What the CAG's Audit Reports say

.... a brochure on the

CAG's Audit Reports of 2008 (Union Government)

Comptroller and Auditor General of India

Foreword

In accordance with Article 151 of the Constitution, the Reports of the Comptroller and Auditor General of India relating to the Accounts of the Union are submitted to the President, who causes them to be laid before each House of the Parliament. As per the present convention, the Audit Reports, after approval by the Comptroller and Auditor General of India, are sent to the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs who co-ordinates their submission to the President and presentation in the Parliament.

This brochure contains a summarised version of the important findings included in the Audit Reports of the Comptroller & Auditor General of India relating to Union Government, for the year ended 31 March 2007. The Audit Reports on the accounts of the Union Government are prepared in several volumes, which are grouped on the basis of their subjects: Civil, Defence, Railways, Revenue Receipts and Commercial. The Reports contain major audit findings on the Ministries and offices under their control, including Autonomous Bodies and Public Sector Undertakings.

In exercise of the mandate provided under the Constitution of India, and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Comptroller and Auditor General undertakes audits which can broadly be classified as 'Financial', 'Compliance' and 'Performance' audits. The primary purpose of the Financial audit is to verify whether the financial statements (accounts of the Government) are properly prepared, complete in all respects and are presented with adequate disclosures. The Compliance audit examines the transactions relating to expenditure, receipts, assets and liabilities of the Government to ascertain whether the provisions of the Constitution, the applicable laws, rules, regulations and various orders and instructions issued by the competent authority are being complied with. The Performance audit is an independent assessment of the extent to which any organisation, programme or scheme operates economically, efficiently and effectively.

The results of Financial audit are included in the report on 'Accounts of the Union'. The reports on Performance and Compliance audits are presented in several separate volumes.

While it has been our endeavour to keep the contents of this document as close to the original Reports as possible, the original Reports should be referred to for greater detail. The names and telephone numbers of the officers who could be contacted for information in respect of different Audit Reports are on the inner back cover. The reader can also source the original Audit Reports on our website http://www.cag.gov.in

These Reports stand referred to the two Parliamentary Committees: Public Accounts Committee and the Committee on Public Undertakings for further consideration. The Secretaries of the Ministries concerned are required to intimate the Committees, the remedial action taken by them on the cases of irregularities, frauds, loss, mismanagement of resources etc., brought out in the Audit Reports. As per the agreed timeframe, such remedial 'Action Taken Notes' must be submitted by the Secretaries within four months of the tabling of the Audit Reports in the Parliament.

June, 2009	(Vinod Rai)
New Delhi	Comptroller and Auditor General of India

Contents

Civil Ministries

REPORT NO. 13 OF 2007 (CIVIL): ACCOUNTS OF THE UNION GOVERNMENT

This Report discusses the finances of the Union Government and contains audit observations on the Finance and Appropriation Accounts of the Union Government for the year ended March 2007.

Salient features of Audit findings

(A) Audit findings on Finance Accounts: 2006-07

Finance Accounts of the Union Government present the details of all transactions pertaining to both receipts and expenditure under appropriate classification. Apart from the summary of all the transactions of the Government, these contain (a) summary of Debt position (b) Loans and Advances by Union Government (c) Guarantees given by the Union Government and (d) Summary of balances. The position of total receipts and disbursements into and from the Consolidated Fund, Contingency Fund and Public Account of the Union Government for the year 2006-07 were the following:

Union Government Receipts and Disbursements

(Rupees in crore)

Receipts		Disbursements	
Revenue Receipt*	525393	Revenue Expenditure	658240
Misc. Capital Receipts	534	Capital Expenditure	59293
Recovery of Loans	18691	Loans and Advances	10019
Public Debt	1644628	Public Debt	1480938
Public Account Receipts	455019	Discharge of liabilities on Public Account	406380

*Exclude Rs 120330 crore being the share of taxes and duties assigned to the States.

The receipts and expenditure of the Union Government including its fiscal imbalances manifested in the deficits during 2006-07, compared to the Budget Estimates were as under:

(Rupees in crore)

Description	**2006-07**		**Deviation from Budget**	**Deviation*** ***Per cent***
	Actual	**Budget Estimates**		
Total Receipts of the Union	2644265	2635477	8788	0.33
Revenue Receipts	525393	490154	35239	7.19
Tax revenue	353182	328705	24477	7.45
Non-tax revenue	172211	161449	10762	6.67
Miscellaneous Capital receipts	534	3840	-3306	-86.09
Recovery of Loans and Advances	18691	9530	9161	96.13
Public Debt receipt	1644628	1274219	370409	29.07
Public Account Receipts	455019	367580	87439	23.79
Total Disbursement of the Union	2614870	2099322	515548	24.56
Revenue Expenditure	658240	576381	81859	14.20
Capital Expenditure	59293	66937	-7644	-11.42
Loans and Advances	10019	10391	-372	-3.58
Repayment of Public Debt	1480938	1098308	382630	34.84
Public Account Disbursement	406380	347305	59075	17.01
Revenue Deficit	132847	86227	46620	54.07
Fiscal Deficit	182934	148686	34248	23.03

** Deviation is estimated as (Actual- Budget Estimates)/Budget Estimates x 100*

Revenue

The average annual rate of growth of revenue receipts during 1992-2007 (11.84 per cent) remained lower than the growth of GDP (12.21 per cent). The total revenue of the Union Government (excluding the share of taxes and duties assigned to the States) as percentage of GDP declined from an average of 12.37 per cent during 1997-2002 (IX Plan) to 12.29 per cent during X Plan (2002-07) but increased to 12.73 per cent in 2006-07.

During 2006-07, the non-tax revenue constituted around 33 *per cent* of the net revenue of the Union, though there was a deceleration in its relative share in recent years. Tax-revenue was particularly buoyant from Corporation and Service tax which grew by 42.50 and 63 *per cent* during 2006-07.

Expenditure

The average annual rate of growth of total disbursement during 1992-2007 (15.07 *per cent*) was higher than the rate of growth of GDP (12.21 *per cent*). However, average annual growth rates during the VIII and IX Plans were lower than GDP growth rates. During the X Plan, the average rate of growth of total disbursements (24.77 *per cent)* exceeded the GDP growth (13.77 *per cent*). During 2006-07, the annual rate of growth of total disbursement was 22.87 *per cent* as against the rate of growth of GDP (15.66 *per cent*).

During 2006-07, the repayments of debt and discharge of public account liabilities, interest payments assignment of mandated portion of gross tax receipts to the States, and Grants-in-aid to States took away nearly 80 *per cent* of its total resources. Government was, therefore, left with only about 20 *per cent* of its gross mobilisation to spend on its current activities.

The share of plan expenditure in the total expenditure remained nearly stagnant during 1992-2007. As against an average of 23.68 *per cent* of total expenditure during VIII Plan (1992-97), its share only moderately improved to 24.17 *per cent* during X Plan (2002-2007) after a dip of 2.69 percentage points during the IX Plan (1997-2002). The share of revenue component in plan expenditure, which averaged 55.51 *per cent* during VIII Plan gradually increased to 73.29 *per cent* during the X Plan (2002-2007) with peak level of 85.25 *per cent* during 2006-07.

Deficit

The year 2006-07 ended with a deficit of Rs. 19,224 crore in the Consolidated Fund of India and surplus of Rs. 48,639 crore in Public Account. Though the fiscal deficit amounted to Rs. 1,82,934 crore, fresh liabilities amounted to Rs. 2,17,790 crore.

During 2006-07 Revenue deficit was Rs. 1,32,847 crore. As a proportion of revenue receipt, the level of revenue deficit in 2005-06 and 2006-07 exceeded the lowest ever level of the decade (1997-2007) attained during 2004-05 by more than four percentage points indicating that on an average, revenue receipts fell short of revenue expenditure by around a quarter during this period. As a proportion of revenue expenditure, revenue deficit was little more than 20 per cent both in 2005-06 and 2006-07 which indicates the proportion of revenue expenditure that was debt financed.

Fiscal Liabilities

The aggregate fiscal liabilities of the Union Government at historic rates were around 53 *per cent* of GDP during 1992-2007. However, the government was getting lesser resources for current application and the borrowings were mainly used for debt servicing. On an average, 96.92 *per cent* of the borrowings were used for the repayment of principal and interest. This ratio was 97.20 *per cent* during 2006-07.

The average interest rate on the Union Government's fiscal liabilities during the IX Plan (1997-2002) was 9.06 *per cent*, which got moderated to an average of 8.09 *per cent* during the X Plan. It further decreased to 7.75 *per cent* in 2005-06 and 7.84 *per cent* in 2006-07 exhibiting the declining trend.

(B) Audit findings on Appropriation Accounts (Civil) 2006-07

- Out of the total gross disbursement of Rs.20,86,198 crore of Civil Ministries during 2006-07, 71 *per cent* (Rs. 14,80,938 crore) and 7 *per cent* (Rs. 1,54,280 crore) pertained to repayment of debt and interest payments respectively.

- In 60 cases of 45 grants, ministries/departments did not utilise their allocated funds as unspent provision of Rs. 100 crore or more occurred in each grant. The ministries/departments need to submit explanatory notes on savings to the Public Accounts Committee

- In 17 cases of 11 grants/appropriations, re-appropriation aggregating to Rs. 426.23 crore was injudicious. The original provision under those heads to which the amounts were re-appropriated was more than adequate.

- In 36 cases relating to 33 grants although supplementary grant of Rs. 3432.03 crore was obtained in anticipation of higher expenditure, the final expenditure was less than even the original provision.

- There was excess expenditure of Rs. 36,637 crore under 4 segments of 4 grants and unspent provision of Rs. 35,603 crore in 206 segments of 96 grants/appropriations pertaining to civil Ministries/Departments. Out of overall excess expenditure of Rs. 36,637 crore, Rs. 33,049 crore was under Grant No. 37-Repayment of Debt.

REPORT NO. PA 11 OF 2008 –
UNION GOVERNMENT–CIVIL - NATIONAL RURAL EMPLOYMENT GUARANTEE ACT

The National Rural Employment Guarantee Act (NREGA) 2005, which came into force in 200 districts in February 2006, guarantees 100 days of employment in a financial year to any rural household on demand. At the request of the Ministry of Rural Development, a performance audit of the implementation of NREGA was carried out for the period February 2006 to March 2007, covering 558 Gram Panchayats (GPs) in 141 blocks in 68 districts in 26 States. The following are the important audit findings:

- The Act conferred a right on rural households to demand employment. It is noted that the NREG Act is a unique laudable Act of Parliament which enables the rural households to demand up to 100 days of employment as a matter of their statutory right.

- According to the Ministry's figures, 3.81 crore households had registered under the Act, Out of these, while 2.12 crore households had demanded employment, 2.10 crore households were provided employment during 2006-07. However, the Ministry's figures cannot be said to be very reliable or verifiable, as the record maintenance particularly at GP level, was poor. There is a high probability of only partial capturing of the demand for work.

- The applications for work are to be submitted primarily at the Gram Panchayat; though the applications for work could also be submitted to the Programme Officer of the Block. Besides, 50 per cent of the works were to be allotted to the GP. It was, therefore, crucial to maintain proper records of employment demanded, employment provided, number of days of employment generated, entitlement for employment allowance etc. It was noticed that the maintenance of basic records at the GP and Block levels was poor, as a result of which the authenticity of the figures of employment demanded, employment provided, number of days of employment generated, entitlement for employment allowance etc. could not be verified in audit. Significant deficiencies were also noticed in maintenance of Muster Rolls.

- Photographs on job cards represent an important control against fraud and misrepresentation. There were significant delays in affixing of photographs on job cards.

- As the applications for demand for work were not documented or dated, and dated receipts for such applications were not issued in most cases, the eligibility of rural households for unemployment allowance, in these cases, was unverifiable.

- There were several cases of delayed payment of wages, for which no compensation was paid. There were also instances of non-payment of unemployment allowance which became due to the employment seekers.

- Deficiencies were noticed in the set up of implementing machinery, particularly at the Block and GP levels like non-appointment of full-time Programme Officers and non-appointment of Gram Rozgar Sewaks. This insufficiency of manpower, particularly at GP level, had adverse impact on the maintenance of records at GP level, which made it difficult to verify compliance with the legal guarantee of 100 days of employment on demand.

- There were deficiencies in the planning process, particularly in the preparation of the 5 year District Perspective Plans (DPPs).

- Most States had not prepared District-wise Schedule of Rates and had adopted the Schedule of Rates of PWD/Rural Development Department, which may not necessarily ensure minimum wages for seven hours of work by labourers of weaker build like women in difficult geo-morphological conditions.

- The systems for financial management and tracking were deficient, with significant cases of failure to conduct monthly squaring and reconciliation of accounts. Several instances of diversion and misutilisation of funds and non-rendering of Utilisation Certificates and expenditure details were noticed.

- The status of inspection of works at the State, District and Block levels was poor, and most States had not designated State and District Quality Monitors. Also, in most cases, Gram Sabha was not held twice a year to conduct Social Audit Forums.

REPORT NO. PA 12 of 2008 – UNION GOVERNMENT CIVIL-PERFORMANCE AUDIT OF ACCELERATED RURAL WATER SUPPLY PROGRAMME

A performance audit of Accelerated Rural Water Supply Programme, covering the period from April 2002 to March 2007, was conducted between June and October 2007 in 26 States. The audit revealed the following:

- Surveys of habitations at periodic intervals are important in assessing ground-level coverage of access to safe drinking water. There were significant deficiencies in the conduct of the 2003 National Habitation Survey at the States, adversely affecting assurance regarding the quality and reliability of the survey data, and thus its utility for planning purposes.

- In the absence of Annual Action Plans based on a detailed and comprehensive habitation-wise analysis in many States, targets were being fixed on a numerical basis, and works taken up in an ad hoc manner. This adversely impacts the coverage of habitations, especially the prioritization for incomplete works and Not Covered (NC)/ Partially Covered (PC) habitations.

- There were several instances of deficient financial control, besides instances of inadmissible expenditure and diversion of ARWSP funds.

- Contrary to the scheme's objectives, slip back of fully-covered habitations and re-emergence of problem habitations continued to be a major problem, thus raising the issue of indefinite continuity of the programme.

- States did not pay adequate attention to water quality. The infrastructure for testing and monitoring water quality, especially at the District level, was inadequate and periodic testing requirements were not complied with. Distribution and utilisation of field testing kits at the Gram Panchayat/ Village Water & Sanitation Committee level was also poor.

- Some States had initiated innovative practices for water sustainability, including implementation of a State-wide water transmission grid, use of Information, Education and Communication (IEC) campaigns for promoting water conservation, and use of remote sensing technology for assessment of impact of recharge structures. However, many States did not take adequate measures for ensuring sustainability of water resources especially ground water. The proportion of schemes relying on ground water sources was very high in many States. In the absence of adequate attention being paid to sustainability, the slip back of habitations may continue to remain a major area of concern.

- There were significant deficiencies in the implementation of the demand-driven, participatory approach of Swajaldhara. In many cases, the beneficiary contribution, which is at the core of Swajaldhara, had not been fully received. There were numerous cases of non-execution and delayed execution of Swajaldhara schemes and the financial control, in terms of maintenance of records, audit of accounts and adherence to stipulated procedures was weak.

- There were numerous deficiencies in execution and implementation of works. These included cases of time and cost-overrun, non-completion/delayed completion of works, non-functional/defunct works, delayed completion and non-completion of water quality mission projects, incorrect prioritization of works, wasteful and unfruitful expenditure, and expenditure on unapproved items.

REPORT NO. PA 13 OF 2008 - UNION GOVERNMENT PERFORMANCE AUDIT OF NATIONAL PROGRAMME FOR NUTRITIONAL SUPPORT TO PRIMARY EDUCATION (MIDDAY MEAL SCHEME)

This Report contains results of performance audit of National Programme for Nutritional Support to Primary Education (Midday Meal Scheme) of the Ministry of Human Resource Development. The important audit findings are:

- Even after more than a decade of running the programme, there is a lack of clarity regarding the objectives to be achieved by the scheme. There was a qualitative shift in the focus of the Scheme in September 2006 from education (with its emphasis on enrolment, learning levels and attendance) to nutrition and health.

- Ministry had not assessed the impact of the programme in terms of increase in enrolment, attendance and retention levels of children. The data collected from schools selected for audit did not disclose any definite pattern in enrolment, attendance and retention levels of children over the years.

- The Ministry has been unable to establish a system of reliable data capture and reporting by the states. Many states resorted to over-reporting of the enrolment while projecting the requirement of funds. There was no system of cross checking the data of enrolment furnished by the State Governments.

- One of the objectives of the scheme was to positively impact the nutritional and health levels of primary school children; which was the main objective of the revised scheme in September 2006. The Ministry was yet to collect data on the nutritional status of children covered under the midday meal scheme. Nor were linkages with the Ministry of Health and Family Welfare for the health checks prescribed under the scheme followed up by the Ministry. In most states the children were not administered micro nutrient supplements and de-worming medicines.

- The audit of the implementation of the scheme countrywide displayed weak internal controls and monitoring. The provisions for programme evaluation and regular monitoring and inspections in the scheme design, were not effectively followed nor the results analysed for review of errors and introduction of changes on the basis of lessons learnt. The steering and monitoring committees set up by the Ministry to monitor the scheme at national and state level did not meet regularly. While at the national level, the committee met only twice since its inception in 2005 against the scheduled five meetings, the states fared even worse.

- In most of the schools sample checked in audit, regular inspections were not carried out to ensure the overall quality of midday meal served and nor were basic records such as issue and receipt of foodgrains, meal quality and evidence of community participation (through village education committees and parent teacher associations) maintained.

- Audit of the implementation of the scheme in the states disclosed leakages, deficient infrastructure, delayed release of funds and inflated transportation costs etc.

- The Ministry failed to put in place an effective system to ensure that teachers are not assigned the responsibilities that would interfere with teaching activities. Many instances of the teachers spending considerable teaching time in supervising the cooking and serving of meals were noticed, resulting in loss of teaching hours.

REPORT NO. PA 1 of 2008 –
UNION GOVERNMENT – CIVIL AND
POSTAL DEPARTMENTS

This Report contains the results of three Performance Audits pertaining to Department of Telecommunications & Department of Posts under the Ministry of Communications & Information Technology and Ministry of Tourism, and two Information Technology Audits pertaining to the Office of the Border Security Force, Tripura Frontier under Ministry Home Affairs and the Controller General of Accounts under the Ministry of Finance.

Chapter I - Ministry of Communications & Information Technology

Performance Audit of Administration of Universal Service Obligation Fund

New Telecom Policy-1999 envisaged creation of Universal Service Obligation (USO) Fund with the objective to provide access to telecom services to people in rural and remote areas at affordable and reasonable price. Accordingly, the USO Fund was formed with effect from April 2002, with an amendment to Indian Telegraph Act (1885), in 2003. The Fund is administered by the Department of Telecommunications (DoT). It is a non-lapsable fund and used primarily for providing subsidies to promote rural telephony.

Some of the major deficiencies observed by Audit in respect of administration of USO Fund in DoT were as follows:

- The objectives of establishing Universal Service Obligation Fund exclusively for accelerating growth of rural telephony were not achieved despite substantial collection of funds through Universal Access Levy. During 2002-03 to 2006-07, only Rs 5,081.44 crore, i.e., 33.87 per cent of Universal Service Obligation (USO) Fund was utilised out of total funds of Rs 14,998.98 crore collected from service providers.

- Despite the phenomenal expansion in the telecom sector in India, the rural tele-density in the states of Bihar, Chhattisgarh, Madhya Pradesh, Assam, Jammu & Kashmir, Uttar Pradesh and West Bengal ranged merely between 0.88 and 1.81 per hundred population.

- The amounts collected through Universal Access Levy have not been credited fully to the Universal Service Obligation Fund.

- Subsidy of Rs 1850.77 crore was paid retrospectively towards Rural Direct Exchange Lines (RDELs) installed during April 2002 to March 2005 without ensuring that the amount was disbursed only towards eligible RDELs.

- Reliance Communication and Tata Teleservices were paid subsidy of Rs.84.50 crore for provision of RDELs and Rural Community Phones (RCPs) without ensuring connectivity with network of other service providers as envisaged in the Unified Access Service Licence agreements.

- Liquidated damages of Rs 20.60 crore were not recovered from universal service providers for non-fulfillment of roll out obligations even in the extended period.

- Subsidy of Rs 9.25 crore paid in excess to Universal Service Providers (USPs) towards Village Public Telephones (VPTs) was not recovered.

- Claims of Rs 407.83 crore of different USPs were pending settlement with the Controller of Communication Accounts in various service areas as of March 2007.

- Large numbers of operators in rural areas did not meet the minimum quality standards prescribed by Telecom Regulatory Authority of India.

Chapter II - Ministry of Communications & Information Technology

Performance Audit of Postal Life Insurance and Rural Postal Life Insurance

Postal Life Insurance was started in 1884 and is open for employees of all Central and State Government Departments, Nationalized Banks, Public Sector Undertakings, Financial Institutions, Local Bodies like Municipalities and Zila Parishads, Educational Institutions aided by the Government etc. In March 1995, the benefits of PLI were extended to rural populace of the country under the banner of Rural Postal Life Insurance (RPLI).

Some of the deficiencies observed by Audit in respect of Postal Life Insurance/ Rural Postal Life Insurance in Department of Posts are as follows:

- The annual growth in the number of Postal Life Insurance (PLI) policies ranged between four and eight per cent during 2002-07. Except "Santosh", other schemes of PLI have not been very popular and the number of new policies procured under Suraksha, Suvidha, Sumangal and Children policy has declined consistently during last five years.

- DoP failed to achieve the yearly targets set for procurement of business, both for PLI and RPLI during the period from 2002-03 to 2006-07. In case of PLI, the shortfall in targets went up from 17 per cent in 2002-

03 to 41 per cent in 2006-07 and in case of RPLI, the shortfall had gone up from 16 per cent to 27 per cent during the same period.

- In the seven circles test checked, there were delays in acceptance of proposals for PLI/RPLI policies. During 2002-07 four per cent of PLI and 23 per cent of RPLI proposals received were accepted with delays of more than 30 days.

- In the eight circles test checked, there were delays in settlement of claims. In PLI, 25 per cent of the claims received during the period 2002-07 were settled with delays of more than 30 days whereas in RPLI the figure was 17 per cent.

- An amount of Rs 148.24 crore remained unadjusted in the books of accounts of eight circles due to non-posting of schedules in the premium ledger accounts/non receipt of schedules of receipt from field offices as of March 2007.

- DoP short received Flat Rate Remuneration (cost of working expenses) of Rs 12.30 crore from the Ministry of Finance due to incorrect accounting of lapsed policies.

- While working out the total amount of premium collected during the year 2005-06 and 2006-07 the Department did not include the amount of premium received in respect of wanting schedules. This resulted in short receipt of Flat Rate Remuneration (FRR) amounting to Rs 84.10 crore.

- DoP had to rely on manual system as the Computerised Postal Life Insurance System (CLIP) software suffered from various deficiencies.

CHAPTER III - Ministry of Tourism

Performance Audit of Product/ Infrastructure Development for Destination and Tourist Circuits

A performance audit of Product/Infrastructure Development for Destination and Tourist Circuits, covering the period from 2002-03 to 2006-07, was conducted between August 2007 and March 2008, covering a sample of 23 projects in six States/UTs viz. Chhattisgarh, Delhi, Kerala, Madhya Pradesh, Tamil Nadu and Uttarakhand. The following are the important audit findings.

- Ministry of Tourism (MoT) released Rs. 1500 crore during 2002-03 to 2006-07 to State Governments for implementation of various projects relating to Destination Development and Tourist Circuits, but did not monitor utilisation of these funds in an effective manner to ensure timely implementation of the projects by the State Governments.

- Internal controls in the MoT were found lacking as excess central financial assistance (CFA) of Rs 2.96 crore was released in nine projects without restricting the assistance to 90 per cent of the project cost. Similarly, MoT also released excess CFA of Rs. 2.90 crore in eight projects by sanctioning funds to cover the cost of the project that was to be borne by the State Governments.

- Funds amounting to Rs. 86.27 crore released for tourism projects were lying unutilised with the State Governments/ executing agencies in Kerala, Tamil Nadu, Uttarakhand, Madhya Pradesh and Chhttisgarh.

- Utilisation Certificates (UCs) were not submitted regularly by the State Governments. Some of the UCs furnished were found inaccurate and incomplete in test check.

- Nearly 50 per cent of the selected 23 projects were delayed due to delay in acquisition of land and issue of work orders, change of site, slow progress of work and short release of funds by the State Governments.

- In Chhatisgarh and Uttarakhand, no authenticated data was maintained for identification of most visited sites. In Kerala and Tamil Nadu, four projects costing Rs. 19.93 crore were selected without adhering to the scheme guidelines.

- In some states, no forecast for increased tourist inflow was made in the detailed proposal/ project plan. In the absence of a forecast of tourist inflow, normal annual growth rate and additional growth rate envisaged as a result of the projected investment, there were no benchmarks to verify the actual achievement of objectives.

- The monitoring committee for overseeing the implementation of Destination and Circuit projects had not been constituted and the convergence committee for overseeing implementation of rural tourism projects had not been set up in four States.

CHAPTER IV- Ministry Home Affairs

Information Technology Audit of Border Security Force, Tripura Frontier

The Border Security Force (BSF) was formed in December 1965 by amalgamating State Armed Police Battalions and with officers from the Police and the Indian Army. BSF is maintaining computerised information systems to process, maintain and report essential information on the areas of Personal Management, Inventory and Transportation. The computerized

Personal Management Information System (PMIS) was implemented in the Tripura Frontier in 2002 as a decision support system to the Organisation for better deployment and training of manpower and for an efficient and effective human resource management. Later, 'Clothing, Tentage and Stores' (CTS) Software 'Transportation' (TPT) Software for better management and accounting of various categories of stores and vehicles were implemented. The results of the audit findings are given below.

- The data was being entered in the CTS and TPT at the field level from the manual records. Due to absence of network connectivity and electronic uploading in the system developed, the data was being manually entered into the system at the Frontier Headquarters for consolidation and onward transmission to Force Headquarter at Delhi.

- It was noticed that log files in respect of monitoring the transactions of users such as user log-on/off time, terminal log-on/off, periodicity of the password use etc which provide for tracing all transactions right from the input stage through to their final destination were not maintained in the system. Even, manual records like sign-out sheets were not maintained to establish the accountability. Logical Access controls necessary to protect the system from unauthorized access were found deficient. It was observed that the organisation did not have a well-defined password policy and the structure of passwords was not defined.

- Audit noticed that the organization did not have adequate back-up & disaster recovery plan and a documented back-up policy.

- 5829 cases of duplicate records pertaining to 2692 employees (having identical name, address, DOB, father's name etc.) were observed. Lack of input controls in place and absence of regular updation made the data base incomplete and unreliable.

- The PMIS, TPT and CTS packages were developed and implemented as a decision support system to the higher level of management. However, Audit observed that although the system was amenable to generation of various kinds of reports to aid managerial decision making, the BSF authorities could not utilize the functionalities of the system. This is illustrated by unusually large expenditure on maintenance of vehicles, and inordinate delays in putting the vehicles to use after their purchase and overstocking of vehicles etc.

CHAPTER IV - Ministry of Finance

Information Technology Audit on the functioning of COMPACT PAO 2000 software used in PAO offices of Indian Civil Accounts Organization

This Chapter contains the audit findings of the IT Audit of COMPACT PAO 2000 software in the Pay & Accounts Offices (PAOs) of Indian Civil Accounts Organisation. The Indian Civil Accounts Organisation functioning under the Controller General of Accounts (CGA) discharges its duties and responsibilities through the Principal Accounts Offices and several PAOs in various Ministries/Departments. The CGA compiles the Union Government Accounts in the manner as prescribed in the Civil Accounts Manual (CAM) and the instructions issued by the CGA from time to time.

COMPACT PAO 2000 software has been designed and developed by the National Informatics Center (NIC) with a view to fully computerise the core functions of the PAO in all Civil Ministries and for compilation of accounts at PAO level. It was developed with the objectives of elimination of human errors in processes; improving accuracy, exchequer control, bank reconciliation; increasing the reporting and querying capabilities; effective monitoring of budget vs. expenditure, more management information; reducing the time taken in the compilation of accounts, generation of different reports and returns; integrating the different sections of PAO; keeping pace with technology advancements; and historical data maintenance.

The findings of the IT audit of the COMPACT are given below.

- Audit found out gaps at 23 places in the master database of employees, with one or more serial numbers missing in between two records.

- The system assigns a number to each item of expenditure. A missing number should be a cause of concern. 87 cases of gaps in MEA and 16 cases of gaps in MNRE were noticed where one or more serial numbers was missing.

- Cheques/challans shown outstanding at the end of financial year 2005-06 were neither encashed in 2006-07 nor shown as outstanding at the end of the year (2006-07).

- The system had no provision to capture the items of the pre-checks applied by the PAOs in respect of various bills.

- Recoveries in respect of gas/electricity/water charges etc. effected by the Missions/Posts abroad were not codified and were being deducted from the gross salary (PAO, MEA) and the net amount was posted for salaries resulting in booking of incorrect expenditure to the extent of departmental recoveries in the accounts.

- The system had no provision for a review of sanctions/payments (other than for inter-governmental/departmental transactions) of Rs 50 lakh and above.

- COMPACT allowed login with same user ID in different client machines simultaneously, resulting into deficient access control and lack of user accountability built in into the system.

- Data entry made by the dealing hands can be modified by the PAO and the system does not keep any traces of such modifications.

- There is no 'Anti virus' policy in PAOs. In PAOs (MEA and DE) neither was the antivirus available/updated into these machines (server/client) nor were these machines kept out of the internet/LAN, which made them prone to the viruses and threat to the security of the database/IT assets.

REPORT NO. CA 1 OF 2008 – UNION GOVERNMENT– CIVIL- COMPLIANCE AUDIT OBSERVATIONS

This Report contains observations emerging out of the transaction audit in the Civil and Economic Services Ministries including the Department of Posts, Department of Telecommunications and their field offices. The value of deficiencies, irregularities etc. pointed out by Audit in 58 paragraphs amounted to Rs. 1753.64 crore. A few important audit findings are mentioned below:

Unfruitful expenditure on procurement of patrol boats

Lack of effective monitoring and failure to carry out mid-course correction resulted in investment of Rs. 25.10 crore on procurement of 26 patrol boats under a Centrally Sponsored Scheme for Enforcement of Marine Fishing Regulation Act being rendered largely unfruitful. The boats have either not been constructed or are lying idle/ not being used for the intended purpose of patrolling exclusive fishing zones.

Recovery at the instance of Audit

An amount of Rs. 1.52 crore, irregularly transferred to the Jammu and Kashmir Development Finance Corporation, was recovered at the instance of Audit.

Short realisation of postage charges

Senior Superintendent of Post Offices, Ernakulam under Kerala Postal Circle authorised concessional tariff to a publication without ensuring the prescribed conditions as applicable to registered newspapers, resulting in short realisation of postage charges of Rs. 2.74 crore.

Non-deduction of Income Tax at source

Non-observance of the statutory provisions of Finance Act by the Postmasters under Andhra Pradesh, Assam, Gujarat, Punjab, Haryana, West Bengal and North East Postal Circles led to non-deduction of Income Tax at source to the tune of Rs. 1.93 crore on payments of interest under the Senior Citizens Savings Scheme.

Non-levy of Service Tax

Non-observance of the statutory provisions of Finance Act by the Postmasters under Kerala, Rajasthan, Madhya Pradesh and Chattisgarh Postal Circles led to non-levy of Service Tax and Educational Cess amounting to Rs. 81.69 lakh on commission received from Bharat Sanchar Nigam Limited for collection of telephone revenue.

Extra expenditure due to hiring of residential accommodation in excess of entitlement

Despite earlier audit findings, Indian Missions at Beijing, Mandalay, Tripoli and Ulaanbaatar hired residential accommodation for their India-based officers and staff in excess of ceiling on plinth area norms fixed by the Ministry. This resulted in extra expenditure of Rs. 91.05 lakh during 2002-03 to 2006-07.

Funds of SEBI kept outside Government Accounts

Despite the obligation under the Constitution of India and clear instructions of the Ministry to maintain the funds of Regulatory Bodies in the Public Account, Securities and Exchange Board of India (SEBI) continued to maintain its surplus funds generated through fees/charges etc., aggregating to Rs. 706.82 crore at the end of March 2007 outside the Government Account. Its expenditure was met directly out of this fund without the approval of the budgetary appropriations. Despite being convinced of the inappropriate action by SEBI, inconsistent with the Constitutional provision and the norms for budgetary appropriations, the Ministry has failed to secure compliance to its orders.

Loss of revenue

Debt Recovery Tribunals at Delhi, Chandigarh and Kolkata recovered Rs. 2.47 crore as poundage fees on execution of the recovery certificates of Rs. 247.45 crore by way of auction/sale proceeds of the properties. The Tribunals, instead of crediting the fees to the Government account paid the entire amount of poundage fees to the certificate holders/financial institutions alongwith the sale proceeds of the property. This resulted in loss of revenue of Rs. 2.47 crore during January 2001 to March 2007.

Unauthorised attachment of vehicles

Director General, Indo Tibetan Border Police held 30 to 40 additional vehicles by withdrawing them from various field formations/units during the period 2002-03 to 2006-07 and deployed them in its Headquarters at New Delhi over and above their sanctioned strength. This resulted in unauthorised and wasteful expenditure of Rs. 1.39 crore on fuel, repair and maintenance of these vehicles for non-operational activities at the Headquarters at the expense of operational requirement of the field units.

Delay in construction of UNESCO house leading to avoidable rental charges

Ministry of Human Resource Development failed to get the UNESCO house constructed on the plot allotted for this purpose in 1998. Meanwhile, it has paid Rs. 2.86 crore towards the rent of the building that accommodated the UNESCO office, the current rent liability being Rs. 48 lakh per annum.

Non-establishment of Central Water Testing Laboratory for Arsenic

Lack of monitoring of the project for setting up of Central Water Testing Laboratory for Arsenic at Kolkata resulted in the Laboratory not being set up even after 8 years of releasing a grant of Rs. 50.32 lakh to the State Government.

Unfruitful expenditure due to delay in construction of hostels

Ministry of Social Justice and Empowerment released Rs. 13.82 crore to eight States during 2001-02 to 2004-05 for construction of 74 hostels for other backward classes' (OBC) students. Though as per the sanctions, construction of all 74 hostels was to be completed, by December 2006, only 12 hostels had been completed, 42 were under construction and the remaining 20 had not been taken up for construction as of September 2007. This has led to the grants of Rs. 9.86 crore remaining unfruitful, as the intended facility was not made available to 5841 OBC students in time.

Inordinate delay in implementation of a scheme for minimizing aircraft accidents due to bird hits at the airfields

Lack of adequate and sustained efforts on the part of the Ministry of urban Development in implementing a project on "Solid Waste Management and Drainage in 10 Selected IAF airfields" costing Rs. 105 crore resulted in serious delay of more than a decade in completing the project. This led to continuing national loss of IAF aircraft and invaluable lives of pilots in air accidents due to bird hits. During the period from 1990-91 to 2006-07, IAF aircrafts had 13 air accidents and 542 incidents on account of bird hits, which resulted in loss of 12 aircraft with a financial implication of Rs. 181.33 crore.

Non-recovery of Construction Workers Welfare Cess from contractors

Forty eight Divisions of CPWD in Delhi did not recover Rs. 2.09 crore from contractors on account of construction workers welfare cess between August 2005 and March 2007.

Unfruitful expenditure on a swimming pool project

Director of Education of Union Territory of Lakshadweep acquired 8490 square metre of land in Androth Island during 2001-02 for construction of a sea water swimming pool. As the project was subsequently found unviable the land could not be put to use, rendering the entire expenditure of Rs. 77.11 lakh on acquiring the land unfruitful.

Defence Services

REPORT NO. PA 4 of 2008 - UNION GOVERNMENT – DEFENCE SERVICES- ARMY AND ORDNANCE FACTORIES- PERFORMANCE AUDIT

This Report includes results of four performance audits, viz. Supply Chain Management of General Stores and Clothing in the Army, Life Sciences Laboratories of DRDO, Performance of Chemical Group of Factories of Ordnance Factory Organisation and Manufacture and issue of 23mm and 30mm Ammunition in ordnance factories. This Report also includes a para on Information Technology audit on Electronic Attendance Recording System in ordnance factories.

Supply Chain Management of General Stores and Clothing in the Army

The Army procures and maintains inventory of over 20,000 items of Clothing and General Stores (GS&C) which include paint, detergents, cooking utensils, tentage items, parachute and personal clothings and special clothing and mountaineering items for troops operating in Glacier region required for operationalisation of units and upkeep of troops. A performance audit of the total Supply Chain Management of these GS&C items covering the period 2002-03 to 2006-07 was conducted which took into account the entire gamut of provisioning, procurement, stocking, issue, utilisation and user satisfaction.

The performance audit revealed that the Supply Chain Management of General Stores and Clothing (GS&C) in the Army suffered from several systemic deficiencies There was no effective coordination between Central Procurement Cell (CPC) of the Army HQ and lower echelons which resulted in local purchases valuing Rs 169.37 crore, remaining unreported. This deficiency in the provisioning process entails the risk of substantial overprovisioning of items by CPC. Director General Ordnance Services at Army HQ inducted new products such as Prefabricated Huts, Superior Blankets Barrack, Detergents, Superior Paints, and Modular Gloves at a total cost of Rs 89 crore, without need analysis, trial evaluation and revision of scales. The present system of GS&C procurements being highly centralised, is unable to process procurements within the prescribed lead time. Consequently, 67 per cent of the orders were not placed within the given lead time, delaying procurement of stores and their supply to troops. GOC-in-C, Northern Command procured 25,754 Bullet Proof Jackets valuing Rs 58.92 crore from a private firm at rates higher than that contracted by Army HQ resulting in extra expenditure of about Rs 13 crore. The procurement was made without giving details of specifications and waiving the requirement of inspection by Director General Quality Assurance.

Army HQ failed to ensure timely procurement of Special Clothing and Mountaineering items used in operational areas like Siachen resulting in stock out levels of these critical items being as high as 44 to 70 per cent. To meet shortage of these items, Army resorted to the unauthorised practice of issuing partly worn stores (PWS) to the troops in the glacier region. User survey conducted by Audit showed that 50 per cent of divisions/regiments were not satisfied with the quality and fitting of the clothing supplied.

Army placed orders on trade in preference to Ordnance Factory leading to loss of productive capacity of Ordnance Factories which have been set up as dedicated source for manufacture and supply to Army and other Services. DGOS and Army Commanders procured 20,741 Tents from trade at Rs 54.48 crore during 2006-07 denying orders to Ordnance Factories. Army HQ also ignored request of DGOF for placement of orders, and procured 4,750 Cover Water Proof valuing Rs 2.65 crore from trade.

Computerisation and modernisation of the ordnance supplies were undertaken without developing an appropriate and robust transportation model and a comprehensive business process reengineering for non-war like GS&C items. Several attempts of Army HQ over the last four decades to modernise have been ad hoc, directionless and fraught with time and cost overrun. In addition to diverting 432 personnel and after spending Rs 243 crore, no measurable benefits were visible as of January 2008.

Basic objectives of operating a multi-echelon stocking and distribution system with predetermined levels of maintenance stock holding to ensure ready availability of the right material at the right place and at the right time to the troops were not achieved fully as there were persistent shortages of stores in the depots and 30 per cent of the user demands remained unmet, troops in the glacier region had to manage with old worn out clothing and there was high level of dissatisfaction amongst the troops about the quality of clothing supplied.

Life Sciences Laboratories of DRDO

Life Sciences Group (LSG) laboratories under Defence Research Development Organisation (DRDO) are engaged in research and development work in the field of agriculture, food, life support systems, nuclear medicine, psychology and physiology of troops in diverse climatic conditions including high altitudes. Two categories of projects viz. Staff Projects and R&D Projects are undertaken by these labs. Staff Projects are invariably taken up at the instance of Services against existing or futuristic needs and are expected to achieve qualitative requirements projected by them.

A performance audit covering the period 2002-03 to 2006-07 and focusing on relevance of R & D activities of the LSG labs to the Armed Forces, was conducted which revealed the following:

The project planning in LSG labs lacked user focus as an overwhelming number of projects taken up were not based on requirements given by the users and were focused on pure research and development. Adherence to Plan was poor as 30 per cent of the planned projects were not taken up for implementation and, more than 50 per cent of the projects undertaken by labs were unplanned and ad hoc. Proper linkages between Plan and Budget were not established as budgetary allocations to the labs were made on lump sum basis instead of adopting a system of project-wise allocations as planned. Most of the products developed by the Life Sciences Labs of DRDO were not exclusively applicable to Armed Forces in that only 29 per cent of the products developed during the last 17 years were in use by the Armed Forces. The Integrated Research Council, meant for co-ordination between the users, viz. three Services and DRDO had not met regularly as prescribed showing lack of user participation. Transfer of technology could be achieved only for 50 per cent of the products developed by the labs. Adequate attention was not paid to patenting of the products developed. Similarly, insufficient attention was paid to filing and securing patents for the products/technologies developed by DRDO. Project costs were understated due to exclusion of manpower costs in cost computation.

Manufacture and issue of 23mm and 30mm Ammunition in ordnance factories

Ordnance Factories manufacture 23 mm and 30 mm ammunition for the Armed Forces. While 23 mm ammunition is air defence ammunition, 30 mm ammunition is used in Automatic Gun mounted on Infantry Combat Vehicle for use against light armoured targets, soft skinned targets, personnel at certain range and low flying aircraft.

Performance audit of the manufacture and issue of 23 mm and 30 mm ammunition by the ordnance factories covering the period 2002-07 disclosed the following:

Ordnance Factory Board (OFB) failed to redeploy resources for production of demand intensive 23 mm ammunition from the surplus resources available for production of 30 mm ammunition, though there has been declining trend in demand for the latter. Even the committed quantity for production and supply of 23 mm ammunition to the Army could not be supplied by OFB, resulting in avoidable import of ammunition worth Rs 44.72 crore. There was mismatch in the production of components in the component manufacturing factories and ammunition in the filling factories. This weakness in production planning led to the idling of production capacity in the first two quarters of each production year besides uneven production in both component and filling factories. OFB allotted production target to component manufacturing factory without assessing actual requirement and the available stock in filling factories. This resulted in avoidable production and stock holdings in different stages. These coupled with inefficient and uneconomic production led to avoidable production/extra expenditure of Rs 12.91 crore. Three factories (Metal & Steel Factory, Ordnance Factory Khamaria and Gun & Shell Factory) issued warrants to production shops without extract from OFB or Inter Factory Demand (IFD) from sister factories, resulting in avoidable production of components valuing Rs 12.09 crore. Two factories circumvented the laid down procedure and suppressed excess consumption of materials/ components valuing Rs 6.84 crore in production. Due to excessive rate of rejection, OFB suffered loss of Rs 99.11 crore in the production and issue of 23 mm and 30 mm ammunition during 2002-07. There was abnormal variation in cost of production of the same item in different factories, under-recovery of cost of Rs 23.24 crore from the Army due to fixation of lower issue price by OFB and high cost of production of ammunition/components in ordnance factories when compared to trade.

REPORT NO. PA 5 of 2008 - UNION GOVERNMENT- DEFENCE SERVICES- AIR FORCE AND NAVY- PERFORMANCE AUDIT

This Report contains findings of three Performance Audits, of which two pertain to Air Force and one to Navy. The Performance Audits were undertaken on the following subjects:

- Functioning of ADGES Radar in Signal Units in the Indian Air Force,
- Training of Pilots in the Indian Air Force
- Operational availability and maintenance of Submarines in the Indian Navy

Major findings on each of the subjects are given below.

Functioning of ADGES Radar in Signal Units in the Indian Air Force

Air Defence (AD) is critical to a nation's security both during war and peace time. The Air Defence Ground Environment System (ADGES) is an integrated network of surveillance radars, air defence control centres, air and missile bases and anti aircraft guns intended to provide an efficient and reliable defence against air attacks.

This system came into existence in 1976 and continues to be at the heart of the nation's AD system. Deployment of AD Radars at various locations in the country is aimed at providing a conducive flying environment, adequate surveillance and effective command and control of AD assets. The performance audit focused on radar availability and their performance, deployment of manpower and training infrastructure. Important audit findings emanating from the performance audit follow.

- Indian Air Force (IAF) do not possess adequate number of surveillance radars needed for providing efficient and reliable detection capabilities for ensuring credible Air Defence.

- Ministry could not ensure timely acquisition of three additional high power static radars to provide effective air surveillance over certain areas that may have become vulnerable in the changed scenario.

- Shortage of medium power radars needed for ground control and intercept was as high as 53 per cent of the projected requirement. The holding of low-level transportable radars was merely 24 per cent of the actual requirement of the Air Force.

- Despite significant changes in security scenario, technology and growing magnitude of potential aerial threats in terms of sophistication and capabilities, Government has not approved IAF's revised plans of 1983-2000 and 1987-2007.

- Ministry failed to ensure timely upgradation, replacement and modernization of radars and associated equipment. There have been significant delays in procurement of medium power radars, as a result of which, by 2008, IAF would be compelled to operate with only 26 per cent of the authorized holding of these radars when large numbers of these obsolete radars become due for phase-out.

- Constant air surveillance is essential for eliminating potential enemy threats. However, actual watch hours allotted to IAF units holding radars were much lower than the watch hours prescribed by the Government. The actual surveillance levels ranged between 4 and 42 per cent of the approved norms.

- IAF is dependent on obsolete analog technology in its communication media due to its failure to procure new reliable digital technology even after nine years of assessment of the requirement.

- The performance of high power radars was exposed to risks due to life expired generator sets and air-conditioning systems, and medium power radars were affected by unserviceability of critical sub-systems, ageing and inadequate height accuracy.

- Signal units of Air Force, which are responsible for operation and basic maintenance of radars, have large deficiency of officers in operational and technical cadres ranging between 27 and 38 per cent.

Training of Pilots in the Indian Air Force

The Indian Air Force (IAF) requires pilots to fly its diverse range of aircraft, from fighter planes to transport aircraft to helicopters. Thus, comprehensive professional training becomes especially crucial for providing young recruits with the expertise required for handling specialized equipment and aircrafts, and also for constantly upgrading the skills of the existing pilots. Training new pilots is a complex process involving selection of trainees, theoretical training courses, initial practical training in simulators and 'live' aircraft and operational training specific to the stream in which a pilot is commissioned. This report focuses on various stages of pilot training from the initial stages to the transfer of pilots to their operational stream.

The significant audit findings are:

- IAF has not formulated a long-term training plan for pilots of fighters and other streams in order to develop an effective training strategy consistent with the long term strategic objectives, desired force levels and technological changes.

- The number of pilots trained in various streams was much lower than planned targets indicating that either constraints are not taken into account while formulating training targets or IAF failed to ensure adequate intake of pilot trainees through an effective recruitment strategy.

- Though the IAF's requirement of trained pilots will substantially increase during 2008-2018 to meet expansion needs of IAF squadrons, and fill up back log vacancies and also the vacancies arising from high attrition rates in recent years, IAF has not implemented any effective training strategy for meeting the increased intake requirements by addressing problems related to limitations of air space/runway occupancy and other infrastructural constraints.

- The number of pilots failing to complete their training successfully was significantly higher. There was also lack of continuity in the transition of a pilot from initial training to intermediate and advanced stages of training in terms of quality, technology and avionics of the trainer aircraft used. The need for improving the quality of pilot training was highlighted by the fact that 42 per cent of aircraft accidents reported during 1995-2005 were attributed to human errors.

- IAF lacks adequate number of state-of-the-art aircraft for imparting pilot training. HPT-32 aircraft used for Stage I training is technologically outdated and beset by flight safety hazards. In spite of the loss of 11 pilots and 15 aircraft, it continues to be used today.

- Limited availability of Kiran fleet has resulted in important training like tactical training and low level navigation being denied to cadets of various streams before trifurcation. This constraint has also resulted in insufficient inputs to the trifurcation board for assessing suitability of trainees for fighter, helicopter and transport streams.

- ➢ IAF took almost 25 years to induct the Advanced Jet Trainer which is critically required for smooth transition from the basic trainer to a high technology aircraft. This was in spite of several recommendations and direct linkage of accidents to the absence of an AJT. Besides, even the indigenous Intermediate Jet Trainer for Stage II training will not be available in the near future.

- ➢ Failure to procure/upgrade simulators for trainer aircraft for more than a decade deprived trainees of a safe and non-hazardous means of learning to fly these aircraft in cost effective manner.

Operational availability and maintenance of Submarines in the Indian Navy

For a Navy aspiring to have 'blue water' capabilities, submarines are a crucial element. Functional roles of submarines include (a) attacking surface and sub-surface enemy vessels, (b) laying offensive mine-fields, (c) blockade of enemy ports and other lines of communication, (d) landing of reconnaissance teams for intelligence gathering and (e) special operations. The Performance Audit focused on the efficiency of the functioning of the submarine arm of Indian Navy in terms of operational availability, effectiveness of modernization, performance of systems fitted on-board after modernisation, refit activities undertaken, and the efficacy of training imparted. Major audit observations include:

- ➢ Ministry could not adhere to its submarine construction / induction plan which may impact operational preparedness of Indian Navy. At present, Indian Navy holds just 67 per cent of the force level envisaged in its 1985 plan.

- ➢ With serious slippages in the induction plan, Navy is left with an ageing fleet with more than 50 per cent of submarines having completed 75 per cent of their operational life and some already outlived their maximum service life. If the construction plan for new submarines is not expedited, 63 per cent of the existing fleet would complete their prescribed life by 2012 when the first new submarine will be inducted as per the present schedule.

- ➢ Due to ageing fleet and prolonged refit schedules, the average operational availability of the submarines is as low as 48 per cent.

- Delay in concluding contract for procurement of Deep Submergence Rescue Vessel compelled Navy to remain dependent on a foreign source for rescue operations.

- The refit activity management in Navy was not efficient as 83 per cent of short refits and 100 per cent of normal and medium refits were delayed and could not be completed within the prescribed time period.

- Piece-meal modernization and upgradation of submarines at an aggregated cost of Rs 1560 crore was undertaken by Navy without the approval of the competent financial authority.

- The modernization and upgradation programme of submarines has been only partially successful as missile firing capabilities on three submarines are functioning at sub-optimal level due to erratic performance of the Inertial Navigational System of Navigational Complex procured at a cost of Rs. 108 crore. Performance of newly acquired sonars costing Rs. 168 crore has also not been found satisfactory.

- Ship Control Simulator, used for training for a particular class of submarine has remained non-operational since 2002 adversely affecting the training of submariners.

REPORT NO. CA 4 of 2008 – UNION GOVERNMENT- DEFENCE- ARMY AND ORDNANCE FACTORIES

This Report contains the results of audit of the Ministry of Defence pertaining to Army, Ordnance Factories, Department of Defence Production, DRDO, Military Engineer Services and Border Roads Organisation. This includes 38 Paragraphs. The important audit findings are emerged below:

Procurement of Special Clothing and Mountaineering Equipment

Special clothing is a vital requirement for troops deployed in extreme cold climate such as Siachen glacier. Army HQ has been procuring these clothing items for over two decades without streamlining the procedure for formulation of technical specifications, selection of vendors and evaluation of offers. This resulted in rejection of special clothing items worth Rs 28.81 crore either in inspection or by end users in respect of ten contracts valuing Rs 48.88 crore concluded for the year 2002-06. Item worth Rs 9.98 crore were accepted in re-inspection or by levying small penalty.

Avoidable extra expenditure in procurement of blankets

Director General Ordnance Services (DGOS) citing emergent requirement of blankets, procured 3.5 lakh superior quality blankets from non-approved sources at a rate two times higher than the rate offered by the approved handloom sector. On one hand, DGOS spent extra money of Rs 9.17 crore on procurement from non-approved sources, on the other hand it could not ensure that the blankets reached the troops on time. Thus poor planning and procurement management by DGOS led to avoidable extra expenditure and inconvenience to troops.

Irregularities in procurement of Bullet Proof Vehicles

The Ministry of Defence procured 200 Bullet Proof Vehicles (BPV) worth Rs 31.64 crore in July 2005 from a private firm. These vehicles were reported defective by the users. Besides compromising safety, Army HQ, citing urgency of requirement favoured the procurement of vehicle manufactured by a particular firm. In addition, DGOS purchased nine BPVs of different type from the same firm in February 2007 at the cost of Rs 4.12 crore. Extra expenditure of Rs 68 lakh was also incurred by not considering the offer of an Ordnance Factory to supply similar vehicles at lower rate.

Avoidable loss due to acceptance of defective ammunition

Instead of replacing the entire lot of 10,000 rounds of ammunition supplied by a foreign firm which was found defective in receipt inspection, DGOS got only 1071 rounds replaced. Later, due to an accident in firing, the whole lot was discarded resulting in loss of Rs 13.65 crore. Another lot of 10,000 rounds, which was also found defective in inspection was yet to be discarded, posing a risk to the safety of troops.

Misutilisation of Project Contingencies

Zonal Chief Engineer, Bhopal diverted Rs one crore meant for contingencies of ten projects at six stations for construction of his office at Bhopal, without obtaining sanction of competent financial authority.

Avoidable extra expenditure due to local purchase of stores

Regional Ordnance Depots made local purchase of automobile spare parts at higher rate when sufficient stock of items was available at Central Ordnance Depot. This resulted in avoidable extra expenditure of Rs 21.10 lakh.

Irregular appropriation of Defence Funds intended for payment of compensation to farmers

Defence Estates Officer, Bikaner failed to monitor Defence funds payable to farmers as compensation for damages to their crops during operation 'PARAKARAM' by District Collector (DC) Bikaner and Sriganganagar. This enabled the DCs to misutilise a part of these funds. Besides, a sum of Rs 5.89 crore remained un-disbursed with the two DCs for over 21 months.

Delay in repair of a defective test equipment for a missile system

A missile testing equipment imported at a cost of Rs. 4.14 crore could not be put to use for five years since its import due to delay on the part of the Army Headquarters to promptly allocate the equipment to user unit and to procure necessary spares timely for repair of one defective equipment

Abnormal delay in execution of Ordnance Factory Project Nalanda

Inadequacies in planning for setting up an Ordnance Factory at Nalanda for production of bi-modular charge system of ammunition leading to repeated revisions in the project cost estimates coupled with failure of the Ministry of Defence in firming up their decision regarding enhanced outlay for the project has seriously jeopardized the project. As a result, no value for money had been derived from the huge investment of Rs 376.93 crore made as of July 2007. Estimated cost of the project has shot up from Rs 941.13 crore to Rs 1570 crore.

Extra expenditure due to failure to exercise option clause

Failure of Ordnance Factory Board to direct the Ordnance Factory Ambernath to exercise option clause in procurement of additional quantity of copper cathode against its existing order on M/s Minerals and Metal Trading Corporation to meet the requirement of Ordnance Factory Katni, despite having an opportunity to do so, resulted in procurement of copper cathode by the latter by incurring an additional expenditure of Rs 7.71 crore

Idle investment on leasing of unsuitable land

Land acquired on lease by Ordnance Factory Board in May 2001 at a cost of Rs 1.05 crore from Kolkata Metropolitan Development Authority for construction of a Guest House, Seminar-cum-conference room and Exhibition-cum-Display room at Kolkata yielded no value for money, as it could not achieve the intended objectives on account of its unsuitability for constructing buildings. Further, the possibility of alternate use is also uncertain in view of Ordnance Factory Board acquiring another five acres of land at a different locality in Kolkata to meet the intended objective.

REPORT NO. CA 5 of 2008 – UNION GOVERNMENT- DEFENCE- AIR FORCE AND NAVY

Significant findings which emerged from the audit of the transactions of the Air Force, Navy, and Coast Guard have been included in this Report. A summary of the major observations is presented below.

Upgradation of an Aircraft

The upgrade programme of the IAF's Aircraft 'A' to be undertaken by HAL was approved in August 1999 at a cost of Rs 430 crore. Audit noted various financial, operational and control deficiencies. The project would have limited viability as problems inherent in the Aircraft and engines have not been resolved. Given that advantages from the project would be restricted as the feasibility of the project was doubtful from the beginning, the considerable time overruns would further dilute benefits of the project as the upgraded aircraft would have a very short residual life. Reductions in scope of the upgrade with the intent to contain costs have also truncated the envisaged role of the aircraft projected to the sanctioning authority. Besides, even the few aircraft modified were accepted by IAF with limitations. Project costs were severely understated and would actually be over Rs 900 crore, i.e. more than two times the approved cost while various unamortised and hidden cost remained out of the ambit of the project. Advance payment of Rs 156 crore to HAL even before approval by the sanctioning authority was in violation of budgetary and financial controls. Failure to conclude a contract with HAL even after eight years of approval of the project vitiated the control framework of the project.

Acquisition of VIP Business Boeing Jets

Ministry concluded a contract with M/s Boeing Company of USA for acquisition of three Boeing Business Jets at an aggregated cost of Rs. 936.93 crore for VIP use to replace two existing Boeings of the Communication Squadron of IAF. The acquisition process for the VIP aircraft deviated from laid down procedures and well recognized norms of propriety. Supplies valuing USD 50 million were contracted without the benefit of competition. Besides, the acquisition of both the aircraft and Self Protection Suite was inordinately delayed leading to a total cost escalation of USD 19.70 million. In addition, even after four years of the existing VIP aircraft becoming unsuitable for VIP flights, replacement aircraft are yet to be inducted. Procurement of a third additional aircraft costing Rs 312.44 crore as stand-by arrangement was avoidable. Despite spending Rs 936.93 crore, newly acquired VIP aircraft will not be used for international travel necessitating continued use of Air India aircraft with all its adverse consequences.

Delay in replacement of obsolete and decommissioned radars

Ministry concluded a contract with Hindustan Aeronautics Limited in March 2002 for procurement of 17 Precision Approach Radars at an aggregated cost of Rs 193.10 crore. Acquisition of these critical radars to replace obsolete/ decommissioned radars was considerably delayed and Air Force bases are operating flights with old radars, identified as obsolete sixteen years ago, with operational limitations. The acquisition process also deviated from the prescribed procedure. Further, of the ten radars delivered by HAL only one could be made functional, that too, with intermittent failure and remaining nine radars costing Rs 100.52 crore are yet to be commissioned.

Acquisition of Landing Platform Dock

Navy acquired an ageing 36 years old ship from a foreign Government after refurbishment at a cost of USD 50.63 million without physical assessment of the ship. Poor condition of the ship entailed significant changes in the scope of the refurbishment work with cost of refurbishment, repairs, etc going up from USD 15 million to USD 36.94 million. Navy did not bring all costs for consideration of the Competent Authority while seeking approval.

Lack of transparency in awarding a contract

Ministry concluded a contract with M/s ABG Shipyard Ltd., a private shipyard, in March 2004 for acquisition of three pollution control vessels for the Coast Guard. The acquisition process followed by Coast Guard HQ lacked transparency and deviated from prescribed purchase procedures, which also contributed to delay. Flaws and distortions in the procedures adopted by the Coast Guard and the Ministry yielded no assurance that the decision taken to award a contract worth Rs 368 crore for building specialized vessels to a private shipyard was technically sound and financially prudent. This is corroborated by the unsatisfactory progress of the project leading to revision in delivery schedule of the vessels. Payment of Rs 221 crore released to the shipyard is not commensurate with the milestones specified.

Delay in procurement, installation and commissioning of a Simulator

Ministry concluded a contract in March 2004 with M/s TSL Technologies Ltd, New Delhi to upgrade, at a cost of Rs 31 crore, an existing simulator installed in a Naval Training Establishment. Simulator, considered vital for the training of pilots and observers of Seaking helicopter, could not be upgraded and inducted into the Indian Navy even after a lapse of a decade and expenditure of Rs 18.52 crore affecting the quality of training. Associated costs of over Rs 3 crore due to usage of helicopters could have been avoided had the project been completed on time. Related developments may lead to cancelling of the contract with extra financial implication of Rs 18.50 crore, without ultimately achieving the objective.

Delay in setting up of overhaul facilities

A project conceived in 1986 for the augmentation of repair and overhaul of Gas Turbine (GTs) for a class of ships in the Navy awaits completion even after two decades. As a result of lack of synchronization of various project activities, equipment and spares procured at a cost of Rs 21.16 crore have remained unutilised for eight years since the date of purchase. Even after the completion of the project, its utility to the Navy will remain limited as the GTs have already received their scheduled overhaul from the OEM and benefits accrued from the project will be marginal as more than half of the service life of the ships, for which the facility is being created, would be over.

Procurement of unsuitable guns by Indian Navy and Coast Guard

Navy as well as Coast Guard placed orders on an Ordnance Factory, for manufacture of a type of gun without proper clearance of its prototype. Acceptance of guns costing Rs 28.44 crore by Directorate of Naval Armament Inspection from the Ordnance Factory, for issue to Navy and Coast Guard was improper as the weapon platform lacks a stabilized optronic pedestal compromising operational effectiveness, thus defeating the purpose of procuring these guns.

Non-crediting of Cash Flow Benefit to IAF

Ministry paid Rs 370 crore as an advance to Bharat Dynamics Limited (BDL) in 1998-99 against a missile project for IAF. BDL passed on cash flow benefit of Rs 52.19 crore to IAF till March 2003. After 2002-03, BDL did not pass on the cash flow benefit to IAF against the advance held by them. As a result, IAF was deprived of revenue to the extent of Rs 91.33 crore which could have been ploughed back into the project with diminishing financial liability to IAF.

Procurement of sub-standard components for a helicopter

Ministry concluded a contract in October 2003 with Indo Russian Aviation Limited, a joint venture company for procurement of rotables for helicopter 'D' at a cost of Rs 12.43 crore. Fuel Control Units were supplied by IRAL from an unreliable source and were found to be substandard exposing helicopter 'D' to flight safety hazard and the helicopters had to be grounded for want of FCUs. Five Auxiliary Power Units costing Rs 1.06 crore also failed and are yet to be replaced. While punitive action taken by Air HQ was ineffective being tentative and inadequate, the company was awarded further contracts for supply of equipment and spares for IAF by the Ministry and Air HQ. The firm also failed to supply 12 out of 82 lines of spares and equipment contracted for.

Excess procurement of imported spares

Material Organisation, Kochi and Naval HQ worked out requirement for nine items of spares even though there was no demand outstanding for those spares revealing deficiency in provisioning. Failure to correctly assess the requirement of spares resulted in excess procurement costing Rs 6.20 crore. The spares have remained unutilized since their procurement in 2004-2006.

Scientific Departments

REPORT NO. PA 14 OF 2008 – UNION GOVERNMENT-PERFORMANCE AUDIT OF MANAGEMENT OF WASTE IN INDIA

Ministry of Environment and Forests

The Ministry of Environment and Forests (MoEF), along with the Central Pollution Control Board (CPCB) is the nodal agency of the Government of India for planning, promotion, co-ordination and overseeing the implementation of environmental and forestry programmes and one of their principal activities is the control of pollution. Environment (Protection) Act, 1986 also empowers the Ministry to enact laws for the protection of the environment in India, which are also adopted by the states.

The following issues were highlighted during the Performance Audit of Management of Waste in India:

- Neither MoEF nor the states had completely assessed the quantity of various kinds of waste like municipal solid waste, bio-medical waste, hazardous waste, e-waste etc., being generated in the country. MoEF was unable to make any projections about the amounts of waste that might be produced in future. Only 25 per cent of the sampled states had made projections about the growth in waste. Adequacy of capacity to handle waste currently and in the future was assessed only by 29 per cent of the states.

- Waste management efforts were not directed by a separate policy. MoEF has not adopted a hierarchical approach to waste management, in the order of environmental priority. No effective strategies have been introduced to implement the '3 Rs' (reduce, reuse and recycle), the current focus being only on disposal of waste. Only eight per cent of the sampled states had implemented the '3 Rs'. MoEF/CPCB as well as 79 per cent of the sampled states did not set any targets/timelines for reduction of municipal solid waste, bio-medical waste, plastic waste, hazardous waste etc,. In the absence of clear targets/timelines, efforts made by the government to reduce waste were not measurable.

- The implementation of MoEF's environment labeling programme called "ECOMARK" was tardy as "ECOMARK" was granted to only three product categories ever since the programme was introduced in 1991.

- Laws have not been framed for all kinds of waste, leaving the safe disposal of many kinds of waste like construction and demolition waste, agricultural waste, e-waste etc., unmonitored. The polluters were not being effectively held responsible for unsafe disposal, thereby creating no deterrence for non-implementation of the rules. In only 25 per cent of the sampled states, some token action had been taken by PCBs/state governments against defaulters for illegal dumping of waste.

- There was no single body taking ownership of waste issues both at the central level and at the state level, leading to diffusion of responsibility and weak accountability.There was no clear identification of bodies for monitoring of waste rules at the centre as none of the four central ministries, i.e., MoEF, Ministry of Urban Development, Ministry of Health and Family Welfare and Department of Petrochemicals took responsibility for monitoring of municipal solid waste, bio-medical waste rules and plastic waste rules.

- Actions were not being taken by District Collectors/District Magistrates for the enforcement of the rules and it was difficult to verify whether vendors were using carry bags or containers made of recycled plastic for storing, carrying, dispensing or packaging of foodstuffs. It was difficult to verify in audit whether recycling was being done according to specifications of Bureau of Indian Standards. None of the sampled states had complete database on the number of manufacturers of plastic carry bags/containers; thus, it was difficult to verify whether all manufactures had sought authorisation from PCBs for the manufacture of plastic carry bags/containers.

- Monitoring of the municipal solid waste rules, bio-medical waste rules and plastic rules, at the central level, was not effective. Systems were also not in place to check non-compliance of rules by municipalities, hospitals and district authorities.

- State PCBs were not monitoring regularly whether municipal solid waste was being disposed in an environmentally safe manner and in a manner not to pose health risks. Monitoring by state governments was taking place only in 11 per cent of the sampled municipalities and as such, no effective check was being exercised to see that waste processing and disposal facilities meet the compliance criteria outlined in the municipal solid waste rules. Only 13 per cent of sampled hospitals were being monitored for compliance to bio-medical waste rules and only in 35 per cent of the sampled states, the District Collectors of the district were monitoring the implementation of plastic rules.

- In Delhi, analysis report of Bhalaswa open landfill showed that Total Dissolved Solids (TDS) and hardness content of the ground water was

800 per cent and 633 per cent respectively in excess of the desirable limits. TDS at Okhla open landfill site was also in excess of the desirable limit which showed that the ground water of both the open landfills sites has been critically contaminated with leachate generated from the landfill site. In Tamil Nadu, two water samples collected from the dumpsite at Pallikaranai swamp area revealed that dissolved solids, chlorides and cadmium was far above the prescribed desirable limits.

- Chhatisgarh diverted Rs.60 lakh for the construction of drainage and mini stadium, though funds were released for management of municipal solid waste. Similarly, Karnataka diverted Rs.17.44 crore for purposes such as street lighting, road work etc. Instead of utilizing money for upgrading two dumpsites, Chennai Corporation in Tamil Nadu kept Rs.18 crore, released during 2003-05, in fixed deposits.

Recommendations

- CPCB, as the nodal agency for pollution related issues should carry out, periodically, a comprehensive assessment of the amounts of waste being generated, according to the major waste types. All the states in India should be involved in this exercise so that a comprehensive database on waste is generated for aiding policy-making and intervention. MoEF, with involvement of all the states, may collect data about growth of the various kinds of waste, analyse the factors contributing to its growth and the increase in waste quantities to arrive at strategies for waste management.

- MoEF may consider framing a specific policy for the management of wastes in India, incorporating the internationally accepted hierarchy for management of wastes.

- MoEF should consider framing laws/rules for the management of all major kinds of waste like construction & demolition waste, end of life vehicles, packaging waste, mining waste, agriculture waste and e- waste being generated in the country.

- Since waste causes pollution and pollution issues are necessarily the responsibility of MoEF, the Central Government should consider appointing MoEF as the nodal body for managing all kinds of waste. MoEF should clearly identify, at the central level, bodies which would be responsible for the implementation of the waste management rules relating to municipal solid waste, biomedical waste and plastic waste. The states should also clearly identify the agency responsible for implementation of the waste rules.

- All municipalities should take steps to improve the existing dumpsites to make them more sanitary and aesthetic. Dumpsites in residential areas and near water sources/water bodies should be closed down and periodic monitoring of dumpsites for contamination of environment should take place.

- At the central level, MoEF/CPCB/MoH&FW and at the level of the states, the PCBs should draw up comprehensive schedules for sustained monitoring of municipalities and hospitals. Regular monitoring of waste disposal facilities like compost plants, incinerators etc., should be done by CPCB/PCBs.

- States should make provisions in the budget for waste management activities relating to municipal solid waste and bio-medical waste and ensure that municipalities and hospitals have adequate funds for waste management.

Report No. PA 19 of 2008–
UNION GOVERNMENT-PERFORMANCE AUDIT ON MANAGEMENT OF FUEL FOR PRESSURIZED HEAVY WATER REACTORS

This Report contains the results of the Performance Audit on 'Management of fuel for Pressurised Heavy Water Reactors (front-end of the Nuclear Fuel Cycle)' pertaining to the Department of Atomic Energy.

Department of Atomic Energy

The Atomic Energy Programme of Department of Atomic Energy (DAE) contemplated that India should be able to produce all the basic materials required for the utilisation of atomic energy and build a series of atomic power stations, which will contribute increasingly to the production of electric power in the country. The share of nuclear energy as of 2002 was only 3.01 per cent of the total power generated in India and DAE aimed to increase this to 26 per cent by 2052. In pursuance of this policy, DAE set a target of 20,000 Mega Watt electrical (MWe) of nuclear power by Pressurised Heavy Water Reactors (10,000 MWe) and Light Water Reactors (10,000 MWe) by 2020.

The units responsible for providing inputs to sustain the Pressurised Heavy Water Reactors (PHWRs) are Nuclear Power Corporation of India Limited (NPCIL), Nuclear Fuel Complex (NFC), Heavy Water Board (HWB), Uranium Corporation of India Limited (UCIL) and Atomic Minerals Directorate for Exploration and Research (AMD).

There has been serious fuel crisis for the PHWRs in the country in recent years affecting nuclear power generation. Therefore, it was decided to conduct a Performance Audit of 'Management of fuel for PHWRs' to examine the reasons which led to this fuel crisis and to ascertain whether an effective system was in place to ensure adequate supply of fuel to the PHWRs so as to meet the target for power generation set out by DAE.

During the course of the Performance Audit, it was observed that

- Inspite of the estimated uranium reserves in India being sufficient for generation of 10,000 MWe for a 40 year lifespan of the PHWRs, since 2003-04 there had been a significant mismatch between the demand and supply of uranium. As a result, the capacity factor of the PHWRs had declined from 80 per cent in 2002-03 to 50 per cent in 2007-08 due to non-availability of fuel. The magnitude of the slowdown in nuclear power generation due to the fuel crisis had assumed significant proportions, thereby denying the nation the full benefits of clean nuclear energy to the extent of 21,845 million units valued at Rs.5986 crore.

- DAE had not linked/ensured availability of fuel to fully address the needs of PHWR programme upto 2020. Inspite of knowledge of an impending shortage of uranium fuel, DAE went ahead and sought approval for four new PHWRs at a cost of Rs.6354 crore. This points to a significant deficiency in the planning process, which should have been adequately addressed at the time of planning for these new reactors. Further, the roadmaps for UCIL and AMD laid down by DAE had not fully addressed the needs of PHWRs.

- NPCIL's annual demand for fuel on NFC was watered down as it was driven by expected supply rather than by projected demand. Setting watered down targets for power generation based on uranium supply rather than demand of the PHWRs led to over-reporting of performance.

- The production capacity at NFC was not commensurate with NPCIL's projected demand for PHWR fuel. While we recognise the fact that due to non-availability of yellow cake (MDU) from UCIL, the production capacity did not prove to be a constraint, the augmentation of additional capacity at NFC needed to be fine-tuned with the real requirement of fuel.

- At UCIL, the roadmap for production of uranium resources was not commensurate with the demand for the PHWR programme. There were significant deficiencies in the strategic planning at UCIL with regard to matching the mining and milling capacity, which were avoidable, as remedial action was within the reach of DAE and was not contingent on any externalities. Resultantly, 93,472 tonnes of uranium ore was pending for milling as of March 2007.

- The mines at Domiasiat, Lambapur and Gogi were better grade deposits and were expected to deliver significant quantity of yellow cake per annum. However, there were significant delays in opening of these mines which had adversely affected the timely supply of nuclear fuel to the PHWRs. Further, avoidable delays in filing applications for environmental clearances and preparing Environmental Impact Assessment/Environmental Management Plan reports were also observed which further delayed the setting up of mines. In view of importance of nuclear energy for our national programmes, DAE should lay greater emphasis on sensitisation of public and organisations like NGOs to the benefits of nuclear energy. As the extent of current intervention by DAE had not yielded the desired results and the country could not afford to continue running the PHWRs at half their capacity, some innovative decisions needed to be taken to solve the deadlock in these sites.

- The 10,000 MWe PHWR programme planned by DAE required around 1,01,600 tonnes of uranium resources for their entire life span of 40 years. Though AMD had identified 1,07,268 tonnes of uranium resources, only 71,159 tonnes were economically viable reserves.

- At AMD, it was observed that during the IX and X Plan, the pace of augmentation of uranium deposits had declined to 13,661 tonnes and 16,244 tonnes as against augmentation of uranium resources of 28,195 tonnes during the VIII Plan. This decline was significant in view of the fact that DAE had set a target for augmentation of 75,000 tonnes during the XI Plan.

- Against the target of identifying 15,000 tonnes of uranium resources during the X Plan in the priority areas of Gogi, Rohil and Koppunuru, only 8105 tonnes (54.03 per cent) had been identified by AMD, despite these sites being free from infrastructural/ environmental constraints. Further, the extent of DAE intervention had not yielded the desired results and deposits capable of hosting over 60,000 tonnes of uranium at Lambapur-Peddagattu, Chitrial and Gandi remained to be explored.

- Though the gestation period for the extraction of uranium from other sources is only 18 months and it is a more eco-friendly process, DAE could not produce any uranium from other sources till March 2008 despite the country having an annual potential of 500 tonnes.

- Despite existence of uranium reserves in the country to support the present PHWR programme upto 2020, India's capacity for generation of nuclear power has been compromised for want of uranium. The improved efficiency of DAE's monitoring and strategic planning from second half of the X Plan onwards has still not yielded the desired results and the demand-supply mismatch of uranium fuel continues to adversely affect the operation of the PHWRs. There is, therefore, an urgent need to further strengthen the existing planning and monitoring mechanism at DAE and in all the units involved in the front-end of the nuclear fuel cycle.

Audit also observed noteworthy attempts by NPCIL in capacity addition of PHWRs and in operating certain PHWRs at a plant load factor above 90 per cent. It was also observed that the HWB had taken effective measures to improve process parameters of various plants and to stockpile enough heavy water to ensure that the planned PHWR programme upto 2020 does not suffer for want of heavy water.

The policy of not stockpiling uranium fuel, however, needs to be reviewed in the context of the current fuel crisis.

REPORT NO. PA 2 of 2008-
UNION GOVERNMENT-SCIENTIFIC
DEPARTMENTS-PERFORMANCE AUDIT

This Report contains audit findings arising out of the Performance Audit of selected departments of the Scientific Departments of the Union Government and other institutions engaged in research and development and scientific pursuit. The audit findings are given below.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH
COUNCIL OF SCIENTIFIC AND INDUSTRIAL RESEARCH

Performance Audit of National Aerospace Laboratories

National Aerospace Laboratories, Bangalore (NAL), a constituent unit of Council of Scientific and Industrial Research (CSIR), was set up in 1959 to provide scientific support to the aeronautical industry. NAL undertook various mission mode programmes, in-house, grants-in-aid, sponsored and other projects in order to achieve its mandate of 'development of aerospace technologies for general industrial applications'. The performance audit of National Aerospace Laboratories revealed the following:

- NAL's dependence on CSIR/Governmental funding increased during the last five years. Out of the total funds of Rs.602.70 crore received by NAL, only Rs.154.26 crore were generated through external sources during 2002-07 accounting for mere 26 per cent against the target of 50 per cent to be achieved by 2001.

- NAL's success in transferring and commercialising technologies developed was abysmally low. Of the 146 projects test checked, NAL developed knowledgebase in 75 projects of which only 25 knowledgebases (33 per cent) were transferred to the end users. Of the 25 knowledgebases transferred, NAL could commercialise only one knowledgebase for general industrial application in April 2007.

- NAL earned only Rs.0.37 crore during 2002-07 from transfer and commercialisation of technologies, which was 98 per cent short of the target of Rs.15 crore set by its Performance Appraisal Board (PAB). NAL also failed to achieve the targets fixed by PAB in respect of filing of foreign patents and impact factor of research papers.

- Two-seater trainer aircraft, HANSA, developed by NAL after significant time and cost overruns did not find buyers in the market after the initial order for 10 aircraft. NAL is also yet to develop its components indigenously.

- Development of SARAS, a light transport 9-14 seater aircraft, also suffered from delays and deficient project management. Even after a lapse of eight years and cost overrun of Rs.22.53 crore, NAL is awaiting certification of airworthiness for SARAS aircraft from Director General of Civil Aviation (DGCA) as NAL failed to bring down its weight within the permissible limit and is yet to carry out various tests and generate documentation. As per DGCA, flight certification is expected only after 2010 and NAL may have to make a third prototype as well.

- NAL could not ensure timely completion of projects as per original approved schedule. 50 per cent of 163 projects test checked showed time overrun from one month to 83 months.

- In respect of sponsored projects, NAL suffered a loss of Rs.5.17 crore due to undercharging on account of intellectual fee and service tax in violation of the norms fixed by CSIR.

Recommendations

- NAL may make greater efforts to reduce its dependence on the assistance provided by the Government/CSIR by effectively implementing various strategies as enunciated in 'CSIR 2001 Vision and Strategy'.

- NAL may accord higher priority to in-house projects to create new processes, products, applications and markets and make adequate efforts for transfer and commercialisation of technologies, wherever successfully developed.

- NAL may make efforts to assess the demand of the aircraft in the market in comparison with other similar aircrafts, make concerted efforts for marketing and find an industrial partner for large-scale production.

- In view of failure of NAL in obtaining DGCA certification on airworthiness, despite a lapse of ten years, CSIR may review the continuance of SARAS project.

- Keeping in view the problems faced by NAL in HANSA and SARAS projects relating to marketing of the aircrafts, difficulties in finding an industrial partner and lack of specialised manpower, NAL may review initiation of the new project for development of a 70 seater aircraft.

DEPARTMENT OF SPACE

Performance Audit on procurement of stores and inventory control in Department of Space

The Department of Space (DOS) and its constituent units are responsible for planning and execution of national space activities which include development of satellites, launch vehicles, sounding rockets and associated ground systems. DOS spends around 56 per cent of its overall budget on procurement of stores and equipment for implementation of these programmes. The Performance Audit on procurement of stores and inventory control in DOS revealed the following points:

- Procurement planning of DOS was deficient as it placed orders on piecemeal indent basis. Assessment of requirement and cost estimations by indentors were inaccurate, leading to large number of indents not resulting in purchase orders and wide variations between indent value and order value.

- Procurement practices adopted by DOS did not ensure adequate transparency and competition as 67 per cent of procurements amounting to Rs.996 crore were made on proprietary/ single tender basis. There were instances of proprietary purchases being made for routine items and also in cases where more than one source of supply was available.

- In violation of codal provisions and CVC guidelines, negotiations were held with other than lowest bidders resulting in placement of irregular purchase orders in eight cases, amounting to Rs.44.58 crore.

- Delay and inefficiencies in processing and finalisation of tenders resulted in avoidable additional expenditure of Rs.2.70 crore in two cases due to procurement of stores at higher rates, after expiry of initial validity of offer.

- There were significant delays in inspection of the stores received. Non-replacement of rejected items at ISAC resulted in unfruitful expenditure of Rs.8.73 crore in five cases. Moreover, non-installation/ delayed installation of equipment in six cases for period ranging from 5 to 60 months at LPSC and ISAC resulted in blocking of funds and idling of equipment worth Rs.12.43 crore.

- There was lack of monitoring of adjustment of advances and renewal of Bank Guarantees. Non renewal of 147 cases of Bank Guarantees amounting to Rs.83.65 crore may expose the organisation to financial risks in cases where suppliers default in making supplies/executing work orders.

- ISAC did not revise its procurement policy for Bonded Stores since the last decade which resulted in blocking of funds worth Rs.600 crore.

Recommendations

- DOS should streamline the system of assessment of requirement by the indentors by maintaining a centralised database of various items, their specifications, status of technology and availability in market, prevailing costs, sources of supplies etc, to ensure accurate projection of requirements and realistic estimation of cost.
- To ensure transparency in the procurement process, DOS may consider going in for limited tendering for generic products where more than one supplier is available in the market.
- DOS should ensure compliance to the CVC guidelines during evaluation of tenders.
- DOS should avoid inordinate delays in processing and finalisation of tenders to ensure timely procurement and avoid extra expenditure due to subsequent escalation in price.
- DOS should streamline its system of inspection of materials as delayed/ non inspection deprived DOS of the opportunity of preferring damage/ warranty claims and seeking replacement of rejected items.
- DOS should avoid delays in installation/commissioning of equipment by ensuring timely availability of site, infrastructure, etc.
- The items declared as obsolete/ surplus/ un-serviceable should be immediately disposed off to avoid their intrinsic value from diminishing and thus incurring avoidable carrying costs.

INDIAN COUNCIL OF AGRICULTURAL RESEARCH

Performance Audit of Agricultural Extension Activities in Indian Council of Agricultural Research

Indian Council of Agricultural Research (ICAR) has the responsibility of conducting extension activities like demonstrating, testing and transferring agricultural technologies from research institutes to farmers' fields, thereby bridging the gap between production and productivity. It undertakes these activities through schemes of Krishi Vigyan Kendras (KVKs), National Research Centre for Women in Agriculture (NRCWA), Agricultural Technology Information Centres and other schemes funded by Ministries/ Departments.

Performance Audit of Agricultural Extension Activities in ICAR revealed the following:

- 44 KVKs (39 per cent) out of 114 established prior to the X plan were yet to fully establish mandatory infrastructural facilities. Further, infrastructure already constructed at a cost of Rs.8.15 crore remained unutilised in 46 KVKs. e-Linkage facility approved at a cost of Rs.41.02 crore for 200 KVKs during the X plan was yet to be established as of January 2008.

- 117 KVKs (65 per cent) did not assess location specific training needs based on interaction with farmers and 53 per cent of the KVKs did not conduct training impact assessment. Shortfall in training courses for practising farmers, rural youth and extension functionaries was observed in 121 KVKs.

- 94 KVKs (52 per cent) were still demonstrating older crop varieties released between 1948 and 1997 in Frontline Demonstrations. Average shortfall of 69 per cent was observed in 41 per cent of KVKs.

- 131 KVKs (73 per cent) did not conduct adequate number of on-farm testing.

- Coordination and monitoring of KVK activities by ICAR, ZCUs and KVKs were inadequate and needed to be strengthened. Shortfalls were observed in conducting meetings of monitoring bodies like Regional Committees and Scientific Advisory Committees.

- NRCWA was yet to create a database on gender specific information for all the states for utilisation by researchers and policy makers for planning gender issues.

Recommendations

- ICAR should ensure that eligibility criteria like proper site selection, possession of minimum cultivable land and mortgage of land to ICAR are observed before sanction of a KVK.

- ICAR should take adequate measures to ensure that all mandatory and other infrastructure facilities are constructed timely. It should also ensure proper monitoring and utilisation of the created infrastructure by the KVKs.

- ICAR should formulate guidelines in respect of administrative and financial procedures for NGO KVKs.

- ICAR should strengthen the functioning of NRCWA to conduct research, develop and transfer technologies for women in agriculture at a national level. Coordination with national and international organisations should also be ensured for testing appropriateness of technology for women in agriculture.

REPORT NO. CA 3 OF 2008 – UNION GOVERNMENT– SCIENTIFIC DEPARTMENTS

This Report contains 22 paragraphs arising out of the audit of transactions of the Scientific Departments of the Union Government, autonomous bodies funded by these departments and other institutions engaged in research and development and scientific pursuit. The audit findings are given below.

Department of Atomic Energy

Delays in setting up of a Nuclear Desalination Plant

Bhabha Atomic Research Centre took up a demonstration project for setting up a nuclear desalination plant which was to provide potable water to the water scarce coastal areas of the country and had potential of earning foreign exchange through export of such plants. However, plant was yet to be fully commissioned due to deficient planning and poor implementation even after ten years of its commencement and expenditure of Rs.44.24 crore. As a result, not only did the objectives of providing water to water-scarce coastal areas of the country remained unachieved, the earning of foreign exchange through export of desalination plants to Middle East, North African countries and to IAEA member countries also remained unfulfilled.

Non-installation of a Rapid Thermal Annealing System

Institute of Physics (IOP), Bhubaneswar, an autonomous institution under the Department of Atomic Energy (DAE), placed a Purchase Order in March 2005 on a foreign firm for procurement of Rapid Thermal Annealing[1] (RTA) System for thermal processing of various samples using programmed heat pulses for very short durations. However, failure of IOP to ensure availability of the required dry air compressor for installation of Rapid Thermal Annealing System resulted in an investment of Rs.28.48 lakh remaining blocked and the system lying unutilised for more than two years.

Delay in commissioning of Incinerator System

Nuclear Fuel Complex (NFC), Hyderabad a unit of Department of Atomic Energy placed an order for design, engineering, manufacture, fabrication, inspection, supply, erection and commissioning of LPG fired twin-chamber incinerator in May 1997 at an estimated cost of Rs.62.35 lakh on M/s Aireff deTox Inc., Thane. Audit examination of procurement and utilisation of the incinerator revealed that the incinerator was commissioned with active waste only in July 2007. NFC also did not take any action against the supplier for failure to commission the incinerator with active waste for nine years. Considering that the normal expected life of the incinerator was only 15

1 Annealing is heat treatment that alters the microstructure of a material causing changes in properties such as strength and hardness.

years, inaction on the part of NFC has led to 60 per cent of the expected life of the incinerator lapsing even before its full commissioning.

Development and Application of Technologies in Raja Ramanna Centre for Advanced Technology

Raja Ramanna Centre for Advanced Technology could construct and commission only four out of six beamlines on SRS Indus-1 even after ten years of the scheduled completion of the project. The utilisation of beamlines of Indus-1 was only 39 per cent of the available days. Though SRS Indus-2 was to be commissioned by 1996-97, RRCAT was yet to commission it to designed energy levels as of March 2007 despite an expenditure of Rs.95.77 crore. The projects on "Accelerator for industrial and medical application" and "Accelerators for medical sterilisation and food irradiation" could not achieve the intended objectives, despite an expenditure of Rs.15.04 crore. Another project on "Laser photocathode RF Linac"to be completed by March 2002 could not be completed even after a delay of more than five years and an expenditure of Rs.3.58 crore.

Department of Scientific and Industrial Research

Infructuous expenditure of Rs.2.08 crore

Central Electro Chemical Research Institute failed to ensure availability of requisite infrastructure which resulted in non achievement of the objectives of a project for development of batteries with a cycle life of 350 charge-discharge cycles. This led to infructuous expenditure of Rs.2.08 crore.

Blockage of funds

Indian Institute of Chemical Biology (IICB), Kolkata, a constituent unit of the Council of Scientific and Industrial Research (CSIR), placed an order on a foreign firm, M/s Sepiatec GmbH, in December 2002 for procurement of an Automatic Chromatography2 System costing Rs.1.15 crore for separation and purification of crude extract. After installation, the equipment was operational upto 17 March 2004 and thereafter error was noticed in the functioning of the equipment. Failure of IICB to ask the supplier to replace the equipment despite its unsatisfactory performance within the warranty period resulted in blockage of Rs.98.88 lakh besides non-utilisation of the equipment costing Rs.1.15 crore for more than three years.

Non-commercialisation of technology developed for monitoring of toxic gases

Central Institute of Mining and Fuel Research (CIMFR) Dhanbad proposed in September 1997 to undertake a project titled "Integrated monitoring and communication system for toxic and combustible gases in mines, using ceramic based sensors" at an estimated cost of Rs.42.83 lakh in collaboration with the Central Glass Ceramics Research Institute (CGCRI), Kolkata for a period of three years. Failure of CIMFR to address the shortcomings noticed in the system developed at a cost of Rs.33.24 lakh

2 Chromatography is the collective term for a family of laboratory techniques for the separation of mixtures.

resulted in non-commercialisation of the system which was estimated to have a revenue earning potential of Rs.60.23 crore in five years.

Department of Science and Technology

Unfruitful expenditure

Investment on the scheme 'Experimental Studies on Non-accelerator Particle Physics' in Indian Institute of Astrophysics without ensuring experts to pursue research in this area resulted in laboratory equipment and infrastructure worth Rs.1.20 crore not being effectively utilised for last five years, thus rendering the expenditure largely unfruitful.

Ministry of Earth Sciences

Non-achievement of the objectives of modernising the Accounting and Personnel Management functions

Vendor driven purchase by India Meteorological Department and lack of adoption of a standard methodology for acquisition and implementation of a computerised system like assessment of user requirements, system requirement specification, system design description, acceptance testing coupled with lax monitoring led to non-achievement of the objectives of computerisation despite expenditure of Rs.72.88 lakh.

Unfruitful expenditure on in-house projects in National Institute of Ocean Technology

National Institute of Ocean Technology undertakes in-house projects to develop technology in the field of ocean science and technology and to commercialise the designs, mechanical instruments and other inventions resulting from Institute's activities. During 2001-02 to 2005-06, it undertook eight in-house projects; one project involving expenditure of Rs.60.82 crore failed due to poor project planning and deficient implementation. In another four projects, involving expenditure of Rs.7.21 crore, technologies developed could not be commercialised due to various reasons like taking up the project without market survey, lack of industry participation right from initiation, lack of demand due to technology developed not being cost effective.

Ministry of New and Renewable Energy

Activities of Solar Energy Centre

The testing facilities established at SEC were underutilised. SEC was also unable to obtain global recognition for testing of solar photovoltaic module to enable photovoltaic industries to participate in global tenders. SEC did not take up any in-house, joint collaborative research, consultancy, bilateral and multilateral projects with other research institutions/industry. It also did not develop any new technology or have any research papers published in reputed Indian and foreign journals. Three grants-in-aid projects were not completed successfully resulting in unfruitful expenditure. The monitoring mechanism of projects was inadequate. The scientific manpower responsible for implementation of various projects, conduct of R&D and testing and certification of solar energy materials/systems were frequently transferred from SEC to the Ministry; seriously impacting the activities of SEC. The large infrastructure maintained by SEC was not justified with reference to its present activities and deployed manpower.

Indian Council of Agricultural Research

Non-implementation of Dairy project

Indian Council of Agricultural Research sanctioned a pilot project of Rs.4.90 crore to National Dairy Research Institute for establishment of six dairy centres and providing scientific & technical support to farmers for production of quality milk and agricultural products. However, the objectives of the project could not be achieved due to inadequate monitoring and poor implementation. Consequently an expenditure of Rs.30.20 lakh incurred on establishment of two dairy centers remained unfruitful.

Activities of Central Sheep & Wool Research Institute

Central Sheep & Wool Research Institute, which is the only national level institute for the improvement of sheep, goat and rabbit and for their product utilisation did not fully achieve its objectives of development and transfer of process, products, technologies and know-how to farmers, artisans, developmental workers and industry. It failed to achieve fully the envisaged objectives in six of the seven test checked in-house projects. It also failed to put machinery in use resulting in low output.

Irregular payment of Island Special Allowance

Failure of Central Agricultural Research Institute, Port Blair to follow the instructions of Ministry of Finance issued in May 2002 to regulate payment of Island Special Allowance resulted in irregular payment of Rs.67.23 lakh from October 2001 to March 2007.

Non-operationalisation of Quarantine Building

Project Directorate of Biological Control entrusted the work relating to construction of a quarantine building to Central Public Works Department. However, lack of proper planning and inability to rectify deficiencies resulted in non-operationalisation of the building even after a lapse of more than eight years and after incurring Rs.1.65 crore.

Railways

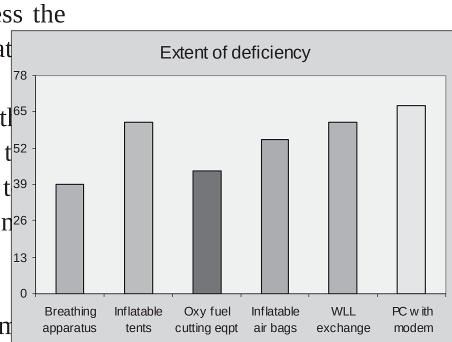
REPORT NO PA 8 OF 2008 –
UNION GOVERNMENT-RAILWAYS

The Report contains the results of two All India Performance Audits, viz. Disaster Management in Indian Railways and Land Management in Indian Railways, besides local reviews. Gists of the important findings are given below:

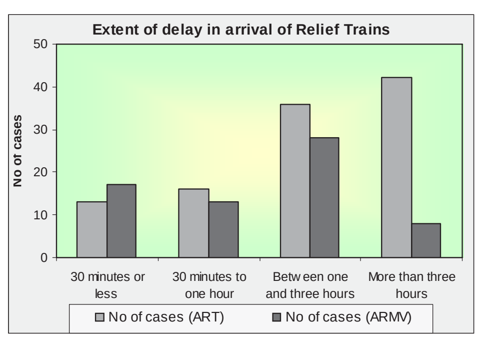
Disaster Management in Indian Railways

- Most of the zonal and the divisional plans were not comprehensive, lacked uniformity and did not adhere to the provisions of the Disaster Management Act 2005. The infrastructure provided viz the rescue and relief equipments – Self Propelled Accident Relief Trains (SPARTs), Accident Relief Trains (ARTs), Accident Relief Medical Vans (ARMVs), breakdown cranes etc was not only inadequate but was also poorly located and not maintained adequately at many places. A joint inspection of 78 ARTs and 67 ARMVs across Indian Railways (IR) further revealed that various vital equipments were not available indicating that emergency preparedness was inadequate.

- IR was unable to harness the infrastructure of the Stat Governments/ District authorities as well as otl agencies in responding t disasters and preferred t have loose co-ordination arrangements



- Though IR planned to m o victims with in the golden hour (the first hour of accident) a review of 205 accidents that occurred over the previous five years revealed that response to disasters within the golden hour was ineffective, preparedness and expertise was lacking apart from other deficiencies which restricted the IR's capability to effectively handle disasters. The time required for ordering and movement of the ARTs/ARMVs together



with the requisite time to travel the distance to the disaster site invariably took the response time beyond the golden hour. In 124 out of the 138 incidents (that warranted either an ART or an ARMV for rescue and relief), the ARTs/ARMVs reached the site after the golden hour.

- IR lacked the preparedness and the expertise in dealing with water related disasters. In the derailment of train no 415 Delta Fast Passenger at 04:22 hours on 29 October 2005 between block stations Ramannapet -Valigonda at a bridge on SCR, where the train fell into a water flowing underneath the bridge, the rescue team could not maneuver the velocity of the flowing water. Though the ARMV from Secunderabad reached the site by 6:50 hours, rescue work could commence only at 09:30 hours, after the water level receded.

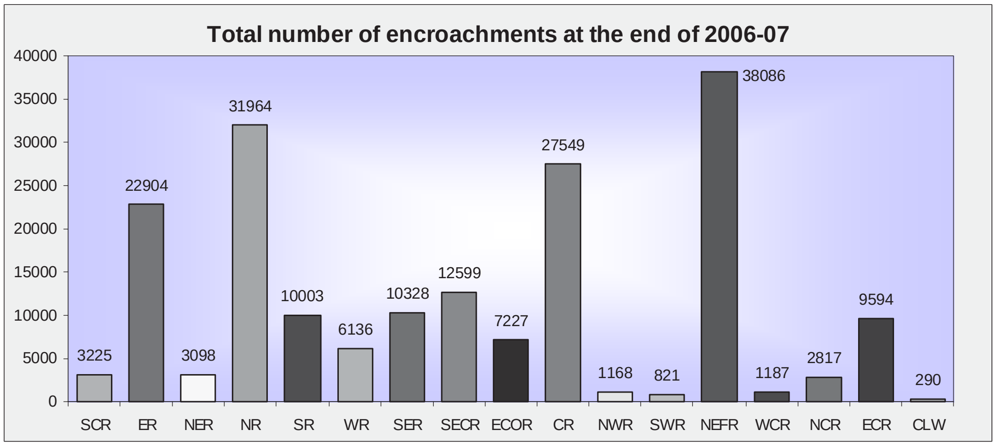
- The provision and maintenance of infrastructure to enhance safety of the travelling passengers was inadequate and the measures adopted to enhance security at stations for prevention and mitigation of disasters were not commensurate with the number of passengers handled by IR.

Land Management in Indian Railways

- An Expert Committee on Commercial Exploitation of Railway Land (ECCEL), established in 1992, recommended (September 1995) setting up of a separate Land Management Organisation for preventing encroachments into railway land. IR has, however, not created a robust and effective land management organization.

- Land Records Registers were not being maintained at zonal, divisional and field levels as per codal provisions and instructions issued by Railway Board. Deficiencies in maintenance of land records resulted in non-availability of basic land particulars which are essential for effective monitoring.

- Inconsistencies prevailed in reporting facts and figures on basic data pertaining to land holdings, vacant land, encroachments, land plans. In five zones out of 16 (ER, NR, SCR, ECR and SR), data of total land holdings and vacant lands was not available.



- Though 54984 cases of encroachments were removed during the period under review, a large number of cases of encroachments i.e. 188996 cases (involving land area of 1594 hectares approx.) existed at the end of the year 2006-07. More than 50 per cent of these encroachments were accounted for by four zones (NEFR, NR, CR and ER)

- The system of commercial licensing was beset with deficiencies such as under/non recovery of license fee, non-revision of license fee and failure to execute agreements. Out of 33504 cases under licensing, agreement is yet to be executed in respect of 14305 cases. There were delays in renewal/execution of license agreements ranging from 3 to 5 years in 90 cases, 5 to 10 years in 2427 cases and beyond 10 years in 16588 cases

The mechanism for recovery of license fee from CONCOR, CWC, IRCTC and RCIL was not to IR's advantage since it did not result in a steady flow of income at market related rates thus IR failed to harness its considerable land resources through quick and result oriented development of its properties.

REPORT NO. CA 6 of 2008-
UNION GOVERNMENT - RAILWAYS

This report covers matters arising from audit of the Accounts of Railways and Appropriation Accounts on Railways for the year 2006-07. It contains a chapter on Financial Management of the Railways and 151 paragraphs on various major irregularities that resulted in substantial losses, blocking of scarce resources etc. The gist of relatively more important audit findings are as follows:

Financial Results

The goods and passenger earnings increased by Rs.5429.53 crore and Rs.2098.56 crore respectively during the year 2006-07 as compared with 2005-06. Though the Minister of Railways in his budget speech had declared that the passenger fare and goods freight were not being increased, an audit analysis revealed that there was upward revision in classification of food grains and fertilizer and also freight rates of all commodities, which contributed to the increase. Similarly the factors contributing towards increase in the passenger earnings besides increase in the number of passengers were enhancement in the reservation fee for tickets booked for journeys originating from the stations other than the station from where the tickets were booked, increase in the charges for tatkal reservation and increase in the period of advance reservation from two months to three months.

Significant Audit Findings

- Haulage rates recoverable for container traffic of CONCOR, were fixed at less than the base class at break even freight rates recoverable for general traffic resulting in loss of Rs.801.67 crore during nine months period alone.

- Railway granted concession in freight for short lead traffic up to 50 KMs. resulting in operational losses and short realisation of earnings to the tune of Rs.102.12 crore.

- Railway's failure in commencing the work without adhering to the statutory requirement stipulated for obtaining forest land for a project resulted in wasteful expenditure of Rs.68.92 crore.

- Railway Board's injudicious decision to provide improved Fiber Reinforced Polyurethane (FRP) modular toilets in place of conventional toilets in coaches resulted in under-utilisation of the investment made (Rs.61.95 crore) due to defects in design and specification.

- Due to adoption of price index of 'metallic minerals' instead of 'steel ingots' or 'steel', the actual metal used for manufacture of wheels, the prices of 'solid forged steel wheels for carriages, wagons, EMU stock and Locomotives' were fixed on higher side resulting in extra expenditure and unintended benefit of Rs.58.06 crore to SAIL during the year 2005-06.

- Despite being aware of supply constraints, Railway Board placed an order for supply of the entire quantity of corten steel on M/S TISCO resulting in avoidable expenditure of Rs.12.22 crore.

- Failure of the Railways to execute agreements before commencement of the works of ROBs/RUBs, non-preparation of completion reports, non-assessment of interim cost for raising the bills and non closure of the level crossing even after commissioning of the bridges has resulted in non-recovery of Rs.62.24 crore

REPORT NO. PA 18 OF 2008–
UNION GOVERNMENT-RAILWAYS-
INFORMATION TECHNOLOGY AUDIT

Chapter 1 - Unreserved Ticketing System in Indian Railways

- Indian Railways did not have any structured mechanism for resolving delays on the part of CRIS in acquisition of hardware and peripheral equipments. Despite knowing its vulnerability to manipulation Indian Railways decided to procure dot matrix printers for implementation of Unreserved Ticketing System (UTS) at different locations. This rendered the system prone to misuse and frauds.

- The UTS was frequently disrupted by extensive link failures in the leased communication channels provided by BSNL/MTNL.

- The system design did not comprehensively incorporate all the business rules and had various deficiencies, which not only caused operational constraints but also warranted manual intervention leading to increased security risks and inconvenience to passengers. Disaster recovery and business continuity plans were not formulated and the back up measures were not tested leading to operational problems.

- Inadequate physical and logical access controls exposed the system to unauthorised access and IT assets were not adequately protected. Change management controls were also weak as changes were carried out incorrectly or belatedly after revision of rules. Changes were not documented. The system was also deficient in controls to monitor and check any fraudulent use of pre printed ticket stationery.

Chapter 2 -Other computerised applications in Indian Railways

IT Security on Western Railway

- Even 20 years after implementation of computerised applications in Western Railway, IT security policy was not laid down. Both the physical and logical access controls were inadequate exposing the systems to unauthorised access and malicious software. Western Railway Administration did not conduct any threat based risk assessment for systems and data. An independent vulnerability assessment by Audit using the tool Network Security Auditor revealed as many as 274 vulnerabilities, out of which 197 were of high risk.

Revenue Receipts

REPORT NO. PA 7 of 2008 - UNION GOVERNMENT – DIRECT TAXES

This Audit Report contains three performance audits viz. 'Assessments of Banks'; 'Appreciation of Third Party Reporting/Certification in Assessment Proceedings' and 'Assessments relating to infrastructure development (Deductions under section 80IA of the Income Tax Act)'. Gist of relatively more important audit findings is given below:

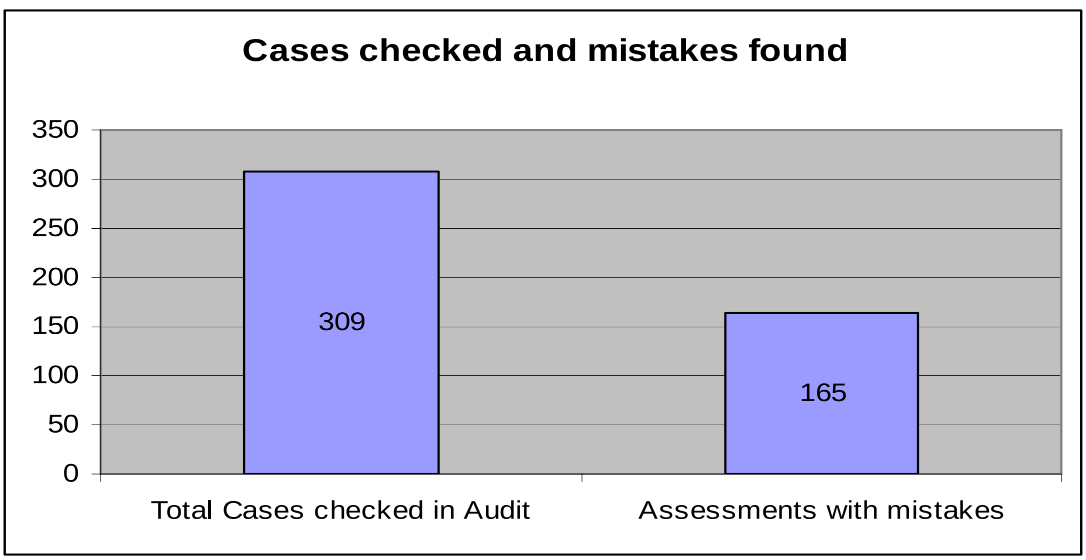
I. Review on Assessments of Banks

This review has been conducted in view of the growing importance of the banks in the functioning of the organized financial sector of the economy. The study sought to evaluate the compliance of banks with the law and procedural requirements of the Income Tax Act, 1961 and to quantify the extent of mistakes and omissions in their assessments.

Audit reviewed the scrutiny assessments of 89 banks for the assessment years 2002-03, 2003-04, 2004-05 and 2005-06 completed as of March 2007. The study covered 165 scrutiny assessments in which 318 mistakes involving a tax effect of Rs. 2781.38 crore were found.

Salient features of the performance audit are given below:

- Deductions for bad debts written off and provision for bad and doubtful debts under section 36 are the most significant deductions available to banks under the Income Tax Act. Mistakes were noticed in 46 cases involving a tax effect of Rs. 1719.78 crore.



- Incorrect computation of income and tax in 74 cases involved a tax effect of
  Rs. 220.77 crore.

- Incorrect allowance of expenses in assessments incurred towards earning exempt income in 20 cases involved tax effect of Rs. 164.97 crore.

- Non compliance to guidelines issued by Reserve Bank of India on depreciation on valuation of investments led to mistakes in 12 cases involving a tax effect of Rs. 164.41 crore.

- Mistakes in allowance of deductions towards contribution to provident fund, gratuity and superannuation fund in 20 cases resulted in a tax effect of Rs. 93.77 crore.

- In 15 cases incomes earned by banks was not offered to tax involving a tax effect of Rs. 79.05 crore.

- Depreciation and set off of losses were allowed in excess in 13 cases involving a tax effect of Rs. 81.15 crore.

- In 19 cases, incorrect allowance of provisions, capital expenditure and unascertained liabilities in assessments involved a tax effect of Rs 51.64 crore.

Audit recommendations

- Internal controls be strengthened to ensure regular review of assessments of banks at an appropriate level.

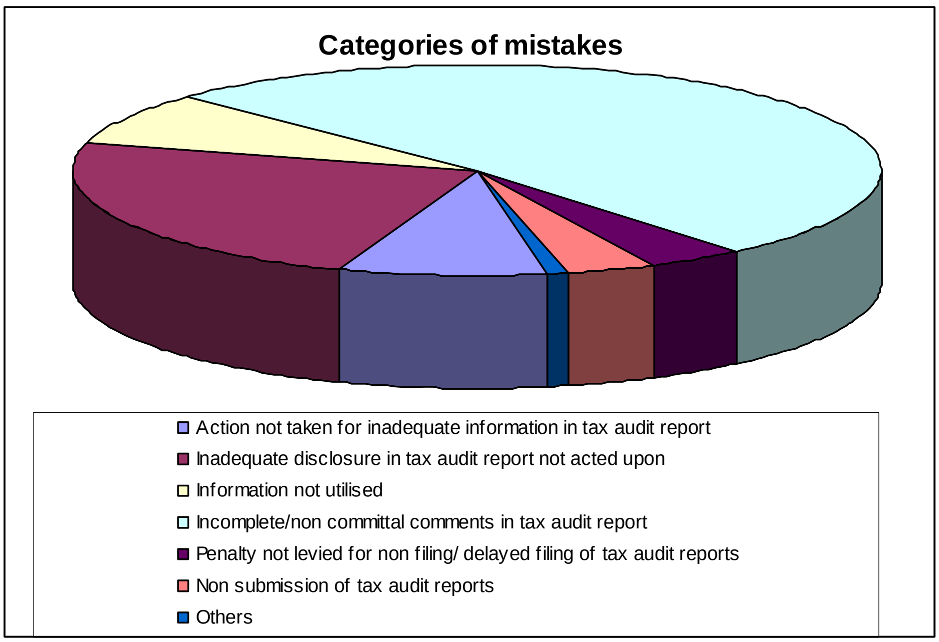
- A checklist be prescribed for the assessing officers requiring them to check that the bad debts to be written off have been debited to the provision for bad and doubtful debt account and that the credit balance of provision for bad and doubtful debt account of earlier years have been considered before allowing the same.

- Suitable provision be introduced in the statute relating to valuation of investments by banks.

2. Review on Appreciation of Third Party Reporting/Certification in Assessment Proceedings

With a view to discourage tax avoidance and tax evasion and to ensure that books of accounts of the assessee faithfully reflect the income of the tax payer and that claims for deductions are correctly made, the Income Tax Act provides for reporting/certification through the audit of accounts and audit reports from an accountant. However, the assessing officer is expected to make an independent judgement while finalising the assessment. Incorrect reporting attracts penalties on the assessee and also proceedings on the legal practitioner/accountant as provided under the Income Tax Act.

Audit attempted to verify the extent of evaluation and utilisation of information in tax audit reports, by assessing officers while completing assessments as also the effectiveness of the department's internal control mechanism in fulfilling the objective of obtaining third party report. Audit study in 168 units revealed mistakes in 2874 cases with a value of Rs. 849.16 crore and revenue impact of Rs. 665.67 crore including penalty of Rs. 41.52 crore. Thus intention of the Act in providing for audit of accounts of the assessee to ensure that deductions claimed are correct was not fulfilled in these cases.



Salient features of the performance audit are given below:

- In 665 cases the assessing officers overlooked omissions in the tax audit reports resulting in underassessment of income with a revenue impact of Rs. 425.44 crore.

- In 233 cases, the assessing officers did not utilise the information of the tax audit reports/certificates in finalization of assessments, involving revenue impact of Rs. 228 crore.

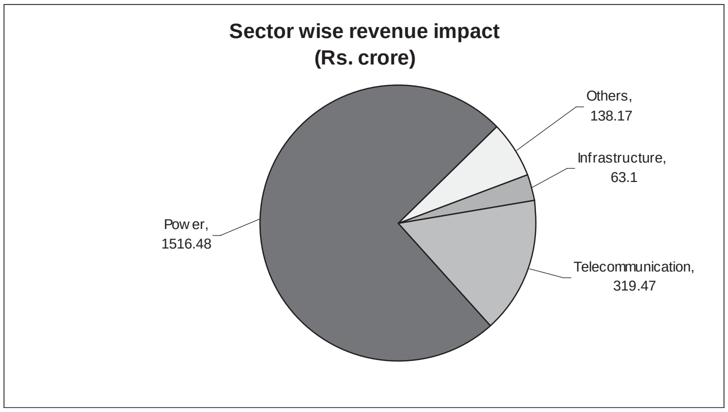
➢ Audit study revealed that the assessing officers had made additions in 237 cases involving a revenue impact of Rs. 183.49 crore without relying on the particulars given in the tax reports. Records produced to audit did not indicate that further action had been taken on incorrect reporting.

Audit recommendations

- Necessary tax audit reports/certificates be furnished by the assessee before allowing deductions and determination of tax.

- Instructions be issued to assessing officers to critically examine the tax audit reports along with the connected records and other available evidence so as to make an independent assessment in each case.

3. Review on assessments relating to infrastructure development (Deductions under section 80IA of the Income Tax Act)



Audit reviewed the assessment records of the assesses engaged in infrastructure development and claiming deduction under section 80IA of the Income Tax Act, 1961 completed during the financial years 2003-04 to 2006-07. Deductions under Sec 80IA are available to undertakings carrying on the business of provision of infrastructure facility, telecommunication services, industrial parks and power generation, transmission and distribution.

Of the 685 assessments test checked in company and non company circles involved in specified infrastructure activity, in 91 cases mistakes were noticed having a revenue impact of Rs. 2037.22 crore. The sector-wise revenue impact of the audit observations featured in the report is pictorially depicted below:

Audit study revealed that

➢ Deduction under section 80IA was allowed without taking into account all losses and depreciation relating to the eligible units involving revenue impact of Rs. 581.89 crore.

➢ Incorrect apportionment of expenses relating to eligible undertakings resulted in inflation of eligible profits and consequent deduction involving a revenue impact of Rs. 101.38 crore.

- Benefit of deduction under section 80IA was allowed in respect of incomes not related to the eligible undertaking with a revenue impact of Rs. 96.92 crore.

- Incorrect allowance of deduction on notional value of steam led to short levy of tax of Rs 74 crore.

- Benefit of deduction under section 80IA had been availed of by ineligible assesses involving a revenue impact of Rs. 40.20 crore.

- There were no clear directions for determination of reasonable profits to be allowed as deduction for captive power plants under section 80IA.

- Major companies providing telecommunication services had either not claimed or could not avail of the deduction under section 80IA as they were either operating under loss or were being assessed under the special provisions of the Act which does not take into account deduction under section 80IA.

Audit recommendations

- Ministry may consider incorporating a provision in the rules so that the tax audit report in Form no. 10CCB specifies the basis of apportionment/ allocation of common expenses especially with regard to composite business where assessees have both eligible and ineligible units.

- Internal control mechanism be strengthened and a mechanism instituted for compulsory checking of the statutory reports before allowing deductions.

REPORT NO CA 8 OF 2008 -
UNION GOVERNMENT - DIRECT TAXES

This Report covers audit comments on administration of direct taxes comprising corporation tax, income tax, wealth tax under various direct tax laws which are levied by the Union Government. Highlights of this report are detailed below:

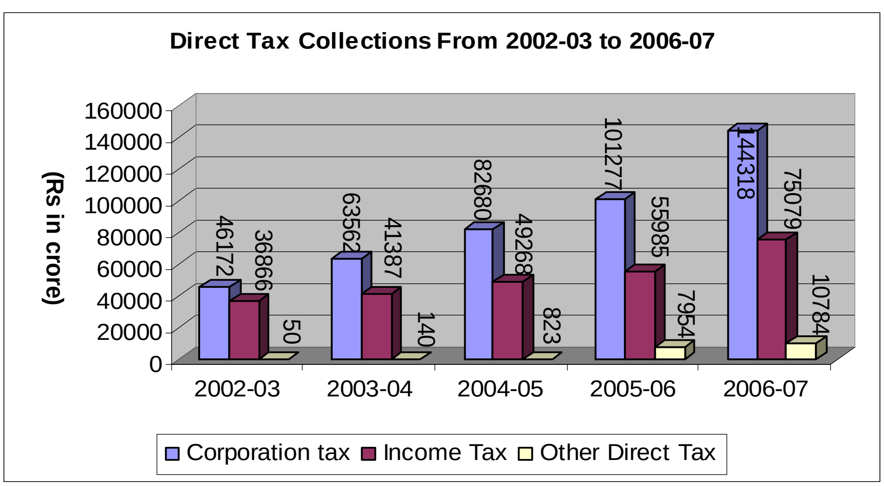
Total collections from direct taxes increased from Rs. 83,088 crore in 2002-03 to Rs. 2,30,181 crore in 2006-07 at an average annual rate of growth of 27.33 per cent.

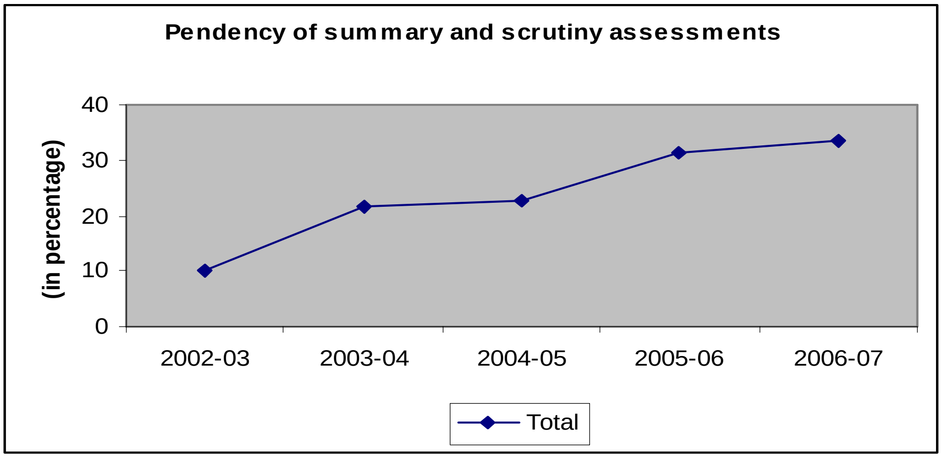
- The number of corporate assessees increased from 3.65 lakh in 2002-03 to 4.00 lakh in 2006-07, at a compound annual growth rate of 2.32 per cent.

- The number of non corporate assessees increased from 2.81 crore in 2002-03 to 3.09 crore in 2006-07, at a compound annual growth rate of 2.40 per cent.

- In the case of corporate assesses, 75.78 per cent of gross collections was made at pre-assessment stage, of which 55.20 per cent was by way of advance tax.

- In the case of non corporate assesses, 89.55 per cent of the gross collections was made at pre-assessment stage, of which 50.96 per cent was by way of TDS.





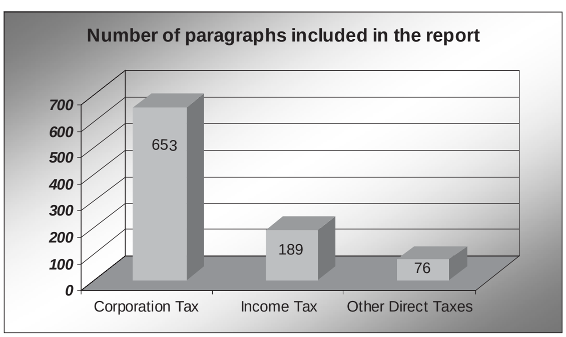
- Recovery of certified demand increased from 14 per cent of total certified demand during 2005-06 to about 24 per cent during 2006-07.

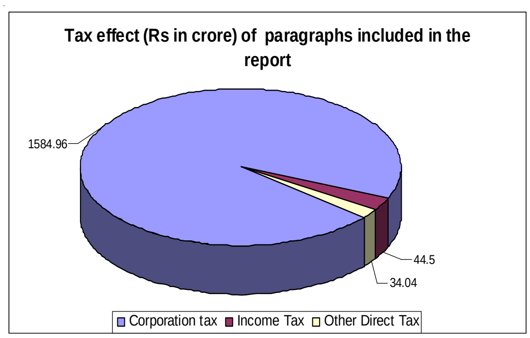
- Though the number of cases selected for scrutiny during 2006-07 increased to 3.41 lakh as compared to 2.03 lakh in 2005-06, the total pendency of both summary and scrutiny assessments increased over the last five years from 10.13 per cent in 2002-03 to 33.56 per cent in 2006-07.

- Though there were 7.44 lakh working companies as of March 2007 as per the records of Department of Company Affairs, the number of corporate assessees as per the Income Tax Department were 4.00 lakh.

- Further, of the uncollected demand of Rs. 1,17,370 crore as of March 2007, Rs. 86,203 crore related to earlier years and Rs. 31,167 crore related to 2006-07.

- During 2006-07, of the 12.33 lakh cases targeted for disposal, only 3.67 lakh cases were seen by internal audit (i.e 29.73 per cent).



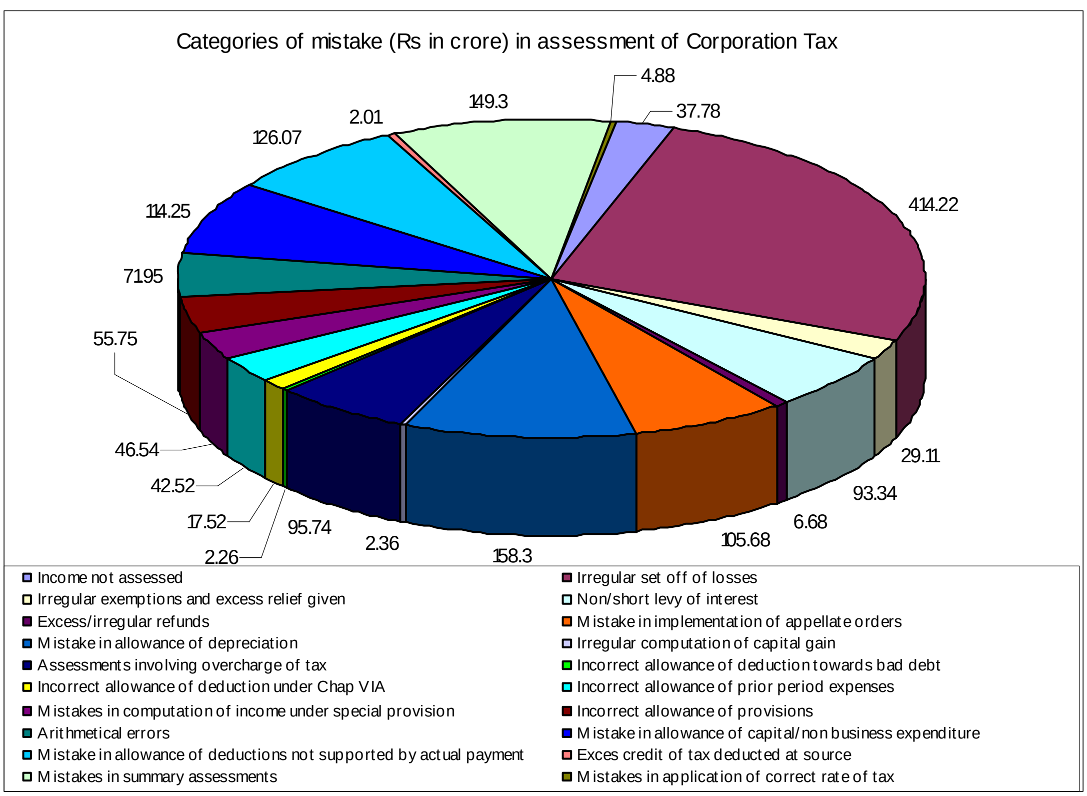


➢ 961 draft paras with tax effect of Rs 1749.97 crore were issued to the Ministry of Finance. Of these, 918 observations involving tax effect of Rs. 1,663.50 crore have been included in this report.

➢ Of 653 draft paragraphs included in this report having tax effect of Rs 1584.96 crore on mistakes in assessment of Corporation Tax, Rs 8.62 crore was recovered in case of eight draft paragraphs. The categorization of mistakes in respect of remaining 645 draft paragraphs on assessment of Corporation Tax was as under:

➢ Of 686 draft paragraphs involving mistakes in assessment of corporation tax of Rs. 1669.38 crore issued to the Ministry, the Ministry accepted observations in 204 cases involving revenue impact of Rs. 712.44 crore.

➢ Out of the 198 draft paragraphs involving undercharge and overcharge of Income tax of Rs. 46.54 crore issued to the Ministry of Finance for comments, the Ministry accepted audit observations in 66 cases involving a tax effect of Rs. 12.80 crore.



- Out of the 77 draft paragraphs involving undercharge and overcharge of Other Direct Taxes of Rs. 34.05 crore (Rs 2.14 crore in wealth tax and Rs 31.91 crore in interest tax) issued to the Ministry of Finance, the Ministry accepted observations in 25 cases involving a tax effect of Rs.4.66 crore

- There was loss of revenue of Rs. 1354.33 crore due to remedial action not taken timely in 3,593 cases of audit observations issued prior to 2002-03.

- Department did not produce 37450 cases or 54 per cent of cases not produced during earlier audits and requisitioned again in 2006-07.

REPORT NO. PA 6 of 2008 - UNION GOVERNMENT – INDIRECT TAXES (CUSTOMS, CENTRAL EXCISE & SERVICE TAX)

This Audit Report has three sections. Section – I relating to Central Excise contains two reviews, Section – II relating to Service Tax contains one review and Section - III relating to Customs contains three reviews.

The revenue implication of these reviews was Rs.1,129.21 crore, an additional Rs. 1,724.67 crore was foregone or could not be recovered in the absence of enabling provisions.

A total of 36 specific and constructive recommendations have been included in this report to address the systemic and critical weaknesses identified by Audit. Of these 20 recommendations were accepted by the Government.

Central Excise Reviews

Excise duty on aluminium, copper and articles thereof

'Aluminium and its articles' is one of the twenty commodities yielding major revenue (Rs. 1,272.92 crore) to the Government. The percentage share in the total collection of central excise receipts was 1.29 per cent during the year 2005-06. Aluminium and its articles are classified under chapter 76 of the Central Excise Tariff Act (CETA), 1985. Copper and its articles are classified under chapter 74 of CETA.

The percentage of cenvat to duty paid in cash was exceptionally high in aluminium and copper industry indicating possible misuse of cenvat facility, to the detriment of revenue.

Government did not bring in certain aluminium products under Retail Sale Price based assessment, despite their suitability. Consequently, the Government lost an opportunity to mitigate the risk of undervaluation and transaction cost of the tax.

Standard input-output norms are not prescribed for domestic production, in the absence of which the risk of suppression of production and consequent revenue leakage has not been fully mitigated.

Duty of Rs. 10.62 crore on 'aluminium dross' was not levied/recovered, despite it being brought under the excise tariff for levy of duty.

Refunds

A review of the refund and rebate claims handled by 183 divisions in 83 out of the 93 commissionerates during the years 2003-04 to 2005-06 was conducted to evaluate

(i) the adequacy of statutory provisions and instructions issued to mitigate the risk of irregular/erroneous refund causing revenue loss, (ii) performance of the department in disposal of these cases within the stipulated time so as to avoid payment of interest and (iii) adequacy and effectiveness of the internal control mechanism governing refunds for ensuring compliance to applicable rules and procedures.

The findings are as follows:

- In the absence of any prescribed norms, 15,738 rebate cases involving Rs. 451.88 crore were split up to avoid pre-audit.
- Interest amounting to Rs. 10.67 crore was paid in 96 cases of refunds/ rebates due to delay in payment of refunds.
- Additional liability of interest of Rs. 40.33 crore had accrued in 12,126 cases due to delay in payment of refund/rebate claims.
- Against the principles of fairness and transparency, the Government charges interest on delayed payment of duty at rates higher than what it pays on delayed refunds payable to the assessees.

Service Tax Review

Service tax on rent-a-cab scheme operators' services, photography services and health club and fitness centre services

Service tax on the services of 'rent-a-cab scheme operators' services (CAB) was levied with effect from 1 April 2000**.** Service tax on the services of photography services (PGH) was levied with effect from 16 July 2001. Service tax on the services of health club and fitness centre services (HFC) was levied with effect from 16 August 2002.

Decline in revenue from CAB and PGH services, despite increase in tax base needs to be investigated and mechanism put in place to ensure that the decline is not due to evasion.

Survey is a key activity which helps to identify potential assessees and thereby augment Government revenues. However, performance indicators for this activity had not been prescribed.

Measures undertaken by the department to bring unregistered service providers into tax net were ineffective and inadequate. Audit identified 8,394 unregistered service providers in these three services. While actual loss of revenue from 1,040 of these service providers was Rs.78.08 crore, the estimate of the revenue loss from the remaining 7,354 unregistered service providers was Rs. 55.82 crore.

Approximately 41 per cent of returns due were not submitted by the registered service providers in these three services, for which no action was initiated by department. Service tax of Rs. 14.36 crore was evaded by 414 registered service providers during the period when they did not file returns. Interest of Rs. 2.55 crore was also leviable, besides penalty of Rs. 14.36 crore.

Verification of returns was ineffective and policy for scrutiny of these returns ambiguous as service tax of Rs. 15.26 crore was short paid by the 398 registered service providers on account of suppression of taxable value. Interest of Rs. 5.45 crore was also leviable besides penalty of Rs. 15.26 crore.

Customs Reviews

Promotional measures

The audit review of the three duty free credit entitlement schemes for (i) status holders, (ii) service providers and (iii) vishesh krishi upaj yojana under the Foreign Trade Policy was conducted, to evaluate whether internal control mechanism instituted in the department to ensure compliance with the provisions of the Act/Rules/Regulations/Schemes and Policy for issue of these certificates/scrips and its subsequent utilisation for imports of goods, were adequate and effective.

Absence of mechanism to correlate declared export performance/foreign exchange earnings with annual accounts resulted in grant of excess duty credit of Rs. 10.25 crore.

Incorrect duty credit of Rs. 45.37 crore was granted to exporters under DFCE scheme for status holders, even though the requisite incremental growth in exports had not been achieved.

Regional licensing authorities had issued 58 duty credit certificates of Rs. 34.74 crore based on ineligible remittances under DFCE scheme for service providers/SFIS.

In 364 cases, duty credit scrips of Rs. 22.53 crore were inappropriately utilised on import of inadmissible items under Vishesh Krishi Upaj Yojana scheme.

Duty credit scrips of Rs. 10.82 crore was issued in 137 cases based on ineligible exports under Vishesh Krishi Upaj Yojana scheme.

Target plus scheme (TPS)

TPS was introduced to 'accelerate growth in exports' by rewarding exporters who have achieved a quantum growth in exports. Duty credit certificates, as a percentage of the incremental export turnover achieved were issued to the deserving exporters/importers.

Regional licensing authorities had granted excess duty credit of Rs. 113.84 crore in 112 cases due to incorrect computation of incremental growth.

Forty-four duty credit certificates of Rs. 37.09 crore were issued to 11 exporters in spite of negative growth of export. Of this, duty credits of Rs. 7.02 crore were already utilized which needs to be recovered.

In 21 cases, misuse of the scheme by 'probable buying of export turnover' was observed. Duty credit of Rs. 26.48 crore was involved in these cases.

Duty credit certificates of Rs. 77.59 crore were issued to non-status holders in violation of applicable provisions. These ineligible certificate holders had already utilised Rs. 38.39 crore which needs to be recovered with due penalty.

Special economic zones (SEZs)

The 'Special Economic Zones' (SEZs) policy was announced in April 2000. This policy intended to make the SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the centre and the state level, with the minimum possible regulations. The review of the SEZ scheme was conducted in audit with the limited objective of verifying that the units in the SEZ had complied with the applicable Customs Act, Rules, notifications etc. and had functioned appropriately under the provisions of Exim Policy and the procedures prescribed as per the 'Handbook of Procedures (HBP), Volume-1'. The adequacy and effectiveness of the internal controls to ensure compliance with the applicable Act/Rules/procedures were also examined.

SEZ units had been achieving the prescribed (positive) Net Foreign Exchange mainly through domestic sales defeating one of the sub-objectives of the scheme, which was to augment exports. Customs duty to the extent of Rs. 1,043 crore was forgone on imports by these units.

Duty of Rs. 681.38 crore was foregone on the inputs used in the manufacture of mobile phones cleared into the Domestic Tariff Area (DTA) at ‘nil’ rate of duty. This duty could not be recovered, in the absence of provisions to pay back the duty foregone on inputs utilised for manufacture of such goods when cleared at ‘nil’ duty into the DTA.

Duty of Rs. 106.71 crore along with interest of Rs. 46.17 crore was recoverable from 24 SEZ units which had failed to achieve positive NFE.

Forty one units in the SEZs had violated the conditions of the applicable ‘Letter of Permission (LOP)’. Accordingly, duty totalling Rs. 74.90 crore was recoverable from these units.

REPORT NO. CA 7 of 2008- UNION GOVERNMENT – INDIRECT TAXES (CUSTOMS, CENTRAL EXCISE & SERVICE TAX)

The report is presented under three sections 1, 2 and 3 dealing with Central Excise, Service Tax and Customs receipts, respectively. The report has a total revenue implication of Rs. 1,396.37 crore highlighted through 410 paragraphs. The Ministry/department had, till November 2007, accepted the audit observations in 329 paragraphs with revenue implication of Rs. 227.97 crore, of which Rs. 49.08 crore has since been recovered.

Some of the significant findings are:-

1. Central Excise

While central excise receipts had grown only by 43 per cent during the years 2002-03 to 2006-07, the growth in modvat/cenvat availed during the relevant period was much more at 143 per cent. Percentage of modvat/cenvat availed of to duty paid by cash increased constantly during the years 2002-03 to 2006-07. Modvat/cenvat credit availed of during 2006-07 was more than the duty paid through PLA. One of the reasons for the excessive use of modvat/cenvat credit compared to duty payment by cash would be the misuse of the modvat/cenvat credit scheme.

Cases of incorrect availing of modvat/cenvat credit on exempted goods or input materials/capital goods written off, availing of credit on ineligible goods or duties or cess, incorrect transfer of cenvat credit to the downstream manufacturers or buyers of exempted goods, availing of dual benefit, non-recovery of credit on goods destroyed in fire, etc. were noticed in audit. Duty involved in these cases was Rs. 111.88 crore.

Revenue of Rs. 936.14 crore was short allocated to the Central Government as duty was wrongly credited to the States as additional excise duty in lieu of sales tax.

Incorrect classification of coconut hair oil cleared in pouches/containers of 5/100/200 ml as non-excisable ‘edible oil’ resulted in short realisation of duty of Rs. 45.88 lakh.

During the years 2003 to 2007 (up to May 2007), the Government had amended Act/Rules addressing the concerns raised by audit through audit reports. Ten such changes have been briefly mentioned in para 1.10.2 of the Report.

2. Service Tax

17,426 cases involving tax of Rs. 1,780.04 crore were pending as on 31 March 2007 with different authorities, of which 61 per cent in terms of number were with the adjudicating officers of the department. Pendency for recovery of demands had increased from 2,554 in 2005-06 to 5,542 cases in 2006-07 i.e. an increase of 116.99 per cent.

Instances of non-levy of service tax, incorrect grant of exemption from service tax, short payment of service tax, non-raising of demand or non-recovery of service tax, etc. were noticed in a few cases test checked. Service tax involved in these cases was Rs. 50.30 crore.

A few cases of incorrect availing of Cenvat credit of service tax including its subsequent inappropriate use were noticed in audit. Tax implication in these cases was Rs. 28.72 crore.

During the years 2004 to 2007 (up to March 2007), the Government had amended Act/Rules addressing the concerns raised by Audit through Audit Reports. Four such changes have been mentioned in para 9.7.2 of the report.

3. Customs

Duty foregone under the various export promotion schemes during the year 2006-07 was Rs. 66,368 crore which was 77 per cent of the total customs receipts.

Customs revenue of Rs. 2,555.37 crore was not realised by the department at the end of the financial year 2006-07. Of this, an amount of Rs. 292.40 crore was not covered for over ten years, despite being not disputed.

Incorrect assessment of customs duty totalling Rs. 58.36 crore was detected in a few cases, which arose mainly due to re-warehousing certificates not being received, short levy of anti-dumping duty, excess payment of drawback, non-levy of national calamity contingent duty and adoption of incorrect assessable value, etc.

Revenue of Rs. 35.98 crore was due from exporters/importers who had availed the benefits of the duty exemption schemes but had not fulfilled the prescribed obligations.

The absence of provisions to levy interest in the Customs Act, 1962 on finalisation of provisional assessments was pointed out in audit. Accordingly, section 18 of the Customs Act was amended to provide for levy of interest on finalisation of the provisional assessments.

Autonomous Bodies

REPORT NO. PA 3 OF 2008-
UNION GOVERNMENT (CIVIL) AUTONOMOUS BODIES
(PERFORMANCE AUDIT)

This Report contains performance audit reports on the working of Coffee Board, the functioning of the Rubber Board, Construction and Allotment of Houses by Delhi Development Authority, Indira Gandhi National Open University and Information Technology Audit of the Integrated Vessel & Cargo Information Billing System and Finance Management System in the Cochin Port Trust. Besides pointing out irregularities of Rs. 103.85 crore, these performance audit reports also disclose systemic deficiencies.

Working of the Coffee Board

- The Coffee Board could not achieve the target of stepping up production from the level of 3 lakh MT in 2001-02 to 4.20 lakh MT by 2006-07. As compared to production targets, the actual production fell short by 14 to 31 per cent during the Tenth Plan period.
- No new varieties of coffee were released by the Board for the benefit of the farmers after 1984.
- At the end of 2006-07, 60 per cent of total planted area of Robusta coffee, the variety mainly affected by the coffee berry borer (CBB), continued to be under CBB infestation and 77 per cent of the total Arabica planted area continued to be infested with white stem borer.
- The Board failed to bridge the yield gap between large and small growers.
- The Board failed to consolidate the cultivated area of coffee in the North Eastern Region; the productivity was also very poor.
- The Board failed to achieve the targets of exports of Indian coffee as envisaged. The exports remained even below the base level of 2.4 lakh tones during the major part of the Plan period. The exports to Belgium, the Russian Federation and Germany, which were major markets for Indian Coffee, showed declining trend.

Delhi Development Authority

- As on 31 March 2007, 11650 houses of different categories located at Dwarka, Rohini, Vasant Kunj, Paschim Vihar, Kondli Gharoli and Narela constructed up to 2001-02 were pending for allotment
- Works were awarded without ensuring appropriate land use and also without obtaining prior approval of design from local bodies.

- Award of works without ensuring availability of structural design and materials in time resulted in escalation charges of Rs. 6.83 crore.

- The DDA routinely included the normally inadmissible clause 10CC in its lump sum contracts, resulting in undue benefit of Rs. 10.71 crore to the contractors.

- Due to improper costing and non-finalization of costing, funds to the tune of Rs. 11.98 crore were blocked.

- There were inordinate delays in disposal of constructed houses to public. Besides, houses were allotted without ensuring basic amenities to people.

Indira Gandhi National Open University

- Indira Gandhi National Open University (IGNOU) did not carry out comprehensive need assessment studies to assess the demand and the socio-economic and demographic features of the target population before introduction of new programmes. IGNOU also did not carry out regular revision of programmes resulting in decline in enrolments in some popular programmes such as Post Graduate Diploma in Distance Education (PGDDE), Master of Business Administration (MBA), Master of Computer Applications (MCA), Certificate in Participatory Forest Management (CPFM), Master of Business Administration (Banking and Finance) (MBF), Certificate in Participatory Project Planning (SAVINI), Certificate in Computing (CIC) and Certificate in Empowering Women through Self-help Groups (CWDL) .

- Despite an expenditure of Rs. 33.38 crore on setting up and operation of Gyan Vani stations, their utilization was far below the available programme hours.

- IGNOU's inability to ensure the telecast of Gyan Darshan channels by popular media service providers resulted in low viewership. Teleconferencing facilities were not utilized to the fullest extent due to poor response from students and lack of facilities in 11454 study centres.

- Distance Education Council's (DEC) regulation of Open and Distance Learning (ODL) system in State Open Universities (SOUs) and Correspondence Course Institutes (CCIs) was not effective. Many universities continue to offer programmes to students without getting DEC's approval.

- Despite release of grants worth Rs. 77.46 crore to 13 State Open Universities and 68 Correspondence Course Institutes, most of the programmes of State Open Universities and Correspondence Course Institutes remained unapproved by DEC.

Execution and expenditure on Plan schemes such as establishment of a national network of open and distance education, establishment of a national centre for innovation in distance education and schemes for disadvantaged groups and regions was negligible resulting in non-achievement of objectives.

REPORT NO. CA 2 OF 2008 – UNION GOVERNMENT– CIVIL- AUTONOMOUS BODIES-COMPLIANCE AUDIT OBSERVATIONS

This Report contains general observations as well as major findings of the test audit of financial transactions of 264 Central autonomous bodies under the Civil Ministries for which the Comptroller and Auditor General is the sole auditor. The significant general observations are as follows:

- During 2006-07, the Union Government released grants and loans of Rs. 8468.27 crore and Rs. 0.40 crore respectively to 241 autonomous bodies. The information regarding the amount of grants received by 23 autonomous bodies were not furnished by the Ministries concerned.
- For the year 2005-06, out of 262 Central autonomous bodies, the accounts of only 93 autonomous bodies were made available to Audit within the prescribed time limit of three months after the close of the accounting year, whereas the submission of 169 bodies was delayed.
- As on 31 October 2007, 19 audit reports consisting of 15 for the year 2005-06 and four pertaining to earlier years issued to the Government of India/ management upto 30 June 2007 had not been laid before the Parliament.

Some of the observations relating to transaction audit are stated below:

Forfeiture of deposited amount of Rs. 2.08 crore

Jamia Millia Islamia University deposited Rs. 2.08 crore with Greater Noida Industrial Development Authority in April 2002 being 10 per cent of the total premium of Rs. 20.81 crore for 100 acres of land allotted to it by the latter. The University did not pay the next installment of 20 per cent within the stipulated period of 90 days. Despite its inability to raise the resources for further payment, the University failed to ask for refund of the deposited premium of Rs. 2.08 crore within 90 days of allotment, which resulted not only in cancellation of land, but also in forfeiture of deposited amount of Rs. 2.08 crore.

Loss of revenue of Rs. 2.59 crore

Cochin Port Trust levied demurrage on a consignment of imported cargo at a rate lower than that prescribed in the Scale of Rates for such imports at the request of an importer, resulting in a loss of revenue of Rs. 2.59 crore.

Loss of Rs. 3.82 crore

Failure of Mumbai Port Trust to submit the proposal for revision of stevedoring charges to the Tariff Authority for Major Ports in time led to loss of Rs. 3.82 crore.

Avoidable payment of Rs. 6.41 crore

In contravention of the codal provisions, Delhi Development Authority (DDA) included a price escalation clause in the works awarded on lump-sum basis without obtaining approval of the competent authority. This resulted in avoidable payment of Rs. 6.41 crore.

Wasteful expenditure of Rs. 3.65 crore

DDA could not complete the work of Development of Land for Integrated Freight Complex at Gazipur even three years after the scheduled date of completion. As a result, expenditure of Rs. 3.65 crore incurred on the work is yet to yield any benefits.

Blocking of funds of Rs. 1.78 crore

DDA awarded the work of laying peripheral sewer line on the site on a part of which stay orders of the Court existed even before notice inviting tenders. This resulted in foreclosure of the work and blocking of funds of Rs. 1.78 crore.

Commercial

REPORT NO. PA 9 of 2008 – UNION GOVERNMENT – COMMERCIAL - PERFORMANCE AUDIT OF ACTIVITIES OF SELECTED PUBLIC SECTOR UNDERTAKINGS

This contains performance audit reviews of selected activities of the Government Companies and Statutory Corporations.

Salient features of the Report

This Audit Report represents reviews on nine selected areas of operation involving eight Public Sector Undertakings under seven Ministries. These areas were selected in audit for review on the basis of their relative importance in the functioning of the concerned organization. The total financial implication of these reviews is Rs.4284.19 crore.

Gist of the important observations (Ministry-wise) in the Report are as follows:-

MINISTRY OF CHEMICALS AND FERTILIZERS

The Fertilisers and Chemicals Travancore Limited:- Working of Udyogmandal Division

The Fertilisers And Chemicals Travancore Limited (Company) was incorporated in September 1943 and commercial production of Ammonium Sulphate commenced in 1947. The Company's production facilities are located at Udyogamandal and Ambalamedu in Cochin. The Company's product line included 16 intermediaries and final products but as of 31 March 2007, the Udyogamandal Division (Division) was producing only Ammonium Phosphate and Ammonium Sulphate as final products and Ammonia, Sulphuric Acid and Phosphoric Acid as intermediates. Audit of performance of Udyogamandal Division covering the period from 2002-03 to 2006-07 revealed that the Division reported losses during the review period. The main reasons for the losses incurred by the Company and the Division were high cost of Naphtha which was the feedstock, adverse impact of changes in fertiliser pricing policy, high cost of production, and ageing and inefficient plants. The increase in the prices of Sulphur and Rock Phosphate also adversely affected performance of the Division. The capacity utilisation of the intermediary plants was low and the Division had to procure the intermediary products to manufacture the final products. The Company was referred to the Bureau of Reconstruction of Public Sector Enterprises in 2004-05 and it approved an Action Plan for improvement of the Company's performance. On review of implementation of the measures contemplated in the Action Plan for revival, Audit observed that due to paucity of funds, the revamping and replacement of plant was carried out as and when an equipment malfunctioned rather than complying with the annual maintenance plan. As per Action Plan, the Company planned to switchover to using LNG as the feedstock in 2009-10. However, the LNG terminal was expected to be set up at Kochi in February 2011. It would be noted that the financial relief package granted by Government of India was in the form of waiver of interest and conversion of loans into equity without infusion of fresh funds to meet the immediate working capital requirements. As such, non-availability of an economical feedstock, inefficient ageing plants and lack of adequate working capital rendered its operations inefficient and uneconomical; and hence more concerted efforts were required to revive the Company.

MINISTRY OF COAL

Eastern Coalfields Limited:- System of transportation of coal

Eastern Coalfields Limited transported coal from pithead/depot to railway siding through contractors and the cost is recovered from the customers at fixed rates. The remaining expenditure is borne by the Company. The transportation cost comprised 14 per cent of the total variable operating cost of the Company. The issues relating to transportation of coal were reviewed in audit with regard to selection and measurement of transport routes, handling of coal, weighing facilities at the loading and unloading points, incurrence of demurrage, and management of loading of wagons and short lifting of contracted quantities of coal. During the course of audit, instances of using longer routes for transportation of coal and avoidable rehandling of coal were noticed. The review revealed that the Company failed to install weighbridges at the loading and the unloading points in a large number of collieries. This resulted in uncertainty in the actual weight of coal transported and consequent leakages, losses and levy of penalties. The Company failed to ensure that adequate stocks were transported to the sidings by the contractors to ensure loading of contracted quantities.

MINISTRY OF COMMUNICATION AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited:- Revenue earnings from leased line services

Bharat Sanchar Nigam Limited (BSNL) provides leased line services to subscribers for a specific period as dedicated telecommunication links for internal communication between offices at various sites within a city or different cities on point-to-point basis or on a network basis. Audit found leakages in revenue of over Rs.517 crore, including potential loss of revenue, delays in billing and accumulation of outstandings. This was mainly on account of delays in provision of leased circuits, lack of a proper database on services and subscribers, incorrect application of tariff, and allowing dues to accumulate over the years, especially from private parties. BSNL needs to take corrective and time bound measures to minimise and control revenue leakage. It needs to maintain complete and updated database, strengthen internal controls, improve coordination between different branches and between its circles, and monitor recoveries of outstanding bills. Computerizing all activities related to the leased line services would effectively support the Company to ensure maximum output economically and efficiently.

MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Hindustan Paper Corporation Limited:- Production performance of the paper mills and marketing of paper

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

MINISTRY OF PETROLEUM AND NATURAL GAS

Indian Oil Corporation Limited:- Operation of Haldia Refinery

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

Indian Oil Corporation Limited:- Marketing of petroleum products to bulk consumers

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

Oil and Natural Gas Corporation Limited:- Deep water exploration

Oil and Natural Gas Corporation Limited (Company) acquired ten deep water nomination blocks, 34 deep water blocks in New Exploration Licensing Policy (NELP) rounds (I to VI) and acquired 90 per cent participating interest (PI)) in one block from M/s. Cairn Energy India Limited (CEIL) in March 2005. The Company took repetitive extensions for the nominated blocks, however it could not drill the committed number of wells in two nominated blocks due to non-availability of rigs capable of drilling in deep waters. The Company had also not made any firm plan to further explore or surrender the nomination blocks (September 2007). Lack of scheduling the issuance of Letters of Award for seismic survey contracts, non- verification of financial status while awarding the contracts as well as not specifying date of mobilisation of vessels and non-completion of data acquisition before the onset of monsoon had a cascading effect on completion of Minimum Work Programme (MWP) targets. Inordinate delay in finalisation of contracts caused postponement of drilling of seven wells resulting in non-fulfilment of the MWP commitments. Five blocks under NELP-II had to be relinquished by the Company for non-completion of MWP committed, after paying an amount of Rs.114.13 crore as penalty to Ministry of Petroleum and Natural Gas (MOP&NG). Also, the Company had expended Rs.368.89 crore on the relinquished blocks. The Company paid another amount of Rs.10.02 crore to MOP&NG as penalty in respect of one block for non-completion of MWP of drilling one well. The Company could accrete only 26.30 per cent of total reserve accretion from the blocks awarded to it originally. The remaining major portion of the accretion came from the block acquired from CEIL. Five discoveries claimed by the Company in nomination as well as NELP blocks were not acknowledged by the MOP&NG/Directorate General of Hydrocarbons.

MINISTRY OF SHIPPING ROAD TRANSPORT AND HIGHWAYS

Inland Waterways Authority of India:- Performance of the Company

The Inland Waterways Authority of India was set up (October 1986) on the recommendations of the National Transport Policy Committee to regulate and develop the National waterways in the country for shipping and navigation. The basic condition for development of waterways for navigation is preparation of fairway or navigational channel, provision of navigational aids for safe day and night navigation, and development of related infrastructure like terminals and mechanical handling equipments. Performance Audit on the working of the Authority covering the period 2002-03 to 2006-07 revealed that the Authority had not prepared and integrated plan for development of National waterways in any systematic manner; detailed project report in respect of Ganga-Bhagirathi-Hooghly river between Sagar island to Allahabad river had not been prepared as yet. The budgeted funds could not be fully utilised in any of the years reviewed. Consequently, none of the three National waterways could be made fully operational (September 2007). The navigation channels of the three National waterways did not consistently and contiguously meet the least available depth necessary for navigation as the Authority failing to dredge the estimated quantities thereby limiting the navigability of the channels. No expenditure was incurred on permanent measures like bank protection, river training and fixation of prevention of formation shoals and secondary channels. As a result the recurring expenditure on routine bandalling and dredging remained unproductive. Though there was no movement of vessels during night in the three waterways, the Authority provided night navigational aids procured at Rs.4.92 crore and the Authority was incurring unproductive expenditure of Rs.2.55 crore per annum (2006-07) on its maintenance. Further, the navigational aids provided were unreliable. The Authority did not follow a logical and judicious sequence of development of fairways and infrastructural facilities. As such provision of infrastructural facilities in places remained underutilised or were not utilised at all as there was no movement of vessels or availability of cargo. The terminals and mechanical handling equipment constructed/procured for the three National waterways remained idle due to limited fairway development and lack of proper navigational aids for day and night navigation. The Inland Water Transport Policy of the Government of India encouraged private participation in development of National waterways, however, the Authority failed to identify projects for public private participation in development of waterways, water based recreational facilities and tourism related activities. Since the Authority had not established milestones and targets in a plan document, periodical monitoring of the projects to ensure that the work progressed as per schedule, was also not done.

DEPARTMENT OF SPACE

Antrix Corporation Limited:- Performance of the Company

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

(i) The Company credited DOS share of revenue to ISRO instead of directly crediting it to the Consolidated Fund of India. Remittances were also not done in a prompt manner and periodical reconciliation of amounts due and payable to DOS was not being carried out. The Company's interest earnings were on an average 50 per cent of its profit after tax which suggested that the Company was being used as a special purpose vehicle for parking of unutilised funds of DOS.

(ii) The functional distinction between the Company and DOS was ambiguous since the officers of DOS were also executives of the Company. There was no clear chart of delegation of powers and segregation of duties consistent with good governance, structure and growth of the Company. Owing to ambiguities in the operating environment of the Company, several control weaknesses were observed in the management of funds and contracts in the Company. Instances were noticed of non-adherence to the conditions of contract and absence of appropriate provisions in the agreements; performance bank guarantee/cash securities were not collected, and savings on free period were passed on to customers. Service tax was not collected for hired foreign transponders and service charges were reduced in favour of private customers.

REPORT NO. PA 15 of 2008 - UNION GOVERNMENT-COMMERCIAL- REVIEW OF SELECTED ACTIVITIES OF PUBLIC SECTOR INSURANCE COMPANIES

A performance audit of the functioning of public sector insurance companies viz. General Insurance Corporation of India, New India Assurance Company Limited, United India Insurance Company Limited, National Insurance Company Limited and Oriental Insurance Company Limited was undertaken, focusing on issues related to Motor Third Party Claims; reinsurance; commission and brokerage payments; and claims settlement and grievance redressal procedures. The primary objective of the audit was to ascertain whether the companies had adequate and effective operating and control systems in these areas and to suggest appropriate measures for improvement. Motor Third Party business has traditionally been viewed as a loss making segment of the insurance business. There were numerous cases of delayed settlement of Tribunal awards, resulting in additional payment of interest. The objective of maximising retention levels within the country, in relation to reinsurance, has largely been achieved. Instances were noticed where business was placed with reinsurers who did not enjoy the stipulated ratings, contrary to regulatory directions. Steps also need to be taken to institute a credible system of empanelment of reinsurance brokers. Claims settlement is an area where improvements need to be effected, especially in the current competitive environment. Numerous claims were outstanding for more than six months. The companies did not institute procedures for the formal and periodic assessment of the work of surveyors and loss assessors. Delays in appointment of surveyors and receipt of survey reports hindered the claims settlement process, with consequent impact on customer satisfaction. Companies had entered into various agreements with automobile manufacturers, dealers, financiers, etc. as part of their business promotion strategies. However, the contents of the agreements and the nature of payments being released to these entities lack clarity and are not in accordance with either statutory provisions or regulatory stipulations. There were numerous instances of commission being released to agents whose licenses had expired, as well as diversion of omission without appropriate authorisations. The financial implication of the audit findings is Rs.1072.68 crore. The major important audit findings are summarised below:-

- There has been a steady growth in their premium income; however the market share of the four public sector insurance companies had been declining.

- The Miscellaneous segment of the insurance business, which includes the motor portfolio, registered poor or negative results. This was attributed to the high incidence of claims in the Motor Third Party business.

- There was no centralised database, either at company or industry level, to facilitate improved control on motor claims.

- There were delays in settling awards within the required thirty days in 1845 cases reviewed. This resulted in payment of interest amounting to Rs.2.20 crore.

- The amount to be recovered in respect of 457 'pay and recover' cases was Rs.8.87 crore.

- There was no formal system in place for empanelment and selection of reinsurance brokers.

- In some cases, business was placed with reinsurers who did not possess BBB ratings as stipulated by Insurance Regulatory and Development Authority (IRDA).

- Sums amounting to Rs.24.36 crore could not be recovered from reinsurers who had gone into liquidation. A sum of Rs.42.91 crore could not be recovered from reinsurers for over six years.

- A total 14.87 lakh claims, valued at Rs.16,158 crore were pending settlement as at 31 March 2007. Of these, 70.62 per cent of claims were pending for over six months.

- There were numerous cases of delay in appointment of surveyors, receipt of survey reports and in final settlement of cases

- A number of claims, initially repudiated by the companies, were finally settled in favour of the insured leading to payment of interest/penalties.

- As many as 946 agents, validity of whose licenses had expired, procured business for the insurance companies in violation of IRDA Regulations.

- Commission amounting to Rs.54.35 lakh was transferred from 'Direct code' to 'Agency code' subsequent to the issue of policies, without appropriate authorisation.

- The companies had effected various payments, under different agreements, to automobile manufacturers, dealers, financers, etc. These agreements lack clarity, and were not in compliance with statutory and regulatory requirements.

REPORT No. PA 16 of 2008
UNION GOVERNMENT-COMMERCIAL PUBLIC PRIVATE PARTNERSHIP IN IMPLEMENTATION OF ROAD PROJECT BY NATIONAL HIGHWAYS AUTHORITY OF INDIA

The Report reviewed the performance of Public Private Partnership in the implementation of Road Projects by National Highways Authority of India (Authority). The Authority was constituted with a mandate to upgrade the existing two-lane roads into four/six-lane high density corridors under National Highways Development Programme (NHDP), in phases. Although time and cost were key factors for successful implementation of NHDP, the Authority did not prepare a corporate or strategic plan to monitor the same. This coupled with delays in award of work and in acquisition of land, and issue of change of scope orders during execution led to delay in completion of the projects. The Authority could complete only five of the 17 BOT projects within the time schedule prescribed. The Authority did not have any written criteria on the basis of which to assign a particular project for execution under BOT-Toll or BOT-Annuity arrangement. The Audit observations mentioned in this Performance Audit Report are based on the test check of eight BOT projects (four each of BOT-Toll and BOT-Annuity projects) and quality tests conducted by CRRI in six projects. The project-wise findings are detailed as follows:

A) BOT-Toll projects

1. Satara-Kagal

- The Authority did not prepare the DPR for this project.
- The completion of this project was delayed by 20 months due to execution of additional items of work and deficient performance of the Concessionaire.
- The independent consultant issued provisional completion certificate without conducting final tests and without obtaining 'as-built' drawings from the Concessionaire.
- The surface condition of the road was satisfactory at some locations while distresses like cracking, raveling, shoving and bleeding were observed in many locations. Roughness values in 164 out of 266 locations test-checked were within the 'desirable' level and in the remaining locations they were within the 'acceptable' level stipulated in the concession agreement. Deflection values were within the 'acceptable' level in all the sections test-checked. The combined thickness of wet mix macadam and granular sub-base layers did not comply with the specifications in any of the five test pits.

- The Authority did not levy penalties amounting to Rs.16.05 crore for delays in project completion, non-completion of punch-list items and non-achievement of individual milestones.

- The Authority did not recover from the Concessionaire Rs.8.79 crore being the remuneration paid to the independent consultant as per the provisions of the agreement resulting in loss of interest of Rs.3.89 crore.

2. Delhi-Gurgaon

- The completion of this project was delayed by 42 months beyond the scheduled completion date of June 2004 due to change in mode of execution from Special Purpose Vehicle to BOT-Toll, subsequent delay in award of concession and the delay in issuing change of scope orders valuing Rs.146.62 crore.

- The Detailed Project Report (DPR) of this project was deficient on many counts which resulted in execution of these items under change of scope orders for Rs.146.62 crore constituting 21 per cent of the project cost.

- The Authority did not have a system to compute the reasonable concession period. This resulted in fixation of a longer concession period of 20 years against a reasonable concession period of 14 years. During the extended concession period of six years, the Concessionaire would gain Rs.187.77 crore.

- The delay of 26 months in issuing orders for change of scope of work by the Authority delayed completion of the project.

- The condition of the road surface was good and no distresses were found. The combined thickness of wet mix macadam and granular sub-base layers did not comply with the specifications in three out of six pits test-checked.

3. Jaipur-Kishangarh

- The Authority did not prepare the DPR for this project.

- The Authority did not have a system to compute the concession period fairly. This resulted in fixation of a longer concession period of 20 years against the reasonable concession period of 12 years. During the extended concession period of eight years, the Concessionaire would gain Rs.121.63 crore.

- The entire road surface was in satisfactory condition except at some locations where rutting, shoving and cracks were seen. Roughness values in 168 out of 180 locations test-checked were within the 'desirable' level and in the remaining locations they were within the 'acceptable' level stipulated in the concession agreement. Deflection values in 11 out of 18 sections test-checked were more than the 'acceptable' level stipulated in the concession agreement requiring immediate overlay. The combined thickness of wet mix macadam and granular sub-base layers did not comply with the specifications in three out of six pits test-checked.

4. Tada-Nellore

- The Authority issued final completion certificate delinking 30 items included in the original scope of work, the cost of which has not been recovered from the Concessionaire.

- The Concessionaire was allowed to run restaurants, dhabas along the project site without paying any rent.

B. BOT-Annuity projects

- In all the four Annuity projects, the Authority failed to incorporate a clause in the concession agreement for recovery of penalty towards non-achievement of financial closure and target dates for achievement of individual milestones.

- In all the four Annuity projects test-checked, there were delays in commencement of toll collection after completion of the project resulting in loss of toll revenue of Rs.23.89 crore. The Authority, while fixing the toll rate for annuity projects, did not adopt latest wholesale price index available at the time of sending draft toll notification to the Ministry, resulting in loss of toll revenue of Rs.22.73 crore in three annuity projects.

1. Tambaram-Tindivanam

- The total project cost estimated by the DPR consultant exceeded the estimates of the lowest bidder by 33 per cent indicating unrealistic estimation. The DPR projections were deficient as it did not take into consideration the demands of local people, location of bus shelters and provision for capping of kerb which had to be subsequently accommodated through change of scope orders.

- The surface condition of the road varied considerably between various sub-stretches. Severe bleeding, rutting and displacement of pavement markings were noticed in some sub-stretches. Roughness values in all the 185 locations test-checked were within the 'acceptable' level stipulated in the concession agreement. Deflection values in 5 out of 17 sections test-checked were more than the 'acceptable' level stipulated in the concession agreement. The combined thickness of wet mix macadam and granular sub-base layers did not comply with the specifications in two out of five pits test-checked. The thickness of bituminous layer did not comply with the agreement specification of 190 mm and deficiency ranged between 8 mm and 20 mm.

- The Authority extended undue benefit of Rs.4.02 crore to the Concessionaire due to adoption of lower rate of interest on recovery of cost of deleted item.

- There was a leakage of toll collection of Rs.21.98 crore due to deficient performance by the toll collecting agency.

2. Tuni-Ankapalli

- The surface condition of the road was satisfactory at some locations while distresses like shoving, bleeding and heaving were observed at many locations besides cracks and rutting at some locations. There were no potholes in the entire stretch of the road. Roughness values in all 120 locations test-checked were within the 'acceptable' level stipulated in the concession agreement. Deflection values in two out of eight sections test-checked were more than the 'acceptable' level stipulated in the concession agreement. The combined thickness of wet mix macadam and granular sub-base layers did not comply with the specifications in two out of four pits test-checked.

- The Independent Consultant did not appoint any team leader for this project as per their terms of reference and the Authority allowed the Deputy Team Leader to act as the team leader till the project completion.

3. Panagarh-Palsit

- Cracks and patch repairs were found to be less than five per cent implying good maintenance. Roughness value in one out of 132 locations test-checked was within the 'desirable' level and in the remaining locations they were within the 'acceptable' level stipulated in the concession agreement. Deflection values in 10 out of 12 sections test-checked were more than the 'acceptable' level stipulated in the concession agreement requiring immediate overlay. The combined thickness of wet mix macadam and granular sub-base layers did not comply with the specifications in two out of five pits test-checked.

- The Authority's failure to adjust the time required for execution of deleted items in original time schedule and erroneous computation of extension of time due to delay in handing over site, resulted in non recovery of penalty of Rs.8.75 crore. The concession agreement for this project did not contain a clause for levy of penalty for failure to complete the punch-list items within the stipulated period.

- There was an estimated revenue loss of Rs.40.42 crore during the period August 2005 to December 2006 due to absence of toll plaza within the project road.

4. Palsit-Dankuni

- The Authority failed to take timely action to award the concession agreement and this resulted in a delay of 11 months at the award stage. There was a further delay of four months in execution of the project.

- The Authority extended unintended benefit of Rs.3.92 crore to the Concessionaire for use of granular sand instead of earth, despite the fact that the concession agreement stipulated that the Concessionaire should make his own arrangement for all materials required.

- The concession agreement for this project did not contain a clause for levy of penalty for failure to complete the punch-list items within the stipulated period.

REPORT NO. CA 9 OF 2008 – UNION GOVERNMENT- COMMERCIAL-FINANCIAL REPORTING BY PUBLIC SECTOR UNDERTAKINGS

This Report gives an overall picture of the quality of financial reporting by PSUs and an appraisal of the performance of the companies and corporations as revealed by their accounts.

Salient features of the Report

This Report has 4 Chapters and 23 Appendices. This Report gives an overall appreciation of the financial performance of the Central Government companies and corporations as revealed by their accounts and information obtained in audit. The Report brings out the results of the oversight provided by the Comptroller & Auditor General of India (C&AG) in the audit of financial statements of the Central Government companies and corporations. The Report also contains results of a limited review of compliance with mandatory requirement of clause 49 of the listing Agreement by the listed Central Government companies and also highlights the initiatives of some PSUs in preparing separate sustainability reports or social responsibility reports and participation of PSUs in United Nation's Global Compact based on a survey.

Financial performance of Public Sector Undertakings

- As on 31 March 2007, there were 401 Central Government Public Sector Undertakings. (PSUs) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 300 government companies, 95 deemed government companies and six statutory corporations.

- The accounts of 348 PSUs (289 for current year and 59 for earlier years) indicated that the Government of India had invested Rs.1,37,110 crore directly in the equity capital of 273 government companies and corporations. Loans amounting to Rs.69,798 crore had also been received by the PSUs from the Government of India as on 31 March 2007. Compared to the previous year, investment in equity of PSUs by the Government of India registered a net increase of Rs.12,622 crore and loans given to them increased by Rs.1,114 crore.

- The market value of shares held by Government of India and Government companies in 37 listed government companies as per prices prevailing in stock markets on 31 March 2007 stood at Rs.5,07,297 crore as on 31 March 2007 as compared with the book value of Rs.1,94,419 crore.

- Out of the 273 government companies and corporations where data has been analysed in this Report, 178 government companies and corporations earned profits during the year and 72 government companies suffered losses excluding Food Corporation of India and Inland Waterways Authority of India where deficits are reimbursed by the Government of India as subsidy/grant. The remaining 21companies had not started their commercial operations. The total profit earned by 178 government companies and corporations was Rs.94,809 crore of which, as much as 80.96 per cent (Rs.76,750 crore) was contributed by 50 government companies and corporations under six sectors viz., Petroleum, Telecommunication Services, Power, Coal & Lignite, Steel and Minerals & Metals.

- Out of the 178 government companies and corporations which earned profit, 107 government companies and corporations declared dividend for the year 2006-07 amounting to Rs.27,859 crore. Out of this, Rs.20,831 crore were paid/ payable to the Government of India. The dividend paid to Government of India represented 15.19 per cent return on the total investment by the Government of India (i.e. Rs.1,37,110 crore) in all government companies and corporations.

- Government companies under the Ministry of Petroleum and Natural Gas, operating partially under the administered/ regulated prices, contributed Rs.12,045 crore representing 43.24 per cent of the total dividend declared by all government companies.

- Non compliance with Government's directive in the declaration of dividend resulted in a shortfall of Rs.2388 crore in the payment of dividend for the year 2006-07.

- Out of 273 government companies and corporations, the equity investment in 70 companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these companies had become negative to the extent of Rs.64,358 crore as on 31 March 2007. Due to the negative net worth, recovery of the loans given by the Government to these companies was doubtful. The accumulated losses in these 70 government companies increased by Rs.3,362 crore, from Rs.73,193 crore in 2005-06 to Rs.76,555 crore in 2006-07.

- Out of 70 companies the equity capital of which had been eroded, 35 had been referred to the BIFR. While revival package was approved in respect of six companies, 16 were recommended for closure/winding up. The remaining 13 companies were under various stages of processing.

CAG's oversight role

- Revision of Accounts: As a result of supplementary audit by the C&AG, 12 government companies (including one listed government company) revised their accounts for the year 2006-07. The impact of the revision on the profitability of these companies was to the extent of Rs.243.66 crore.

- Impact of C&AG's comments on the accounts: Comments issued by the C&AG as a result of supplementary audit of government companies brought out overstatement of assets by Rs.71.94 crore in five companies and profit by Rs.1036.23 crore in 15 companies. Similarly, there was understatement of assets by Rs.24.18 crore in six companies, liabilities by Rs.6.38 crore in three companies, profit by Rs.55.98 crore in four companies and loss by Rs.41.36 crore in five companies.

- In the case of statutory corporations where C&AG is the sole auditor, the impact of audit observations on the accounts of three corporations was overstatement of assets by Rs.341.06 crore and profit by Rs.2.64 crore. Similarly, liabilities and loss were understated by Rs.36.32 crore and Rs.1.64 crore respectively. Assets were overstated by Rs.17.80 crore in Central Warehousing Corporation where C&AG conducts supplementary audit.

- Observations of Statutory Auditors: The Statutory Auditors appointed by the C&AG made significant qualifications in their reports in respect of 40 government companies (including deemed government companies), of which 11 were listed companies.

- In compliance with the directions issued by the C&AG under Section 619(3)(a) of the Companies Act, 1956, the Statutory Auditors reported deficiencies relating to financial controls and procedures including lack of internal control measures in respect of fixed assets, debtors, inventory and internal audit in various government companies (including deemed government companies).

- Departures from Accounting Standards: Deviations from the provisions of accounting standards in preparation of the financial statements were noticed in 32 companies and one statutory corporation by the statutory auditors. C&AG also pointed out such deviations in another 27 companies and one statutory corporation.

Corporate Governance

- Corporate Governance generally refers to the practices by which organisations are directed, controlled and held to account.

- The Board of 30 listed government companies had not been constituted as per clause 49 of Listing Agreement as there were no independent directors on the Board of nine listed government companies and the Board of 21 listed government companies did not have the required number of independent directors.

- The Board of 64 unlisted government companies had not been constituted as per DPE's guideline as there was no non-official director on the Board of 48 unlisted government companies and the Board of Directors of 16 unlisted government companies did not comprise the required number of non-official directors.

- Though the Audit Committee existed in all listed companies, the composition of the Committee in 18 listed companies was not as per Clause 49 of the Listing Agreement. As regards unlisted government companies, there was no Audit Committee in five companies leading to non-compliance with the provisions of section 292A of the Companies Act, 1956.

- To promote good governance practices, 30 unlisted government companies formed Audit Committee though not required by Section 292A of the Companies Act, 1956.

Environmental Aspect and Sustainability Reporting

- The high levels of public accountability attached to Public Sector Undertakings (PSUs) as a result of their public ownership makes socially responsible reporting by PSUs particularly important. The issue relating to social obligations of Central Public Enterprises was examined by the Committee on Public Undertakings (COPU) in 1992. Based on the recommendations of COPU, Department of Public Enterprises (DPE) issued general guidelines in November, 1994.

- A limited survey of socially responsible reporting by central PSUs in India revealed that central PSUs were yet to adopt a systematic approach towards socially responsible reporting. The 'United Nation's Global Compact' is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on them through Communication on Progress. Out of 47 PSUs which were members of the UN's Global Compact as of November 2007, 23 PSUs were recognized as active participants.

- The Global Reporting Initiative (GRI) is a large multi-stakeholders' network of experts formed with the support of the United Nations Environment Programme. The GRI Guidelines provide the most common reporting framework used in the world for social responsibility reporting. No Central Government PSU was reporting systematically in accordance with the GRI protocols.

REPORT NO. CA 10 of 2008 - UNION GOVERNMENT- COMMERCIAL- INFORMATION TECHNOLOGY APPLICATIONS IN PUBLIC SECTOR UNDERTAKINGS

This Report gives an overall assessment of the use of information technology in selected areas of operations of selected PSUs.

Salient features of the Report

This Report contains results of audit of computerised systems used in different areas of activity in ten Public Sector Undertakings under six Ministries. The IT Audit covered diverse areas of computerisation and entities operating in different sectors. Gist of some of the important paragraphs (Ministry wise) included in the Report is as follows:-

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited: System of billing and collection of Interconnect Usage Charges from other Service Providers

Interconnect Usage Charges (IUC) are the charges payable by one service provider to one or more service providers for usage of the network elements for origination, transit and termination of the calls in a multi operator environment. Collection and accounting of IUC was done manually at the Secondary Switching Areas until the Company introduced a computerised Inter Operator Billing and Accounting System (IOBAS) in 2005. IUC to the tune of Rs.527 crore pertaining to pre–IOBAS and IOBAS period remained short collected due to incorrect computation of arrear claims, short collection of Access Deficit Charges and weak internal controls associated with the computerised billing system.

MINISTRY OF DEFENCE

Garden Reach Shipbuilders and Engineers Limited: Material management in ERP system

Garden Reach Shipbuilders and Engineers Limited incurred Rs.3.76 crore upto June 2007 for the implementation of Phase-I of ERP system covering the operationalisation of Material Management Module. IT audit of the application revealed deficiencies in the customisation of the system and there were instances of inadequate input and validation controls which inhibited accurate and timely capture of data. There were deficiencies in security settings which exposed the system to the risk of unauthorized access and manipulation. The system could not carry out the function of inventory valuation in accordance with the accounting policy of the Company. Thus the system was not being utilized to its fullest extent.

Hindustan Aeronautics Limited, Bangalore:- Financial module under ERP package

Hindustan Aeronautics Limited (Company) implemented Industrial Finance System (IFS) an Enterprise Resource Planning (ERP) package in three pilot sites (i.e.) Corporate Office, Aircraft Division and Helicopter Division between July 2004 and January 2006 with the objective of implementing uniform procedure and practices, on-line information for decision making and elimination of isolated islands of automation. Acquisition and implementation of ERP package and utilisation of financial module of IFS at three pilot sites was reviewed and following were observed (i) Selection process of ERP software was not transparent as the implementing partner was also involved as consultant in assessment and finalisation of software. The Company did not obtain the System Design documentation and was wholly dependent on the vendor resulting in additional burden of recurring expenditure, (ii) IT policy including IT security policy was not formulated, (iii) Physical and logical controls were weak and the data had not been properly classified for its criticality and sensitivity and (iv) System design deficiencies led to manual interventions to reconcile the system balances and accounts balances.

MINISTRY OF FINANCE

Bharatiya Reserve Bank Note Mudran (Private) Limited, Bangalore:- Distribution and Manufacturing modules under ERP

Bharatiya Reserve Bank Note Mudran (Private) Limited, invested Rs.13.98 crore for the procurement and installation of software and hardware for Enterprise Resource Planning (ERP) with the objective of cost minimisation and quality improvement. The completion certificate was signed in May 2004. Performance of Distribution and Manufacturing modules under ERP was reviewed in audit. The major findings were (i) Inappropriate management of trained ERP core team resulted in non-utilisation of ERP system, (ii) The expected due professional care had not been exercised by the management while signing the completion certificate, (iii) Large gaps in the customisation of the package resulted in non-utilisation of the system and depriving the Company of business process re-engineering benefits, (iv) Lack of application controls like input controls and system deficiencies prevented the system from automatically detecting errors and (v) The data was not encrypted and validated with digital signature though secrecy of information handled by the Company was of utmost importance.

The Oriental Insurance Company Limited:- Integrated non-life insurance applications

The Oriental Insurance Company Limited decided (2002) to switchover to Integrated Non-Life Insurance Application Software (INLIAS) from the Front Office Computerisation system. Audit of various aspects of the implementation and operation of the application by the Company revealed that though INLIAS was planned for completion within two years from the date of agreement (August 2002), its implementation due to defective User Requirement Specifications was not complete (June 2007). The Company

software (INLIAS)

incurred extra expenditure of Rs.8.51 lakh on Virtual Private Network due to delayed 'live-on' of INLIAS. Lack of complete customization; inconsistencies and inadequacies in the design; and lack of input controls and validation checks resulted in manual interventions that made the system vulnerable to manipulation, errors and nonconformity with relevant provision of rules and regulations. Incorrect data fed into the system led to unreliability of the database. Overall, there was underutilisation of the application and the objectives of availability of on-line and accurate information for improved decision making was not fully achieved.

MINISTRY OF PETROLEUM AND NATURAL GAS

GAIL (India) Limited:- Material Management Sales and Distribution, Human Resources and Project System modules of ERP system

GAIL (India) Limited initiated a proposal of switching over to ERP in 1998 and finally completed the project in August 2005 at a cost of Rs.63.98 crore. Audit reviewed the overall performance of four of the nine modules of the system namely Material Management, Sales and Distribution, Project System and Human Resource for the period April 2005 to March 2007 in selected offices of the Company. The review revealed non-mapping of vital business requirements and functionalities and a lack of customisation and utilisation of all available features which had led to underutilisation of the ERP SAP solution. The system further suffered from lack of input controls and validation checks; therefore requiring manual intervention and thus affecting the reliability of database. These inadequacies resulted in an incompatibility of the system to meet all business requirements of the Company and risk of defective/delayed MIS reporting and decision-making.

Oil and Natural Gas Corporation Limited:- Financial Management module of ERP

In October 2003, Project Information Consolidation for Efficiency (ICE) was initiated which envisaged utilisation of all ten modules of SAP. This system was implemented across the Company between October 2003 and January 2005 at a total investment (excluding implementation cost) of Rs.81.50 crore. IT audit revealed deficiencies in customization, input controls and validation checks. These deficiencies affected cost allocation and cost accounting done in controlling modules and incorrect cost center assignment in transactions in logistics module and their subsequent flow to accounting documents. Deficiencies in validation checks led to inconsistent tasks being performed. Apart from these, migration of data from the legacy system to ICE without proper verification and cleaning led to erroneous information being stored in the system.

Oil India Limited:- Material

The Oil India Limited started (April 2005) implementation of 'Enterprise Resourse Planning' (ERP) system for improved efficiency and effectiveness in all its business processes, introduction of a system of cost management at

Management system

par with the best in the world, and continuous improvement in productivity. Audit of material management revealed lack of input and validation controls leading to incomplete data base, delay in capturing data, discrepancies in data with regard to details of vendors, transactions and excess issue of materials. Incomplete porting of data from the legacy system resulted in understatement of provisions with regard to slow moving items. Also material requirement planning was being done manually even after implementation of ERP system.

MINISTRY OF RAILWAYS

Konkan Railway Corporation Limited:- Financial Accounting module of ERP

Konkan Railway Corporation Limited (Company) developed an Enterprise Resource Planning (ERP) system known as Railway Application Package (RAP) containing 17 modules through Tata Infotech Limited (TIL) in 1995 and implemented it in 2001 at a cost of Rs.5.26 crore. By the year 2004, the Company realised that the RAP was heading for technological dead-end due to the Alpha servers going out of production and inability to get propriety development tools of Informix forms. Consequently, the Company decided (April 2004) to reengineer the RAP system to open-ended Java based system known as JRAP and assigned the job to M/s. Amritha Technologies Limited (ATL) for implementation of the system by April 2005 at a cost Rs.3.96 crore. Despite release of entire cost to M/s. ATL, all the 17 modules of the system had not been implemented till date (September 2007) except the Financial Accounting (FA) module implemented by January 2007. The Company had not carried out techno-economic feasibility study before taking up the project of migration of RAP to JRAP. As a result, the Company was facing difficulties in maintaining the system. Non migration from RAP to JRAP of all the modules even after a lapse of three years meant that the Company had to maintain both the systems without much value addition. Even in the FA module, there were critical system requirements that were not envisaged or designed. The critical interface with other modules was not possible due to non-implementation of other modules. The validation checks were inadequate resulting in controls being carried out manually. The disaster recovery and business continuity plan was not in place thereby exposing the data and the business to the potential risk of loss of data.

MINISTRY OF STEEL

Steel Authority of India Limited:- CMO IT enabled

The Company, with the aim to provide Central Marketing Organisation (CMO), with “integrated, uniform, relevant, and up-to-date information system which gives power to make decisions at the right time”, created

systems in Central Marketing Organisation

CMO IT Enabled System (CMOITES) in 2004. However, the Company failed to undertake a SDLC approach to map its business activities. As a result of incomplete mapping of business rules the entire activity of the Company has not been properly captured within the system, with the result that even after the implementation of CMOITES, various activities continued to be carried out manually. Further due to inadequate input and validation controls, reliability of the data could not be fully assured.

REPORT NO. CA 11 of 2008 –– UNION GOVERNMENT- COMMERCIAL – TRANSACTION AUDIT OBSERVATIONS

This Report includes important Audit findings noticed as a result of test check of transactions of Central Government Companies and Corporations under Section 619(3) (b) of the Companies Act, 1956 or the statute governing the particular Corporations. The results of Information Technology Audit are included in a separate volume.

Salient features of the Report

The Report contains 94 paragraphs involving Rs.1855.86 crore relating to 50 PSUs. The 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.465.39 crore due to non- maintenance of proper records, noncompliance of rules, regulations and control weakness etc., in 23 paras.
- Violation of contractual obligations, undue favour to contractors etc., amounting to Rs.378.84 crore in four paras.
- Overpayments, wasteful, excess and avoidable expenditure etc., amounting to Rs.256.01 crore in 46 paras.
- Irregular payment to employees, short accountal of inventory and non-disposal of shares etc., amounting to Rs.250.46 crore in 17 paras.
- Idle investment and blocking of funds etc., amounting to Rs.32.91 crore in three paras.
- Rs.20.71 crore were recovered at the instance of Audit in one para.

Gist of some important paragraphs included in the Report is given below:

- Inclusion of 'miscellaneous/special element' in the procurement price of levy rice resulted in undue benefit of Rs.326.21 crore being passed on to the rice millers by Food Corporation of India in Andhra Pradesh, Punjab and Haryana during 2003-04 and 2004-05.
- The State Trading Corporation of India Limited failed to ensure proper monitoring of the dispatches by a technically competent, independent agency resulting in non-recovery of Rs.119.14 crore.

- Failure to upgrade and create facilities by Oil and Natural Gas Corporation Limited to contain the basic sediments and water content in the crude oil supplies within limits resulted in loss of revenue of Rs.96.96 crore during April 2004 to October 2007.

- Implementation of a new incentive scheme by Hindustan Petroleum Corporation Limited on the basis of performance already attained by the employees and paid for under an existing incentive scheme led to payment of unproductive incentive of Rs.76.26 crore during 2006-07.

- Short accountal of storage gain in wheat valuing Rs.58.17 crore in Food Corporation of India Punjab region as compared with Haryana region during 2004-05 and 2005-06.

- Recovery of burnt oil below the achievable level of 47.70 per cent by seven subsidiaries of Coal India Limited resulted in loss of revenue to the extent of Rs.55.30 crore during the period 2002-03 to 2006-07. Moreover, spilling of toxic waste would cause irreparable damage to the environment.

- The maintenance cost guarantee claims of Rs.51.74 crore lodged in January 2002 by Indian Airlines Limited were rejected by M/s. International Aero Engines as the Company failed to furnish cost records for material and labour consumed by the Company.

- Oil Marketing Companies viz., Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited incurred avoidable loss of revenue of Rs.47.14 crore on sale of liquefied petroleum gas at concessional rate to ineligible category of customers during July 2002 to April 2003.

- Indian Airlines Limited made an irregular payment of Productivity Linked Incentive of Rs.19.35 crore per annum to officers of the Company in violation of the scheme approved by the Board of Directors resulting in an extra financial burden of Rs.43.54 crore on the Company from January 2005 to March 2007.

- Expenditure of Rs.43.29 crore incurred in March 2001 by Indian Oil Corporation Limited on infrastructure for production of Butene–I proved unfruitful due to failure to ensure the guaranteed quality of feed stock.

- Actual period of custody and maintenance was not considered for fixation of interest charges for wheat procured by Food Corporation of

India from State agencies in Punjab and Haryana resulting in avoidable payment of Rs.38.68 crore during 2002-03 and 2003-04.

- Indian Renewable Energy Development Agency Limited suffered a loss of Rs.30.28 crore between February 2000 and April 2002 due to disbursement of loan to an ineligible borrower in contravention of its financial guidelines.

- Central Coalfields Limited sustained a revenue loss of Rs.29.27 crore during the years 2003-04 to 2006-07 due to shortfall in dispatch of raw coal feed to Gidi washery from the linked mines, thereby foregoing the price advantage in supplying washed coal.

- Indian Oil Corporation Limited incurred a wasteful expenditure of Rs.28.44 crore due to lack of due and diligent risk assessment before participating in an exploration and production joint venture in 2001.

- Interest charges at 9.10 per cent in place of Food Corporation of India rate of interest at 8.15 per cent was paid to the State Agencies for procurement of Custom Milled Rice resulting in excess payment of Rs.26.03 crore during Kharif Marketing Season 2004-05 and 2005-06.

- Indian Oil Corporation Limited failed to assess the design parameters of available inputs realistically resulting in idle investment of Rs.19.79 crore since November 2005 in Sulphur Recovery Unit and an interest liability of Rs.1.99 crore on the investment.

- During the years 2004 and 2007 the Steel Authority of India Limited made irregular payment of cash reward amounting to Rs.21.29 crore to its employees in contravention of the guidelines issued by Department of Public Enterprises.

- Sixteen PSUs recovered Rs.20.71 crore during 2006-07 on account of nonrecovery, short recovery, undue payment, excess payment, excess allowance of discount etc., at the instance of Audit.

- Food Corporation of India, Haryana suffered a loss of Rs.5.39 crore in disposal of bajra during 2003-04 due to delay in fixation of rates. An opportunity to realize Rs.9.57 crore more on sale of bajra during 2004-05 was also lost due to nonconsideration of market rates.

- UTI Asset Management Company Private Limited did not allocate indirect sales administration expenses of Rs.13.37 crore incurred by it during February 2003 to March 2006 to the mutual fund schemes resulting in loss of revenue.

- Bokaro Power Supply Company (Private) Limited imported 0.46 lakh MT of coal during 2005-06 on the ground of acute shortage without reviewing the actual availability and consumption pattern, resulting in avoidable extra expenditure of Rs.12.31 crore.

- In disregard of the recommendations of the Committee on Public Undertakings, Air India Limited had not quantified the excess amount paid during the years 1998-99 and 1999-2000 to a sales agent; continued to extend undue favour to the same party; did not recover an amount of Rs.11.66 crore out of Rs.13.82 crore.

- Air India Limited did not finalise the tender for cabin crew accommodation despite securing a tender at rates lower than the rates payable as per the existing contract and consequent extension of prevailing contract for three years resulting in extra expenditure of Rs.10.87 crore for the period from December 2004 to November 2007.

REPORT NO. CA 12 of 2008 -–
UNION GOVERNMENT- COMMERCIAL- TRANSACTION AUDIT OBSERVATIONS - TELECOMMUNICATIONS SECTOR

This contains the observations on individual topics of interest in the course of audit of the Companies under the Ministry of Telecommunications, Department of Telecommunications.

Salient features of Report

This Audit Report contains 37 paragraphs having financial implications of RS.1795.62 crore. The findings set out in this Report are among those which came to notice during the course of audit based on test check of the records of the Companies mainly during 2006-07 as well as the earlier part of 2007-08.

BHARAT SANCHAR NIGAM LIMITED

Bharat Sanchar Nigam Limited (BSNL) was incorporated on 15 September 2000 as a wholly owned Central Government Company under the Companies Act, 1956. At the end of March 2007, BSNL had a network of 37,808 telephone exchanges with an equipped capacity of 526.75 lakh lines. For the year ended 31 March 2007, BSNL earned Rs.34616.21 crore from its services. The net profit stood at RS.7805.87 crore. Major important findings included in the Report are as follows:-

- Deficiencies in billing and collection of charges for providing infrastructure facilities resulted in non-billing of infrastructure charges; port charges; incorrect fixation of charges; non-recovery of interest on delayed payments; non-recovery of prescribed dues in respect of surrendered ports and consequent non-realisation of revenue of Rs 35.26 crore from private service providers, besides accumulation of dues of Rs 71.89 crore due to control weakness.

- Failure of Andhra Pradesh, Madhya Pradesh and Orissa telecom circles as well as 12 Secondary Switching Areas under Bihar, Jharkhand, Uttar Pradesh (East), Uttar Pradesh (West) and West Bengal telecom circles to maintain fault free and/or functional Village Public Telephones led to loss of subsidy of Rs 31.26 crore for the period April 2003 to March 2007.

- Failure of Dimapur Secondary Switching Area under North Eastern – II Telecom Circle to follow the codal provision to reconcile the working telephone connections with the connections billed led to continuous generation of unaddressed telephone bills resulting in loss of revenue of Rs 3.62 crore.

- Failure of two Secondary Switching Areas under Andhra Pradesh Telecom Circle to issue rental bills at higher rates commensurate with the enhanced total capacity of exchanges resulted in short billing of Rs 2.35 crore.

- Procurement of cable, exchange equipment and other stores for landline telephone service by BSNL without considering the declining trend in the subscriber base of landline telephony and the past consumption pattern of stores, resulted in excess procurement, idling and underutilization of these stores valued at Rs.794.32 crore.

- The Hyderabad Telecom District augmented its existing mass calling intelligent network without any requirement. The management failed to forecast the growth in MCIN traffic over a period of time and hence the MCIN could not be optimally used. This resulted in unfruitful expenditure of Rs 14.20 crore on its augmentation.

- Fifty eight secondary switching areas under 11 circles did not avail the cheaper Bill Mail Service provided by the Department of Post for dispatch of telephone bills to its customers. This resulted in extra expenditure of Rs. 15.06 crore.

- Principal General Manager, Bangalore Telecom District under the Karnataka Telecom Circle hired personnel for upkeep services in excess of sanctioned strength resulting in irregular extra expenditure of Rs 8.18 crore.

- BSNL paid higher rate of commission to a franchisee for sale of India Telephone cards resulting in undue favour to the franchisee and consequent loss of Rs 5.33 crore during November 2005 to September 2006.

MAHANAGAR TELEPHONE NIGAM LIMITED

Mahanagar Telepone Nigam Limited (Company) was incorporated in February 1986 under the Companies Act, 1956. The overall capacity utilisation of telephone exchanges went down from 79 per cent in 2002-03 to 58 per cent in 2006-07 due to lack of demand. The number of cellular mobile telephones had increased from 2.92 lakh in 2002-03 to 27.47 lakh in 2006-07. The number of public telephones also increased from 2.04 lakh in 2002-03 to 2.79 lakh in 2005-06. During 2006-07, the Company earned Rs 4909.32 crore from its services. The profit before tax was Rs 1008.38 crore and after providing for tax, the net profit stood at Rs 681.73 crore. Further, one major financial reporting issue relating to non-provision of liability of Rs 988.75 crore on account of post retirement medical benefits of the employees on adhoc basis was referred to DoT for its considered attention. Major important findings included in the Report are as follows:-

- MTNL procured Wireless-in-Local Loop equipment for its Delhi and Mumbai units without proper assessment of its requirement. This resulted in non-utilisation of the equipment and consequent infructuous expenditure of Rs 219 crore.

- MTNL procured WLL Fixed Wireless Terminals/Hand Held Terminals for its Delhi unit without forecasting and assessing quantity requirement based on the projected growth of WLL. Inadequate planning resulted in excess procurement of FWT/HHT and consequent infructuous expenditure of Rs 48.60 crore.

- Procurement of Digital Loop Carrier systems by the Mumbai and Delhi units of MTNL without properly assessing its requirement based on market survey or any other scientific method resulted in non/ underutilization of DLCs valuing Rs 33.02 crore.

ITI LIMITED

Indian Telephone Industries Limited, Bangalore was incorporated in January 1950 as a Company and was renamed as ITI Limited in January 1994. The Company was incurring losses since 2002-03. Major important findings included in the Report are as follows:-

➢ The Company received advance purchase orders from BSNL for supply of Integrated Fixed Wireless terminals of ZTE model and furnished a Corporate Performance Guarantee (CPG) of Rs 9.90 crore. The Company placed orders for the supply of these terminals to Hindustan Futuristic Communications Limited (HFCL) without proper bank guarantee. HFCL failed to supply the desired number of terminals to the Company and BSNL short closed the order with Company and recovered Rs 19.80 crore of the CPG against the supply bills. The Company, however, could recover only Rs 9.40 crore by invoking the performance bank guarantee and adjusting from pending bills of HFCL. The Company suffered a loss of Rs 10.40 crore.

Officers in the office of the Comptroller and Auditor General of India who may be contacted for detailed information on Audit Reports

Category	Report No.	Name and Designation of the Officer	Telephone Number
Civil	13 of 2007	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	PA 11 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	PA 12 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	PA 13 of 2008	Shri Niranjan Pant, Director General, Performance Audit	**23237726**
	PA 1 of 2008	Shri Niranjan Pant, Director General, Performance Audit	**23237726**
	CA 1 of 2008	Shri Niranjan Pant, Director General, Performance Audit	**23237726**
Defence Services	PA 4 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	PA 5 of 2008	Shri Niranjan Pant, Director General, Performance Audit	**23237726**
	CA 4 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	CA 5 of 2008	Shri Niranjan Pant, Director General, Performance Audit	**23237726**
Scientific	PA 14 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
Departments	PA 19 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	PA 2 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
	CA 3 of 2008	Shri P. K. Kataria, Principal Director (Report Central)	**23230586**
Railways	PA 8 of 2008	Shri J.N. Gupta, Director General (Railway)	**23237274**
	CA 6 of 2008	Shri J.N. Gupta, Director General (Railway)	**23237274**
	PA 18 of 2008	Shri J.N. Gupta, Director General (Railway)	**23237274**
Revenue Receipts	PA 7 of 2008	Shri Jayanti Prasad, Principal Director, Indirect Taxes	**23230486**
	CA 8 of 2008	Ms Mathai Rebecca, Principal Director, Direct Taxes	**23217328**
	PA 6 of 2008	Shri Jayanti Prasad, Principal Director, Indirect Taxes	**23230486**
	CA 7 of 2008	Ms Mathai Rebecca, Principal Director, Direct Taxes	**23217328**
Autonomous	PA 3 of 2008	Ms Malashri Prasad, Director General, Autonomous Bodies	**23239374**
Bodies	CA 2 of 2008	Ms Malashri Prasad, Director General, Autonomous Bodies	**23239374**
Commercial	PA 9 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**
	PA 15 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**
	PA 16 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**
	CA 9 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**
	CA 10 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**
	CA 11 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**
	CA 12 of 2008	Shri P. K. Mishra, Principal Director (Commercial)	**23239560**

Web site: http://www.cag.gov.in