# Office of the Comptroller and Auditor General of India

**New Delhi**
**07 August 2018**

## Press release

## C&AG's Audit Report No. 11 of 2018 on Union Government, Commercial tabled in Parliament today.

Comptroller and Auditor General of India's Audit Report No.11 of 2018 on Union Government, Commercial has been tabled in Parliament.

The Report No. 11 of 2018 of CAG of India on Compliance Audit Observations includes important audit findings noticed as a result of test check of accounts and records of Central Government owned Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

**2.** The Report contains 53 individual observations relating to 31 Central Public Sector Enterprises (CPSEs) under 13 Ministries/Departments. Total financial implication of audit observations is ₹4578.15 crore.

**3. Highlights of some significant paragraphs included in the Report are given below:**

At the time of sanction of loan of ₹900 crore to M/s JaypeeInfratech Limited, India Infrastructure Finance Company Limited (IIFCL) failed to realistically assess the expected revenue from real estate development of 2500 hectares of land along the 165 km expressway between Noida and Agra. IIFCL sanctioned and disbursed the loan when the company was under severe financial crunch and also relaxed pre-commitment conditions. This led to doubtful recovery of dues of ₹1089.89 crore.

In another instance, IIFCL assigned different risk scores against the financial and execution capabilities of the core promoter (M/s ConcastInfratech Limited) for four projects, though the credit appraisal was carried out based on the same set of information. This led to sanction of loan to a technically and financially weak promoter. Further, funds released were disproportionate to the actual progress of the projects. Eventually, the projects were terminated and loan disbursals of ₹76.46 crore had to be written off.

**(Para 5.3 and 5.4)**

**The Commission paid to the distributors of LPG by Indian Oil Corporation Limited included two components namely establishment cost and delivery charges. Delivery charges were not to be charged to customers who collected the cylinders from the premises of the distributors and hence should have been excluded from the price paid by the consumers. Indian Oil Corporation Limited, however, did not exclude delivery charges while communicating Retail Selling Price of LPG to its**

**Rajiv Gandhi Gramin LPG Vitrak Scheme (a scheme meant to supply LPG cylinders to rural customers on cash and carry basis) distributors which resulted in additional burden on the consumers and extension of undue favour to the distributors of RGGLV to the tune of ₹280.45 croreduring October 2012 to March 2017.**

**(Para 9.6)**

As per guidelines of Ministry of Finance, while underwriting the group health insurance policies, public sector General Insurance Companies were required to charge appropriate premium so that this was adequate to cover the incurred claims and other expenses. Oriental Insurance Company Limited did not adhere to these guidelines while renewing 40 group health insurance policies out of 63 such policies reviewed by Audit. This resulted in under charging of premium by ₹145.26 crore during 2014-15 to 2016-17.

**(Para 5.5)**

Airports Authority of India (AAI) entered into (4 April 2006) an Operation, Management and Development Agreement (OMDA) with Delhi International Airport Limited (DIAL) and handed over (May 2006) Indira Gandhi International Airport (IGI Airport) to DIAL for operation, management and development of the airport. As per directions issued (May 2006) by Ministry of Civil Aviation (MoCA), GoI, Passenger Service Fee (PSF) is collected from embarking passengers by the respective Airport Operators which includes Security Component (SC) (65 *per cent*) and Facilitation Component (35 *per cent*). The amount of PSF (SC) collected is kept in an escrow account and utilised to meet the security related expenses of that airport as per provisions of Standard Operating Procedure (SOP) issued by MoCA.

DIAL had committed in the second meeting of OMDA Implementation Oversight Committee (OIOC) held in December 2006 that it would not make any profit from the security component of PSF but would only meet the security cost related to IGI Airport. DIAL, however, charged an amount of ₹115.63 crore (till 31 March 2016) to PSF (SC) Escrow Account towards rent in respect of accommodation provided by it to Central Industrial Security Force (CISF) at Monkey Farm, Mahipalpur, New Delhi, on notional basis i.e. without incurring any cost for providing the accommodation. This resulted in a deficit to PSF (SC) Escrow Account by ₹115.63 crore.

**(Para 2.3)**

**National Highways Authority of India (NHAI) completed a project relating to upgradation of Karur-Coimbatore section of NH-67 in June 2010. The Ministry of Road Transport and Highways directed (March 2015) NHAI not to commence toll collection until substantial improvement on the stretch is carried out. Instead of apprising the Ministry that it had already carried out substantial improvement, NHAI complied with the Ministry's directions not to commence toll collection. Consequently, there was a revenue loss of ₹142.28 crore from 31 January 2015 to 31 December 2017.**

**(Para 11.8)**

National Highways Authority of India extended undue benefit to the concessionaire to the tune of ₹99.27 crore in respect of a project relating to six laning of Vijayawada-Gundugolanu section of NH-5, as it did not recover the damages from the concessionaire on account of its failure in achieving the project milestones and in meeting the maintenance obligations.

**(Para 11.1)**

National Highways Authority of India failed to recover damages of ₹85.19 crore on account of delayed/non-completion of work relating to renewal of wearing surface of the roads by the concessionaires in respect of four road widening projects on NH-7 in Andhra Pradesh.

**(Para 11.2)**

Non-finalisation of tender for a pipeline project by Indian Oil Corporation Limited within the validity period of the bid (July 2013) resulted in lowest bidder refusing to extend the validity period of the offer resulting in retendering. The award of work on the basis of retender resulted in extra cost of ₹63.86 crore.

**(Para 9.7)**

Bharat Coking Coal Limited (BCCL), one of the coal producing subsidiaries of Coal India Limited is engaged in mining, washing and distribution of coal to meet the energy requirement of its consumers. BCCL mines steel grade coal which is precious, fetches higher revenue and is sold without washing due to lower ash content (below 18 *per cent*). There was adequate demand for raw steel grade coal mined by BCCL as it had a Memorandum of Understanding with M/s Tata Steel and Steel Authority of India for supply of 25 lakh tonne and 12 lakh tonne raw steel grade coal respectively which was not supplied by the Company. BCCL, however, blended steel grade coal with inferior washery grade coal in its four washeries during 2013-14 to 2015-16 instead of supplying the steel grade coal directly to customers. This has resulted in loss of additional revenue of ₹95.09 crore worked out on a conservative basis.

**(Para 3.1)**

Bharat Coking Coal Limited, a subsidiary of Coal India Limited, is engaged in mining of coal from opencast and underground mines through departmental as well as outsourcing means. In the opencast mines of BCCL, departmental production is carried out with the help of Heavy Earth Moving Machineries such as shovels, dumpers, dozers etc. The Company procured 100 tippers of 35 tonne capacity replacing dumpers of the same capacity. The decision to purchase tippers for replacing dumpers, without following due procedure and assessing technical feasibility of such change, resulted in improper expenditure of ₹79.59 crore. Moreover, BCCL had to incur unfruitful expenditure of ₹11.31 crore on supervision charges of idle tippers during 2014-17 as they could not be put into operation in the departmental mine areas due to their incompatibility with the existing mine conditions and other Heavy Earth Moving Machineries.

**(Para 3.2)**

Government of India (GoI) released ₹100 crore to Hindustan Paper Corporation Limited (HPCL) as equity of its subsidiary company, Nagaland Pulp and Paper Company Limited, (NPPCL) for implementation of the revival plan of NPPCL. HPCL neither established an escrow account nor submitted any utilization certificate specifically stipulated by GoI and diverted ₹52.37 crore out of ₹100 crore released by GoIinspite of specific condition of the release order that no funds should be diverted under any circumstances and that the CMD, HPCL would be held responsible for any diversion or misappropriation of funds.

**(Para 6.2)**

Oil and Natural Gas Corporation Limited delayed in hiring of low pressure gas compressor led to avoidable flaring of gas and consequent loss of revenue of ₹9.83 crore during the period from March 2015 to March 2016.

**(Para 9.10)**

Cent Bank Home Finance Limited (CBFFL) did not adhere to its own laid down credit policy while sanctioning and disbursing loans to individual borrowers. Loans were sanctioned without adequate security or checking repaying capacity of the borrowers. This led to the loan accounts becoming NPA and their subsequent write-off.

**(Para 5.1)**

AAI operates 137 airports (including international, domestic, custom and civil enclaves at defence airfield). AAI has been modernizing the airports by expanding/ constructing new terminal buildings, runways, aprons, taxiways etc. Audit reviewed construction contracts exceeding ₹10 crore, executed by AAI in its Northern Region, over the five years from 2012-13 to 2016-17, with the objective to assess efficiency and effectiveness of planning for development of airport infrastructure, awarding and execution of contracts and system of monitoring of the works executed by AAI. Out of 18 construction contracts exceeding ₹10 crore each, 11 contracts were selected for review in Audit.

Audit noticed time overrun arising due to non-availability of complete land without hindrance before award of work, delays in obtaining mandatory clearances and approvals from DGCA and changes in the site already selected for a work. Audit also observed that AAI undertook construction of unviable airport projects using its internal resources. This was in contravention of the provisions of the 'Policy on Airport Infrastructure' (November 1997). Cases of non-adherence by Management of AAI to the conditions of Notice Inviting Tender, contractual provisions and the provisions of AAI Works Manual were also noticed, which indicated ineffective managerial control of the construction works.

**(Para 2.2)**

Airline Allied Services Limited (AASL) operates in the domestic market and provides connectivity between Tier 2 and Tier 3 cities in synergy with its parent company Air India, as a feeder airline to its network. The Company received viability gap funding (VGF) for its operations in North-East and other parts of the country. The Company had submitted its proposal under the Regional Connectivity Scheme announced (October 2016) by Ministry of Civil Aviation for 26 routes against which 15 routes, where no other bidders had submitted bids, were awarded to AASL. AASL had accumulated losses of ₹1746 crore as on 31 March 2017 and its net worth was fully eroded and was (-) ₹1344 crore which could be attributed to deficiencies in assessment of economic viability of leased aircrafts, extensive grounding of aircrafts due to shortage of pilots and lack of spares. The absence of support agreement and float engine agreements resulted in prolonged grounding of aircrafts and payment of infructuous lease rental of ₹29.63 crore apart from potential revenue losses. It was also observed that inadequate provisions in the agreements governing payment of viability gap funding resulted in outstanding dues of ₹72.95 crore from State Governments, North Eastern Council and other agencies. Deficiencies in maintenance of the aircrafts and failure to engage approved agencies for maintenance resulted in redelivery conditions not being met and the company being compelled to opt for expensive buyouts, long disputes with the lessor of aircraft and infructuous lease rental payments of ₹22.73 crore during the intervening period. This also resulted in retention of significant amount of Maintenance Reserves by the lessor.

**(Para 2.1)**

Power Grid Corporation of India Limited had diversified into telecom business in October 1998. Diversification into telecom business by the Company was commendable and enabled the Company to operate in two important service areas viz. Power and Telecom. However, there were inadequacies in the pricing methodology followed by the Company. The multiplication factor adopted to scale up tariff for higher capacities was low, which adversely impacted revenue. Pricing of Indefeasible Right to Use contracts was inconsistent with different methods applied for different contracts, leading to lower revenue for the business. The discounts offered by the Company on ceiling tariff were not transparent and non-discriminatory.

**(Para 10.3)**

The five integrated steel plants of Steel Authority of India Limited (SAIL) held a total land of 101598 acres. SAIL possessed title deeds of only 48.15 *per cent* of the available land. One steel plant did not possess title deeds for its entire land. Audit noted that 4016 acre land was under encroachment (of which about 50 *per cent* was held by one steel plant), 16492 acre was vacant and unused and 8500 acre land was under lease as of 31 March 2017. No signboards/ barbed wire fencing/ compound wall were installed/ constructed to prevent encroachment, despite Board's directives in July 2015/2016. The Company did not take adequate measures to evict the encroachments though it was aware of it and even after eviction orders had been passed by the Estate Court. Company failed to enter into formal lease agreements with a number of lessees while in other cases it failed to renew existing leases.

The townships in the five integrated steel plants had 122814 quarters of which 13.48 *per cent* were either vacant, damaged or under unauthorised occupation as on 31 March 2017. Estate dues amounting to ₹144.87 crore were outstanding as on 31 March 2017 out of which ₹94.94 crore was due from private parties. The Board's decision to recover electricity and water charges from their employees was not fully implemented by steel plants. Transmission and distribution losses were far in excess of the norms in four steel plants during 2014-17 resulting in extra expenditure of ₹371.93 crore. Two steel plants also extended undue benefits amounting to ₹36.27 crore and ₹6.69 crore respectively to their employees/ third parties due to non-recovery of property tax.

**(Para 12.3)**

Steel Authority of India Limited (SAIL), generates secondary and by-products like blooms and rails, cuttings of rail/rod/coil, tar, benzol etc. during the process of production of steel which need to be stored and disposed in a timely, efficient and transparent manner, to maximise returns to the Company. These products are sold through e-auction, tender, fixed price and inter-plant transfer by the Marketing departments of the respective steel plants as per the guidelines issued by the SAIL Corporate Material Management Group (CMMG) from time to time.

Audit observed that reserve prices for auction of these products were often un-realistic leading to repeated auctions and eventual loss to the Company. In case of sale of material at fixed prices, the prices were fixed injudiciously, often without considering prices discovered through e-auction. Delays were noticed in disposal of secondary/ by-products, which led to deferment of revenue as well as deterioration of quality. In two steel plants (IISCO and Durgapur), there was no separate stockyard for storing secondary products leading to their mixing with primary products. Significant differences were observed in delivery order and dispatch advice at Bokaro Steel Plant, which could not be explained by management leaving open the possibility of unauthorised diversion and under-reporting of material. The financial impact of the audit observations regarding sale of secondary and by-products in the sample scrutinized is ₹107.19 crore.

**(Para 12.2)**

Steel Authority of India Limited (SAIL) requires about 15 MMT (Million Metric Ton) coking coal annually, of which 12-13 MMT is imported either through global tenders or through Long Term Agreements. Audit observed that the vendor base for imported coal remained almost static over last seven years and there were considerable delays in processing of responses received from prospective vendors. The Company did not exercise its right to independently verify the quality of coal nor ensured rotation of Inspection Agencies. Low levels of production from existing captive mines (Jitpur and Chasnalla) and delay in development of Tasra coal mines contributed to increased dependence on imported coal. Poor management of tenders for handling imported material were also noticed. The possibility that competition had been compromised in all four tenders floated by the Company for handling limestone and coal in Paradip and Haldia during 2012-16 could not be ruled out. The Company failed to recover demurrage charges, idle freight and overloading charges paid by it to the vessel owners/Railways from the handling agents. Transit losses in transportation of coal from the port to the steel plant were also in excess of the norms, with high loss in 8 out of 12 months annually during 2015-16 and 2016-17 from Paradip port.

**(Para 12.1)**

Government of India introduced Yarn Supply Scheme in 2011-12 to make available all types of hank yarn at the price at which it was available at the Mill Gate to the eligible handloom weavers so as to facilitate regular supply of raw material to the handloom weavers and to achieve the full employment potential of the sector.The National Handloom Development Corporation Limited is the designated national level Agency for implementation of above scheme for which the Corporation received ₹302.72 crore as assistance including subsidy for road transportation charges and service charges for the period 2014-15 to 2016-17.

Review of implementation of above scheme during the period 2014-15 to 2016-17 revealed that the envisaged objectives of Yarn Supply scheme were not fully achieved since only 4.58 lakh handlooms were covered under the scheme out of 23.77 lakh handlooms in the country as per census 2009-10. Majority of share of subsidy was passed on to the exporters and large Co-operative societies rather than to individual weavers even though they own 45 per cent of the handlooms in the country. The main reasons for low coverage of the individual weavers were insufficient infrastructure facilities such as depots, mobile vans etc., lack of publicity and awareness about the scheme and inadequate marketing facilities. Resultantly, individual weavers were deprived of the benefit of purchasing smaller quantity of yarn from the nearest depots within minimum delivery time and remained dependent on the master weavers and handloom societies for marketing of their products. During 2014-15 to 2016-17, the Company reimbursed ₹53.68 crore as depot charges to exporters registered as beneficiaries in Haryana and Tamil Nadu though these exporters were using all the yarn for their internal consumption without any further supply to individual weavers. The monitoring mechanism of the scheme was also not effective, which resulted in delay in supply of yarn.

**(Para 13.1)**