, which was implemented by the Company from April 2007. Thus, there was no violation of statutory provisions. The reply is contrary to the fact that the exemption for display of MRP on bottles containing alcoholic beverages was withdrawn from 2003-04, for which there was non-compliance of statutory provisions.

Determination of MRP

2.4.20 For determination of MRP for various brands, the Maximum Retail Price Committee (MRPC) adopted (September 2005) a formula based on a specimen price of 180 ml bottle of IMFL under three different ranges of landing cost viz. below Rs. 600 (cheap), Rs. 600 to Rs. 850 (medium) and above Rs. 850 (premium) per case. After adding the applicable ED, Company's margin, VAT, TCS, etc., the cost per bottle to the retailer was determined. After allowing licence fee of Rs. 5 per bottle, fixed/variable cost at Rs. 3.10 per bottle and a profit margin of 10 *per cent* of the total cost, the MRP was fixed. The overall margin to the retailer on the cost per bottle worked out to 41, 34 and 25 *per cent* of the three price ranges respectively. Similarly, for Beer and scotch, the overall margin to the retailers worked out to 32 and 12 *per cent* respectively. Based on this formula, the Company fixed the MRP adopting the overall margin of 41, 34, 25, 32 and 12 *per cent* on the cost per bottle to the retailer instead of considering the individual components of cost and profit.

Audit observed the following deficiencies in determination of MRP:

Adoption of wrong basis for determination of maximum retail price the retailers were unduly benefited by Rs. 36 crore.

- The MRPC worked out (February 2006) licence fee of Rs. 5 per bottle considering a uniform minimum guaranteed quantity (MGQ) of 22 London Proof Litre (LPL) of IMFL and 33 Bulk Litre (BL) of Beer for licence fee of Rs. 1,000. As per the State Excise Policies for 2006-07 and 2007-08, for licence fee of Rs. 1,000, MGQ was fixed at 26 LPL of IMFL and 40 BL of Beer for urban areas and 23 LPL of IMFL and 35 BL of Beer for rural areas. As such, the maximum licence fee per bottle of 180 ml was Rs. 4.46. Thus, adoption of wrong basis for determination of licence fee per bottle resulted in higher recoupment of licence fee by Re. 0.54 per bottle and MRP was also fixed accordingly. On the sale made in 2007-08, the retailers were unduly benefited by Rs. 8.41 crore towards recoupment of licence fee due to higher MRP.

- Adopting the formula of a flat overall margin on landed cost per bottle on percentage basis the Company allowed the retailers a higher profit margin than the intended margin of 10 *per cent* on cost (i.e. retailers cost per bottle plus licence fee, fixed and variable cost). The excess MRP per bottle of IMFL and Beer of various sizes varied from Re. 0.08 to Rs. 62.91. The higher margin allowed to the retailers due to higher MRP amounted to Rs. 27.59 crore on the sales effected through the Company for 2007-08.

Government stated (August 2008) that the licence fee during 2007-08 was hiked by 10 *per cent*. On the basis of the MGQ the retailers were reimbursed Rs. 1,028 as against payment of Rs. 1100. It was added that the MRP formula was a guideline and in any formula there would be some leeway which cannot be totally curbed. Audit observed that the MRPC considered uniform MGQ per Rs. 1000 of licence fee as the basis for recoupment of licence fee. Any hike in the licence fee shall, therefore, have no impact on the cost of licence fee per bottle as the MGQ shall be proportionately fixed on the higher side. Further, adoption of overall margin on percentage basis deviated from the principle of reimbursement of fixed/variable cost and intended percentage of profit.

Apportionment of sales realisation

2.4.21 On issue of the stock of IMFL, Beer and CS to the retailers, the Company makes apportionment of the sale proceeds realised towards ST, TCS, landing price, ED, ET (in case of supply from outside the State) and its margin. It passes the landing cost including IF and ED to the suppliers as these are paid in advance and after accounting for taxes, retains the balance as its margin. The revision in the rate of ED and IF by the Government, therefore, calls for computation of differential ED on the unsold stock and its payment to the Government.

Audit observed the following:

- The Company did not realise the differential ED and IF from the suppliers on the unsold stock at the beginning of the date of revision of rates. Even after realisation of the differential amount at the time of sale, there were delays ranging from 6 to 16 months on the part of the Company to deposit the realised differential ED amounting to Rs. 9.25 crore with the Government during 2003-07.

- In the Excise Policy for 2006-07, the ED on CS was enhanced by Rupees six per case. The supplier had included the enhanced ED in the offer price and deposited it at the time of supply. But while making apportionment of the sale proceeds of CS from April to December 2006, the enhanced ED amounting to Rs. 37.85 lakh was not credited to the supplier’s account and was booked under the Company’s margin.

Government stated (August 2008) that the complete computerisation of accounts was in progress for which there was delay in realisation and deposit of differential amount. Regarding non-crediting to supplier's accounts, the audit observation had been noted for future guidance.

Country Spirit

2.4.22 The consumers of CS are generally from economically weaker sections of the society. Consumption of CS from unauthorised sources could lead to serious health hazards including loss of life as well as loss of Government revenue. As per the Excise Policy 2001-02, supply of CS by the Company was permitted in 16 out of 30 districts in the State. Subsequently (2003-04), it was restricted to 13 districts and further (2006-07) restricted to 10 districts to give way to out-still liquor.

Procurement, distribution and fixation of price

2.4.23 The Company procured CS only from Aska Co-operative Sugar Industries Limited (ACSI) since May 2001. The percentage of sales to procurement was ranging between 98.27 and 101.46 during 2003-08 indicating a high demand for CS each year.

Audit observed the following:

- The Company had never evaluated the demand for CS and adequacy of its supply. The Branch Manager, Khurda informed (December 2007) the MD that though the supply of CS was more than the MGQ (20,952 cases per month), the actual demand was 36,000 cases. Though there was shortfall in meeting the demand for CS, the Company did not tap other sources[μ] for its procurement for maintaining steady supply so as to minimise the risk of consumption of unhygienic illicitly distilled CS.

- The State Government fixed (November 2001) the retail price of CS pouch of 200 ml at Rupees nine inclusive of all taxes and duties based on the corresponding landing price of Rs. 3.50 and margin at 7.5 *per cent* of the landing price. An analysis of the cost sheet revealed that proper sequence of the cost elements to arrive at the retail price had not been followed. This was because the Company's margin, which was to be computed on landing price excluding ED and ST as followed by the Company in case of IMFL and Beer, had been computed on total of landing price, ED and ST. After detection (November 2001) of the deficiency in pricing, although the Company recalculated the retail price at Rs. 8.75 per pouch it absorbed the excess amount towards increase in its margin from 7.5 *per cent* to 13.22 *per cent*, increase in ST and retailers' margin. Similar anomalies in fixation of price continued on five[¥] occasions for revision of supply prices during August 2004 to August 2006.

- The State Government increased (September 2005) the cost of supply from Rs. 4.30 to Rs. 4.45 per 200 ml pouch. The Company, however, did not pay the revised amount to ACSI till 31 March 2007, which resulted in retention of Rs. 87.82 lakh by the Company.

- The State Government fixed (September 2006) the retail price at Rs. 13 per bottle of 200 ml considering packing of CS in glass bottles instead of poly pouches. ACSI, however, supplied CS in poly pouches due to its inability to supply in glass bottles. In spite of this, the MRP of Rs. 13 was not changed, as a result of which the retailers got unduly higher margin of Rs. 6.29 crore.

Thus, due to the above deficiencies in pricing, the Company, retailers and ST authorities were benefited by Rs. 10.47 crore, Rs. 6.29 crore and

[μ] Sakti Sugars Ltd., Ganjam Jeypore Sugar Co. Ltd and Koraput Umeri Distillery, Koraput.
[¥] August 2004, October 2004, April 2005, September 2005 and August 2006.

Due to deficiencies in pricing the Company, the retailers and ST authorities were benefited by Rs. 10.47 crore, Rs. 6.29 crore and Rs. 1.99 crore respectively.

Rs. 1.99 crore at the cost of the suppliers and consumers by Rs. 87.82 lakh and Rs. 17.87 crore respectively.

Government stated (August 2008) that there were no manufacturers of CS in the State other than ACSI. The fact remains that there were four other sugar factories in the State which could have been tapped for manufacture of CS. As regards retention of excess margin the point was noted for rectification. It was added that fixation of retail price of CS in glass bottles was as per negotiation with the supplier. But in view of supply of CS in polypouch, the MRP should have been reduced.

Margin on operation and recovery of expenses

2.4.24 The BoD decided (December 2000) to charge the Company's margin on operation on IMFL and Beer at a rate ranging from 6 to 12 *per cent* of the landing cost on a graded scale in addition to the fixed and direct expenses. It, however, did not specify the fixed and direct expenses. The agreements with suppliers also remained silent regarding recovery of fixed and direct expenses. The margin was increased (March 2004) by two *per cent* on each slab and again by one *per cent* in June 2006.

Audit observed the following:

The Company did not recover insurance and godown rent amounting to Rs. 3.84 crore from the suppliers/ manufacturers.

- There was no scientific basis for determining the rate of margin. Even the cost of operation and the normal rate of profit were not taken into account while fixing the margin.
- The Company though recovered insurance charges of Rs. 6.02 lakh from the suppliers for the year 2006-07, the insurance charges of Rs. 25.78 lakh for 2003-06 and godown rent of Rs. 3.58 crore for 2003-08 were not recovered though these were direct/fixed expenses.
- The BoD approved the enhancement of the Company's margin by one *per cent* on 28 June 2006. The Company, however, implemented it with effect from 28 July 2006. The delayed implementation of the approved enhancement resulted in loss of revenue of Rs. 23.66 lakh towards the Company's margin (Rs. 19.50 lakh) and Government revenue towards VAT (Rs. 3.90 lakh) and TCS (Rs. 0.26 lakh).

Government stated (August 2008) that there was no decision of BoD for recovery of insurance charges during earlier periods. It was added that there was no necessity for recovering godown rent from the suppliers as the ownership rested with the Company. The fact, however, remains that the principle for fixation of margin and recovery of fixed and direct expenses from suppliers was not clearly defined. The contention of the Management (July 2008) that due to observance of formalities, there was delay in implementation of the approved enhancement of the Company's margin is not tenable as this required only recalculation of the issue price with a mere change of formulae in the system.

Cash discount and investment of surplus fund

2.4.25 As per agreement, the suppliers were to be paid the sale proceeds after a period of 45 days from the date of receipt of consignment. For payments made before the 45^{th} day, the Company was to deduct cash discounts at the rates of 1.5, 1 and 0.5 *per cent* for payments made within 1 to 15, 16 to 30 and 31 to 45 days respectively. Considering this process of calculation as complex the Company adopted varied rate of cash discount ranging from 0.5 to 1 *per cent* taking one month as a block period. The Company engaged a software consultant in January 2004 to develop a package for calculating cash discount as per the agreement. As per the computation made by the agency, the cash discount realisable up to the year 2003-04 worked out to Rs. 2.57 crore. On this basis the Company realised (February 2005) the differential amount of Rs. 1.54 crore from the suppliers. The software developed by the agency was not retained by the Company. In the absence of software and supporting papers the correctness of the calculation made for realisation of cash discount could not be verified in audit. For want of the software, the Company computed the cash discount on provisional basis for the subsequent years thereby taking the risk of short/excess charging of cash discount, besides incorrect depiction of the financial position of the Company in the Balance Sheet.

Parking of fund in current account instead of flexi account resulted in loss of Rs. 1.04 crore.

Further, as the Company does not immediately pass on the suppliers their share of the sale proceeds and deposits sales tax/VAT in the succeeding month of collection, surplus cash balances accrue during the intervening period. This surplus cash is also supplemented by the Company's margin which generates profit regularly. During the period 2003-08, the Company, though parked its surplus funds in short term deposits, had minimum balance of fund ranging between Rs. 8.52 lakh and Rs. 14.74 crore in its current accounts. In spite of such huge balances in the current account, the Company did not avail of the benefits of the current flexi account scheme for which it lost an opportunity of earning interest income of Rs. 1.04 crore.

Government stated (August 2008) that in order to ensure utmost credibility in computing cash discount, development of software was in progress. As regards availing of flexi deposit scheme, the observation of audit was noted for compliance.

Liability towards Service Tax

2.4.26 The Company received (January 2002) a notice from the Central Excise and Customs (CEC) Authorities for registering under section 69 of the Finance Act, 1994 for levy of Service Tax on the service provided by it as a clearing and forwarding agent. The Company replied (February 2002) that registration under Service Tax was not necessary as it was doing "wholesale trading." The CEC authorities then held (March 2007) the Company liable for payment of Service Tax on its gross volume of taxable services from 2002-07 and requested the Company to pay the Service Tax dues before 31 March 2007. The Company got itself registered (March 2007) and paid Rs. 3.68 crore under protest. The BoD decided (June 2007) to collect the

Service Tax paid by the Company from the suppliers as per the terms of the agreement. The CEC authorities intimated (December 2007) the Company that it was liable to pay Rs. 11 crore towards Service Tax from 16 August 2002 to December 2007. In the meantime, the Company decided (February 2008) to pay Rs. 5.62 crore under protest and claimed the amount from the suppliers. The suppliers however protested the recovery and one of them filed (January 2008) a suit in the High Court of Orissa against the decision of the Company which was pending for decision (August 2008).

Audit observed that on receipt of the notice of CEC authorities, the Company should have assessed its implication and decided whether to bear the liability or to pass it on to the suppliers by amending the agreement clause as the existing clause to enforce recovery of Service Tax was not clear.

Government stated (August 2008) that owing to mounting pressure of CEC authorities the Company got itself registered under Service Tax Act under protest and as per the terms of the agreement the Company was passing on the liability to the suppliers retrospectively. It was added that since the final assessment was not received from the CEC, the Company had not moved to a higher forum. The Company, however, should have decided on the matter of payment of Service Tax as well as collection from suppliers immediately after the receipt (January 2002) of notice of CEC authorities.

Internal control

2.4.27 Internal control is a management tool which helps the Management to draw reasonable assurance that its objectives are being achieved in an efficient and effective manner. The following deficiencies were noticed in the internal control system being followed by the Company.

- The Company did not fix any norm for shortage/breakage in transit and storage to prevent the possibility of pilferage in transit and in the godowns.

- There was no system on record to ensure that the stock received at its godowns was duly affixed with the excise adhesive labels (EAL) as per the excise policies to prove the genuineness of the products besides collection of EAL fees.

- There were instances of use of money receipts and gate passes on plain paper instead of using printed books as supplied by the corporate office. The Company did not exercise any control over the utilisation of money receipt books, goods received notes and gate passes. In absence of such control, chances of fraud cannot be ruled out.

- The Company had no Accounts Manual to streamline the accounts keeping process.

- As the batch wise entry of inward stocks with a code for identification was not recorded, the actual outward movement of stocks received first could not be ensured in audit.
- Bin card system has not been implemented in the depots. Re-ordering level is also not maintained by the Company.

Government stated (August 2008) that due to space constraint, dearth of manpower etc., the recording of batch wise entry of inward stocks was not practically feasible. Other points raised in audit were noted for compliance.

Internal audit

2.4.28 The Company did not have its own Internal Audit Wing. The internal audit of the corporate office was entrusted to a firm of Chartered Accountants. The Internal Auditor submits its reports to the MD and the Chairman. The reports of the internal auditor alongwith compliance reports were not placed before the BoD or the Audit Committee constituted (June 2006) by the BoD.

Government stated (August 2008) that by submitting the reports to Managing Director/Chairman, the objective of internal audit was achieved. The fact is that the compliance reports were neither prepared nor put up to the BoD and the Audit Committee.

Manpower

2.4.29 The State Government sanctioned (December 2000) 71 posts of different categories of employees including 12 posts of executives (excluding MD) to be filled in by deputation from other departments/ state PSUs for smooth functioning of the Company which was reduced (July 2002) to 63 including 13 executives. The men in position of regular employees ranged from only 25 to 33 during 2003-08.

Audit scrutiny revealed the following:

- Even after eight years of its incorporation, the Company did not have its own cadre of employees. The Company, however, deployed 111 to 191 employees during 2003-08 through service providers in the cadres of depot assistant, depot attendant, computer operator and security staff for execution of its day-to-day work. Thus, the total men in position of the Company ranged from 142 to 223 which was in excess of the sanctioned posts.
- Frequent changes in staff in the Accounts branch led to delay in finalisation of annual accounts.
- The Company had not fixed any norm for deployment of manpower in its different depots.

Government stated (August 2008) that the Company would take up the matter at Government level for permanent absorption of deputed staff and action had been initiated for filling up of vacant post of branch managers as well as fixation of norms for deployment of manpower in depots.

Software development

2.4.30 The Government decided (May 2004) to develop a Management Information System (MIS) package for the Excise Department and the Company. The Company issued (July 2006) the work order to Formula One Solutions Private Limited at a price of Rs. 13.72 lakh. The agreement was, however, signed in March 2007. Thus, there was inordinate delay in finalising and awarding the contract. The work, scheduled to be completed by September 2007, was, however, not completed (August 2008). Due to non-completion of the project, the intended benefits of MIS towards formulation of new policies for better management and distribution of liquor and improved accounting applications could not be achieved.

Government stated (August 2008) that delay in development of MIS package was caused due to delay in awarding the contract.

System inadequacies

2.4.31 The Company maintains inventory, sales and purchase details in SQL database and accounts in Tally software. This system suffered from various system design deficiencies, input and validation controls as discussed in the succeeding paragraphs.

Input control and validation checks

2.4.32 Proper input control and validation check ensures that the data entered are authorised, complete and correct. Audit scrutiny revealed the following deficiencies:

- The sales invoice could be prepared before receipt of the sale proceeds, though the Company follows the prepaid system.
- Money receipt dates were prior to the date of receipt of drafts.
- The system allowed raising of sales invoice in the names of persons other than the actual payer.
- The transit pass was issued before the issue of invoice.
- The supplier cannot send goods before the excise permits are obtained. The goods were, however, received before the date of excise permit.

Government while noting (August 2008) the observations of audit for future guidance stated that the deficiencies were being taken care of in the new software under development.

System design deficiencies

2.4.33 The system design deficiencies are discussed below:

- The sales invoice date was not auto generated giving scope for entry of wrong data leading to wrong generation of sales report, etc.
- The system did not provide for any audit trail/log for the entries made.
- The system did not provide for reconciliation of stock account resulting in difference in quantity of stocks transferred and received in case of inter-depot transfers.
- The closing stock of the previous year was not tallying with the opening stock of the following year during 2003-07; the differences ranged from 863 to 46,110 cases of beverages.

Government while noting (August 2008) the observations of audit for future guidance stated that the deficiencies were being taken care of in the new software under development.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance Audit.

Conclusion

The Company being the exclusive right holder for wholesale distribution of beverages neither made a study to ascertain the position of supply/demand of IMFL, Beer and Country Spirit nor compiled the data on production and demand to enable a smooth and regulated distribution of liquor. In the absence of demand survey, the Company could not achieve the revenue target set for it in any of the years as it did not fix and review the supplier-wise target. There were anomalies in application of appropriate rate of excise duty and pricing causing loss to the Company as well as to State Government. The Company also did not take steps to export beverages to earn more revenue. There was delay as well as inappropriate determination of Maximum Retail Price resulting in undue favour to the retailers. The fund management, data management and internal control system of the Company were inadequate.

Recommendations

The Company may consider:

- **making a demand study and compiling the data on production so as to be in a position to ensure a smooth and regulated distribution of liquor with optimisation of Government revenue;**

- **taking timely and adequate steps to implement various related activities as spelt out in the excise policy;**
- **arranging for appropriate fixation of price of beverages in time through Price Fixation Committee and implement the same to avoid loss of revenue;**
- **improving its data management and accounting system; and**
- **strengthening its internal control system.**

Orissa Power Generation Corporation Limited

2.5 Implementation of Enterprise Resource Planning System

Highlights

The Company implemented the Enterprise Resources Planning System only in three areas viz. Purchase, Inventory and Maintenance.

(Paragraph 2.5.1)

The Company had no formal IT Policy.

(Paragraph 2.5.5)

The system had not been designed properly resulting in generation of conflicting data.

(Paragraphs 2.5.6 and 2.5.7)

Inadequate input and validation controls resulted in lack of data integrity and incorrect MIS.

(Paragraphs 2.5.9 to 2.5.15)

The Company did not explore the utilisation of the facilities though available in the system.

(Paragraph 2.5.19)

Introduction

2.5.1 Orissa Power Generation Corporation Limited was incorporated in November 1984 as a wholly owned Government company with the main objectives of establishing, operating and maintaining thermal power generating stations in Orissa. The Company installed (October 1995) a 2 X 210 MW Thermal Power Station at Ib Valley, Banharpali, Jharsuguda.

For an effective asset management strategy, the Company implemented (October 2002) Ramco e-Application, an Enterprise Asset Management System. Initially, the Company implemented only three modules (Maintenance Operation, Purchase and Inventory).

Accordingly, the Company entered into a turnkey contract (February 2000) with Computer Maintenance Corporation Limited (CMCL), a Government of India undertaking, for supply and installation of necessary hardware and software at a total cost of Rs. 1.10 crore (Hardware Rs. 85.50 lakh and Software Rs. 24.50 lakh). The Company implemented Ramco e-Application Software Systems (October 2002) in a Client Server Environment with

Compaq Proliant 3000 Intel P3 Server and Windows NT as the Operating System. SQL Server 7.0 package is used as the backend database software. Out of the total 18 licences of Ramco e-Application supplied by CMCL, the Company is presently using 13 licences among the 16 user departments on 98 nodes. The overall control of the system rests with a Manager (IT).

Scope of audit

2.5.2 The audit of the three implemented modules of Ramco e-Application viz. Purchase Module (PM), Inventory Module (IM) and Maintenance Operations Module (MOM) was conducted for the period from 2004-05 to January 2008 during January to March 2008.

Audit objectives

2.5.3 The audit was conducted with a view to assess whether:

- the business rules were correctly mapped and the system was customised in conformity with these;
- the implementation of different modules had achieved the desired results; and
- adequate controls existed to ensure complete and reliable data in the system.

Audit methodology

2.5.4 The audit analysed the Microsoft Excel Reports generated through queries from the database on 9 January 2008 using computer assisted audit techniques (CAATs). The information as furnished by the Management to the questionnaires issued was also utilised.

Audit findings

It was observed in audit that the system had deficiencies with respect to system design, codification, input/validation controls etc. which resulted in ineffective and inefficient management of the system. The audit findings are discussed in the succeeding paragraphs.

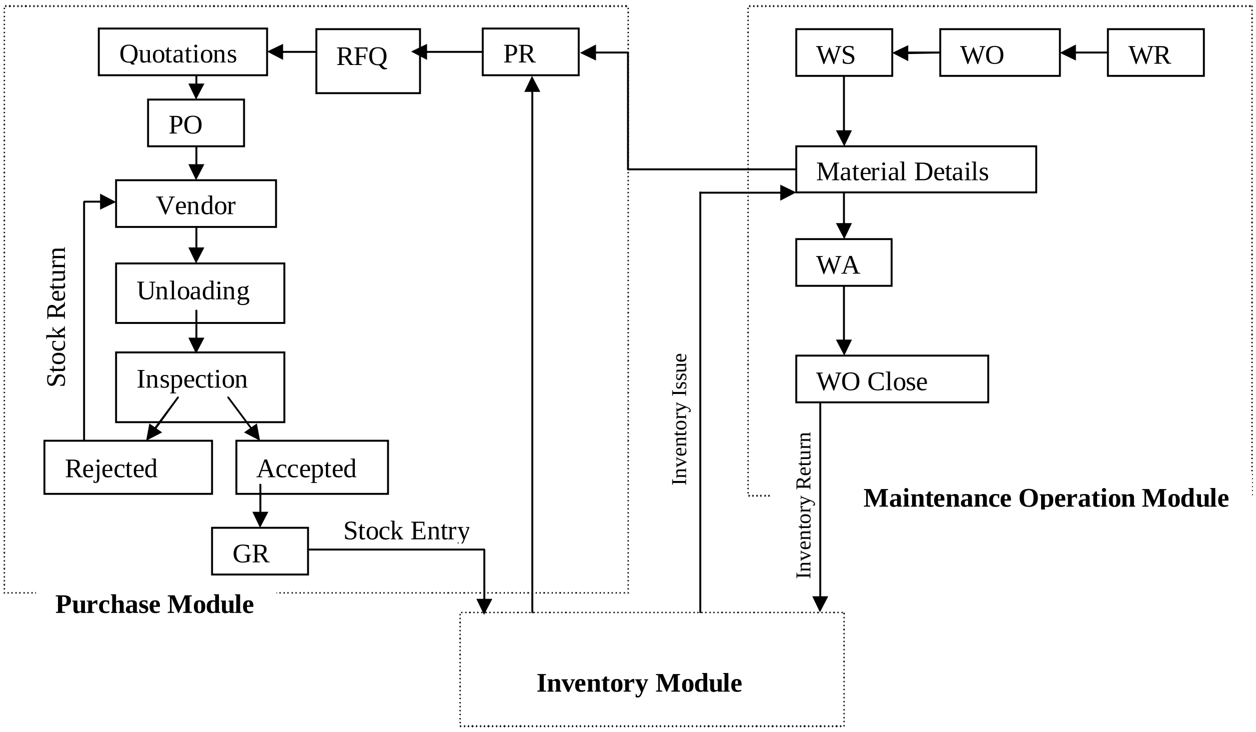
Planning and implementation

2.5.5 The Company did not have an Information Technology (IT) policy and any Information System (IS) security policy either. The Company is yet to begin the business reengineering to frame the business blue print. Further, change management policies and business continuity plan were yet to be defined.

The test reports regarding performance guarantee test conducted by CMCL in October 2002 after implementation of the system were not made available.

System design

2.5.6 The three modules are integrated with each other as shown below:



Note: PR-Purchase Request, RFQ-Request for Quotation, PO-Purchase Order, GR-Goods Received, WR-Work Request, WO-Work Order, WS-Work Scheduling, WA-Work Actual

Materials issued from the stores are accounted in the Inventory Module against the work order generated based on the work requests from plants. Based on the availability of the material, purchase requests and purchase orders are generated in the system. Goods received are inspected and accounted as stock. After completion of works the consumption of materials is accounted through MOM in the system.

Design deficiencies

2.5.7 The issues against work orders were accounted in the system under three different categories i.e. *'inventory', 'maintenance' and 'unplanned'* whereas returns were accounted under two categories only i.e. *'inventory'* and *'maintenance'*. Due to the deficiency in the system design, the items issued under *unplanned* category were not treated as consumed and returns under *inventory* category were still treated as consumed. This resulted in mismatch between the issue and consumption details generated through the system.

Data analysis revealed that in 257 cases (115 in 2004-05, 57 in 2005-06, 58 in 2006-07 and 27 in 2007-08) the issues after accounting the returns did not match with the consumption details.

The Management accepted the observation (May 2008) and stated that users accounted *unplanned* issues against closed work orders which should have been done by making sub-work orders. It further stated that users were instructed to return the material before closing the work orders so that actual consumptions could be reflected in the system. The reply substantiates the existence of deficiencies in the system as it could permit further transactions on closed work orders as discussed in paragraph 2.5.15.

Logical access controls

2.5.8 The Company implemented Ramco e-Application with 18 concurrent user licenses. Each department was assigned with a user name and password which was being shared by all the authorised users in a particular department. It was observed that access rights could not be defined to a particular user due to limited user licenses resulting in absence of accountability.

Further, it was observed that the audit trail facility though available was also not utilised and as such no record of the transactions performed like adding, modifying and deleting data during a transaction was available.

Input control and validation checks

Input controls and validation checks ensure that the data entered into the system are complete, authorised, correct and valid. Analysis revealed the following:

Fixation of inventory levels

2.5.9 System provided for effective management through fixation of maximum, minimum and reordering levels. The Company, however, has not fixed any norms. Analysis of 21,291 active inventory items revealed that:

- In respect of 1,108 items, the minimum and maximum stock levels were not fixed.

- In respect of 20,240 items, the re-order level and re-order quantity were not fixed and out of these, minimum stock levels were fixed in respect of 20,183 items. Further, in respect of 84 out of these items, the minimum and maximum stock levels fixed were the same.

Thus, absence of input controls led to inconsistent data wherever it was entered and in some cases the specific levels were not fixed which further weakened the inventory management. The Management accepted (May 2008) the observation and stated that necessary corrective action would be taken in the ensuing year.

Inventory codification

2.5.10 As per the codification procedure of the Company, item code consists of nine digits and the first two digits denote the main group to which the item belongs. Data analysis revealed that:

- 1,228 different item codes were used for 435 item descriptions and the multiplicity ranged from 2 to 53, out of these against 69 descriptions were entered as 'blank' and 26 descriptions were entered as "BUSH".

- Out of 26 different item codes indicated against the item "BUSH" only four[*] codes were identified as capital spares and the remaining 22 items valued at Rs. 4.21 lakh remained in the stock without issue since October 2002 due to non-assignment of specific item description.

The Management admitted (May 2008) the observations and stated that now the codification is being validated by the Maintenance and Planning department. The fact remains that deficiencies crept in initial period were yet to be rectified.

2.5.11 Further analysis of data revealed that:

- Inspection status was not standardised and entries like *INSPECTED, inspected, INSPECTEDD, INXSPECTED, Inspected* and *inpspected* were allowed and the status had not been indicated in 265 cases even though the date of inspection had been mentioned**.**

- Only 4,943 out of 7,565 items inspected were moved to the stock account.

- Miscellaneous cost incurred against a Work Order (2007-08) was incorrectly indicated as Rs. 9.68 crore instead of Rs. 9.68 lakh and the mistake was not rectified till date (September 2008).

Purchase and receipt of goods

2.5.12 Data analysis of purchase, receipt of goods available in the system revealed that:

- In 107 out of 20,968 purchase cases the PO dates were earlier to the purchase request dates by one to 136 days.

- Similarly in 1,602 out of 21,103 cases, the dates of invoices received for the materials purchased were found to be earlier than the purchase order date by one to 2,239 days.

The Management stated (May 2008) that certain POs were placed without waiting for the indents in view of the urgency and in some cases there might be typographical errors. This indicated absence of validation controls. Further,

[*] Item codes: 501916008, 501916032, 501916036 and 501924016.

the system needed to have separate provisions for urgent or emergency purchases.

2.5.13 Analysis of data relating to goods received and subsequent stock entry revealed the following:

- 1,874 items including 18 rejected items out of 3,122 items yet to be inspected were shown as moved to stock.
- The system accepted the date of inspection and date of goods receipt date as 1899/12/31 in 3,691 and 3,303 cases respectively.
- In one case, system accepted a future date as the inspection date.
- In 951 cases, the inspection date was before unloading of the materials which varied from 1 to 966 days.
- In 239 cases the goods received date was before the inspection date ranging from 1 to 1,094 days.
- In 111 cases the inspection date was indicated after one year from the unloading date. Out of this, in 67 cases, the items were accounted for in the stock account before the inspection.

Thus, there was no validation check on the dates as per the chronology of events. The Management stated (August 2008) that in the absence of provision in the Ramco e-Application to inspect the goods before receipt, a user defined screen was developed to follow the procedure and the user defined process lacked the required validation controls. The necessary controls needed to be provided in the user designed process to avoid such instances.

Work Orders

2.5.14 Analysis of work order status on the 9 January 2008 and the relevant cost details revealed the following:

Sl.No.	**WO Status**	**Number of Records**
1.	Cancelled	1,031
2.	Closed	30,099
3.	In Progress	20
4.	Open	2,641
5.	Schedule	492
	Total	**34,283**

- Out of 30,099 closed work orders the cost of execution was available only for 29,037 work orders.
- In 4,522 cases out of 29,037 cases, the scheduled execution dates were earlier than the work order dates by 1 to 928 days.

- In 3,499 cases out of 29,037 cases, the Work Order Completion dates were earlier than work order dates by 1 to 928 days.

Further review of the status in March 2008 revealed that during the period 2,500 work orders were closed and closure dates were indicated as dates prior to 9 January 2008.

This indicated that the entries were manipulated which resulted in generation of inconsistent Management Information System (MIS) reports through the system over a period.

2.5.15 As per the outlined procedure relating to a work order, modification was not possible after closure of the work order. The system, however, had provision for allowing transactions on a closed work order by creating a sub-work order for regularising the unaccounted receipt, issue, returns, etc. of the parent work order.

Audit scrutiny revealed the following:

- In 1,898 work orders, material had been issued after (1 to 473 days) of closure of the respective work orders.
- In 15 cases 'sub-work orders' were generated before the date of the parent work order by one to six days.
- In 11 cases, sub-work orders were generated in the subsequent financial years after the closure of the work order.

Management admitted (May 2008) the deficiency regarding creation of sub-WOs prior to parent WO and stated that the matter had been referred to Ramco Systems Limited. The Management further stated that there was time stamping in the database for recording the actual work order closing date after which no further transactions were possible. It was further stated that the WO completion date as mentioned in the WO was the completion date entered by users whereas the system records the system date in the database. However, any supporting documents/evidence was not provided to audit in the absence of which it could not be vouched.

Non-utilisation of system

2.5.16 It was noticed that though Coal was the major and high value raw material, the accounting of the same was not done through the system. Vendor details and budget details are not updated in the system.

2.5.17 The system was equipped with various inventory analysis tools like ABC Analysis, XYZ Analysis, FSN* Analysis and VED** Analysis. Data analysis revealed that the system was not used for identification of slow/non-moving items of stores/spares.

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* Fast moving, Slow moving and Non-moving items.

** Vital, Essential and Desirable items.

- 1,466 items valued at Rs. 2.12 crore procured more than one year ago (including 343 items migrated in October 2002) had not been issued so far (9 January 2008).

- Further analysis of the data revealed that 771 inventory items valued at Rs. 2.82 crore were not issued during the last three years.

Other issues

Mismatch of figures of Stores Price Ledger

2.5.18 The Stores Price Ledger (SPL) generated through the system contained details of closing stock of inventory including issues, returns and closing balance. Comparison of these details with those available in Inventory Module for the years 2004-07 revealed the following discrepancies:

(Figures are in rupees)

Year	Issue			Return		
	As per IM	As per SPL	Difference	As per IM	As per SPL	Difference
2004-05	14,95,54,547	14,95,54,547	Nil	27,80,068	27,80,068	Nil
2005-06	14,81,64,852	14,81,64,852	Nil	1,01,92,190	1,05,24,335	3,32,145
2006-07	14,77,47,012	14,71,72,298	5,74,714	44,86,556	44,86,556	Nil

Further analysis revealed that certain issues/returns were not taken into account in the SPL. As the closing stock in the financial account was valued on the basis of SPL, this also resulted in overstatement of stock of inventory to the extent of Rs. 3.32 lakh and Rs. 5.75 lakh in the year 2005-06 and 2006-07 respectively.

The Management replied (August 2008) that those material returned under ‘unplanned’ type (2005-06) and items directly moved to the cost centres were not included in the SPL and hence there was no overstatement of stock. The reply could not be accepted since further checks revealed that the material returned was treated as ‘inventory’ and the items were issued through stores only and not moved directly to the cost centres.

Available features of the Ramco e-Application

2.5.19 The Company initially purchased and implemented only three modules of the Ramco e-Application System though features like Cash Flow, Accounts Payable, General Ledger, Management Accounting, Fixed Assets etc. were readily available in the off the shelf application. The Company has decided (September 2007) to reengineer and implement an Enterprises Resource Planning (ERP) system using System Application and Products in Data Processing (SAP) at an estimated cost of Rupees five crore (including Rs. 0.35 crore towards development of IT Strategy Roadmap) on account of some drawbacks in the existing system like absence of integration of the existing application with financial accounting, asset accounting, detailed cost accounting etc., and to minimise manual intervention in the business processes. The fact remains that the Company did not explore the possibilities of implementation of similar facilities already available in the existing ERP System.

The matter was reported to the Management/Government (October 2008); their replies were awaited (November 2008).

Conclusion

Though the system was in operation for the last six years the Company did not have any documented IT strategy, IT policy, security and backup policy. The computerisation of different activities of the Company suffered from improper business mapping and codification which were vital for assuring effectiveness of the system. The input and validation controls of the system were not adequate for ensuring accuracy and integrity of data. The system did not have adequate logical access control especially due to deficient number of user licenses which led to lack of accountability on part of the users. As a result, the system remained with deficient data without serving as a reliable Management Information System. Due to non-integration of the system with the finance and account activities, the system was also not helpful in preparing the financial statements.

Recommendations

In order to obviate the shortcomings in the system, the Company should:

- **Frame the IT strategy, security and backup policies;**
- **Map the complete business process in the system;**
- **Codify and fix the levels of inventory;**
- **Strengthen the input and validation control features; and**
- **Strengthen the logical access controls especially by using adequate number of licenses and allocation of specific roles and authorisation rights to ensure accountability.**

Chapter III

3. Transaction Audit Observations

Government companies

Orissa Hydro Power Corporation Limited

3.1 Abnormal delay in renovation and modernisation

Failure of the Company to award the work to the Original Equipment Manufacturer as per Government directive led to avoidable loss of Rs. 21.06 crore besides laxity in recovery of liquidated damages of Rs. 48.43 lakh from Bharat Heavy Electricals Limited.

The Unit-II of Chipilima Power House of the Company went into shut down in November 2000. For Supply, Renovation and Modernisation (R&M) of the unit, Bharat Heavy Electricals Limited (BHEL) and Voith Siemens (VS), Germany, the Original Equipment Manufacturer (OEM) submitted their offers in June 2001 and November 2001 respectively. Considering the fact that VS had the original drawings and templates of the power plant and they were the OEM, the State Government directed (November 2002) the Company to award the work to VS. Further, VS also intimated (January 2003) that the replacement of parts during R&M work was required to be checked and adopted by the OEM according to the original design and any attempt by a non-OEM to reuse the critical components would lead to technical problems and loss of time. The Company, however, awarded the work (June to September 2003) to BHEL at a price of Rs. 9.69 crore (exclusive of taxes, duties, freight, transit insurances, etc.) on the ground of lowest price, elimination of foreign exchange variation and co-ordination problems. The work was scheduled to be completed by January 2005.

BHEL commissioned the unit only in March 2008 i.e. after a delay of 38 months. The unit was again under forced shut down since 16 April 2008 and started functioning from 8 May 2008. In the meantime, the Company paid a total amount of Rs. 10.04 crore up to December 2007 and only Rs. 1.96 crore was the balance payable. Due to delay in commissioning, the Company incurred avoidable loss of Rs. 21.06 crore towards non-generation of 389 MU electricity from the unit during February 2005 to February 2008.

Audit observed that the disadvantage of not being the OEM and lack of required expertise, made it difficult for BHEL to complete the work in time; nor the operational stability could be brought for which the unit had to be shut down even after its commissioning. Thus, awarding the work to BHEL disregarding the advice of the State Government was injudicious. Further, BHEL was allowed extension of time for completion of the work periodically without holding them accountable for the delay. The Company, however, did not claim and recover Liquidated Damages of Rs. 48.43 lakh as per the terms of the work orders.

Government stated (November 2008) that it made every effort in pursuing BHEL to complete the work as early as possible. The fact remained that the failure of the Company to award the work to the OEM led to avoidable loss of Rs. 21.06 crore despite fund outflow of Rs. 10.04 crore on R&M.

3.2 Avoidable expenditure towards Guarantee Commission

Failure of the Company to reduce the Government guarantee against the loan repaid from time to time would result in avoidable expenditure of Rs. 7.46 crore towards Guarantee Commission.

The Company was liable to pay Guarantee Commission (GC) at the rate of 0.5 *per cent* per annum to the State Government on the entire amount of guarantee outstanding as on 1 April of each year till liquidation of the loan as per the guidelines (November 2002) of Government of Orissa. For reduction of guarantee due to repayment of loan, the Finance Department (FD) clarified (June 2003) that concurrence of the FD should be obtained by the concerned Administrative Department on production of proof of payment of up-to-date GC, letter of the lending institution certifying repayment of the loan and other concerned supporting papers. In that case, GC would be paid on the reduced guarantee amount.

The State Government sanctioned (between July 1994 and May 2001) guarantee of Rs. 615.04 crore to the Company for availing loans from Power Finance Corporation Limited as against which, the Company availed (1994-2008) loans of Rs. 557.18 crore and the balance guarantee of Rs. 57.86 crore remained unutilised as on 31 March 2008.

Audit observed that though the Company repaid Rs. 353.51 crore during 1997-2008, it did not take action for reduction of the amount of guarantee outstanding to the extent of repaid amount of loan. It belatedly requested (August 2007) the FD to reduce the guarantee by Rs. 78.80 crore only in respect of complete repayment of one loan. The FD, however, opined (January 2008) that since the Company did not initiate action to reduce the guarantee in the relevant years of repayment as per the instructions of June 2003, GC on the full guaranteed amount would be payable by the Company.

The Company accounted for Rs. 15.56 crore towards GC for 2002-03 to 2006-07 in its accounts on the full amount of guarantee availed. In addition to this, the Company would pay GC of Rs. 5.76 crore for 2007-09. Had the Company taken steps as per the instructions of the FD to reduce the guarantee against the amount of loan repaid in the relevant years, it would have paid Rs. 13.86 crore towards GC for the period 2002-09. As a result, the Company would incur avoidable expenditure of Rs. 7.46 crore[*].

[*] Rs. 15.56 crore (2002-07) + Rs. 5.76 crore (2007-09) – Rs. 13.86 crore (actually paid Rs. 11.25 crore upto June 2008).

The Management stated (May 2008) that they had requested (between January 2003 and October 2007) the Department of Energy to reduce the guarantee amount to the extent the loans were repaid, which was pending with the Finance Department. Audit, however, observed that the Company made request in respect of one out of four loan cases which was not accepted by FD. Besides, the Company did not submit the surrender proposal in line with the instruction of FD of June 2003.

The matter was reported to the Government (March 2008); their reply was awaited (November 2008).

3.3 Undue favour to a contractor

Failure of the Management to impose liquidated damages timely resulted in non-realisation of Rs. 5.46 crore.

The Company executed an agreement (October 2003) with JSC Leningradsky Metallichesky Zavod (JSC LMZ), Russia for design, manufacture and supply of turbine and other associated equipment for Balimela extension project (Unit-7 and 8) of the Company at a price of US$ 24,953,216 CIF, Visakhapatnam Port (exclusive of taxes and duties). As per terms of the contract, supply was to be made between October 2004 and December 2005 and in case of delay, liquidated damages (LD) equivalent to 0.5 *per cent* of the price of the delayed goods for each week of delay subject to a maximum deduction up to 10 *per cent* of the contract price was to be levied. The Company paid 15 *per cent* of the contract price prior to signing the contract and agreed to pay 35 *per cent* on presentation of documents and balance 50 *per cent* on completion of delivery.

Audit scrutiny revealed that the contractor supplied the material between November 2004 and March 2006 with a delay ranging from 1 to 38 weeks. In spite of delay in supply, the Company released (December 2004 to May 2006) the full contract price without recovering the LD. It, however, belatedly claimed (March 2008) LD of US$ 13.65 lakh equivalent to Rs. 5.46 crore, but could not recover it since the full contract price had already been released.

While accepting the views of audit, the Government stated (November 2008) that though the Company claimed LD for US$ 13.65 lakh in March 2008 as per the provision of the contract, the same was disputed by the contractor, which would be resolved shortly. The fact, however, remains that the LD was not imposed before release of payment to the contractor.

Thus, failure of the Management to impose LD in time resulted in non-realisation of Rs. 5.46 crore.

3.4 Excess reimbursement of Service Tax

Wrong computation of service tax resulted in excess expenditure of Rs. 1.41 crore.

The Company entered into (24 October 2003) a turnkey contract with LMZ Energy (India) Limited (LMZIL), New Delhi for installation of Unit-7 and 8 under Balimela Extension Project at a consolidated price of Rs. 33.36 crore inclusive of all taxes and duties, which was a split contract of the earlier contract executed (31 January 1996) with LMZIL. As per the terms of the contract the price was to be adjusted to take into effect any change in law, increase or decrease in rates of indirect taxes or imposition of any new taxes coming into effect after 1 February 1996. LMZIL was, however, required to submit the variation in cost in execution of the works and services rendered due to subsequent change in law after 1 February 1996 with proper documents. The scope of work included fabrication, erection, testing and commissioning besides procurement and supply of material required for executing the contract.

The services like commissioning, installation and overhauling were made taxable under service tax from 1 July 2003 by the Government of India. The value of supplies towards material was, however, excluded from the purview of service tax. As per the notification of August 2003 of Government of India, in the absence of price break-up of value of material and services rendered in the contract, service tax at the rate of 10.2 to 12.24 *per cent* would be computed on 33 *per cent* of the gross value of the contract. This abatement could be availed of if no credit of duty paid on inputs or capital goods had been taken under the CENVAT Credit Rules, 2004.

LMZIL submitted (October 2005 and October 2006) two invoices for reimbursement of service tax including cess for Rs. 2.29 crore based on 65 *per cent* of value of work done for Rs. 21.68 crore. The Company accepted the Rs. 20.14 crore as value of work done for service tax and paid (January 2006 and June 2007) Rs. 2.18 crore to LMZIL.

Audit scrutiny revealed that the Company had not obtained the details of CENVAT credit availed by LMZIL before reimbursement of service tax. Therefore, the Company should have considered taxable service as 33 *per cent* of the value of work done (Rs. 21.68 crore) which worked out to Rs. 7.15 crore on which service tax amounting to Rs. 77.45 lakh was payable. The Company, however, reimbursed the service tax though LMZIL did not submit the variation in cost in execution of the works due to subsequent change in law after 1 February 1996 with proper documents. As a result, there was excess reimbursement of Rs. 1.41 crore to the contractor.

Government stated (November 2008) that abatement was not available since two separate contracts for supply of plant and machinery and erection and commissioning of the project were executed in this work. The reply is contrary to the fact that the contract with LMZIL was a separate contract with specific scope of work which included procurement and supply of local materials as well as erection and commissioning in which case the abatement was applicable.

Thus, wrong computation of service tax resulted in excess expenditure of Rs. 1.41 crore.

3.5 Idle investment

Delay in procurement of cables led to non-compliance with statutory requirements besides blockage of fund leading to loss of interest of Rs. 44.71 lakh as well as cost overrun of Rs. 91 lakh.

The Eastern Region Electricity Board (EREB) decided (November 2003) that all hydel and thermal power generating stations would operate in Free Governor Mode of Operation* (FGMO) with effect from 20 November 2003 as required under the provisions of the Indian Electricity Grid Code. In pursuance of this, the Company decided (September 2004) to replace the existing governors of Unit-I and II of its Rengali Hydro Electric Project (RHEP) with microprocessor-based governors capable of being operated in FGMO mode. Further, the Company had decided (August 2004) to replace Automatic Voltage Regulators in Unit-I and II with microprocessor based Static Excitation Equipment (SEE) due to obsolescence. The Bharat Heavy Electricals Limited (BHEL) estimated (August-September 2004) the cost of required cables for installation of SEE and governors at Rs. 68 lakh.

The Company placed (November 2004) purchase order on BHEL for two sets each of SEEs and governors at a total cost of Rs. 2.85 crore. It received the equipments in April 2005-April 2007 and paid (November 2004-June 2007) Rs. 2.06 crore. It, however, did not place the Purchase Orders for cables on BHEL.

The open tenders floated (March 2005 and September 2006) by the Company for procurement of cables could not be finalised either due to disqualification of samples or change in specification. Subsequently, on an offer received (November 2007) from BHEL, the Company placed (July 2008) order for the cables at Rs. 1.59 crore.

Government stated (November 2008) that due to changes in specification of cable by BHEL, there was delay in procurement of cables which was beyond their control. It was also added that there was net saving of Rs. 75.11 lakh considering the present procurement cost of SEE and governor vis-à-vis loss of interest. The fact is that the Company was not certain about the specification of the cables and as it was depending upon the advice of BHEL, it should have placed order on BHEL for procurement of cables along with orders of SEE and governors in order to arrest the delay arising due to uncertainty of specification. Further, the assertion of saving in cost due to delay in procurement is devoid of logic since the benefit it would have derived by earlier commissioning of the equipments had been ignored.

* FGMO is a defence mechanism against grid disturbances.

Thus, abnormal time (43 months[β]) taken by the Management in placement of order for cables led to non-compliance with the statutory requirements, blockage of fund of Rs. 2.06 crore with consequent interest loss of Rs. 44.71[*] lakh and cost overrun of Rs. 91[Ψ] lakh.

GRIDCO Limited

3.6 Avoidable payment of compensation

Injudicious decision of the Company to resume power supply in violation of the decision of the Board of Directors coupled with acceptance of penal clause for short supply led to avoidable expenditure and non-realisation of Rs. 6.55 crore.

The Company entered into an agreement (5 October 2006) with Adani Enterprise Limited (AEL), New Delhi for sale of 200 MW power round the clock (00.00 to 24.00 hrs) and 100 MW additional power during evening peak hours (17.00 to 23.00 hrs) for a period of three months from 1 October to 31 December 2006. The contract envisaged that in case the Company failed to supply 80 *per cent* of the contracted power, it would pay compensation of 50 paise per kwh to AEL for the quantum of power that fell short of 80 *per cent* of the contracted power. On the other hand, if AEL failed to draw 80 *per cent* of the contracted power, it would pay compensation of 48 paise per kwh to the Company for the quantum of shortfall in drawing of power.

The Company commenced supply of power to AEL from the first week of October 2006 and supplied 388.04 Million Units (MU) upto 28 November 2006 as per the agreement. The Board of Directors decided (27 November 2006) to suspend the supply of power from 29 November 2006 in compliance with the judgement (16 November 2006) of the Appellate Tribunal for Electricity (ATE) which stated that the Company could not sell surplus power at a margin higher than what was allowed under Regulation-2 of Central Electricity Regulatory Commission (Fixation of Trading Margin) Regulations, 2006 pending decision from the appropriate court. In view of the judgement (16 November 2006) of ATE, the agreed price was not enforceable for which the agreement was mutually terminated (16 December 2006). However, at the request of AEL and as a gesture of goodwill, the Company agreed (16 December 2006) to supply through Orissa Hydro Power Corporation Limited (OHPC) the minimum contractual quantum of 134 MU, which was not supplied in December 2006. The Company also agreed to pay compensation as per the terms of the agreement of October 2006 in the event of short supply of power by OHPC. The prior approval of the BoD was, however, not taken for this arrangement. OHPC, on the other hand, signed an agreement (15 December 2006) with AEL for sale of power during

[β] From November 2004 to June 2008.

[*] Interest calculated at 9.8 *per cent* per annum i.e. rate at which interest was paid by the Company on the Government loan.

[Ψ] Offered price of BHEL in 24 September 2007 – Rs. 1.59 crore *less* estimated cost of cables in 2004- Rs. 68 lakh.

16 December 2006 to 14 January 2007 without provision for payment of compensation due to short supply.

OHPC supplied 32.45 MU of power to AEL from 19 to 28 December 2006. The power supply was again discontinued from 29 December 2006 in view of another order (22 December 2006) of the ATE and was not resumed subsequently despite the Company obtaining (8 January 2007) a stay order from the Supreme Court of India against the orders of the ATE. Due to non-supply of the balance quantity of 101.55 MU, AEL deducted (January 2007) Rs. 5.08 crore towards compensation and Rs. 0.92 crore towards open access charges[#] for non-utilisation of the booked transmission corridor for the month of December 2006 from the bills of OHPC against supply of power. In turn, such compensation and open access charges were to be borne by the Company as per the decision of 16 December 2006. The Company, however, agreed only for Rs. 5.70 crore[$] towards compensation and open access loss.

Further, AEL did not draw 45.50 MU during October and November 2006 for which it was liable to pay Rs. 2.18 crore towards open access charges. AEL, however, agreed to pay open access charges of Rs. 1.63 crore only on the ground of wavier of Late Payment Surcharge (LPS) payable by the Company.

Audit scrutiny revealed the following:

- In view of the judgement (November 2006) of the ATE, the implementation of the agreement between the Company and AEL, was not possible for which it was terminated mutually as decided by the BoD. Since subsequent supply of power was made at the request of AEL and as a gesture of goodwill, the Company should not have agreed for payment of compensation in the event of short supply of power by OHPC.

- As per terms of the agreement (October 2006), the Company was not liable to pay any LPS to AEL. Hence acceptance of the terms of AEL for receipt of open access charges of Rs. 1.63 crore resulted in non-realisation of Rs. 0.55 crore.

Government stated (November 2008) that due to contractual obligation, the Company was liable to pay compensation to AEL for non-supply of power during December 2006. The reply does not address the point that following the judgment of ATE, the contract of October 2006 was mutually terminated absolving the Company from payment of any compensation to AEL. For subsequent supply through OHPC as a gesture of goodwill the Company should not have agreed to pay compensation in case of short supply of power.

Thus, injudicious decision of the Company to resume power supply at the request of the purchaser in violation of the decision of the BoD coupled with

[#] Open Access charge: It includes Central Transmission Utility charges/ State Transmission Utility charges, Regional Level Despatch Centre and State Level Despatch Centre charges as applicable as per regulation made by appropriate Commission for utilisation of transmission corridor.

[$] Compensation claimed by AEL Rs. 5.08 crore + open access loss Rs. 0.62 crore.

acceptance of penal clause for short supply led to avoidable expenditure and non-realisation of Rs. 6.55* crore.

Industrial Development Corporation of Orissa Limited

3.7 Loss due to non-conversion of low grade chrome ore into concentrate

Injudicious decision of the Company to sell low grade chrome ore without beneficiation despite availability of plant capacity deprived the Company of additional revenue of Rs. 5.40 crore.

The low grade chrome ore (having chrome content less than 40 *per cent*) raised by the Company from its mines are beneficiated through the contractor by manual washing as well as in the Company's Chrome Ore Beneficiation Plant (COBP) to generate chrome concentrate (chrome content more than 48 *per cent*) for getting higher sale price. The Company installed (March 2004) a COBP having feeding capacity of 10 TPH (3,000-4,000 metric tonnes (MT) per month). The capacity was increased (June 2006) to 8,000 MT by installing an additional COBP and to 12,000 MT per month (June 2007) by increasing its capacity. The Managing Director (MD) of its subsidiary Company#, who operated the mine, opined (November 2007) not to sell low grade chrome ore and to sell only chrome concentrates since the profit margin in the latter was very high.

During April 2007 to March 2008, as against the feeding capacity of 1.02θ lakh MT of low grade chrome ore in COBP, the actual feeding was 36,735 MT and the output of chrome concentrate was 19,065 MT (percentage of recovery was 52). Despite utilisation of only 36 *per cent* of the installed capacity of COBP, the Company decided (November 2007) to sell 21,314 MT of low grade ore without beneficiation on the grounds of reducing space constraint and inventory as well as to facilitate quicker lifting of materials by the buyers. It was stated that further generation of low grade ore from the mine would be beneficiated.

Audit scrutiny revealed the following:

- During 2007-08, the average additional revenue in selling chrome concentrate over low grade chrome ore was Rs. 9,738 per MT. The additional cost for conversion including cost of sale was Rs. 4,843 per MT in the corresponding period. Thus, it was a profitable proposition to sell chrome concentrate rather than sell low grade chrome ore since net additional revenue in selling chrome concentrate was Rs. 4,895 per MT.

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* Amount deducted by AEL towards compensation of Rs. 5.08 crore and towards open access charges of Rs. 0.92 crore plus non-realisation of open access charges from AEL of Rs. 0.55 crore.

IDCOL Ferro Chrome and Alloys Limited.

θ Considering the minimum capacity of 3000 MT per month of one COBP plant, the capacity available during April to May 2007 was 12,000 MT (2 COBP plants x 2 months x 3000 MT) and during June 2007 to March 2008 was 90,000 MT (3 COBP plants x 10 months x 3000 MT)

- The low grade ore of 21,314 MT sold by the Company would have generated 11,034[*] MT of saleable chrome concentrate. In spite of availability of installed capacity, the decision of the Company to sell low grade chrome ore without beneficiation was injudicious. As a result, the Company lost the opportunity of earning net additional revenue of Rs. 5.40[$] crore.

Government stated (August 2008) that since the actual feeding capacity and output of the COBPs per year was 66,000 MT and 24,000 MT respectively, further load of beneficiation could not have been possible for which the low grade ore was sold to avoid deterioration in quality due to accumulation. The fact remains that the budgeted feeding capacity and output of COBPs was 1.20 lakh MT and 60,000 MT respectively per year with manual beneficiation of 24,000 MT per year. Hence, the Company should have beneficiated the ore as suggested (November 2007) by the MD of the subsidiary company to earn more revenue.

Thus, injudicious decision of the Company to sell low grade chrome ore without beneficiation despite availability of plant capacity deprived the Company of additional revenue of Rs. 5.40 crore.

3.8 Undue favour to contractor

Upward revision of rate of transportation charges beyond the terms and conditions of the contract resulted in excess expenditure of Rs. 53.34 lakh which amounted to extension of undue favour to the contractor.

The Company issued (September 2004) a letter of intent followed by a work order (November 2004) to BD Mohta, a contractor, envisaging, *inter alia*, transportation of iron ore from the mines to the crusher site at a rate of Rs. 74.50 per MT subject to escalation only on account of increase in diesel price.

The contractor requested (September 2005) IKIWL[Ψ] for enhancement of the rate to Rs. 150 per MT on the ground that the district administration had reduced the loading capacity of trucks/tippers to 9 MT. The Chairman-cum-Managing Director (CMD) rejected (February 2006/ February 2007) the request stating that the reason cited was beyond the terms of the contract. The General Manager (Mines) again proposed (April 2007) for revision of rate on the ground of restriction in carrying capacity and better commercial dealings which would result in higher output and higher profit. The BoD approved (May 2007) the increase in rate to Rs. 120 per MT to be effective retrospectively from 1 December 2005.

Audit scrutiny revealed that the District Administration had only restricted (November 2005) the carrying capacity of trucks to 16.2 MT (gross weight) as

[*] Recovery at a rate of 51.90 *per cent* and transportation loss of 0.25 *per cent.*
[$] 11,034 MT x Rs. 4895
[Ψ] IDCOL Kalinga Iron Works Limited, a subsidiary of the company which manages the Iron ore mines.

per stipulation of Motor Vehicle Rules, 1989 and the contractor was supposed to load the trucks/ tippers up to the permissible limit. Thus, enforcement of a rule, which was already in force at the time of issue of the work order, should not have been a ground for increase in rate. Since the contract period was expiring in September 2007, increase in rate in May 2007 with retrospective effect on the grounds of better commercial dealings was also not justified. Further, the contract was executed (November 2004) with the approval of the State Government. The subsequent modification in rate of transportation was, however, not got approved by the State Government, which was in violation of the orders of the State Government.

During the period 1 December 2005 to 31 March 2007, the transportation rate per MT was in the range of Rs. 74.50 to Rs. 83.58 including escalation. Thus, upward revision of rate to Rs. 120 per MT resulted in extra expenditure of Rs. 53.34 lakh on transportation of 1,27,469 MT of ore during this period.

Government stated (October 2008) that due to increase in rate of transportation by the district administration to Rs. 120 per MT and extra expenditure incurred by the contractor, the rate was increased beyond the terms of the contract with retrospective effect. However, the decision of the district administration was for enforcement of an existing law and thus the increase in the rate of transportation was not binding on the Company as the contractor was guided by a separate contract which did not have provision for enhancement of the rate.

Thus, revision of rate of transportation charges beyond the terms and conditions of the contract resulted in excess expenditure of Rs. 53.34 lakh which amounted to extension of undue favour to the contractor.

Orissa Power Transmission Corporation Limited

3.9 Non-recovery of Service Tax and interest from beneficiaries

Delay in payment of service tax and failure to claim service tax along with supervision charges from the clients resulted in avoidable payment of interest of Rs. 0.40 crore and non-recovery of service tax of Rs. 1.54 crore.

Industrial units desirous of availing power supply, construct Extra High Tension (EHT) lines, associate bays, switching stations, etc. at their own cost under the supervision of the Company (erstwhile Grid Corporation of Orissa Limited). The Company grants the technical sanction for the work which, *inter alia*, includes supervision charges (SC) to be paid by the beneficiaries prior to the execution of work.

The Service Tax Rules provide for levy of service tax on SC from 7 July 1997 and interest at 13 *per cent* per annum for delay in payment of tax. Government of Orissa also instructed (17 and 24 January 2006) all Public Sector Undertakings rendering taxable services to ensure prompt payment of service tax dues.

Despite such provision in the Act, the Company did not levy service tax in respect of service charges received during April 2005 to October 2007 from 44 beneficiaries. As such, it had to pay arrear service tax of Rs. 2.77 crore in November 2007 along with interest of Rs. 0.47 crore for delayed payment. The Board of Directors of the Company decided (October 2007) to recover the service tax and interest thereon from the beneficiaries as per the provisions of the agreement with them. In fact, there was no such term in the agreement to claim service tax from the customers. Though the Company raised (December 2007) claims on 44 customers, it could, however, recover (January to August 2008) service tax of Rs. 1.23 crore and interest of Rs. 0.07 crore from 15 customers only. The balance service tax of Rs. 1.54 crore and interest of Rs. 0.40 crore could not be recovered (August 2008) due to refusal/non-response by the clients as the agreements with the customers did not contain any specific clause for claiming service tax.

Further, the Company did not compute the amount of service tax payable on the supervision charges received during July 1997 to March 2005 though it was liable to pay service tax from the day it took over (April 2005) the assets and liabilities from the Grid Corporation of Orissa Limited (GRIDCO).

Government stated (November 2008) that the Company came into operation from 1 April 2005 and got registration for service tax thereafter in November 2007. It was added that the amount received towards supervision charges was not considered as income, for which service tax on the said amount was not paid. But subsequently, on the advice of the consultant, service tax was being recovered from the parties. Regarding payment of service tax up to March 2005, it was stated that since the Company came into operation from April 2005 it is not liable to pay service tax before April 2005. However, the operation of the Company from April 2005 was a legal formality only. The Company (including GRIDCO) should have taken prompt action for collection of service tax from the parties and deposited the same with the concerned authorities after the service tax rules became applicable.

Thus, non-incorporation of a suitable clause in the agreement for recovery of service tax along with supervision charges received from the beneficiaries resulted in avoidable payment of interest of Rs. 0.40 crore and non-recovery of arrear service tax of Rs. 1.54 crore.

3.10 Non-realisation of rent

Inaction on the part of the Company resulted in non-realisation of rent and holding tax of Rs. 1.95 crore from Orissa Electricity Regulatory Commission.

The Company (erstwhile Orissa State Electricity Board) gave its premises on the second and third floors in the Kalyani Market Complex, Bhubaneswar to Orissa Electricity Regulatory Commission (OERC) since its inception (August 1996) without any formal agreement. The Company requested (December 1997) OERC for payment of rent at the rate of Rs. 1.37 lakh per month. OERC, instead of making any payment, suggested (December 2000) the State Government either to purchase the space or to take it on rent from the

Company for their accommodation. The Company neither took any action for realisation of rent from OERC nor for transfer of the building to OERC against receipt of market value of the building. The Company, however, asked (March 2007) OERC for payment of rent for the period from August 1996 to February 2007 amounting to Rs. 1.84 crore (including holding tax of Rs. 0.11 crore). It was also intimated that the market value of the space occupied by OERC was Rs. 5.39 crore which was to be taken into consideration for transfer of the building to OERC.

OERC intimated (January 2008) the Company that its expenditure was met through budgetary provision of Government of Orissa till 31 March 2006. The Company should therefore claim the rent from Government of Orissa up to March 2006 and OERC would thereafter pay the rent fixed as per OPWD Code. Accordingly OERC paid (February 2008) Rs. 7 lakh towards rent.

Audit scrutiny revealed that the Company not only failed to enter into a rent agreement but also did not effectively pursue the matter with OERC/ Government of Orissa resulting in non-recovery of rent amounting to Rs. 1.95 crore.

Government, while accepting the fact, stated (November 2008) that steps were being taken to collect the receivables from OERC.

Thus, in the absence of any agreement with OERC coupled with inaction on the part of the Company, rent of Rs. 1.95 crore could not be realised (April 2008) even after lapse of more than 11 years.

3.11 Undue favour to parties due to non-availing cheaper loan

Waiver of stipulation (in three cases) to avail interest free/ low interest loan was an act of extension of undue favour to these private parties besides interest loss of Rs. 1.85 crore.

In order to mobilise funds for creating infrastructure for providing power in Duburi region, the Government of Orissa decided (16 April 2004) that the upcoming industries would extend loan of Rs. 10 lakh per MW on maximum demand to the Company. The Board of Directors (BoD) of the Company decided (August 2004) that interest at the rate of six *per cent* per annum would be paid on the loan and the loan would be adjusted in 60 monthly instalments from the monthly energy bills of the lenders. Further, the Managing Director was authorised to raise loans from the upcoming industries of other substations. Subsequently, the Government extended (19 October 2004) the decision of securing loan to all upcoming industries in the State having demand of above one MW at 33 KV.

The Company granted power supply permission to Beekay Steels and Power Limited, MSP Metallics Limited and Maheshwary Ispat Private Limited between 23 September 2004 and 15 October 2004. Accordingly it raised (March 2005 to June 2006) demands aggregating Rs. 3.32 crore from Beekay Steels and Power Limited, MSP Metallics Limited but did not raise demand against Maheshwary Ispat Private Limited. However, on the basis of the requests of these three industries and without approval of the BoD, the Company waived (between January 2006 and February 2007) the stipulation to receive loans on the ground that permission to avail power was granted before taking the decision to deposit the loans. The power connection to Maheshwary Ispat Private Limited and MSP Metallics Limited was granted in March 2006 and January 2008 respectively and Beekay Steels and Power Limited had not availed power till date (May 2008).

Audit scrutiny revealed that in respect of supply of new power connection, the "order of technical sanction and estimates" constitutes an offer and deposit of the supervision charges by customers forms a valid contract and also a "permission". The orders of technical sanctions were communicated to these industries between November 2004 and May 2005. Hence, waiver of deposit of loan amount on the contention that permission was granted prior to taking decision was not justified. Further, the scheme for availing loan from upcoming industries had no provision for waiver of deposit and approval of neither the BoD nor the State Government was obtained for waiving the loan stipulation.

Considering the rate of interest of 13 *per cent* on the loan being availed by the Company from the State Government, there was loss of Rs. 1.85 crore due to waiver of deposit from these three industries.

Government stated (November 2008) that infrastructure loan amount was not collected from the three industries owing to the fact that the condition to collect such loan came into force much after power supply permission was accorded to these industries. The fact remains that the permission for power supply was granted to these industries after the decision of BoD to raise such loans. The Memorandum of Understanding with the Government regarding their actual requirement of power was not signed by the time the Government level meeting in October 2004 was held.

Thus, waiver of the stipulation to deposit the loan contravening the decision of the Government as well as the BoD was an act of extension of undue favour to the industries besides resulting in loss of Rs. 1.85 crore.

3.12 Short recovery of supervision charges and infrastructure cost

Deficiency in preparation of the estimate and permitting the beneficiary to execute the work inside the sub-station in violation of the decision of the BoD resulted in loss of Rs. 29.74 lakh to the Company besides loss of opportunity to earn revenue of Rs. 31.71 lakh.

The Board of Directors (BoD) while approving the revised norms of estimated cost of deposit works directed (March 1997) that if any party would wish to construct transmission systems by themselves permission might be given for construction of transmission lines only and 16 *per cent* supervision charges (SC) were to be collected from them. The work relating to construction of bays inside the sub-station of the Company, however, should be constructed by the Company only with collection of SC at a rate of 22 *per cent* from the party. The BoD also decided that 10 *per cent* of the material cost was to be collected from the party towards use of existing infrastructure of the Company.

The Company accorded (November 2002) technical sanction to Bhushan Steel Limited (BSL) for construction of a 220 KV DC line from Budhipadar to Thelkuli with two 220 KV feeder bays inside Budhipadar sub-station to provide power supply to their proposed steel plant.

The Company instead of executing the works itself, permitted (May 2003) BSL to execute both the works under its supervision. The reason for this, however, was not on record. The Company estimated (June 2004) the cost of material at site including erection charges at Rs. 3.81 crore and estimated cost of the work at Rs. 3.66 crore relating to the feeder bay work. Accordingly, it claimed (June 2004) Rs. 61.01 lakh (at the rate of 16 *per cent*) towards SC and Rs. 36.57 lakh (at the rate of 10 *per cent*) towards proportionate cost of infrastructure from BSL which was deposited by them in March 2005.

Audit scrutiny revealed the following:

- The Company allowed BSL to execute the bay work inside the sub-station in violation of the decision of the BoD. As a result, the Company lost an opportunity of earning additional revenue of Rs. 31.71 lakh towards differential amount of SC.

- As per the standard practice of the Company, two distinct Power Line Carrier Communication[#] (PLCC) equipments are essential for making voice and data communication independently. The Company, however, prepared estimated cost considering only one PLCC equipment and claimed SC of Rs. 16 lakh as against the claim amount of Rs. 39.55 lakh. As a result, the Company claimed less amount of Rs. 23.55 lakh towards SC. Further, the Company ignored the cost of PLCC equipments while working out the estimated cost to compute proportionate cost of infrastructure of the Company resulting in short recovery of Rs. 6.19 lakh towards proportionate infrastructure cost.

The Government stated (August 2008) that in view of inadequate staff due to ban on recruitment and continuous retirement it was not possible for the Company to execute the works of the beneficiaries in addition to the transmission system works for which permission was granted to the beneficiaries to execute the work for expeditious completion. The Government further stated that the Company was in the process of preparation of the final estimate and the beneficiary would be asked to deposit the differential amount. However, the initial decision (August 2002) to execute the work departmentally was subsequently (February 2003) changed in favour of the beneficiary without approval of the BoD.

[#] PLCC is a reliable and efficient speech as well as data communication system for supervision and control of Grid.

Thus, deficiency in preparation of estimate and permitting BSL to execute work inside the sub-station of the Company in violation of the decision of the BoD resulted in loss of Rs. 29.74 lakh to the Company.

3.13 Undue favour to a client

Lack of pursuance for realisation of supervision charges led to non-recovery of Rs. 39.57 lakh.

Aarti Steels Limited (ASL) requested (November 2003) the Company to allow drawal of 7 MW power from Chainpal-Choudwar 132 KV single circuit (S/C) line for their proposed steel and power plant at Ghantikhal, Cuttack. The Company accorded (February 2004) technical sanction for Rs. 3.41 crore for the work to be executed on turnkey basis on payment of supervision charges of Rs. 43.17 lakh by ASL. This was deposited between July 2003 and May 2005 and the line was charged through single bus arrangement in September 2005.

In order to prevent tripping of the line of the Company due to fault at the beneficiary end, the Company asked (November 2004) ASL to construct a switching station with double bus arrangement by April 2005, subsequently extended to November 2005, failing which power supply would be disconnected. The Company accorded (5 August 2005) technical sanction for construction of 132 KV switching station with double bus arrangement at an estimated cost of Rs. 5.41 crore and requested (5 August 2005) ASL to deposit supervision charges of Rs. 69.57 lakh. ASL deposited (9 August 2005) Rs. 30 lakh and gave an undertaking to deposit the balance amount of Rs. 39.57 lakh before completion of the switching station with double bus arrangement.

ASL used sub-standard material and did not make double bus arrangement in the switching station. The balance supervision charges of Rs. 39.57 lakh was also not deposited by ASL. Thus, the Company not only failed to recover the supervision charges of Rs. 39.57 lakh but also compromised with safety requirements by using sub-standard material and exposed the system to the risk of tripping by not insisting on double bus arrangement in the switching station of ASL. Thus, allowing the drawal of electricity without receipt of supervision charges was tantamount to extension of undue favour to ASL, resulting in non-realisation of Rs. 39.57 lakh.

While accepting the fact of non-realisation, the Government stated (August 2008) that appropriate action would be taken for realisation of supervision charges and rectification of defects/deficiencies, if any.

Orissa Power Generation Corporation Limited

3.14 Extra expenditure on water cess

Non-compliance of the statutory provisions of environment and water pollution control laws resulted in excess expenditure of Rs. 45.76 lakh towards water cess at higher rate.

The Company draws water from Hirakud Reservoir for use in its Ib thermal power station and is required to pay water cess to the Orissa State Pollution Control Board (OSPCB) as per provisions of the Water (Prevention and Control of Pollution) Cess Act, 1977 (WPCPC Act). The WPCPC Act provides, *inter alia*, for a rebate of 25 *per cent* of the cess payable if the industry installs a plant for the treatment of sewage or trade effluent. In case the industry fails to comply with any of the provisions of Section 25 of Water (Prevention and Control of Pollution) Act, 1974 or any of the standards laid down by the Central Government under the Environment (Protection) Act, 1986, besides disallowance of the rebate of 25 *per cent* of the cess payable, the industry would also be liable to pay higher amount of water cess.

Audit scrutiny revealed that the Company did not comply with the statutory requirements like fixation of a separate water meter for discharging effluent to the reservoir and various provisions of the Fly Ash Notification, 1999. The Company used 465.33 lakh kilo litre of water during April 2004 to March 2008 and paid water cess amounting to Rs. 73.34 lakh, which was computed at higher rate resulting in excess payment of Rs. 36.56 lakh. Further, due to non-compliance with Section 25 of the Water (Prevention and Control of Pollution) Act, 1974, the Company could not avail rebate amounting to Rs. 9.20 lakh.

Government while admitting the fact stated (November 2008) that the Company had now complied with zero effluent discharge and it would explore the advanced type water flow meter suitable for the exposed pipeline. It was also stated that they would try to convince OSPCB on the efforts taken by them to comply with all statutory provisions for allowing rebate on cess. The fact, however, remained that the Company failed to comply with the provisions of the WPCPC Act and paid water cess at higher rate.

Thus, due to non-compliance of the statutory provisions of environment and water pollution control laws, the Company sustained avoidable loss of Rs. 45.76 lakh towards payment of higher rate of water cess.

Orissa Rural Housing and Development Corporation Limited

3.15 Non-realisation of investment

Investment of funds in violation of the guidelines of the Government and lack of effective pursuance by the Company resulted in non-realisation of Rs. 2.63 crore.

The Company subscribed (10 April 1999) to 300 numbers of 14.90 *per cent* non-convertible, secured, redeemable debenture bonds of face value of Rupees one lakh each issued by UP State Yarn Company Limited* (UPSYCL) for a sum of Rs. 3 crore. The Company received (February 2000) a letter of allotment for 300 bonds bearing Nos. 671 to 970 but the bond certificates were not received. As per the allotment letter, the bonds were stated to be secured by the unconditional and irrevocable guarantee of the Government of Uttar Pradesh (UP) and were redeemable on 10 February 2004 (33 *per cent*), 10 August 2004 (33 *per cent*) and 10 February 2005 (34 *per cent*). The interest was payable annually up to the date of redemption.

Audit scrutiny revealed that the bonds issued by UPSYCL were not backed by the Government guarantee and had no approval of Government of UP. On instruction of Government of UP, UPSYCL remitted (August 2000) interest of Rs. 37.47 lakh for the period 10 April 1999 (date of subscription) to 10 February 2000 (date of allotment). It also remitted (August 2000) Rs. 1.90 crore towards repayment of the principal amount. Subsequently, UPSYCL neither paid any interest nor refunded the remaining principal amount (Rs. 1.10 crore) till date (August 2008).

The Company subscribed to the bonds of non-SLR (Statutory Liquidity Ratio) category without prior approval of the Board of Directors violating the guidelines of the Department of Public Enterprises, Government of Orissa (November 1996) and only obtained (January 2000) their retrospective approval showing the investment under SLR category. Further, as per the guidelines, no investments other than term deposits in banks could be made for a tenure exceeding one year. The investment was, thus, in violation of the above directive to the extent that the maturity period of the bonds was five years.

Though UPSYCL did not pay interest on the remaining portion of the bonds, the Company did not pursue the matter effectively even after knowing (July 2003) that the bonds were not guaranteed by Government of UP and only issued letters as late as February 2005, December 2006 and July 2007, which were not responded to. This indicates laxity on the part of the Company in initiating steps for realisation of its dues. Since UPSYCL was in the process of winding up as per orders (June 2006) of BIFR the chances of realisation of

* A working company of Government of Uttar Pradesh.

Rs. 2.63 crore (principal: Rs. 1.10 crore and interest: Rs. 1.53[§] crore) are bleak.

Government while accepting the fact that there was deviation from the guidelines of the Government, stated (July 2008) that the investment had been made on the basis of guarantee given (February 1999) by the Government of UP which was withdrawn (July 2003) later on making the investors unsecured. It was also added that UPSYCL had been instructed by the Government of UP to redeem the bonds after disposal of their assets. The reply is indicative of the lack of financial assessment of UPSYCL before investment of funds. As a result, the Company has to wait for realisation of its dues till liquidation of assets of UPSYCL, which is uncertain. Further, there was no guarantee from the Government of UP to the bonds, thus, withdrawal of guarantee afterwards was not a fact.

Thus, investment in the bonds of a Company without verifying the financial antecedents as well as in violation of the guidelines of the State Government coupled with laxity in pursuance resulted in non-realisation of Rs. 2.63 crore. The responsibility needs to be fixed against the concerned officials of the Company.

Orissa State Civil Supplies Corporation Limited

3.16 Undue favour to Custom Millers

Non-recovery of holding charges resulted in loss to the Company and undue favour to the custom millers for Rs. 70.71 lakh.

The Company procured paddy for Kharif Marketing Season (KMS) 2005-06[*] under the Decentralised Procurement Scheme (DPS) to ensure payment of the Minimum Support Price (MSP) to the farmers. The paddy procured under the Scheme was to be milled through the Custom Millers (CMs) appointed by the Company and the resultant rice was to be distributed through the Public Distribution System (PDS) channel. The CMs were required to supply the parboiled rice within 20 days of delivery of paddy. Failure to supply within the stipulated period would render them liable to pay holding charges at the rate of 20 paise per quintal of rice per day.

The Company procured 13.38 lakh quintals[Ω] of paddy valued at Rs. 77.02 crore during the period 12 November 2005 to 26 August 2006 which was handed over to 90 CMs in Bolangir and Bargarh district. Out of 8.84 lakh quintals of resultant rice (66 *per cent* for URS and 68 *per cent* for FAQ paddy), the CMs supplied only 1.80 lakh quintals of parboiled rice within the scheduled date of delivery. The balance quantity of 7.04 lakh quintals was

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[§] Interest was calculated at a rate of 14.90 *per cent* on Rs.3 crore from 11 February 2000 to 7 August 2000 (179 days) and on Rs. 1.10 crore from 8 August 2000 to 31 July 2008 (2,915 days).

[*] From October 2005 to September 2006.

[Ω] 5.51 lakh quintals of URS paddy worth Rs. 31.63 crore and FAQ paddy 7.87 lakh quintals valued at Rs. 45.39 crore.

delivered with a delay of one to 217 days resulting in blockage of Rs. 61.28 crore during this period. The Company did not levy and recover holding charges for the inordinate delay in delivery of rice resulting in non-realisation of holding charges of Rs. 70.71 lakh.

The Government stated (May 2008) that as the Company did not have adequate storage space for storing the voluminous paddy purchased, it delivered this to the millers in a phased manner irrespective of their milling capacity and thus, non-imposition of penalty for deliveries beyond 20 days was not supported by circumstantial realities. The fact is that due to non-receipt of rice from the CMs the Company had to procure rice from Food Corporation of India during October 2005 to September 2006 despite blockage of its funds with them. Hence the Company should have claimed holding charges from the CMs as per terms of the agreement as there was delay in delivery of rice by them upto 217 days.

Thus, due to non-recovery of holding charges, the Company extended undue favour to the tune of Rs. 70.71 lakh to the CMs resulting in loss to the Company.

Orissa Film Development Corporation Limited

3.17 Non-realisation of loans

Due to inadequate documentation and post-disbursement follow up action the Company failed to realise Rs. 2.45 crore.

The Company was established as a nodal agency to promote the growth of film industries in Orissa by providing financial assistance to private entrepreneurs for construction of low cost cinema houses in semi urban/rural areas, renovation of existing cinema houses and production of Oriya feature films. As the Company could not recover the loans and interest thereon from a large number of loanees through the normal course of realisation, it filed Certificate Cases (CCs) during 1986 to 2005 under the Orissa Public Demands Recovery (OPDR) Act, 1962 in the courts of Certificate Officers (CO) and obtained decrees during 1986 to 2005 in its favour in respect of 80 cases for total requisition amount[*] of Rs. 2.57 crore up to 2005. Of this, the Company received only Rs. 0.98 crore up to September 2005, leaving the balance of Rs. 1.59 crore unrealised (September 2005).

Scrutiny of records relating to CCs filed revealed that despite obtaining certificate on huge requisition amount in these cases, the Company could realise a meager amount of only Rs. 7.81 lakh upto 31 March 2007 in respect of 13 out of 21[#] cases involving requisition amount of Rs. 1.41 crore and interest thereon of Rs. 1.12 crore at the rate of 12.5 *per cent* recoverable under Section 14 of the OPDR since filing of the CCs. Audit scrutiny revealed that:

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[*] The requisition amount consists of outstanding loan *plus* interest up-to-date of certificate case *plus* court fee for filing CCs.

[#] Files relating to these 21 cases were made available to audit.

- Out of 21 cases for attachment/auction checked by audit, the titles to the properties mortgaged were not absolute in two cases. The property details of the assets mortgaged and sureties/guarantors in four cases were not properly documented at the time of execution of the agreements resulting in difficulties during issue of the warrant of arrest/attachment. The Company also did not keep track of change in addresses and location of the mortgaged property of the certificate debtors which led to filing of cases at wrong places in six cases.

- The Company did not maintain registers regarding orders and proceedings of the Court for effective monitoring of the certificate cases.

- Out of 21 cases examined in audit, the loanees in respect of six cases were women and therefore warrant of arrest could not be issued against them under Section 41 of the OPDR Act. The Company did not take any alternative step to recover the loan amount.

- The Company was not sending its representatives to the courts during proceedings of the certificate cases.

Thus, due to inadequate documentation and poor follow up action in 21 cases, the Company failed to realise Rs. 2.45 crore including interest from the loanees.

The above matter was reported to the Management/Government (May/ June 2008); their replies were awaited (November 2008).

Orissa Mining Corporation Limited

3.18 Loss due to improper loading of wagons

Failure of the Company to appeal against the punitive charges levied by the Railway authorities despite malfunctioning of the weighbridge and improper loading of wagons coupled with ineffective supervision resulted in loss of Rs. 83.61 lakh.

The Company awarded (May 2005) the work of loading of iron ore into wagons to Jai Jawan Coal Carriers (JJCC) for the period 1 April 2005 to 31 March 2008[*] and the work of supervision of wagon loading (October 2005) to Superintendence Company of India (Private) Limited (SUPCO) for a period upto March 2008. The agreement with JJCC provided loading of wagons up to the load line marked by SUPCO.

As per the Railway Tariff Rules, punitive charges at 2 to 5 times of normal tariff would be imposed for loading beyond 2 MT of Carrying Capacity[#]. The Railway authorities claimed punitive charges for overloading based on the

[*] With periodic extensions in May 2006 and June 2007.
[#] In respect of iron ore, the carrying capacity was 67 MT per wagon, which was increased to 75 MT in June 2007.

weighment taken at the weighbridge (WB) at Sukinda Station. Though the Company complained (August 2006) against the accuracy of the WB disputing the weighments, the railway officials did not take remedial measures and the State Government seized the WB in September 2006. The WB started functioning from 30 October 2006 after rectification. The Company paid Rs. 16.66 lakh towards punitive charges for the period April to October 2006.

Audit scrutiny revealed that though the punitive charges recovered by the railway authorities were based on the weighments taken in a malfunctioning WB, the Company, however, did not move the Railway Claims Tribunal for getting refund of the amount despite the fact that the railway officials had also acknowledged (June and August 2006) the erroneous functioning of the WB.

Further, a committee formed by the Company to oversee the performance of the contractors noticed (June 2006) improper marking of the load line and loading by SUPCO and JJCC respectively. The Company neither took remedial measures nor imposed penalty on the contractors as per the terms of the agreements. As a result, the improper loading of wagons persisted and the Company paid punitive charges of Rs. 42.72 lakh for the period November 2006 to March 2008 for overloading of 4,506 MT of ore. Besides, during this period, there was under loading of 7,462 MT resulting in loss of Rs. 24.23 lakh.

JJCC did not accept the weighments made by the Railway at Sukinda WB citing the terms of the agreement that weighment should have been done at Daitari Railway Siding (DRS) and, thus, got absolved of the responsibility of over/ under loading. Since there was no WB at DRS nor had the Railways permitted the Company to install the same there, such provision in the agreement lacked justification. The Company, while renewing the agreements, also did not modify the provision.

The Government stated (July 2008) that steps were being taken to appeal before the Railway Claims Tribunal (RCT). It further stated that due to absence of penal clauses in the agreements, penalty could not be imposed upon the contractors. The reply is contrary to the fact that the agreements with the contractors envisaged indemnification of losses by them in the event of losses arising in course of their performance. Further, the Company would not be able to prefer the claims in the RCT since it did not serve the notice under Section 78 (B) of the Indian Railways Act to the Railway Administration.

Thus, failure of the Company in appealing against the punitive charges levied by the Railway authorities despite malfunctioning of the WB and improper loading coupled with ineffective supervision resulted in loss of Rs. 83.61 lakh.

3.19 Reimbursement of service tax without verifying the proof of deposit

The Company did not have a system to verify proof of deposit of tax before reimbursement of the amount resulting in overpayment of Rs. 50.41 lakh which was recovered on being pointed out by audit.

The Company entered into an agreement (June 2006) with Kalinga Commercial Corporation (KCC) for raising and transportation of Calibrated Iron Ore (CLO) for one year from Gandhamardan Iron Ore Mines of the Company for a contractual amount of Rs. 10.02 crore. The agreement, *inter alia,* stipulated that service tax, if applicable, would be reimbursed upon registration of the agency and payment of service tax by them.

The Finance Act, 2007 brought mining operations into the service tax net with the stipulation that services provided or to be provided on or after 1 June 2007 were liable to service tax leviable at the rate of 12.36 *per cent*[*] of the taxable services. The Board of Directors of the Company decided (June 2007) to reimburse service tax to the mining contractors with effect from 1 June 2007. KCC demanded (20 November 2007) service tax of Rs. 83.25 lakh against the total value of work executed from 16 February 2007 up to the unsettled sixth Running Account Bill for Rs. 6.74 crore. The Company without verifying the actual payment made by the contractor, reimbursed (December 2007) Rs. 50.41 lakh towards service tax for the work done before 1 June 2007 as the Company did not have a system of verifying the statutory payments made by the contractor.

On this being pointed out by audit (December 2007), the Management recovered (July 2008) excess amount of service tax amounting to Rs. 50.41 lakh. The fact, however, remains that the Company is still continuing to reimburse service tax to the contractors without obtaining proof of deposit.

3.20 Avoidable loss on sale of ore

Due to sale of high-grade minerals as low-grade, the Company sustained avoidable loss of Rs. 48.98 lakh.

The sale price of the minerals of the Company is determined on the basis of grade analysis through Government laboratories as well as private laboratories engaged by the Company. The Director of Mines, Orissa issued instructions (August/November 2005) to insist on mine owners for getting the samples for ore/mineral removal permission analysed in Government laboratories. In case the application for permission for removal of mineral stack was enclosed with analysis certificate from a private laboratory, the lessee should submit two sample packets of the mineral stack for which such analysis report was furnished. These would be analysed in Government laboratories for checking the grade of the mineral for calculation of royalty. The third sample, known as

[*] 12 *per cent* Service Tax, 0.24 *per cent* Education Cess and 0.12 *per cent* Secondary and Higher Education Cess.

umpire's sample, which was kept with the security in-charge of the Company would be analysed in the Government laboratory in case of dispute.

For sampling and analysis of iron and chrome ore from all mines of the Company for the period from October 2005 onwards the Company executed (December 2005 and January 2006) agreements with Mitra S.K. (P) Limited (MSKPL) and Superintendence Company of India Limited (SUPCO) respectively. The agreement, *inter alia*, envisaged that in the event of failure of grade or loss due to incorrect analysis, the actual loss would be recovered from the bills of MSKPL and SUPCO.

It was observed in audit that the Company sold 17,194 MT of chrome ore at lower rates ranging from Rs. 3,206 to Rs. 5,125 per MT from J.K. Road region and 6,239.50 MT of iron ore at lower rates ranging from Rs. 645 to Rs. 1,225 per MT from Barbil/Gandhamardan regions during October 2005 to March 2007 on the basis of certificates of private laboratories despite high contents of chromium and iron respectively as per analysis report of Government laboratories which resulted in loss of revenue of Rs. 46.51 lakh. Though excess royalty of Rs. 2.47 lakh was paid by the Company due to upgrading from lower grade ore, the same was not recovered from the buyers.

Despite confirmed higher percentage of ore in the umpire's sample, the Company did not take any action for recovery of loss of Rs. 48.98 lakh from the private agencies as per the terms of the agreement with them.

Government stated (September 2008) that sample collection by Mining Department from stacks/trucks was not done on a scientific basis for which the higher chrome/iron contents in these ores was not accepted. It was added that the loss of revenue because of invoicing at lower rate as pointed out by audit had been derived considering the analysis result of the Government laboratory which was not as per the terms of the sales contract. The testing report of Government laboratory cannot be said to be unscientific as the testing was done as per the terms of the agreement/Government instruction. Hence the Company should have recovered the loss sustained by it from the agencies as per terms of the agreement.

Thus, due to sale of high-grade minerals as low-grade, the Company sustained avoidable loss of Rs. 48.98 lakh.

General

3.21 Follow-up action on Audit Reports

Explanatory Notes outstanding

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

Though the Audit Reports for the years 1999-2000 to 2006-07 were presented to the State Legislature, eight out of 15 departments which were commented upon did not submit explanatory notes on 21 out of 185 paragraphs/reviews as on 30 September 2008, as indicated in the following table.

Year of the Audit Report (Commercial)	Date of presentation	Total Paragraphs/ Reviews in Audit Report	No. of paragraphs/ reviews for which explanatory notes were not received
1999-00	August 2001	29	1
2000-01	March 2002	25	Nil
2001-02	March 2003	17	1
2002-03	December 2003	24	Nil
2003-04	March 2005	27	2
2004-05	February 2006	17	2
2005-06	March 2007	21	3
2006-07	March 2008	25	12
Total		**185**	**21**

Department-wise analysis is given in **Annexure 18**. PSUs under the Energy, Industries and Public Enterprises were largely responsible for non-submission of explanatory notes. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and non-adherence to extant provisions.

Compliance with Reports of Committee on Public Undertakings (COPU) outstanding

3.21.2 Action Taken Notes (ATNs) to 96 recommendations pertaining to nine Reports of the COPU presented to the State Legislature between April 1999 and August 2008 had not been received as on 30 September 2008 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of recommendations where ATNs not received
1999-2000	2	34
2001-02	1	8
2007-08	1	1
2008-09	5	53
Total	**9**	**96**

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

Response to Inspection Reports, Draft Paragraphs and Reviews

3.21.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2008 pertaining to 32 PSUs disclosed that 2,245 paragraphs relating to 500 Inspection Reports remained outstanding at the end of 30 September 2008. Department-wise break-up of Inspection Reports and Audit observations outstanding at the end of September 2008 is given in **Annexure 19**. Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 21 draft paragraphs and five draft performance reviews forwarded to various departments between March and October 2008, as detailed in **Annexure 20**, replies to two draft paragraphs and one draft performance review were awaited (November 2008). It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/ draft paragraphs/performance reviews and ATNs to recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/ overpayments in a time bound schedule; and (c) the system of responding to audit observations is revamped.

Bhubaneswar **(Atreyee Das)**
The **Accountant General**
(Commercial, Works & Receipt Audit), Orissa

Countersigned

New Delhi **(Vinod Rai)**
The **Comptroller and Auditor General of India**

ANNEXURES

Annexure 1

Statement showing particulars of up-to-date paid-up capital, budgetary outgo, loans given out of budget and loans outstanding as on 31 March 2008 in respect of Government companies and Statutory corporations

(Referred to in paragraphs 1.4, 1.5, 1.6 and 1.15)

(Figures in column 3(a) to 4(f) are Rupees in lakh)

Sl. No.	Sector and Name of the Company	Paid-up capital as at the end of the current year					Equity/loans received out of Budget during the year		Other loans received during the year	Loans* outstanding at the close of 2007-08			Debt equity ratio for 2007-08 (Previous years) 4(f)/3(e)
		State Government	Central Government	Holding companies	Others	Total	Equity	Loans		Govern-ment	Others	Total	
(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
A.	**Working Government companies**												
	Agriculture and Allied												
1.	Orissa Agro Industries Corporation Limited	609.28	105.27	--	0.60	715.15	--	--	--	1535.82	17.65	1553.47	2.17:1 (2.26:1)
2.	Orissa State Seeds Corporation Limited	211.00	--	--	48.11	259.11	--	--	--	--	--	--	-- (--)
3.	Orissa State Cashew Development Corporation Limited	155.04	--	--	--	155.04	--	--	--	--	--	--	-- (--)
4.	Agricultural Promotion and Investment Corporation of Orissa Limited	110.00	--	--	--	110.00	--	--	--	--	--	--	-- (--)
	Sector wise total	**1085.32**	**105.27**	**..**	**48.71**	**1239.30**	**--**	**--**	**--**	**1535.82**	**17.65**	**1553.47**	**1.25:1 (1.30:1)**
	Electronics												
5	IDCOL Software Limited (Subsidiary of Sl. No.A-19)	--	--	60.05	40.02	100.07	--	--	--	--	--	--	-- (--)
6	ELMARC Limited (Subsidiary of Sl. No.C-11)	--	--	101.57	--	101.57	--	--	--	56.92	--	56.92	0.56:1 (0.56:1)
	Sector wise total	**--**	**--**	**161.62**	**40.02**	**201.64**	**--**	**--**	**--**	**56.92**	**--**	**56.92**	**0.28:1 (0.28:1)**

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	5
	Forest												
7	Orissa Forest Development Corporation Limited	128.00	--	--	--	128.00	--	--	--	--	--	--	– (–)
	Sector wise total	**128.00**	**…**	**…**	**…**	**128.00**	**--**	**--**	**--**	**--**	**--**	**--**	**-- (--)**
	Mining												
8	Orissa Mining Corporation Limited	3145.48	--	--	--	3145.48	--	--	--	--	3.41	3.41	0.001:1 (0.01:1)
	Sector wise total	**3145.48**	**--**	**--**	**--**	**3145.48**	**--**	**--**	**--**	**--**	**3.41**	**3.41**	**0.001:1 (0.01:1)**
	Construction												
9	Orissa Construction Corporation Limited	1150.00	--	--	--	1150.00	--	--	--	--	--	--	-- (--)
10	Orissa Bridge and Construction Corporation Limited	500.00	--	--	--	500.00	--	--	--	--	--	--	-- (--)
	Sector wise total	**1650.00**	**--**	**--**	**--**	**1650.00**	**--**	**--**	**--**	**--**	**--**	**--**	**-- (--)**
	Public distribution												
11	Orissa State Civil Supplies Corporation Limited	978.32	--	--	--	978.32	--	--	--	--	--	--	-- (--)
	Sector wise total	**978.32**	**--**	**--**	**--**	**978.32**	**--**	**--**	**--**	**--**	**--**	**--**	**(--)**
	Tourism												
12	Orissa Tourism Development Corporation Limited	962.16	--	--	--	962.16	--	--	--	--	--	--	-- (--)
	Sector wise total	**962.16**	**--**	**--**	**--**	**962.16**	**--**	**--**	**--**	**--**	**--**	**--**	**-- (--)**
	Power												
13	Orissa Power Generation Corporation Limited	25001.09	--	--	24020.65	49021.74	--	--	--	--	3131.99	3131.99	0.06:1 (0.10:1)
14	Orissa Hydro Power Corporation Limited	32080.07	--	--	--	32080.07	--	--	--	97720.40	96981.74	194702.14	6.07:1 (6.35:1)
15	GRIDCO Limited (formerly Grid Corporation of Orissa Limited)	43298.14	--	--	--	43298.14	--	--	--	109998.47	80426.18	190424.65	4.40:1 (6.32:1)
16	Orissa Power Transmission Corporation Limited	6007.00	--	--	--	6007.00	--	--	–	41700.00	72297.41	113997.41	18.98:1 (24.54:1)
	Sector wise total	**106386.30**	**--**	**--**	**24020.65**	**130406.95**	**--**	**--**	**--**	**249418.87**	**252837.32**	**502256.19**	**3.85:1 (4.83:1)**

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
	Financing												
17	Industrial Promotion and Investment Corporation of Orissa Limited	8314.29	--	--	--	8314.29	--	--	--	1508.74	272.50	1781.24	***0.21:1 (0.34:1)***
	Sector wise total	**8314.29**	**--**	**--**	**--**	**8314.29**	**--**	**--**	**--**	**1508.74**	**272.50**	**1781.24**	**0.21:1 (0.34:1)**
	Miscellaneous												
18	Orissa State Police Housing and Welfare Corporation Limited	563.01	--	--	--	563.01	--	--	--	--	--	--	-- (--)
19	Industrial Development Corporation of Orissa Limited	5711.79	--	--	--	5711.79	--	--	--	1377.00	8030.00	9407.00	1.65:1 (2.51:1)
20	Orissa Small Industries Corporation Limited	965.86	--	--	--	965.86	--	--	--	173.00	2146.73	2319.73	2.40:1 (0.35:1)
21	Orissa Film Development Corporation Limited	540.05	--	--	--	540.05	--	--	--	51.70	--	51.70	0.10:1 (0.12:1)
22	Kalinga Studios Limited (Subsidiary of Sl. No.A-21)	--	--	174.50	--	174.50	--	--	--	--	10.64	10.64	0.06:1 (0.06:1)
23	Konark Jute Limited (Subsidiary of Sl. No.A-19)	--	--	413.00	180.99	593.99	--	--	--	876.80	43.49	920.29	1.55:1 (1.55:1)
24	Orissa Lift Irrigation Corporation Limited	7473.25	--	--	--	7473.25	--	--	--	6.62	109.59	116.21	0.02:1 (0.03:1)
25	Orissa Rural Housing and Development Corporation Limited	4816.00	--	--	--	4816.00	--	5665.55	–	17907.55	27769.95	45677.50	9.48:1 (9.24:1)
26	Orissa State Beverages Corporation Limited	100.00	--	--	--	100.00	--	--	–	--	--	--	-- (--)
27	IDCOL Kalinga Iron Works Limited (Subsidiary of Sl. No. A-19)	--	--	4510.00	--	4510.00	--	---	–	--	--	--	-- (--)
28	IDCOL Ferro Chrome and Alloys Limited (Subsidiary of Sl. No. A-19)	--	--	1881.36	--	1881.36	--	--	–	--	--	--	-- (--)
29	Orissa Pisciculture Development Corporation Limited	217.79	--	--	--	217.79	--	--	--	508.44	22.15	530.59	2.44:1 (0.72:1)
	Sector wise total	**20387.75**	**--**	**6978.86**	**180.99**	**27547.60**	**--**	**5665.55**	**--**	**20901.11**	**38132.55**	**59033.66**	**2.14:1 (2.20:1)**
	Total (A) Working Government companies	**143037.62**	**105.27**	**7140.48**	**24290.37**	**174573.74**	**--**	**5665.55**		**273421.46**	**291263.43**	**564684.89**	**3.23:1 (3.98:1)**

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
B.	**Working Statutory Corporations**												
	Transport												
1.	Orissa State Road Transport Corporation	13050.83	1592.27	--	0.80	14643.90	995.00	--	--	2355.26	130.20	2485.46	0.17:1 (0.27:1)
	Sector wise total	**13050.83**	**1592.27**	**--**	**0.80**	**14643.90**	**995.00**	**--**	**--**	**2355.26**	**130.20**	**2485.46**	**0.17:1 (0.27:1)**
	Financing												
2.	Orissa State Financial Corporation	31956.74[β]	3888.94	--	15.87	35861.55	--	1873.75	--	--	19303.79	19303.79	0.54:1 (4.91:1)
	Sector wise total	**31956.74**	**3888.94**	**--**	**15.87**	**35861.55**	**--**	**1873.75**	**--**	**--**	**19303.79**	**19303.79**	**0.54:1 (4.91:1)**
	Co-operation												
3.	Orissa State Warehousing Corporation	180.00	--	--	180.00	360.00	--	--	--	--	542.39	542.39	1.51:1 (1.51:1)
	Sector wise total	**180.00**	**--**	**--**	**180.00**	**360.00**	**--**	**--**	**--**	**--**	**542.39**	**542.39**	**1.51:1 (1.51:1)**
	Total (B) Working Statutory corporations	**45187.57**	**5481.21**	**--**	**196.67**	**50865.45**	**995.00**	**1873.75**	**--**	**2355.26**	**19976.38**	**22331.64**	**0.44:1 (2.08:1)**
	Total (A) + (B)	**188225.19**	**5586.48**	**7140.48**	**24487.04**	**225439.19**	**995.00**	**7539.30**		**275776.72**	**311239.81**	**587016.53**	**2.60:1 (3.76:1)**
C.	**Non working Government companies**												
	Industry												
1	Konark Detergent and Soaps Limited (Subsidiary of Sl.No.A-20)	--	--	9.32	--	9.32	--	--	--	--	--	--	-- (--)
2	Kalinga Steels (India) Limited (Subsidiary of Sl.No.A-17)	--	--	5.08	--	5.08	--	--	--	--	--	--	-- (--)
	Sector wise total	**--**	**--**	**14.40**	**..**	**14.40**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
	Engineering												
3	Orissa Electrical Manufacturing Company Limited (Company closed since 1968. Under voluntary liquidation since 30 August 1976)	4.34	--	--	0.20	4.54	--	--	--	--	--	--	-- (--)
4.	Gajapati Steel Industries Limited (Company closed since 1969-70, under voluntary liquidation since 01 March 1974)	3.78	--	--	0.22	4.00	--	--	--	--	--	--	-- (--)

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
5.	Premier Bolts and Nuts Limited[$] (Under liquidation; assets have been disposed of)	1.46	--	--	0.82	2.28	--	--	--	--	--	--	-- (--)
6.	Modern Malleable Casting Company Limited (Closed since 1968. Under voluntary liquidation since 09 March 1976)	3.70	--	--	0.50	4.20	--	--	--	--	--	--	-- (--)
7.	Orissa Instruments Company Limited	96.79	--	--	--	96.79	--	--	--	--	--	--	-- (--)
8.	Hira Steel and Alloys Limited (Subsidiary of Sl. No.A-19). (Under liquidation.)	--	--	12.28	--	12.28	--	--	--	--	--	--	-- (--)
9.	IDCOL Piping and Engineering Works Limited (Subsidiary of Sl. No.A-19)	--	--	193.16	--	193.16	--	--	--	--	2933.07	2933.07	15.18:1 (12.35:1)
10.	General Engineering and Scientific Works Limited (Subsidiary of Sl. No.A-20)	--	--	@30.00	--	@30.00	--	--	--	--	--	--	-- (--)
	Sector wise total	**110.07**	**--**	**235.44**	**1.74**	**347.25**	**--**	**--**	**--**	**--**	**2933.07**	**2933.07**	**8.45:1** **(8.45:1)**
	Electronics												
11	Orissa State Electronics Development Corporation Limited[¥]	2003.50	--	--	--	2003.50	--	--	--	--	19.69	19.69	0.01:1 (0.01:1)
12	Manufacture Electro Limited[$] (Under process of liquidation; assets are disposed of)	0.36	--	--	0.10	0.46	--	--	--	--	--	--	-- (--)
13	Modern Electronics Limited[$] (Under process of liquidation)	4.27	--	--	0.10	4.37	--	--	--	--	--	--	-- (--)
14	IPITRON Times Limited (Subsidiary of Sl.No.C-11). (Under liquidation since 1998)	--	--	80.83	--	80.83	--	--	--	168.33	--	168.33	2.08:1 (2.08:1)
15	Konark Television Limited (Defunct since 1999-2000)	606.97	--	--	--	606.97	--	--	--	200.75	--	200.75	0.33:1 (0.33:1)
16	ELCOSMOS Electronics Limited (Subsidiary of Sl. No. C-11)	--	--	158.51	--	158.51	--	--	--	200.00	--	200.00	1.26:1 (1.26:1)
17	ELCO Communication and Systems Limited (Subsidiary of Sl.No.C-11, Under liquidation since 1998)	--	--	63.80	--	63.80	--	--	--	72.00	--	72.00	1.13:1 (1.13:1)
	Sector wise total	**2615.10**	**--**	**303.14**	**0.20**	**2918.44**	**--**	**--**	**--**	**641.08**	**19.69**	**660.77**	**0.23:1** **(0.23:1)**

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
	Textiles												
18	Mayurbhanj Textiles Limited	3.79	--	--	--	3.79	--	--	--	--	--	--	-- (--)
19	New Mayurbhanj Textiles Limited	17.22	--	--	--	17.22	--	--	--	--	--	--	-- (--)
20	Orissa Textile Mills Limited (Under liquidation since 2001)	2104.28	--	3.21	362.74	2470.23[β]	--	--	--	1468.14	--	1468.14	0.59:1 (0.59:1)
21	Orissa State Textile Corporation Limited	452.92	--	--	--	452.92	--	--	--	162.00	--	162.00	0.36:1 (0.36:1)
22	ABS Spinning Orissa Limited (Subsidiary of Sl. No.A-19). (Under liquidation)	--	--	300.00	--	300.00	--	--	--	--	140.01	140.01	0.47:1 (0.47:1)
	Sector wise total	**2578.21**	**--**	**303.21**	**362.74**	**3244.16**	**--**	**--**	**--**	**1630.14**	**140.01**	**1770.15**	**0.55:1 (0.55:1)**
	Handloom												
23	Orissa State Handloom Development Corporation Limited (under liquidation)	363.37	--	--	54.37	417.74	--	--	--	158.08	--	158.08	0.38:1 (0.38:1)
	Sector wise total	**363.37**	**--**	**--**	**54.37**	**417.74**	**--**	**--**	**--**	**158.08**	**--**	**158.08**	**0.38:1 (0.38:1)**
	Miscellaneous												
24	Orissa State Commercial Transport Corporation Limited	234.00	--	--	376.00	610.00	--	--	--	119.63	51.21	170.84	0.28:1 (0.28:1)
25	Orissa Fisheries Development Corporation Limited	35.00	--	--	--	35.00	--	--	--	--	--	--	-- (--)
26	Eastern Aquatic Products Limited (under voluntary liquidation since 22 February 1978)	0.53	--	--	0.08	0.61	--	--	--	--	--	--	-- (--)
27	Orissa Boat Builders Limited[$] (under liquidation)	4.72	--	--	0.51	5.23	--	--	--	--	--	--	-- (--)
28	Orissa Board Mills Limited[$] (under liquidation)	3.67	--	--	0.41	4.08	--	--	--	--	--	--	-- (--)
29	Orissa State Leather Corporation Limited (closed since 18 June 1998)	396.63	--	--	28.41	425.04	--	--	--	37.00	--	37.00	0.09:1 (0.09:1)
30	Orissa Leather Industries Limited (Subsidiary of Sl.No.C-29)	--	--	64.99	0.01	65.00	--	--	--	176.96	--	176.96	2.72:1 (2.72:1)

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
31	Kanti Sharma Refractories Limited (Subsidiary of Sl. No.A 20). (Closed since 5 December 1998)	--	--	75.00	--	75.00	--	--	--	--	--	--	-- (--)
	Sector wise total	**674.55**	**--**	**139.99**	**405.42**	**1219.96**	**--**	**--**	**--**	**333.59**	**51.21**	**384.80**	**0.32:1 (0.32:1)**
	Total (C) Non-working Government companies	***6341.30***	**--**	***996.18***	***824.47***	***8161.95***	**--**	**--**	**--**	***2762.89***	***3143.98***	***5906.87***	***0.72:1 (0.83:1)***
	Grand Total (A)+(B)+(C)	**194566.49**	**5586.48**	**8136.66**	**25311.51**	**233601.14**	**995.00**	**7539.30**	**--**	**278539.61**	**314383.79**	**592923.40**	**2.54:1 (3.64:1)**

Note:
1. Except in respect of Sl. No.A-14, 15, B-2 and C-2 which finalised the accounts for 2007-08, figures are provisional and as given by the companies/corporations.
2. State Government investment was Rs. 4,731.06 crore (working PSUs:Rs. 4,640.02 crore and non-working PSUs:Rs. 91.04 crore) and other's investment was Rs. 3,534.18 crore. As per Finance Accounts 2007-08, State Government's investment was Rs. 3,294.49 crore (working PSUs:Rs. 3,205.97 crore and non-working PSUs:Rs. 88.52 crore). The difference is under reconciliation.

* Loans outstanding at the close of 2007-08 represent long-term loans only.

\# As per Government decision, Orissa Maritime and Chilka Area Development Corporation Limited and Orissa Fish Seed Development Corporation Limited have been merged with Orissa Pisciculture Development Corporation Limited with effect from 15 October 1998 as going concern. The purchase consideration of Rs. 435.58 lakh for the purpose of merger to be reflected in 50:50 proportion as Government's equity and loan.

@ As per the information furnished by the company the share capital of Rs. 30 lakh was written off during 2006-07

¥ Company closed with effect from 31 January 2006.

β Includes share deposits pending allotment B-2 (Rs. 27,104.24 lakh) and share application money C-20 (Rs. 2,396.00 lakh).

$ In respect of Sl.Nos. C-5, 12, 13, 27 and 28 though Government has decided for liquidation, no liquidator has been appointed (October 2006).

Annexure 2

Summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised
(Referred to in paragraphs 1.7, 1.8, 1.13, 1.19 and 1.20)

(Figures in columns 7 to 12 and 15 are Rupees in lakh)

Sl. No	Sector and name of the company	Name of the Department	Date of incorpo-ration	Period of accounts	Year in which accounts finalised	Net Profit / Loss (-)	Net impact of audit comments	Paid-up capital	Accumu-lated Profit/ Loss (-)	Capital employed*	Total return on capital employed¥	Percentage of total return on capital employed	Arrears of accounts in terms of years	Turn over	Man-power[b]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
A.	**Working Government companies**														
	Agriculture and Allied														
1.	Orissa Agro Industries Corporation Limited	Agriculture	20 December 1961	2003-04	2008-09	(-)230.53	Increase in loss by Rs. 50.00 lakh.	715.15	(-)4834.85	(-)2144.71	(-)42.04	--	4	5778.74	524
2.	Orissa State Seeds Corporation Limited	Agriculture	24 February 1978	2004-05 2005-06	2007-08 2008-09	5.43 10.08	Increase in profit by Rs.3.47 lakh.	259.11 259.11	732.79 742.87	2709.74 2441.65	50.78 36.78	1.87 1.51	2	3388.25	189
3.	Orissa State Cashew Development Corporation Limited	Agriculture	06 April 1979	2006-07	2008-09	112.50	Decrease in profit by Rs.65.43 lakh	155.04	1233.49	1671.61	112.50	6.73	1	668.89	525
4.	Agricultural Promotion and Investment Corporation of Orissa Limited#	Agriculture	01 March 1996	2006-07	2007-08	0.00	-	110.00	0.00	118.76	0.00	--	1	16.32	
	Sector wise total					**(-)107.95**		**1239.30**	**(-)2858.49**	**2087.31**	**107.24**		**8**	**9852.20**	
	Electronics														
5	IDCOL Software Limited (Subsidiary of Company at Sl. No. A.19)	Industries	26 November 1998	2006-07	2007-08	(-)1.31		100.07	(-)55.61	44.45	(-)1.31	--	1	46.58	5
6	ELMARC Limited (Subsidiary of Sl.No.C-11)	Information and Technology	23 January 1990	2000-01	2006-07	(-)7.34	--	101.57	(-)224.82	(-)56.20	(-)7.32	--	7	77.28	--
	Sector wise total					**(-)8.65**		**201.64**	**(-)280.43**	**(-)11.75**	**(-)8.63**	**--**	**8**	**123.86**	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Forest														
7	Orissa Forest Development Corporation Limited	Forest and Environment	28 September 1962	2006-07@	2008-09	(-)1592.50	--	128.00	(-)15604.87	(-)8361.86	(-)1592.50	--	1	4315.82	3566
	Sector wise total					**(-)1592.50**		**128.00**	**(-)15604.87**	**(-)8361.86**	**(-)1592.50**	**--**	**1**	**4315.82**	
	Mining														
8	Orissa Mining Corporation Limited	Steel and Mines	16 May 1956	2006-07	2007-08	39966.59	Decrease in profit by Rs. 129.86 lakh	3145.48	81879.98	98496.20	44268.45	44.94	1	108142.43	5079
	Sector wise total					**39966.59**		**3145.48**	**81879.98**	**98496.20**	**44268.45**	**44.94**	**1**	**108142.43**	
	Construction														
9	Orissa Construction Corporation Limited	Water Resources	22 May 1962	2005-06 2006-07@	2007-08 2008-09	103.29 37.25	Decrease in profit by Rs. 255.15 lakh	1150.00 1150.00	325.23 362.48	12294.09 14252.08	135.93 59.40	1.10 0.42	1	10194.73	720
10	Orissa Bridge and Construction Corporation Limited	Works	01 January 1983	2005-06@	2008-09	(-)133.34	--	500.00	(-)1359.74	(-)375.10	(-)130.78	--	2	1989.14	476
	Sector wise total					**(-)96.09**	**--**	**1650.00**	**(-)997.26**	**13876.98**	**(-)71.38**	**--**	**3**	**12183.87**	
	Public distribution														
11	Orissa State Civil Supplies Corporation Limited #	Food Supplies and Consumer Welfare	03 September 1980	2004-05 2005-06@	2008-09 2008-09	-- --	No impact	978.32 978.32	-- --	2297.26 2157.12	-- --	-- --	2	-- 70909.95	--
	Sector wise total					**-**		**978.32**	**---**	**2157.12**	**-**	**-**	**2**	**70909.95**	
	Tourism														
12	Orissa Tourism Development Corporation Limited	Tourism and Culture	03 September 1979	2006-07	2008-09	119.28		962.12	(-)487.94	463.28	119.28	25.75	1	971.29	574
	Sector wise total					**119.28**		**962.12**	**(-)487.94**	**463.28**	**119.28**	**25.75**	**1**	**971.29**	
	Power														
13	Orissa Power Generation Corporation Limited	Energy	14 November 1984	2006-07	2007-08	18152.54	Decrease in profit by Rs.27.12 lakh	49021.74	18421.65	88830.57	17668.65	19.89	1	44878.38	567
14	Orissa Hydro Power Corporation Limited	Energy	21 April 1995	2006-07 2007-08@	2007-08 2008-09	5392.75 12139.41	Decrease in profit by Rs.409.67 lakh	32080.07	27448.84 39588.25	263523.78 276091.33	7303.15 14208.86	2.77 5.15	--	38604.05	3269

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
15	GRIDCO Limited (formerly Grid Corporation of Orissa Limited	Energy	20 November 1995	2006-07 2007-08@	2008-09 2008-09	23688.15 56605.07	Increase in profit by Rs. 1844.00 lakh	43298.14 43298.14	(-)76544.14 (-)19939.07	78325.53 162509.26	65516.84 76551.75	83.65 47.11	-	324663.66	66
16	Orissa Power Transmission Corporation Limited	Energy	29 March 2004	2006-07	2008-09	(-)905.88	Increase in profit by Rs. 3520.81 lakh	6007.00	(-)3400.85	187580.71	10717.25	5.71	1	35534.94	4048
	Sector wise total					**85991.14**		**130406.95**	**34669.98**	**715011.87**	**119146.51**	**16.66**	**2**	**443681.03**	
	Financing														
17	Industrial Promotion and Investment Corporation of Orissa Limited	Industries	12 April 1973	2006-07	2008-09	250.25	Increase in profit by Rs. 8.31 lakh	8314.29	(-)4689.55	5547.38	250.25	4.51	1	773.65	130
	Sector wise total					**250.25**		**8314.29**	**(-)4689.55**	**5547.38**	**250.25**	**4.51**	**1**	**773.65**	
	Miscellaneous														
18	Orissa State Police Housing and Welfare Corporation Limited	Home	24 May 1980	2004-05	2008-09	17.94	Decrease in profit by Rs. 69.30 lakh	563.01	217.56	780.58	17.94	2.30	3	4494.26	270
19	Industrial Development Corporation of Orissa Limited	Industries	29 March 1962	2006-07	2008-09	989.28	Decrease in profit by Rs. 240.65 lakh	5711.79	(-)4157.95	9250.86	2322.73	25.11	1	8557.05	1623
20	Orissa Small Industries Corporation Limited	Industries	03 April 1972	2005-06	2007-08	(-)477.70	Increase in loss by Rs. 927.45 lakh	965.86	(-)1940.04	2723.01	9.36	0.34	2	8145.99	235
21	Orissa Film Development Corporation Limited	Industries	22 April 1976	2005-06	2007-08	3.00	--	540.05	57.68	625.62	5.20	0.83	2	46.72	24
22	Kalinga Studios Limited (subsidiary of company at Sl. No. A-21)	Industries	20 July 1980	2004-05	2007-08	(-)15.78	Increase in loss by Rs.7.32 lakh	174.50	(-)269.84	30.95	(-)13.32	--	3	24.03	NA
23	Konark Jute Limited (subsidiary of Company at Sl. No A-19)	Industries	27 January 1975	2004-05	2007-08	(-)52.52		593.99	(-)1826.94	(-)88.19	(-)29.88	--	3	42.04	877
24	Orissa Lift Irrigation Corporation Limited	Water Resources	1 October 1973	2005-06 2006-07@	2008-09 2008-09	64.07 83.47	Decrease in profit by Rs. 46.13 lakh	7473.25 7473.25	(-)417.999 (-)334.52	27902.84 27228.96	84.49 107.18	0.30 0.39	1	2653.22	1807
25	Orissa Rural Housing and Development Corporation Limited	Housing and Urban Development	19 August 1994	2002-03	2006-07	(-)90.45	Increase in Loss Rs.915.30 lakh	3340.00	154.25	1323.65	5517.91	416.87	5	6707.71	109
26	Orissa State Beverages Corporation Limited	Excise	16 November 2000	2004-05	2007-08	180.84	No impact	100.00	423.32	3181.82	204.84	6.44	3	2553.96	--
27	IDCOL Kalinga Iron Works Limited (Subsidiary of Sl. No. A-19)	Industries	26 March 1999	2006-07	2007-08	1613.25	Decrease in profit by Rs.245.19 lakh	4510.00	(-)1994.73	10374.85	1771.13	17.07	1	24323.89	1117

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
28	IDCOL Ferro Chrome and Alloys Limited (Subsidiary of Sl. No. A-19)	Industries	26 March 1999	2006-07	2007-08	1041.21	Decrease in profit by Rs. 401.50 lakh	1881.36	488.49	3298.90	1116.88	33.86	1	6935.23	419
29	Orissa Pisciculture Development Corporation Limited	Fisheries and Animal Resources Development	5 May 1998	2000-01 2001-02	2007-08 2008-09	(-)78.13 (-)73.37	Increase in loss by Rs. 74.45 lakh	217.79 217.79	(-)199.38 (-)272.90	493.38 418.04	(-)78.13 (-)73..37	--	6	2473.77	268
	Sector wise total					**3219.17**		**26071.60**	**(-)9455.62**	**59149.05**	**10956.60**	**18.52**	**31**	**66957.87**	
	Total (A) Working Government companies					**127741.24**		**173097.70**	**82175.80**	**888415.58**	**173175.82**	**19.49**	**58**	**717911.97**	
B.	**Working Statutory corporations**														
	Transport														
1.	Orissa State Road Transport Corporation	Commerce and Transport	15 May 1974	2005(-)06	2007-08	299.29	Decrease in profit by Rs. 25.23 lakh	13648.90	(-)23174.63	(-)6735.99	428.22	-	2	3777.70	403
	Sector wise total					**299.29**		**13648.90**	**(-)23174.63**	**(-)6735.99**	**428.22**	**-**	**2**	**3777.70**	
	Financing														
2.	Orissa State Financial Corporation	Industries	20 March 1956	2006-07 2007-08@	2007-08 2008-09	67.31 153.08	Increase in profit by Rs. 1164.00 lakh	8757.31 35861.55	(-)38091.02 (-)37937.94	53485.37 58181.36	1776.80 1786.84	3.32 3.07	--	1694.60	329
	Sector wise total					**153.08**		**35861.55**	**(-)37937.94**	**58181.36**	**1786.84**	**3.07**		**1694.60**	
	Co-operation														
3.	Orissa State Warehousing Corporation.	Co-operation	21 March 1958	2005-06	2007-08	0.44	Increase in profit by Rs. 82.46 lakh	360.00	0.67	3631.43	52.79	1.45	2	2396.73	419
	Sector wise total					**0.44**		**360.00**	**0.67**	**3631.43**	**52.79**	**1.45**	**2**	**2396.73**	
	Total (B) Statutory corporations					**452.81**		**49870.45**	**(-)61111.90**	**55076.80**	**2267.85**	**4.12**	**4**	**7869.03**	
	Total (A) + (B)					**128194.05**		**222968.15**	**21063.90**	**943492.38**	**175443.67**	**18.60**	**62**	**725781.00**	
C.	**Non-working Government companies**														
	Industry														
1.	Konark Detergent and Soaps Limited (Subsidiary of Sl.No.A-20)	Industries	29 August 1978	1981-82	1996-97	(-)0.60	--	5.79	-0.96	5.09	(-)0.60	--	26	--	--
2.	Kalinga Steel (India) Limited (Subsidiary of Sl.No.A-17)	Industries	09 January 1991	2007-08	2008-09	--	--	5.08	-	--	--	--	--	--	--
	Sector wise total					**(-)0.60**		**10.87**	**(-)0.96**	**5.09**	**(-)0.60**	**--**	**26**		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Engineering														
3.	Orissa Electrical Manufacturing Company Limited	Industries	31 March 1958	1966-67	1973-74	(-)0.46	--	4.54	--	4.72	(-)0.34	--	Under voluntary liquidation since 30 August 1976	--	--
4.	Gajapati Steel Industries Limited	Industries	15 February 1959	1968-69	1974-75	(-)0.44	--	4.00	--	2.25	-0.42	--	Under voluntary liquidation since 1974	--	--
5.	Premiere Bolts and Nuts Limited$	Industries	4 August 1959	1966	1973-74	-0.27	--	2.28	--	0.44	-0.27	--	In the process of liquidation	--	--
6.	Modern Malleable Casting Company Limited	Industries	22 September 1960	1972-73	1975-76	(-)0.36	--	4.20	--	3.08	(-)0.07	--	Under voluntary liquidation since 9 March 1976	--	--
7.	Orissa Instruments Company Limited	Industries	14 March 1961	1987-88	2000-01	(-)6.22	--	8.79	(-)0.79	35.80	(-)3.74	--	20	--	--
8.	Hira Steel and Alloys Limited (Subsidiary of Sl.No.A-19)	Industries	23 August 1974	1975-76	1976-77	--	--	12.28	--	27.39	1.57	5.73	Under liquidation	--	--
9.	IDCOL Piping and Engineering Works Limited (Subsidiary of Sl.No.A--19)	Industries	26 March 1993	2006-07	2008-09	(-)0.77	--	193.16	(-)2414.36	711.86	(-)0.77	--	-do-	--	30
10.	General Engineering and Scientific Works Limited (Subsidiary of Sl.No.A-20)	Industries	11 January 1994	1998-99 1999-00	2007-08 2008-09	(-)39.29 (-)2.16	--	30.00 30.00	(-)42.43 (-)44.59	24.71 23.26	(-)39.29 (-)2.16	--	8	--	--
	Sector wise total					**(-)10.68**		**259.25**	**(-)2459.74**	**808.80**	**(-)6.20**		**28**		
	Electronics														
11.	Orissa State Electronics Development Corporation Limited	Information and Technology	30 September 1981	2003-04	2007-08	-63.50	Increase in loss by Rs.70.02 lakhs	2003.50	(-)305.31	738.67	(-)63.50	--	In the process of liquidation	--	--
12.	Manufacture Electro Limited$	Industries	24 September 1959	1965-66	1982-83	(-)0.08	--	0.46	--	--	(-)0.08	--	In the proces of liquidatior	--	--
13.	Modern Electronics Limited$	Industries	22 March 1960	1965-66	1982-83	0.23	--	4.37	--	2.77	0.26	9.39	In the proces of liquidatior	--	--

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
14.	IPITRON Times Limited (Subsidiary of Sl.No.C-11)	Information and Technology	11 December 1981	1997-98	2005-06	(-)92.12	--	80.83	(-)947.38	(-)206.69	(-)92.12	--	Under liquidation since 1998	--	--
15.	Konark Television Limited (Defunct since 1999-2000)	Information and Technology	26 June 1982	1991-92	1998-99	(-)94.96	--	120.00	(-)603.52	600.04	46.15	7.69	Under liquidation	---	--
16.	ELCOSMOS Electronics Limited (Subsidiary of Sl.No. C-11)	Information and Technology	12 January 1987	1997-98	2005-06	(-)50.08	--	158.51	(-)686.81	175.71	(-)50.08	--	Under liquidation since 1998	--	--
17.	ELCO Communication and Systems Limited (Subsidiary of Sl.No. C-11)	Information and Technology	8 March 1989	1997-98	2005-06	--	--	0.01	--	(-)145.55	--	--	Under liquidation since 1998	--	--
	Sector wise total					**(-)300.51**		**2367.68**	**(-)2543.02**	**1164.95**	**(-)159.37**	--	--		
	Textile														
18.	Mayurbhanj Textiles Limited	Textile & handloom	1943	1970-71	1976-77	(-)0.82	--	3.79	--	(-)0.62	(-)0.71	--	37	--	--
19	New Mayurbhanj Textiles Limited	Textile & handloom	1988	1981-82	2003-04	2.51	--	1.50	3.17	4.65	2.51	53.98	26	--	--
20	Orissa Textile Mills Limited (Defunct since 2000-01)	Textile and Handlooms	25 January 1946	1997-98	1998-99	(-)1023.74	--	2470.23	(-)5340.61	516.81	(-)766.10	--	Under liquidation since 2001	---	--
21.	Orissa State Textile Corporation Limited	Textile and Handlooms	10 September 1981	1993-94	2003-04	(-)309.69	--	262.00	(-)1595.30	(-)545.14	(-)180.26	--	14	--	--
22.	ABS Spinning Orissa Limited (Subsidiary of Sl.No.A-20)	Industries	1 April 1990	2002-03	2008-09	789.96	--	300.00	(-)7128.65	(-)3516.44	799.86	--	Under liquidation	--	--
	Sector wise total					**(-)541.78**		**3037.52**	**(-)14061.39**	**(-)3540.74**	**(-)144.70**	-	**77**		
	Handloom														
23	Orissa State Handloom Development Corporation Limited (Defunct since 1997-98)	Industries	01 February 1977	2001-02	2007-08	(-)27.17	--	353.37	(-)1941.65	(-)675.90	(-)3.49	--	In the process of liquidation	--	7
	Sector wise total					**-27.17**		**353.37**	**(-)1941.65**	**(-)675.90**	**(-)3.49**				
	Miscellaneous														
24.	Orissa State Commercial Transport Corporation Limited	Commerce and Transport	7 January 1964	1997-98	2008-09	(-)107.13	--	234.00	(-)1420.52	(-)409.80	(-)75.30	--	10	--	5

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
25	Orissa Fisheries Development Corporation Limited	Fisheries and Animal Resources Development	8 August 1962	1982-83	1983-84	(-)3.75	--	35.00	--	19.78	(-)2.53	--	25	--	--
26.	Eastern Aquatic Products Limited	Industries	06 May 1959	1972-73	1975-76	--	--	0.61	--	0.31	--	--	Under voluntary liquidation since 22 February 1978	--	--
27	Orissa Boat Builders Limited[$] (Company closed since 1987)	Industries	18 March 1958	1970-71	1977-78	(-)0.32	--	5.23	--	1.30	0.32	24.62	In the process of liquidation	--	--
28.	Orissa Board Mills Limited[$]	Industries	04 April 1960	1967-68	1976-77	(-)1.04	--	4.08	--	4.69	(-)0.53	--	In the process of liquidation	--	--
29	Orissa State Leather Corporation Limited (Closed under ID Act w.e.f 18 June 1998)	Industries	19 April 1976	1988-89	2004-05	(-)23.06	--	184.91	(-)246.42	171.18	(-)16.73	--	19	--	--
30.	Orissa Leather Industries Limited (subsidiary of Company at Sl.No.C-29)	Industries	26 July 1986	1991-92	1995-96	--	--	65.00	--	192.02	--	--	16	--	--
31.	Kanti Sharma Refractories Limited (subsidiary of company at Sl.No.A-21) (Closed under ID Act w.e.f 5 December 1998)	Industries	11 January 1994	1996-97@	2008-09	(-)81.05	--	75.00	(-)126.23	192.18	(-)52.84	--	Compulsory winding up petition is filed before the Hon'ble High Court on 29 March 2008	--	--
	Sector wise total					**(-)216.35**		**603.83**	**(-)1793.17**	**171.66**	**(-)147.61**	**--**	**70**	**--**	
	Total (C) Non-working Government companies					**(-)1097.09**		**6632.52**	**(-)22799.93**	**(-)2066.14**	**(-)461.97**	**--**	**201**	**--**	
	Total (A) + (B) + (C)					**127096.96**		**229600.67**	**(-)1736.03**	**941426.24**	**174981.70**	**18.59**	**263**	**725781.00**	

* Capital employed represents net fixed assets (including capital work-in progress) plus working capital and in case of finance companies/corporation where the capital employed is worked out as a mean of aggregate of the opening and closing balance of paid up capital, free reserves, bonds, deposits and borrowing (including refinance).

β Figures in Col. 16 relates to the year 2007-08.

¥ Return on capital employed represents interest on borrowed fund plus net profit/ loss.

@ Supplementary audit is in progress

Companies at Sl.Nos.A-4 and A-11 functioning on 'No profit and no loss' basis.

$ In respect of Sl. Nos. C-5, 12, 13, 27 and 28, Government has decided for liquidation

Annexure 3

Statement showing grants/subsidy received, guarantees received, waiver of dues, loans on which moratorium allowed and loans converted into equity during the year and subsidy receivable and guarantees outstanding at the end of March 2008

(Referred to in paragraphs 1.6 and 1.17)

(Figures in Columns 3(a) to 7 are Rupees in lakh)

Sl. No.	Name of the Public Sector Undertaking	Grants/Subsidy received during the year				Guarantees received during the year and outstanding at the end of the yearÄ					Waiver of dues during the year				Loans on which morato-rium allowed	Loans conve-rted into equity during the year
		Central Govern-ment	State Govern-ment	Others	Total	Cash credit from banks	Loans from other sources	Letters of credit opened by bank in respect of imports	Payment of obligation under agreements with foreign consultants or contracts	Total	Loans repay-ment written off	Interest waived	Penal interest waived	Total		
(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
A.	**Working Government companies**															
1.	Orissa Agro Industries Corporation Limited	--	--	--	--	(150.00)	--	--	--	(150.00)	--	--	--	--	--	
2.	Orissa State Seeds Corporation Limited.	13.53	217.92	120.00#	231.45 120.00#	--	--	--	--	--	--	--	--	--	--	--
3.	Agricultural Promotion and Investment Corporation of Orissa Limited	--	50.00 #	--	50.00 #	--	--	--	--	--	--	--	--	--	--	--
4.	Orissa Lift Irrigation Corporation Limited	1000.00	1059.00	--	2059.00	--	--	--	--	--	--	--	--	--	--	--
5.	Orissa Rural Housing and Development Corporation Limited	--	--	--		--	(27769.95)	--	--	(27769.95)	--	--	--	--	--	--
6	Orissa Film Development Corporation Limited	--	4.00	--	4.00	--	--	--	--	--	--	--	--	--	--	---
7	Orissa State Civil Supplies Corporation Limited	34326.00	3500.00	--	37826.00	--	--	--	--	--	--	--	--	--	--	--
8.	Orissa Small Industries Corporation Limited	--	--	--	--	--	(3050.00)	--	--	(3050.00)	--	--	--	--	--	--
9	GRIDCO Limited	--	--	--	--	--	(43132.18)	--	--	(43132.18)	---	--	--	--	--	--
10	Orissa Construction Corporation Limited	--	--			(200.00)	--	--	--	(200.00)	--	--	--	--	--	--

(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
11	Orissa Power Generation Corporation Limited	--	--	--	--	--	(3131.99)	--	--	(3131.99)	--	--	--	--	--	--
12	Orissa Hydro Power Corporation Limited	--	--	--	--	--	(20291.74)	--	--	(20291.74)	--	--	--	--	--	--
13	Orissa Power Transmission Corporation Limited	--	--	--	--	(55899.79)	--	--	--	(55899.79)	--	--	--	--	--	--
14	Industrial Development Corporation of Orissa Limited	--	--	--	--	--	(7000.00)	--	--	(7000.00)	--	--	--	--	--	--
15	Industrial Promotion & Investment Corporation of Orissa Limited			36.50#	36.50#	--	--	--	--	--	--	--	--	--	--	--
Total (A) Working Government companies		**35339.53**	**4780.92 50.00#**	**156.50#**	**40120.45 206.50#**	**(56249.79)**	**(104375.86)**	--	--	**(160625.65)**	--	--	--	--	--	--
B	**Working Statutory corporations**															
1	Orissa State Road Transport Corporation	--	160.00	--	160.00	--	--	--	--	--	--	--	--	--	--	--
2	Orissa State Financial Corporation	--	676.95	--	676.95	--	(2697.50)	--	--	(2697.50)	--	--	--	--	--	--
Total (B) Working Statutory corporations		--	**836.95**	--	**836.95**		**(2697.50)**	--	--	**(2697.50)**	--	--	--	--	--	--
Total (A) + (B)		**35339.53**	**5617.87 50.00 #**	**156.50#**	**40957.40 206.50 #**	**(56249.79)**	**(107073.36)**	--	--	**(163323.15)**	--	--	--	--	--	--
C	**Non-working Government companies**				--	--	--	--	--	--	--	--	--	--	--	--
1	Orissa Handloom Development Corporation Limited	--	6.96#	--	6.96#	--	--	--	--	--	--	--	--	--	--	--
2	Orissa State Textile Corporation Limited	--	4.50#	--	4.50#	--	--	--	--	--	--	--	--	--	--	--
Total (C) Non-working Government companies		--	**11.46#**	--	**11.46#**		--	--	--	--	--	--	--	--	--	--
Total (A) + (B)+(C)		**35339.53**	**5617.87 61.46 #**	**156.50#**	**40957.40 217.96 #**	**(56249.79)**	**(107073.36)**	--	--	**(163323.15)**	--	--	--	--	--	--

Note: Except in respect of Sl. No.A-9,12 and B-2 which finalised the accounts for 2007-08, figures are provisional and as given by the companies/corporations

\# Grants received during the year.

⊗ Figures in brackets indicate guarantee outstanding at the end of the year.

Annexure 4

Statement showing investment made by State Government in PSUs, whose accounts are in arrears
(Referred to in paragraphs 1.7.1 and 1.19)

Sl. No	**Name of PSUs**	**Year upto which Accounts finalised**	**Arrear of accounts in term of years**	**Paid up capital as per latest finalised accounts**	**Arrear years in which investment received**	**Investment made by State Government during the years for which accounts are in arrear (Rs. in lakh)**			
A.	**Working Companies**			**(Rs. in lakh)**		**Equity**	**Loans**	**Grants/ Subsidy**	**Others**
1	Orissa State Seeds Corporation Limited	2005-06	2 years	259.11	2006-07 2007-08	-- --	-- --	42.21 217.92	… …
2	Agricultural Promotion and Investment Corporation of Orissa Limited	2006-07	1 year	110.00	2007-08	--	--	50.00	…
3	Orissa State Civil Supplies Corporation Limited	2004-05	3 years	978.32	2005-06 2006-07 2007-08	-- -- --	-- -- --	4000.00 3500.00 3500.00	-- -- --
4	Orissa Film Development Corporation Limited	2005-06	2 years	540.05	2006-07 2007-08	-- --	-- --	69.00 4.00	-- --
5	Orissa Lift Irrigation Corporation Limited	2006-07	1 year	7473.25	2007-08	--	--	1059.00	--
6	Orissa Rural Housing and Development Corporation Limited	2002-03	5 years	3340.00	2003-04 2004-05 2005-06 2006-07 2007-08	400.00 476.00 600.00 -- --	-- -- -- 12242.00 5665.55	-- -- -- --	-- -- -- -- --
Total						**1476.00**	**17907.55**	**12442.13**	
B.	**Working Statutory Corporation**								
1	Orissa State Road Transport Corporation	2005-06	2 years	13648.90	2006-07 2007-08	-- 995.00	-- --	160.00 160.00	-- --
Total						**995.00**	**--**	**320.00**	
C.	**Non-working Government companies**								
1	Orissa State Handloom Development Corporation Limited	2001-02	Under liquidation	353.37	2007-08	--	--	6.96	--
2	Orissa State Textile Corporation Limited	1993-94	14 years	262.00	2007-08	--	--	4.50	--
Total						**--**	**--**	**11.46**	
Grand Total (A+B+C)						**2471.00**	**17907.55**	**12773.59**	

Annexure 5

Statement showing financial position of Statutory corporations
(Referred to in paragraph 1.8)

(Amount: Rupees in crore)

1. Orissa State Road Transport Corporation			
Particulars	**2003-04**	**2004-05**	**2005-06**
A. Liability			
Capital (including loan capital and equity capital)	136.50	136.49	136.49
Borrowings (Government)	25.08	36.21	23.55
(Others)	1.40	1.38	1.30
Funds*	3.15	3.10	3.04
Trade dues and other current liabilities (including provisions)	121.15	93.17	102.32
Total (A)	**287.28**	**270.35**	**266.70**
B. Assets			
Gross Block	35.76	37.59	39.20
Less : Depreciation	15.91	17.65	19.74
Net fixed assets	19.85	19.94	19.46
Investment	--	4.03	--
Current assets, loans and advances	33.51	11.64	15.50
Accumulated losses	233.92	234.74	231.74
Total (B)	**287.28**	**270.35**	**266.70**
C. Capital employed**	**(-) 67.79**	**(-) 61.59**	**(-) 67.36**
2. Orissa State Financial Corporation			
Particulars	**2005-06**	**2006-07**	**2007-08**
A. Liabilities			
Paid-up capital	87.57	87.57	358.62
Reserve fund and other reserves and surplus	1.37	21.89	22.91
Borrowings:			
(i) Bonds and debentures	178.21	46.61	26.98
(ii) Fixed Deposits	3.48	0.30	0.19
(iii) Industrial Development Bank of India and Small Industries Development Bank of India	200.85	174.65	159.65
(iv) Reserve Bank of India	--	--	--
(v) Loans from State Government	102.94	--	--
(vi) Loans in lieu of share capital:			
(a) State Government	6.23	252.31	--
(b) Industrial Development Bank of India	6.22	6.22	6.22
(vi) Others (subvention from State Government)	14.22	--	--
Other liabilities and provisions	367.54	375.66	434.23
Total (A)	**968.63**	**965.21**	**1008.80**
B. Assets			
Cash and Bank balance	20.27	13.67	34.32
Investments	--	--	--
Loans and Advances	513.67	467.08	434.54

* Excluding depreciation funds

** Capital employed represents net fixed assets (including capital work-in-progress) plus working capital

Particulars	2005-06	2006-07	2007-08
Net fixed assets	3.42	23.20	22.53
Other assets	51.83	80.35	138.03
Miscellaneous expenditure (Loss)	381.58	380.91	379.38
Total (B)	**968.63**	**965.21**	**1008.80**
C. Capital employed*	**510.45**	**534.85**	**581.81**
3. Orissa State Warehousing Corporation			
Particulars	**2003-04**	**2004-05**	**2005-06**
A. Liability			
Paid-up capital	3.60	3.60	3.60
Reserves and surplus	13.03	17.57	23.30
Borrowings	22.25	16.39	9.41
Trade dues and other current liabilities (including provisions)	18.67	14.85	15.03
Total (A)	**57.55**	**52.41**	**51.34**
B. Assets			
Gross Block	36.42	36.60	40.32
Less : Depreciation	3.81	4.56	7.39
Net fixed assets	32.61	32.04	32.93
Capital works-in-progress	0.02	0.02	0.02
Current assets, loans and advances	24.92	20.35	18.39
Total (B)	**57.55**	**52.41**	**51.34**
C. Capital employed**	**38.88**	**37.56**	**36.31**

* Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, free reserves, loans in lieu of capital, seed money, debentures (other than those which have been funded specially and backed by investment outside), bonds, deposits and borrowings (including refinance).
** Capital employed represents net fixed assets (including capital work-in-progress) plus working capital

Annexure 6

Statement showing working results of Statutory corporations
(Referred to in paragraph 1.8)

1. Orissa State Road Transport Corporation			**(Amount: Rupees in crore)**
Particulars	**2003-04**	**2004-05**	**2005-06**
Operating			
a) Revenue	27.87	30.70	34.20
b) Expenditure	28.98	31.96	35.32
c) Surplus / Deficit (-)	(-) 1.11	(-) 1.26	(-)1.12
Non-operating			
a) Revenue	3.78	3.43	3.58
b) Expenditure	2.02	1.83	1.70
c) Surplus / Deficit (-)	1.76	1.60	1.88
Total			
a) Revenue	31.65	34.13	37.78
b) Expenditure	31.00	33.79	37.02
c) Surplus / Deficit (-)	0.65	0.34	0.76
d) Prior period adjustment	--	--	2.23
e) Surplus / Deficit after Prior period adjustment	0.65	0.34	2.99
Interest on capital and loans	1.53	1.35	1.29
Total return on Capital employed*	**2.18**	**1.69**	**4.28**
Percentage of return on Capital employed	--	--	--

2. Orissa State Financial Corporation			
Particulars	**2005-06**	**2006-07**	**2007-08**
1. Income			
(a) Interest on Loans	22.65	25.41	16.95
(b) Other Income	2.44	1.30	9.12
Total - 1	**25.09**	**26.71**	**26.07**
2. Expenses			
(a) Interest on long-term and short-term loans	9.24	17.09	16.34
(b) Provision for non-performing assets	(1.14)	1.38	(1.36)
(c) Other expenses	14.77	7.07	8.52
Total - 2	**22.87**	**25.54**	**23.50**
3. Profit before tax (1-2)	2.22	1.17	2.57
4. Provision for tax	--	0.05	0.02
5. Profit/ Loss (-) after tax	2.22	1.12	2.55
6. Other appropriations	--	0.45	1.02
7. Amount available for dividend	--	0.67	1.53
8. Dividend	--	--	--
9. Total return on Capital employed*	**11.46**	**17.76**	**17.87**
10. Percentage of return on Capital Employed	**2.25**	**3.32**	**3.07**

* Total return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised)

3. Orissa State Warehousing Corporation		**(Amount: Rupees in crore)**	
Particulars	**2003-04**	**2004-05**	**2005-06**
1. Income			
Warehousing Charges	17.61	24.87	23.97
Other income	0.17	0.20	0.15
Total – 1	**17.78**	**25.07**	**24.12**
2. Expenses			
(a) Establishment charges	4.97	4.61	4.59
(b) Other expenses	12.35	11.92	11.75
Total - 2	**17.32**	**16.53**	**16.34**
3. Profit / Loss - before tax	0.46	8.54	7.78
4. Provision for tax	0.13	0.97	1.02
5. Prior period adjustment	0.05	2.21	1.05
6. Profit / Loss - after tax	0.38	5.36	5.71
7. Other appropriations	0.30	4.54	5.70
8. Amount available for dividend	0.08	0.82	0.01
9. Dividend for the year	0.07	0.81	--
10. Total return on Capital employed*	**0.33**	**6.82**	**0.53**
11. Percentage of return on Capital employed	**0.84**	**18.16**	**1.46**

* Total return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised)

Annexure 7

Statement showing operational performance of Statutory corporations
(Referred to in paragraph 1.12)

1. Orissa State Road Transport Corporation

(Amount: Rupees in crore)

Particulars	2005-06	2006-07	2007-08
		(Provisional)	
Average number of vehicles held	265	269	261
Average number of vehicles on road	236	226	231
Percentage of utilisation of vehicles	89	84	89
Number of employees	1247	1192	1135
Employee-vehicle ratio	5.28:1	5.27:1	4.91:1
Number of routes operated at the end of the year	109	101	119
Route Kilometres	40184	35187	44001
Kilometres operated (in lakh)			
(a) Gross	266.14	258.16	269.86
(b) Effective	263.50	256.06	266.24
(c) Dead	2.64	2.10	3.62
Percentage of dead kilometres to gross kilometres	0.99	0.81	1.34
Average kilometres covered per bus per day	309	313	320
Average operating revenue per kilometre (Paise)	1298	1439	1515
Percentage of increase in operating revenue per kilometre over previous year's income	8.44	11.12	5.21
Average operating expenditure per kilometre (Paise)	1340	1499	1532
Increase /(-) Decrease in operating expenditure per kilometre (Paise) over previous year's expenditure (per cent)	6.60	11.87	2.20
Loss per kilometre (Paise)	42	60	17
Number of operating depots	14	14	14
Average number of break downs per lakh kilometre	2.8	2.61	0.21
Average number of accidents per lakh kilometre	0.14	0.20	0.18
Passenger kilometres operated (in crore)	87.27	81.84	88.87
Occupancy ratio (percentage)	69	68	71
Kilometres obtained per litre of :			
(a) Diesel	4.40	4.41	4.40
(b) Engine Oil	801	833	2397

2. Orissa State Financial Corporation

(Rupees in crore)

Particulars	2005-06		2006-07		2007-08	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Application pending at the beginning of the year	4	1.91	--	--	--	--
Application received	--	--	--	--	--	--
Total	**4**	**1.91**	--	--	--	--
Application sanctioned	--	--	--	--	--	--
Application cancelled/withdrawn/ rejected/reduced	4	1.91	--	--	--	--
Application pending at the close of the year	--	--	--	--	--	--
Loans disbursed						
Loan outstanding at the close of the year	--	513.67	--	467.08	--	434.54
Amount overdue for recovery at the close of the year						
(a) Principal	13264	425.67	12595	240.59	11918	145.97
(b) Interest	--	1050.36	--	851.44	--	580.13
Total	**13264**	**1476.03**	**12595**	**1092.03**	**11918**	**726.10**
Amount involved in recovery certificate cases	--	--	--	--	--	--
Total	**13264**	**1476.03**	**12595**	**1092.03**	**11918**	**726.10**
Percentage of default to total loans outstanding (Principal)	--	83.22	--	51.51	--	33.59

3. Orissa State Warehousing Corporation

(Rupees in crore)

Particulars	2005-06	2006-07	2007-08
		(Provisional)	**(Provisional)**
Number of stations covered	60	60	60
Storage capacity created up to the end of the year (tonne in lakh)			
(a) Owned	3.96	3.96	3.95
(b) Hired	0.11	0.20	0.10
Total	**4.07**	**4.16**	**4.05**
Average capacity utilised during the year (in lakh tonne)	4.05	4.08	4.09
Percentage of utilisation	99.51	98.08	100.99*
Average revenue per tonne per year (Rupees)	50.89	48.38	55.41
Average expenses per metric tonne per year (Rupees)	40.14	33.56	43.44
Profit / per MT (In Rupees)	10.75	14.82	11.97

* The overutilisation is due to storing of commodities beyond permissible capacity.

Annexure 8

Statement showing the comments made by the Statutory Auditors on Internal Audit/Internal Control Systems.
(Referred to in paragraph 1.34)

Sl. No.	Name of the Company	Year of Accounts	Supplementary Report under Section 619(3)(a)
1.	Orissa Agro Industries Corporation Limited	2003-04	♦ The Internal Audit is not commensurate with the size and volume of business. Compliance mechanism on internal audit observations is not adequate and effective. The comment is repeated since 2001-02. ♦ The Company does not have any efficient system for monitoring and adjusting advance payments to suppliers/contractors. ♦ Fixed assets register has not been maintained. ♦ The Corporation is not regular in disposal of damaged and obsolete stores. ♦ Bank statements are not available for certain banks. ♦ Age-wise and entry-wise detail of unreconciled differences were not available. ♦ The following are the deviations from Accounting Standards. (i) Inventories not as per Accounting Standard 2 "Accounting for Inventories". *(ii)* Diminution in value of investments is not as per Accounting Standard 13 "Accounting for Investment" *(iii)* Provision for gratuity is not made as per the Accounting Standard 15" Accounting for Retirement Benefits in Employers Financial Statements". ♦ The Company has a system of monitoring the timely recovery of outstanding dues, but the same is not effectively implemented.
2.	Orissa Tourism Development Corporation Limited	2006-07	♦ The Company has not conducted internal audit during the year 2004-05 though the same was conducted for earlier years. But the Company has not prepared the audit report in consolidated form and the compliance to the internal audit memos are not being made. The above has been commented persistently since 2000-01. ♦ The Company has a clear credit policy but during earlier period some credits were allowed by different units which have been continuing as un-recovered and the age wise/party wise details are not available, hence action to write off those bad debts could not be taken by the OTDC management. Although the Board has repeatedly taken decision to analyse the reasons, no appropriate step could be taken by the Corporation. ♦ Although the Company has system of regular monitoring of recovery of outstanding dues no improvement is noted regarding long pending outstanding.
3.	GRIDCO Limited	2007-08	♦ There is no specific policy with regard to provision for Bad & Doubtful Debts. This has been commented since 2005-06. ♦ Though an Internal Audit manual is prescribed, it is not being followed strictly. ♦ No efforts have been taken by the Company for monitoring the timely recovery of outstanding dues. ♦ No confirmation of balances have been obtained from the debtors. ♦ The Company has adopted security policies covering hardware and software. Complete automation with proper build-in-check system is required.

Sl. No.	Name of the Company	Year of Accounts	Supplementary Report under Section 619(3)(a)
4.	Orissa Lift Irrigation Corporation Limited	2006-07	♦ The Audit Committee has not functioned during the year at all. ♦ Internal audit has not been conducted since long. This has been commented persistently since 2000-01. ♦ This is multi-locational accounting unit. The accounts are done manually in divisions, which is a time consuming process, computerisation of divisional and head office accounts is highly essential. ♦ Provision of Accounting Standard – 15 is not adhered to by the Company. ♦ Discrepancies in physical verification have not been accounted pending determination of reasons. ♦ The Corporation has not physically verified the LI points (fixed assets).
5.	Orissa State Cashew Development Corporation Limited	2006-07	♦ Fixed Assets register is maintained but not fully updated. This has been commented persistently since 2002-03. ♦ Advance to contractors/suppliers are not efficiently monitored/timely adjusted.
6.	Orissa Forest Development Corporation Limited	2005-06	♦ Own internal audit system exists which is not sufficient to cope up with regular audit of all the field offices and for physical verification work of the closing inventory. This has been commented persistently from 1997-98. ♦ Register maintained for Fixed Assets but not updated. This has been commented persistently from 1997-98. ♦ No clear credit policy is available. Bad debts provision is insufficient.
7.	IDCOL Ferro Chrome and Alloys Limited	2006-07	♦ Internal Audit system needs to be strengthened. This has been commented persistently from 2002-03. ♦ System of physical verification, valuation, treatment of non-moving and slow moving items, their disposal and abnormal excess & shortage in respect of closing stock items is not adequate.
8.	Konark Jute Limited	2004-05	♦ The compilation of accounts is abnormally delayed and most of the Control Accounts remain unreconciled though the accounts have been compiled after about three years. This was also commented on the accounts for the year 2002-03. ♦ Stores are treated as consumed on their issue. The closing stock at the year-end remaining un-consumed on the floor of the factory are not accounted for. This was also commented on the accounts for the year 2002-03. ♦ Internal Audit has not been conducted during the year 2002-03 and 2003-04. ♦ The Company is deficient in timely collection of dues. Debtors are stagnant since long without even confirmation of balance. This was commented in 2003-04. ♦ Updated fixed assets register not maintained.
9.	Orissa State Civil Supplies Corporation Limited	2004-05	♦ There is no system of obtaining confirmation from the parties from whom dues are recoverable. ♦ No provision has been made in the accounts for the retirement benefit of employees (AS-15). ♦ The Company has not computerised any of its functional areas and activities. ♦ There is no internal audit system. This has been commented since 2002-03.

Sl. No.	Name of the Company	Year of Accounts	Supplementary Report under Section 619(3)(a)
10.	Orissa Power Transmission Corporation Limited	2006-07	♦ There is no specific policy with regard to provision for Bad & Doubtful Debts. ♦ The system of monitoring the timely recovery of outstanding advances and receivables is not effective. ♦ The monitoring and realisation of claims with the outside parties needs to be improved. ♦ The system of physical verification and valuation of stock, stores and spares needs much improvement. ♦ There is no system of identification of slow moving/nonmoving items and the overall management and control of inventory needs much improvement. ♦ The period of internal audit is not synchronised with the financial years followed by the Company. There is no adequate compliance mechanism in place to follow up the compliance of the irregularities reported by the internal/store auditors. Internal Audit Report had not been placed before the Audit Committee during the year. ♦ The system of physical verification and valuation of stock, stores and work in progress needs much improvement. Even if the Company has carried out physical verification, no effect for shortage/excess has been given in the accounts.
11.	Orissa Small Industries Corporation Limited	2005-06	♦ The Company has failed to keep detail records of its outstanding dues. ♦ Audit Committee constituted but not acting. This was also commented on the accounts of the previous years (2002-03 and 2003-04). ♦ The scope of work, the reporting system and level of competence is not adequate in internal audit.
12.	Orissa State Police Housing & Welfare Corporation Limited	2004-05	♦ The corporation maintains fixed asset register but it does not serve the statutory requirement of Companies Act. (i.e. quantitative details, location of fixed assets, code no. of asset, date of physical verification, verified by, etc.). ♦ The corporation is in the process of reconciliation of the advances paid to the suppliers and contractors. ♦ The Company does not have an Audit Committee.
13.	Orissa Pisciculture Development Corporation Limited	2001-02	♦ The Company has neither any clear credit policy nor any particular policy with regard to provision for bad and doubtful debt. ♦ The monitoring and realisation needs to be improved. ♦ The Company has maintained Fixed Assets Register but it needs much improvement. ♦ No, definite system has been adopted for slow-moving/non-moving items. ♦ The Internal Control System need to be strengthened. ♦ There are many Assets lying unutilized, but the same has not been assessed by the Company.
14.	Orissa State Seeds Corporation Limited	2005-06	♦ The Corporation has no clear credit policy, policy for providing for doubtful debts/write offs/liquidated damages. ♦ There is no system of obtaining confirmation of balances from sundry debtors. ♦ AS-15 is not properly complied with. ♦ Though Fixed Assets register is maintained, location of assets is not given. ♦ The Company has hired the service of CAs as internal auditor; but the internal audit report was not made available. The internal control system is not commensurate with the size of

Sl. No.	Name of the Company	Year of Accounts	Supplementary Report under Section 619(3)(a)
			the Company and nature of its business. ♦ The Company is not able to take full advantage of the software. Inventory recording can also be carried out by using the software used by the unit.

Annexure 9

Statement showing paid-up capital, investment and summarised working results of 619-B Companies as per their latest finalised accounts
(Referred to in paragraph 1.36)

(Figures in column 5 to 19 are in Rupees in lakh)

Sl. No.	Name of company	Status (working/ non-working	Year of account	Paid-up capital	Equity				Loans				Grants by				Total investment by way of equity, loans and grants				Profit / loss-	Accumulated profit/ accumulated loss-
					State Govt	State Govt. companies	Centr-al Govt. and their compa-nies	Othe-rs	State Govt	State Govt. compa-nies	Centr-al Govt. and their comp-anies	Oth-ers	State Govt	State Govt. compa-nies	Central Govt. and their compa-nies	Oth-ers	State Govt	State Govt. compa-nies	Centr-al Govt. and their compa-nies	Oth-ers		
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**	**(19)**	**(20)**	**(20)**	**(21)**	**(22)**
1.	Orissa Thermal Power Corporation Limited	Working	2007-08	5.00	--	216* (100)	--	--	--	--	--	--	--	--	--	--	--	216.00	--	--	--	(-)201.53
2.	Orissa Tools and Engineering Company Limited	Closed	1982-83	44.00		44.00 (100)												44.00				-43.00
3.	SN Corporation Limited	Closed	2005-06 2006-07	301.06 301.06		305.27** (100)				1670.57								1971.63			3.63	-2002.75

Note: Figures in the bracket are the percentage.

* Includes share pending allotment for Rs. 211 lakh (Orissa Mining Corporation Limited Rs. 105.50 lakh and Orissa Hydro Power Corporation Limited Rs. 105.50 lakh).
** Includes share pending allotment for Rs. 4.21 lakh.

Annexure 10

Statement showing targets and actual production of ore for five years ending 2007-08 in respect of OMC Limited (Referred to in paragraph 2.1.7)

(in lakh MT)

Particulars	2003-04			2004-05			2005-06			2006-07			2007-08			Total		
	Target	Actual	Shortfall	Target	Actual	Shortfall	Target	Actual	Shortfall	Target	Actual	Shortfall	Target	Actual	Shortfall	Target	Actual	Shortfall
Iron ore																		
Production	45.80	23.53	22.27	45.17	27.02	18.15	41.50	31.71	9.79	40.00	46.46	-6.46	55.00	51.74	3.26	227.47	180.46	47.01
		(51.38)	(48.62)		(59.82)	(40.18)		(76.41)	(23.59)		(116.15)	(-16.15)		(94.07)	(5.93)		(79.33)	(20.67)
Sales	37.30	25.03	12.27	42.00	30.38	11.62	41.50	31.40	10.10	40.00	35.19	4.81	61.15	45.10	16.05	221.95	167.10	54.85
		(67.10)	(32.90)		(72.33)	(27.67)		(75.66)	(24.34)		(87.98)	(12.02)		(73.75)	(26.25)		(75.29)	(24.71)
Value of sales (Rs. in crore)	--	210.91	--	--	393.61	--	--	399.15	--	--	534.40	--	--	837.94	--	--	2376.01	--
Chrome ore																		
Production	7.50	7.47	0.03	7.50	6.92	0.58	7.68	6.46	1.22	7.75	12.36	-4.61	13.85	11.58	2.27	44. 80	44.79	-0.51
		(99.60)	(0.40)		(92.27)	(7.73)		(84.11)	(15.89)		(159.48)	(-59.48)		(83.61)	(16.39)		(101.15)	(-1.15)
Sales	5.07	7.41	-2.34	6.50	7.21	-0.71	6.68	5.53	1.15	8.10	9.89	-1.79	12.10	10.92	1.18	38.45	40.96	-2.51
		(146.15	(-46.15)		(110.92)	(-10.92)		(82.78)	(17.22)		(122.10)	(-22.10)		(90.25)	(9.75)		(106.53)	(-6.53)
Value of sales (Rs. in crore)	--	152.67	--	--	338.60	--	--	274.43	--	--	532.07	--	--	1083.42	--	--	2381.19	--
Manganese ore																		
Production	1.60	1.04	0.56	1.20	0.85	0.35	1.13	0.47	0.66	0.58	0.41	0.17	0.68	0.31	0.37	5.19	3.08	2.11
		(65.00)	(35.00)		(70.83)	(29.17)		(41.59)	(58.41)		(70.69)	(29.31)		(45.59)	(54.41)		(59.34)	(40.66)
Sales	1.60	0.93	0.67	1.00	0.75	0.25	1.50	0.21	1.29	0.58	1.03	-0.45	0.80	1.34	-0.54	5.48	4.26	1.22
		(58.13)	(41.87)		(75.00)	(25.00)		(14.00)	(86.00)		(177.59)	(-77.59)		(167.50)	(-67.50)		(77.74)	(22.26)
Value of sales (Rs. in crore)	--	14.20	--	--	26.63	--	--	6.40	--	--	14.94	--	--	41.82	--	--	103.99	--

Note: Figures in bracket indicate percentage.

Annexure 11

Statement showing the shortfall in production of iron ore at different mines and non-levy of penalty relating to OMC Limited (Referred to in paragraph 2.1.9)

Sl. No	Name of the Contractor	Agreement No. & date	Period of agreement	Targeted quantity	Achieved quantity	Shortfall quantity	Loss of contribution	Penalty to be levied as per contract	Remarks
				(in lakh MT)	(in lakh MT)	(in lakh MT)	(Rs. in crore)	(Rs. in lakh)	
	Contractor's fault								
1.	Arun Udyog, (AU) Daitari	1/17.3.2004	26.9.05 to 25.9.06	8.11	4.49	3.62	30.09	28.27	The Company did not impose LD on the entire shortfall quantity of 3.62 lakh MT of the third year considering the excavation quantity of 99996 cum of ROM (equivalent 3.50 lakh MT of ore) in the first year. The ROM was raised for restoration and rectification of benches of the mine. But no such ore has been booked as production. Further, the Company paid Rs.1.11 crore towards raising of such ROM. The Company imposed LD on 0.12 lakh MT i.e. Rs.4.12 lakh only against dues amount of Rs.32.39 lakh. Thus, the Company extended undue benefit to the contractor by waiver of LD for Rs. 28.27 lakh.
2.	Faridabad Gurgaon Minerals (P). Ltd (FGMPL), Daitari	4/1.5.2006	25.2.05 to 24.2.08 (worked up to 19.7.07)	41.22	17.97	23.25	198.15	--	The shortfall was due to delay in preparing the ground work for installation of machineries and deployment of inadequate number of tippers for transportation by the contractor. The Company, however, withheld Rs.35 lakh towards LD on the short production and also stated that it would deduct Rs.87.89 lakh towards penalty for the 3rd year.
3.	B. Seenaiah & Co. (BSC), Gandhamardan Mines (Boulder and Jharana quarry)	17/30.9.05	August,05 to August,06	2.20	1.11	1.09	9.31	30.59	The short production was due to inadequate deployment of man and machinery, stoppage of work by labourers, stoppage of transportation, jamming of plots. Against this amount of penalty the Company withheld an amount of Rs.16.12 lakh.
4.	Pradeep Mining Construction (P) Ltd. (PMCPL), Barbil (Barpada Kasia mine)	11/4.9.03	July,03 to June,05	3.00	1.54	1.46	8.17	19.40	Non-levy of penalty is not justified as there was lesser deployment of manpower and machinery by the contractor. The Company, however, deducted Rs.7.52 lakh from the Running Account bill towards penalty.
5.	B.D. Mohata, Barbil (Barpada Kasia mine)	13/1.9.05	July,05 to June,06	1.00	0.70	0.30	1.84	16.03	The waiver of penalty on short excavation of overburden on proportionate basis of lump production

Sl. No	Name of the Contractor	Agreement No. & date	Period of agreement	Targeted quantity (in lakh MT)	Achieved quantity (in lakh MT)	Shortfall quantity (in lakh MT)	Loss of contribution (Rs. in crore)	Penalty to be levied as per contract (Rs. in lakh)	Remarks
									only is not correct on the ground that there was full production of both lumps and fines and fines could not be screened due to non-installation of screening plant by the contractor.
	Sub-total			***55.53***	***25.81***	***29.72***	***247.56***	***94.29***	
	Management's fault								
1.	Arun Udyog, Daitari	1/17.3.2004	26.9.03 to 25.9.05	16.14	5.69	10.45	25.77	--	During first and second years, the short productions were due to development and restoration of working benches complying with Mining Act, delay in installation of weigh bridge, repairing of ghat road, short supply of explosives, interference of antisocial elements etc. for which the management considered the achievement as the targets. The Company waived LD of Rs. 65.30 lakh on account of shortfall in achievement in first and second year respectively.
2.	Synergex Infrastructures (P) Ltd., Barbil Region (SGBK Mines)	7/1.8.05	August, 05 to July,06	3.00	1.41	1.59	12.96	--	The short production was due to delay in handing over of the quarries, mining plan and non-supply of explosives in time for which the Company waived the penalty.
3.	Ares & Sons Sekradihi (Barbil)		1.7.004 to 30.6.2006	6.50	2.67	3.83	63.81	--	During 2nd and 3rd year of contract, the shortfall in production was due to handing over of unproved reserve quarries (quarry no.1 & 6) by the Company. Afterwards proved reserve quarry no.4 was allotted but agency could not start the work due to non availability of haul road for plying of heavy machineries and finally the mining operation was suspended from April 2006 due to forest problem.
	Sub-total			***25.64***	***9.77***	***15.87***	***102.54***	**--**	
GRAND TOTAL				**81.17**	**35.58**	**45.59**	**350.10**	**94.29**	

Annexure 12

Statement showing shortage of ore as on 31 March 2007 relating to OMC Limited (Referred to in paragraph 2.1.26)

Name of the mines/crusher head/plots	Book balance	Verified balance	Shortage	Value (Rs. in lakh)
	In MT			
S.G.B.K. Mines (Iron Ore)	12937	2218	10719	247.00
Banspani Mines (Iron ore)	44108	0	44108	484.00
Tomka Railway Siding (Iron Ore and fines)	1911	0	1911	17.36
S.B. Mines (Manganese)	19418	4405	15013	92.32
Khandabandha Crusher site (Iron Ore fines)	2313	--	2313	14.23
D.K. Mishra (Iron Ore) lump	1980	1612	368	3.80
Barbil Railway Siding (Iron Ore Lump)	4300	2407	1893	22.26
Banspani Camp Plot (Manganese Ore)	298	65	233	5.12
Gandhamardan (Iron ore)	31361	27880	3481	53.16
TOTAL	**118626**	**38587**	**80039**	**939.25**

Annexure 13

Statement showing inflow and outflow of cash during 2003-08 relating to OMC Limited
(Referred to in paragraph 2.1.32)

(Amount: Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Inflow					
Operating activities	250.08	582.43	414.65	694.16	1820.52
Investing activities	4.07	15.49	36.59	56.32	144.25
Total	**254.15**	**597.92**	**451.24**	**750.48**	**1964.77**
Outflow					
Operating activities	98.07	196.27	278.89	316.41	716.15
Purchase of assets	3.25	12.49	17.42	20.90	23.06
Financing activities	36.75	27.61	69.53	56.70	132.41
Total	**138.07**	**236.37**	**365.84**	**394.01**	**871.62**
Net inflow	**116.08**	**361.55**	**85.40**	**356.47**	**1093.15**
Change in form of holding of cash					
Cash in hand	0.78	-0.43	-0.17	-0.03	-0.32
Cash at Bank-Current Account	27.43	24.90	-6.41	-15.89	65.57
Cash at Bank-Fixed Deposit	87.66	337.69	91.96	363.04	1036.00
Cash in transit	0.21	-0.61	0.02	9.35	-8.10
Total	**116.08**	**361.55**	**85.40**	**356.47**	**1093.15**

Annexure 14

Statement showing production of pig iron vis-à-vis production as per norms relating to IKIW Limited
(Referred to in paragraph 2.2.14)

Year/Furnace	Actual working hour	Production (MT)	Productivity achieved (MT/Hr)	Productivity as per norm (MT/Hr)	Production as per norm (MT)	Shortfall in production (MT)	Contribution per MT (Rs.)	Loss of Contribution (Rs. in crore)
2003-04								
Furnace-1	7750	49686	6.41	7.07	54792	5106		
Furnace-2	3468	16972	4.89	6.01	20842	3870		
Furnace -3	5748	32655	5.68	6.01	34545	1890		
Furnace -4	7364	40817	5.54	6.01	44257	3440		
Total		**140130**			**154436**	**14306**	**2,510**	**3.59**
2004-05								
Furnace-1	3879	16215	4.18	7.07	27424	11209		
Furnace-2	3951	21139	5.35	6.01	23745	2606		
Furnace-3	8522	45025	5.28	6.01	51217	6192		
Furnace-4	3782	16836	4.45	6.01	22729	5893		
Total		**99215**			**125115**	**25900**	**50**	**0.13**
2005-06								
Furnace-1	6218	31054	4.99	7.07	43961	12907		
Furnace-2	8261	44093	5.34	6.01	49648	5555		
Furnace-3	8470	49507	5.84	6.01	50904	1397		
Furnace-4	432	2056	4.76	6.01	2596	540		
Total		**126710**			**147109**	**20399**	**860**	**1.75**
2006-07								
Furnace-1	-	-	-	-	-	-		
Furnace-2	8526	48668	5.71	6.01	51241	2573		
Furnace-3	8624	50472	5.85	6.01	51830	1358		
Furnace-4	8496	48317	5.69	6.01	51060	2743		
Total		**147457**			**154131**	**6674**	**2,448**	**1.63**
2007-08								
Furnace 1	2864	14318	5.00	7.07	20248	5930		
Furnace 2	8467	47574	5.62	6.01	50886	3312		
Furnace 3	6888	35761	5.19	6.01	41396	5635		
Furnace 4	8508	48769	5.73	6.01	51133	2364		
Total		**146422**			**163663**	**17241**	**1,632**	**2.81**
G.Total		**659934**			**744454**	**84520**		**9.91**
Total Loss of Contribution								**9.91**

Annexure 15

Statement showing sale of pig iron below market price relating to IKIW Limited
(Referred to in paragraph 2.2.38)

SL No	Month/ Date	Name of Party	Grade of pig iron	Quantity sold (MT)	Sale price of the Company (Rs)	Comparative market price of similar grade (Rs)	Difference in price (Rs) (7-6)	Loss (Rs) (5x8)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
1.	02/2004 to 04/2004	Sold on piecemeal basis to different parties	Spl-LM	15.38	15,748	19,200	3,452	53,091
			I	51.00	19,338	22,200	2,862	1,45,962
			I	60.00	15,661	19,100	3,439	2,06,340
			II	602.00	15,575	19,000	3,425	20,61,850
			II	577.00	19,057	22,100	3,043	17,55,811
			II	53.00	15,489	18,900	3,411	1,80,783
2.	31.01.05	Laxmi Castings(P) Ltd.	II	2342.00	14,700	15,350	650	15,22,300
	04.02.05	Surinder Steels	II	2343.00	14,700	15,350	650	15,22,950
3.	08/2005 to11/2005	Sold on piecemeal basis to different parties	II	1274.00	13,119	14,130	1,011	12,88,014
			III	1277.00	12,863	13,830	967	12,34,859
			II	1876.00	13,600	14,130	530	9,94,280
			III	623.00	13,344	13,830	486	3,02,778
4.	02/2006	Sold on piecemeal basis to different parties	II	1815.00	11,652	12,655	1,003	18,20,445
	03/2006		III	604.00	11,355	12,355	1,000	6,04,000
5.	03/2006	Sold on piecemeal basis to different parties	II	1137.00	12,165	12,957	792	9,00,504
			II	314.00	12,515	12,957	442	1,38,788
			III	673.00	11,823	12,657	834	5,61,282
			III	232.00	12,173	12,657	484	1,12,288
6.	04/2006	Anil Udyog Ltd.	II	2419.00	13,000	13,811	811	19,61,809
7.	02/2006	MMTC Ltd.	II	2222.00	14,210	18,000	3,790	84,21,380
	03/2006		II	2260.00	15,500	16,000	500	11,30,000
8.	03/2004	Ganesh Mercantile Company	II	2339.40	17,000	21,000	4,000	93,57,600
9.	03/2004	Tharini Enterprises	I	116.80	21,400	23,100	1,700	1,98,560
			II	2224.00	21,200	23,000	1,800	40,03,200
10.	07/2005	Surinder Steels	I	2537.00	13,500	14,822	1,322	33,53,914
TOTAL				**29986.58**				**4,38,32,788**

Annexure 16

Statement showing position of defaulted units relating to IPICOL
(Referred to in paragraph 2.3.11)

Sl No	Name of the unit	Year of first loan disburse-ment	Outstanding as of March 2003 (As per loan ledger)			Loan disburse-ments, if any, during 2003-08	Recovery during 2003-08		Amount outstanding	Amount overdue	Position of payments received during 2003-08	Remarks
			Principal	Funded interest	Interest		Principal	Interest	As per Demand Summary of May 2008			
1	East Air (P) Limited	1981-82	3.35		0.00	0.00	0.00	0.00	13.87	13.87	**No payments at all**	Seizure action would have been initiated, as there were no payments since March 2001.
2	Fakirmohan Education Charitable Trust	1999-2000	8.91		12.26	0.00	0.00	0.00	22.72	13.82	**No payments at all**	Seizure action would have been initiated, as there were no payments since March 2001.
3	IDCOL Baripada Spinning Mills	1988-89	12.00		18.85	0.00	0.00	0.00	78.07	78.07	**No payments at all**	Seizure action would have been initiated, as there were no payments since March 1998.
4	Kalinga Engineers Ltd	1980-81	28.47	7.19	4.16	0.00	0.00	0.00	171.88	171.88	**No payments at all**	Seizure action would have been initiated, as there were no payments since October 2001.
5	Konark Television Ltd	1990-91	8.53		2.89	0.00	0.00	0.00	48.18	48.18	**No payments at all**	Seizure action would have been initiated, as there were no payments since long.
6	Maa Coated Fabrics (P) Ltd	1986-87	78.00	26.39	97.15	0.00	0.00	0.00	1491.99	1491.99	**No payments at all**	Seizure action would have been initiated, when there were no payments after April 1992 and the Management decided (June 2003) to seize the assets.
7	Modern Minerals (Pvt) Ltd	1998-99	40.50		29.37	0.00	0.00	0.00	113.00	113.00	**No payments at all**	Seizure action would have been initiated, as there were no payments since March 2000.
8	Nilesh Handling Agency	1998-99	7.02		5.02	0.00	0.00	0.00	28.20	28.20	**No payments at all**	Seizure action would have been initiated, when there were no payments since March 2001.
9	Odissi Properties Ltd	1995-96	28.53	6.51	66.94	0.00	0.00	0.00	240.35	240.35	**No payments at all**	When there were no payments since September 1996 and the unit requested in the past for settlement of the dues under OTS, the same would have been considered promptly to realise the dues.
10	Pipili Cold Storage Pvt Ltd	1998-99	99.00		20.53	0.00	0.00	0.00	264.75	104.10	**No payments at all**	Seizure action would have been initiated, when there were no payments since March 2002.
11	Mindslot Networks (P) Ltd	2003-04	0.00			37.22	0.00	2.10	49.31	49.31	**No repayment of principal**	Though the unit defaulted since February 2005, no recovery action was taken.
12	Ores Ispat (P) Ltd	2004-05	0.00			250.00	0.00	33.31	347.25	97.25	**No repayment of principal**	Though the unit defaulted after rephasement in August 2006, no action was taken to encash the available collateral security of fixed deposit of Rs. 50 lakh.
13	Sadhaba Marines (Pvt) Ltd	1992-93	130.92		3.05	0.00	0.00	16.71	233.79	233.79	**No repayment of principal**	The request of the promoter for OTS in April 2008 is under consideration. Thus, OTS would have been insisted when there were no payments since April 2005 otherwise action under Section 29 would have been initiated.
14	Shanti Combines (Pvt) Ltd	1981-82	6.34		1.42	0.00	0.00	0.95	11.88	11.88	**No repayment of principal**	Seizure action would have been initiated, when there were no payments since March 2001.

Sl No	Name of the unit	Year of first loan disburse-ment	Outstanding as of March 2003 (As per loan ledger)			Loan disburse-ments, if any, during 2003-08	Recovery during 2003-08		Amount outstanding	Amount overdue	Position of payments received during 2003-08	Remarks
			Principal	Funded interest	Interest		Principal	Interest	As per Demand Summary of May 2008			
15	Soosree Plastic Industries (Pvt) Ltd	1985-86	208.52	9.37	54.10	0.00	0.00	2.00	507.60	495.10	**No repayment of principal**	Seizure action would have been initiated, when there were no payments since long.
16	Suburban Industries (Kalinga) Pvt Ltd	1983-84	191.44		7.70	0.00	0.00	2.16	419.62	419.62	**No repayment of principal**	Seizure action would have been initiated, when there were no payments towards principal since March 2003 and when restructuring proposal (January 2005) with participation of State Bank of India (SBI) did not materialise due to non-response from SBI.
17	Hotel Torrento (Pvt) Ltd	1988-89	45.00	112.18	0.00	0.00	0.00	4.75	311.35	213.02	**OTS failed**	When the units failed to settle the OTS amounts, action under Section 29 would have been finalised, before the financed assets eroded further.
18	Ispat Chrome Ltd	1995-96	80.00		81.18	0.00	23.50	8.00	227.14	227.14	**OTS failed**	
19	Ispat Minerals Limited	1995-96	41.08		62.46	0.00	14.00	5.11	148.13	148.13	**OTS failed**	
20	Magnum Apparel (Pvt) Ltd	1988-89	19.69	9.26	3.78	0.00	0.00	6.00	54.22	54.22	**OTS failed**	
21	Premier Threads (Pvt) Ltd	1987-88	32.25	3.30	82.10	0.00	20.82	4.62	194.01	194.01	**OTS failed**	
22	Rishabh mining (p) ltd.	2000-01	98.75		18.00	0.00	27.69	41.67	139.46	85.46	**OTS failed**	
23	Suburban Hotels & Resorts Ltd	1998-99	115.34	8.72	24.09	0.00	38.83	2.07	234.67	210.56	**OTS failed**	
24	Susila Cement (P) Ltd	1993-94	27.11		54.02	0.00	14.40	2.71	201.52	201.52	**OTS failed**	
25	ECP Industries Ltd (Eastern Cylinder)	1984-85	79.63		0.54	0.00	9.36	31.03	100.69	81.90	**Dues not paid fully**	When overdues are increasing year after year, discussions would have been held with the unit to recover the overdues.
26	Hotel Sea Pearl Orissa Pvt. Ltd	2001-02	107.40		17.45	34.00	14.16	83.56	183.17	32.14	**Dues not paid fully**	When overdues are increasing year after year, discussions would have been held with the unit to recover the overdues.
27	Magnum Fibres (Pvt) Ltd	1992-93	108.93		0.00	92.80	75.13	97.21	141.41	45.93	**Dues not paid fully**	When the market value of financed assets was comfortably covering the entire outstanding including overdues, seizure action would have been initiated to ensure realisation of dues.
28	Magnum Polymer (P) Ltd	1980-81	166.14		0.00	1.06	60.47	81.10	108.58	37.93	**Dues not paid fully**	In spite of default since February 2007, no action had been taken to recover the dues.
29	Magnum Telesoft (P) Ltd	2002-03	43.00		0.00	29.00	10.00	45.07	63.55	18.55	**Dues not paid fully**	In spite of default since February 2007, no action had been taken to recover the dues.
30	Nicco Corporation Ltd.	1988-89	225.00		0.00	0.00	100.64	124.64	129.62	17.75	**Dues not paid fully**	Defaulted in 2007-08.
31	Orissa Air Products Ltd	1986-87	27.20		0.00	0.00	17.27	13.44	12.26	12.26	**Dues not paid fully**	Defaulted since 2006-07.
32	Tatwa Technologies Pvt. Ltd	2006-07	0.00			47.50	10.91	9.37	41.43	5.56	**Dues not paid fully**	Due to expiry of BG, though the loan became unsecured and defaulted since August 2006, neither BG was got renewed nor action was taken to realise the dues.
	Total					**491.58**	**437.18**	**617.58**	**6333.67**	**5196.49**		

Annexure 17

Statement showing the instances of deficiencies in seizure and disposal of assets of defaulted units relating to IPICOL (Referred to in paragraph 2.3.20)

Sl No	Name of the unit	Period of disposal	Outstanding at the time of seizure	Company's share of sale proceeds	Observations	Reply	Remarks
			(Rupees in lakh)				
1	East Land Impex (P) Limited (ELIL)	August 2006	289.64	0.33	The seized assets of Orissa Leather Industries Limited were sold (January 1999) to East Land Impex Limited for Rs.3.40 crore (Company's share - Rs.1.35 crore). After making (January 1999) down payment of Rs.0.11 crore, the buyer availed (January 1999) deferred loan of balance Rs.1.24 crore. As the unit defaulted in repaying the dues since inception, assets were seized again (February 2004) and finally disposed of (August 2006) for Rs.1.20 crore (Company's share of Rs.0.33 crore). Due to abnormal delay in seizure and disposal of assets, the Company sustained loss of Rs.0.91 crore (Rs.1.24 crore *less* Rs.0.33 crore) towards principal alone.	Government stated (September 2008) that the delay in take over and disposal was due to arrangement of a suitable buyer and delay in taking decision.	The reply confirms lack of initiative in expediting the recovery.
2	Mahalaxmi Handloom Weavers Co-operative Society Limited	August 2002 and December 2007	466.15	51.33	The assets were seized in November 1998. For recovery of outstanding principal Rs.70 lakh and interest Rs.396.15 lakh, the plant and machinery, and land and buildings were disposed of (August 2002 and December 2007 respectively) for Rs.51.33 lakh (Company's share). Thus, the Company took nine years to dispose of the seized assets, which resulted in shortfall of Rs.4.15 crore.	Government stated (September 2008) that in spite of repeated advertisements for sale of land and buildings, appropriate price was not available for a long period.	The fact remains that during August 2002 to January 2005 no sale notice was issued which indicates lack of initiation by the Company to dispose of the assets.
3	Delite Cotgin (P) Limited	December 2007	111.31	96.95	Due to default by Delite Cotgin (P) Limited rephasement of loan was allowed (October 2001), payable upto November 2005. Though the payments were irregular the recall notice was issued only in May 2007 and the assets were seized in June 2007. The assets were disposed of (December 2007) for Rs.93.22 lakh against outstanding of Rs.111.31 lakh as of November 2007, which led to loss of Rs.18.09 lakh.	Government stated (September 2008) that when the unit moved High Court, it directed to consider OTS. Since the unit failed for OTS sale letter was issued (July 2008) to the original highest bidder and sale is under process.	The fact remains that though the unit was in default since February 2003, legal action was initiated belatedly in May 2007 resulting in non-realisation of the dues.
4	Subham Industries Limited (SIL)	October 2002	583.49	90.06	The assets of a defaulter, Subham Industries Limited (SIL), were seized in March 2002 for recovery of outstanding dues of Rs.583.49 lakh. The Company received the highest offer from a party, Saibaba Vincon	Government stated (September 2008) that offer of SVPL was accepted (June 2002) with a condition to pay Rs.40 lakh as	The reply is not tenable, since though SVPL after negotiations enhanced the price twice against sale

Sl No	Name of the unit	Period of disposal	Outstanding at the time of seizure	Company's share of sale proceeds	Observations	Reply	Remarks
			(Rupees in lakh)				
					(P) Limited (SVPL), for a negotiated price of Rs.120 lakh with a validity upto 28 June 2002 against sale notice in April 2002. The promoter of SIL went (April 2002) to Calcutta High Court against the sale notice (April 2002) of its asset and obtained (April 2002) a conditional stay order to deposit Rs.50 lakh. As SIL failed to deposit the amount, the stay order stood vacated. The Company, instead of accepting the negotiated (May 2002) price of SVPL for Rs.120 lakh, resorted to retender (June 2002) for sale on the ground that the offer was far below the dues. The sale was finalised (October 2002) for Rs.90.06 lakh against the dues of Rs.5.83 crore. Thereby the Company sustained loss of Rs.29.94 lakh due to unwarranted retendering.	down payment. The party failed to comply and it appeared that the party was not interested to purchase these assets.	notice of April 2002, the Company resorted (June 2002) to re-tender. Since the sale was finalised at a later date for lesser price, it resulted in loss besides delayed realisation.

Annexure 18

Statement showing paragraphs/reviews for which explanatory notes were not received as on 30 September 2008

(Referred to in paragraph 3.21.1)

Sl. No.	Name of the Department	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Total
1.	Industries	--	--	1	--	--	1	--	--	2
2.	Public Enterprises	--	--	--	--	2	1	2	1	6
3.	Energy	--	--	--	--	--	--	--	8	8
4.	Commerce and Transport	1	--	--	--	--	--	--	--	1
5.	Water Resources	--	--	--	--	--	--	1	--	1
6.	Works	--	--	--	--	--	--	--	1	1
7.	Tourism	--	--	--	--	--	--	--	1	1
8.	Agriculture	--	--	--	--	--	--	--	1	1
	Total	**1**	**--**	**1**	**--**	**2**	**2**	**3**	**12**	**21**

Annexure 19

Statement showing department wise outstanding Inspection Reports as on 30 September 2008
(Referred to in paragraph 3.21.3)

Sl. No.	Name of the Department	No. of PSUs	No. of outstanding IRs	No. of outstanding Paragraphs	Year from which Paragraphs outstanding
1.	Industries	10	35	181	1999-2000
2.	Steel and Mines	1	6	92	2000-01
3.	Home	1	4	34	2002-03
4.	Housing and Urban Development	1	6	27	2001-02
5.	Excise	1	2	3	2002-03
6.	Commerce & Transport	1	52	167	2001-02
7.	Tourism	1	3	11	2003-04
8.	Energy	4	224	959	1997-98
9.	Water Resources	2	7	50	1999-2000
10.	Fisheries and Animal Resources Development	1	4	25	2004-05
11.	Agriculture	4	15	106	1997-98
12.	Works	1	7	28	2000-01
13.	Co-operation	1	5	23	1998-99
14.	Food Supplies and Consumer Welfare	1	111	424	1997-98
15.	Forest and Environment	1	18	105	1999-2000
16.	Information and Technology	1	1	10	2007-08
	TOTAL	**32**	**500**	**2245**	

Annexure 20

Statement showing department-wise draft paragraphs/reviews reply to which are awaited as of November 2008

(Referred to in paragraph 3.21.3)

Sl No.	Name of the Department	No. of draft paragraphs	No. of reviews	Period of issue
1.	Industries	1	--	March to July 2008
2.	Energy	1	1	March to October 2008
	Total	**2**	**1**	

Glossary

Abbreviation	Expansion
AAIFR	Appellate Authority for Industrial and Financial Reconstruction
ARCPSE	Audit Review Committee for State Public Sector Enterprises
BDA	Bhubaneswar Development Authority
BF	Blast Furnace
BG	Bank Guarantee
BIFR	Board for Industrial and Financial Reconstruction
BL	Bulk Litre
BoD	Board of Directors
CIF	Cost Insurance and Freight
CLO	Calibrated Lump Ore
CM	Cold Metal
CMD	Chairman-cum-Managing Director
CO	Carbon Monoxide
COBP	Chrome Ore Beneficiation Plant
COPU	Committee on Public Undertakings
CPP	Captive Power Plant
CS	Country spirit
DRS	Daitari Railway Siding
ED	Excise Duty
ERP	Enterprises Resource Planning
ET	Entry Tax
FD	Fixed Deposit
FI	Funded Interest
FOB	Free on Board
GoO	Government of Orissa
GPI	Graded Pig Iron
HAM Coke	High Ash Metallurgical Coke
HEMM	Heavy Earth Moving Machinery
HSD	High Speed Diesel
IDBI	Industrial Development Bank of India
IDCOL	Industrial Development Corporation of Orissa Limited
IDEA	Interactive Data Extraction and Analysis

Abbreviation	Expansion
IF	Import Fee
IKIWL	IDCOL Kalinga Iron Works Limited
IMFL	India Made Foreign Liquor
IPA	Investment Promotion Agency
IPR	Industrial Policy Resolution
JV	Joint Venture
KIOCCL	Kudremukh Iron Ore Company Limited
KIW	Kalinga Iron Works
LAM Coke	Low Ash Metallurgical Coke
LC	Letter of Credit
LPL	London Proof Litre
MD	Managing Director
MECON	Metallurgical & Engineering Consultant Limited
MGQ	Minimum guaranteed quantity
MMTC	Mineral and Metal Trading Corporation
MoU	Memorandum of Understanding
MRP	Maximum Retail Price
MT	Metric Tonne
MW	Mega Watt
NINL	Neelachal Ispat Nigam Limited
NPA	Non-performing Assets
NPV	Net Present Value
ODI	Overdue Interest
OHP	Ore Handling Plant
OMC	Orissa Mining Corporation
OPDR Act	Orissa Public Demands Recovery Act
OSCB	Orissa State Co-operative Bank
OSFC	Orissa State Financial Corporation
OTS	One Time Settlement
PAC	Project Approvals Committee
PCC	Purchase & Contract Committee
PCM	Pig Casting Machine
PFC	Price Fixation Committee
PLR	Prime Lending Rate/Interest rate at which Banks lend to their best (Prime) customers

Abbreviation	Expansion
PR	Purchase Requisition
RBI	Reserve Bank of India
ROM	Run off Mines
SAP	System Application and Products in Data Processing
SFCs Act	State Financial Corporations Act, 1951
SIDBI	Small Industries Development Bank of India
SLNA	State Level Nodal Agency
SPD	Spun Pipe Division
ST	Service Tax
STL	Short-term Loan
TCS	Tax Collected at Source
TEV	Techno Economic Viability
TIE pass	Transport Import and Export pass
TL	Term Loan
UGPI	Un-graded Pig Iron
UML	Utkal Moulders Limited
VAT	Value Added Tax

Price
Inland: Rs.65
Foreign: US$ 5

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