सत्यमेव जयते

Report of the Comptroller and Auditor General of India for the year ended 31 March 2017

भारतीय लेखापरीक्षा और लेखा विभाग
INDIAN AUDIT AND ACCOUNTS DEPARTMENT
सत्यमेव जयते

Union Government (Commercial)
No. 11 of 2018
(Compliance Audit Observations)

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Laid on the table of Lok Sabha/Rajya Sabha ____________

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PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 143(6) of Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to the supplementary audit by CAG whose comments supplement the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by CAG.

2. The statutes governing some Corporations and Authorities require their accounts to be audited by CAG. In respect of five such Corporations viz. Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation, the relevant statutes designate CAG as their sole auditor. In respect of one Corporation viz. Central Warehousing Corporation, CAG has the right to conduct supplementary and test audit after audit has been conducted by the Chartered Accountants appointed under the statute governing the Corporation.

3. Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984.

4. The Audit Report for the year 31 March 2017 contains 53 individual audit observations relating to 31 CPSEs under control of 13 Ministries/Departments. Instances mentioned in this Report are among those which came to notice in the course of audit during 2016-17 as well as those which came to notice in earlier years. Results of audit of transactions subsequent to March 2017 in a few cases have also been mentioned.

5. All references to 'Companies/Corporations or CPSEs' in this Report may be construed to refer to 'Central Government Companies/Corporations' unless the context suggests otherwise.

6. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

I Introduction

1. This Report includes important audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

2. The Report contains 53 individual observations relating to 31 Central Public Sector Enterprises (CPSEs) under 13 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 39 observations were not received even as this Report was being finalised as indicated in para 3 below. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

3. The paragraphs included in this Report relate to the CPSEs under the administrative control of the following Ministries/Departments of the Government of India:

Ministry/Department (CPSEs involved)		Number of paragraphs	Number of paragraphs in respect of which Ministry/Department's reply was awaited
1.	Chemical and Fertilizers (FACT and MFL)	1	1
2.	Civil Aviation (AASL, AAI and AIL)	7	6
3.	Coal (BCCL, CCL, NLC India Ltd.)	5	3
4.	Commerce and Industry (MMTC and PEC Ltd.)	2	0
5.	Finance (Cent Bank Home Finance Ltd., IFCI Infrastructure Development Ltd., India Infrastructure Finance Company Ltd., and OICL)	5	5
6.	Heavy Industries and Public Enterprises (BHEL and Hindustan paper Corporation Ltd.)	2	1
7.	Housing and Urban Affairs (DMRC)	1	1
8.	Mines (Hindustan Copper Ltd.)	1	1

9.	Petroleum and Natural Gas (Balmer Lawrie & Co. Ltd., BPCL, GAIL (India), HPCL, IOCL, ONGC, ONGC Petro additions Ltd.)	13	8
10.	Power (NTPC Ltd., NTPC-SAIL Power Co. Pvt. Ltd., PGCIL)	3	3
11.	Road Transport and Highways (NHAI)	8	5
12.	Steel (SAIL)	4	4
13.	Textiles (NHDC)	1	1
Total		**53**	**39**

4. Total financial implication of audit observations is ₹4578.15 crore.

5. Individual Audit observations in this Report are broadly of the following nature:

- ❖ Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹730.53 crore in 14 audit paragraphs.
- ❖ Non-safeguarding of financial interest of organisations involving ₹1917.70 crore in 18 audit paragraphs.
- ❖ Defective/deficient planning involving ₹1894.40 crore in 19 audit paragraphs.
- ❖ Inadequate/deficient monitoring involving ₹35.52 crore in 02 audit paragraphs.

6. The Report contains a Chapter on "Recoveries & corrections/rectifications" by CPSEs at the instance of audit. The Chapter contains two paragraphs viz. (a) recoveries of ₹72.10 crore made by 20 CPSEs at the instance of Audit, and (b) corrections/rectifications carried out by 4 CPSEs at the instance of Audit.

II Highlights of some significant paragraphs included in the Report are given below:

At the time of sanction of loan of ₹900 crore to M/s Jaypee Infratech Limited, India Infrastructure Finance Company Limited (IIFCL) failed to realistically assess the expected revenue from real estate development of 2500 hectares of land along the 165 km expressway between Noida and Agra even though the real estate component in the project was critical for its viability. IIFCL sanctioned and disbursed the loan at a time when the real estate industry was in strain and real estate development of the project was stalled due to restrictions imposed by the National Green Tribunal on construction activities around 10 km radius of Okhla Bird Sanctuary. IIFCL also unduly relaxed pre-commitment conditions and disbursed the loan amount though the project company was under severe financial crunch. These led to doubtful recovery of dues of ₹1089.89 crore.

(Para 5.3)

The Commission paid to the distributors of LPG by Indian Oil Corporation Limited included two components namely, establishment cost and delivery charges. Delivery charge was not to be charged to customers who collected the cylinders from the premises of the distributors and hence should have been excluded from the price paid by the consumers. Non-exclusion of delivery charges by Indian Oil Corporation Limited while communicating Retail Selling Price of LPG to its Rajiv Gandhi Gramin LPG Vitrak (RGGLV) distributors resulted in additional burden on the consumers and extension of undue favour to the distributors of RGGLV to the tune of ₹280.45 crore during October 2012 to March 2017.

(Para 9.6)

Non-adherence to the guidelines issued by the Ministry of Finance requiring Public Sector Life Insurance Companies to charge premium adequate to cover the incurred claims and other expenses while underwriting the group health insurance policies by Oriental Insurance Company Limited resulted in under charging of premium by ₹145.26 crore during 2014-15 to 2016-17.

(Para 5.5)

Delhi International Airport Limited (DIAL) charged an amount of ₹115.63 crore (till 31 March 2016) to Passenger Service Fee (Security Component) Escrow Account towards rent in respect of accommodation provided to Central Industrial Security Force (CISF) at Monkey Farm, Mahipalpur, New Delhi, on notional basis i.e. without incurring any cost for providing the accommodation. Charging rent for CISF accommodation on notional basis was against the provisions of State Support Agreement and Standard Operating Procedure for Accounts/Audit of Passenger Service Fee (Security Component). This resulted in a deficit to PSF (SC) Escrow Account by ₹115.63 crore.

(Para 2.3)

At the time of internal credit appraisal for sanction of loan to four Special Purpose Vehicle companies incorporated by M/s Concast Infratech Limited, IIFCL assigned different risk scores against the financial and execution capabilities of the core promoter for the four projects, though it was based on same set of information. This led to sanction of loan to technically and financially weak promoter. Disbursement of loan without adhering to Reserve Bank of India guidelines led to release of funds disproportionate to the actual progress of the projects. Eventually, the projects were terminated and loan disbursals of ₹76.46 crore had to be written off.

(Para 5.4)

National Highways Authority of India (NHAI) completed a project relating to strengthening and upgradation of Karur-Coimbatore Section of National Highway-67 in June 2010 at a cost of ₹279.14 crore. Two toll plazas were constructed on the stretch at a cost of ₹7.35 crore and a gazette notification for commencement of toll collection was issued in December 2014. However, the toll collection was not commenced due to instructions received (March 2015) from the Ministry of Road Transport and Highways directing that NHAI should carry out substantial improvement on the stretch as per Rule 4(11) of its notification dated December 2013. Despite the fact that NHAI had already carried out substantial improvement as defined in the notification of December 2013, it did not bring this fact to the notice of the Ministry and complied with the latter's instructions not to commence toll collection. This resulted in loss of revenue of ₹142.28 crore from 31 January 2015 i.e. the scheduled date of commencement of toll collection to 31 December 2017.

(Para 11.8)

National Highways Authority of India (NHAI) entered into (March 2012) a concession agreement (CA) for six laning of Vijayawada-Gundugolanu section of National Highway- 5. As the concessionaire did not commence the work till August 2016, NHAI issued a notice of termination to the concessionaire on 26 August 2016. By that time, an amount of ₹99.27 crore had become recoverable from the concessionaire on account of damages due to non-achievement of project milestones (₹79.82 crore) and damages on account of maintenance obligations (₹19.45 crore). Though NHAI had security in the form of Performance Bank Guarantees aggregating to ₹84.20 crore deposited by the concessionaire and a balance of ₹56.08 crore as fixed deposits in the Escrow account, it neither encashed the bank guarantees nor recovered the dues from the Escrow account. Consequently, damages of ₹99.27 crore along with interest thereon as per the applicable provisions of the agreement remained unrecovered (November 2017).

(Para 11.1)

National Highways Authority of India (NHAI) entered into (March 2006 to September 2007) concession agreements in respect of four projects related to widening of the existing two-lane portion to four lanes on the National Highway 7 in the State of Andhra Pradesh. The projects were completed between March 2009 and June 2010. The concessionaires did not commence the work relating to renewal of wearing surface of the roads within five years of the completion of projects as stipulated in the concession agreements. The renewal work was completed belatedly in three projects and was yet to be completed in one project. However, NHAI failed to recover from the concessionaires damages amounting to ₹85.19 crore leviable under the agreements for delayed/non-completion of work.

(Para 11.2)

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

(Para 9.7)

Bharat Coking Coal Limited (BCCL), one of the coal producing subsidiaries of Coal India Limited is engaged in mining, washing and distribution of coal to meet the energy requirement of its consumers. BCCL mines steel grade coal which is precious, fetches higher revenue and is sold without washing due to lower ash content (below 18 *per cent*). BCCL, however, blended steel grade coal with inferior washery grade coal in its four washeries during 2013-14 to 2015-16 instead of supplying the steel grade coal directly to customers. This has resulted in loss of additional revenue of ₹95.09 crore worked out on a conservative basis.

(Para 3.1)

Bharat Coking Coal Limited (BCCL), a subsidiary of Coal India Limited (CIL), is engaged in mining of coal from opencast and underground mines. In the opencast mines of BCCL, departmental production is carried out with the help of Heavy Earth Moving Machineries such as shovels, dumpers, dozers etc. BCCL procured 100 tippers of 35 tonne capacity (December 2013 to January 2014) replacing dumpers of the same capacity. The decision to purchase tippers for replacing dumpers without assessing technical feasibility of such change and obtaining technical views on the advisability of such change resulted in poor utilisation of the newly procured tippers. This led to improper expenditure of ₹79.59 crore.

(Para 3.2)

Nagaland Pulp and Paper Company Limited (NPPCL), a subsidiary of Hindustan Paper Corporation Limited (HPCL) was declared a sick industrial company in August 1998 by BIFR. Government approved the revival package of NPPCL in June 2013. Accordingly, HPCL, being the promoter company, received (September 2013) ₹100 crore from Government for implementing the revival plan of NPPCL, with instructions to follow an escrow account mechanism for ensuring proper utilisation of the sanctioned funds. While sanctioning the funds, Government had mandated explicitly that no fund would be diverted under any circumstances and utilisation certificate was to be furnished by HPCL within a period of one year from the date of issue of the sanction. Audit observed that an amount of ₹47.63 crore has been utilised on implementation of revival package in NPPCL and the balance amount of ₹52.37 crore has been diverted by HPCL. Neither was the escrow account mechanism followed nor was utilisation certificate submitted by HPCL in violation of Government orders. The diversion, besides being improper, adversely affected implementation of the revival process of NPPCL.

(Para 6.2)

Out of the three compressors installed at Gas Compression Plant (GCP) of Central Tank Farm (CTF) Ankleshwar Area-1 one compressor with capacity of 1.17 LCMD suffered major breakdown in July 2014. Due to delay in dismantling process to identify defects in the engine and tendering, the engine could be replaced only after one year (June 2017) from the date of breakdown. In the meantime, an alternative arrangement should have been in place by December 2014 to compress the associated gas received at the CTF. Company however, initiated action to hire a compressor only in November 2015 gas compressor was commissioned only in March 2016. Delay in hiring of low pressure gas compressor by Oil and Natural Gas Corporation Limited, led to avoidable flaring of gas and consequent loss of revenue of ₹9.83 crore during the period from March 2015 to March 2016.

(Para 9.10)

Cent Bank Home Finance Limited (CBFFL) did not adhere to its own laid down credit policy while sanctioning and disbursing loans to individual borrowers. Documents based on which loans were sanctioned had deficiencies which were not considered. Loans were sanctioned without adequate security or checking repaying capacity of the borrowers. Due diligence was not carried out to ascertain indebtedness, credit-worthiness and credit exposure of the borrowers. This led to the loan accounts becoming NPA and their subsequent write-off.

(Para 5.1)

The Airports Authority of India (AAI) is entrusted with the responsibility for creating, upgrading, maintaining and managing civil aviation infrastructure both in air and on surface in the country. AAI operates 137 airports (including international, domestic, custom and civil enclaves at defence airfields). AAI has been modernizing the airports and undertaking construction and repair and maintenance work for creating world class facilities at airports. Audit reviewed 11 out of 18 construction contracts exceeding ₹10 crore, executed by AAI in its Northern Region, over the 5 years from 2012-13 to 2016-17.

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

(Para 2.2)

Airline Allied Services Limited (AASL) operates in the domestic market and provides connectivity between Tier 2 and Tier 3 cities in synergy with its parent company Air India, as a feeder airline to its network. The Company received viability gap funding (VGF) for its operations in North-East and other parts of the country. The Company had submitted its proposal under the Regional Connectivity Scheme announced (October 2016) by Ministry of Civil Aviation for 26 routes against which 15 routes, where no other bidders had submitted bids, were awarded to AASL. AASL had accumulated losses of ₹1746 crore as on 31 March 2017 and its net worth was fully eroded and was (-) ₹1344 crore.

Audit observed that the losses incurred by the Company and its negative net worth could be attributed to deficiencies in assessment of economic viability of leased aircrafts, extensive grounding of aircrafts due to shortage of pilots and lack of spares. The absence of support agreement and float engine agreements resulted in prolonged grounding of aircrafts and payment of infructuous lease rental of ₹29.63 crore apart from potential revenue losses. Audit further observed that inadequate provisions in the agreements governing payment of viability gap funding resulted in outstanding dues of ₹72.95 crore from State Governments, North Eastern Council and other agencies. Deficiencies in maintenance of the aircrafts and failure to engage approved agencies for maintenance resulted in redelivery conditions not being met and the company being compelled to opt for expensive buyouts, long disputes with the lessor of aircraft and infructuous lease rental payments of ₹22.73 crore during the intervening period. This also resulted in retention of significant amount of Maintenance Reserves by the lessor.

(Para 2.1)

Power Grid Corporation of India Limited had diversified into telecom business in October 1998. Diversification into telecom business by the Company was commendable and enabled the Company to operate in two important service areas viz. Power and Telecom. However, the Company could not achieve the projected market share in telecom business and though the business has been earning profits since 2009-10, it is yet to achieve payback which was anticipated by 2007. There were inadequacies in the pricing methodology followed by the Company. The multiplication factor adopted to scale up tariff for higher capacities was low, which adversely impacted revenue. Pricing of Indefeasible Right to Use contracts was inconsistent with different methods applied for different contracts, leading to lower revenue for the business. The discounts offered by the Company on ceiling tariff were neither transparent nor non-discriminatory. Shortcomings were noticed in sharing of revenue with State transmission utilities for using transmission assets for telecom business.

The financial impact of observations worked out to ₹412.88 crore.

(Para 10.3)

The five integrated steel plants of Steel Authority of India Limited (SAIL) held a total land of 101598 acres. SAIL possessed title deeds of only 48.15 *per cent* of the available land. One steel plant did not possess title deeds for its entire land. Audit noted that 4016 acre land was under encroachment while 16492 acre was vacant and unused as of 31 March 2017. Apart from this, 8500 acre land was under lease. About 50 *per cent* of the encroached land was held by one steel plant.

No signboards/ barbed wire fencing/ compound wall were installed/ constructed to prevent encroachment, despite Board's directives in July 2015/2016. The Company did not take adequate measures to evict the encroachments though it was aware of it and even after eviction orders had been passed by the Estate Court. In a number of cases, existing lessees of the Company had encroached area outside the leased area and instances were noticed where lease holders were running restricted trades or had undertaken unauthorised construction. Company failed to enter into formal lease agreements with a number of lessees while in other cases it failed to renew existing leases.

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

The financial impact of audit observations worked out to ₹596.18 crore.

(Para 12.3)

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

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

The financial impact of the audit observations regarding sale of secondary and by-products in the sample scrutinized is ₹107.19 crore.

(Para 12.2)

Steel Authority of India Limited (SAIL) requires about 15 MMT (Million Metric Ton) coking coal annually, of which 12-13 MMT is imported either through global tenders or through Long Term Agreements. The Company's Coal Import Group (CIG) is responsible for import of coal while the Transport and Shipping Department (TSD) is responsible for chartering of vessels for overseas transport of imported materials. Value of annual coal imports ranged between ₹6937 crore to ₹11,656 crore during 2013-14 to 2016-17, which was 15 to 22 *per cent* (approx) of the Company's total expenditure annually.

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

The financial impact of audit observations cited in the para is ₹319.98 crore.

(Para 12.1)

Government of India introduced Yarn Supply Scheme in 2011-12 to make available all types of hank yarn at the price at which it was available at the Mill Gate to the eligible handloom weavers so as to facilitate regular supply of raw material to the handloom weavers and to achieve the full employment potential of the sector.

The National Handloom Development Corporation Limited is the designated national level Agency for implementation of above scheme for which the Corporation received ₹302.72 crore as assistance including subsidy for road transportation charges and service charges for the period 2014-15 to 2016-17. Review of implementation of above scheme during the period 2014-15 to 2016-17 revealed that the envisaged objectives of Yarn Supply scheme were not fully achieved since only 4.58 lakh handlooms were covered under the scheme out of 23.77 lakh handlooms in the country as per census 2009-10. Majority of share of subsidy was passed on to the exporters and large Co-operative societies rather than to individual weavers even though they own 45 per cent of the handlooms in the country. The main reasons for low coverage of the individual weavers were insufficient infrastructure facilities such as depots, mobile vans etc., lack of publicity and awareness about the scheme and inadequate marketing facilities. Resultantly, individual weavers were deprived of the benefit of purchasing smaller quantity of yarn from the nearest depots within minimum delivery time and remained dependent on the master weavers and handloom societies for marketing of their products. During 2014-15 to 2016-17, the Company reimbursed ₹53.68 crore as depot charges to exporters registered as beneficiaries in Haryana and Tamil Nadu though these exporters were using all the yarn for their internal consumption without any further supply to individual weavers. The monitoring mechanism of the scheme was also not effective, which resulted in delay in supply of yarn.

(Para 13.1)

CHAPTER I: MINISTRY OF CHEMICALS AND FERTILIZERS

The Fertilizers and Chemicals Travancore Limited & Madras Fertilizers Limited

1.1 Excess contribution to employees' provident fund

The Fertilizers and Chemicals Travancore Limited and Madras Fertilizers Limited made employer's contribution to provident fund at a rate exceeding the prescribed rate of contribution resulting in excess payment of ₹18.50 crore.

The Employees' Provident Funds (PF) and Miscellaneous Provisions (Amendment) Act, 1988, effective from 22 September 1997, revised the rates of employer's contribution to provident fund from 8.33 *per cent* and 10 *per cent* of wages to 10 *per cent*[1] *and* 12 *per cent*[2] respectively. In terms of Government of India (GOI) notification[3] dated 09 April 1997, the increased rate was not applicable, *inter alia*, to the following establishments:

(i) A sick industrial company which has been declared as such by the Board for Industrial and Financial Reconstruction (BIFR)

(ii) An establishment which had, at the end of any financial year, accumulated losses equal to or exceeding its entire net worth and also suffered cash losses.

Audit observed that the accumulated losses of the Fertilizers and Chemicals Travancore Limited (FACT) had exceeded its net worth in March 2013. During the years 2013-14 to 2016-17, the accumulated losses of FACT continued to remain in excess of its net worth and the Company also suffered cash losses. Madras Fertilizers Limited (MFL) was declared (April 2009) as a sick company under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 by BIFR. MFL continued to remain a sick company as of 31 March 2017. Thus, both the companies were required to make employer's contribution to provident fund at the concessional rate of 10 *per cent* instead of 12 *per cent.* These Companies, however, continued to make contributions at the enhanced rate of 12 *per cent* which resulted in excess contribution of ₹12.66 crore by FACT during the period 2013-14 to 2016-17 and ₹5.84 crore by MFL during the period 2010-11 to 2016-17.

The Management of FACT replied (September 2017) that the increased rate was being continued to maintain the peaceful industrial relations. Further, limiting of provident fund contribution to 10 *per cent* was an enabling provision for sick/loss making companies and was not a mandatory provision. The Management of MFL replied (October 2017) that the PF Act did not prohibit a sick company to contribute at 12 *per cent*, and the Company had

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[1] ***As per Section 6 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (Act), the lower rate of employer's contribution (viz. 10 per cent) was applicable in respect of all establishments other than those covered under the first proviso to Section 6***

[2] ***The first proviso to Section 6 of the Act provided that the Central Government, after making such enquiry as it deems fit, may, by notification in the Official Gazette specify, that the rate of employer's contribution in respect of an establishment or class of establishments shall be 12 per cent instead of 10 per cent***

[3] ***This notification was issued in exercise of the powers conferred by the first proviso to Section 6 of the Act***

consciously taken decision to continue with the contribution at 12 *per cent* in view of its policy to make contributions at a rate equal to the employees' contribution.

The replies of the Companies need to be viewed against the fact that the increased rate of employer's contribution was not applicable to the sick/loss making establishments in terms of GOI's notification (April 1997). The said notification was issued by the Government in exercise of the powers conferred by the first proviso to Section 6 of the Employees Provident Funds and Miscellaneous Provisions Act, 1952. As such, the same was required to be followed.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airline Allied Services Limited

2.1 Review of operations of Airline Allied Services Limited

2.1.1 Introduction:

Airline Allied Services Limited (AASL) was incorporated in September 1983 as a wholly owned subsidiary of erstwhile Indian Airlines Limited (IAL) (now Air India Limited) and commenced its operations from 1996 under the brand name 'Alliance Air'. AASL was intended to operate and function with pilots/ engineers recruited from the market on contractual basis, as a lean and thin organisation and to have a competitive and low cost structure as compared to IAL.

AASL operated in the domestic market and provided connectivity between Tier 2 and Tier 3 cities. It operated in synergy with Air India as a feeder airline to its network. The administrative, logistic and other support were provided to the company by its parent company i.e. Air India Limited. The Company received viability gap funding (VGF) for its operations in North-East and other parts of the country. The Company had submitted its proposal under the Regional Connectivity Scheme announced (October 2016) by Ministry of Civil Aviation for 26 routes against which 15 routes, where no other bidders had submitted bids, were awarded to AASL. AASL had accumulated losses of ₹1746 crore as on 31 March 2017. The net worth of the company was fully eroded and was (-) ₹1344 crore. The details of financial performance of the Company are given in the table below:-

Financial Position of AASL

(₹ in crore)

	2013-14	2014-15	2015-16	2016-17
Revenue from operations	241.69	226.63	268.20	366.19
Other income	0.70	1.32	5.66	9.62
Total income	242.39	227.95	273.86	375.81
Expenditure	495.35	416.42	476.25	668.48
Loss for the year (after exceptional and extraordinary items)	249.40	183.92	198.75	282.72

The company operated aircrafts all of which were leased aircrafts. The details are given in the table below:

Fleet Position of AASL

Aircraft type	Whether on lease or owned	As on 31 March 2014	As on 31 March 2015	As on 31 March 2016	As on 31 March 2017
ATR 42-320	Leased	04	04	03	02
CRJ 700	Leased	04	04	03	00
ATR 72-600	Leased	00	02	05	08
Total		**08**	**10**	**11**	**10**

The objective of audit was to assess the efficiency, effectiveness and economy of operations of AASL during the period from 2014-15 to 2016-17. The criteria adopted for the audit included norms and guidelines for operation and maintenance of aircrafts, provisions of service level agreements and agreements entered into with lessors of the aircrafts, decisions of Board of Directors, Standards for crew deployment and provisions of Memorandum of Understanding (MoU) entered into with North Eastern Council (NEC) and other State Governments/agencies. AASL did not furnish information listed at **Annexure-I** to this Report.

Audit had reviewed the operations of AASL for the period 2008-09 to 2010-11 and audit findings were presented in Paragraph 2.3 of CAG's Report No.8 of 2012-13, Compliance Audit Report (Commercial). Action Taken Note on the audit findings was, however, awaited from the Ministry of Civil Aviation, Government of India (January 2018).

2.1.2 Audit findings:

2.1.2.1 Acquisition of Aircrafts on lease

All the aircrafts in the existing fleet of the Company were to be re-delivered [1]during the years 2014 and 2015 (ATR 42-320 aircrafts by February 2014 and CRJ Aircrafts by July 2015). In view of this, AASL invited bids to acquire eighteen ATR-72-600 aircrafts on lease basis, to maintain uninterrupted operations, as per details given below:

Sl. No.	Dates of invitation /finalisation of tenders	No. of aircrafts & Delivery schedule as per tender	Name of lowest bidder and number of aircrafts	Aggregate monthly cost per aircraft	Schedule of delivery
1.	November 2013/ May 2014	8 (February 2014 to December 2014).	M/s Avation for 2 aircrafts M/s GECAS for 3 aircrafts	USD 332933 USD 336152	December, 2014 to October 2015
2.	September 2014/ October 2015	3 (2015-16)	M/s Elix Aviation Capital Limited, Dublin for 3 aircrafts	USD 315589	April 2016-July 2016
3.	January 2016/ December 2016	10 (2016-17)	M/s Dubai Aerospace Enterprises (DAE) Limited for 10 aircrafts	USD 307386	May 2017 onwards

Audit scrutiny of the bidding process revealed that the committee formed for evaluating the financial viability of leasing of eight aircrafts listed at Sl. No. 1 did not find the proposal financially viable. Thereafter, the parameters affecting the financial viability were revised twice (April 2013 and August 2013) to make the lease proposal financially viable. However, audit review of operations of aircrafts during 2015-16 and 2016-17 revealed that the actual performance relating to parameters used for assessment of financial viability was lower than those considered for calculation of financial viability as detailed in the table below:

Parameters	Parameter as per assessment	Actual performance	Difference
Maximum block hours utilised per aircraft	3654	2266	1388
Seat factor (%)	76	68.6	7.4
Revenue per km in ₹	13.19	10.00	3.19

Audit also noted that no evaluation of financial viability was carried out before initiating the procedure for acquisition of 10 aircrafts listed at Sl. No. 3 of table in the year 2016-17 despite the actual performance of newly inducted aircrafts being available.

[1] ***The aircrafts taken on operating lease are returned to the lessor upon expiry of the lease terms. The lease agreements specify delivery conditions to ease transferability of the asset to a follow-on lessee***

The Management stated (November 2017) that estimates were reworked on the basis of the parameters normally assumed in aviation industry parlance. The company was financially not in a position to acquire the aircraft on outright purchase basis. The route economics could be worked out on actual basis only after the Company commenced operations on the routes. The Management further intimated that for the year 2017-18 (up to September 2017) Aircraft utilisation had increased to 7.98 hours per day per aircraft (i.e. approx. 3000 Block Hours per annum).

The reply was not acceptable because as per records, the estimates were modified to make the proposal appear as economically viable. Further, details of the parameters stated by the Company as normally adopted in aviation industry were not made available to audit. Although, the company was financially not in a position to purchase aircrafts, the fact remained that the analysis did not include comparison of cost of acquisition through outright purchase and the cost of leasing. Further, the utilisation (7.98 hours) as mentioned in the reply is also less than the utilisation of 10.01 hours per day per aircraft assumed while assessing economic viability.

2.1.2.2 Availability of Pilots and utilisation of aircrafts

The fleet operated by AASL included three types of aircrafts viz. CRJ 700, ATR 42-320 and ATR 72-600. On the basis of standard norm of 5.25 sets[2] of pilots required for effective and optimum utilisation of each aircraft, the requirement of pilots for operation of the available aircrafts and their actual availability for the period covered in audit are given in the table below:

Availability of Pilots

Period	Type of aircraft											
	CRJ				ATR 42				ATR 72			
	AA	NR	AP	S	AA	NR	AP	S	AA	NR	AP	S
2014-15	3.83	40	21	48	3.67	39	41	-	1.33	14	12	14
2015-16	3.00	32	15	53	2.75	29	22	24	4.00	42	21	50
2016-17	2.44	26	7	73	2.00	21	16	24	7.5	79	47	41

Notes: AA= Average number of aircrafts available
NR= Normative requirement of Pilots (No.)
AP= Actual number of Pilots available
S = Shortage (in %)

It may be seen from the above that the Company faced shortage of pilots for operating all the types of aircraft in all the years from 2014-15 to 2016-17 except in respect of ATR 42 for the year 2014-15. The shortage in availability of pilots ranged between 14 *per cent* (in year 2014-15 for ATR 72 type of aircrafts) and 73 *per cent* (in year 2016-17 for CRJ type of aircrafts).

Audit observed that there was underutilisation of all types of aircraft during the period 2014-15 to 2016-17. The utilisation of aircrafts during the period 2014-15 to 2016-17 was as given in table below:

[2] *one set includes one Commander Pilot (P-1) and one Copilot (P-2)*

Utilisation of Aircrafts

	CRJ			ATR 42			ATR 72		
Period	**TA**	**TU**	**UU**	**TA**	**TU**	**UU**	**TA**	**TU**	**UU**
2014-15	8200	4208	49	8650	6362	26	625	401	36
2015-16	5233	2441	53	6509	4866	25	11117	6273	44
2016-17	3283	1796	45	5267	4411	16	20325	13217	35
Total	**16716**	**8445**	**49**	**20426**	**15639**	**23**	**32067**	**19891**	**38**

Note: TA= Total effective availability[3] (in hrs)
TU= Total utilisation (in hrs)
UU= Under utilisation (in %)

It is seen from the table that the underutilisation ranged from 16 *per cent* for ATR 42 aircraft in 2016-17 to 53 *per cent* for CRJ aircraft in 2015-16. One of the reasons for the underutilisation of aircrafts was the shortage of pilots. However, in the absence of information furnished by Company, the extent of underutilisation could not be assessed in audit.

The Management in its reply (November 2017) attributed the shortage of pilots to the existing pilots leaving the Company upon induction of ATR-72-600 in place of CRJ aircrafts and to lack of pilots trained to fly ATR-72-600. The company stated further that efforts made to hire pilots to ensure required availability did not materialise.

The reply of the Management indicated that the availability of pilots was not addressed while leasing the aircraft resulting in inefficient utilisation of aircrafts.

2.1.2.3 Maintenance and Grounding of Aircrafts

Audit observed that aircrafts had to be grounded for prolonged periods due to non-availability of spares, components and float engines as detailed below:

A. Grounding of ATR 72-600 fleet

A.1 Delay in component support arrangement

Induction of ATR 72-600 aircrafts commenced in December 2014. The company, however, did not invite tenders for component/spares arrangement at the time of induction. Instead, an Interim Maintenance Services Agreement (IMSA) was entered (July 2015) into with M/s ATR for supply of component/spares. A tender for component support arrangement was floated in February 2016, against which bids were received but were not finalised. AASL, however, decided (October 2016) to include ATR 72-600 aircrafts under the existing Global Maintenance Support Agreement (GMSA) for ATR 42. A comparison (October 2016) of the cost of repairs for the period January 2016 to March 2016 under GMSA and IMSA by AASL revealed that repairs under GMSA were cheaper by ₹0.93 crore. The differential amount for the entire period of IMSA from July 2015 to December 2016, were, however, not furnished by the Company (February 2018). Substantial savings may have accrued if the component support arrangements were made through competitive bidding or if the ATR 72-600 aircrafts were included under the GMSA instead of entering into IMSA from induction stage.

[3] ***The total effective availability was calculated after reducing the actual period of groundings. Further, the availability of aircrafts was considered at par with envisaged utilisation in absence of details of routes available***

A.2 Delay in float engine arrangement

The Company considered (April 2013) maintenance of 12 *per cent* of total number of engines as float to avoid groundings due to engine failures, but did not implement the proposal. Consequent to the engines of two different aircrafts developing snags during May 2016, a request for proposal (RFP), from known vendors was called (June 2016) for repair of the damaged engines and to take on loan two engines for the intermediary period. Instead of awarding the work to the lowest bidder, it was decided (June 2016) to take the engine on loan basis and get the damaged engines repaired from M/s Pratt & Whitney, Canada (PWC) who was third lowest bidder, after negotiations. This was in violation of guidelines of Central Vigilance Commission (CVC) issued on 20 January 2010 mandating negotiations with the lowest bidder only, except in exceptional circumstances. Audit also observed that as per the offer submitted by M/s PWC, the Turn Around Time (TAT) for repair of engines was 45 days, but such stipulation was not incorporated in the agreement. Both the engines were sent for repair in July 2016 and repair was completed in February 2017 and May 2017. Audit observed that in the absence of arrangements for float engines, one aircraft remained grounded from 18 May 2016 to 24 July 2016 for which period, a rent of ₹2.96 crore was paid by the company.

Even though the engines of two aircrafts developed snags in May 2016, the proposal to maintain a float inventory of two engines was considered only in December 2016 and was finalised in August 2017 after delay of 2.5 years from the date of induction of ATR 72-600 aircraft, in December 2014 and 14 months after the two engines developed (May 2016) snags.

The Management stated (November 2017) that the company inducted new ATR 72-600 aircraft, which were not heavy on repair and maintenance. Hence, company preferred IMSA as an interim arrangement. Further, tender was floated for taking two overhauled engines in March 2017. Since no bidder matched the technical requirements, a fresh tender was issued in June 2017 which was finalised in August 2017. Contract for repair and provision of two engines was awarded to M/s Pratt & Whitney as M/s PWC (SEA) had original equipment manufacturer (OEM) facility and such facilities would have access to a pool of spares and spare engines of OEM.

The reply is not acceptable since the provision of components/spares and float engine were considered while preparing the cost estimates (April 2013) and their cost was included in the estimated cost of acquisition of aircrafts. Hence, arrangements for assured supply of components/spares and float engine for optimal utilisation of aircraft should have been ensured. Further, the fact that Request for Proposal for float engines was called from known vendors indicated that vendors other than M/s PWC were also available and could have been availed of by the Company.

B. Grounding of CRJ fleet

Audit observed that 3110 flying days were available during the three years i.e. 2014-15, 2015-16 and 2016-17, for operation of the aircrafts in CRJ fleet. Out of this, four CRJ aircrafts viz. VT RJB, VT-RJC, VT-RJD and VT-RJE were grounded for 595 days[4] i.e.

[4] ***595 days have been worked out after considering 5 per cent of the fleet availability for scheduled/unscheduled maintenance. (626-31=595 days)***

19.13 *per cent* of total 3110 flying days. Excess grounding resulted in payment of lease rental amounting to ₹19.59 crore for the idle period as given in **Annexure-II**.

Further audit review indicated that,

- Aircraft VT-RJD was grounded for a period of 322 days[5] between November 2013 and January 2016 due to non-availability of spares. The lease rentals paid during the period of grounding was ₹27.39 crore of which ₹10.28 crore[6] pertained to the period of audit. The aircraft was put into operation in January 2016 after repair, however, it was again grounded from February 2016 to August 2016 (123 days) during which a lease rent of ₹3.99 crore was paid. Thereafter the aircraft flew for two months before redelivery of the aircraft to the lessor. Further, as the aircraft was underutilised for a period of 1526 days out of 2738 days, an amount of ₹0.48 crore was paid to lessor towards such underutilisation (56 *per cent*) till June 2016 as per lease conditions of this agreement

- Even though a tender for comprehensive engine support arrangement was floated (August 2008) after the fleet was inducted in October 2007, the tender has not been finalised (January 2018). Absence of float engine arrangement resulted in prolonged grounding of aircraft/s due to snag/failure of engine. Aircraft VT-RJC remained grounded for 230 days from December 2010 to July 2011 and 569 days from June 2012 to January 2014. As the above period of grounding did not come under the period of audit, the lease rentals for the grounded period has not been included in this report.

- AASL was required to pay Maintenance Reserve (MR) on monthly basis as per the agreement entered into with various lessors. The MR was required to be utilised on a subsequent date upon the occurrence of eligible maintenance event. In order to claim the MRs, the eligible activities were required to be undertaken at Maintenance Repair and Overhaul (MRO) facilities approved by the Federal Aviation Administration (FAA), or the European Aviation Safety Agency (EASA). However, audit observed that most activities eligible for claiming MR were carried out by agencies which were not approved by FAA/EASA. As a result, the required reimbursements could not be claimed and the accumulated MRs were passed on to the lessor at the time of redelivery without utilisation.

The Management stated (November 2017) that aircraft VT-RJD was grounded for prolonged period due to major maintenance. Since the Company was facing liquidity crunch, the grounding of other aircrafts was avoided by cannibalising the spares and components of this aircraft to other aircrafts in its CRJ fleet. Further, engine support for CRJ aircrafts could not materialise as shortlisted vendor placed stringent conditions overriding the tender conditions. The cost of leasing engines to be used as float engine was high and hence, in-house facilities were used to reduce ground time and cost . This also provided greater control to the Company.

The reply is not acceptable for the following reasons:

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[5] ***Grounding period is considered after excluding the period of credit hold imposed for Auxiliary Power Unit, engine, spares and 77 days for 'C' Check & Airworthiness Review Certificate***

[6] ***Dollar exchange rate as on 31 March of respective year has been considered***

(i) While cannibalizing of parts of VT-RJD aircraft has been carried out by swapping 197 different parts to other aircrafts belonging to CRJ fleet, during the period from 11 December 2013 to 4 January 2016, the underlying reason for the shortage of spares leading to cannibalization was liquidity problems faced by the Company. The suppliers of spares had also placed the Company on credit hold for 250 days during the period from 25 February 2014 to 12 November 2015.

(ii) The Company stated (March 2018) that cannibalization of aircraft components was against its policy as it rendered the aircrafts unserviceable and also incapable of generating any revenue.

(iii) The cost of float engine had also been considered while assessing the financial viability for leasing of CRJ Fleet. The optimal utilisation of aircrafts necessitated spares/float engine arrangement.

Therefore, the grounding of aircrafts resulting in payment of lease rentals for idle period was largely due to liquidity issues faced by the Company, which needs to be addressed on a priority basis to avoid extensive cannibalisation of parts against the stated policy of the Company.

C. Grounding of ATR 42-320 fleet

Audit observed that 3144 flying days were available for operation of four aircrafts belonging to ATR 42-320 fleet, during three years from 2014-15 to 2016-17. Out of these, four aircrafts were grounded for 677 days[7] i.e. 21.53 *per cent* of total 3144 flying days. The grounding of aircrafts resulted in payment of lease rental for this period amounting to ₹7.08 crore apart from loss of opportunities to earn revenue during the period as given in **Annexure-III**.

Further, audit observed that aircraft VT-ABA was grounded (September 2013) for yearly check but it remained grounded for 425 days till November 2014 due to lack of spares and consequent cannibalisation of aircraft, leading to payment of idle lease rent of ₹4.81 crore.

The Management stated (November 2017) that due to acute liquidity crunch, payments to vendors for GMSA were delayed and the company was put on credit-hold leading to groundings. The aircraft VT-ABA was grounded for major maintenance but by cannibalizing the spares and components of this aircraft to other aircrafts of ATR 42-320 category, the fleet was kept operational.

The reply was not acceptable since management was in the business of operating aircrafts and hence, maintenance of stock of critical spares/components was necessary.

2.1.2.4 Memorandum of Understanding with various agencies for payment of Viability Gap Funding

AASL had been providing services to various State Governments and North Eastern Council, on the basis of Viability Gap Funding (VGF) provided by the concerned State

[7] ***677 days have been worked out after considering 5 per cent of the fleet availability for scheduled/unscheduled maintenance. (713-36=677 days)***

Government/agency as per Memorandum of Understanding (MoU) entered into with them. A review of operations covered under various MoUs revealed that an amount of ₹72.95 crore was recoverable from the beneficiary agencies/ States as given in **Annexure-IV.**

The Management replied (November 2017) that in the case of Bangalore-Puducherry-Bangalore sector & Bengaluru and Mysuru sector; the operations were started in anticipation of sufficient passenger load. In respect of Kolkata-Durgapur-Kolkata sector, the operations were stopped at the explicit request of BAPL. In respect of Kochi-Agatti sector, enhancement of the hourly cost was taken up with Lakshadweep Administration/MHA but the same was not agreed to. Further, in respect of operations in North Eastern Region, Management stated that vigorous efforts are being made to realize the sum of ₹60.91 crore. The Company has been continuously/vigorously taking up the matter with the State Governments / agencies for realisation of outstanding VGF/dues.

The reply was not acceptable since unrealistic projections/assumptions on potential traffic were adopted while agreeing to operate the flights. Resultantly, the assured VGF got exhausted before the expected term of operation. Further, no penal provision to safeguard the interests of the Company were included in the Agreements. Consequently, the dues could not be recovered.

2.1.2.5 Redelivery of aircrafts

The aircrafts were required to satisfy certain redelivery conditions at the time of redelivery upon expiry of the lease term as per the lease agreements entered into with lessors. In case these conditions were not met, the lessee had to undertake the repair prior to redelivery or actual payment had to be made to the lessor in lieu of non-compliance with such conditions. Monthly payments were also required to be made by lessee towards maintenance reserve (MR) as per lease agreement. The MR was required to be utilised for meeting expenditure on certain maintenance activities (eligible events) at EASA/FAA approved Maintenance Repair and Overhauling (MRO) centres during the lease term or for satisfying the conditions at the end of lease term. However, Audit observed that AASL failed to fully utilize such accumulated MRs since the eligible activities were not carried out at the FAA/EASA approved MRO centres. This resulted in retention of balance MRs amounts to USD 8.92 million[8] by the lessor at the time of redelivery. Further non-fulfillment of redelivery conditions, compelled AASL to opt for buyout/ redelivery settlement option at USD 6.494 million[9] and the time taken for finalisation of such arrangement also resulted in payment of additional lease rental of USD 3.226 million (equivalent to ₹22.73 core) during the intermediate period. The details of payment are given in **Annexure-V.**

The Management replied (November 2017) that the liability for payment of lease rent/MR ceased only after the aircraft was duly accepted by the Lessor and considering the long period required for completion of redelivery processes, it was considered financially prudent to opt for redelivery buyout. Regarding the residual amount of MR remaining unutilised, it was stated that the same remained with the lessor as per the lease

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[8] ***Amount in equivalent Rupees could not be worked out due to non-availability of dates of actual payments made by AASL to lessor***

[9] ***Amount in equivalent Rupees could not be worked out due to non-availability of dates of actual payments made by AASL to lessor***

agreement. In case of aircraft VT-RJE no Lease Rent and MR had been paid to the Lessor after August 2016 and any further pay-out upto January 2017 would be included in the buy-out settlement of redelivery.

The Management agreed that non-maintenance of aircrafts as per redelivery requirements compelled AASL to opt for buyout alternative. The transfer of unutilised MRs to the lessor was admitted by the management. The AASL would be liable to pay lease rent until the redelivery aircraft VT-RJE was duly accepted by the lessor.

2.1.2.6 Outdated Delegation of Powers and Non-existence of manuals

The rules governing Delegation of Administrative and Financial powers in AASL were framed in 1996 with no updation / amendments carried out in 21 years in spite of changes in the magnitude of business and quantum of expenditure. Resultantly, there were instances when the required approval of the competent authority as mentioned in the delegation of powers were not obtained. Further, the company did not prepare manuals for carrying out various activities of different departments/sections. This resulted in absence of written guidelines, procedures and practices for evaluation of the specific activities or functions of departments.

The Management replied (November 2017) that the instrument of delegation of powers shall be updated shortly on the lines suggested and as per evolving business needs and that preparation of manuals for each department would be undertaken on priority basis.

2.1.2.7 Lack of internal controls in mapping of revenue

Passenger revenue or ticketing of passengers was major source of revenue for AASL. Audit observed that the filing of fares for all the sectors operated by Alliance Air was being done by Air India. The sales were being mapped through the revenue accounting system of Air India. AASL received ticket-wise, coupon-wise details of revenue from Air India. The company was relying on the debit/credit advice given by the parent company. No system for reconciliation of the details received with the real time data was prevalent in AASL in the absence of which, correctness of the details received could not be assessed in audit.

The statutory auditors and the internal auditors in their report relating to financial year 2015-16, had also expressed their inability to comment upon completeness and accuracy of such transactions and recommended the need for reconciliation.

The Management replied (November 2017) that the number of discrepancies were minimal and that AASL was contemplating its own reservation and ticketing system through online portal.

2.1.3 Conclusion

The losses incurred by the Company and its negative net worth could be attributed to deficiencies in assessment of economic viability of leased aircrafts, extensive grounding of aircrafts due to shortage of pilots and lack of spares. The absence of support agreement and float engine agreements resulted in prolonged grounding of aircrafts and payment of infructuous lease rental of ₹29.63 crore (₹2.96 crore due to delay in float engine arrangement, ₹19.59 crore due to excessive grounding of CRJ aircrafts and ₹7.08 crore due to grounding of ATR 42-320 Aircrafts) apart from potential revenue losses. Inadequate provisions in the agreements governing payment of viability gap funding resulted in outstanding dues of ₹72.95 crore from State governments, NEC and other agencies. Ineffectiveness in maintenance of the aircrafts and failure to engage approved agencies resulted in redelivery conditions not being met and the company being compelled to opt for expensive buyouts, long disputes with the lessor and infructuous lease rental payments of ₹22.73 crore during the intervening period. This also resulted in retention of significant amount of Maintenance Reserves by the lessor.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

Airports Authority of India

2.2 Review of execution of contracts for construction of runway, buildings and other structures at airports in Northern Region

2.2.1 Introduction

The Airports Authority of India (AAI) came into existence on 01 April 1995 by merging the International Airports Authority of India with the National Airports Authority. AAI is entrusted with the responsibility for creating, upgrading, maintaining and managing civil aviation infrastructure both in air and on surface in the country. AAI operates 137 airports (including international, domestic, custom and civil enclaves at defence airfield).

The AAI has been modernising the airports by expanding/ constructing new terminal buildings, runways, aprons, taxiways etc. to create world class facilities for passengers and other users at the airports. In addition, AAI has been undertaking construction and repair and maintenance works on deposit work basis[10].

Audit conducted a review of construction contracts exceeding ₹10 crore, executed by AAI in its Northern Region, over the five years from 2012-13 to 2016-17. The objective of the review was to assess efficiency and effectiveness of planning for development of airport infrastructure, awarding and execution of contracts and system of monitoring of the works executed by AAI. Out of 18 construction contracts exceeding ₹10 crore each, 11 contracts as listed in **Annexure-VI** were selected for review in Audit. These contracts were examined with reference to provisions of policy of Ministry of Civil Aviation (MoCA) on airports infrastructure, Works Manual of AAI, Technical Instructions issued by AAI as well as guidelines issued by Central Vigilance Commission (CVC) from time to time.

2.2.2 Audit Findings

2.2.2.1 Time Overrun of work

Audit observed that out of 11 contracts reviewed, 10 contracts were completed with a delay ranging from three months in respect of construction of new Integrated Terminal

[10] ***The term 'Deposit works' is applied to works of constructions or repair and maintenance, the cost of which is not met out of funds of AAI, but being financed from funds from Government of India or other public sector undertakings, which may have to be deposited with AAI***

Building at Chandigarh International Airport to 61 months in respect of Balance work of construction of New Terminal Building at Khajuraho airport as detailed in **Annexure-VI**. The reasons for delay attributed to AAI were non-availability of site, delay in obtaining environmental clearance, approval from Director General of Civil Aviation (DGCA)[11] and Notice to Airmen (NOTAM)[12], delay in approval of drawings and change in the scope of work after award of contracts. Reasons for delay in individual contracts as analysed in audit are as under:

A. Delay in completion of work of runway at Jaipur Airport

The work for extension and strengthening of runway at Jaipur airport was approved by Board of Directors of AAI in June 2008. However, the work was deferred due to austerity measures. Based on the decision of the Board of Directors in its meeting held on 21 December 2010, tenders were invited for the work in April 2011. The work, however, could not be awarded to the lowest bidder viz. M/s B.R. Arora & Associate Private Limited as the Central Bureau of Investigation (CBI) had registered a case against the agency for fraudulent work at other airports (Varanasi and Lucknow).

The work was retendered in October 2011 after including CAT-II lighting system in its scope and was awarded (April 2012) to the successful bidder viz. M/s GHV India Private Limited at ₹76.47 crore. However the contractor could not start the work till October 2012 due to non-availability of NOTAM which was received only on 28 October 2012. Subsequently, DGCA imposed restriction (7 November 2012) from December 2012 to February 2013 on all construction works at Jaipur airport due to necessity to use Jaipur as an alternate airport for Indira Gandhi International Airport, Delhi during foggy weather that prevailed during the above period. In view of this AAI foreclosed (December 2012) the contract.

Tenders were invited again in July 2013 and the work was awarded (December 2013) to M/s GR Infraprojects Limited at ₹95.92 crore. The scheduled date of completion of the work was 1 July 2015. Subsequently, on the instructions of the Directorate General of Civil Aviation (DGCA) to equip Jaipur Airport with CAT-III B lighting, the scope of work awarded to M/s GR Infraprojects was increased (January 2015) by ₹20.47 crore approx. The work under this contract could not also be started till March 2014, due to non-availability of NOTAM.

Audit observed that, as per clause 11.1.1 of the Works Manual of AAI, the AAI was required to initiate action for taking over possession of work site immediately after accord of technical sanction to the detailed estimates. For taking over the work site, AAI was required to obtain NOTAM from DGCA. However, AAI did not initiate the process of obtaining mandatory approval for NOTAM from DGCA before award of runway work. This contributed to a delay of 15 months (December 2012 to March 2014) and additional expenditure of ₹19.45 crore, as compared to the value of work in the

[11] ***Technical Instruction (TI) No. 101 dated 21 July 2014 of AAI states that for all licensed AAI managed airports prior approval from DGCA is required before commencement of any work. Further it states that Concept/Design Stage safety assessment should be done before tendering and DGCA approval for the same should be obtained well in advance to avoid delay in execution***

[12] ***A Notice to Airmen (NOTAM) is a notice filed with an aviation authority to alert aircraft pilots of potential hazards along a flight route or at a location that could affect the safety of the flight. NOTAM is part of Aeronautical Information Services regulated as per Civil Aviation Requirements issued under the Aircraft Rules, 1937***

foreclosed contract awarded to M/s GHV India Private Limited, which was attributable to the increase in the price indices. Further, due to revision in the scope of work, the work was delayed by another 8.5 months beyond the scheduled completion date.

The Management stated (December 2017/January 2018) that all the activities of subject work were taken up on time by AAI at different levels and that there was no delay on their part. Prolongation of execution of work/contract, if any, was due to the procedure, circumstances/delays at different levels/units situated at different locations/stations. AAI further stated that in order to streamline the various processes involved in CAT III B work, AAI has brought out (February 2017) a Standard Operating Procedure for the same. It further added that increase in cost was due to increase in cost indices.

Reply of the Management was not acceptable as they did not obtain approval for NOTAM from DGCA till March 2014. Thus delay of 15 months had already occurred before increasing the scope of the contract due to introduction of CAT III-B system in January 2015.

B. Delay in completion of work of Solar Photo Voltaic Power Plant at Jaipur Airport

A licensed airport is required to seek prior approval of the safety regulator i.e. the Director General of Civil Aviation (DGCA) for aerodrome projects that change/add facilities, infrastructure, that may affect the safety of aircraft operation as per Rule 83(2) of Aircraft Rules, 1937. AAI awarded (February 2016) to M/s. Ujaas Energy Limited the work of Supply, Installation, Testing and Commissioning of Ground Mounted 1800 kWp Solar Photo Voltaic Power Plant without obtaining required approval from DGCA. The work was scheduled to be completed by August 2016. However, AAI applied for the approval of DGCA only in July 2016. DGCA granted the approval only in January 2017 due to non/delayed submission of necessary documents by AAI. Thus due to poor planning on the part of AAI, the work was yet to be competed (January 2018). Resultantly, AAI lost an opportunity to save an amount of ₹0.26 crore due to non-availability of envisaged generation by solar PV system, during the period September 2016 to January 2018.

The Management stated (December 2017/January 2018) that this being a design based tender, the design height and site plan was to be prepared by the agency after award of work. After approval of the design submitted by the agency, height clearance was obtained from the No Objection Certificate (NOC) cell of AAI and documents were submitted to DGCA for approval. DGCA asked for glare clearance analysis which involved engaging specialised agency and submission of report which took additional time. The Management further stated that the delay was due to getting NOC and DGCA approval (January 2017) and accordingly Detailed Project Report, Array structure and Bill of Material could be approved subsequently.

Reply of the Management indicated that the Management did not anticipate the requirements of work as well as necessary documents that would be required by DGCA for granting approval to the above work. Thus, against the estimated period of six months required for completion of the work indicated in the Letter of Award, the work remained incomplete (January 2018) even after a lapse of 18 months since the scheduled completion date in August 2016.

C. Delay in construction of Office Complex and Central Air Traffic Flow Management (C-ATFM) Center at New Delhi

The Board of Members of AAI approved (October 2012) the work of implementation of Central Air Traffic Flow Management (C-ATFM), New Delhi at an estimated cost of ₹180.77 crore which included an amount of ₹37.38 crore related to the construction of Office Complex and C-ATFM Center at Moti Bagh. After a visit by Member (ANS), the location of the project was changed (October 2014) from Moti Bagh to Vasant Kunj after considering the space and facilities like auditorium, conference rooms etc. available at the Indian Aviation Academy at Vasant Kunj. At Vasant Kunj, the construction work of Office complex and C-ATFM was awarded (January 2016) to M/s Sunehari Bagh Builders Private Limited for an amount of ₹11.53 crore with scheduled completion period of 12 months from the date of award of the work. Audit observed that the work was yet to be completed and the progress achieved was 89 *per cent* till February 2018.

Failure of the Management in assessing the suitability of land at Moti Bagh for construction of Office Complex and C-ATFM center as well as possible cost savings through use of common facilities like auditorium, conference rooms etc. already being developed at Indian Aviation Academy at Vasant Kunj led to change of location of Office Complex and C-ATFM center, two years after approval by the Board and resulted in delay in awarding the work and its completion.

The Management stated (November 2017/January 2018) that the main reasons attributed to delay in completion of work were initial delay in handing over of site by AAI, closure of works by National Green Tribunal (NGT) in National Capital Region and slow progress of work on the part of contractor etc. Due to change in location of site, the consultant had to re-work all the designs thereby consuming more time for submission of the revised drawings. The Management also stated that the site was changed on administrative grounds and there was no financial burden on AAI. While audit agrees that there was no additional financial burden, the fact remains that the time overrun resulted in delayed execution of work.

D. Delay in completion of work of construction of Indian Civil Aviation Academy and its Hostel Block, New Delhi

The Board of Members of AAI approved (February 2011) the work of construction of Indian Civil Aviation Academy and its hostel block. AAI awarded the consultancy work to M/s KNY Projects Private Limited for the design, drawing etc. for the project in February 2012 and the contract for construction work could finally be awarded to M/s C&C Construction Limited in April 2013 after a lapse of 25 months from the date of approval of the Board. The scheduled completion date of the project was November 2014.

Audit observed that there was further delay of 39 months (November 2014 to January 2018) and 99 *per cent* of work was completed till January 2018. Of this, delay of six months was attributed to AAI due to delay in transfer of complete site and non-availability of drawings. The balance delay of 33 months was due to the slow progress of work and limited deployment of resources by the contractor for which AAI recovered (upto September 2017) ₹3.50 crore as liquidated damages.

The Management stated (November 2017/January 2018) that there was no delay in award of contract and that the consultant completed the work as per scope of work. Further, there was an initial delay in handing over the site to the agency due to non-receipt of approval from the Forest Department for the cutting of trees. The reply of the Management did not clarify the reasons for delay of one year in appointment of the consultant.

E. Delay in completion of work of construction of new Civil Enclave[13] at Jaisalmer Airport

Board of Members of AAI approved the construction of new Civil Enclave at Jaisalmer Airport in February 2008. The bids invited in November 2008, for construction of Main Terminal Building including allied works were not considered (March 2009) since the rates quoted were very high as compared to the estimated cost. The work was re-tendered in August 2009 and awarded in March 2010 to M/s Era Infra Engg. Limited at contract price of ₹32.60 crore with the scheduled completion period of 12 months from the 25th day after the date of issue of letter of award (LOA). The LOA was issued pending environmental clearance, which was received from the Ministry of Environment & Forest (MoEF) in May 2010. Audit observed that against the scheduled completion date of April 2011, the work was completed in February 2013 after a delay of 22 months. AAI got 'in-principle approval' from Bureau of Civil Aviation Security (BCAS) and DGCA in August 2017 for operating New Civil Enclave.

Audit observed that even after more than nine years from the date of approval of the project, the new Civil Enclave was not operational (September 2017). As a result of this the projected revenue of ₹26.30 crore (from 2009-10 to 2016-17) could not be generated.

The Management informed (December 2017/January 2018) that the airport has been operationalised in October 2017.

F. Delay in completion of construction of New Terminal Building at Khajuraho Airport.

Board of Members of AAI approved the construction of New Terminal Building Complex at Khajuraho in February 2006. The work was awarded (June 2007) to M/s IDEB Construction Project Private Limited at ₹57.81 crore with scheduled completion period of 15 months calculated from the 10th day after issue of the letter of award. M/s. IDEB could complete work valuing ₹9.57 crore upto February 2009 and the contract was rescinded (February 2009) due to non-performance by the contractor. The balance work was valued at ₹50.95 crore and contract was awarded (December 2009) to M/s Avantika-GHRA (JV) (at the risk and cost of M/s IDEB). The scheduled completion date of the project was 2 December 2010. The work was finally completed on 31 December 2015 after a delay of 61 months.

Audit observed that there were repeated revisions of the ground floor plans and first drawings during the contract period which resulted in changes in the locations of various installations and facilities and delayed the completion of project. Consequently, while considering final extension of time, delay of 27 months (approx.) was attributed to AAI

[13] ***A civil enclave is an area allotted for the use of civil aircraft and civil aviation related services at an airport belonging to the Armed Forces***

on account of reasons such as change in ground floor plan, delay in finalisation of drawings of fire detection & alarm systems, inclusion of additional floor and delay in approval of alternate variety of granite for flooring after ban imposed on approved variety etc.

Remaining delay of 34 months was attributed to contractor for which maximum Liquidated Damages amounting to ₹5.09 crore[14] was levied. However on a petition of the contractor, the City Civil Court Hyderabad passed an order against AAI in June 2017 holding AAI responsible for all delays. AAI has, however, filed an appeal against the decision of the Court.

The Management stated (January 2018) that an appeal under Section 37 of the Arbitration and Conciliation Act, 1996, has been filed (August 2017) in High Court of Judicature for the State of Telangana and Andhra Pradesh and further action will be taken as per the directions of Hon'ble Court.

The Management reply was not acceptable as the appeal was for considering the delay attributable to the contractors and levy of LD accordingly. The reply of the Management is silent about the delay of 27 months that was attributable to AAI due to repeated revisions of ground floor plan and first drawings during contract period and highlight lapses on the part of the Management in proper planning and co-ordination in execution of works.

2.2.2.2 Deficiencies in Planning, Pre award and Execution activities

A. Undertaking of unviable Projects

Ministry of Civil Aviation formulated a 'Policy on Airport Infrastructure' in November 1997. Sub-para (7) of Para 14 titled 'Financing of Airport Infrastructure' of the said policy provided that AAI would invest only in projects with demonstrated economic viability and positive rate of return and wherever Government compels AAI to invest in a unviable project for the fulfilment of social objectives, the initial capital cost of the project and the recurring annual loss sustained by AAI on this account, would be reimbursed.

Audit observed that AAI did not adhere to the above policy in the following cases:

A.1 New Civil Enclave at Jaisalmer Airport

Despite the fact that the work of new Civil Enclave was not economically viable, AAI undertook and completed (February 2013) the work incurring an expenditure of ₹32.15 crore. However, the new Civil Enclave could not be operationalised till September 2017 as brought out in Para 2.1.5 above. *This issue was highlighted in Report 9 of C&AG of India for the year 2017 (Para No. 2.3(a)).*

A.2 Kishangarh Airport

Feasibility Report of the airport prepared in August 2012, pointed out that Kishangarh Airport was not economically viable considering the traffic movement of aircrafts and passengers at 3300 and three lakh per annum, respectively, adopting 2015-16 as the

[14] ***At the rate of 1.5 per cent of contract value per month of delay subject to maximum of 10 per cent of contract value***

base year. A growth rate of 6 *per cent* for first year, 8 *per cent* for next 10 years and 10 *per cent* for further 10 years was assumed in the report. The Feasibility Report stated that even if Government of India provided the cost of development of Kishangarh Airport, the Airport was not viable as the Internal Rate of Return was negative. The Report recommended levy of user development fee (UDF) at the rate of ₹250 per departing and ₹100 per arriving passenger, to make the airport economically viable.

AAI approached (August 2012) Planning Commission for 'in-principle' approval and budgetary support for Kishangarh Airport. 'In-principle' approval was received in September 2012, subject to the condition that the requisite land would be made available by the Government of Rajasthan. Planning Commission also suggested that development of airport through PPP mode should be explored as Grants-in-aid would not be granted. The Board approved (April 2013) the development of Kishangarh Airport at an estimated cost of ₹160.05 crore on the directions (January 2013) of Ministry of Civil Aviation (MoCA) to AAI to obtain approval of its Board for funding of the project. AAI incurred an expenditure of ₹91.93 crore up to September 2017 on developing the airport and the work was in progress. Further, AAI has estimated a net surplus of ₹15.74 crore over a period of 25 years (from 2017-18 to 2040-2041) of operations of Kishangarh Airport, as apprised to Board of Members in their 153 meeting held on 18 April 2013.

Audit observed that AAI did not explore the possibility of development of airport on PPP mode. Further, the decision of the Government of India/MoCA not to extend/commit any budgetary support/Grants-in-aid to the unviable project of Kishangarh Airport was also not in line with the 'Policy on Airport Infrastructure' referred above.

The Management stated (January 2018) that with the introduction of Regional Connectivity Scheme the construction of infrastructure at Kishangarh would be justified.

Though, as per 'Policy on Airport Infrastructure' referred above, the capital expenditure incurred on the development of an unviable airport like Kishangarh Airport and operating losses likely to be sustained by AAI during the coming years, were required to be reimbursed by Ministry of Civil Aviation / Government of India, no records of efforts made by AAI to get the reimbursement was noticed in audit. AAI did not also explore the possibility of running the airport through PPP mode. Further, financing an unviable project through internal resources of AAI was in contravention of Airport infrastructure policy.

A.3 New Terminal Building at Khajuraho Airport

Board of AAI approved (2006) construction of the New Terminal Building at Khajuraho Airport at preliminary estimated cost of ₹75.32 crore as referred in para 2.1.6 above. AAI decided to fund the project from its internal resources even though the IRR of the project was negative. AAI incurred an expenditure of ₹63.01 crore (December 2015) on construction of Terminal Building. Further, in the first year after its commissioning i.e. during year 2016-17, AAI had incurred a loss of ₹30.58 crore. Audit observed that the decision of AAI to construct the new terminal building was in contravention of the Airport Infrastructure Policy. Audit did not find any evidence of the efforts made by AAI to get the capital expenditure and the loss sustained on operations of Khajuraho Airport, reimbursed from GoI/MoCA.

The Management stated (January 2018) that the temples at Khajuraho were UNESCO World Heritage Site and attracted large number of international tourists and befitting world class airport terminal was therefore required at Khajuraho.

The Management reply was not tenable as the policy on airport infrastructure clearly stated that AAI will only invest in projects with demonstrated economic viability and positive rate of return and in case of non-viable projects for the fulfilment of social objective, the initial capital cost of the projects and the recurring annual loss sustained by the AAI on this account will be reimbursed.

B. Non-adherence in conditions of Notice Inviting Tender/Works Manual/Contract Agreement

The contracts executed in AAI are governed by the terms and conditions stipulated in the Works Manual of AAI, Notice Inviting Tenders and the General conditions of contract forming part of the Contract Agreement. Audit reviewed 11 contracts and the following instances of deviations from the stipulated conditions were noticed:

B.1 Non-adherence to General Conditions of Contract

Test check of the 11 contracts revealed that deviations were noticed in respect of the following clauses of General Conditions of Contract

- **Clause 1** of the General Conditions of Contract (GCC) stipulated that contractor was required to submit an irrevocable Performance Guarantee for an amount equal to 5 *per cent* of the tendered amount, within 30 days from date of issue of letter of acceptance/ work order. The performance guarantee was to remain in force till the stipulated date of completion of the work and contractor was required to extend the validity of performance guarantee to cover any extended period for completion of work.

- **Clause 2 of the General Conditions of Contract** (GCC) relating to 'Compensation for delay' stated that in case of delay in completion of contract, liquidated damages (LD) would be levied @ 0.5 *per cent* of contract value per week of delay subject to maximum of 10 *per cent* of the contract value.

- **Clause 10 CA of the General Conditions** (GCC)**,** stipulated that the amount of the contract shall be varied if after submission of the tender, there was increase/decrease in price of materials specified in the contract compared to the prices prevailing at the time of the last stipulated date for receipt of tenders (including extensions, if any) for the work. Further, for the work done during the justified period, the index prevailing at the time of stipulated date of completion or the prevailing index of the period under consideration, whichever is less, shall be considered. The Clause further provided that if actual purchase price of material is less than the base price and the cost index at the time of purchase of material is greater than or equal to the cost index at the time of last date of receipt of tender then, this clause would not be applicable.

- **Clause 46 of the General Conditions** (GCC) (Clause 13 of pre revised GCC), stipulated that the contractor was required to take Contractors' All Risk insurance policy in the joint name of AAI and contractor, against all losses or damages in addition to insurance policy towards liabilities under Workmen's Compensation Act[15], before commencing the work. It further provided that, if the contractors and/or his subcontractor (if any) failed to take and keep in force the insurance, AAI without being bound to, was required to take and keep in force any such insurance and pay such premium as was necessary for that purpose. AAI could deduct the amount so paid from any money due or which might become due to the contractors or recover the same as a debt due from the contractors.

The deviations from the above mentioned clauses noticed in respect of the 11 works are as under:

B.1.1 Indian Civil Aviation Academy, New Delhi

The work of construction of Indian Civil Aviation Academy was approved (February 2011) by Board of Members of AAI and was awarded (April 2013) after a lapse of 25 months to M/s C& C Construction Limited as stated in Para 2.2.2.1-D.

In this regard, Audit observed the following:

(i) The Performance Guarantee amounting of ₹4.68 crore submitted by the contractor expired on 08 November 2016. AAI relaxed the condition governing value of guarantee and permitted (6 February 2017) the contractor to submit a bank guarantee (BG) for ₹1 crore valid up to 31 December 2017 as against the BG for ₹4.68 crore, in violation of clause 1 of GCC. The BG was submitted on 06 February 2017. Thus there was no BG for the work during the period from 09 November 2016 to 05 February 2017. The relaxation for submission of BG of lesser amount was also against the financial interests of AAI since they contravened the conditions of the contract.

(ii) Despite considerable delay on the part of contractors which required imposition of maximum LD @ 10 *per cent* of award value, as per clause 2 of GCC, AAI levied reduced LD resulting in short levy of ₹5.87 crore.

(iii) Despite reduction in price indices of cement and steel during the execution of work, no adjustment on account of reduction in price index for cement and steel was made, while finalizing the 49th RA bill submitted (September 2017) by the contractor, as required by clause 10 CA of GCC.

(iv) The contractor failed to keep the Contractors' All Risk insurance policy in force from December 2016 onwards. AAI, recovered (February 2017) an amount of ₹4 lakh from 38th Running Account Bill (RAB) of the contractor instead of obtaining a policy in terms of Clause 46 of GCC referred above. The action of AAI was inadequate since the amount of ₹4 lakh recovered by AAI might not be sufficient to cover up possible losses that might arise during the course of construction of work of ₹93.65 crore.

[15] ***As per Clause 3 of the Workmen's Compensation Act, 1923, employer's liability for compensation, if personal injury is caused to a workman by accident rising out of and in the course of his employment, his employer shall be liable to pay compensation in accordance with the provisions of 'Chapter II' of the Act***

The Management stated (November 2017/ January 2018) that bank guarantee for lower amount was accepted after obtaining necessary approvals and that the acceptance of lower amount was due to the requirements of the work and that there was no undue favour to the contractor. It further stated that final amount of LD would be levied and recovered after granting final extension of time. The escalation was being worked out and recovery on account of reduction in price indices would be effected from the next Running Account Bill to be paid to the contractor. Regarding absence of valid insurance policy, the Management stated that an amount of ₹4 lakh was recovered towards the cost of making the insurance policy i.e. the amount which the contractor would have saved by not renewing the insurance policy. The Management further stated that Workmen compensation Policy was already obtained from the agency and was valid till 28 June 2018.

The reply of the Management was not acceptable as AAI extended undue favour to the contractor by accepting the Performance BG for reduced amount in contravention of contract conditions. Further, the contractor was required to obtain the Contractors' All Risk insurance policy and Workmen's Compensation insurance policy during the entire period of contract. The amount of ₹4 lakh recovered by AAI might not be sufficient to cover possible liabilities and losses that might arise during the course of construction of work of ₹93.65 crore. AAI remains exposed to unforeseen financial liabilities in the absence of valid insurance cover, as 99 *per cent* of the project is complete (January 2018).

B.1.2 National Aviation University, Fursatganj

Audit observed that, in violation to the Clause 46 of GCC, the Workmen’s Compensation policy (in joint name of AAI and contractor) was taken only on 17 June 2017 although the work commenced on 26 August 2013.

The Management replied (January 2018) that due to transfer of Engineering In-Charge, enforcement of Clause 46 (b) of the contract was inadvertently missed out. However, there was no claim made on AAI under Workmen’s Compensation Act. The Management further stated that necessary recovery for the amount, which the contractor would have saved by not renewing the insurance policy, was being made from the contractor.

The fact remained that the Management did not adhere to the terms of the contract and AAI was exposed to unforeseen financial liabilities.

B.1.3 New Terminal building at Khajuraho

Audit observed that as per Clause 46 of GCC, the contractor was required to take the insurance for the period up to the completion of contract i.e. 31 December 2015 while executing the balance work of construction of the above work referred to in para 2.1.6 and 2.2.1 (c) above. However, the Contactor’s All Risk (CAR) Insurance was valid only up to 31 July 2015 and Workmen’s Compensation Insurance Policy was valid only up to 10 November 2015.

The Management stated (January 2018) that necessary recoveries have been made in this regard. However, the fact remained that there being no insurance cover in vogue AAI was exposed to unforeseen financial liabilities.

B.2 Non-adherence to conditions as per NIT

B.2.1 Central Air Traffic Flow Management (C-ATFM) and Associated offices, Vasant Kunj, New Delhi

One of the qualifying requirements as per the Notice inviting tender for works having estimated cost of more than ₹5 crore was that the contractor should have satisfactorily completed the required number and value of works of similar nature (viz. construction of Airport Terminal Building/Star Hotel Building/Embassy Building/Large Shopping Commercial Complex/Mega mall/Modern office complex) during the last seven years. Further, as per criteria for short listing of bidders, in respect of any agency already working with AAI, the performance in the work already entrusted was to be reviewed and the application of the agency whose performance was not satisfactory was liable to be rejected.

Audit observed that AAI awarded the work of construction of C-ATFM and Associated offices to M/s Sunehari Bagh Builders Private Limited on the basis of experience of the contractor in constructing a swimming Pool. The experience of the contractor did not meet the desired criteria of experience as indicated in the NIT, and the bid was liable to be rejected. However, AAI awarded the work to M/s Sunehari Bagh Builders Private Limited.

The Management stated (December 2017/January 2018) that the work was executed at CRPF Academy which was an institutional building. Moreover the scope/nature of work executed satisfied the requirements of proposed work and hence the tender opening committee considered the bidder as eligible.

Reply of the Management was not acceptable as construction of swimming pool could not be treated as similar to works listed in the NIT viz. "construction of Airport Terminal Building/Star Hotel Building/Embassy Building/Large Shopping Commercial Complex/Mega mall/Modern office complex, as defined in NIT.

B.2.2 Main Terminal Building and allied works at Jaisalmer Airport

AAI invited (June 2009) tenders for construction of Main Terminal Building and allied works at Jaisalmer Airport. M/s ERA Infra Engineering Limited, emerged as the lowest bidder as referred in Para 2.1.5 above. As per the criteria stipulated in Notice Inviting Applications, for shortlisting of bidders in respect of any agency already working with AAI, the performance was to be reviewed and application of the agency whose performance was not satisfactory was liable to be rejected.

M/s ERA Infra Engineering Limited, before being shortlisted for this work, had executed the construction of Integrated Cargo complex at Netaji Subhash Chandra Bose International Airport (NSCBI), Kolkata in December 2006 which was completed with a delay of 10 months. It was also awarded (September 2008) the work of construction on New Expandable Modular Integrated Terminal Building at Raipur Airport, which was also delayed. AAI issued (September 2009) show cause notice to M/s ERA Infra Engineering on account of slow progress, inadequate resource mobilisation, delay in finalisation of vendors, unsatisfactory execution and poor quality of work and the agency was debarred (October 2009) from future tenders of AAI till successful completion of Terminal Building at Raipur Airport.

Audit observed the following:

(i) Instead of excluding M/s ERA Infra Engineering from the shortlisted bidders, in view of the review of his past poor performance at NSCBI airport, Kolkata and Raipur airport, AAI obtained an undertaking from the contractor to improve performance and ensure timely completion of work in future, and awarded the work of construction of Main Terminal Building and allied works at Jaisalmer Airport also to him. The project was completed (February 2013) after delay of 22 months, of which 18 months were attributed to the contractor.

(ii) Despite considerable delay on the part of contractor which required the imposition of maximum LD @ 10 *per cent* of award value (as per the clause 2 of GCC), AAI levied ₹1.96 crore as LD as against the maximum LD of ₹3.26 crore, resulting in a short levy of ₹1.30 crore.

The Management in their reply (January 2018) confirmed that awarding of work ignoring the poor performance of M/s ERA Infra Engineering at Kolkata and Raipur Airports resulted in delayed completion of the work. It further stated that for Jaisalmer Airport work LD was recovered as per AAI Technical Circular dated May, 2013 approved by the competent authority.

The reply is not acceptable as the Technical Circular of May 2013 only laid down the manner of assessing the loss to AAI on the basis of expenditure incurred by it on deployment of staff for the unjustified extended period. Further, as Clause 2 of GCC did not contain any reference to the circular which was issued after completion of the work, its provisions were not enforceable on the parties entering into a contract.

B.3 Non-adherence to Works Manual of AAI at Integrated Office Complex for AAI and DGCA at Lucknow Airport

Clause 13.7 of Works Manual of AAI stipulated that while carrying out a deposit work by AAI, the concerned client department would be required to pay in advance the gross estimated expenditure in one lump sum unless authorised specially by the Competent Authority.

Audit observed that in case of construction of Integrated Office Complex for AAI and DGCA at Lucknow Airport, DGCA deposited an amount of ₹1.18 crore only as against the estimated gross expenditure of ₹2.08 crore[16] before commencement of work. Further, as against the expenditure of ₹2.46 crore incurred by AAI for completion of work done on behalf of DGCA, an amount of ₹1.18 crore only was received by AAI till August 2017.

The Management stated (January 2018) in their reply that a letter for demand for balance amount towards this work has been issued to DGCA in August 2017.

B.3.3 Delay in decision making and lack of coordination in the work of CAT III-B lighting system, at Jaipur Airport

In compliance with the recommendation (23 April 2014) of MoCA to equip the Jaipur Airport with CAT III-B lighting system as stated in para 2.1.1 above, the competent authority granted in-principle approval (September 2014) for construction of the Part Parallel Taxiway (PPT) instead of turning pad at Jaipur Airport. Accordingly, the scope

[16] ***Approved estimated cost of construction of 2560 sqm was ₹11.68 crore of which 457 sqm pertained to DGCA. Thus amount payable by DGCA= ₹11.68 crore*457.00 sqm / 2560.00 sqm = ₹2.08 crore***

of work for extension and strengthening of runway for operation of wide bodied Jet Aircrafts of 'E' category including of CAT-II Lighting System at Jaipur Airport, awarded (24 December 2013) to M/s GR Infrastructure Limited, was revised (June 2015) to include construction of PPT as an additional work costing ₹11.27 crore.

Audit observed the life span of rigid pavement was longer than the flexible pavement. The contractor was initially requested to construct the PPT in rigid pavement since this option was economical compared to flexible pavement. Despite the willingness expressed (24 December 2014) by Contractor for the rigid pavement option, management took more than five months to the decision (June 2015). However, by that time, the contractor refused to carry out the work due to demobilisation of machinery from the site. Due to urgency of work and to meet the deadline by winter season, 2015, the competent authority approved construction of PPT on flexible pavement[17]costing ₹11.27 crore as an additional work to the existing contractor. Had, AAI taken the decision to construct the PPT in rigid pavement (costing ₹10.84 crore) promptly, it could have saved ₹0.43 crore and could use the PPT for longer duration.

Management stated (January 2018) that implementation of CAT III-B lighting work was not a routine airport development work and had to be carried out in on operational airport without compromising on aircraft operations, safety and security. Therefore, some of the hindrances, which were beyond the control of AAI, such as procurement of navigational aids etc. could not be foreseen. The time considered for carrying out the work (i.e. 18 months) for CAT III-B operation was found to be on lower side with reference to the time period required for completion of all the activities of CAT III-B complied airport. Management further stated that all the activities of subject work were taken up in time by AAI and that delay in execution of work/contract was due to the procedure, circumstances/delays at different levels. Management also stated that in order to streamline various processes involved in CAT III-B work, AAI has brought out a Standard Operating Procedure (SOP).

The Management reply was not acceptable as 'in-principle approval' by the competent authority was accorded in September 2014, whereas the final decision was taken by the Work Advisory Board (WAB) only in June 2015. Moreover, management reply is silent on the delay in taking decision regarding construction of PPT with rigid pavement.

2.2.2.3 Idling of Assets

A. New Terminal Building Complex at Khajuraho Airport

The work was awarded (June 2007) to M/s IDEB Construction Project Private Limited with a completion period of 15 months. Due to slow progress, the work was rescinded (February 2009) and balance work was awarded (December 2009) to M/s Avantika-GHRA (JV) which was finally completed in December 2015 after a delay of 61 months as referred in Para 2.2.2.1-F, 2.2.2.2-A3 and 2.2.2.2-B.1.3 above.

Audit observed that escalators and elevators worth of ₹2.17 crore supplied in March 2009 remained uninstalled and idle till May 2015. Further, due to delayed completion of work

[17] ***The flexible pavement, having less flexural strength, acts like a flexible sheet (e.g. bituminous road). On the contrary, in rigid pavements, wheel loads are transferred to sub-grade soil by flexural strength of the pavement and the pavement acts like a rigid plate (e.g. cement concrete roads)***

of terminal building, the dedicated feeder (comprising substation equipment and DG sets worth of ₹4.66 crore and 33 KV substation worth of ₹1.20 crore completed in July 2011) could not be used till December 2015 for its intended purpose.

The Management stated (January 2018) that the progress of construction of Terminal Building was poor and accordingly the contract for main Terminal Building had to be rescinded. Therefore, site was not available for installation of the E & M equipment's at Khajuraho through the E & M composite contracts.

The reply of the Management was not acceptable since lack of coordination and improper execution of works delayed the construction of terminal building, which ultimately resulted in non-utilisation of other assets.

B. Main terminal Building and allied works of New Civil Enclave at Jaisalmer

The work was awarded (March 2010) to M/s ERA Infra Engineering Limited which was completed in February 2013 after a delay of 22 months. However, the New Civil Enclave at Jaisalmer had not become operational till September 2017 as stated in Para 2.2.2.1-E and 2.2.2.2-A1 above.

Audit observed that though the expenditure on the project was capitalised in May 2013, as the New Civil Enclave remained non-operational, AAI continued to use the old building for passenger movement. Equipment worth ₹4.25 crore installed at the Main Terminal Building viz. conveyor belt, x-ray baggage machine, Electrical installations, CCTV Cameras, furniture & fixture and Solar plants etc. remained idle during May 2013 (date of capitalisation) to September 2017.

The Management stated (December 2017/January 2018) that the new Terminal building was put to use in October 2017 with the operationalisation of the airport. Reply of the Management is silent about the idling of assets during May 2013 to September 2017.

2.2.3 Conclusion

Projects executed by AAI resulted in time overrun arising due to non-availability of complete land without hindrance before award of work, delays in obtaining mandatory clearances and approvals from DGCA and changes in the site already selected for a work. This indicated a need for more efficient planning of development projects of airport infrastructure.

AAI also undertook construction of unviable airport projects using its internal resources. This was in contravention of the provisions of the 'Policy on Airport Infrastructure' (November 1997).

Audit also noticed the cases of non-adherence by Management of AAI to the conditions of Notice Inviting Tender, contractual provisions and the provisions of AAI Works Manual, which indicated ineffective managerial control of the construction works.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

2.3 *Charging inadmissible expenses to Escrow Account by Delhi International Airport Limited*

DIAL charged to PSF (SC) Account an amount of ₹115.63 crore (till 31 March 2016) towards rent for CISF accommodation at Monkey Farm, Mahipalpur on notional basis i.e. without incurring any cost for providing the accommodation. Charging rent for CISF accommodation on notional basis was against the provisions of State Support Agreement and Standard Operating Procedure for Accounts/Audit of Passenger Service Fee (Security Component). This resulted in a deficit/reduction in balance of PSF (SC) Escrow Account by ₹115.63 crore.

Airports Authority of India (AAI) entered into (4 April 2006) an Operation, Management and Development Agreement (OMDA) with Delhi International Airport Limited (DIAL). In compliance with the terms and conditions of OMDA, AAI handed over (3 May 2006) Indira Gandhi International Airport (IGI Airport) to DIAL. Eventually, the accommodation for Central Industrial Security Force personnel being maintained by AAI at Monkey Farm, Mahipalpur, in the vicinity of IGI Airport, was also taken over by DIAL.

Ministry of Civil Aviation (MoCA), Government of India directed (9 May 2006) Passenger Service Fee (PSF), to be collected from embarking passengers by the respective Airport Operator viz. AAI, a Joint Venture Company or a private operator. PSF levied included Security Component (SC) (65 *per cent*) and Facilitation Component (35 *per cent*). PSF (SC) collected at an airport operated by a JVC or a private operator is utilised at the airport concerned to meet the security related expenses of that airport. The amount collected by the airport operator, through the airlines, is kept in an escrow account and thus held in fiduciary capacity. The amount of security component deposited in the escrow account could be withdrawn by JVC/Private Operator only for specified purposes as per Para 3.5(ii) of Standard Operating Procedure (SOP)[18] issued by MoCA vide Order No. F.No.AV.13024/047/2003-SS/AD dated 19 January 2009.

During the course of audit of annual accounts of PSF (SC) Escrow Account for the year 2015-16, Audit noticed that DIAL debited the PSF (SC) Escrow Account by an amount of ₹115.63 crore[19] (till 31 March 2016) towards the rent for the CISF accommodation, comprising 39358 sqm. of open land and 7,859 sqm. of built up space, at Monkey Farm, Mahipalpur, New Delhi.

Audit observed that:

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[18] *Para 3.5(ii) of S.O.P. stipulated purposes of withdrawal and their order of priority as: (a) to pay amounts towards taxes including Income Tax on PSF (SC) income as per provisions of Income Tax Act, 1961, Service Tax or any other statutory dues, (b) To pay for security related expenses to CISF, (c) To pay other security related expenses in terms of MoCA Order dated 20-06-2007 or any other decision of MoCA/BCAS or any other government agency, from time to time*

[19] *License Fee for the period from 2006-07 to 2015-16:*

Area	*License Fee*	*₹crore*
Built up area of 7,859 sqm.	*@ ₹732.34/ sqm/ month in 2006-07 with annual escalation @7.50 per cent*	*97.71*
Open space of 39358 sqm.	*@ ₹269.45/ sqm/ month in 2006-07 with annual escalation @7.50 per cent*	*17.92*
	TOTAL	*115.63*

- In the second meeting of OMDA Implementation Oversight Committee (OIOC) held on 11 December 2006, DIAL had committed that it would not make any profit from the security component of PSF but would only meet the security cost related to IGI Airport.
- PSF (SC) Escrow Account was to be utilised only for payment of specified expenses related to CISF. However, in the instant case DIAL was not incurring any cost for providing accommodation to CISF. Hence, the expenditure charged by DIAL to PSF (SC) Escrow Account, towards rent in respect of CISF accommodation at Mahipalpur, on notional basis was not an eligible expenditure as per Standard Operating Procedure prescribed by MoCA.

The Ministry of Civil Aviation replied (February 2017) that:

a) DIAL was not prohibited under OMDA/State Support Agreement (SSA) from charging rent for Monkey Farm, Mahipalpur, which formed part of the 'Demised Premises' leased to DIAL.

b) CISF is the nominee of Government of India for carrying out the security function of GoI and DIAL was not charging any rent for the operational space provided to CISF at IGI Airport. As per SSA 50 *per cent* rent could be charged for back office.

c) DIAL had informed MoCA in November 2009 that rental for non-operational area occupied by CISF and part of demised premises would be charged to PSF (SC).

Reply of the Ministry was not acceptable in view of the following:

(i) Clause 3.3.2 of the State Support Agreement stipulated that DIAL should provide to GoI, or its designated nominees/representatives, such space requirements as reasonable so as to enable GoI, or its designated nominees/representatives to provide the GoI Services at the Airport. It was further provided that operational space for provision of GoI Services at the Airport should be at no cost to GoI, or its designated nominee/representatives and back office space should be provided at 50 *per cent* of the applicable commercial rent for other back office rentals/office rentals at the Airport. The space provided for residential accommodation of CISF at Monkey Farm, Mahipalpur was neither in the 'Operational Area' nor in the 'Back Office Area' of airport. Hence, DIAL was not eligible to charge rent for the same

(ii) Reply was silent on the action taken by MoCA on the intimation given by DIAL in November 2009 for charging rent on non-operational area occupied by CISF and part of demised premises. As informed by DIAL, the Ministry did not respond to DIAL's letter dated 20 November 2009.

Thus, without incurring any cost for providing accommodation to CISF at Monkey Farm, Mahipalpur, DIAL started charging PSF (SC) Account with the rent for CISF accommodation on notional basis. This indicated failure of MoCA in safeguarding the financial interests of the Government of India.

The charging of ₹115.63 crore (till 31 March 2016) to PSF (SC) Account by DIAL, towards rent for CISF accommodation at Monkey Farm, Mahipalpur on notional basis i.e.

without incurring any cost for providing the accommodation, was against the provisions of State Support Agreement and Standard Operating Procedure for Accounts/Audit of Passenger Service Fee (Security Component). This resulted in a deficit/ reduction in balance of PSF (SC) Escrow Account by ₹115.63 crore.

2.4 Undue favour to the contractor

An amount of ₹8.24 crore, was recoverable by AAI from the contractor for delay of more than 31 weeks attributable to the contractor in completing New Terminal Building at Varanasi Airport as per contractual provisions. While granting final extension of time, the competent authority charged an amount of ₹0.25 crore only towards compensation/LD on the contractor. Thus, short levy of LD, against the provisions of the contract, constituted an undue favour to the contractor.

Airports Authority of India (AAI) awarded (August 2007) the work of construction of new Terminal Building at Varanasi Airport to M/s LANCO Infratech Limited at the contract price of ₹82.39 crore. The scheduled date of completion of the work was 18 November 2008. As per clause 32 (a) of General Conditions of the Contract (GCC) signed between both the parties, in case of delay in completion of the work, liquidated damages (LD) were required to be levied at the rate of 0.5 *per cent* of contract value per week of delay subject to maximum of 10 *per cent* of the contract value.

The Contractor could not complete the work by the scheduled date of completion of the work. Based on the hindrances occurred up to end of July 2008, AAI granted extension of time for completion of the work by the Contractor up to 31 March 2009 without levy of LD. The Contractor, however, could complete the work only on 12 January 2011. In response to a show cause notice issued (May 2011) by AAI to the Contractor for levying of LD for delayed completion of work, the Contractor requested for grant of final extension of time up to 12 January 2011 without levy of LD, citing reasons like shifting of location of Terminal Building, delay in receipt of drawings/approvals from design consultant, revision in position of service building, roads and car park, revision in roofing and glazing of Terminal Building etc. AAI considered that out of total delay of 652 days in completion of work after 31 March 2009, a delay of 432 days (i.e. after 31 March 2009 to 06 June 2010) was attributable to AAI and delay of 220 days (w.e.f. 07 June 2010 to 12 January 2011) was attributable to the Contractor. Accordingly, AAI granted (July 2011) final extension of time without levy of LD up to 06 June 2010 and with levy of compensation of ₹0.25 crore for the period from 07 June 2010 to 12 January 2011.

Audit observed that as per provisions of clause 32 (a) of GCC, an amount of ₹8.24 crore (i.e. 10 *per cent* of the contract value of ₹82.39 crore), was recoverable by AAI from the Contractor for delay of more than 31 weeks (i.e. 220 days) in completion of the work. Thus, short levy of compensation/LD amounting to ₹0.25 crore was against the provisions of the contract.

The Management of AAI stated (May 2017) that:

(i) Compensation / liquidated damages for unjustified delay was recovered in terms of Clause 32 of the Contract. Further, compensation/LD were quantified based on direct loss sustained by AAI in the form of expenditure on deployment of staff during the unjustifiable extended period. Accordingly, cost incurred by the Company on the staff deployed had been recovered for the unjustified period of delay. The Management further stated that the above practice was followed by AAI in all contracts.

(ii) Compensation for unjustified delay was recovered from the agency in terms of direct loss to AAI in accordance with power conferred to Competent Authority i.e. Member (Planning) referred to in Serial number 24 of Schedule 'E' to GCC.

(iii) The agreement contained provision for compensation for delay and not penalty. The compensation was to be enforced as per the procedure prescribed in AAI's Works Manual, in line with the legal requirement of the Indian Contract Act for maintainability of the action taken. Further, the intent of the Clause relating to Compensation for delay was to levy compensation for delayed performance, if fault or delay or hindrance was attributable to the Contractor and there was proof of loss occasioned thereby.

(iv) As the compensation for delay / liquidated damages had been recovered from the Contractor after quantifying the direct loss to AAI, this had not resulted in any undue favour to the Contractor.

Reply of the Management was not acceptable in view of the fact that:

(i) The reply was contradictory to the action taken by the Management in the case of construction of New Terminal Building at Khajuraho Airport, where the Management had worked out an amount of ₹2.18 crore towards direct loss to AAI in the form of the cost of deployment of staff (₹0.30 crore) and accrued interest of ₹1.88 crore (at the rate of 18 *per cent* on capital expenditure of ₹10.00 crore which remained unutilised) during the unjustifiable extended period of 383 days. However, while granting (June 2009) the final extension of time to the contractor (M/s IDEB), LD at the maximum rate of 10 *per cent* of the contract value of ₹57.81 crore, i.e. ₹5.78 crore was levied towards delay of 383 days in terms of Clause 32(a) of GCC.

(ii) Serial Number 24 of Schedule 'E' to General Conditions of Contract referred in the reply did not deal with computation of the quantum of compensation/LD to be recovered from the agency. The provision only stipulated that the Member (Planning) of AAI would be the Authority competent to grant extension of time under the contract.

(iii) Penalty was a sum so stipulated in the contract with the object of coercing the party into performing the contract. However, liquidated damages were a genuine, covenanted pre-estimate of damages which the parties have agreed at the time of contracting that, in the event of breach, the party in default should pay a stipulated sum of money to the other. Further, as per the provisions of Section 74 of the Indian Contract Act and the judgment given by the Hon'ble Supreme Court of India in case of ONGC v/s Saw Pipes, it was not essential for a party to prove actual losses before claiming reasonable compensation. Further, as Clause 32(a) of GCC did not contain any reference to the Works Manual of AAI, the provisions of works Manual were not enforceable on the parties entering into a contract.

(iv) Clause 32 (a) of GCC clearly stipulated the rate of compensation as 0.5 *per cent* of contract value per week of delay subject to maximum of 10 *per cent* of the contract value. However, the Management did not apply the rate of compensation as stipulated in the Contract.

Thus, short levy of compensation / LD by AAI for delay attributable to the Contractor M/s LANCO Infratech Limited, in completion of New Terminal Building at Varanasi Airport was against the provisions of the contract and constituted an undue favour by AAI to the Contractor.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

2.5 Short levy of liquidated damages

Airports Authority of India decided to recover reduced liquidated damages to be levied for delay, contrary to the terms of contract. This resulted in undue benefit to the contractors and loss of revenue of ₹18.18 crore to AAI in respect of construction of new Integrated Terminal building at Civil Enclave, Goa.

Airports Authority of India (AAI) awarded a contract for construction of New Integrated Terminal Building at Civil Enclave, Goa to M/s. Consolidated Construction Consortium Limited (CCCL) at ₹204.73 crore with the scheduled completion date as 15 May 2012. However, the actual date of completion was 27 March 2015.

Clause 32 of the contract entered into with M/s CCCL stated that in the event of the contractor failing to maintain the required progress or completing the work as stipulated in the contract, he/they shall be liable to pay compensation/Liquidated damages @ 0.5 *per cent* of contract value per week of delay subject to maximum of 10 *per cent* of the contract value.

Audit observed that the related work awarded to CCCL, was completed on 27 March 2015 with a delay of 1046 days (16 May 2012 to 27 March 2015) against which the delay attributable to the contractor was 536 days. The amount of Liquidated Damages applicable under Clause 32 of the contract for this delay of 536 days, worked out to ₹20.47 crore (10 *per cent* of the contract value of ₹204.72 crore). However, AAI approved (March 2016) extension of time (EOT) up to 07 October 2013 by 510 days for justified hindrance and levied compensation of only ₹2.29 crore for the unjustified hindrance period of 536 days from 8 October 2013 to 27 March 2015. Thus there was a short recovery of LD to the extent of ₹18.18 crore.

The Management stated (October 2016) that the compensation is levied only to the extent of direct losses accruing to AAI on account of delay in completion of the project and compensation for delay/liquidated damages had been recovered from the contractor as per Annexure of the Technical Circular issued by Member Planning of AAI considering the administrative cost incurred for the execution of the project.

The Ministry stated (May 2017) that the unjustified delay of 528 days was on account of executing agency i.e. M/s CCCL. The loss to the department on account of engagement of staff for the unjustified delay had been calculated in accordance with the Technical Circular of May 2013. The penalty to be levied on account of AAI, worked out to

₹2.51 crore, to cover for the increased establishment cost incurred by AAI towards engagement of manpower during the unjustified period of delay.

The reply is not tenable due to following reasons.

i. Clause 32 of the Contract clearly stipulated that the contractor was liable to pay the amount of LD as a percentage of the value of the Contract. Thus recovering an amount, less than that stipulated in the Contract, was not as per the provisions of the Contract and hence not justified and amounted to extending undue favour to the contractors.

ii. As per Section 74 of the Indian Contract Act dealing with compensation for breach of contract where a penalty has been stipulated to be levied, the party complaining of the breach, when the contract has been broken is entitled to receive from the party who has broken the contract, the amount so named, whether or not actual damage or loss have been proved to have been caused or not, if the sum is named in the contract as amount to be paid in case of such breach.

iii. The Management's reply that the loss to the department on account of engagement of staff for the unjustified delay had been calculated in accordance with the Technical Circular of May 2013 is not acceptable. The terms of contract were agreed by both the parties and therefore were binding on the Contractor. Since, the Contract specifically provided for recovery of Liquidated damages, in case of delay, the Company should have recovered the LD at the rate specified in the Contract.

Thus, due to the undue benefit given to the contractors by non-recovery of amount of LD as stipulated in the Clause 32 of the contracts, AAI had to forego a revenue of ₹18.18 crore.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

Air India Limited

2.6 Irregular payment of Incentive to cabin crew

Payment of incentive to the cabin crew by Air India without approval of the Board of Directors of Air India Limited (AIL) or the Ministry of Civil Aviation resulted in irregular expenditure of ₹11.95 crore, for the years 2015-16 and 2016-17.

Pay and allowances of Cabin crew of Air India Limited are governed by terms and conditions of their appointment. As per Para 1.18/1.19 of said terms and conditions, the crew would be paid an hourly payment, layover/meal allowance and supplementary layover/meal allowance, as applicable to their grade when they performed flying duties. The crew members were bound to accept flight duties/standby duties in between flight duties within the prescribed flight duty time limit (FDTL), as assigned by the Management.

The crew was required to undertake any flying and ground duties, including the operation of special or chartered flights as per Para 1.46 of the terms and conditions of appointment of the cabin crew. As per agreement (September 2008) entered into by the Company with the Air India Cabin Crew Association, the cabin crew was eligible for flying allowance.

The flying allowance was structured in slab rates with flying allowance increasing with the increase in number of flying hours. The underlying principle was to fly more and earn more. The agreement did not provide for payment of any additional allowance for flying normal duty hours.

In addition to the above allowances, prescribed by the Agreements with the Cabin crew members, Company paid the following additional allowances, for flying hours within the normal range of duty hours, without obtaining the approval of Board of Directors of the Company or the Ministry of Civil Aviation.

i. The Company paid ₹25,000 for flying for more than 475 hours every year and or ₹50000 for flying of 950 hours every year, as flying star awards with effect from January 2014. The Company paid a total amount of ₹10.41 crore[20] during the Financial Years (F.Y.) 2015-16 and 2016-17 as flying star awards of cabin crew and for flying 475/950 hours in the calendar years 2014 and 2015.

ii. Air India operated Charter flight to ferry Haj Pilgrims, every year, during the Haj period (August to October). The Company decided (August 2015) to pay Haj incentive allowance of ₹10000, to each crew member who did not take more than 2 days leave in a month during the Haj season 2015 to incentivize and to improve availability of cabin crew. The Haj Allowance was further increased (June, 2016) to ₹15000/ per crew member during Haj season 2016. All the cabin crew, irrespective of whether they were involved in Haj operation or not, were being paid the Haj incentive. The additional expenditure towards payment of Haj allowance for flying normal duty hours amounted to ₹1.54 crore[21] for the years 2015 and 2016.

Audit observed that:

a) The directions (June 2014) of Director General of Civil Aviation (DGCA) relating to Flight duty and flight Time limitation, stipulated that the crew could fly up to a maximum of 1000 hours in any period of 365 days for both domestic and international operations. Therefore, payment of additional allowance, as Star Allowance, for flying 475 hours and 950 hours lacked justification as the flying hours were within the maximum flying hours of 1000 hours per year per cabin crew, prescribed by DGCA. No separate allowance was therefore, warranted.

b) Department of Public Enterprises (DPE) had stated that, no further allowance/benefit/perks was admissible outside the 50 *per cent* ceiling of basic pay except Dearness Allowance, House Rent Allowance and City Compensatory Allowance as mentioned in DPE OM dated 26 November 2008, dealing with revision of structure of pay of executives and non-unionised executives in all Central Public

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[20] ***The Company paid an amount of ₹4.71 crore as flying star awards to 1243 cabin crew members, during the Financial Year (F.Y.) 2015-16 for flying 475/950 hours in the calendar year 2014 and ₹5.70 crore to 1530 cabin crew members during the F.Y. 2016-17 for flying 475/950 hours in the calendar year 2015***

[21] ***Air India paid Haj allowance of ₹56.50 lakh during the year 2015 and ₹97.65 lakh 2016***

Sector Enterprises. Payment of 'star allowance' and 'Haj allowance' was therefore, contrary to guidelines of DPE, applicable to all public sector enterprises.

c) An independent committee under the chairmanship of Justice D.N. Dharmadhikari (JDC), had been set up (May 2011) by the Ministry of Civil Aviation for harmonisation of wage costs between Air India and erstwhile Indian Airlines[22]. The Committee (JDC) submitted (January 2012) its recommendations to Ministry of Civil Aviation (MoCA) which was accepted by MoCA in June 2012. As per the recommendations of the Committee, total emoluments to be paid to pilots, engineers and cabin crew would be fixed only with the approval of the Union cabinet as dispensation like flying allowance, license allowance etc. would fall outside the DPE guidelines and deviations from such guidelines required approval of the Cabinet. No such approval was seen to be obtained by the Company while recommending additional allowances.

d) Para 8.5.2 of the Report No. 40 of 2016 of Comptroller and Auditor General of India on Turnaround Plan and Financial Restructuring Plan of Air India Limited had highlighted substantial under-utilisation of the Cabin crew by the Company during the period from 2013 to 2015. The report pointed that only 40 *per cent* to 70 *per cent* of the cabin crew were utilised for over 70 hours a month. It was observed that 12 *per cent* to 27 *per cent* of the available crew were being utilised for upto 50 hours only. Despite the under utilisation of available crew, the Company allowed payment of additional allowances in form of star allowance and Haj allowance.

Thus, payment of allowances without obtaining the prior approval of Board of Directors of the Company and Ministry of Civil Aviation resulted in irregular expenditure of ₹11.95 crore towards payment for the Haj incentive and star award incentive, during the years 2015 and 2016.

The Management (November 2017) stated that:

1) There is a cap of maximum 1000 hours in a period of 365 consecutive days and the crew were also entitled to 54 days of various types of leave which further reduced their utilisation. During the period of Haj Operation, the availability of crew was vital and hence this incentive was paid as a measure to ensure availability of cabin crew during Haj period.

2) Incentives were paid to ensure that the crew operated, up to the maximum limits, at times even by not availing their entitled leave particularly in the context of shortage of crew. The hours available after considering the requirements prescribed by the Director General of Civil Aviation (DGCA) were not enough to ensure smooth operations during Haj season and the Company had to incentivise the crew to work longer period upto the maximum limit prescribed by DGCA.

3) The Company saved on the Hotel cost at Medina and Jeddah by not providing layover at Saudi Arabia. By avoiding such night stop at Madinah (MED)/ Jeddah (JED), the Company not only saved US$ 850 per person per night respectively, but also avoided unproductive night stops thereby increasing crew availability and

[22] ***Air India (AI) and Indian Airlines (IA) had different human resource management practices prior to their merger (2007) as they were operating in different markets***

utilisation. There had been large savings on account of this as compared to the incentive paid. As per the recommendations of the Committee, the total emoluments to be paid to the cabin crew would be done only after the approval of the Union Cabinet as dispensation like flying allowance, license allowance etc. would fall outside the scope of DPE guidelines and such deviations would require approval.

4) Approvals of senior Management had been obtained for the payment.

The reply of the Management is not tenable due to the following:-

i. The Management in its reply furnished a copy of the minutes of meeting held on 5 January 2015 with Ministry of Civil Aviation, wherein it was decided that attractive Incentive schemes must be introduced for cabin crew who performed well and were flying regularly with high utilisation of hours. Audit observed that as per the minutes of the meeting held in January 2015, with the Ministry, the discussion was to introduce an attractive scheme. No specific approval was obtained from the Ministry of Civil Aviation or Board of Directors of Air India Limited for payment of Star award incentive or Haj allowance. Besides, the payment of star awards commenced in January 2014, even before the meeting was held.

ii. The Management's claim that it was saving on the Hotel cost at Saudi Arabia by not providing layover at MED/JED airports thus justifying Haj allowance and Incentives does not hold good as the crew was already being paid an additional \$100 as Quick Turnaround Allowance in addition to the Haj allowances of ₹15000/- per crew as well as layover allowances.

In the light of the financial crunch faced by the company and the dependence for equity support on the Government of India, for the working capital requirements of the Company, the additional payment of ₹11.95 crore as incentive to the cabin crew during the years 2014-15 and 2015-16 lacked justification.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

2.7 Additional expenditure on appointment of retired cabin crew

Air India Limited appointed retired cabin crew members to tide over the shortage of cabin crew in its Mumbai station on contract basis at a higher compensation instead of appointing cabin crew on contract basis at lower fixed pay and allowances. This resulted in additional expenditure of ₹7.20 crore during the period from January 2016 to July 2017.

Air India Limited (Company/AIL) in a meeting (February 2014) of the senior executives of the Company, to discuss action to be taken to mitigate the disruption of services on account of shortage of cabin crew, decided to engage a Placement Agency and process recruitment of 100 cabin crew on immediate basis. The Committee also decided to engage retired cabin crew on six months contract at Mumbai and Delhi.

The Company subsequently decided (December 2014) as a short term plan to recruit retired staff members as cabin crew to tide over the shortage of cabin crew which was resulting in cancellations/delays of flight. The Company accordingly appointed retired cabin crew on contract basis during from January 2015. The Company continued to appoint the retired persons as Cabin crew (ranging from 10 to 32 crew members during various months) even during the calendar year 2016 and 2017. The Company however, did not take any action to process recruitment of 100 personnel as cabin crew on contract basis as decided during February 2014.

As per the terms of the Contract, the retired cabin crew was eligible to draw consolidated emoluments, based on last drawn pay and flying allowances based on actual flying hours, at the applicable rate. The total payment made by the Company to the retired cabin crew amounted to ₹9.16 crore during the period from January 2016 to July 2017.

The Company had been appointing cabin crew on contract basis from Air India Express Limited (erstwhile Air India Charters Limited), from September 2011 onwards. On 7 March 2015, the Company signed harmonisation contracts of cabin crew flying with AIL according to which all the existing contracts of airline attendants of Air India Charters Limited (AICL) who were flying with AIL were to be converted into contracts with AIL directly and harmonised with effect from 1 April 2015. The new contract was valid until 2017.

Audit observed that the cabin crew members recruited on contract basis were paid compensation (salary and allowances) which was substantially lower, as compared to that of the retired staff of AIL employed on contract basis. Thus, it was financially prudent for the Company to avail the services of the cabin crew taken on contract basis from an outside placement agency[23], instead of appointing its retired cabin crew. Hiring retired cabin crew instead of taking the crew on contract basis, resulted in additional expenditure of ₹7.20 crore[24] for the period from January 2016 to July 2017.

Thus, by not initiating process to recruit the cabin crew on contract basis during 2015 and continued hiring of the retired cabin crew at a substantially higher rate of compensation, even during 2016 and 2017, (considering the rate of monthly fixed allowance of the existing staff on contract basis contracts were valid until 2017) Air India had incurred an avoidable expenditure of ₹7.20 crore[25] during 2016 and 2017.

The Management in its reply (24 November 2017) stated that:

1. The requirement of cabin crew increased due to augmentation of fleet and expansion of network.
2. Extensive training was given to the Cabin crew which was aircraft specific. After induction of the cabin crew as trainees a lead time of 3-4 months was required before they started flying.
3. In September 2016, MoCA had authorised AIL to engage services of retired staff on contract for a period of one year extendable for another year.

[23] ***As decided in the meeting held on 02 February 2014***

[24] ***Amount worked out by comparing the actual compensation paid to the retired employees for actual flying hours as against the compensation that would have been required to be paid to the Contractual employees for same flying hours on same route***

[25] ***The Monthly fixed salary (excluding allowances) for the existing contractual staff was ₹13,500 whereas the monthly fixed payment (excluding allowances) of the retired cabin crew who have completed at least 60 hours of flying in a month ranged from 26251 to 130645 per month depending on the last salary drawn and number of hours completed in the month by the respective member***

The reply is not acceptable in view of the following.

i. If the Company had initiated action on the Management's decision (February 2014) to appoint cabin crew on contract basis, during December 2014, when the Company started recruiting retired cabin crew, it could have inducted the required number of cabin crew by January 2016, to replace the retired persons appointed at higher compensation, even after considering the lead time of appointment and training time of three to four months.

ii. MoCA vide letter dated 22 September 2016 authorised the CMD, Air India to engage staff on short-term contract basis at his level for a period of one year, which may be extendable at the maximum by another year, subject to the Air India Board being kept informed of such recruitments. However, there was no record of approval of the Board as directed by MoCA. Further, the appointment of Contract staff was subject to an upper ceiling of 250 personnel. However as on 1 April 2015, the Company had already appointed 364 cabin crew personnel on contract basis.

Thus, the Company incurred an additional expenditure of ₹7.20 crore on the pay and allowances due to appointment of the retired cabin crew of the Company instead of appointment of cabin crew on contract basis from Air India Express Limited at its Mumbai station during the period from January 2016 to July 2017.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

CHAPTER III: MINISTRY OF COAL

Bharat Coking Coal Limited

3.1 Blending of precious steel grade coal with inferior washery grade coal

Steel grade coal is precious, fetches higher revenue and can be used directly by consumers in the steel sector. Due to relatively low ash content, it does not require washing. However, Bharat Coking Coal Limited (BCCL) blended steel grade coal with inferior washery grade coal in its four washeries, instead of supplying the steel grade coal directly to customers and earning higher revenue. This has resulted in loss of ₹95.09 crore to the Company during 2013-14 to 2015-16, worked out on a conservative basis.

Bharat Coking Coal Limited (BCCL), one of the coal producing subsidiaries of Coal India Limited (CIL) is engaged in mining, washing and distribution of coal to meet the energy requirement of its consumers. BCCL produces both coking and non-coking coal. Coking coal having less than 18 *per cent* ash is termed steel grade coal which can be used directly by consumers in the steel sector. Coal having higher ash content (18 *per cent* to 35 *per cent*) is termed washery grade coal and requires washing to make it suitable for use in production of steel.

During 2013-14 to 2015-16, BCCL fed 26.33 lakh tonne of coking coal into its four washeries (Sudamdih & Dugda-II for entire period and Mahuda & Bhojudih only in 2015-16) by blending 13.91 lakh tonne steel grade coal[1] with 12.42 lakh tonne washery grade coal, which finally yielded only 6.64 lakh tonne of washed coal (25 *per cent*) along with middling, slurry and rejects. Audit observed the following in this regard:

(i) Washeries of BCCL do not require any blending of steel grade coal with washery grade coal. Steel grade coal fetches a much higher revenue compared to washery grade coal and hence, steel grade coal should be directly sold to customers in the steel sector to fetch higher revenue.

(ii) BCCL had a Memorandum of Understanding (MOU) with M/s Tata Steel and SAIL for supply of raw steel grade coking coal. BCCL was to supply 25 lakh tonne of raw coking coal to M/s Tata Steel in 2013-14 which it could not supply. BCCL had also agreed to supply 12 lakh tonne of steel grade raw coking coal to SAIL during 2014-15 to 2015-16, against which the company could supply only 1.02 lakh tonne. There was thus, adequate demand for raw steel grade coal mined by BCCL.

(iii) It was seen that the washeries of BCCL are designed to wash raw coking coal having more than 24 *per cent* ash which needs to be ensured by the Company. Audit noticed that to ensure this, a mechanism of Linkage Committee has been

[1] ***Comprising 0.16 lakh tonne steel grade I coal and 13.75 lakh tonne steel grade II coal***

instituted in Central Coalfields Limited (a subsidiary of CIL and a sister concern of BCCL). The Linkage Committee decides annually the quality, quantity and the sources of raw coal to be dispatched to the washeries. BCCL, however, has no such linkage committee and raw coking coal of different grades including steel grade coal is dispatched from the collieries to washeries as a part of day to day operations, in a routine manner, without determining their requirement for washing. Different grades of coal are mixed at the washeries and washed coal is produced.

(iv) During the three year period (2013-16), BCCL fed 13.91 lakh tonne of steel grade coal along with 12.42 lakh tonne of washery grade coal in their washeries (52 *per cent* of steel grade coal) and generated only 6.64 lakh tonne of washed coal, the yield during this period being 25 *per cent* . During prior period (2010-13), BCCL washed 58.50 lakh tonne of coking coal containing 33.80 lakh tonne steel grade coal (accounting for 58 *per cent* of feed) in these washeries and produced 26.42 lakh tonne of washed coal, yield being 45 *per cent*. During subsequent period (2016-17) also, the Company processed 13.37 lakh tonne of coking coal containing 5.95 lakh tonne steel grade (accounting for 44 *per cent* of feed) and produced 5.58 lakh tonne of washed coal, yield being 42 *per cent*. Thus, the yield from these four washeries during 2013-16 at 25 *per cent* was significantly lower compared with yields achieved from the same washeries in prior (45 *per cent*) and subsequent (42 *per cent*) periods.

Audit worked out the additional revenue that BCCL could have earned during 2013-16 if the steel grade coal had been directly dispatched to steel consumers instead of blending with washery grade coal as indicated in the following table:

(₹ in crore)

Sl. No.	Particulars	Year		
		2013-14	**2014-15**	**2015-16**
1	Sale value assessed by audit of 13.91 lakh tonne steel grade (I & II) coal at notified price[2](including crushing charges[3], clean energy cess[4], stowing excise duty[5] and royalty)	208.12	50.70	424.86
2	Actual sale value of 6.64 lakh tonne of washed coal received	145.96	28.05	236.95
3	Actual sale value of by-products received for not producing washed coal of 7.27 lakh tonne steel grade coal but produced by-products only	45.74	12.28	119.60
4	Total sale value received [Sl.No.2+Sl.No.3]	191.71	40.33	356.55
5	Loss of revenue due to blending of steel grade coal in washery[Sl.No.1-Sl.No.4]	16.41	10.37	68.31
6	**Total loss of revenue [Sum of Row No. 5]**	**95.09 crore**		

[2] ***Notified price is the sale price fixed by CIL for various grades of coal and is normally lower than MOU Price. Notified price of raw steel grade Coal I & II are Rs.4880 per tonne and ₹4080 per tonne respectively. Notified price has been used to assess the sale value on conservative basis***

[3] ***Charges recovered by Coal Companies from the customers for supply of crushed coal of different sizes***

[4] ***Clean Energy Cess is a kind of carbon tax levied as a duty of Excise on Coal w.e.f. 1 July 2010 to finance and promote clean environment initiatives***

[5] ***Stowing Excise Duty is levied by Government of India on Coal for rehabilitation, stowing and infrastructure development of abandoned mines***

Audit has worked out the loss on a conservative basis, without considering the value of 12.42 lakh tonne washery grade coal, the cost of washing steel grade coal and assuming notified price which is lower than the MoU price for steel grade coal.

The Management of BCCL (January 2017) stated that stock of steel grade coal had accumulated which had no buyer, posing risk of quality deterioration and fire. Therefore the Management had no alternative but to use it in washery for supply of washed coal to SAIL at a higher value (₹6550 per tonne) to avoid loss to the company.

The reply of the Management is not acceptable in view of the following:

- The contention that there was no buyer of steel grade coal is not based on facts as BCCL could not fulfill its commitments for supply of steel grade coal as per existing MOUs with Tata Steel and SAIL.

- The contention that the Company derived a higher value by washing steel grade coal is not tenable. The quantity of washed coal that was produced from the blended coal during 2013-14 to 2015-16 was only 6.64 lakh tonne for which BCCL earned a revenue of ₹588.59 crore (value of washed coal and by-products). Alternatively, if the entire quantity of 13.91 lakh tonne of steel grade coal was supplied directly to consumers even at notified price, it would have fetched an amount of ₹683.68 crore. If the MOU prices are considered (as BCCL had the option of sale of the steel grade coal against MOUs with SAIL and M/s Tata Steel), the loss of revenue would be much higher[6].

- Availability of indigenous coking coal in India is scarce. SAIL had to import 128.70 lakh tonne of coking coal in 2014-15 and 133.00 lakh tonne in 2015-16. Thus, blending of precious steel grade coal, without any commensurate commercial benefit amounted to wastage of national resources.

The decision of BCCL to blend precious steel grade coal with washery grade coal resulted in loss of additional revenue during 2013-14 to 2015-16, conservatively worked out as ₹95.09 crore.

Recommendations

(i) The Management should review their practice of routinely blending precious steel grade coal with washery grade coal. The desirability of adopting the mechanism of linkage committee instituted in CCL for determining the quantity and quality of washery feed should also be reviewed.

(ii) The yield of washed coal, even after blending of steel grade coal, was abnormally low during 2013-16, when compared to prior and subsequent periods. The abnormally low yields during this period may be critically

[6] ***MOU price of ₹7176 for Steel Grade-II coal with Tata Steel and ₹6765/ ₹5985 for Steel Grade-I/ Steel Grade-II coal with SAIL vis-à-vis notified price of ₹4800/ ₹4080 for Steel Grade-I/ Steel Grade-II coal***

reviewed to assure that the interests of the Company have not been compromised.

The matter was referred to the Ministry in November 2017/ February 2018; their reply was awaited (February 2018).

3.2 Improper procurement of 100 tippers

Bharat Coking Coal Limited procured 100 tippers of 35 tonne capacity replacing dumpers of the same capacity. The decision to purchase tippers for replacing dumpers, without following due procedure and assessing technical feasibility of such change, resulted in improper expenditure of ₹79.59 crore. Moreover, BCCL had to incur unfruitful expenditure of ₹11.31 crore on supervision charges of idle tippers during 2014-17.

Bharat Coking Coal Limited (BCCL), a subsidiary of Coal India Limited (CIL), is engaged in mining of coal from opencast and underground mines through departmental means as well as outsourcing. In the opencast mines of BCCL, departmental production is carried out with the help of Heavy Earth Moving Machineries (HEMMs) such as shovels, dumpers, dozers etc. These machines are procured either for meeting the requirement of a new project or for replacement of existing machineries. The procurement of these machines is guided by the purchase manual of CIL and relevant plans of HEMM deployment contained in the approved project reports of the concerned mines.

BCCL received (July-August 2012) indents against their surveyed off[7] 35 tonne dumpers, from ten different mining areas. Accordingly, Notice Inviting Tender (NIT) for domestic bids was floated (October 2012) for procurement of hundred 35 tonne dumpers, including Maintenance and Repair Contract (MARC) of these dumpers for six years. Though the indents were for dumpers, BCCL included specifications of both dumper and tipper in the NIT on the grounds that this would widen the participation of vendors who were engaged in the manufacture of dumpers as well as tippers.

BEML Limited (a Government of India company under Ministry of Defence), one of the bidders of this NIT, objected (February 2013) to the mixing of specifications of dumper and tipper in the NIT to the Independent External Monitor[8] (IEM). In their representation, BEML stated that dumpers and tippers were not technically comparable and emphasised that the NIT would not invite proper competition as no dumper would be able to score the qualifying level in comparison with tipper, since tippers were given higher weightage on various technical grounds in the NIT. IEM opined that technical parameters of dumpers and tippers were different and like to like comparison between them for evaluation of technical merit was not possible. Accordingly, IEM recommended cancellation of the tender and invitation of fresh tender either for dumpers or for tippers, as considered appropriate by BCCL, without combining the features of both.

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[7] ***Surveyed off equipment are those which have become worne out beyond economic repair or become obsolete with the passage of time***

[8] ***As per Integrity Pact of Central Vigilance Commission, Independent External Monitor is appointed to review independence, transparency and objectivity of the agreement signed between prospective vendors/bidders and the buyer***

Subsequently, the mining areas of BCCL submitted revised indents (March 2013) for 35 tonne tippers, against replacement of 35 tonne dumpers. CMPDIL[9] specifically proposes dumpers in their project reports for primary operation of coal/ overburden transportation in coal mines. While dumpers are used in combination with shovels in the core mining areas for movement of extracted coal from coal face to stock yards, tippers are generally used in the mining industry for transportation of coal from stockyard to loading/ despatch point. However, BCCL indented for tippers to replace dumpers without any recorded reasons or justification for such change. BCCL floated (March 2013) a fresh tender for procurement of tippers with MARC for six years.

M/s Larsen & Toubro Limited (L&T) was selected as the lowest bidder and purchase order (July 2013) valuing ₹309.58 crore (₹79.59 crore for equipment and ₹229.99 crore for MARC for six years) was issued to them for purchase of hundred 35 tonne tippers manufactured by M/s. Scania Commercial Vehicle India Private Limited[10] (SCVIPL). L&T was the sole distributor for Scania made tippers in India. All the 100 tippers were supplied within the scheduled time (December 2013 to January 2014) and commissioned at different mines of BCCL during December 2013 to May 2014. The payment for tippers was made directly to SCVIPL and MARC supervision charges were paid to L&T. Over 2014-17, the average annual utilisation of these tippers was of the order of 25 *per cent* to 26 *per cent*.

Audit observed the following in this regard:

(i) Dumpers have been traditionally operated in mines of BCCL for more than four decades. While considering the advisability of a combined tender for dumpers and tippers (February 2013), the IEM had opined that the time tested practice of use of dumpers for mining operation should not be altered all of a sudden unless there were compelling reasons for doing so. IEM had also emphasised that safety and security of miners needed to be considered while introducing tippers in the mine for the first time as no other subsidiary of CIL was using tippers for departmental mining. However, the decision to introduce tippers was not found to be backed by any justification.

(ii) Clause 5.4.4 of the purchase manual of CIL provides that clearance of CMPDIL is required in case any variation is made to the specifications of the machine/equipment approved in the project report of the mine during procurement. Since procurement action was being taken for replacement of dumpers, decision to replace dumpers by tippers should have been ratified by CMPDIL, which was not done by BCCL management.

(iii) A proposal for procurement of hundred 35 tonne tippers from L&T was submitted for approval to the BCCL Board. However, the Board agenda (meeting of June 2013) did not include vital information that the tippers were being procured as a

[9] ***Central Mine Planning and Design Institute Limited (CMPDIL) is a subsidiary of CIL, functioning as a consultancy agency for the coal sector, prepares project report and fixes utilisation norms for HEMMs***

[10] ***A subsidiary of Scania AB, a Swedish manufacturer of heavy duty commercial vehicles***

replacement for dumpers and that tippers were being introduced for the first time in departmental mining of BCCL as well as other subsidiaries of CIL.

(iv) There were no norms for availability and utilisation of tippers though CMPDIL norms exist for dumpers (availability at 67 *per cent* and utilisation at 50 *per cent*). Considering that the tippers were a replacement for the dumpers, their availability and utilisation can reasonably be expected to be of the same order as dumpers. Since commissioning of 100 tippers in different mines of BCCL (during 2014-15 to 2016-17), their average annual utilisation[11] was very poor in the range of 25 to 26 *per cent* though they had a high availability[12] of 77 to 80 *per cent* of total shift hours. The utilisation details of these 100 tippers for the last three years ending 2016-17 were as follows:

Year	**Utilisation of 100 tippers with reference to available working hours**					
	0%	**More than 0% but less than 5%**	**5% and above but less than 10%**	**10% and above but less than 20%**	**20% and above but less than 50%**	**50% and above**
	Number of tippers					
2014-15	2	10	15	24	49	0
2015-16	7	13	16	24	37	3
2016-17	15	4	12	34	31	4

As seen from the table, no tipper achieved utilisation of 50 *per cent* of available working hours prescribed by CMPDIL for dumpers in 2014-15 and only 3 tippers in 2015-16 and 4 tippers in 2016-17 could meet these norms.

(v) BCCL informed Audit that the low utilisation of tippers was on account of mismatch of tippers with other equipment and tippers not being aligned to the working conditions of the departmental mines. Tippers have to be used in tandem with shovels; the tippers procured by BCCL did not match with the existing shovels as highlighted below:-

- In Sijua Area of BCCL, Scania made tippers did not match with the available EKG 5.0 cum shovel.
- In EJ Area of BCCL, Scania made tippers worked with only hydraulic shovel which was already surveyed off and went under breakdown frequently.
- In Katras Area of BCCL, drivers of dumpers were not trained for running the tippers.

Besides, night operation and operation during monsoon with tippers was reported to be difficult under departmental mining conditions.

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[11] ***Percentage of Utilisation= [(Total shift hours – Break down hours –Idle hours)/Total shift hours] X 100, where total shift hours is 24 X 365***

[12] ***Percentage of Availability =[(Total shift hours – Break down hours)/Total shift hours]X 100***

(vi) As per MARC contract, supervision charges were payable on the basis of available working hours of the tippers. Since the actual utilisation hours of the tippers were significantly lower than the available working hours, BCCL had to pay supervision charges of ₹11.31 crore to L&T for the hours the tippers remained idle during March 2014 to April 2017.

Thus, procurement of hundred 35 tonne tippers without assessing their technical suitability for working in the existing mine conditions of BCCL has resulted in improper expenditure of ₹79.59 crore. Moreover, unfruitful expenditure of ₹11.31 crore had to be incurred on supervision charges of tippers for the hours they remained idle as they could not be put into operation in the departmental mine areas due to their incompatibility with the existing mine conditions and other HEMMs.

The Management of BCCL stated (January 2018) that:

- In the hired patches of opencast projects of BCCL, tippers have been successfully deployed both for production of coal and removal of overburden[13].

- Only BEML is manufacturing 35 tonne dumpers and as such fair competition is not available in 35 tonne dumper market. NIT terms and conditions were prepared keeping in mind higher participation and for fetching competitive pricing. Had there been an exclusive tender for 35 tonne dumper, then probably only one prospective bidder i.e. BEML would have participated as presently it is the only manufacturer of 35 tonne dumper.

- Geo-mining parameters of mines are the main guiding factor for deciding types of HEMM which vary in different mining fields and in different subsidiaries of CIL. In other subsidiaries of CIL, dumpers are mostly bigger than 35 tonne dumpers. BCCL mines are different from mines of other subsidiaries as BCCL mines are surrounded by thickly populated areas and various hazards like fire, presence of developed underground mining, etc create restrictions in shifting of HEMM equipment due to restricted space/smaller size of patches, necessitating smaller size of HEMM/transport equipment, i.e. tippers.

- In general, Scania made tippers are working for BCCL and their percentage utilisation during 2014-15 to 2016-17 ranged between 25-26 *per cent*, while the utilisation of 35 tonne dumpers in BCCL during the same period was between 16 to 20 *per cent*.

- There are smaller size/capacity hydraulic shovels available in BCCL mines which can be worked successfully in combination with 35 tonne tippers.

The reply of the Management is not acceptable in view of the following:

- Dumper is used for departmental production of coal in opencast mines in all subsidiaries of CIL, including BCCL. No subsidiary of CIL has replaced dumpers

[13] ***Overburden is the rock, soil and eco-system that lies above a coal seam or ore body which is removed during surface mining***

with tippers for departmental production of coal till date. The major decision to change the HEMM in BCCL mines alone for the first time needed to be appropriately justified. In fact, initially the mining areas of BCCL had indented for dumpers which were subsequently revised to tippers without justifying the change.

- Project report of each mine is prepared considering the existing geo-mining conditions. Project reports have recommended dumper in combination with shovel for production of coal in all mine areas of CIL including those for BCCL. Variation in the specification of HEMM from dumper to tipper required the clearance of CMPDIL as per clause 5.4.4 of the CIL manual, which was not complied with by BCCL.

- That tippers are not suitable for departmental mines of BCCL has been acknowledged by users of the tippers in the mining areas. It has been stated that the mines of BCCL are deep and conical shaped with high gradient and use, *inter alia,* 35 tonne dumpers in combination with 4-5 cubic metre capacity electrical shovels. The tippers either did not match with the shovels or matching shovels were not available restricting deployment, particularly in monsoon, to avoid toppling/accidents due to slippery road of the mine. Further, due to wide gap between rear tyres and heavy weight of the dumpers running in the departmental mines, ridges had formed in the middle of haul road, which impeded functioning of tippers.

- Performance of newly procured tippers and that of older dumpers which were last procured in 2008 and commissioned between April 2001 and October 2009, are not comparable. In fact, considerable numbers of old dumpers were not available at all for utilisation during 2014-17. Records revealed that utilisation of the available older 35 tonne dumpers was up to 40 *per cent* during this period.

Thus, BCCL's decision to purchase tippers for replacing dumpers, without following due procedure and assessing technical feasibility of such change in HEMM, resulted in improper expenditure of ₹79.59 crore on procurement of 100 tippers. Moreover, BCCL had to incur unfruitful expenditure of ₹11.31 crore on supervision charges of idle tippers.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

Central Coalfields Limited

3.3 Avoidable Payment of Penal Charges

Central Coalfields Limited (CCL) has traditionally drawn more power than the contracted demand with Damodar Valley Corporation (DVC) at Kathara area. Despite introduction of penal charges by Jharkhand State Electricity Regulatory Commission (JSERC) for drawing higher than contracted power in September 2014, CCL failed to revise its contracted demand resulting in avoidable payment of penal demand charges of ₹6.79 crore during the period from September 2014 to March 2017.

Central Coalfields Limited (CCL) draws power from Damodar Valley Corporation (DVC) for carrying out mining operations at Kathara Area, located in Jharkhand. A contract demand of 5000 KVA was agreed between CCL and DVC in 2006 for this area. CCL draws additional power from DVC over and above the contract demand, as and when required. Traditionally CCL has drawn much beyond the contracted power from DVC (average monthly demand was 15957 KVA during April 2013 to August 2014 against the contracted demand of 5000 KVA).

In September 2014, Jharkhand State Electricity Regulatory Commission (JSERC) issued Multi Year Tariff (MYT) order for DVC command area of Jharkhand, which *inter alia*, introduced penal demand charges. The order fixed normal demand charge of ₹410/KVA per month upto consumption of 110 *per cent* of the contract demand. Beyond this consumption, the consumer had to pay penal demand charges @ 1.5 times the normal tariff of ₹410/KVA per month (₹615 /KVA).

Audit observed that the average monthly demand of CCL for the Kathara area during the period, September 2014 to March 2017, was 18488 KVA. CCL, however did not revise its contract demand which remained at 5000 KVA. Since the actual demand was much beyond 110 *per cent* of the contract demand, CCL had to pay penal demand charges during this period as per MYT as indicated in table below:

(1)	Aggregate of monthly contract demand (in KVA)	220000
(2)	110% of the aggregate of monthly contract demand on which normal demand charge is applicable [(1) x 110%] (in KVA)	242000
(3)	Actual power consumption (in KVA)	573122
(4)	Power consumption on which penal demand charges were levied [(3) – (2)] (in KVA)	331122
(5)	Penal demand charges paid [(4) x ₹615 per KVA]	₹20,36,40,030
(6)	Avoidable penal demand charges paid [(4) x (₹615 – ₹410) per KVA]	₹6,78,80,010 or **₹6.79crore**

Audit further observed that the Kathara Area requested CCL headquarters for enhancement of contract demand from 5000 KVA to 19000 KVA to avoid penalty in August 2015 and January 2016. However, CCL did not take action to revise the contract demand. Instead, CCL repeatedly requested DVC for waiver of penal demand charges for ad-hoc power requirement over and above the contract demand. This was declined by DVC stating (May 2016) that there was no provision in JSERC tariff for grant of any ad-hoc power. DVC had also conveyed (April, May 2016) that it was ready to examine a proposal for enhancement of contract demand by CCL within the ambit of JSERC tariff order. Even after being pointed out by DVC as well as by Kathara area, CCL did not take any action to revise their contract demand with DVC and continued to pay penal demand charges. Subsequently, from the month of April 2017, DVC suo moto revised the contract demand to 20000 KVA following which penal demand charges were not levied.

The Management stated (November 2017) that:

- After introduction of MYT, DVC stopped granting ad-hoc power to CCL on the plea that there was no provision of ad-hoc power in the JSERC tariff and started raising penal charges violating the mutual agreement between CCL and DVC for granting ad-hoc power as and when required.

- As per the tariff order from JSERC, DVC was required to get the MOU modified mutually in consultation with CCL, which had not yet been done. Moreover, CCL had attempted to place the fact before DVC time and again for continuing with existing arrangement for allocation of ad-hoc power and charging thereof on pro rata basis as per the terms and conditions of mutual agreement/ MOU.

- Had CCL executed new agreement with DVC for contract demand of 20000 KVA in order to avoid penal charges at Kathara, there would have been an approximate loss of ₹46 lakh[14] per month on account of demand charges for non-utilisation of power from DVC as CCL would have been able to meet the power requirement of mining operation from its 20 MW captive power plant at Kathara.

The above reply of the Management is not acceptable in view of the following:

- Tariff for power supply in the DVC command area of Jharkhand is fixed by JSERC. Immediately after introduction of MYT, DVC intimated (October 2014) CCL that there was no provision of ad-hoc power as per JSERC tariff order. Thus, for additional power requirement over and above the contract demand, CCL had to pay penal charges as per MYT order.

- The power requirement of Kathara Area was not met from the existing 20 MW captive power plant at Kathara in any month of the period commented upon. In fact, the power drawn monthly from DVC was much higher than 5500 KVA (110 *per cent* of the contract demand of 5000 KVA) during this period leading to payment of penal demand charges. Hence, the question of loss on account of higher contracted demand does not arise.

Thus, CCL failed to take appropriate action in revising its contract demand with DVC for the Kathara area, despite being alerted by DVC as well as the unit management (of Kathara) which led to avoidable payment of penal demand charges of ₹6.79 crore over September 2014 to March 2017.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

NLC India Limited

3.4 Excess payment of perks and allowances

NLC India Limited paid perks and allowances to its employees over and above the ceiling of 50 *per cent* of their basic pay in violation of DPE guidelines, resulting in excess payment of ₹21.14 crore.

The Department of Public Enterprises (DPE) issued (November 2008) guidelines on revision of scales of pay of the Board level and below Board level executives and non-unionised supervisors in Central Public Sector Enterprises (CPSEs) effective from

[14] *Difference between the demand charges per month for 20,000 KVA (0.75 x 20000 x ₹410) – demand charges for 5000 KVA (0.75 x 5000 x ₹410), assuming minimum guaranteed power payment of 75 per cent of contract demand*

1 January 2007. As per the guidelines, the Board of Directors of CPSEs would decide on the allowances and perks admissible to different categories of the executives subject to a maximum ceiling of 50 *per cent* of the basic pay. Instead of having a fixed set of allowances, the CPSEs could follow 'Cafeteria Approach' allowing the executives to choose from a set of perks and allowances.

Based on the DPE guidelines, NLC India Limited (Company) approved (January 2011) the pay revision for the Board level and below Board level Executives and Non-Unionised Supervisors and issued (February 2011) orders for revision of perks and allowances, effective from 26 November 2008. As per the orders, the perks and allowances included (i) Common Allowance equivalent to 40 *per cent* of basic pay; and (ii) Area Based Allowance which included (a) Mines Allowance ranging from 6 *per cent* to 9 *per cent* of basic pay, (b) Thermal Allowance ranging from 5 *per cent* to 7 *per cent* of basic pay, and (c) Service Area Allowance equivalent to 5 *per cent* of basic pay. In addition to these percentage-based allowances, the Company also granted to the below Board level executives and non-unionised supervisors fixed-rate compensation such as Miner's personal compensation, Operation monitoring compensation, Night shift compensation, Project compensation, etc.

Audit observed that the Company paid allowances/benefits/perks to the Board level and below Board level executives and non-unionised supervisors in excess of the prescribed ceiling of 50 *per cent* of the basic pay. Consequently, excess payment of ₹21.14 crore was made by the Company during the period from 2010-11 to 2016-17 in contravention of the guidelines issued by DPE.

The Management stated (July/October 2017) that the NLC Board had approved the recommendations of a Committee constituted for deciding on the perks and allowances to the executives of the Company, wherein the aggregate amount of revised perks and allowances for Board level and below Board level executives and non-unionised supervisors for 2010-11 worked out to 48.97 *per cent* of their aggregate basic pay. The aggregate amount of perks and allowances paid to the Board level and below Board level executives and non-unionised supervisors during the period 2014-15 to 2016-17 was well within the maximum ceiling of 50 *per cent* of the total basic pay. Further, as DPE guidelines of November 2008 did not specify that the maximum ceiling of 50 *per cent* of the basic pay was applicable to individuals, the Company had not deviated from the DPE guidelines. The Ministry endorsed (October 2017) the reply of the Management.

The reply of the Management/Ministry is not acceptable as the DPE guidelines of November 2008 provided a maximum ceiling of 50 *per cent* of the 'basic pay' and not the 'aggregate basic pay' of all executives. The ceiling, therefore, needed to be applied with reference to the basic pay of the executives individually and not collectively. Further, while issuing a clarification on payment of performance linked incentive (PLI) by CPSEs, DPE had stated (July 2011) that PLI can only be distributed within the 50 *per cent* ceiling on perks and allowances of the basic pay of 'individual' executives. Thus, the ceiling on perks and allowances was applicable to the basic pay of each executive separately.

3.5 Avoidable expenditure on transportation of Lignite

NLC India Limited carried out production of Lignite in Mine-IA in excess of requirements and subsequently transported the Lignite to other mines which resulted in avoidable expenditure of ₹17.24 crore.

NLC India Limited (Company) is engaged in mining of Lignite and generation of power through thermal power plants using Lignite excavated from its mines. The Company has its own pit-headed Thermal Power Station-I (TPS-I) of 600 MW capacity and TPS-I expansion linked to Mine-I, and Thermal Power Station-II (TPS-II) of 1470 MW capacity and TPS-II expansion linked to Mine-II. The Company commissioned (March 2003) Mine-IA with an installed capacity[15] of 30 lakh tonne per annum (LTPA) to meet the fuel requirement (19 LTPA) of TPS of 250 MW capacity of Taqa Neyveli Power Company Private Limited (TAQA), and to use the balance capacity of 11 LTPA for its best commercial advantage.

During the period 2014-15 to 2016-17, the Company produced 85.12 lakh tonne (LT) of Lignite from Mine-IA out of which 46.90 LT was dispatched to TAQA to meet the commitment of fuel supply agreement and 8.50 LT was sold to outsiders. The Company transported 21.97 LT of Lignite from Mine-IA to Mine-I (5.54 LT) during 2014-17 and Mine-II (16.43 MT) during 2015-17 at a cost of ₹17.24 crore. The transfer of Lignite was carried out on the grounds that (i) the supply of Lignite from Mine-IA would partially meet the requirements of TPS-I & II, (ii) spontaneous heating of Lignite at Mine-IA stockpile would be avoided, (iii) space would be created at Mine-IA stockpile for further Lignite production thereby enabling Mine-IA to meet its production target.

Audit observed that:

(a) During the above period, the supply of Lignite from Mine-I and Mine-II was sufficient to meet the requirements of their linked TPS-I (and TPS-I expansion), and TPS-II (and TPS-II expansion) respectively, as is evident from the following information:

(in lakh tonne)

Year	Opening Stock	Production	Consumption by linked TPS and expansion	Closing Stock
	Mine-I (and expansion)			
2014-15	6.67	90.55	87.79	9.43
2015-16	9.43	91.01	82.03	18.41
2016-17	18.41	94.02	91.85	20.58
	Mine-II (and expansion)			
2015-16	8.35	123.09	125.26	6.18
2016-17	6.18	140.23	136.40	10.01

As the requirements of TPS-I & II could be easily met from the supplies of Mine-I & II respectively, the justification that transportation of Lignite from Mine-IA to other mines would partially meet the requirements of linked TPSs was not valid.

(b) The normal stacking capacity of Mine-IA stockpile was 3 LT of Lignite. Even after transportation of Lignite from Mine-IA to other mines, the average monthly

[15] *Installed capacity of a mine refers to its maximum productive capacity*

closing stock of Mine-IA during 2014-15, 2015-16 and 2016-17 was 3.37 LT, 5.85 LT and 8.99 LT respectively. Thus, transportation of Lignite from Mine-IA did not mitigate the risk of spontaneous heating of Lignite as the quantity of Lignite in Mine-IA was much above the normal stacking capacity even after transportation. The quantity transported to other mines only added to their stock as the same was not required by the other mines and therefore the risk of deterioration[16] in quality of Lignite still existed.

(c) Against the agreed quantity of 57 LT to be lifted by TAQA during 2014-15 to 2016-17, the actual off-take was only 46.90 LT. Further, the outside sales was also minimal at 8.50 LT. Thus, over-production of Lignite in Mine-IA only to meet the production target and considering the same as a ground for transportation of Lignite to other mines was not justifiable. This also indicated that the production target for Mine-IA was not based on realistic parameters.

Thus, the production of Lignite from Mine-IA in excess of the requirements and subsequent transportation of Lignite to other mines resulted in avoidable expenditure on transportation to the extent of ₹17.24 crore.

The Management stated (June 2017) that the Mine-IA had to operate at 85 *per cent* capacity i.e., 25.50 LT to recover the fixed cost. If in one Mine 85 *per cent* capacity is not achieved, company needs to plan and increase Lignite production in other Mines so that it is able to ensure 85 *per cent* total mining capacity utilisation in any financial year. Further, there was poor off-take of Lignite by TAQA from Mine-IA stockyard and open sales as well. Due to technical and administrative reasons, the operation of mines could not be stopped and the production of Lignite was continued. Since the produced quantity required necessary storage, it became inevitable to transport Lignite to other mines.

The Ministry stated (November 2017) that the transportation of Lignite was done after considering factors such as (i) operation of the mine at normative capacity, (ii) to achieve the committed targets of Mine-IA, (iii) to avoid huge accumulation of stock, (iv) to sustain the characteristic of Lignite and prevent change in its quality due to prolonged storage.

The reply of the Management/Ministry is to be viewed against the fact that the Company operated Mine-IA at a capacity ranging from 93-97 *per cent* during 2014-15 to 2016-17 which was higher than the normative capacity. As the capacity utilisation of the other two Mines was also above their respective normative capacities during this period, the operation of Mine-IA above its normative capacity was not justifiable. Further, the annual production from the other mines was adequate to meet the requirements of their linked TPSs and supply of Lignite from Mine IA was not required. As such, the quantity transferred from Mine-IA only added to the stock of the other mines due to which accumulation of stock and the risk of deterioration in the quality of Lignite continued to exist.

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[16] ***When Lignite is stored for a long period of time, spontaneous heating starts which adversely affects the quality of Lignite***

CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

MMTC Limited

4.1 Loss due to non-adherence to the directions of Functional Management Committee of Directors

MMTC imported 43390 MTs of Manganese Ore (May 2014) from M/s UMK, South Africa, without adhering to the directions of Functional Management Committee of Directors (FMCoD) of MMTC (September 2013), to enter into Memorandum of Understanding (MoU) with the buyers prior to placement of indent on the foreign supplier. Since MMTC did not get committed buyers it could not sell substantial portion of the ore for 14 months and subsequently, sold it at almost half of the purchase price of the material. Thus, MMTC sustained net loss of ₹6.60 crore.

Functional Management Committee of Directors (FMCoD) of MMTC in its 102nd meeting granted (16 September 2013) in-principle approval, for import of one shipload (about 40000 MTs) of Manganese Ore of African origin, from M/s UMK, South Africa. As per the approval, Regional Office of MMTC at Kolkata was required to enter into Memorandum of Understanding (MoU) with the buyers prior to placement of indent on the foreign supplier of Manganese Ore. Further, two separate contracts were to be entered into between MMTC and Category-I buyers (who were to purchase on high sea sale[1] basis) and Category-II buyers (who were to purchase from MMTC under stock and sale[2] basis). All the terms and conditions were to be on back-to-back basis. At the time of placement of indent, earnest money deposit (EMD) of 15 *per cent* and 20 *per cent* of cargo value in case of 'high-sea-sales' and 'stock and sales' basis, respectively, was to be obtained from the party.

Accordingly, based on negotiations MMTC conducted (February 2014) with the supplier (M/s UMK), M/s UMK submitted an offer (04 March 2014) to sell the ore against 100 *per cent* payment through irrevocable letter of credit[3] (LC) payable at sight. MMTC accepted (05 March 2014) the offer and opened the LC as required (17 March 2014). There were no committed buyers on the date of signing of the contract. Subsequent to signing of the contract with M/s UMK, MMTC arranged committed buyers for the entire quantity (approx. 19650 MT) of Manganese Ore to be shipped to Haldia Port. However, MMTC

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[1] ***High sea sale (HSS) is carried out by the carrier document consignee to buyer while the goods are yet on high seas or after their dispatch from the port/ airport of origin and before their arrival at the port / airport of destination. HSS agreement should be signed after dispatch from origin and prior to the arrival at destination port***

[2] ***Stock and Sales is a sale where goods are stored in godowns after import and the buyers are required to lift as per schedule agreed with the importer***

[3] ***A letter of credit (LC) is a document; typically from a bank (Issuing Bank), assuring that a seller (Beneficiary) will receive payment up to the amount of the letter of credit, as long as certain documentary delivery conditions have been met. In the event that the buyer (Applicant) is unable to make payment on the purchase, the Beneficiary may make a demand for payment on the bank. The bank will examine the Beneficiary's demand and, if it complies with the terms of the letter of credit, will honour the demand***

could arrange committed buyers for only 3000 MT of Manganese Ore out of 23740 MTs to be shipped to Vizag Port. The company imported a total quantity of 43,390 MTs of Manganese Ore @ USD 4.59 per dry metric ton unit (PDMTU) on CIF[4] basis. The total value of the cargo was ₹43.00 crore approx. including the company's margin of ₹0.86 crore approx. at the rate of two *per cent* of the value of total procurement.

Out of the total quantity of 43,390 MTs of Manganese Ore actually imported in May 2014, 23,740 MTs cargo was released at Vizag Port and the balance quantity of 19650 MT was released at Haldia Port. The quantity at Haldia Port was sold by MMTC at a net profit of ₹1.17 crore. Out of the cargo of 23740 MTs released at Vizag Port, MMTC could not sold any quantity on HSS basis and the entire cargo of 23740 MTs was stored (10 May 2014) in customs bonded warehouse. Later on, a quantity of 3000 MTs and 940 MTs was sold from the customs bonded warehouse to M/s Saikruthi Minmet Private Limited (May 2014) and M/s QVC (June 2014), respectively. Subsequently, to avoid interest and penalty on delayed clearance of unsold stock of 19800 MTs from customs bonded warehouse, MMTC paid the customs duty and de-bonded the cargo in September 2014.

As MMTC did not succeed in liquidating, the cargo at Vizag gainfully, it hosted the price circular on its website for sale of cargo on as-is-where-is basis (July 2015) and sold 11,000 MTs @ ₹6500/MT and the remaining quantity @ ₹6550/MT to sundry buyers against the cost price of approx ₹12,400 per MT. The net trading loss to MMTC on import of Manganese Ore from M/s UMK was ₹6.60 crore, after adjusting the trading profits of ₹1.17 crore earned by MMTC at Haldia.

Audit observed that:

MMTC did not identify and enter into MoU with committed buyers for the entire quantity to be imported on back to back basis, before entering into an agreement on 05 March 2014 with the foreign supplier viz. M/s UMK, as was desired by FMCoD in its in-principle approval granted for the above import.

Any decision to hold inventory in the MMTC's own account was required to be taken after carrying out risk analysis, as stipulated by the Audit Committee of Directors in its 41st meeting held on 29 January 2008. Further, in case of disposal of cargo on 'stock and sale' basis, the Risk Management Policy of MMTC also required fixing of 'stop-loss' norms in case of any steep fall in prices. However, the Management did not fix any 'stop-loss' norms in the present case. Resultantly, MMTC waited for 14 months to effect distress sale of the cargo at Vizag Port.

The Management in its reply (December 2015 / October 2016 / October 2017) stated that:

The entire quantity destined for discharge at Haldia port was sold/ committed before arrival of vessel at the port. However, due to the fact that Steel Authority of India Limited (SAIL) did not award any quantity to MMTC despite MMTC emerging as lower bidder in the tender, the quantity, earmarked for servicing of SAIL's tender, remained unsold for a long period.

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[4] ***Cost, insurance and freight (CIF) is a trade term requiring the seller to arrange by bearing the expenditure for the carriage of goods by sea to a port of destination for the buyer***

The holding of inventory at Vizag was not planned at the time of import. MMTC was compelled to store the goods due to failure on the part of SAIL to award the quantity to MMTC and due to falling market prices. As such no risk analysis could be done before storage of the cargo.

The Ministry endorsed (December 2017) the reply of MMTC submitted (October 2017) to Audit.

The reply of the Ministry / Management was not acceptable because as per the in-principle approval granted by FMCoD for the above import, the Management was required to enter into Memorandum of Understanding (MoU) with the buyers prior to placement of indent on the foreign supplier of Manganese Ore viz. M/s UMK. However, the Management did not adhere to the above directions of FMCoD. Resultantly, substantial portion of Manganese Ore, released at Vizag Port, remained un-sold for 14 months, as there were no committed buyers. Further, the Management's dependence on the tender floated by SAIL in February 2014 for a quantity of 20,000 MT of Manganese Ore, without having any firm commitment from SAIL, cannot be considered as prudent.

Thus, due to non-adherence to the directions of Functional Management Committee of Directors to enter into Memorandum of Understanding with the committed buyers, prior to placement of indent on the foreign supplier of Manganese Ore, MMTC sustained loss of ₹6.60 crore. Further, omission to fix any 'stop-loss' norms resulted in delay of 14 months in disposal of Manganese Ore.

PEC Limited

4.2 Ineffective monitoring of contract resulting in non-recovery of dues

PEC sustained blockade of funds of ₹11.21 crore apart from interest of ₹7.29 crore thereon till 10 November, 2017 due to inefficient monitoring of the material stored in warehouse, inefficient and ineffective decision making in attaching the pledged goods and delayed action for encashment of post-dated cheques, on the part of the Management.

M/s Oshiya Industries Private Limited, Mumbai (OIPL), formerly known as M/s Kuber Steel Industries Private Limited, requested (August 2010) PEC Limited (PEC) for financing the purchase of Hot Rolled Steel Coils of various sizes from market to fulfil their obligation under supply contracts with different buyers of the steel products. Accordingly, PEC financed a number of procurement proposals of OIPL over the period 2010-11 to 2012-13. During the period 01 January 2014 to 7 March 2014, PEC entered into eight Associateship agreements with OIPL for procurement of 2882.992 MTs of Hot Rolled Steel Coils/sheets from different domestic suppliers on behalf of OIPL. The total procurement price in the above eight agreements was ₹12.50 crore. As per identical terms and conditions contained in all of the agreements, OIPL was required to pay to PEC in advance, an amount equivalent to 15 *per cent* of the value of Letter of Credit (LC) as earnest money in cash which was to be adjusted upon the delivery of last consignment. In case of increase in price of the contracted cargo after opening of LC by PEC, OIPL was required to pay additional advance for the price difference. OIPL was also required to give post-dated cheques towards 90 *per cent* of the total value of the consignment. On receipt of indent and the advance as stated above from OIPL, PEC was required to establish a LC for a maximum usance period of 120 days, in favour of the supplier. Further, OIPL was required to pay 1.5 *per cent* of the total value of the LC as PEC's net trading margin, after making statutory deductions, if any. The material was required to be stored at a private warehouse, under the control and custody of the Central Warehousing Corporation of India (CWC) for which a Storage Agreement dated 8 November 2013 was entered into amongst PEC, CWC, OIPL and M/s Jeet Steel Industries Private Limited (JSIPL), where from PEC was to sell the entire quantity to OIPL. PEC was required to raise invoice on OIPL by loading 1.5 *per cent* trading margin on purchase value immediately. OIPL was required to pledge the material in favour of PEC (by signing an Agreement of Pledge), with the first charge of PEC over the material. On the request of OIPL the specified quantity of the material was to be de-pledged on receipt of full payment by PEC against such requested quantity. In case OIPL failed to pay the entire cost of the consignment as per the predetermined schedule, PEC was at liberty to sell the material to any other party at the risk and cost of OIPL and any loss, if any, to PEC, after the adjustment of margin money, OIPL was required to make good such loss suffered by PEC. Further, as per Clause 13 of the eight agreements, in case PEC remained out of pocket or PEC's funds were Blocked, OIPL was required to pay interest at the rate of 14.50 *per cent* per annum up to 180 days on monthly rest basis and 15.50 *per cent* per annum from 181 days to 365 days on monthly rest basis and for above 365 days as decided by PEC.

In order to procure aggregate quantity of 2882.992 MT of the material from various suppliers as per the above mentioned eight agreements, PEC opened eight LCs between 2 January 2014 and 13 March 2014, on behalf of OIPL, for a total amount of ₹12.50 crore. The material delivered by the suppliers was stored in the plant premises of JSIPL and pledged in favour of PEC.

As per the terms of the above agreements, OIPL was liable to pay an amount aggregating to ₹11.21 crore (after adjusting ₹1.88 crore i.e. 15 *per cent* of LC value received by PEC as advance, amount of trade margin of ₹0.19 crore i.e. 1.5 *per cent* of total value of invoice and bank charges, legal expenses etc.) to PEC on or before the LC due dates falling between 3 May 2014 to 12 July 2014. OIPL did not lift the stock, therefore, PEC had to release, out of its own funds, payment of ₹12.50 crore on LC due dates to various suppliers.

PEC carried out physical verification of the pledged stock on 7 July 2014 and identified total 125 Hot Rolled Steel Coils of 2882.343 MT, as mentioned in the stock certificate dated 1 July 2014 issued by CWC. Subsequent physical verification carried out by PEC on 29 October 2014, revealed that out of 125 coils, only 65 coils were found identifiable. The physical verification team of PEC advised CWC to keep coils at one place, use permanent marker /paint on coils for proper demarking of pledged stock etc. CWC sent (29 October 2014) a notice for exit from the storage agreement and asked PEC to take over the entire stock from the warehouse on or before 30 November 2014. In the meantime, the post-dated cheques given by OIPL (of value ₹11.50 crore) bounced when presented (October and November 2014) by PEC to bank. PEC filed (28 November 2014) a complaint regarding missing goods, with the police based on which an inspection conducted (8 January 2015) by the police also revealed non-existence of the stock. PEC lodged (21 January 2015) an FIR in this regard against OIPL, CWC and warehouse owner viz.

JSIPL. In the meantime, CWC gave a final notice (3 January 2015) to PEC conveying inability to take any further responsibility of the stock. PEC also filed criminal cases against OIPL under section 138 of the Negotiable Instrument Act for dishonour of post-dated cheques. As intimated (January 2017) by the Mumbai Branch Office of PEC to its Corporate Office, the case has been transferred to Economic Offence Wing.

Thus, PEC had to recover from OIPL an amount of ₹11.21 crore towards principal and ₹7.29 crore towards interest thereon (till 10 November 2017).

Audit observed:

(i) Due to non-receipt of payment from OIPL, the PEC had to release payment to suppliers out of its own funds, against the LCs which became due between 3 May 2014 and 12 July 2014. However, post-dated cheques worth ₹11.50 crore, available as security, were deposited by PEC in the bank in October and November 2014, which bounced later on. Thus, there was undue delay, on the part of PEC, in encashment of the post-dated cheques.

(ii) The last consignment of material was received on 13 March 2014, however, PEC conducted physical verification only in July 2014. Mismanagement in the storage of the material in the premises of JSIPL had come to the notice of PEC on 7 July 2014 as the material was not found stacked at one place. Subsequent physical verification carried out by PEC on 29 October 2014 revealed that out of 125 no. of coils available as per the stock certificate issued by CWC, more than 60 coils did not bear the internal coding of CWC marked thereon and also appeared quite new in comparison to coils marked with coding. Despite being aware of the above situation PEC did not take possession of the material and initiate action for liquidation of the same at the risk and cost of OIPL. PEC took the decision to invoke the deed of pledge and attach the goods only on 13 November 2014. This indicated inefficient and ineffective managerial control by PEC over the storage conditions of the material and on the verification of the authenticity of the weekly stock reports furnished by CWC.

(iii) PEC did not insist on inclusion of a penal clause in the Storage Agreement to hold CWC responsible for CWC's failure, if any, in safeguarding the pledged stock.

(iv) As per terms of Storage Agreement (November 2013) OIPL was required to arrange insurance for the material covering all the risks like theft, floods, fire, strike, riot, pilferage, etc. for 110 *per cent* of the value of the material stored in the warehouse at their own cost, showing PEC as the beneficiary. Agreement further provided that OIPL would be responsible for lodging and realisation of claims, if any, arising out of these insurance policies in time and in case, due to any reason, payment of insurance claim is not made by insurance company to OIPL, OIPL would be liable to make the payment to PEC without taking the plea of pendency of claim with the insurance company.

PEC failed to ensure compliance of terms of the agreement by OIPL, as contrary to the above provisions of the agreement, OIPL took standard fire, special perils and Burglary insurance policy which was renewed up to 22 December, 2015. PEC also did not foresee the risk of misappropriation of stock by OIPL itself, resultantly; PEC was unable to lodge the insurance claim in the matter.

The Management in its reply (January 2018), stated that:

1. PEC has been dealing with the Associate for 3-4 years and the track record of the Associate was satisfactory. In July 2014, OIPL had assured PEC to make part payment within July 2014 and balance to be completed in August 2014. When OIPL failed to honour the commitment, fresh cheques were obtained in September 2014 and presented to the bank. PEC further stated that after bouncing of the cheques PEC had filed cases, under section 138 of the Negotiable Instrument Act, against the Associate.

2. On getting the weekly reports that the coils were stored in a scattered manner and getting the letter from CWC that "the stocks were lying in haphazard manner mixed with other party and uncountable", PEC wrote letters to CWC asking for their explanations. PEC also wrote letter to CWC regarding the discrepancies found in physical verification of the material carried out in September 2014. PEC further stated that CWC being the custodian of PEC's material and a Public Sector Undertaking of Government of India, it was felt necessary to get the version of CWC regarding the discrepancies found, before taking any action. But CWC did not respond to any correspondence of PEC.

3. The Storage Agreement was vetted by Finance Division and Legal Division of PEC.

4. The terms related to insurance of the material as per the agreement with OIPL were duly complied with.

The Ministry endorsed (January 2018) the reply of the Management of PEC.

The reply of the Management was not tenable as past satisfactory track record of the Associate cannot justify undue delay, on the part of PEC, in encashment of the post-dated cheques. Reply was silent on the issue raised by Audit that PEC did not take possession of the material and initiate prompt action for liquidation of the same at the risk and cost of OIPL, despite being aware of the poor storage conditions at CWC warehouse. Prompt action was needed to be taken by PEC to protect its financial interests. However, PEC decided to invoke the deed of pledge and attach the goods only on 13 November 2014**.** Further, while agreeing to a condition in the agreement that OIPL would be responsible for lodging and realisation of claims, if any, PEC did not foresee the risk of misappropriation of stock by OIPL itself. Resultantly, PEC was unable to lodge the insurance claim in the matter.

Thus, due to inefficient monitoring of the material stored in warehouse, inefficient and ineffective decision making on attaching the pledged goods and delayed action for encashment of post-dated cheques, on the part of the Management, funds to the extent of ₹11.21 crore apart from interest of ₹7.29 crore thereon (till 10 November 2017) remained blocked and chances of its realisation from OIPL were remote.

CHAPTER V: MINISTRY OF FINANCE

Cent Bank Home Finance Limited

5.1 Non-adherence to Credit Policy

Non-adherence of Credit Policy and failure of credit appraisal system at the time of sanction and disbursement of loans led to loan accounts becoming NPA and subsequent write off.

The credit policy of Cent Bank Home Finance Limited (CBHFL) stipulates that at the time of sanction of loans, CBHFL obtain and examine, *inter alia*, the following documents:

- Proof of security which includes original registered title deeds in case of purchase of private site/house, original allotment letter, cash paid statements in case of purchase of flat and an undertaking to mortgage the property.
- Installment to Income Ratio, indicating the repaying capacity of the borrower, should be a maximum of 40 *per cent* of gross income for loans sanctioned at branch office level. A relaxation up to 45 *per cent* of gross income can be obtained from the registered office.
- Details of existing loans or CIBIL[1] report.
- Proof of income, address and identity, copy of bank passbook for last six months, agreement for sale of property between the buyer and seller, copy of Income Tax Returns (ITRs) for last three years,

As of 30 June 2016, the non-performing assets (NPA) of CBHFL stood at ₹28.55 crore. Out of this, ₹19.25 crore (67 *per cent*) pertained to 359 NPA accounts from five branches of CBHFL. Audit carried out a test check of 23 loan accounts involving outstanding dues of ₹4.68 crore related to these five branches as under:

Name of branch	NPA loan accounts		Audit coverage	
	No.	Amount (₹crore)	No.	Amount (₹crore)
Agra	8	1.98	7	1.95
Bhopal	39	3.07	4	0.50
Indore	79	5.85	2	0.19
Jabalpur	228	7.76	8	1.70
Nasik	5	0.59	2	0.34
Total	**359**	**19.25**	**23**	**4.68**

The details of the 23 loan accounts is at **Annexure-VII.** Audit examination revealed that the branch offices failed to comply with the credit policy while sanctioning loans as detailed below:

[1] *CIBIL: Credit Information Bureau (India) Limited*

Lack of security: In 8 of the 23 cases studied, the loans were sanctioned and disbursed without adequate security:

- The loans had been extended on the basis of 'Agreement to Sell' in five cases (loan accounts 01702070000006, 01702070000007, 01702070000011, 01702070000012, 01702070000001). In four of these cases, the construction of these properties were 95 *per cent* complete at the time of sanction of loan. However, these properties were not registered even after two to three years of loan sanction and disbursement. In one case, the borrower informed that the construction was sealed by local authorities. It was noticed that for this property, the builder had informed CBHFL at the time of disbursement of the loan that all clearances required for the construction had been obtained, though relevant documents in support of such assertion was not found in the relevant loan file.

- Two loans (loan accounts 01402250000064 and 01402250000065) were sanctioned to two borrowers on the basis of security of the same property. Both the borrowers had the same address, both loans were sanctioned on the same day (25 August 2014) and disbursements against the loans were also made on the same day (31 August 2014). The property was not traceable and hence no security was available with CBHFL.

- Another loan (loan account 00402070001921) was sanctioned based on fraudulent documents. The Legal Scrutiny Report was based on two sale deeds dated 25 August 1980 and 26 September 2013 while the Valuation Report was based on a registered sale deed dated 27 August 2013. Despite the apparent discrepancy, the loan was sanctioned. Subsequently, during legal action for taking over the property, it came to light that the property belonged to a third party.

Repaying capacity of borrowers: In 5 of the 23 loan cases, the 'Instalment to Income Ratio' of 45 *per cent* was breached by the branch sanctioning the loan, even considering the gross income of the borrower as declared in the income tax returns as detailed below:

Loan accounts	**Average monthly income (₹ lakh)**	**Monthly instalment (₹ lakh)**	**Instalment to Income ratio (%)**
01702070000006 01702070000007	1.43	1.10	**76.92**
01702070000011	0.73	0.40	**54.79**
01702070000012	0.61	0.34	**55.74**
01702070000001	0.67	0.73	**108.96**

If the re-payment obligations of the borrower arising out of existing loans were considered, the ratio would be far worse. Thus, while sanctioning these loans, the repayment capacity of the borrowers were not appropriately assessed, assuming higher risks.

CIBIL Reports: As per the credit policy of CBHFL, CIBIL report of the borrower was required to be obtained and examined before sanction of loan. The CIBIL report would enable the branch office to ascertain the indebtedness, creditworthiness and credit exposure of the borrower. Audit noticed the following regarding compliance of this condition:

- In three loan cases (loan accounts 01702070000006, 01702070000007, 01702070000001) the CIBIL reports were not obtained before sanction of the loans. The CIBIL reports obtained subsequently, after sanction and disbursement of the loans indicated that these borrowers had significant outstanding debts at the time of sanction of the loans and hence their credit-worthiness was doubtful.

- In two other loan cases (loan accounts 01702070000012, 01702070000011), CIBIL reports were obtained but the indebtedness of the borrowers reflected in these reports were not duly considered before sanctioning and disbursing these loans.

Disbursement in violation of sanction: In two cases (loan accounts 00202070004589 and 00202070004590), disbursements were made in violation of the terms of disbursement specified in the loan sanction letters. As per the terms of sanction, the loans were to be disbursed based on the progress of construction. However, loans were disbursed though no construction was done on the plot.

Deficient documents: In 8 of the 23 cases, the documents based on which loans were sanctioned were deficient. However, credit appraisal by CBHFL did not flag these obvious discrepancies:

- The documents submitted in three loan accounts were incomplete. For loan account 00402070001917, no income tax return was submitted while for loan account 01302090000019, the borrower submitted income tax returns for two instead of the stipulated three years. For another loan account 00402080000135, bank statement of borrowers was not available on record.

- The documents based on which loans were sanctioned had obvious discrepancies in six instances.
    - In case of loan account 00402070001917, different residential addresses in application form, bank pass book, agreement to sell, sale deed and loan sanction letter were indicated.
    - Two loans (00202070004618 and 00202280000001) were sanctioned for purchase and furnishing of a house. The valuation report of the property (22 March 2014) stated that it was under construction while the credit appraisal (20 October 2014) stated that the property had been constructed in 2013. The builder handed over actual possession of the property in 2016 to the seller who agreed to sell the property to borrower and for which loan was availed. Loan for furnishing this property was sanctioned in October 2014, though it was not under the possession of either the seller or the borrower.
    - In case of loan account 01302080000065, the borrower submitted unsigned documents in support of income.
    - In case of two loan cases (01702080000006 and 01702080000009), the Residence Verification Report and Business Verification Report dated 26 November 2013 did not recommend sanction of the loans as the addresses of the borrowers were not found and the business unit was closed

at the time of the inspection. The loan was, however, sanctioned and disbursed.

The Management stated (October 2017) that loans had been written off where the possibility of recovery was minimum and that steps were taken to strengthen collection and recovery in delinquent cases which were monitored closely. The Management also stated that five loan cases have been reported (May 2017) as fraud to National Housing Bank (NHB). FIR in respect of two loans had been lodged in April 2017 whereas FIR in respect of another case was lodged in February 2016. Physical possession of the properties had been taken in five cases and auction of the properties would be held soon. In the remaining cases, steps for physical possession of the property had been initiated.

The reporting of the five fraud cases to NHB, filing of FIR in April 2017 and legal action for possession of properties in five cases was initiated by the Management after being pointed out by Audit in February 2017. In eight cases, it was seen that though legal action was initiated, possession of the property was yet (October 2017) to take place. Out of ₹4.68 crore covered in audit, CBHFL has written off ₹2.05 crore (related to five cases of Agra Branch, two cases of Nasik Branch and one case of Jabalpur Branch) during 2016-17.

Non-adherence of Credit Policy and failure of credit appraisal system at the time of sanction and disbursement of loans led to loan accounts becoming NPA and subsequently written-off.

As Audit has test checked a small sample, there is a need for the Management to carry out a detailed analysis of all NPA accounts and take appropriate action. The Management should take appropriate action to fix responsibility of the officials who failed to apply mandatory checks before sanctioning bad loans.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

IFCI Infrastructure Development Limited

5.2 Injudicious decision to continue with a residential project with Floor Area Ratio in excess of allowable limits making the project unviable

IFCI Infrastructure Development Limited proceeded with the construction of the Housing Project '21st Milestone Residency' at Ghaziabad with Floor Area Ratio (FAR) of 2.5 without analysing the profitability of the project, against FAR of 1.5 permitted by Ghaziabad Development Authority. Further, delay in initiating action for obtaining additional FAR through compounding procedure led to loss of ₹11.36 crore.

IFCI Infrastructure Development Limited (the Company) decided to develop (February 2009) residential project viz '21st Milestone Residency' at Ghaziabad, Uttar Pradesh on the land received from IFCI Limited (its holding company) against equity contribution of ₹23.38 crore.

The Company appointed (February 2009) M/s Holistic Urban Innovations Private Limited (consultant) as Architect and Project Management Consultant for the said project on nomination basis at a consolidated fee of 4.5 *per cent* (subsequently enhanced to 9.5 *per cent* in December 2011) of the actual project cost.

The consultant developed the concept plan based on a Floor Area Ratio (FAR)[2] of 2.5 (four towers with 14 floors each) at an estimated cost of ₹118.53 crore excluding cost of land. The plan was apprised (27 February 2009) to the Board of the Company. Subsequently, the Board was also informed (June 2010) that the estimated profit from this project would be ₹34 crore. On submission (November 2009) of drawings to Ghaziabad Development Authority (GDA), it was intimated by GDA that the said land was earmarked as a residential zone with low density and the FAR applicable was 1.5 (equivalent to 22921.54 square metre) only. Accordingly, the consultant submitted a revised plan with a FAR of 1.5 and the same was approved (March 2010) by GDA with maximum permissible 10 floors in each of the four towers subject to the condition that necessary No Objection Certificates (NOC) and statutory approvals would be submitted in due course.

Regulations of GDA permitted purchase of 10 *per cent* of sanctioned FAR through compounding and 33 *per cent* on payment of additional fee. Accordingly, the maximum admissible FAR including additional FAR that could be purchased for this project was 2.15[3] only. The Company entered (July 2010) into an agreement with M/s Solutrean Building Technologies Limited (SBTL) for construction work on a turnkey basis at ₹59.79 crore with scheduled completion in July 2012 and started construction of the building (August 2010) on an FAR of 2.5 based on the recommendation of the consultant to maximise the gains in the project. When the construction crossed 11th floor in three towers and 10th floor in one tower, against the maximum permissible limit of 10 floors in each tower as per approved plan, GDA issued (July 2011) notice to stop the construction work. However, the internal finishing work was continued and that was also stopped by GDA in December 2012.

The consultant applied for revised NOC for height clearance from the Airports Authority of India in December 2012. On receipt (April 2013) of the NOCs, revised plan was submitted (18 December 2013) for purchase of additional FAR and the same was approved (February 2014), subject to payment of compounding fee and penalty of ₹6.94 crore. Further, GDA directed (May 2014) to submit a Gift deed for land admeasuring 1362.97 square meters for road widening. On making the requisite payment[4] (March to June 2014) the construction work was resumed in December 2014. Considering the cost escalation due to stoppage of work for 2 years, a supplementary agreement was entered into (September 2015) with SBTL. GDA released (7 September 2016) the final compounding drawings allowing a net permissible FAR of 33459.27 square metre

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[2] ***Floor Area Ratio (FAR) is the ratio of total area on all the floors of a building on a certain plot divided by the total area of the plot***

[3] ***Sanctioned FAR of 1.5+10 per cent of 1.5 i.e. 0.15 + 33 per cent of 1.5 i.e. 0.5 =2.15.***

[4] ***A payment of ₹7.45 crore was made including penal interest of ₹0.51 crore towards delay in payment of compounding fees***

(which worked out to FAR of 2.19[5]) consisting of 258 units which were already constructed by July 2011. Out of these 258 units, the company sold (till October 2017) 213 units and 45 units remained unsold.

The project has been completed in all respects and the completion certificate has been received from GDA in December 2017.

Audit observed that –

- The Company unauthorisedly started construction of 11/12th floor against the permissible limit of 10 floors without initiating any action for purchase of additional FAR.

- The Company without analysing the admissibility of maximum purchasable FAR and profitability of the project proceeded with construction based on FAR of 2.5 without the approval of the Board. This was brought (March 2014) to the notice of the Board only while seeking approval for payment of compounding fee. The Board was left with no alternative but to approve the payment of compounding fee to GDA.

- The consultant failed to initiate action for purchase of additional FAR[6] immediately on award of contract to SBTL in July 2010. Action was initiated only in July 2012 i.e. after a lapse of 2 years which led to cost overrun of ₹6.28 crore in construction of flats. Audit analysis of actual expenditure (₹141.88 crore[7]) incurred on the project vis-a-vis the revenue earned (₹84 crore) and likely to be earned (₹46.52 crore) for the unsold units as estimated by the Company, revealed that the project would result in a loss of ₹11.36 crore despite the fact that a rate of ₹6400 per sq. ft. was assumed by the Company while estimating revenue against a rate of ₹3500 per sq. ft. obtained for Sales in November 2012. Further, the loss was likely to increase as the Company would be liable to pay penalty under Real Estate (Regulation and Development) Act 2016 for delay in handing over of possession to flat owners.

The Company stated (October 2017) that construction of project with FAR of 1.5 would have resulted in losses. Hence, to ensure that the project was profitable and to maximise the revenue, the Company decided to go for construction in excess of 1.5 FAR on the advice of the consultant. The calculation of loss in the project was incorrect because no money was borrowed by the company for the project. Further, the project was not at loss even at present despite considering cost escalation and may earn a profit of ₹2.77 crore.

The reply is not tenable because-

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5 ***33459.27 sq. mtrs divided by Net plot area i.e. 15281.03 sq. mtrs= 2.19. Permissible FAR of 33459.27 sq. mtrs included FAR of 681.48 sq. mtrs towards 50 per cent compensatory FAR allowed in lieu of gift deed of land of 1362.97 sq. mtrs made by the Company***

6 ***Required for construction above 10th floor***

7 ***Land cost (₹28.32 crore), construction cost including compounding fees, penalty and taxes (₹102.16 crore) and borrowing cost (₹11.40 crore)***

- While deciding to proceed with construction with FAR of 2.5, no cost analysis was done. A cost analysis adopting three different FARs of 1.5, 1.89 and 2.2 was carried out only in March 2014 and the analysis revealed that under all the three options, project would incur losses. Therefore, the contention of the Company to adopt FAR of 2.5 on the ground of profitability of the project was injudicious.

- The Company borrowed a term loan of ₹60 crore and issued bonds valuing ₹75 crores for the ongoing projects and the interest cost was apportioned. Interest apportioned to this project was ₹11.40 crore. The projected profit of ₹2.77 crore given in the reply was calculated without considering this borrowing cost. Further, a component included in revenue was compensatory FAR in view of Gift deed of land for road widening amounting to ₹2.73 crore. This was not correct as the revenue was calculated based on the FAR of 2.19 which already included compensatory FAR permitted in lieu of gift deed. Therefore, consideration of monetised value of ₹2.73 crore towards compensatory FAR as additional revenue was not correct.

Thus, injudicious decision to execute the project with FAR of 2.5 without initiating timely action for obtaining statutory clearances is likely to lead to a loss of ₹11.36 crore.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

India Infrastructure Finance Company Limited

5.3 Doubtful recovery of dues

IIFCL failed to realistically assess the expected revenue from real estate development of 2500 hectares of land along the 165 km expressway between Noida and Agra even though the real estate component in the project was critical for its viability. IIFCL sanctioned and disbursed the loan at a time when the real estate industry was in strain and real estate development of the project was stalled due to restrictions imposed by the National Green Tribunal on construction activities around 10 km radius of Okhla Bird Sanctuary. IIFCL also unduly relaxed pre-commitment condition of obtaining second credit rating of the project and disbursed the loan amount despite the project company facing severe financial crunch. These led to doubtful recovery of dues of ₹1089.89 crore.

India Infrastructure Finance Company Limited (IIFCL) sanctioned (30 July 2014) a loan of ₹900 crore to M/s Jaypee Infratech Limited (borrower) under Takeout Finance Scheme[8] for refinancing the Yamuna Expressway Project. The loan proposal was vetted by an Independent Evaluation Committee (14 March 2015) constituted as per Reserve Bank of India directives. Post vetting, IIFCL revalidated (24 March 2015) the sanction and disbursed the loan amount of ₹900 crore (01 June 2015). The loan account of IIFCL

[8] *Approved by an Empowered Committee comprising Secretary (Economic Affairs), Secretary, Planning Commission, Secretary (Expenditure) and Secretary (Financial Sector) as convener and in his absence Special Secretary/Additional Secretary (Financial Sector) and Secretary of the line Ministry dealing with the subject*

remained un-serviced and turned NPA[9] in December 2016. The outstanding dues stood at ₹1089.89 crore (including an interest component of ₹189.89 crore) in December 2017.

Audit observed that:

- The project included construction and operation of an expressway of 165 km between Noida and Agra and real estate development of 2500 hectares of land along the expressway. The project was critically dependent on income from real estate development. In fact, the debt service coverage ratio (DSCR) of the project was found to be acceptable assuming 42 *per cent* aggregate revenue from real estate. The criticality of the real estate component in the project viability was recognised by IIFCL as early as November 2013, when its Management and Investment Committee (MIC) advised that it would be essential to consider how the company would service its loan obligations when cash flows proposed through real estate development decline. It was, therefore, known that any delay in completion of the real estate component and/or reduction in expected revenue from real estate would significantly impact the project viability and debt serviceability.

- Restrictions on real estate development along the expressway had been imposed (October 2013) by the National Green Tribunal (NGT) due to raising of objections by environmental activists on the construction activities around Okhla Bird Sanctuary (within 10 km radius).The restrictions continued at the time of sanction of the loan by IIFCL (July 2014/March 2015) and disbursement (June 2015). Considering that implementation of the real estate component was critical for ensuring debt serviceability, it would have been prudent to assess the effect of the NGT restrictions on the real estate development component before sanction/ disbursement of the loan. At the time of sanction of the loan, it was not known to IIFCL whether or when NGT would lift the restriction. NGT lifted the restrictions only in August 2015 but by then, the real estate projects had suffered setbacks, the promoters faced severe financial crunch and the real estate project could not be completed as envisaged.

- The real estate sector was under strain during this period. It was noticed that borrower earned a declining margin from its real estate business; reducing from 67 *per cent* in 2010-11 to 43 *per cent* in 2013-14. The revenue earned in 2013-14 was ₹1258 crore as against an estimated revenue of ₹3184 crore. Despite this downward trend, IIFCL considered the estimated revenues of ₹2203 crore, ₹3312 crore, ₹4954 crore, ₹5279 crore from real estate for the years 2014-15, 2015-16, 2016-17, 2017-18 respectively proposed in the Information Memoranda of the lead lender while sanctioning the loan. The assessment of real estate revenue from the project by IIFCL while sanctioning the loan was thus un-realistic. As per information furnished by the borrower (January 2017), the actual revenue from real estate during 2014-15 and 2015-16 was ₹553 crore and ₹147 crore respectively. As debt serviceability depended upon real estate revenues, adoption of un-realistically high real estate revenue led to poor pre-loan assessment.

[9] ***NPA: Non-Performing Asset***

- The guidelines governing Takeout Finance Scheme for IIFCL specifies that IIFCL should not lend to any project which has a credit rating, equal to or lower than BB[10]. The loan terms in the instant project, *inter alia*, provided that the sanction would be effective only after obtaining credit rating for the project from two reputed agencies. The promoters furnished one credit rating obtained from Credit Analysis and Research Limited (CARE) in March 2015 which had awarded 'BBB-'rating to the project. The promoters sought relaxation of 90 days for furnishing the second rating and requested IIFCL to disburse the loan. IIFCL relaxed this condition and disbursed ₹900 crore. However, the borrower did not obtain rating from second agency even within the extended time and this condition had not been complied with even after a year (June 2016). Audit noticed that subsequent ratings by CARE downgraded the rating of the project to 'BB' in June 2015 and to 'D' in September 2015. The decline in credit rating was on account of slowdown in real estate sales and high debt levels resulting in weak liquidity position and delays in debt servicing. Relaxation of pre-commitment condition regarding second credit rating was not in the financial interest of IIFCL. Besides, the downgrade in credit rating was on account of strain in real estate business which was evident at the time IIFCL sanctioned the loan.

- It was also noticed that the power of relaxing pre-commitment conditions rests with the MIC of the Board. In this case, the relaxation was approved by CMD, IIFCL but the proposal for ratification of this relaxation was not placed before MIC.

The project is presently under resolution as per Insolvency and Bankruptcy Code 2016. As such, the recovery of dues against this loan account is doubtful.

The Management stated (July/September 2017) that:

(i) DSCR was assessed as a benchmark for viability purpose. The DSCR of the project was impacted on account of non-completion of the land development segment of the project. However, road segment of the project was generating revenues more than projected.

(ii) The relaxation for obtaining second credit rating had been provided for 90 days as an interim arrangement to facilitate timely disbursement. The entire status of compliances in relation to the relaxations allowed was placed before the MIC and the same was ratified.

(iii) Though NGT curtailed the area of construction around Okhla Bird Sanctuary, all restrictions were cleared in August 2015, which ratified the decision of IIFCL to sanction the loan in March 2015.

The reply is not acceptable in view of the following:

- DSCR of the project was critically dependent upon revenues from real estate development. At the time of sanction (July 2014/March 2015) of the loan by IIFCL, NGT had imposed restrictions on real estate development along the

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[10] ***Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations***

expressway and it was not known when or whether these restrictions would be lifted. By the time NGT cleared the restrictions (August 2015), the real estate projects in the vicinity of the project area had been adversely affected and this in turn had caused paucity of funds due to non-realisation of construction-linked payments, further affecting the projected revenue streams and repayment of debt liabilities.

- Reasons that led to lower grading of the project in the subsequent credit ratings was evident at the time of sanction of loan. Allowing more time for obtaining the second rating and disbursement of loan was, therefore, detrimental to the interests of IIFCL.

- Placing information regarding compliances against relaxations allowed for the project to MIC (June 2016), a year after disbursement of the loan (June 2015), cannot be construed as obtaining ratification for the relaxation from MIC.

Thus, IIFCL failed to realistically assess the expected revenue from real estate development of 2500 hectares of land along the 165 km expressway between Noida and Agra even though the real estate component in the project was critical for its viability. IIFCL sanctioned and disbursed the loan at a time when the real estate industry was in strain and real estate development of the project was stalled due to restrictions imposed by the NGT on construction activities around 10 km radius of Okhla Bird Sanctuary. IIFCL also unduly relaxed pre-commitment condition of obtaining second credit rating of the project and disbursed the loan amount despite the fact that the project company faced severe financial crunch. These led to doubtful recovery of dues of ₹1089.89 crore.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

5.4 Inconsistency in credit appraisal and non-compliance with RBI guidelines

The internal credit appraisal assigned different risk scores against the financial and execution capabilities of the core promoter for the four projects though it was based on same set of information. This led to sanction of loan to technically and financially weak promoter. Disbursement of loan without adhering to RBI guidelines led to release of funds disproportionate to the actual progress of the projects. Eventually, the projects were terminated and loan disbursals of ₹76.46 crore had to be written off.

India Infrastructure Finance Company Limited (IIFCL) sanctioned (June 2012 to July 2013) loans aggregating ₹104.98 crore to four Special Purpose Vehicle (SPVs) companies[11] incorporated by Concast Infratech Limited (CIL) as core promoter[12] for

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[11] *(i) Concast Dhaneta Road Projects Private Limited (ii) Concast Jawasa Road Projects Private Limited, (iii) Concast Ambha Road Projects Private Limited and (iv) Concast Morena Road Projects Private Limited*

[12] *Held 74 per cent equity in the SPVs and remaining 24 per cent was held by Roman Tarmat Limited in first three SPVs and Prakash Asphaltings and Toll Highways (India) Limited in fourth SPV*

executing four road projects[13]. The road projects had been awarded to these SPVs by Madhya Pradesh Road Development Corporation Limited (MPRDC) on design, build, finance, operate and transfer (DBFOT) basis and concession agreements signed between 22 December 2011 and 15 October 2012. IIFCL disbursed ₹76.46 crore to these projects between September 2012 and December 2014 and the entire amount was written off in March 2016 as indicated in the table below:

Sl. No.	Name of project	Date of proposal	New business committee clearance	Credit appraisal grid clearance	Date of sanction	Amount of loan (₹ crore)	Amount disbursed and written off (₹ crore)
1	Dhaneta	23.05.2012	23.05.2012	23.05.2012	05.06.2012	26.00	21.74
2	Jawasa	09.07.2012	09.07.2012	19.07.2012	03.08.2012	14.08	11.97
3	Ambha	11.07.2012	20.07.2012	23.07.2012	03.09.2012	31.75	28.00
4	Morena	21.05.2013	14.06.2013	19.06.2013	19.07.2013	33.15	14.75
Total						**104.98**	**76.46**

Review of records pertaining to the above loans indicated shortcomings in credit appraisal and disbursement of loans as discussed below:

(i) Shortcomings in credit appraisal:

IIFCL carried out internal credit appraisal prior to sanctioning loans. The following table indicates internal credit rating score of the four projects, based on which these loans were sanctioned:

Particulars	**Internal credit rating score[14] based on financial year 2011-12**			
	Dhaneta	**Jawasa**	**Ambha**	**Morena**
Environment Risk	4.00	4.00	4.00	4.00
Business Risk	5.00	5.00	5.00	5.17
Critical Risk – Build Phase	5.33	5.33	5.33	5.33
Financial Risk – Build Phase	5.80	4.80	7.80	7.40
Execution Risk – Build Phase	4.00	3.67	4.34	5.00
Completion Risk – Build Phase	5.50	5.25	4.75	4.00
Overall Rating	4.75	4.46	4.54	4.50
Date of Assessment	24.05.2012	16.07.2012	20.07.2012	18.06.2013

As can be seen from the above table, risk scores for the four projects were not consistent though the core promoter was the same for all the four projects and the assessments were carried out based on the same information:

- There were significant variations in assessment of financial risk of the sponsor during the 'build phase' across projects. The memorandum to the Board in respect of Dhaneta project expressed (May 2012) an apprehension regarding the financial capability of the core promoter to bring in equity. For the other three projects, however, the memoranda to the Board (July/August 2012 and June 2013), indicated that the financial health of the core promoter was sound. Audit noticed

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[13] ***Four stretches of Dhaneta Road Projects of 92.83 KM, two stretches of Jawasa Road Projects of 44.97 KM, four stretches of Ambha Road Projects of 91.34 KM and one stretch of Morena Road Project of 71.86 KM***

[14] ***The score on each parameter is assessed on a scale of 0 to 10; higher score indicating lower risk***

that all four memoranda were based on the same set of financial statements of the core promoter. It was seen that the core promoter had taken up nine road projects (including the above four projects) and the equity contribution for simultaneously implementing them was significant at ₹351.85 crore. However, the financial capability of the core promoter to undertake all these projects was not examined in the course of credit appraisal carried out by IIFCL. Subsequently, the project activities were stopped since September 2014 in case of Jawasa project and since December 2014 in case of Dhaneta, Ambha and Morena projects due to financial crunch of the core promoter.

- The experience of the core promoter was also assessed differently across the four projects. The memorandum to the Board in case of Dhaneta project stated (May 2012) that the core promoter did not have experience of road projects and parent company of the core promoter was engaged in manufacture of TMT bars and other metal products. However, subsequent memoranda in respect of the other three projects stated (July/August 2012 and June 2013) that the core promoter had requisite experience and good track record in development, construction and operation of infrastructure projects. Audit noticed that the core promoter had been incorporated in September 2010 and till sanction of the last loan in July 2013, had not completed any project or generated any operational revenue. It was also noticed that the Engineering, Procurement and Construction (EPC) contracts for execution of all four projects were entrusted to the core promoter (CIL).

(ii) Shortcomings in disbursement of loans:

IIFCL had voluntarily adopted the Prudential Norms of Reserve Bank of India (RBI) applicable to Non-Banking Financial Companies from 2011-12 onwards and formally came under RBI supervision from 09 September 2013. RBI issued guidelines in July 2013 urging the financial institutions to minimize reliance on external agencies and to strengthen internal mechanism to ensure end-use of loan funds.

Audit noticed that disbursements were made to the projects without any independent assessment carried out by IIFCL regarding the end use of funds. In fact, out of ₹76.46 crore disbursed against these loans, ₹48.23 crore was disbursed after September 2013 when the RBI guidelines became applicable to IIFCL. Disbursements were made from time to time, based on the reports of Lenders' Independent Engineer (LIE)[15] and certificates of Chartered Accountants (CAs)[16]. An assessment of the Independent Engineer (IE) appointed by MPRDC (March 2015), indicated that the actual progress of projects was not commensurate with the payments made to the EPC contractor and were considerably at variance with the physical progress reported by LIE as indicated in the following table:

[15] ***Lenders' Independent Engineer was appointed by the borrower in consultation with the lead lender and the cost of engaging would be borne by the borrower***
[16] ***Chartered Accountants are appointed by the borrower as the Company's (SPV's) auditor***

Sl. No.	Name of project	EPC contract value	Amount paid to EPC contractor	Payment made up to	Physical progress (in *per cent*)		Expenditure incurred based on progress assessed by IE
		(₹crore)			As per LIE	As per IE	
1	Dhaneta	112.68	112.25	31.08.2014	70.00	56.00	63.10
2	Jawasa	64.45	55.14	31.05.2014	55.00	38.00	24.49
3	Ambha	136.22	129.96	09.12.2014	50.00	30.00	40.87
4	Morena	137.30	55.74	31.07.2014	21.00	<20.00	27.44
Total		**450.65**	**353.09**				**155.90**

Against payment of ₹353.09 crore (representing 78 *per cent* of total EPC contract value) actual progress as assessed by the IE of MPRDC was only ₹155.90 crore (*i.e.,* 35 *per cent* of the EPC contract value). Considering the significant difference and keeping in view the fact that the core promoter was also the EPC contractor, diversion of loan funds cannot be ruled out.

(iii) Lack of security and write off of dues:

MPRDC terminated (April 2015) the concession agreements due to slow progress of work, non-achievement of project milestones and default in payment of dues as per concession agreement [17]. Though MPRDC endorsed (February/March 2015) the termination notices to the Lead Lenders of the projects informing of the intention to substitute the concession agreements, they did not respond within the prescribed time of 15 days from the date of issue of such notices. As a result, the lenders lost their chance to secure their financial interest in these projects. MPRDC awarded the contracts subsequently to a different contractor. The disbursed amount (₹76.46 crore) of these loans was finally written off in March 2016.

The Management replied (September 2017) that:

- It relied on the due-diligence of lead lenders and on the turnover, net-worth and experience of the parent company of the core promoter. At the time of termination of the concession agreements, more than 50 *per cent* had been completed in three out of the four projects had been completed. The promoters had infused required contribution in all projects and the contribution in Morena project was commensurate to its actual progress. The projects did not achieve milestones on account of various reasons related to obligations of concession agreements.

- The lead bank carried out regular monitoring and disbursements were made on the basis of the reports of Lenders' Independent Engineer (LIE) and certificates of Chartered Accountants. The LIE considered physical progress including works in progress and soft costs whereas the IE considered only completed works in their assessment.

- IIFCL came under the supervision of RBI only on 9 September 2013, while these loans were sanctioned much before that.

[17] ***Payment of penalty for delayed achievement of financial closure, fees of Independent Engineer engaged by MPRDC, penalty towards delay in submitting performance guarantee, and penalty towards delay in achieving project milestones***

The reply is not acceptable in view of the following:

- The primary responsibility of any financial institution is to satisfy itself about the credentials of projects under consideration for sanction of loan, irrespective of its appraisal by other financial institutions. The slow progress of project execution and consequent termination of concession agreements, substantiated weak financial and technical capabilities of the core promoter. MPRDC also noted that the stoppage of project execution was due to fund constraints of the core promoter. At the time of termination of concession agreements, the actual progress was more than 50 *per cent* in Dhaneta project alone.

- The argument that the IE did not consider soft costs while assessing physical progress of projects is not tenable. Audit has highlighted release of funds without ensuring end-use of funds available with the EPC contractor. In fact, IIFCL itself has requested (November 2015) forensic audit of accounts of Dhaneta and Ambha projects in view of significant variation in the reports of LIE and IE.

- The Management contention that IIFCL came under RBI supervision from September 2013 onwards is not justified as it had adopted RBI Prudential Norms voluntarily from 2011-12. Besides, majority of the disbursements were made after formal adoption of RBI norms (September 2013).

The internal credit appraisal assigned different risk scores against the financial and execution capabilities of the core promoter for the four projects though it was based on same set of information. This led to sanction of loan to technically and financially weak promoter. Disbursement of loan without adhering to RBI guidelines led to release of funds disproportionate to the actual progress of the projects. Eventually, the projects were terminated and loan disbursals of ₹76.46 crore had to be written off.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

The Oriental Insurance Company Limited

5.5 Violation of specific directions of the Ministry leading to loss of premium

The Oriental Insurance Company Limited did not adhere to the guidelines issued by the Ministry of Finance in respect of appropriate pricing while underwriting the group health insurance policies. Consequently, the Company under charged the premium by ₹145.26 crore during 2014-15 to 2016-17.

In view of continued losses suffered by public Sector General Insurance Companies (PSGICs) in the group health insurance portfolio, Department of Financial Services, Ministry of Finance (MoF), issued guidelines (May/July 2012) for pricing of health insurance policies. As per the guidelines, the group health insurance policies (GHIPs) should be appropriately priced, duly considering the burning cost [18], Management

[18] ***Estimated cost of claims in the forthcoming insurance period calculated from previous years' experience adjusted for changes in the numbers insured, the nature of cover and medical inflation***

Expenses (ME), Medical Inflation (MI) etc. to ensure that the Combined Ratio (CR)[19] should be less than 95 *per cent* of the premium charged. Policies not conforming to this ratio were not to be renewed. It was also laid down in the aforesaid guidelines, that no discount would be given in the standalone GHIPs where the CR was more than 100 *per cent*. In July 2012, it was reiterated that these guidelines were mandatory and no discretion in this regard was available to PSU Companies.

Audit reviewed 63 standalone GHIPs (having premium of ₹1 crore or more) underwritten/renewed by Mumbai Regional Office (MRO)-I, MRO-II, MRO-III, RO-Bengaluru and RO-Chennai of the Oriental Insurance Company Limited (OICL) during 2014-15 to 2016-17 and observed that the incurred claim ratio (ICR)[20] in respect of 40 GHIPs[21] exceeded 100 *per cent* and ranged from 101 *per cent* to 157 *per cent* **(Annexure-VIII)**.

Audit observed that OICL renewed 40 of these GHIPs in violation of the above guidelines by fixing the premium for these policies without ensuring that the CR was within 95 *per cent*. OICL worked out the premium, taking into consideration the previous year's annualised claim outgo adjusted with the lives proposed to be covered under policies being renewed, TPA charges and Brokerage but did not include medical inflation and management expenses. Further, the premium finally charged was even less than the premium worked out by OICL. This was in clear deviation from the guidelines of MoF.

The minimum premium to be charged as per the aforesaid guidelines worked out to ₹786.19 crore **(Annexure-IX)** taking into consideration the estimated annualised claim outgo adjusted with the lives, TPA charges, brokerage/commission and MI[22] only. ME could not be included in the above calculation due to absence of any benchmark. Against this, OICL charged the premium of ₹640.93 crore only on renewal thereby violating the specific guidelines of the Ministry of Finance, which led to a loss of ₹145.26 crore.

The Management replied (December 2017) that:

- Audit has considered burning cost after adding TPA Charges and brokerage and commission to annualised claim outgo. In fact, burning cost is always a pure claim cost and is not inclusive of TPA Charges and Brokerage or commission to it.

- High ICR of certain number of policies was not due to non-adherence to the guidelines. As a matter of fact, the pricing of these tailor made group health insurance policies was market driven and depending on competition. The price of the policies could not be factored and determined with set of limited parameters as severe price competition was witnessed in group health insurance pricing and the final price for such policies was determined by the market i.e. what client and his broker were able to negotiate amongst 30 General Insurers & Standalone Health Insurers who aggressively

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[19] ***Ratio of Incurred claim plus Management Expenses, Agent's/Broker's Commission, Third Party Administrator (TPA) Commission and any other Expenses to the premium charged***

[20] ***It represents the ratio of net incurred claim to net earned premium***

[21] ***Underwritten/renewed by MRO-II, RO-Bengaluru and RO-Chennai***

[22] ***As per the consumer price indices report of the Ministry of Statistics and Programme Implementation (MOSPI), Government of India***

target such high volume business. Further, the price arrived at by audit was not always the price on which the business was available in the competitive market.

Reply of the Management is not tenable in view of the following:

- Audit has worked out premium to be charged based on Combined Ratio which includes incurred claims, management expenses, Agents'/Brokers' commission, TPA commission, medical inflation and any other expense as per guidelines of the Ministry. As already stated, component of management expenses could not be considered by Audit in above working in the absence of any benchmark for the same. Had management expenses also been included, amount of loss would have been higher.

- As per Ministry of Finance's guidelines, Policies not conforming to combined ratio exceeding 95 *per cent* were not to be renewed. The reply is silent as to why these Standalone GHIPs were renewed.

- Non-charging of premium adequate to cover higher CR exceeding 95 *per cent* at the time of renewal of policies is likely to impact long run sustainability of the Company and harm its competitiveness. This was emphasised by the Ministry of Finance also vide their letter (June 2017) addressed to CMDs of all the Public Sector General Insurance Companies (PSGICs) wherein it was clearly stated that PSGICs were violating government advisories leading to huge underwriting losses as a result of which these companies were solely dependent upon the investment income which was not a sustainable arrangement in the long run.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

CHAPTER VI: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

6.1 Avoidable payment of customs duty and safeguard duty

Bharat Heavy Electricals Limited, Trichy unit did not obtain the amendments to the advance authorisation for import of seamless carbon steel tubes in time and consequently made avoidable payment of customs duty (including safeguard duty) amounting to ₹5.71 crore.

Bharat Heavy Electricals Limited (BHEL), New Delhi was awarded (March 2012/ March 2013) the contracts for supply, installation, testing and commissioning of Super Thermal Power Plants at Mouda (Maharashtra), Nabinagar (Bihar) and Gadarwara (Madhya Pradesh) by NTPC Limited. The capacities of the three power plants were 1320 MW (Mouda), 1980 MW (Nabinagar) and 1600 MW (Gadarwara). BHEL, Trichy unit finalised (June/July 2014) procurement orders for import of seamless Carbon Steel (CS) tubes for 7187 metric tonne (MT) required for construction of boilers for the three projects.

The supplies for setting up of any mega thermal power project were exempted from customs duty as per the notification (March/September 2012) of the Ministry of Finance, Department of Revenue, subject to the plant capacity being 1000 MW or more. Advance authorisation for the import of material was required to be obtained from the Directorate General of Foreign Trade (DGFT) for availing the duty exemption on the import of such supplies. BHEL, Trichy unit was eligible for exemption from customs duty (including safeguard duty) on import of CS tubes since the power plant capacity of all three projects exceeded 1000 MW. Advance authorisation from DGFT was required for availing the facility.

Audit observed that in the case of Gadarwara project, the unit obtained (December 2013) advance authorisation for import of 1536.58 MT of CS tubes. Subsequently, the unit applied (July 2014) for modification in the advance authorisation for importing an additional quantity of 3318.26 MT on the ground that the procurement through indigenous sources did not materialize on account of inadequate capacity and price levels in domestic industry. DGFT granted approval for amendment in advance authorisation in November 2014. Thus, the unit was able to avoid the payment of customs duty on import of additional CS Tubes.

However, in the case of the other two projects, Audit observed that:

(i) In respect of Nabinagar project, the unit obtained (July 2013) advance authorisation for import of 1412 MT of CS pipes but did not obtain the advance authorisation for import of CS tubes. Subsequently, 3515 MT of CS tubes were imported (September 2014) on which the unit had to pay customs duty of ₹2.96 crore as no exemption was available due to absence of advance authorisation.

(ii) In respect of Mouda Project, advance authorisation had been obtained (December 2012) for import of 3390 MT of CS tubes. Subsequently, an additional quantity of 1530 MT of CS tubes were also imported (November 2014) for which the unit had to pay customs duty amounting to ₹2.75 crore.

Thus, while the unit applied for the amendment in advance authorisation for import of CS tubes in respect of Gadarwara project and was able to avail the exemption of customs duty on such imports, it failed to take similar action in respect of Nabinagar and Mouda projects. Consequently, the unit made an avoidable payment of customs duty (including safeguard duty) amounting to ₹5.71 crore on import of 5045 MT of CS tubes for these two projects.

The Management stated (August 2017) that during the subject period of procurement, production at the Seamless Steel Tubes Plant (SSTP) of BHEL was not fully geared up and hence the procurement was necessitated. The import rates were found to be competitive even after considering customs duty on merit basis including safeguard duty. The import prices were also lower than SSTP's transfer price. Further, the Foreign Exchange section of the unit had suggested import of CS tubes by paying merit duty as the lead time for rectification in advance authorisation was long.

The contention of the Management that inadequate production from SSTP necessitated import of CS tubes is not acceptable since the SSTP had not been commissioned at the time of applying for advance authorisation for Mouda and Nabinagar units by the unit. The unit did not also have any production plan from SSTP unit on the basis of which it could decide on the quantity of CS tubes to be imported. The competitiveness of import rates even after considering customs duty could not be accepted as a justification for non-inclusion of the required quantity of CS tubes in the application for advance authorisation, since obtaining of advance authorisation would have resulted in additional savings on account of exemption of customs duty. Further, as the unit was aware of the constraints relating to the import procedure, it should have taken timely action for obtaining amendments in advance authorisation for import of CS tubes for Mouda and Nabinagar projects, as was done in case of Gadarwara project.

The matter was referred to the Ministry in September 2017; their reply was awaited (February 2018).

Hindustan Paper Corporation Limited

6.2 Diversion of funds in violation of Government orders

Hindustan Paper Corporation Limited diverted funds sanctioned by Government of India towards revival plan of its subsidiary company vitiating the objectives of the revival scheme.

Nagaland Pulp and Paper Company Limited (NPPCL) was incorporated on 14 September 1971 as a joint venture company of the Government of Nagaland and Hindustan Paper Corporation Limited (HPCL), a wholly owned Central Public Sector Enterprise under the administrative control of the Department of Heavy Industry. NPPCL started its commercial production on 1 July 1982. Subsequently, the company started making losses and was referred to Board of Industrial and Financial Reconstruction (BIFR) in April 1992. BIFR declared NPPCL to be a sick industrial company in August 1998 and ordered its winding up in March 2002. The Departmental Standing Committee on Industry took the initiative of reviving the company in April 2002 and a proposal for revival of NPPCL was approved in November 2006 with a capital outlay of ₹552.44 crore[1]. The revival plan was subsequently revised envisaging an investment of ₹679 crore in two phases (phase 1: ₹489 crore; phase 2: ₹190 crore). For implementation of the first phase, it was decided in June 2013[2] that Government of India (GoI) would infuse ₹309.38 crore (₹202.38 crore as equity and ₹107 crore as grants-in-aid); ₹156.50 crore would be raised by the company from banks/ financial institutions with Government guarantee and the balance ₹23.12 crore would be infused by Government of Nagaland.

The approved revival plan of NPPCL was communicated to HPCL (July 2013) with the specific stipulation that HPCL has to ensure proper utilisation of funds released by GoI towards implementation of the revival plan of NPPCL and that an escrow account mechanism should be followed for the purpose. Subsequently (September 2013), GoI released ₹100 crore to HPCL as equity in NPPCL for implementation of the revival plan of NPPCL. The release order reiterated that Chairman and Managing Director (CMD), HPCL would be personally responsible for proper utilisation of these funds and specifically instructed that no funds should be diverted under any circumstances and that the CMD, HPCL would be held responsible for any diversion or misappropriation of funds. It was also specified that the utilisation certificate would be furnished within one year from the date of issue of the sanction.

Audit examination revealed that HPCL made available only ₹47.63 crore to NPPCL (by March 2016) out of GoI release of ₹100 crore. The balance ₹52.37 crore was diverted to meet exigencies in HPCL. Audit noticed that HPCL had not established an escrow account to ensure proper utilisation of GoI release of ₹100 crore, violating the specific stipulation of GoI. The CMD, HPCL who was personally responsible for proper utilisation of the funds and accountable for diversion or misappropriation, allowed the diversion of funds meant for NPPCL to HPCL. Audit also noticed that HPCL has not submitted any utilisation certificate to GoI yet (November 2017), though it was required to furnish utilisation certificate within one year (by September 2014) of release of GoI funds.

Meanwhile, NPPCL floated tenders for 14 major packages that had been identified for revival of its plant (October 2013 to April 2014) and placed work orders for seven of these packages (July 2014 to March 2015). Owing to non-release of funds by HPCL, NPPCL could not clear the outstanding dues of the contractors. NPPCL reported (February 2016) that as it had not been able to clear contractors' dues, the working contractors demobilised and did not make fresh commitment for their bought out items which brought the project activities to a halt. So far, only two of these packages for survey and soil investigation and dismantling and demolition works have been completed. The works of the balance five packages for paper machine refurbishment, captive power house, switchyard, civil and structural works and re-causticising plant have been suspended for which NPPCL had identified un-paid liabilities of ₹6.29 crore. NPPCL Board was informed (March 2017) that since August 2015, all outstanding activities on these packages were at a standstill.

1 ***Approval of Cabinet Committee of Economic Affairs dated 23rd November 2006***

2 ***Approval of Cabinet Committee of Economic Affairs dated 4th June 2013***

This is likely to lead to obsolescence of plants, equipment and inventories in respect of these five abandoned packages.

The Management of HPC while accepting the audit observation stated (January/February 2017) that a portion of the funds released by GoI for revival of NPPCL had been diverted for their own exigencies. The Management stated that no action had been initiated for fixing responsibility in this regard and fund utilisation certificate has also not been sent to GoI. It was also asserted that the work was kept on hold as the cost of project had increased substantially and required approval of the revised cost from the Ministry.

Reply of the Management needs to be viewed against the following:

- Funds were diverted by HPCL despite the fact that the GoI sanction order had categorically cautioned against it. Though, the sanction order specifically stated that accountability for diversion and misappropriation of GoI fund rests with the CMD, HPCL, responsibility for the diversion had not been fixed.

- The funds released by GoI were meant for revival of NPPCL. Diversion of these funds by HPCL led to accumulation of outstanding dues of NPPCL towards contractors implementing the revival work and consequent suspension of work. The purpose for which GoI funds were sanctioned, thus, was not achieved.

The Ministry, while accepting the diversion of funds, stated (April 2017) that the Committee constituted to examine all aspects relating to diversion of funds and prima facie fixing the responsibility had submitted its report and the action on the report was being taken.

Thus, HPCL diverted ₹52.37 crore out of ₹100 crore released by GoI for revival of its subsidiary, NPPCL, which besides being improper, adversely affected implementation of the revival plan of NPPCL.

CHAPTER VII: MINISTRY OF HOUSING AND URBAN AFFAIRS

Delhi Metro Rail Corporation Limited

7.1 Avoidable expenditure on construction of metro station

DMRC failed to enter into any agreement/MoU with Delhi Development Authority incorporating a provision that the additional expenditure incurred on the integrated MIA metro station would be met by DDA. This resulted in avoidable expenditure of ₹48.16 crore by DMRC till 15 November 2017, which was likely to increase further. Despite substantive change in the scope of work planned in the DPR and additional expenditure of ₹48.16 crore, the Management of DMRC did not seek the approval of the Board of Directors required in such matters.

Delhi Metro Rail Corporation Limited (DMRC) issued (August 2013) letter of acceptance to M/s Corsan Corviam Construction S.A.–Sadbhav Engineering Limited JV (the Contractor) for construction of elevated viaduct from Mundka to Tikri Border, along with a metro siding at Tikri Border and four elevated stations viz. Mundka Industrial Area (MIA), Ghevra, Tikri Kalan and Tikri Border, on the Mundka-Bahadurgarh Corridor of Phase –III of Delhi Mass Rapid Transit System (Delhi Portion). Subsequently, DMRC received a proposal (October 2013) from Delhi Development Authority (DDA) for shifting the MIA metro station planned in Phase-III and integrating it with the future DMRC Station (not included in the scope of DMRC) on a proposed Metro line at the junction of National Highway-10, Urban Extension Road-II (UER-II) and bus stops in Bus Rapid Transit (BRT) Corridor. The proposal involved least movement of DMRC/BRT users to change from one service to other.

Keeping in view the better passenger amenities, cost effectiveness and the advance planning required to integrate the two stations, DMRC agreed (May 2014) to modify the MIA station of phase III to an integrated station accommodating the future Metro station and to modify the spans to accommodate the UER-II road Corridor, provided DDA agreed to bear the additional cost. DMRC worked out (June 2014) station layout for the integrated station of MIA and conducted meeting with DDA/ RITES for finalising the details. DMRC also provided the General Arrangement Drawings showing the station footprint, entry/ exit structure and vertical elevation. DDA after discussing the matter with DMRC in the meeting held on 16 July 2014 gave its consent (July 2014) for taking up the work of integrated MIA metro station except on the land on which stay has been granted by the Honourable Supreme Court of India and also sought the details of the expenditure to be incurred and the share of DDA in the expenditure.

DMRC assessed the total cost of integrated station excluding roofing and system works at ₹67.74 crore approximately as compared to the original estimate of ₹11.55 crore. DMRC requested DDA (June 2015) to release a provisional amount of ₹56.19 crore towards the additional financial implication. DMRC also stated that exact amount of additional cost would be informed in due course after completion of the integrated station and its approaches.

DDA denied (9 July 2015) the payment requested by DMRC on the ground that the cost of two stations and other ancillaries, if constructed at a distance of 500 meters, would be ₹68.55 crore only and hence construction of the integrated MIA station would result in a saving of ₹0.81 crore (₹68.55 crore – ₹67.74 crore) to DMRC. In response to the subsequent requests of DMRC made in July 2015, March 2016, March 2017 and April 2017, for release of the additional expenditure incurred by DMRC on the integrated station at MIA, DDA did not (November 2017) make any commitment for payment demanded by DMRC. DDA stated that the integration of both metro stations was recommended not due to demand of DDA but based on the directions of Unified Traffic and Transportation Infrastructure (Planning and Engineering) Centre (UTTIPEC), a Controlling Body for multimodal transport integration of the national capital under the Chairmanship of Hon'ble Lieutenant Governor, Delhi.

The stipulated date of completion of the integrated MIA metro station was 27 January 2018. The work is in progress and DMRC has completed about 80 *per cent* of the work by incurring an amount of ₹59.71 crore which was equivalent to 72 *per cent* of the total expenditure to be incurred on the station.

Audit observed that:

- Integrated MIA metro station was not part of the original plan of DMRC but was executed at the request of DDA. However, no agreement/Memorandum of Understanding (MoU), stipulating that DDA would bear the additional expenditure to be incurred on the integrated MIA metro station, was entered into with DDA.

- Construction of integrated MIA metro station started without obtaining the approval of Board of Directors of DMRC and without ensuring availability of sufficient land. Part of the land of the integrated MIA metro station was yet (15 November 2017) to be acquired by DDA.

- DMRC continued with the construction work despite DDA declining to bear additional cost on construction of integrated MIA metro stations, without resolving the issue with DDA. Thus in the absence of an agreement/MoU with DDA, DMRC had incurred an avoidable expenditure of ₹48.16 crore[1] till 15 November 2017 (physical and financial progress achieved was 80 and 72 *per cent* respectively). Further, DMRC will have to bear the financing cost for these additional funds of ₹48.16 crore.

The Management in its reply (August 2017 and November 2017) stated that:

(a) As provision of integrated MIA station was beyond the contractual provisions, the Managing Director of DMRC approved the variation in the contract considering the DDA's acceptance to bear the additional cost beyond present scope.

(b) The decision on construction of integrated MIA metro station was taken in consultation with DDA for integration of various modes of transport including BRT on UER II and future metro line. The Management stated that the issue of cost sharing was being pursued with DDA and would be settled amicably.

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[1] ***₹59.71 crore minus ₹11.55 crore, being the cost of construction of originally planned MIA station***

(c) The complete facility of the integrated MIA station, except the track bed for future line, would be put to use upon commissioning of Phase III corridor expected to be completed shortly. The Management further stated that both DDA and DMRC, being Government organisations, no separate agreement was considered necessary.

Reply of the Management was not acceptable in view of the following:

(i) As per delegation of powers to the Managing Director, approval by the Board of Directors of DMRC in its 13th meeting held on 12 January 1998, the delegation was subject to the approval of the Board in respect of the following matters:

- Any substantive change from the DPR in the scope of work of the Delhi MRTS Project;

- Any item of expenditure exceeding ₹10 crore not contemplated in DPR.

It was further resolved by the Board, that decision taken by the Managing Director on the above mentioned matters, in exercise of the powers delegated to him, should be reported by the Managing Director to the Board at its next meeting.

Audit, however, observed that despite a change in the scope of work of Mundka-Bahadurgarh Corridor of Phase –III of Delhi Mass Rapid Transit System Project not contemplated in the DPR, involving an additional expenditure of ₹48.16 crore (till 15 November 2017), the decision taken by the Managing Director, DMRC was not placed before the Board of Directors of DMRC for approval.

(ii) The fact remains that in the absence of an agreement/MoU with DDA, DMRC had incurred an avoidable expenditure of ₹48.16 crore [2] till 15 November 2017. This was likely to increase further, since physical progress of 80 *per cent* and financial progress of 72 *per cent* only, had been achieved so far (15 November 2017). In addition to the above expenditure, financing cost of these funds would also have to be borne by DMRC.

Thus, failure to enter into an agreement/MoU with Delhi Development Authority suitably incorporating a provision for DDA to bear the additional expenditure incurred on the integrated MIA metro station, resulted in avoidable expenditure of ₹48.16 crore by DMRC till 15 November 2017. The Management of DMRC did not seek the approval of the Board of Directors required in such matters in the light of substantive change in the scope of work from that planned in the DPR and the additional expenditure of ₹48.16 crore.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

[2] ***₹59.71 crore minus ₹11.55 crore being the cost of construction of originally planned MIA station***

CHAPTER VIII: MINISTRY OF MINES

Hindustan Copper Limited

8.1 Avoidable expenditure due to deficient contract clause

The Company did not incorporate suitable clauses in the contracts for deployment of required equipment by the contractor for which the rates were finalised resulting in avoidable expenditure of ₹11.87 crore.

Hindustan Copper Limited (Company) is a vertically integrated copper producing company. Audit reviewed the contracts awarded by the Company during 2014-17 for mining related activities and noticed two instances where the Company failed to ensure deployment of new equipment by a contractor, though it was mutually agreed. In the process, the Company paid higher charges for the work.

A. Hiring of equipment for loading and hauling 45 LBCM

The Company floated (January 2014) a notice inviting tender (NIT) for hiring equipment for loading and hauling of 45 Lakh Bank Cubic Meters (LBCM) rock at Malanjkhand Copper Project (MCP). The lowest rate was offered (₹400 per BCM) by M/s R.K Transport Company (RKT).

As the rate was higher than the departmental estimate (₹321.35 per BCM), the Company started negotiating with the party. RKT clarified during the negotiation that their offered rate was higher as they considered deployment of new loading & hauling equipment of 2014 make and its associated insurance costs instead of 2010 make equipment considered in departmental estimate. It was pointed out that deployment of 2014 make equipment would ensure steady accessibility while working in the lower benches of mines. Besides, RKT informed that highly skilled workers would be employed on the job, accounting for higher quoted rates.

The Tender Evaluation Committee (TEC) also justified the higher rates offered by RKT on grounds of newer make (2014 make in place of 2010 make) equipment and deployment of highly skilled workers. The TEC assessed that the estimate would be higher by ₹49.91 per BCM on account of deployment of 2014 make equipment and by ₹2.45 per BCM for engagement of highly skilled workers.

Subsequently, RKT agreed (March 2014) to reduce its quoted rate to ₹397 per BCM and the Company finally issued letter of intent (May 2014) for the above work to RKT at ₹397 per BCM for a total value of ₹178.65 crore with schedule completion period of 37 months.

Audit observed that the Company did not incorporate suitable clauses in the agreement (June 2014) entered into with RKT to ensure deployment of 2014 make equipment and engagement of highly skilled workers for the above work. It was also observed that out of the 12 dumpers and three excavators deployed by RKT for the above work, six dumpers and one excavator were of 2010 make, the balance being of 2014 make. The Company, however, did not take into account deployment of older make equipment by the contractor and paid RKT at the agreed contract rate.

Thus, the Company incurred an excess payment of ₹23.29 per BCM[1] to RKT, considering differential rates for deployment of 2010 make equipment against agreed equipment of 2014 make which works out to an excess payment of ₹8.87 crore[2] for execution of 38.07 LBCM upto June 2017. Audit further observed that in the absence of suitable clause in the agreement with RKT for engagement of highly skilled workers, the Company could not ensure their deployment although higher rates were agreed to on such consideration.

B. Hiring of equipment for loading and hauling 30 LBCM

In response to a NIT (July 2015) issued by the Company for hiring equipment for loading & hauling of 30 LBCM, RKT emerged as the lowest bidder with a quote of ₹460 per BCM. During negotiation (October 2015), RKT assured to deploy new equipment and reduced its offered rate to ₹414 per BCM. The Company entered into an agreement for the work in January 2016.

Audit observed that the terms of the agreement specifically provided that all equipment deployed by RKT should not be older than 2012 make. It was noticed that out of 15 loading & hauling equipment deployed by RKT for the above work, 40 *per cent* equipment (six in number) were of 2009 make. The Company, however, made full payment to RKT at the agreed rate of ₹414 per BCM without taking into account deployment of older than agreed make of equipment. Thus, the Company made an excess payment of ₹19.96 per BCM[3] to RKT, which had, resulted in excess expenditure of ₹3 crore[4] till April 2017.

In reply, the Management stated (January 2018) that RKT initially deployed some dumpers of 2010 make for the 45 LBCM work and 2009 make for the 30 LBCM work as there was urgency to start the production in the shortest possible time and because procurement of heavy machineries like dumpers and excavators have their own lead time, not being readily available in the market. The Management also stated that the performance of RKT was satisfactory and above the set target in both the works.

The reply of the Management is not acceptable. The Company had accepted higher quotes for the 45 LBCM work on the assurance of deployment of newer make (2014 make) equipment though it had failed to incorporate it in the contract. The agreement for the 30 LBCM work incorporated a specific clause for deployment of new make of equipment (2012 or later make). Yet, in both cases, the contractor deployed older make equipment and the Company paid higher rates to the contractor despite being aware that the equipment deployed were not as per agreed specifications. Further, the contention of the management that RKT initially deployed some dumpers of 2010 is not borne out by the facts as these machines were used throughout the contract period.

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[1] ***₹23.29 = ₹(49.91*7/15)***
[2] ***₹23.29 * 3807453 = ₹88675580***
[3] ***₹19.96= ₹(49.91*6/15)-considering the differential cost of deploying equipment of 2014 make vis-à-vis 2010 make***
[4] ***₹19.96 * 1504530.219 = ₹30030418***

Thus, the Company did not incorporate suitable clauses in the contracts for deployment of required equipment by the contractor for which the rates were finalised resulting in avoidable expenditure of ₹11.87 crore.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

CHAPTER IX: MINISTRY OF PETROLEUM AND NATURAL GAS

Balmer Lawrie & Company Limited

9.1 Inadequate due diligence resulting in non-recovery of dues

Balmer Lawrie & Company Limited (Company) acquired a loss making concern, M/s Vacations Exotica Destinations Private Limited (VEDPL) at ₹13.50 crore without ascertaining the accuracy of its financial statements. Reconciliation was not carried out prior to release of final instalment which resulted in unrecovered dues amounting to ₹3.99 crore.

Balmer Lawrie & Company Limited (Company) was approached (November 2012) by M/s Vacations Exotica Destinations Private Limited (VEDPL) for acquisition of upto 50 *per cent* of its equity stake. VEDPL, engaged in tours and travel business, had been established in 2007 as a partnership firm and subsequently converted (2012) into a private limited company. The Company decided (November 2013) to acquire the entire travel and tour business of VEDPL rather than 50 *per cent* of its equity with the primary objective of acquiring the brand "Vacation Exotica". The rationale for the acquisition was that it would provide the Company with the opportunity to enter into tours and leisure travel business.

The Company appointed experts to carry out valuation of the business of VEDPL, on standalone basis as well as considering its synergies with the Company. Two experts were appointed, M/s BOB Capital Markets Limited (BOB) and M/s KPMG India Private Limited (KPMG), who recommended that the value of VEDPL would range between ₹13.50 crore to ₹30.40 crore when considered on a stand-alone basis and ₹63.00 crore to ₹79.80 crore considering synergy with Company.

Audit noted that the valuations were done based on the information provided by the Company which included high projected growth of the business of VEDPL during 2014-18 (rate of growth considered being 27 to 30 *per cent* on standalone basis and 33 to 114 *per cent* considering synergy with Company), even though VEDPL had been incurring losses since inception (2007-08). Finally, the Company acquired the business of VEDPL in January 2014 at an agreed consideration price of ₹13.50 crore. Post-acquisition, the tour & travel business of VEDPL has not generated any profit and the total loss incurred by the Company on such business was ₹26.94 crore during the period from January 2014 to September 2017, belying the high growth projections.

Audit noticed that the Board of Directors (BoD) of the Company, while considering the acquisition proposal (April 2013), had expressed concern over the liquidity position of VEDPL. The Company had assigned financial due diligence of VEDPL to Grant Thornton India LLP, preparatory to the acquisition. The financial due diligence revealed (November 2013) that the accounting software of VEDPL was prone to data entry errors and lacked proper systems and controls. The BoD of the Company decided (November 2013) to conduct a detailed audit of the accounts of VEDPL for first half year ended 30 September 2013. M/s Deloitte Haskins & Sells was appointed for the audit (February 2014).

The BoD of the Company simultaneously decided (November 2013) on an audit of VEDPL and negotiations for acquisition. The Chairman & Managing Director along with the whole-time Directors of the Company were authorised to carry out negotiations with VEDPL. However, without waiting for the report of the auditor, the Company acquired VEDPL (January 2014), at a consideration of ₹13.50 crore. Post-acquisition, the auditor in its report of May 2014 pointed out deficiencies in the books of accounts of VEDPL relating to maintenance of fixed assets registers, accounting of debtors, loans & advances and advertisement expenditures etc. However, the payment for the acquisition had commenced by then (February 2014) with the final instalment released in August 2014.

As per the terms of the acquisition, all billings and corresponding costs of sales for the erstwhile VEDPL business were to be booked on the Company's account from 1 January 2014 while the existing entries were to be transferred from VEPDL books to the Company's books at a later date and reconciled. On reconciliation, the Company noticed dues of ₹3.99 crore from VEDPL. By then, the Company had already released the entire consideration of ₹13.50 crore.

The outstanding dues of ₹3.99 crore had been shown in the Company's accounts as recoverable from VEDPL (even as on December 2017). As the business of VEDPL has already been acquired by the Company and full payment has been made for the transaction, the possibility of recovery of this amount is remote.

The Management stated (December 2017) that dues amounting to ₹3.99 crore from VEDPL arose on reconciliation after releasing final payment of purchase consideration and informed that in case the amount is un-recovered by March 2018, it would be provided for in the accounts of Company.

The reply of the Management indicates the lack of due diligence on its part while acquiring a loss making private company. The readiness of the Management to provide for this amount, even though the promoter of VEDPL is presently in the employ of the Company as the Chief Operating Officer of its tour business also underscores the fact that its recovery is remote.

Thus, the Company acquired a loss making concern, VEDPL, at ₹13.50 crore. The business continued to suffer losses, post-acquisition, with cumulative loss of ₹26.94 crore to the Company over January 2014 to September 2017. Due diligence regarding the accounts of VEDPL was not carried out before the acquisition. Though an audit was initiated, the Company did not wait for its results before releasing payments for the acquisition. Subsequently, post reconciliation, outstanding dues of ₹3.99 crore were noticed, recovery of which appears remote.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

Bharat Petroleum Corporation Limited

9.2 Irregular payment to employees in contravention of DPE Guidelines

Bharat Petroleum Corporation Limited made payment of ₹20000 to each of its employees amounting to ₹25.14 crore on the occasion of completion of 40 years by the Company and 50 years by Kochi Refinery which was not as per DPE guidelines.

Upon completion of 40 years by Bharat Petroleum Corporation Limited (Company) as well as 50 years by Kochi Refinery, the Company approved (October 2016) grant of reward of ₹20000 to all its employees. The amount of ₹20,000/- per employee was paid to of 12572 employees[1] on the roll of the Company, thereby incurring an expenditure of ₹25.14 crore on this account.

In this regard, Audit observed that :

i. The Union Cabinet had directed in March 1978 that awards should not be granted on occasions of Silver/Golden Jubilee celebrations of the Public Sector Enterprises.

ii. The Bureau of Public Enterprises (BPE) had also instructed (February 1983) the Public Sector Undertakings to follow the above directions of the Cabinet.

iii. DPE guidelines (November 1997) specifically stipulated that no payment of ex-gratia, honorarium or reward should be paid by the Public Enterprises to their employees over and above the entitlement under the Bonus Act or the executive instructions issued by DPE in respect of ex-gratia, unless the amount was authorised under the duly approved incentive scheme in accordance with the prescribed procedure.

iv. There were no specific guidelines on rewards/mementos to employees of CPSEs on Commemorative occasions in the Compendium of guidelines, issued (November 2015) by the Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises.

v. Ministry of Petroleum & Natural Gas (MoPNG) had instructed (November 2012) all Oil Marketing Companies (OMCs) that all applicable guidelines on the issue be strictly followed without any exception till the guidelines on payment of awards in cash/kind to employees on Commemorative Events were framed. Audit observed that based on the instructions of MoPNG, draft Guidelines on the subject were prepared by ONGC for employees of all CPSEs and submitted to MoPNG in October 2015, approval for which was pending (November 2017). The Ministry intimated Audit that it did not consider necessary to issue separate guidelines on payment of awards in cash/kind to employees on Commemorative Events. Thus no further action was taken by the Ministry to prohibit payment of such allowances that were not as per the DPE guidelines.

[1] ***Management: 5684 and non-management: 6888***

The Management in its reply (October 2017) stated that the award of commemoration given by the Company was in line with the extant practice and continued collective wisdom of Oil Companies. It was further stated that decision taken for award was also in line with the intended proposal of the Oil & Gas Companies submitted to MoPNG.

The reply is not acceptable as the incentive was beyond the provisions of the DPE guidelines issued in November 1997.

Thus, the payment made by the company to its employees in violation of the extant DPE guidelines and instructions of the Ministry of Petroleum & Natural Gas, to follow the applicable guidelines without any exception resulted in irregular expenditure of ₹25.14 crore.

The matter was referred to the Ministry in October 2017; their reply was awaited (February 2018).

GAIL (India) Limited

9.3 Delay in completion of Minimum Work Program leading to avoidable payment of liquidated damages

Due to lack of planning, consortium partners could not complete the Minimum Work Programme within the license period which led to avoidable payment of liquidated damages of ₹11.31 crore.

A consortium[2] consisting of three Central Public Sector Enterprises (CPSEs) viz. GAIL (India) Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, one State Government PSU (Gujarat State Petroleum Corporation Limited) and two private firms acquired block RJ-ONN-2004/1 in Rajasthan and entered (2 March 2007) into Production Sharing Contract (PSC) with Government of India. Consortium received (November 2007) Petroleum Exploratory License (PEL) for Phase-I of exploration of the block. Consortium partners made GAIL (India) Limited (the Company) the operator for this exploration block.

As per PSC, the consortium was required to complete the 2D seismic API[3] in the grid size of 8 KM X 8 KM covering the entire contract area under the Minimum Work Programme (MWP). Further, reprocessing of 2D/3D seismic data, Geo chemical survey, Gravity Magnetic survey and drilling of six wells were to be completed within four years i.e. by 5 November 2011. However, extension of time up to six months could be granted for completion of MWP.

Clause A 1 (b & c) of the Policy for extension in exploration phase in the New Exploration License Policy (NELP) (April 2006) of Government of India stipulated that extension of time for additional six months (2nd extension) could be given subject to

[2] *GAIL with participation interest (PI) of 22.225 per cent, Gujarat State Petroleum Corporation with PI of 22.225 per cent and other JV partners viz. HPCL with PI 22.22 per cent, BPCL with PI 11.11 per cent, Hallworthy Shipping Limited with PI 11.11 per cent and Nitin Fire Protection Industries Limited with PI 11.11 per cent formed consortium*

[3] *Acquisition, Processing and Interpretation of data*

submission of 100 *per cent* bank guarantee and 10 *per cent* cash payment as agreed pre-estimated liquidated damages (LD) for unfinished MWP as reasonably determined by Director General of Hydrocarbon. Any extension beyond 12 months and up to 18 months (3rd extension) could be considered subject to submission of 100 *per cent* bank guarantee and 30 *per cent* cash payment as agreed pre-estimated liquidated damages for unfinished MWP as reasonably determined by Director General of Hydrocarbon.

The Company applied (17 June 2010) to Rajasthan State Pollution Control Board (RSPCB) for Consent to Establish industry (CTE) as per section 21 of the Air (Prevention and Control of Pollution) Act, 1981. RSPCB pointed out (7 July 2010) deficiencies such as filing of common application for all 6 exploratory drilling wells falling under different locations instead of separate application for each location, non-submission of requisite fee, lack of proof of capital investment, land allotment letter, commitment for compliance with environmental clearance and the details of the source of raw water to assist in securing clearance from Central Ground Water Authority. Some of the requisite documents were submitted during August 2010 to September 2010. Remaining documents along with requisite additional fee were submitted during January 2011 to February 2011. RSPCB observed (March 2011) that the Company did not submit certificate confirming the estimated cost of project for drilling on one site, land conversion letter of the competent authority, information about mode of disposal of hazardous waste etc. Finally, the Company submitted all the requisite documents/fees on 11 April 2011 and RSPCB granted CTE on 27 April 2011.

The Consortium completed all the committed work under MWP except drilling of five wells by November 2011. Therefore, in line with the provisions of PSC and New Extension Policy (NELP), it sought three[4] extensions for a period of six months each upto 5 May 2013. The Consortium in accordance with the share of participating interest (PI) paid ₹5.65 Crore[5] (including share of CPSEs of ₹3.63 crore[6]) towards LD for unfinished MWP to Director General of Hydrocarbon (DGH) along with bank guarantee for USD 6.947 million[7]. The Company applied (April 2013) for fourth extension for an additional period of six months but no response was received from Ministry of Petroleum and Natural Gas (MoPNG). The consortium could drill only four wells and drilled the 5th well partially i.e. upto 334 meter depth against the targeted depth of 1100 meters as at the expiry of the third extension of license period on 5 May 2013,. The unfinished MWP was 766 m in fifth well and 1200 m depth in sixth well. In view of the unfinished MWP of two wells against the committed depth, the Company again requested (1 May 2013) the DGH for grant of permission to continue the drilling and testing operations beyond 5 May 2013. However, DGH refused (10 May 2013) to grant permission as there was no provision either in the PSC or in the NELP for fourth extension. But the consortium continued drilling of the 5th well and completed it on 2 June 2013. However, DGH considered the work done till 5 May 2013 only for calculation of LD towards unfinished MWP. Accordingly, three CPSEs paid ₹7.68 crore (GAIL ₹3.03 crore, HPCL ₹3.16 crore and BPCL ₹1.49 crore) towards LD for unfinished MWP.

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4 ***September 2011, September 2012 and December 2012***

5 ***₹nil +₹2.35 crore +₹3.30 crore = ₹5.65 crore***

6 ***₹1.45 crore (GAIL) +₹1.45 crore (HPCL) +₹0.73 crore (BPCL)= ₹3.63 crore***

7 ***USD Nil +USD 4.328 million + USD 2.619 million = USD 6.947 million***

Audit observed that exploration activities were time bound and committed MWP was required to be completed within the defined time frame. The consortium, however, took almost entire license period of four years for completion of seismic data analysis, Geo-chemical survey and Gravity Magnetic Survey. Drilling of first well started at the end of June 2011 as a result of which, drilling of only one well could be completed within the license period i.e. till 5 November 2011. Further, receipt of CTE from RSPCB took long time due to non-submission of requisite documents/fees along with the original application. Further, the Company initiated action for collection of certificates/clearance from various authorities only after RSPCB pointed out non-submission of those documents in July 2010.

The Management stated (September 2017) that an additional period of 15 months was taken due to mud loss, drilling of wells in two phases and time consumed to decide whether to continue or stop drilling the 5th well after completion of 4th well. Further, it was not possible to stop drilling of well on 5th May 2013 by terminating the well in the middle of operations without achieving the target of the well especially as light oil was observed in the nearby well (Bajuwala–1). Getting Consent to Establish from Pollution Control Board of Rajasthan Government caused delay of 211 days and was claimed as an excusable delay. The decision of the MoPNG on not agreeing to excusable delay was conveyed vide letter dated 15 October 2013.

Further, the Ministry stated (January 2018) that during various meetings with DGH/ MoPNG, it was understood that the request for time extension beyond the third extension i.e. 5 May 2013 would be considered favourably as light crude oil was discovered for the first time in the area and activities were carried out with the expectation that time extension would be granted.

Reply of the Ministry/Management needs to be seen in the light of the fact that mud loss is an inherent risk associated with E&P business. Further, second and third extension of 6 months each were allowed only on payment of LD and there was no provision either in the PSC or in the NELP for extension of license period beyond 18 months. So far as excusable delay in getting CTE from RSPCB is concerned, DGH had informed in August 2012 that excusable delay on this account was not approved by MoPNG.

Thus, due to lack of planning and delay in compliance with formalities for obtaining CTE, the Consortium could not complete the MWP and therefore three CPSEs incurred avoidable expenditure of ₹11.31 crore towards liquidated damages.

Hindustan Petroleum Corporation Limited

9.4 Avoidable payment of surcharge on excess drawn of water

Visakh Refinery of Hindustan Petroleum Corporation Limited decided to draw water required by the refinery from three reservoirs in a phased manner instead of drawing the whole quantity together. Consequently, it made an avoidable payment of ₹7.07 crore due to surcharge levied on excess drawal of water from one reservoir.

The Visakh Refinery of Hindustan Petroleum Corporation Limited (HPCL) was drawing 33 lakh imperial gallons[8] of water per day (LIGD) from three reservoirs of Greater

[8] *One imperial gallon is equivalent to 4.54609 litres*

Vishakhapatnam Municipal Corporation (GVMC), viz. Raiwada (12 LIGD), Meghadrigedda (15 LIGD) and Thatipudi (6 LIGD). Three separate agreements were entered into (September 2013) with GVMC for supply of water from the three reservoirs. The agreements were effective till 31 March 2017. As per the terms of each of the agreements, GVMC charged ₹36 per kilo litre (KL) of water which was enhanced to ₹60 per KL from December 2015 onwards. HPCL was obligated to pay a minimum charge of 60 *per cent* of agreed quantity under each agreement or the actual quantity whichever was higher. Any excess drawal of water would result in payment of surcharge at 100 *per cent* of the agreed rate.

Additional requirement of water for the new projects of the Refinery viz., Diesel Hydro Treater (DHT) project and Flue Gas Desulphurisation (FGD) Unit I & II which were in advanced stage of commissioning, was assessed initially at 16 LIGD. Accordingly, consent of GVMC was obtained (August 2011) for supply of additional water on payment of capital contribution charges and advance payment of water charges. However, the additional requirement was re-assessed (June 2013) as 12 LIGD[9] instead of 16 LIGD with the total water requirement increasing to 45 LIGD from 33 LIGD. Accordingly, the Executive Committee for Mega Projects (ECMP) of the Refinery approved (February 2014) proposal for entering into water supply agreements with GVMC for obtaining additional 12 LIGD of water. The Management, however, subsequently decided (December 2014) to enhance the agreed quantities in a phased manner with initial enhancement of 6 LIGD from Meghadrigedda reservoir on the ground that major repairs were required to be carried out on Thatipudi and Raiwada lines which would take time. Accordingly, the Refinery revised (May 2015) the agreement with GVMC for enhancement of agreed quantity of water from 15 LIGD to 21 LIGD in respect of Meghadrigedda reservoir effective from March 2015 till 31 March 2017.

During the period from March 2015 to March 2017, the Refinery incurred an additional expenditure of ₹14.90 crore towards surcharge on account of excess drawal of 28.85 lakh KL of water from Thatipudi reservoir.

Audit observed that the decision of the Management to enhance the requirement of water in a phased manner instead of drawing the whole quantity together was not based on realistic assessment due to the following:

a) During March 2015 to March 2017, the total volume of water actually drawn from all the reservoirs together ranged between 38.48 LIGD to 48.02 LIGD. This constituted more than the minimum chargeable quantity of 60 *per cent* of the agreed quantity taken individually for all the three reservoirs. Further, in 20 out of 25 months under consideration, the actual drawal was more than 40 LIGD against the enhanced quantity of 39 LIGD.

b) The percentage of water drawn by the Refinery from Meghadriggeda reservoir during March 2015 to March 2017 ranged from 70 *per cent* to 92 *per cent* of the enhanced quantity of 21 LIGD. Thus, the enhanced quantity of water from the reservoir was not availed of.

[9] ***6 LIGD from Meghadrigedda, 4 LIGD from Thatipudi and 2 LIGD from Raiwada***

c) While revising the agreement with GVMC in March 2015, the Refinery was already paying surcharge for water drawn from Thatipudi reservoir due to drawal of water in excess of the agreed quantity of 6 LIGD. During December 2014 to February 2015, the Refinery drew 1.98 lakh KL of water in excess of the agreed quantity from this reservoir and incurred ₹71.53 lakh on account of surcharge.

d) Consequent to the remedial measures such as sectional line and air valve replacements etc. carried out, during the years 2013-14 and 2014-15, there was substantial increase in quantity of water supply from Thatipudi reservoir from 2014-15. This was further corroborated by the fact that the actual drawal of water from Thatipudi reservoir ranged between 9.21 LIGD to 18.58 LIGD during the period March 2015 to March 2017 as against the agreed quantity of 6 LIGD.

The Refinery could have avoided the surcharge of ₹7.07 crore **(Annexure-X)** out of the surcharge of ₹14.90 crore paid for the enhanced quantity if it had drawn the total additional water requirement of 12 LIGD [10] from all the three reservoirs together (as approved by the ECMP) instead of drawing 6 LIGD only from the Meghadriggeda reservoir. The water that could be drawn from Thatipudi reservoir in this arrangement would have been 10 LIGD instead of 6 LIGD.

The Management stated (August 2017) that it was prudent to enhance the water quantity in phases as the DHT facilities were just commissioned and their operations were under stabilisation. Thatipudi and Raiwada reservoirs were connected to public distribution system and in case of shortage of water, preference would be given to public distribution and bulk supplies would be shutdown.

The reply of the Management is not acceptable since it was a general condition in all the agreements with GVMC that top priority would be accorded to supply of drinking water to the public, if there was any shortage in the availability of treated water.

The Ministry stated (November 2017) that considering the savings of ₹6.82 crore in the Capital Contribution Charges (CCC) and ₹1.80 crore in the Advance Consumption Charges (ACC), it was thought prudent to enhance the agreement quantity by 6 LIGD, which was basically due to uncertainty on the exact additional water requirement for DHT facilities. The payment of CCC and ACC for additional 6 LIGD amounting to ₹8.62 crore would have been infructuous had the actual additional consumption been lower than 12 LIGD.

The justification advanced by the Ministry was not found mentioned in the records of the Company. Further, the contention of the Ministry is not acceptable as the CCC and ACC of ₹8.62 crore for additional 6 LIGD of water were not saved but only deferred to the next phase of enhancement in April 2017. As the ACC portion was refundable, the Company could have saved only the interest amounting to ₹1.16 crore[11] on the CCC portion by opting for the phased enhancement. Further, the Company had actually incurred (April 2017) additional expenditure of ₹1.36 crore being the CCC at increased rate of ₹30,000/- per KL as against the prevailing rate of ₹25,000 per KL in March 2015. Thus,

[10] ***6 LIGD from Meghadrigedda, 4 LIGD from Thatipudi and 2 LIGD from Raiwada***

[11] ***₹6.82 crore x 8.5% x 2 years based on the maximum rate of interest prevailing in April 2015***

the Company would have benefitted more by entering into agreement for enhanced quantity of 12 LIGD in May 2015 itself instead of drawing so in two phases i.e. one in May 2015 and other in April 2017.

9.5 Extra payment of ₹17.93 crore towards Discount/Incentive

HPCL made extra payment to its reseller M/s Haresh Agencies while extending discounts and by including credit cost as part of discount in violation of its policy. The company while assessing the discount entitlement, adopted the highest slab relevant to the total volume of sales of Furnace Oil (FO) and Light Diesel Oil (LDO) achieved in 2015-16 instead of aggregate of eligible discounts admissible under each slab for volume of sales covered under such slab.

Hindustan Petroleum Corporation Limited (HPCL) appointed (1977) M/s Haresh Agencies as its reseller. Apart from kerosene and Industrial Diesel, the agency was also a reseller of the Company for Furnace Oil (FO) and Light Diesel Oil (LDO). In order to encourage the resellers to achieve higher sales margin, the Company extended discount on the basis of volume of products lifted by the resellers. The resellers were eligible for discount at the rate of 70 *per cent* of discount applicable for customers directly supplied by the company for the year 2015-16. No credit was to be extended to the reseller.

The Company introduced (April 2015) slab wise discount scheme on volumes lifted by the reseller for the year 2014-15. The slab-wise discount rates were revised in October 2015 as indicated below.

FO Vol./Annum (Thousand Metric Ton)	Reseller Discount including credit cost of ₹250 per MT	LDO Kilo Litre per annum	Reseller Discount including credit cost of ₹250 per KL
Upto 6	425	**Upto 100**	425
Above 6, Upto 12	600	**Above 100, Upto 500**	600
Above 12, Upto 25	775	**Above 500, Upto 1500**	775
Above 25, Upto 50	950	**Above 1500, Upto 5000**	950
Above 50, Upto 75	1125	**Above 5000, Upto 10000**	1125
Above 75, Upto 100	1300	**Above 10000, Upto 15000**	1300
Above 100, Upto 125	1475	**Above 15000**	1475
Above 125, Upto 150	1650		
Above 150, Upto 175	1825		
Above 175,	2000		

The Company paid (March 2016) ₹34.86 crore towards discount on total volume of 174335 MT of fuel oil and ₹2.73 crore on total volume of 18497 KL of Light Diesel Oil lifted by the reseller M/s. Haresh Agencies during the year 2015-16.

Audit analysis of the payment indicated the following:

(A) The reseller lifted 174335 MT of FO during the Financial Year (F.Y.) 2015-16. Instead of arriving at total discount payable after aggregating the eligible discount admissible under each slab for the volume covered under such stratified slab, the Company calculated the admissible total discount, by applying the discount rate applicable for total volume lifted on the entire volume lifted by the reseller. If the discount was calculated by aggregating the eligible discount under each stratified slab for volumes pertaining to such slab, the reseller was eligible for a total discount of ₹22.31 crore only for 174335 MT of FO lifted by the reseller **(Annexure-XI).** Thus the reseller was granted an additional discount amounting to ₹12.55 crore[12] for FO lifted during F.Y. 2015-16.

(B) The reseller lifted 18,497 KL of LDO during the F.Y. 2015-16. Instead of arriving at the total discount payable after aggregating the eligible discount under each stratified slab for the volumes pertaining to such slab, the Company calculated the admissible total discount by applying the discount rate applicable for total volume of LDO lifted, on the entire volume of LDO lifted by the reseller. If the discount was calculated by aggregating the eligible discount applicable for volume pertaining to each stratified slab, the reseller was eligible of a total discount of ₹2.17 crore only, for 18,497 KL of LDO lifted by the reseller **(Annexure-XI)**. Thus the reseller was granted an additional discount amounting to ₹0.56 crore[13] for LDO lifted during F.Y. 2015-16.

(C) As per Action Plan for the year 2015-16, Business tie-ups issued in April 2015 by the Strategic Business Unit –Direct Sale – (SBU-DS) HQ of the Company, only the direct consumers were eligible for credit facility, the cost of which was assessed as ₹250/- per MT/KL. The policy did not permit credit facility to the resellers. However, the Company included credit cost at the rate of ₹250 per MT while fixing the rate of discount payable to reseller under each slab of volume lifted. M/s Haresh Agencies was granted undue discount of ₹4.82 crore due to inclusion of the credit cost while calculating the total discount payable for the year 2015-16, as shown below:

Items	Volume of actual sale	Credit cost (in ₹)	Extra payment due to credit cost (in ₹)
FO	1,74,334.85 MT	250	4,35,83,712.50
LDO	18,496.50 KL	250	46,24,125.00
Total			**4,82,07,837.50**

(D) While calculating the discount payable at the highest slab for the entire quantity lifted, the Company adopted the wrong slab rate. The slab applicable for volume of sales of 174335 MT of FO was slab bracket "150000 MT to 175000 MT" and the reseller was eligible for discount at the rate of ₹1825/- per MT pertaining to this slab. However, the company applied the rate of ₹2000/- per MT applicable for volume of sales in the next slab pertaining to "175000 MTs. and above". Thus even while applying the discount for the total volume of sales achieved, in the manner adopted by the company, the reseller was granted higher discount at the

[12] ***₹34,86,70,000 (-) ₹22,31,36,375 = ₹12,55,33,625***

[13] ***₹2,72,83,075 (-) ₹2,16,65,575 = ₹56,17,500***

rate of ₹175 per MT on the of 174335 MTs lifted by the reseller during the year 2015-16. The extra payment on this ground amounted to ₹3.05 crore.

The Management stated (November 2017) as follows,

1) While seeking approval for the higher discount rates, the net retained margins for sale had been computed after considering the incentive applicable for the total volume of sales at the highest slab rate and not on the basis aggregated payments due under each stratified slab for volume of sales covered under such slab. It is therefore clear that the intention of Management while granting approval of discount/margin erosion was to extend the incentive on the full volume and not on the basis of slab wise stratified discount.

2) The credit cost of ₹250 was included in the discount to reseller considering the stature of the reseller's business. The dealer was also directed to switch over to payment through RTGS[14] and with two days credit, i.e. transaction date plus two days for payment with effect from 1 August 2013. The Strategic Business Unit (SBU) Credit Committee approved these credit terms in its meeting held in July 2013. Further, this credit facility did not result in any additional cost since payment by cheque was permissible under the approved facility for payment, in which case the company would have received the payment only after clearance of the cheque. The Company was, however, receiving the payment on the same day through RTGS.

The reply needs to be seen in the light of the following facts.

i. During F.Y. 2014-15 the 'average net retained margin' was negative in the case of F.O. and the margin for LDO was ₹2250. The overall Marketing margin (Profit contribution) was negative at approximately (-) ₹10.5 crore. The Company while submitting (April 2015) the proposal for revised discount for approval of the Competent Authority, indicated the estimated 'net retained margin' for the year 2015-16 as ₹375 per MT for FO and ₹ 4250 per KL for LDO leading to an overall retained positive margin of ₹13.12 crore. The proposal, however, did not include detailed calculation of the 'overall retained margin' and hence, there was no disclosure of the manner of calculation of overall retained margin in the proposal submitted for approval.

   Even while calculating the discount payable as per the method adopted by the company, the rate pertaining to wrong slab was adopted. The reseller was eligible for discount at the rate of ₹1825/- per MT only for sale of 174335 MTs and not at the rate ₹2000/- per MT on the entire quantity.

ii. The proposal submitted on 3 April 2015, also specified that slab-wise discount and incentive scheme was being recommended and the proposal included slab wise volumes with corresponding rate of discount in the tables forming part of the proposal. Thus, it cannot be concluded that the approval for proposals submitted on

[14] ***Real Time Gross Settlement (RTGS) is an electronic form of fund transfer where the transaction takes place on a real time basis***

3 April 2015 and 31 October 2015 (revised) envisaged payment for total sales applicable for the entire quantity lifted by the reseller.

iii. The contention of Management that the credit facility did not result in any additional cost is not acceptable since payment towards credit cost involved cash out flow for the company and was against the policy circulated by Executive Director – Direct Sales, of the Company on 27 April 2015.

Thus, the Company made an extra payment of ₹17.93 crore to its reseller M/s Haresh Agencies by extending discounts and credit cost by including this discount in violation of its policy.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

Indian Oil Corporation Limited

9.6 Additional burden on RGGLV consumers due to incorrect declaration of Retail Selling Price of LPG

Indian Oil Corporation Limited did not exclude the delivery charges while communicating Retail Selling Price of LPG to its RGGLV distributors, which resulted in additional burden on the consumers and extension of undue favour to the distributors of RGGLV to the tune of ₹280.45 crore.

The Rajiv Gandhi Gramin LPG Vitrak (RGGLV) scheme was launched (6 August 2009) by Ministry of Petroleum & Natural Gas (MoP&NG) with the aim of setting up small size Liquefied Petroleum Gas (LPG) distribution agencies in order to increase the rural penetration of LPG. As per the scheme, the LPG distributors (Vitraks) were to operate at rural locations with a potential of 600 refill sales per month. The Vitraks would supply LPG cylinders (weighing 14.2 Kg) to rural customers on Cash and Carry basis at the Retail Selling Price (RSP)[15] from the authorised LPG godown and would not be required to deliver LPG cylinders to the residence of the customers.

MoPNG revised the commission payable to the distributors for refilling of cylinders from time to time and the same rate of distributor's commission was made applicable to distributors' under RGGLV scheme also. MoP&NG increased (October 2012) the distributors' commission to ₹37.25[16] per cylinder and bifurcated the same into two components i.e. establishment cost ₹22.25 and delivery charges ₹15. It was also clarified that customers who collected the cylinders directly from the distributors' premises would not be charged the delivery charges.

It was observed vide *Para no. 10.3 of Report no. 9 of 2017 of CAG of India* that other oil marketing companies (BPCL and HPCL) did not exclude delivery charges while

[15] *RSP is the price at which OMCs sells the regulated products to the consumers, which is decided by the MoP& NG and includes all taxes as well as distributors' commission*

[16] *Subsequently revised to ₹40.71 in December 2013, ₹44.06 in October 2014, ₹45.83 crore in December 2015 and ₹47.48 in October 2016 (including ₹16.47, ₹18, ₹18.50 and ₹19 towards delivery charges respectively)*

communicating RSP to their RGGLV distributors which resulted in additional burden on the consumers and undue financial benefit to the distributors to the tune of ₹168.04 crore. Audit further observed that Indian Oil Corporation Limited also did not exclude the delivery charges component from the distributors' commission while communicating the RSP to its Vitraks for RGGLV scheme, though distributors were not required to deliver cylinders at the residence of RGGLV customers. As a result, the Vitraks collected delivery charges as part of their commission though they did not deliver the LPG cylinders to the residences of rural customers. Over the period October 2012 to March 2017, the Vitraks of the Company received an undue benefit of ₹280.45 crore on delivery charges.

The Management of Indian Oil Corporation Limited stated (July 2017) that Oil Industry, in view of bifurcation of distributor's commission by MoP&NG in October 2012, deliberated upon the applicability of delivery charges to be passed on to the customers for the then RGGLVs and it was decided that the existing practice in vogue would be continued and distributors would be entitled to establishment charges as well as delivery charges without passing on any rebate to the customers. Further, if delivery charges were not allowed to be passed on the distributors of RGGLV, it would not be viable to them.

The reply of the Company is not tenable as MoP&NG, while revising (October 2012) distributors' commission, categorically stated that delivery charges would not be collected from customers who collect the cylinders directly from distributors' premises. Therefore, the decision taken by the Industry, as stated by the Management, to allow distributors to charge establishment charges as well as delivery charges from the RGGLV customers was against the orders of the MoP&NG.

Thus, by allowing Vitraks of RGGLV scheme to charge the entire distributors' commission, including the delivery charges from rural customers who did not avail of delivery services, the Company extended undue favour to the Vitraks which resulted in an additional burden on the RGGLV customers to the tune of ₹280.45 crore (over October 2012 to March 2017). The undue benefit to the Vitraks and burden to the rural LPG customers was still continuing (August 2017).

The matter was referred to the Ministry in August 2017; their reply was awaited (February 2018).

9.7 Extra cost due to laxity in finalisation of tender

Indian Oil Corporation Limited could not finalize the tender for a pipeline project within the validity period of the bid and awarded work at extra cost of ₹63.86 crore after retendering.

Indian Oil Corporation Limited (Company) floated (26 November 2012) an open e-tender for Composite Mainline & Combined Station Works (CSW) for Paradip-Haldia-Durgapur LPG pipeline project with a scheduled completion time of 15 months from the issue of specific notice. The work consisted of two parts i.e. Group A (pipeline & station work in the states of Odisha and West Bengal) and Group B (pipeline & station work in the state of West Bengal). Due date for submission of online tender was 26 December 2012 (subsequently extended twice to 14 January and 24 January 2013 as per the request of prospective bidders). The bids were opened on 24 January 2013 and all the four participant bidders in respect of Group A and five in respect of Group B were found qualified on techno-commercial evaluation (30 April 2013). Initially, the validity of the bid was up to 24 May 2013. However, on a request (20 May 2013) by the company it was extended up to 24 July 2013. After completion of pre-price bid meeting and negotiation with the qualified bidders, Tender Committee (TC) recommended (9 July 2013) for award of group A & B work to M/s Kalpataru Power Transmission Limited (KPTL) being the lowest bidder at ₹124.65 crore and ₹128.87 crore (including Service Tax) respectively. Pending approval of award of work, KPTL was requested to extend the period of validity of their offer from time to time. The last extension was sought up to 31 August 2013 but KPTL refused to extend the bid validity beyond 29 July 2013. As the Company could not finalize the award of contract within the extended bid validity period, it was decided (26 August 2013) to request the second lowest (L2) bidders[17] to match the offer of KPTL to avoid any extra cost. However, both the L2 bidders refused to reduce their offered price and therefore the Company cancelled the tender on 30 August 2013.

Subsequently, the Company divided the work of pipeline laying and stations work and invited (Oct 2013) two separate tenders. Both the pipeline laying and stations work were further bifurcated into Group A (Paradip-Haldia section) and Group B (Haldia-Durgapur section). The contracts were awarded to the lowest bidders as under:

Particulars of work	Month of award	Name of the contractor	Contract Amount (including service tax)	Scheduled completion Month
Pipeline laying work for Group A (351.26 Km)	April 2014	M/s Jaihind Projects Limited (JPL)	₹120.58 crore	August 2015
Pipeline laying work for Group B (318.40 km)		M/s Corrtech International Private Limited	₹108.35 crore	September 2015
Station work (Group A &B)	July 2014	M/s Furnace Fabrica (India) Limited	₹42.57 crore (Group A) and ₹45.88 crore (Group B)	October 2015

Audit observed that the Company could not award the contract under the initial tender even within extended bid validity period i.e. 186 days[18] from bid opening date and subsequently awarded the work through the second tender leading to an extra cost of ₹63.86 crore[19]. It was also observed that the Work Procedure Manual of the Company did not specify any time limit for finalisation of the contract award process though the Company stated that normally the parties are asked to keep the bid valid for 4 months after techno commercial bid-opening and during two years ended on 31 March 2012, pipeline division of the Company had taken average of 127 days for finalisation of award processing.

The Company replied (July 2017) that the delay in processing of the subject tender was not attributable to any single individual or department; rather it was a cumulative delay attributable to action of officers from various departments, which has occurred for

[17] ***M/s. Kazstory service Infrastructure India Private Limited being L2 bidder for Group A and M/s. ACE pipeline contracts Private Limited being L2 bidder for Group B***

[18] ***From 25 January to 29 July 2013***

[19] ***Contract amount after retendering i.e. ₹317.38 Crore (120.58 + 108.35 + 42.57 + 45.88) minus Contract amount finalised at the time of first tender – 253.52 Crore (124.65 + 128.87)***

meeting the system requirements. However, in order to sensitize the officers concerned, counselling of senior officers of tendering and indenting department has been done and corporate displeasure letters have also been issued to some senior level retired officers.

The reply needs to be viewed in the light of the fact that the Company completed the contract award process within 127 days normally. In this case, however the Company failed to finalise the first tender even within the extended bid-validity period of 186 days and as a result incurred extra cost in awarding the work through the second tender at a higher cost of ₹63.86 crore. Further, a portion of work awarded to M/s JPL was subsequently offloaded to M/s Nandini Impex (Pvt) Limited (October 2016) and KPTL (January 2017) and the work could not be completed till October 2017 despite a time over-run of two years and nine months[20].

While appreciating the action taken by the Company in sensitising the officers on the need for timely finalisation of tender, Audit recommends that the Company may lay down time limit within which process of awarding work should be completed.

The matter was referred to the Ministry in September 2017; their reply was awaited (February 2018).

9.8 Irregular payment to the executives in the form of Project Allowance

Indian Oil Corporation Limited made an irregular payment of ₹11.38 crore towards project allowance to its executives in violation of DPE guidelines as well as directives of Ministry of Petroleum and Natural Gas.

Department of Public Enterprises (DPE), Government of India (GoI) vide its Office Memorandum (OM) dated 26 November 2008[21] formulated the policy for revision of pay and allowances of Board level and below Board level executives in Central Public Sector Enterprises (CPSEs) with effect from 1 January 2007. The said OM inter-alia provided that the Board of Directors of the CPSEs would decide on the allowances and perks admissible to the executives, subject to a maximum ceiling of 50 *per cent* of the basic pay by following 'Cafeteria Approach' allowing the executives to choose from a set of perks and allowances. Only four allowances, viz. North East allowance, Allowance for underground mines, Special Allowance for serving in difficult and far flung areas as approved by the Ministry and Non practicing allowance for Medical Practitioners were kept outside the purview of ceiling of 50 *per cent* of basic pay.

Further, difficult and far flung areas were also notified by DPE vide its OM dated 22 June 2010[22] read with OM dated 29 August 2008[23]. As per these guidelines, specified areas in different States and Union Territories were categorised as A, B, C and D and special allowance was admissible at the rate of 10 *per cent*, 8 *per cent*, 6 *per cent* and 4 *per cent* of basic pay. DPE also directed vide OM dated 22 June 2010 that if an area was considered difficult and far flung by the administrative Ministry/Department of the

[20] ***Worked out with reference to scheduled completion if Company had awarded contract within bid validity period***
[21] ***No. 2(70)/08-DPE (WC)-GL-XVI/08 dated 26 November 2008***
[22] ***OM No. 2(77)/09-DPE(WC)GL-XII/2010 dated 22 June 2010***
[23] ***OM No. 3 (1)/08-E-II (B) dated 29 August 2008***

respective CPSEs and was not covered under the OM dated 29 August 2008, decision in this regard may be taken by the respective Ministry/Department in consultation with their Financial Adviser. Ministry of Petroleum and Natural Gas (MoPNG) while forwarding (1 July 2010) the DPE OM dated 22 June 2010 to all upstream, downstream oil companies and other companies under the Ministry directed that in case any area was considered difficult and far flung by the CPSE and was not covered under DPE OM dated 29 August 2008, the same was to be brought to the notice of MoPNG for consideration.

Audit observed that Indian Oil Corporation Limited (the Company) executed/ was executing grass root projects in 16 states[24] which were not covered under the above mentioned O.M. dated 29 August 2008. It was also observed that the Company was paying project allowance @10 *per cent* of basic pay per month to its executives posted at the above sites of grass root projects and kept the same outside the purview of ceiling of 50 *per cent* of basic pay. Above allowance was paid from the date of approval of the project by the Board or from the date of joining the project site, whichever was later, till the employee was posted at the project site or till the project's completion by way of commercial production, whichever was earlier. During 2013-14 to 2016-17, the Company paid project allowance of ₹11.38 crore to its executives for locations not covered under DPE OM dated 29 August 2008.

The Company stated (August 2017) that grass root project sites were extremely harsh, as these were geographically remote and at logistically difficult places which did not have basic infrastructure for living whereas the employees had to put in prolonged hours of concentrated rigorous work amidst numerous challenges in a new work atmosphere unlike in routine office assignments. If Project Allowance was to be provided within Cafetaria Approach as a choice of individual employees, then it was not a compensation for working in Project site. Moreover, posting at a project site was a difficult duty and thus payment of project allowance was more in the nature of North-East allowance/Special allowance for serving in difficult and far flung areas allowed under the DPE guideline.

The reply of the Company needs to be viewed against the fact that difficult areas were also notified by DPE OM dated 29 August 2008 and option was also given to concerned Ministry/ Department to decide special allowance for areas not covered under above OM in consultation with their Financial Adviser. Hence, payment of allowance for difficult and far flung areas other than those covered under OM dated 29 August 2008 required prior approval of MoPNG as instructed by DPE vide OM dated 22 June 2010, which was not obtained by the Company.

Thus, payment of ₹11.38 crore made by the Company towards project allowance to its executives was in violation of DPE guidelines/directions of MoPNG and therefore, irregular.

The Ministry accepted (March 2018) the audit observation and instructed the Company to recover the payment made to their executives in contravention to DPE Guidelines/ Instructions.

[24] ***Odisha, West Bengal, Rajasthan, Jharkhand, MP, Chattisgarh, Uttar Pradesh, Bihar, Punjab, Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Delhi***

Oil and Natural Gas Corporation Limited

9.9 Payment of Performance Related Pay in contravention of DPE guidelines

ONGC did not comply with the DPE instructions regarding payment of Performance Related Pay directly out of profits and based on the MOU ratings of CPSEs resulting in an overpayment of PRP of ₹5.55 crore to the employees of OVL during 2010-16.

As per the instructions of Government of India (GoI), Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises (DPE) (November 2008), the Performance Related Pay (PRP) payable to the executives of Central Public Sector Enterprises (CPSEs) was directly linked to the profits of the CPSE and rating for achievement of targets, prescribed in the Memorandum of Understanding (MoU) signed by the enterprises with the concerned Ministry of Government of India (GoI) as under:

MoU Rating	PRP Eligibility Level
Excellent	100%
Very Good	80%
Good	60%
Fair	40%
Poor	NIL

The instructions further stated that the PRP would be based on physical and financial performance and would be paid out of the Profits earned by the CPSE. Further, 60 *per cent* of the PRP would be given with the ceiling of 3 *per cent* of Profit Before Tax (PBT) and 40 *per cent* of PRP would be from 10 *per cent* of incremental profit[25] earned for the year. Total PRP, to be paid was to be limited to 5 *per cent* of the year's PBT (available kitty).

It was observed that the payment of PRP to the executives and staff of both Oil and Natural Gas Corporation Limited (ONGC) and ONGC Videsh Limited (OVL) was being decided annually by the Remuneration Committee of ONGC wherein combined profits of ONGC and OVL were being considered for working out the available kitty and the MoU rating achieved by ONGC alone for a given year was being considered for making PRP payments to the employees of OVL as well.

Due to considering the combined profits of both ONGC and OVL and MOU ratings of ONGC alone, for working out PRP admissibility of both the CPSEs, instead of considering the individual profits and MOU ratings of the CPSEs separately, Audit observed an overpayment of PRP to the employees of OVL[26] during 2010-16 as below:

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[25] ***Incremental profit would mean the increase in profit as compared to previous year's profit***

[26] ***Though the system was flawed in respect of ONGC as well, the PRP paid to executives of ONGC was within the maximum ceilings as per DPE instructions and therefore there was no overpayment***

(₹ in crore)

Year	MoU Rating		MoU Rating taken for PRP	PRP paid to OVL Executives	PRP due as per MoU Rating and profitability of OVL	Excess/(less) payment to the Executives of OVL
	ONGC	OVL				
2010-11	Very Good	Excellent	Very Good	7.63	9.54	(1.91)
2011-12	Excellent	Very Good	Excellent	10.76	8.61	2.14
2012-13	Excellent	Very Good	Excellent	6.93	5.54	1.39
2013-14	Excellent	Excellent	Excellent	11.33	11.33	Nil
2014-15	Very Good	Excellent	Very Good	5.98	7.48	(1.50)
2015-16	Very Good	Excellent	Very Good	5.43	Nil[27]	5.43
Total				**40.43**		**5.55**

The Management stated (November 2017) that common PRP scheme was made applicable to ONGC and ONGC Videsh because they have combined manpower pool and employees are frequently transferred between ONGC and ONGC Videsh. Pay structure, manpower requirement, recruitment and personnel policy etc. were largely centralised and governed by ONGC and that manpower belonged to ONGC and personnel were only seconded to OVL for supporting operations. In the year 2015-16, there was profit on a combined basis for ONGC and ONGC Videsh Limited. Therefore, as per the common PRP scheme, PRP was paid to employees of OVL out of profits.

The reply needs to be seen in view of the fact that ONGC and OVL both were separate CPSEs, signing separate MOUs with Government of India under performance evaluation mechanism. As per DPE instructions the PRP payable to the executives of CPSEs was directly linked to the profits of the CPSE and Memorandum of Understanding (MoU) rating achieved by that CPSE. Therefore, it was incorrect to club the profits of both the CPSEs and apply MOU ratings of ONGC for both the CPSEs for payment of PRP. Further, PRP was payable only out of profits and therefore, PRP was not payable to executives of OVL in the year of loss (2015-16).

Thus, incorrect consideration of combined profit of ONGC and ONGC Videsh Limited for working out the PRP admissibility of executives resulted in excess payment of ₹5.55 crore to the executives of OVL during 2010 to 2016.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

9.10 Delay in hiring of low pressure gas compressor resulting in avoidable flaring of gas

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

Associated gas of low pressure (LP) produced by Oil and Natural Gas Corporation Limited (ONGC) along with oil is compressed to increase its pressure and thereby

[27] *ONGC Videsh Limited did not make profit during the year 2015-16. The Loss (Before Tax) for the year 2015-16 was ₹16852. 67 crore. As per DPE instructions, the PRP payable to the executives of CPSEs was directly linked to the profits therefore no PRP was payable to executives of OVL was 'Nil'*

facilitate free flow for its subsequent use. The LP gas which was not compressed was flared. The LP gas produced from Ankleshwar Area-1[28] of ONGC was compressed at Central Tank Farm (CTF) and transmitted to LPG plant for its subsequent sale to GAIL (India) Limited. After extracting Value Added Products at LPG plant of the Asset, approximately 62.66 *per cent*[29] of the quantity of Gas, received at CTF, was sold to GAIL.

The Gas Compression Plant (GCP) of CTF Ankleshwar Area-1 was provided with three LP gas compressors with a total capacity of 3.09 LCMD[30]. Out of the three compressors, one compressor with capacity of 1.17 LCMD suffered major breakdown in July 2014. The damaged compressor had to be dismantled and examined by the representative of Original Equipment Manufacturer (OEM) in order to assess the possibility of repair of its engine. Audit observed that dismantling process commenced only three months after the breakdown of engine, i.e. on 7 October 2014 and examination by the Manufacturer was carried out in December 2014. Since repair of the engine was not found feasible, ONGC, decided to replace the engine and initiated the process (December 2014) for replacement. However, due to delay in the tendering process, the Notification of Award (NOA) could be issued to the OEM, M/s Clarke Energy India Private Limited, after 17 months (May 2016) from the date of decision to replace the engine. The engine was supplied to ONGC on 05 June 2017.

In the meantime, an alternative arrangement should have been in place to compress the associated gas received at the CTF, in order to prevent flaring of entire associated gas produced. This arrangement should have been in place by December 2014, after it was decided to replace the engine. Audit observed that the Company, however, initiated action to hire a compressor only in November 2015. The Company initiated proposal (3 November 2015) for hiring of gas compression facility, with a capacity of one LCMD to compress excess gas at Ankleshwar CTF for a period of one year through Board Purchase[31] 11 months after decision taken to replace the engine. Audit observed that the Letter of Award (LOA) for hiring of compressor was issued on 11 January 2016 and gas compressor was commissioned in March 2016. The Company flared the LP gas till the date of commissioning of the hired compressor.

The quantity of 13471485.82 SCM gas flared, which could have otherwise been sold to GAIL, constituting 62.66 *per cent* of total quantity of 21499339 SCM gas received at CTF during the period from March 2015[32] to March 2016 and was valued at ₹9.83 crore after deducting the cost of hired compressor **(Annexure-XII)**.

The Company stated (October 2017) that:

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[28] ***Ankleshwar Asset of Oil and Natural Gas Corporation Limited spreads in four areas and Ankleshwar area was covered in Area-I***

[29] ***As intimated by the Management, based on the average gas sold during the period from April 2014 to June 2014***

[30] ***Lakh cubic meter per day***

[31] ***Purchase by a board of Officers only in exceptional circumstances when the materials/services/works either required urgently to overcome an exigency or because the indentor is not able to give firmed up/detailed specifications so that procurement cannot be made under the normal procedure***

[32] ***Considering three months for in-house efforts for repairing of engine from July 2014 followed by five months (actual time taken) for hiring & commissioning of compressor by February 2015***

1. The engine of one LP compressor had undergone major breakdown in July 2014 and that several attempts made to repair the engine were not successful. The Company decided on 29 December 2014 to replace one engine which was beyond economic repairs.

2. Although action to replace the damaged engine was initiated in December 2014, the Asset[33] did not initiate action for hiring compressor, as it was expected that a new compressor, planned in Western Onshore Redevelopment Plan[34], could replace the old one. Even if the Asset decided to hire the compressor in December 2014, tender finalisation and mobilisation of compressor through the emergency board hiring method would have taken at least six months and hired compressor could have been put in operation not before May-2015. Therefore, during this period, in all circumstances, flaring of the LP gas produced was unavoidable.

3. Hazira-Motwan gas line feeding lift gas to Area-I installations, which supplies recycled low pressure gas to CTF, was ruptured in April 2015. As a result, limited quantity of LP gas was available for compression at CTF. This resulted in reduced gas flaring at CTF during April-July 2015. Due to this, quantity of LP gas being received at CTF became uncertain till alternate options for running gas lift wells were explored and finally lift gas arrangement was put in place by hiring gas lift compressors at Motwan in August 2015.

While confirming the Management's reply, the Ministry further stated (January 2018) that flaring of gas was due to non-availability of low pressure gas compressor and that the Company had been advised to carry out necessary preventive maintenance and implementation of Standard operating procedures strictly in respect of similar operations in future to ensure gas flaring minimised and also conservation of natural resources.

The Ministry further added that after development of problems in engine-1 on 3 July 2014, all the troubleshooting jobs like inspection (barring of engine, crank shaft) were carried out with in-house available manpower with the help of OEM expert during 3 July 2014 to 24 July 2014. OEM service engineer advised to dismantle the complete engine and on receipt (24 July 2014) of Budgetary Quotation from OEM, the proposal was initiated (25 July 2014) for dismantling of the engine. All immediate possible actions to assess the repairability and restore the engine back in operation without any time delay had been taken by ONGC. Hiring/procurement of new compressor was delayed as the Asset was waiting for board approval of the project of WORP having options of installation of new compressors, which was not considered on later date.

The reply needs to be viewed in the light of the following:

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[33] ***Asset is a producing property (oil producing field) of the Company. In the present case Asset is referred to Ankaleshwar Asset of ONGC***

[34] ***Western Onshore re-development plan was envisaged by ONGC during 2008 for future expansion with respect to future production profile of the Ankleshwar Asset from 2008 to 2028. ONGC had envisaged cumulative incremental gain of oil 2.483MMt and gas 6034MMSCM for the period between 2009-10 and 2024-25; The total capital cost of revamping of surface facilities was estimated to be ₹1222.13 crore and ₹967.50 crore for drilling 75 development wells. However, in view of the low productivity of wells the ONGC Board approved closure of Western Onshore Redevelopment Plan in its 269 meeting held on 28 May 2015***

i) The Company decided on 29 December 2014 to replace one engine of the compressor, which was beyond economic repairs. Considering the longer lead time required for tendering and actual purchase and installation of the Compressor, the Company should have taken prompt action for alternative arrangement to conserve gas by hiring alternative compressor. However the Company initiated action to hire a compressor only in November 2015. Delay in hiring of Compressor even after recognition of need to replace engine, had resulted in flaring of substantial quantity of gas.

ii) Western Onshore Redevelopment Plan was closed on 8 August 2014 and therefore by taking timely action as indicated above, the hired compressor would have been available to the Asset by March 2015, even after considering the time taken for hiring & commissioning of the compressor as stated by the Management. The flaring from March 2015 to March 2016 could thus have been avoided.

iii) The contention of the Management regarding rupturing of Hazira-Motwan gas pipeline as well as idling of compressor due to reduced availability of LP was a subsequent and unforeseen incident which could not be considered while planning. Reduction in the flaring of gas due to rupturing of Hazira-Motwan gas pipeline was already taken into consideration while assessing the quantity and value of gas flared. Further, payment was to be made for actual quantity compressed, as per Letter of Award placed for hiring of gas compressor. Under utilisation of hired compressor due to rupture of pipeline would not, therefore, have caused any additional financial burden on the Asset.

iv) Audit appreciates the action taken by the Ministry to advise the Company to carry out necessary preventive maintenance and implementation of Standard operating procedures strictly in respect of similar operations. Audit also recommends that the Company may assess the need for standby compressor to avoid recurrence of the incidence. The company may also contemplate the option of creating a panel of approved suppliers from whom compressor could be hired without loss of time.

Thus, delay in assessing the repairability of the damaged engine and omission to hire compressor early, resulted in loss of revenue of ₹9.83 crore to the Company, due to avoidable flaring of gas during the period from March 2015 to March 2016.

9.11 Failure to recover the pending cash calls and loss of interest thereon

ONGC was designated as the Operator in respect of 10 blocks in Western Offshore, allotted under various rounds of New Exploration Licensing Policy (NELP) of the Government of India. Joint Venture (JV) partners of these Blocks, were liable to pay to ONGC their respective share of the monthly billing, within fifteen days after receipt of cash call as per Joint Operating Agreement (JOA). Non-payment of cash call would attract interest, as per Article 7.6.1(d) and 7.6.2 of JOA. However, ONGC failed to recover pending cash calls of ₹100.17 crore and interest of ₹92.45 crore thereon from its Joint Venture partners in respect of ten NELP blocks. ONGC had not considered invoking the dispute resolution clause of the Joint Operating Agreement.

Oil and Natural Gas Corporation Limited (ONGC/Company) was designated as the Operator in respect of 10 NELP[35] blocks **(Annexure-XIII)** in Western Offshore[36], allotted under various rounds of New Exploration Licensing Policy (NELP) of the Government of India. A Joint Operating Agreement (JOA) was signed by ONGC and six other Joint Venture partners **(Annexure-XIII** for details of partners and their respective share in JV). As per Clause 3 of Exhibit A of JOA dealing with Accounting Procedures, the Operator was entitled to issue cash call notice reflecting requirement of total cash required to finance operations pursuant to the approved work programme and budget. The other JV partners were required to pay their respective share of the same to the Operator before due date. Further, as per clause 3 (F) Article 1 of the JOA dealing with Accounting Procedure, the other JV partners were liable to pay their respective share of the monthly billing, within fifteen days, after receipt thereof, if the Operator did not request for advance funds. As per Article 7.6.1(d) and 7.6.2 of JOA, non-payment of cash call would attract interest at applicable base rate of State Bank of India plus five *per cent* points. Accordingly, ONGC raised bills each month for cash call from the Joint Venture partners.

Audit observed that there were outstanding dues from the partners, pending from 2004/2007-08 onwards, though clause 3 (F) of Article 1 of the Accounting Procedure of JOA, required payment of the billed amount within 15 days by the other JV partners to ONGC. The Company, however, raised the claim for interest on all the Joint Venture partners only from the Financial Year 2013-14 onwards. The total cash call pending (30 November 2017) from partners including interest was to the extent of ₹192.62 crore (Principal amount of ₹100.17 crore and interest amount to ₹92.45 crore).

Audit further observed that:

1. Gujarat State Petroleum Corporation (GSPC) was a partner in respect of JV for five [37] offshore Blocks. GSPL failed to pay an amount of ₹7.27 crore towards its share of expenditure in these blocks and ₹60.42 crore towards interest on the same (November 2017), although there was no dispute relating to cash calls raised by the Company. ONGC acquired entire 80 *per cent* Participating Interest (PI) of GSPC in another block KG-OSN-2001/3 [38] in the Deen Dayal West field (March 2017) for a consideration of ₹6454.26 crore. The Company, however, did not consider adjustment of the pending cash calls of ₹69.69 crore from the consideration made to GSPC towards the acquisition of the block KG-OSN-2001/3.

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[35] ***New Exploration Licensing Policy (NELP) was formulated by the Government of India, during 1997-98 to provide a level playing field to both Public and Private sector companies in exploration and production of hydrocarbons. Under NELP, blocks were awarded to Indian, private and foreign companies through International Competitive Bidding process. Total 254 Blocks were awarded under nine rounds of NELP during the period from 1999 to 2012***

[36] ***Offshore basins located on the western continental shelf of India between Saurashtra in NNW and Kerala Konkan in the south***

[37] ***KK-DWN-2005/2, MB-OSN-2005/5, MB-OSN-2005/6, MB-OSN-2005/1 and GK-OSN-2009/1.***

[38] ***Block, KG-OSN-2001/3. Was a separate Block, awarded under NELP - III to the Consortium of GSPC(80), GGR(10), JOGPL(10). Operator, Gujarat State Petroleum Corporation Limited ONGC was not partner in the JV , however ONGC acquired (March 2017) entire (80 per cent) share of the GSPC in the Block***

2. The Company was involved in a dispute with the Joint Venture partner Cairn India Limited (CIL) over the cost of excess depth of well, over the depth committed in the Minimum Work Programme (MWP) and over allocation of Main Office Expenses included in the cash calls in respect of block GS-OSN-2003/1 and KK-DWN-2004/1. CIL had withheld an amount of ₹12.25 crore towards share of its expenses in the Block. The interest on the total amount withheld amounted to ₹21.92 crore as of November 2017.Though, the Company had provided (September 2013) the required documents to the finance team of M/s. Cairn, the Joint Venture partner did not pay the outstanding dues, despite clarifications given by the Company to the objections raised by the Partner on the expenses. The Company had proposed (August 2014) to invoke the arbitration clause of the PSC/JOA. However, the same was not pursued.

3. As per Clause 7.7 of JOA, the Company was entitled to issue a written notice of default prohibiting the defaulting Partner to vote on any matter coming before the Operating Committee (OC) in case of continuation of default, for more than 30 days from due date of payment of cash calls. In case the default continued for more than 90 days, a proportion of the PI of defaulting party could be forfeited. Though an amount of ₹192.62 crore was pending from six Joint Venture Partners relating to the ten Blocks, ONGC exercised this right only in respect of unpaid dues of ₹58.66 crore towards cash calls pending since April 2016 and ₹5.77crore towards interest there on by Essar Exploration & Production (Essar) relating to its participating interest in Block MB-OSN-2005/3, by issuing notice for forfeiture (November 2017). Based on the notice, Essar agreed (December 2017) to resolve the issue amicably in an Operating Committee (OC) meeting. No payment was however, received by the Company (31 January 2018), even though Essar agreed in the Operating Committee meeting (December 2017) to resolve the pending cash calls.

4. Article 19 of the JOA provided for resolution of disputes by way of (i) Conciliation by a Joint Experts Committee (ii) Resolution through arbitration and (iii) Resolution of disputes between Government Companies in accordance with guidelines issued by the Government. ONGC, however, did not invoke the above clause in any of the ten blocks.

5. As per Article 12.1 of JOA, payment of interest, applicable as per the provisions of the JOA and as reasonably determined by the operator are required to be made by the partner on delayed payments, before withdrawing from the Joint Operating Agreement. Out of the total 10 blocks, licenses in respect of 6 blocks had already been relinquished and the blocks stood surrendered to the Government of India. As the 6 blocks were surrendered, the chances of recovery of even the principal amount of ₹13.35 crore from the defaulting partners of these blocks was remote.

Total cash calls pending from partners (31 November 2017) including interest was to the extent of ₹192.62 crore (**Annexure-XIII** for Block/ Partner wise details of pending amount).

The Management stated (November 2017) that:

i. Agreement with GSPC for the acquisition of interest of GSPC, in the block KG-OSN-2001/3, did not have any provision for adjustment of dues from any other blocks. However, GSPC paid undisputed cash call of ₹15.19 crore.

ii. In respect of Cairn, the Partners' disputes were being replied with detailed justification given by the Company to the JV partner.

iii. Efforts were being made by the Company to recover the remaining cash call and interest outstanding

The reply needs to be seen in the light of following:

- The dues from Cairn India Limited were pending for recovery for a period of over 10 years due to disputes. Reasons for not initiating legal action to recover the amount were not stated by the Management.

- Company had not taken action under Clause 7.7 of JOA, to forfeit proportion of the PI of any of the defaulting parties.

- Clause 19 of the JOA provides for resolution of disputes by way of (i) Conciliation by a Joint Experts Committee (ii) Resolution through arbitration and (iii) Resolution of disputes between Government Companies in accordance with guidelines issued by the Government. ONGC, however, did not invoke the provisions of the above clause.

The dues outstanding as of November 2017 amounted to ₹100.17 crore. The failure to take timely action for recovery of cash calls has also resulted in loss of interest amounting to ₹92.45 crore. Further, 6 out of 10 NELP blocks were already surrendered to Government of India, thereby rendering the chances of recovery of the balance amount further remote. However, no action for recovery of the pending dues had been initiated under Clause 7.7 or Clause 19 of the Joint Operating Agreement.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

9.12 Wasteful expenditure on an unviable project

ONGC commenced pre-project activities relating to development and evacuation of oil from Block CB-OS-1 and engaged consultant for geotechnical and pre-engineering survey at a total cost of ₹16.60 crore. Subsequently, in an internal review of the Project, the Company noticed the requirement for work-over operations for three wells involving additional operating expenditure of USD 285.60 million which was inadvertently overlooked by the Company while preparing the development plan, prior to engagement of Consultant for Geotechnical[39] survey. Due to this additional cost of work-over operations, the project became financially unviable with negative IRR. Thus, expenditure of ₹16.60 crore (ONGC's share ₹9.17 crore) on Geo technical survey incurred in the Block was rendered wasteful.

The Government of India (GoI) awarded (19 November 1996) the block CB-OS-1 in the Gulf of Cambay for exploration and development to a consortium of Vaalco Energy Inc., Hindustan Oil Exploration Company Limited (HOEC), Tata Petrodyne Limited (TPL) and Oil and Natural Gas Corporation Limited (ONGC) for a period of 25 years, under the 6th exploration round of bidding. The JV had drilled, by 2004, seven exploratory wells in the Block, committed under Phase –I of the Production Sharing Contract. ONGC became the operator of the block in December 2004 when M/s. Hardy Exploration & Production (India) Inc., the operator, decided not to enter Phase –II of the exploration period. Subsequently (February 2008) ONGC acquired additional 30 *per cent* Participating Interest (PI) in the JV and increased its PI to 55.26 *per cent*. The redefined area of the Block constituted D-ridge (656 sq km) and A-ridge (190 sq km) and the exploration phase was 24 months.

The Management Committee (MC) of the Block, approved (17 December 2007) the commerciality of A-ridge[40] and also decided to relinquish D-ridge. The Plan of Development (POD) of A-ridge proposed by ONGC was approved by MC on 27 March 2009. The Plan of Development of the Block required clearance from the Ministry of Environment & Forests (MoEF) since the proposed route for approaching drilling pad was through mangroves. Since the required clearance could not be obtained from MoEF, a revised Plan of Development (RPOD) through offshore option was prepared by the Company based on data collected by the Company up to 1996. The RPOD was approved by MC on 13 June 2014. After approval of RPOD, the Company commenced pre-project activities and awarded the work of geotechnical and pre-engineering survey of the area to M/s COMACOE[41] on 28 March 2015. M/s COMACOE carried out the survey work and submitted their final report in June 2015 for which the Company paid ₹16.60 crore.

In the meanwhile the Company again reviewed (August 2014) the Project internally and observed that the approved RPOD included drilling of three wells which were to be connected to off shore installations for evacuating the produced oil and gas. Further, the wells required installation of Electrical Submersible Pump (ESP) for artificial lift of the

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[39] *Geo Technical Study / survey is carried out for exploring subsurface stratigraphy (in this case up to 130.30 m) below seabed level by soil sampling to evaluate the pertinent engineering properties of the sub surface materials for the purpose of Leg penetration analysis for shallow water jack- up rig and pile capacity analysis for installation of the platform*

[40] *A long, narrow, elevated section of the earth's surface*

[41] *M/s Coastal Marine Construction & Engineering Limited*

oil. Audit observed that though in the approved RPOD, the Company had considered installation of the ESP, cost of two to four 'work-over' operations required to change the ESP periodically, including cost of mobilisation/demobilisation of work-over rig was not considered while carrying out the economic evaluation of the Project. The additional operating expense (OPEX) due to identification of work-over requirements was USD 285.60 million. Audit observed that, the OPEX proposed and approved in the RPOD was only USD 64.22 million. Considering the additional cost of USD 285.60 million required for work-over operations in the area, the net present value (NPV) which was positive figure of USD 44.61 million as estimated by the Company in RPOD proposal turned out to be negative figure of USD 62.31 million.

In view of the meltdown of crude oil prices and consequent adverse economic viability of the project, the Company decided (October 2015) to exit from the project. The proposal was approved by the Director (Onshore) of the Company; however, the Company did not obtain approval of the Board of Directors of the Company. The matter was discussed in the meeting of Operating Committee held on 12 January 2016 when it was decided to refer the issue of unviable techno economic scenario to MC for deliberations. Accordingly, a request letter was sent (04 July 2016) to Director General Hydrocarbons (DGH) for informing the MC of the adverse techno-economics of the Block. Since the DGH did not convene the MC meeting, the Company intimated (March 2017) the DGH that it was considering exit from the Block.

DGH advised the Company (June/August 2017) to relinquish the Block by 31 August 2017, since the development of Gulf A could not commence due to lack of financial commitment, and thereby enable Government of India to take further action. DGH sent (5 September 2017) a proposal to MoP&NG, for termination of the PSC for the block CB-OS-1-Gulf A, due to failure of the Operator to prepare and implement work program as well as to submit Work Program & Budget for the year 2016-17 and 2017-18. Accordingly, MoP&NG advised (31 October 2017) the Company to show cause within 90 days as to why the PSC should not be terminated by the Government of India under Article 30.2 (g) of the Contract for breach of the terms of contract, failing which the Government of India would take necessary action as per the provisions of the PSC without any further reference to the Company. Details of action taken by MoP&NG was awaited (January 2018).

Audit observed that while assessing the economic viability of the project, the requirement of work-over and the consequent additional operating cost of USD 285.60 million for the Block was overlooked by the Company. Thus, the project economics proposed by the Company and considered by MC while approving RPOD were flawed due to incorrect projection of OPEX. If the Company had assessed the OPEX correctly, the development of the Block would have been unviable; and there would be no necessity for awarding the consultancy for geotechnical and pre-engineering survey of the area. Thus failure to include the work-over requirement at the time of submission of RPOD, led to an avoidable expenditure of ₹16.60 crore (ONGC's share: ₹9.17 crore) on geotechnical survey and pre-engineering survey work in the CB-OS-1 Block.

The Management in its reply (November 2017) stated that:

i. RPOD was prepared based on the historical data collected by the Company 18-19 year ago up to 1996. Therefore, in the Management Committee Meeting held on 13 June 2014 to approve the RPOD, DGH had recommended that the contractor should generate PVT, SCAL and Well Test data since no new/additional data had been provided. Subsequently, in a meeting held on 29 December 2014 the JV partner also stated that Operator should immediately go ahead with the pre-project requisites which were already part of approved RPOD. Pre-project development activities were also approved in the Work Program for 2014-15 and 2015-16 by Management Committee on 20 March 2015.

ii. When the approved RPOD was reviewed internally by ONGC it was found that it had certain shortcomings and the results indicated were not very correct, which was informed by the Company to DGH vide letter dated 29 July 2015.

iii. The Company in its letter of 29 July 2015 to DGH also categorically stated two options. The first option of the Company was that at least 2 to 3 work-over jobs would be required every year for 3 weeks necessitating hiring of the shallow water rig. The second option proposed by the Company was that an island of about half a kilometer long and 100 metres wide to be constructed at the site wherein drilling can be taken up by any on land rig of ONGC. The second option was be more expensive by about USD 28 million in the CAPEX and was non-viable.

The reply of the Management needs to be seen in light of the following:

1. The RPOD submitted by ONGC for approval of MC on 13 June 2014 itself was flawed as the cost of USD 285.60 million for work-over jobs was not considered therein. Had the estimate for RPOD been worked out correctly after considering the workover cost, the project was not economically viable *ab-initio* and the RPOD as well as related work programme involving pre-project development activities would not have been approved by MC.

2. The Company accepted Project proposals only if the projected Internal Rate of the Project was equal to or more than 14 *per cent*. However, after considering the work-over operations cost, the IRR for development of the CB-OS-1 was negative with a Net Present Value of USD (-) 62.13 million in case of first option. The Second option proposed by the Company was more expensive by USD 16 million. Thus both of the options given by the Company in its letter dated 29 July 2015 to DGH for development of CB-OS-1 block were non-viable. Breakeven level of Option –I and Option –II would be achieved only at crude price of USD 83.58 and USD 91.56 per barrel respectively.

3. The issue was again brought to the notice of DGH in February 2017 who stated that the estimate towards mobilisation/ demobilisation at the rate of USD 12 million and work-over cost of USD 0.16 million /day for three wells were inadvertently missed out.

Thus, omission by the Company to include work-over cost for the 3 wells in the RPOD resulted in a wasteful expenditure of ₹9.17 crore on an unviable project.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

ONGC Petro additions Limited

9.13 Avoidable payment of rent for unutilised facility

Delay in execution of LPG Pipeline project resulted in avoidable payment of ₹22.91 crore by ONGC Petro additions Limited (OPaL) to Gujarat Chemical Port Terminal Company Limited (GCPTCL), towards rental for unutilised LPG receipt and storage facility at Dahej during the period from December 2015 to April 2017.

A Petrochemical complex, to be set up at Dahej, by ONGC Petro additions Limited (OPaL), was designed to operate on Ethane (C2), Propane (C3) and Butane (C4) feed from extraction plant of ONGC at Dahej. Engineers India Limited (EIL) was appointed (2009) as Project Management Consultant (PMC) for construction of the plant.

OPaL had entered into arrangements with ONGC, for supply of C2, C3 and C4 for its Petrochemical plant. As per the original plan, the gaseous feed stock of C2, C3, C4 was to be received from the extraction plant of ONGC, located at Special Economic Zone, Dahej. However, the volume of C2, C3 and C4 expected to be received from the Dahej facility of ONGC was sufficient for operation of the Petrochemical complex of OPaL at 76 *per cent* of the designed capacity only. Since, continuous operation of OPaL plant, required uninterrupted supply of feed, OPaL planned (October 2014) an alternative arrangement for supply of feed, through sea route. This arrangement required a storage facility at Dahej port as well as a dedicated pipeline to transport the feed to the Petrochemical complex from the storage facility at Dahej.

OPaL entered into an agreement (December 2014) with Gujarat Chemical Port Terminal Company Limited (GCPTCL) for storage facility at Dahej at an annual throughput charges of ₹1300 per Metric Ton (MT) for actual throughput or Minimum Guarantee Throughput (MGT) per month, whichever was higher, payable with effect from (w.e.f.) June 2015[42]. The charges for MGT, for the year 2015-16, were fixed at ₹210 per KTA[43] and at ₹270 per KTA for the years 2016-17 and 2017-18. Subsequently (February 2016), OPaL learned that, Bharat Petroleum Corporation Limited (BPCL) was also using the GCPTCL facility from April 2015 onwards and requested GCPTCL to reduce the MGT charges. GCPTCL agreed to the request and reduced the MGT charges from ₹270 KTA to ₹110 *per* KTA w.e.f. June 2016.

OPaL also decided (October 2014) to award to EIL, the work of design, engineering and project management consultancy for transportation of feed through pipeline from GCPTCL to OPaL, since, they were also the Project Management Consultant for the OPaL Petrochemical complex, being set up at Dahej. The laying of pipeline was scheduled to be completed by June 2015. Though the Company approved the proposal for award of additional work to EIL, a separate Change Order to the agreement, signed earlier with EIL for project management consultancy of the Petrochemical Complex, was not

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[42] ***However, due to non-laying of pipeline, no invoice was raised by GCPTCL till December 2015***
[43] ***Kilo Ton per Annum***

issued by the Company. Resultantly, EIL stopped (September 2016) activities relating to the project for transportation of feed, after partial completion of work, due to payments kept pending for want of requisite change orders. In a meeting with OPaL (28 September 2016), EIL agreed to complete the pending work, if payment for the LPG project was ensured and submitted budgetary quotations for the work. Based on the budgetary quotation received from EIL in October 2016, administrative sanction and financial concurrence of competent authority for an amount of ₹1.49 crore was obtained and notice inviting tender (NIT) for hiring EIL as a consultant on nomination basis was issued during June 2017. In response to the NIT, EIL sent (03 July 2017) its proposal of ₹7.91 crore (₹3.78 crore for Head office services *plus* ₹4.13 crore for site supervision charges) against the earlier estimate of ₹1.49 crore. EIL intimated that proposal of ₹7.91 crore was inclusive of site supervision charges whereas earlier estimate was only for Head office services. During negotiations, EIL reduced its head office charges from ₹3.78 crore to ₹3.15 crore and agreed to charge site supervision charges as per actual manpower deployed on requirement basis as per the PMC rates to be mutually agreed at a later date. After the agreement, a Change Order, for hiring EIL as the consultant on nomination basis, was issued in August 2017.

The Company foreclosed the agreement with GCPTCL w.e.f. May 2017, in order to avoid payment for unutilised storage facility. However, the storage facility hired from GCPTCL remained idle during the period from December, 2015[44] to April 2017. GCPTCL raised invoices on the Company, for MGT charges for this period. OPaL made the payment (April/July 2017) of ₹22.91 crore to M/s GCPTCL towards the rental charges of LPG storage facility, for the period from December, 2015 to April 2017. Delay in issue of change order to PMC agreement for construction of the Plant, resulted in consequent delay in laying of the pipeline and payment of ₹22.91 crore as rental charges for storage facility availed from GCPTCL.

The Management while admitting the payment to GCPTCL stated (July 2017/ September 2017) that:

1. EIL was the Project Management Consultant for the Petrochemical complex (appointed during 2009), to be set up at Dahej. The work of laying pipeline from the storage facility to OPaL unit was not in the original scope of work awarded to EIL. OPaL had to issue change order/purchase order for this work. This requirement was noticed at a later stage by EIL and they stopped the work on LPG pipeline project. The issue with EIL was resolved in September 2016 by issue of a separate Purchase Order. The original plan to lay LPG pipeline was, therefore, deferred on account of constraints from the consultant's side. However, as per revised schedule, it was envisaged that LPG pipeline work would be completed by 1 April 2018.

2. Total payment of ₹22.91 crore had been made (April/July 2017) towards rental for the invoices received up to April 2017. In the meeting held on 11 April 2017 an amicable solution was arrived at and apart from payments already made, the

[44] ***Though the charges were payable w.e.f. June 2015, no invoice was raised by GCPTCL till December 2015, due to non-laying of pipeline***

balance amount of ₹63 lakh[45] only was to be paid to GCPTCL. In order to avoid payment of unutilised facility of LPG storage, OPaL had foreclosed the LPG agreement with GCPTCL with effect from 1 May 2017 and that invoices were not generated for the period from 01 May 2017 onwards.

The Management's reply is to be viewed in light of the following:

1. The change order was issued only in August 2017 and not in September 2016 as stated in the reply. In September 2016 a meeting was held between OPaL and EIL, wherein EIL agreed to complete pending documents/job if payment for the LPG project was ensured and it was decided in the said meeting to issue separate Purchase Order (PO) to EIL for the LPG pipeline work on nomination basis. However, due to delays at various stages of release of Purchase requisition, as well as of Tendering process, the said PO/Change order was actually issued in August 2017 i.e. eleven months after the meeting.

2. The consultant (EIL), had commenced data collection, basic engineering and tender preparation work for pipeline in view of approval (October 2014) of Board of Directors of OPaL. However, no formal 'change order/purchase order' for inclusion of PMC job of LPG transportation facilities in the scope of work of the already existing PMC contract with EIL was issued by OPaL. Resultantly, after partial work EIL team stopped all LPG pipeline project related activities. Hence, the delay was on the part of OPaL and not EIL.

Thus, hiring the storage facility for feed (C2, C3, C4) before planning for laying of transportation as well as issue of change order to the consultant resulted in avoidable rental payment of ₹22.91 crore towards unutilised LPG receipt, storage and transfer facility at GCPTCL

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

[45] ***The balance payment of ₹63 lakh was made by the Company to GCPTCL on 4 July 2017***

CHAPTER X: MINISTRY OF POWER

NTPC Limited

10.1 Loss due to disallowance of Capital Expenditure

Non-procurement of initial spares within the cut-off date coupled with not exercising regulatory recourse against delayed supply led to disallowance of capital expenditure of ₹17.03 crore.

As per Tariff Regulations 2004, capital expenditure actually incurred after the date of commercial operation and up to the cut-off[1] date, on procurement of initial spares as per the original scope of work was allowed for capitalisation. NTPC Limited (NTPC) set up Stage-III (one unit of 210 MW) of Feroze Gandhi Unchahar Thermal Power Station, the commercial operation of which was declared on 01 January 2007. In line with the tariff regulations, the cut-off date for capitalisation against this project was 31 March 2008. Initial spares, if procured, by 31 March 2008 would have been eligible for capitalisation.

Audit noticed that NTPC procured the initial spares valuing ₹17.03 crore late, during 2009-10 and 2011-12 and claimed capitalisation of the same in the tariff petition filed before Central Electricity Regulatory Commission (CERC) for the period 2009-2014. CERC disallowed (May 2012) the capitalisation as the expenditure was incurred after the cut-off date. CERC also noted that NTPC failed to initiate pro-active steps to complete the procurement of spares within the cut-off date. A review petition filed by NTPC in this regard was also disposed (April 2013) by CERC on similar grounds. Subsequently, NTPC filed an appeal before Appellate Tribunal for Electricity (ATE), which upheld (April 2014) the decision of CERC. ATE observed that when it was known that the spares could not be delivered before the cut-off date, NTPC could have moved an application before CERC under Regulation 13[2] of Tariff Regulations 2004 for extension of the cut-off date, which was not done.

The Management stated (March 2017) that the order for spares was placed on 15 June 2007, much before the cut-off date and supplies were expedited by visits of NTPC executives, but delay was on account of BHEL.

The reply is not acceptable. Though NTPC was aware that all works covered in the original scope were to be completed before the cut-off date, the order for initial spares was placed after commercial operation of the generation unit with a delivery schedule beyond the cut-off date. Therefore, it was known at the time of placing the order that the supplies would not be made by BHEL before cut-off date. NTPC also failed to exercise regulatory recourse against such delay by filing separate application before CERC for extension of the cut-off date in line with Tariff Regulations 2004.

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[1] ***Cut-off date means the date of first financial year closing after one year of the date of commercial operation of the generating station***

[2] ***Regulation 13 - Power to Relax: The Commission, for reasons to be recorded in writing, may vary any of the provisions of these regulations on its own motion or on an application made before it by an interested person***

Thus, failure of NTPC to procure initial spares covered in the original scope within the cut-off date coupled with not exercising regulatory recourse against delayed supply in line with Tariff Regulations 2004 led to disallowance of capital expenditure of ₹17.03 crore.

The matter was referred to the Ministry in September 2017; their reply was awaited (February 2018).

NTPC-SAIL Power Company Private Limited

10.2 Extra expenditure on water by NSPCL, Bhilai

NTPC-SAIL Power Company Private Limited incurred extra expenditure of ₹11.42 crore between June 2013 and March 2017 due to its failure to re-assess the requirement of water for Bhilai Expansion Project (PP-III) and take steps to reduce the contracted quantity of water with Government of Chattisgarh.

NTPC-SAIL Power Company Private Limited (NSPCL or Company) requested Water Resources Department (WRD), Government of Chhattisgarh (GoC) for allotment of 0.6 TMC[3] (17 million cum) water per annum for the Bhilai Expansion Project (PP-III, 2 x 250 MW power plant). An agreement was entered into between NSPCL and GoC (7 August 2008) for drawing 1415840 cum[4] of water per month from Tandula Water Resources for a period of thirty years from the date of signing of the agreement. As per clause 2 of the agreement, NSPCL was required to pay for at least 90 *per cent* (15.29 million cum[5]) of the contracted quantity of water, even if the actual quantity drawn was lower.

Audit observed that:

i. Commercial operation of the plant started in 2009-10. The average water consumption was 70.5 *per cent* of the contracted quantity during the period 2010-11 to 2016-17. In fact, in 2016-17, there was a steep decline in water consumption from 11.97 million cum in 2015-16 to 10.60 million cum, which the Management attributed to its special drive to save water resources. NSPCL, however, paid water charges for 90 *per cent* of the contracted quantity for the entire period.

ii. Coal and water are key input requirements for thermal power generation. Coal is required to raise steam in boilers which turns the turbine. Requirement of additional water would depend upon additional coal availability. The Standing Linkage Committee (SLC) of Ministry of Coal, for Power, Cement and Sponge Iron, in their meeting held on 31 May 2013, decided that fresh applications for coal linkages from power sector would be kept in abeyance for a period of two years in view of the huge gap in supply and demand of coal. With chances of additional coal linkages remote, the utilisation of excess contracted water for alternate use was also unlikely.

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[3] *1TMC = One thousand million cubic feet = 28,316,846.59 cubic metre (cum). Thus, 0.6 TMC = 16.99 million cum*

[4] *Monthly requirement: 16.99 million cum/12 = 1415840 cum*

[5] *90 per cent of annual contracted quantity of 16.99 million cum = 15.29 million cum*

Audit noticed that in the first three years of operation (2010-11 to 2012-13), the average consumption of water was 75 *per cent* of the contracted quantity (12.75 million cum). Considering the lower water consumption trend, the Company ought to have revised the contract with GoC to avoid extra expenditure on contracted water not consumed. Audit worked out the excess expenditure of the contracted water over June 2013 to March 2017 (allowing first three years for the company to notice the water consumption trend), as detailed in table below:

Year	Water drawn by NSPCL (cum)	90 % of reduced water quantity of 14.2 million cum[6] (cum)	90 % of actual water quantity of 17 million cum on which payments were made (cum)	Excess quantity for which payment made (cum)	Rate of water (₹per cum)	Excess Amount paid due to non-revision of allowable quantity (₹)
1	2	3	4	5 (4-3)	6	7(6x5)
June 2013 to March 2014	9227892	10650000	12742569	2092569	10.65	22285860
April 2014	1133901	1065000	1274257	209257	10.65	2228586
May 2014 to March 2015	10499047	11715000	14016826	2301826	12.25	28197370
2015-16	11976600	12780000	15291083	2511083	12.25	30760767
2016-17	10604636	12780000	15291083	2511083	12.25	30760767
Total						**114233350**

Thus, over June 2013 to March 2017, the Company incurred excess expenditure of ₹11.42 crore on water. With periodic revision in water charges, the excess expenditure incurred by the Company would increase in future, unless the contracted quantity of water is rationalised.

The Management stated (October 2017) that in view of its plan to install two 660 MW plants at Bhilai during FY 2024 & FY 2025, the requirement of water shall increase considerably and therefore, it shall not be prudent to surrender the contracted water quantity as it shall be impossible to get it back during the expansion.

The reply of the Management is not tenable in view of the following:

(i) The proposed plan to install two 660 MW units at Bhilai is at a very nascent stage. Only preliminary discussions (May 2017) have been held with Bhilai Steel Plant management and even consent of Steel Authority of India Limited (SAIL) to take up a detailed study for preparation of feasibility report has not yet been obtained (December 2017). Even if SAIL's consent is received, it would take another eight years[7] since such date, as per the Company's own assessment, to commission the power plant. Thus, NSPCL would continue to pay excess water charges for the next 8-9 years which at the current rates would be ₹24 crore.

[6] ***If the average consumption (12.75 million cum) was fixed as the minimum contracted drawal by NSPCL, the contracted water quantity would be reduced to 14.2 million cum***

[7] ***including 2-3 years' time for preparation of Feasibility Report, tie up of inputs and in obtaining the clearances and five years from the date of main plant order for commissioning of power plants***

(ii) Useable surface water in Chhattisgarh state is 41,720 million cum, out of which only 18,249 million cum of water is being used. Thus, more than 20,000 million cum are potentially available for future use. Estimated ground water in the state is 14,548 million cum and presently, only 18.31 *per cent* has been explored. Besides, GoC has been consistently ranked fourth among 36 States and UTs in the country (2015 and 2016) for Ease of Doing Business[8] and has established a single window clearance for online application and approval of requirements including *inter alia*, water requirements. Therefore, the apprehension of NSPCL that they would not regain the surrendered water quantity in future is not supported by evidence.

Thus, NSPCL incurred extra expenditure of ₹11.42 crore during June 2013 to March 2017 on account of its failure to re-assess its requirement of water for Bhilai Expansion Project (PP-III) and take steps to reduce the contracted quantity of water with Government of Chattisgarh. With periodic revision in water charges, the excess expenditure incurred by the Company would increase in future.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

Power Grid Corporation of India Limited

10.3 Performance of Telecom Business

10.3.1 Introduction

Power Grid Corporation of India Limited (Company) is the largest electric power transmission utility of the country. The Company had laid optical fiber cables on its power transmission lines since 1996 to track real-time data for Load Dispatch and Communication purposes for monitoring the power transmission system. This was done by replacing one of the earth wires in the transmission lines with a special cable known as Optical Ground Wire (OPGW) which serves the purpose of earth wire as well as optical fiber. Thus, electricity is transmitted through the overhead metal wires while real-time data from sub-stations etc. is transmitted electronically through OPGW strung alongside the metal wires. The OPGW had 24 fibers[9] out of which six fibers are required for load despatch functions while the balance fibers are available for transmission of data.

Sensing business potential in data transmission through the spare fibers in OPGW, the Company diversified into telecom business in October 1998. The backbone telecommunication network[10] is built by installing the necessary equipment (routers, transponders, repeaters etc.) along the fiber route. As of September 2017, the Company has installed about 41988 km of telecom network and provided connectivity to about 595 POPs (Point of Presence) including all metros, major cities and towns, remote areas of North East Region (NER) and Jammu and Kashmir.

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[8] *in an assessment made by the Department of Industrial Policy and Promotion, Government of India in partnership with the World Bank Group*

[9] *Optical wires have 6, 12, 24, 48 or 96 fibers and the company generally installed optical wires having 24 fibers*

[10] *A network backbone is the core infrastructure of a network that connects several major network components together*

The telecom business of the Company involves leasing of 'bandwidth[11]', which essentially means the grant of access of specified optical width of its telecom network to customers, between specific end points for the agreed time period. The unit of measurement of bandwidth is Mbps and Gbps (mega/million bits per second and Giga/billion bits per second). Higher the bandwidth purchased, higher would be the speed of data transmission. Cumulatively, the Company has created a bandwidth of 11660 Gbps along the various fiber routes out of which 8380 Gbps is in use, *i.e.,* leased to various customers.

10.3.2 Organisation setup

Telecom Division of the Company is headed by Chief Operating Officer (Telecom) (COO). The National Telecom Control Centre (NTCC) at Delhi functioning under the Telecom Division provides round the clock network management including link monitoring, customer complaint resolution and provision/termination of the links. Four Regional Telecom Control Centres (RTCCs) at Delhi, Kolkata, Mumbai and Bengaluru also function under this Division. To advise the Company about emerging business challenges, strategic decisions etc. in the telecom sector, a Telecom Advisory Board comprising six eminent personnel from the field of telecom had been constituted (July 2010).

10.3.3 Audit objectives and scope

The audit objectives were to assess whether (i) pricing methodology was consistent, transparent and in line with market conditions and (ii) the operations of telecom business was carried out efficiently. Audit covered the activities of the Telecom Division from 2012-13 to 2016-17.

10.3.4 Audit criteria

The criteria used for audit included: (i) Tariff orders issued by Telecom Regulatory Authority of India (TRAI), (ii) Marketing policy and delegation of powers, (iii) Agenda and minutes of meetings of Board of Directors, (iv) Agenda and minutes of meetings of Telecom Advisory Board and (v) MOU/internal targets.

10.3.5 Diversification into Telecom Business

Audit appreciates the use of power transmission lines to provide the infrastructure for setting up a high grade long distance telecommunication network. Diversification into telecom business provided a new revenue stream and scope for value creation. Audit noted that apart from a new source of revenue, the telecom business provided an opportunity for the Company to be associated with Digital India initiatives of Government of India such as National Knowledge Network (which provided connectivity to Educational and Research Institutions in the country) and National Optical Fiber network (which provided connectivity to Gram Panchayats). While the diversification into telecom business was commendable, Audit has analysed whether the Company had taken adequate steps for improving profitability of the telecom business.

[11] Bandwidth is defined as the amount of data that can be transmitted in a fixed amount of time. For digital devices, the bandwidth is usually expressed in bits per second (bps) or bytes per second

10.3.6 Audit findings

10.3.6.1 Operations of Telecom Division

The Company has acquired three licenses, *viz*., Infrastructure Provider Category-I (IP-I) license in November 2002, Internet Service Provider (ISP) Category-A license in May 2003 and National Long Distance (NLD) license in July 2006. The NLD and ISP licenses were subsequently converted into a unified licence in May 2017. The following table gives details financial performance of telecom division for the period from 2012-13 to 2016-17.

Performance of Telecom Division during 2012-13 to 2016-17

Year	Revenue				Total	Expenditure	Profit
	IP-I	ISP	NLD	Others			
	(₹ crore)						
2012-13	10.31	1.36	227.06	5.18	243.91	156.68	87.23
2013-14	8.63	1.68	268.41	9.61	288.33	194.83	93.50
2014-15	8.43	2.78	272.48	17.71	301.40	237.61	63.79
2015-16	8.28	2.09	391.28	34.89	436.54	273.33	163.21
2016-17	9.02	15.38	507.21	29.41	561.02	303.84	257.18

From the above table, it is seen that the profit of the telecom business of PGCIL has been on a rising trend since 2015-16. It was seen that the Feasibility Report (April 2000) had envisaged that the business would become cash positive in 2005/2006 and payback would be achieved in 2007. Though telecom business of the Company started earning profits 2009-10 onwards, payback is yet to be achieved.

The bulk of the revenue (90 *per cent* to 93 *per cent*) was derived from the NLD license with the Company not having exploited the full potential of IP-I (including tower business) and ISP. Even though NLD license was the prime component, its market share ranged from 0.84 *per cent* to 1.37 *per cent*, much lower than the anticipated market share of 7.20 *per cent*.

Audit also noticed that there were gaps in the transmission network of the Company. The Company has leased fibers from 16 State Transmission Companies (Transcos) to fill these gaps while leasing arrangements were still under discussion with eight State Transcos. In case of existing network also, there were some routes[12] where the available capacity has already been depleted.

The Management replied (November 2017) that:

- Major Telecom Service Providers (TSP) have rolled out their own telecom backbone networks and were sharing their networks amongst themselves, which has led to reduced potential market for neutral players.

- Attempts to lease tower space did not receive adequate response due to changed market conditions.

[12] ***Delhi-Chennai, Kolkata-Chennai and Delhi-Mumbai***

- Efforts to maintain a good share of the available market through better quality services and continuous addition of new customers is ongoing.

- The company had endeavoured to lease fibers from State Utilities wherever network demands could not be met but finalisation of lease agreements with the state utilities was time consuming.

- The orders received so far have been executed without any capacity constraints and up-gradation of network was planned to cater to future requirements.

- The delay in payback of initial investment was due to delayed network roll out due to clearance issues, pricing pressure due to entry of competitors and steep fall in bandwidth prices. If the cash flows alone were considered, ignoring depreciation, the business turned cash positive in 2015-16.

Even considering the Management response, the Company needs to strengthen its marketing efforts to achieve higher market share and ensure that gaps in its network connectivity are addressed which would help in achieving increased revenue and profitability.

10.3.6.2 Pricing methodology

A. Multiplication factor for scaling of tariff for higher capacities

TRAI notified (April 2005) Telecommunication Tariff Order stipulating the maximum prices up to the capacity of STM-1 (155 Mbps)[13] in the Domestic Leased Circuit segment. Based on this, the Company carried out an exercise (May 2012) to set the prices for various bandwidth capacities. It was decided to standardise a multiplication factor[14] for scaling up the price from STM-1. To arrive at the multiplication factor, the Company was guided by the TRAI Consultation Paper dated 22 June 2004 on 'Revision of Ceiling Tariff for Domestic Leased Circuits', which stated that for every successive increase in capacity, price roughly doubles while the capacity quadruples. Endorsing this view, telecom consultant of the Company, M/s KPMG, also suggested (February 2011) price multiples in the range of 2.2 to 2.6 for quadrupling of capacity. The Company chose a multiplication factor of 2.5 (May 2012) for arriving at the bandwidth prices. The prices arrived at by applying the multiplication factor forms the basis for offers to various customers.

In July 2014, TRAI adopted a multiplication factor of 2.6 to arrive at the ceiling tariff (TRAI notification of 14 July 2014). Audit observed that the Company did not review its multiplication factor of 2.5 in light of the TRAI notification. It was also noticed that the tariff notification had mentioned that the multiplication factor adopted by various TSPs ranged between 2.5 and 3.1 and most of the TSPs used multiplication factor of about 2.6 for the bandwidth tariff. The multiplication factor for the Company, thus, had been lower than the market and continued to be lower than the multiplication factor adopted by

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[13] ***Synchronous Transport Module level-1***

[14] ***Multiplication factor is the number with which the tariff for bandwidth capacity of STM-1 is multiplied to arrive at the tariff for successive higher capacities***

TRAI. The Company also allows discounts on the offer prices for bandwidths arrived at by applying the multiplication factor.

Audit worked out the prices for bandwidths offered during April 2015 to March 2017 considering a multiplication factor of 2.6 and allowing for a discount of 90 *per cent* (discounts up to 90 *per cent* could be allowed as per the Delegation of Power[15]) and found that the Company could have increased its revenue by ₹67.87 crore (approx.) from links provided during April 2015 to March 2017 if it had revised the multiplication factor from 2.5 to 2.6.

The Management stated (November 2017) that the multiplication factors used were only for arriving at ceiling tariffs on which discounts were applied to match market prices to secure business. If the Company had to revise the multiplying factor upwards for higher capacities, then in order to meet the market prices, higher discounts would have to be offered to match the prevailing market prices as the customers are not going to increase their existing pay-out but were always on lookouts for further reductions.

The reply is not acceptable. Audit has considered an overall discount of 90 *per cent* while working out the loss to the Company. It is pertinent to note that discounts of 90 *per cent* were rare in the Company. During 2016-17, in 92 cases, discounts between 85 *per cent* and 89.47 *per cent* was offered in only three cases while the Company did not offer any discount in 8 cases with the balance discounts varying between 6 *per cent* and 85 *per cent.*

B. Incorrect application of multiplication factor

The Company received an enquiry from M/s Vodafone Mobile Services Limited, Mumbai (Vodafone) for six links of 10 Gbps each (i.e., 2x10 Gbps each on three routes) and submitted (March 2016) its offer quoting ₹25.71 crore with 4 *per cent* annual maintenance changes. After negotiation, the Company submitted its final quote of ₹22 crore (May 2016) with the contract value of ₹35.20 crore.

Audit noticed that the Company has applied incorrect multiplication factor for calculating the quoted price. As per the approved pricing multiples, a link of 10 Gbps is required to be multiplied with a factor of 11.66 for each link of 10 Gbps (6x11.66) whereas the Company applied a multiplication factor of 16.60 (3x16.60) considering 3 links of 20 Gbps. If the correct multiplication factor had been applied, the contract price would have been ₹49.45 crore.

On identifying (February 2017) the error, the Company reworked the price calculations. Since the contract had already been finalised at ₹35.20 crore, the Company had to offer a higher discount of 86.313 *per cent* (as against 80.771 *per cent* earlier) to maintain the contract value at ₹35.20 crore.

The Management stated (November 2017) that the error in multiplication factor was inadvertent and application of correct multiplication factor would not have changed the

[15] ***Assistant Generation Manager–up to 30 per cent ; Deputy General Manager–up to 40 per cent ; Additional General Manager–up to 50 per cent ; General Manager–up to 65 per cent ; Chief Operating Officer–up to 85 per cent; Director in Charge– up to 90 per cent and Chairman and Managing Director– full power***

deal value as the prices were finalised after due negotiations. The deal value was finalised as a lump sum amount and multiplication factors and discounts are used for taking internal approvals.

Though a final lump sum amount was agreed to after negotiations, the justification for the price was derived benchmarking it against a base price. Since the base price itself was incorrectly applied, the Company had no option but to offer a higher discount.

C. Long term connectivity to customers

The Company entered into long term contracts where the customers were granted indefeasible right to use (IRU)[16] the optical bandwidth capacity. The details of such IRU contracts, which are currently (March 2017) in force, are given below:

Details of IRU Contracts entered into by the Company

Sl. No.	Name of customer	Links contracted			Period of contract (Years)	Date of agreement/ Purchase order	Contract value (₹crore)
		Total capacity	Individual link capacity	No. of links			
1	Bharti Airtel Limited (Airtel)	STM-16 (2.5 Gbps)	Network in the NE Region	NA	15	02.04.2007	70.91
			Network in J & K region (including links from Pathankot in Punjab)	NA	15	01.10.2007	45.18
2	Reliance Jio Infocomm Limited (Reliance Jio)	393 Gbps	100 Gbps	3	20	07.08.2014	216.45
			10 Gbps	9			
			1 Gbps	3			
		104 Gbps	10 Gbps	10	20	27.03.2015	241.09
			1 Gbps	4			
		1 Gbps	1 Gbps	1	20	30.11.2015	5.73
		100 Gbps	10 Gbps	10	20	22.09.2016	237.34
3	Vodafone Mobile Services Limited (Vodafone)	60 Gbps	10 Gbps	6	15	15.03.2016	35.20
4	Mahataa information India Private Limited (Google)	100 Gbps	10 Gbps	10	10	02.09.2015	42.28
		60 Gbps	10 Gbps	6	10	22.05.2014	26.28
Total							**920.46**

All the above contracts were entered into on negotiation basis. The contract price had two components, viz., upfront fee collected as a lump sum amount upon provisioning of the

[16] ***Indefeasible Right to Use or IRU means the exclusive, irrevocable, indefeasible and unrestricted right of use in the relevant optical bandwidth capacity and/or upgrades respectively, each for duration of the relevant IRU term subject to payment of IRU fee (unless terminated earlier under certain laid down circumstances)***

links and annual maintenance charges (AMC) calculated as a percentage of the upfront fee, payable by the customer annually.

C.1 Different methods for arriving at contract value

Audit noticed that the Company does not have pricing policy/ guidelines for IRU contracts and was inconsistent in working out the annual charges across different contracts.

- In the case of Airtel, the annual charges for each contract year were arrived at by successively enhancing the discount rate by two *per cent* (on TRAI tariff). The total contract value was arrived at by working out the net present value (NPV) of the sum of annual revenues over 15 years (the contract period), using a discount factor of 10 *per cent*.

- In the case of Reliance Jio, Vodafone and Google, however, the annual charges were multiplied by 3.5 to arrive at the total contract value, though the contract period varied widely across the three contracts (20 years in Reliance Jio, 15 years in Vodafone and 10 years in Google).

Audit worked out the contract value in case of Reliance Jio, Vodafone and Google using the same methodology applied in case of Airtel. It was seen that the contract revenue may have been higher by ₹317.36 crore in case of Reliance Jio, Vodafone and Google if uniform pricing methodology was followed. It was also noticed that in the case of Reliance Jio, the same multiplication factor of 3.5 was adopted for 23 links in NE Region and J&K, though the Company had fewer competitors in these regions and could have obtained a better price.

The Management stated (November 2017) that the Company has adopted the pricing strategy in line with market practice with all its customers in a particular period and has not discriminately adopted for any one or few customers. Yearly additional discount of 2 *per cent* used by Audit, uniformly in all the cases, was on the lower side since ceiling tariffs were reduced in the Telecom Tariff Order 2014 (TTO) *vis-à-vis* TTO 2005. The deals had better NPVs, if successive additional discount is taken as 6 *per cent*, instead of 2 *per cent* considered by Audit, taking into account the fall in prices as per the TTOs.

The reply is not acceptable. Audit noticed that the change in pricing methodology had not been recorded in the documents seeking pricing approvals. Regarding application of 6 *per cent* successive additional discount, Audit noticed that when the Airtel contract was finalised in 2007, the Company had two TTOs for price comparison (TTO 1999 and 2005). The fall in prices for STM-1 was 88 *per cent* in the two TTOs. Yet, the Company allowed a yearly successive discount of 2 *per cent* only while working out the bandwidth charges for 15 years for Airtel. The fall in prices between TTO 2005 and TTO 2014 was 57.8 *per cent* and hence applying 2 *per cent* additional discount every year appears to be justified. The Management did not reply to the observation regarding the NER/J&K links.

C.2 Non-levy/ short levy of Annual maintenance charges (AMC)

Audit noticed that AMC was not levied in the case of Airtel. In the remaining cases, AMC of 4 *per cent* to 4.3 *per cent* was levied, which was lower than the repair and maintenance cost of 7 *per cent* of capital expenditure envisaged in the feasibility report. The actual repair and maintenance charges incurred by the Company ranged between 6.25 *per cent* and 10.57 *per cent* of total revenue during 2012-13 to 2016-17, average being 8.61 *per cent*. Non-levy/ short levy of AMC resulted in lower revenue realisation compared to the incurred costs.

The Management stated (November 2017) that maintenance of the network was its sole responsibility and cost of maintaining the network was included in the prices. The Management added that though AMC was charged from customers, these were in the nature of annual recurring charges (ARC) agreed mainly for the purpose of recovery of downtime penalties.

The fact remains that though the network was maintained by the Company, indefeasible right to use the contracted capacity vested with the customers and the basic principle of tariff mechanism required that the beneficiaries pay for maintenance.

D. Discounts on TRAI Tariff

TRAI stipulated that service providers can offer discounts on the ceiling tariffs and discounts, if offered, should be transparent and non-discriminatory based on laid down criteria. As per the criteria laid down by PGCIL, discounts offered were based *inter alia* on volume of business; - higher the volume of business, higher the discount.

Review of discounts offered to the customers revealed that the discounts offered to customers were not consistent with the volume of business as evident from the following:

- Discounts of 74 *per cent* and 63 *per cent* were allowed to two customers whose annual volume of business was 3.51 *per cent* and 3.20 *per cent* respectively. However, another customer with a higher volume of business (6.42 *per cent*) was offered discount of 28 *per cent* only.

- Discounts of 79 *per cent* to 80 *per cent* were offered to two customers though their volume varied significantly (15.44 *per cent* in case of one customer and 25.50 *per cent* in case of the other).

- Discounts ranging between 41 *per cent* and 67 *per cent* were allowed to government customers while private customers with similar volume of business were offered higher discounts ranging between 64 *per cent* and 79 *per cent*.

Thus, there had been lack of transparency in offering discounts to various parties.

The Management stated (November 2017) that higher discounts had to be given to customers to counter aggressive pricing of competitors. In order to secure business, it was imperative to match price expectation of customers and addition of these customers enhanced the brand image of the Company. Bandwidth demand from many of the government customers was relatively small and government sector prefers its network due to the support and quality of service extended.

Offering higher discounts to match price expectations was not among the factors specified in the laid down policy for offering discounts. Preference of Company's network by government customers cannot be a basis for offering lower discounts.

10.3.6.3 Termination of links

The Company provides last mile connectivity to customers from Company's point of presence to customer locations. These links may be terminated due to creation of customer's own link, upgradation of link to higher capacity, customer's dissatisfaction with network performance, non-payment of dues by customer etc. Details of termination of links during the period from 2012-13 to 2016-17 are summarised in the following table:

Year-wise summary of commissioning of links

Year	No. of links commissioned	No. of links terminated	Cumulative no. of links up to end of the year
2012-13	212	04	2697
2013-14	236	17	2933
2014-15	313	356	3246
2015-16	396	352	3642
2016-17	328	917	3970

Audit noticed that between 2014-15 and 2016-17, 1625 links were terminated as against 1037 new links commissioned during this period. 162 links were terminated within one year of their commissioning.

Despite large number of terminations, the Company has not implemented a proper system of retrieval of equipment placed at customer location and safe custody of the equipment. In the absence of such a system, pilferage/ misappropriation of such equipment cannot be ruled out.

The Management stated (November 2017) that the record keeping of equipment and fiber stretches of terminated links shall be improved to avoid any possibility of pilferage/misappropriation.

The assurance of the Management is noted. It is seen that the Company provides new links after cost-benefit analysis and the cost incurred for providing last mile connectivity would be recovered only if the links are operational for two years. The Company incurs loss in the event of early termination of links. The timely retrieval of equipment placed at customer location and its safe custody, therefore, becomes essential.

10.3.6.4 Non-levy of interest on delayed payments

The Company has a computerised system for customer billing (except for IRU deals). The Service Level Agreements (SLA) with customers provided for levy of interest on delayed payments (as per rates notified from time to time). The computerised billing system, however, did not provide for levy of interest. In fact, Telecom Division has not levied interest on delayed payments since inception of business on the premise that it would have negative impact on the growth of business.

The following table indicates position of outstanding dues for the years 2015-16 and 2016-17[17]:

Details regarding outstanding debtors

Quarter	Quarter ending on	Total revenue booked	Total debtors	Debtors more than six months	Debtors more than six months to total debtors (%)
		(₹in crore)			
2015-16					
Q-1	30-06-2015	97.92	62.37	34.75	55.72
Q-2	30-09-2015	108.03	71.19	37.42	52.56
Q-3	31-12-2015	113.78	86.52	40.08	46.32
Q-4	31-03-2016	116.81	83.10	45.11	54.28
2016-17					
Q-1	30-06-2016	122.48	103.37	45.25	43.77
Q-2	30-09-2016	143.64	119.86	50.62	42.23
Q-3	31-12-2016	145.72	124.93	56.87	45.52
Q-4	31-03-2017	149.18	102.42	52.29	51.05

As can be seen from the above table, payments were delayed for more than six months in 42 *per cent* to 55 *per cent* of the cases. Audit noticed that Telecom Advisory Board suggested (October 2014) framing of an incentive/disincentive policy to address the payment realisation issue. However, no such measure has been implemented so far. (November 2017).

The Management stated (November 2017) that being a small player in telecom market with limited number of customers, imposing interest charges on them might have negative impact on growth of business. When the prices for the services were going down continuously, levying interest on the delayed payments would lead to increased cost of services. The policy for incentive/disincentive for timely/delayed payments was still under active consideration.

Since delayed realisation of income results in opportunity loss to the Company, an appropriate mechanism needs to be implemented to ensure timely realisation of dues.

10.3.6.5 Sharing of revenue for using transmission assets for telecom business

The telecommunication business of the Company is carried out using fiber optic cables strung in its transmission network. Thus the infrastructure like towers, right of way etc. are utilised for both transmission and telecommunication businesses. The number of fibers in the overhead OPGW was generally 12 or 24 (48 fibers also were subsequently introduced). The Company has identified that 6 fibers would be used for transmission business and the remaining fibers would be utilised for telecommunication business.

As per a regulation issued by Central Electricity Regulatory Commission (CERC) in December 2007, the revenue generated by a transmission owner from telecommunication

[17] ***Since the billing was migrated to SAP system, year-wise data pertaining to periods prior to 2015-16 was not available***

business using the transmission network should be shared with the transmission beneficiaries, i.e., the States from whom the cost of transmission assets are recovered by PGCIL. The regulation provided that the transmission owner shall share revenue @ ₹3000/- per year per km and the revenue shared may be apportioned between the users in proportion to the number of fibers identified for utilisation[18].

Audit observed that the revenue shared by the Company was not consistent with the CERC regulations as indicated in the following table:

Revenue not shared by with the transmission beneficiaries

Year	Network as on 31 March	Network for which revenue shared	Network for which revenue not shared	Amount of revenue not shared
	(Km)			(₹)
	(1)	(2)	(3)=(1-2)	(3)x3000x18/24
2012-13	15443	13848	1595	3588750
2013-14	16868	14261	2607	5865750
2014-15	18706	15938	2768	6228000
2015-16	21663	17230	4433	9974250
2016-17	22176	19460	2716	6111000
Total				**31767750**

Thus, the Company shared revenue for a part of the network with transmission beneficiaries. The revenue shared was short by ₹3.18 crore during the period from 2012-13 to 2016-17.

The Management stated (November 2017) that as per CERC Regulations, right-of-way charges of only OPGW links which were used for telecom business were to be shared and the same was being complied with.

The reply is not acceptable. CERC regulations provide for revenue sharing on the basis of right-of-way utilised for laying the cable and not only for those used for telecom business.

10.3.6.6 Downtime credit for network outages

As a general practice, provision is kept for downtime credit for each and every customer in order to compensate the customer for any downtime in the leased circuit. However, it was observed that the Company entered into Service Level Agreements (SLA) with few customers and credit for downtime was allowed to these customers alone when sought for. As a result, against the total provision of ₹19.46 crore made in the accounts of the Company during 2012-13 to 2016-17 towards downtime credit, only ₹9.24 crore was passed on to the customers. Entering into SLA with few customers and allowing them credit only when specifically sought cannot be considered as a non-discriminatory practice.

[18] ***If an optical fiber cable or optical fiber composite overhead ground wire having 'm' fibers has been installed on a transmission line, and 'n' fibers are meant to be used for telecommunication business (remaining fibers being used for Unified Load Despatch and Communication scheme), telecommunication business will reimburse ₹3000 (n/m) per km to the transmission business for reduction of annual transmission charges***

The Management stated (November 2017) that downtime credit was passed on to all the customers as per SLA terms non-discriminately to those who sought for the same.

This does not address the audit concern as SLA was not signed with all the customers nor was downtime credit passed on to the customers in the normal course.

10.3.6.7 Network monitoring system

The Company operated (September 2017) a telecom network of 41988 km comprising OPGW length of 29489 km and underground optical fiber cable length of 12499 km. Outages in the network due to fiber cut, equipment malfunction etc. are tracked by NTCC and taken up with RTCCs for restoration of the affected portion.

The telecom equipment installed by the Company were procured from three different manufacturers. The network monitoring system offered by the manufacturers were used for the respective equipment and three different systems were simultaneously viewed to track the performance of the network. This contributed to slow response to faults since identification of the fault itself took time. Though the Company felt the need to have an integrated network management system, the same has not yet been implemented (September 2017).

The Management stated (November 2017) that an Integrated Management System has been envisaged and notice inviting tenders (NIT) for same has been issued on 29 September 2017.

However, the budget approval for the above was approved in January 2013 and the Company took more than three years to issue the NIT.

10.3.7 Conclusion and recommendations

10.3.7.1 Conclusion

Diversification into telecom business by the Company was commendable and enabled the Company to operate in two important service areas viz. Power and Telecom. However Audit noticed that PGCIL could not achieve the projected market share in telecom business and though the business has been earning profits since 2009-10, it is yet to achieve payback which was anticipated by 2007. There were inadequacies in the pricing methodology followed by the Company. The multiplication factor adopted to scale up tariff for higher capacities was low, which adversely impacted revenue. Pricing of Indefeasible Right to Use contracts was inconsistent with different methods applied for different contracts, leading to lower revenue for the business. The discounts offered by the Company on ceiling tariff were neither transparent nor non-discriminatory. Shortcomings were noticed in sharing of revenue with State transmission utilities for using transmission assets for telecom business. The financial impact of observations worked out to ₹412.88 crore (₹399.48 crore related to pricing methodology and ₹13.40 crore related to sharing of income and allowance of downtime credit).

10.3.7.2 Recommendations

(i) The Company may review the multiplication factor for scaling up bandwidth price in line with the TRAI notification. The Company may also frame a uniform pricing methodology for IRU contracts.

(ii) Transparent criteria for offering discounts to customers may be instituted and uniformly implemented.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

CHAPTER XI: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

11.1 Non-recovery of damages and maintenance cost from the concessionaire

National Highways Authority of India extended undue benefit to the concessionaire to the tune of ₹99.27 crore by not taking prompt action to recover the damages and maintenance cost from the concessionaire on account of its failure in achieving the project milestones and in meeting the maintenance obligations.

National Highways Authority of India (NHAI) entered into (21 March 2012) a concession agreement (CA) with Vijayawada Gundugolanu Road Project Private Limited (concessionaire) for six laning of Vijayawada-Gundugolanu section of National Highway No. 5 (NH-5) including six-lane Hanuman Junction bypass and four-lane Vijayawada bypass. As per the terms of agreement, the Appointed Date would be the date on which financial closure was achieved or an earlier date as may be mutually agreed upon by both parties. The financial closure which was to be achieved within 180 days from the date of CA (i.e., 17 September 2012) was actually achieved on 10 April 2013. Further, due to delays on the part of both NHAI and the concessionaire in fulfillment of conditions precedent, the Appointed Date was declared as 01 September 2014 by waiving the damages mutually. The scheduled six-laning date of the project was 28 February 2017.

The concessionaire did not commence the work till August 2016 and did not also maintain the road during the construction period on the ground that no funds were disbursed by the banks for the project. Consequently, NHAI issued (26 August 2016) a notice of termination to the concessionaire and stated that by virtue of the termination notice, NHAI was deemed to have taken possession and control of the project highway forthwith. The toll collection along with the two toll plazas set up on the project stretch, were handed over to another agency with effect from 27 August 2016.

As on the date of issue of notice of termination i.e., 26 August 2016, damages of ₹79.82 crore were recoverable from the concessionaire for non-achievement of milestones. Further, due to failure of the concessionaire, NHAI carried out emergency maintenance works amounting to ₹18.70 crore at the risk and cost of the concessionaire, as per the applicable terms of the agreement. In addition, penalty of ₹0.75 crore for breach of maintenance obligations were also recoverable from the concessionaire. Thus, the total dues recoverable from the concessionaire stood at ₹99.27 crore as on 26 August 2016.

Audit observed that:

(i) Against the recoverable amount of ₹99.27 crore, NHAI possessed security in the form of Performance Bank Guarantees aggregating to ₹84.20 crore deposited by the concessionaire. Besides, there was a balance of ₹56.08 crore as fixed deposits in the Escrow account. However, NHAI did not encash the bank guarantees based on the verbal directions of the Administrative Ministry. The bank guarantees were last extended (September 2016) with validity up to 16 September 2017 and the same could be claimed till 15 March 2018.

(ii) As per clause 31.3.1 of the CA, the damages payable by the concessionaire could be recovered from the Escrow account. However, NHAI did not issue instructions to the Bank where Escrow account was operated, to freeze the fixed deposits in order to recover the amount due from the concessionaire. There was high risk of non-recovery of dues from the Escrow account since transfer had been made from the account towards mobilisation advance of ₹58.07 crore and parking of ₹69.80 crore in mutual funds/term deposits. Further, a sum of ₹2.07 crore was transferred from the account in respect of which, the purpose of transaction was not mentioned. The concessionaire did not also furnish the necessary documents for verification of Escrow Account transactions to the Financial Expert of the Independent Engineer (IE) despite request made by the IE.

(iii) NHAI continued to grant additional time to the concessionaire for arranging funds for the project, even after failure of the concessionaire to achieve the project milestones, but the concessionaire did not fulfil their commitments. Despite this, NHAI did not take action to recover the damages. In a meeting held (May 2017) under the chairmanship of the Minister of Road Transport and Highways, it was decided that the matter regarding levy of damages for not achieving the milestones by the concessionaire may be referred to arbitration. The concessionaire proposed (September 2017) to refer the matter to conciliation as per the terms of the concession agreement and the same was under consideration of NHAI (September 2017).

Thus, NHAI failed to safeguard its financial interests as it neither encashed the bank guarantees submitted by the concessionaire nor recovered the dues from the Escrow account. Consequently, damages of ₹99.27 crore along with interest thereon as per the applicable provisions of the agreement remained unrecovered (November 2017). This amounted to undue benefit to the concessionaire.

The Management stated (September 2017) that clause 37.5 (Survival of Rights) of CA safeguarded the interest of NHAI as all the rights and obligations under the agreement would survive the termination, to the extent such survival was necessary for giving effect to such rights and obligations. Accordingly, as per the provisions of the above clause, necessary action would be taken by NHAI for recovery of damages plus interest from the concessionaire.

The Ministry stated (December 2017) that the concessionaire had been asked to keep the bank guarantee in force till completion of conciliation process. The latest balance available in the Escrow account was being ascertained and instructions for freezing the account were being issued. Further, all applicable recoveries would be effected in full after conciliation process.

The reply of the Management/Ministry is not acceptable since the enforceability of claims regarding the recoverable damages after termination of the agreement was not a valid justification for non-enforcement of the rights available before such termination. Besides this process could be cumbersome involving delay in recovery. NHAI should have taken timely action to recover its dues by encashment of bank guarantees/recovery from Escrow account instead of continuing to grant additional time to the concessionaire to fulfil their commitments.

11.2 Non-recovery of damages from the concessionaires

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

National Highways Authority of India (NHAI) entered into (March 2006 to September 2007) separate concession agreements (CAs) with four concessionaires[1] for execution, operation and maintenance of four projects viz. AP-6, AP-7, AP-8 and AP-2 on Build, Operate and Transfer (BOT) Annuity basis. All the four projects related to widening of the existing two-lane portion to four lanes on the National Highway 7 (NH-7) in the State of Andhra Pradesh. The four projects were implemented under the supervision of NHAI, Project Implementation Unit (PIU), Nirmal, Andhra Pradesh (now in Telangana). The provisional certificates of completion of these projects were issued on 24 June 2010 (AP-6), 11 June 2010 (AP-7), 22 July 2009 (AP-8) and 26 March 2009 (AP-2).

The operation and maintenance (O&M) requirements for the four projects, as laid down in clauses 2.6 of Schedule L forming part of the concession agreements, provided for renewal of wearing surface of the road pavement once every five years. Further, as per clause 4.3.1 of Schedule L, the surface roughness of the project highway on completion of construction should be 2000 mm/km. The surface roughness should not exceed 3000 mm/km during the service life of the pavement at any time. A renewal coat of bituminous concrete should be laid every five years after initial construction or where the roughness value reaches 3000 mm/km, whichever was earlier, to bring it to initial value of 2000 mm/km.

Clause 18.12 of each CA provided that in the event the concessionaire did not maintain and/or repair the project highway, and had failed to commence remedial works within 30 days of receipt of notice in this behalf from NHAI or Independent Consultant (IC), or the O&M inspection report, as the case may be, NHAI would be entitled to undertake the repair and maintenance at the risk and cost of the concessionaire and to recover the same from the concessionaire. Further, Clause 18.13 of each CA provided that in the event NHAI did not exercise its option under Clause 18.12, it would recover damages from the concessionaire after the aforesaid period of 30 days and until the default was rectified. The damages would be calculated for each day of default at the higher of (a) ₹10,000, and (b) 0.1 *per cent* of the cost of such repair as estimated by the IC. Clause 18.12 of the CAs also conferred the right on NHAI to recover the damages directly from the Escrow Account.

[1] ***Adilabad Expressway Private Limited (for AP-6), Patel KNR Heavy Infrastructures Private Limited (for AP-7), Nirmal BOT Limited (for AP-8) and GMR Pochanpalli Expressways Private Limited (for AP-2)***

Audit observed that as per the above provisions of the CAs, the work relating to renewal of wearing surface in respect of the four projects should have been completed within five years of their completion dates i.e. by 23 June 2015 (AP-6), 10 June 2015 (AP-7), 21 July 2014 (AP-8) and 25 March 2014 (AP-2). However, the concessionaires did not commence the renewal work by these dates. The renewal work in respect of AP-7, AP-8 and AP-2 projects was completed after a delay of 599 days, 498 days and 250 days respectively after allowing the grace period of 30 days as per the provisions of the CA. The renewal work in respect of AP-6 project was yet to be completed (31 August 2017). The delay in completion of work upto 31 August 2017 was 770 days after excluding grace period. Accordingly, damages leviable on the concessionaires in terms of Clause 18.13 of the CAs worked out to ₹85.19 crore upto 31 August 2017 as shown below:

Project	Provisional completion date	Due date of completion of renewal work	Actual date of completion of renewal work	Delay excluding 30 days grace period	Cost of renewal work estimated by IC (₹in lakh)	Damages per day at 0.1 *per cent* of cost of renewal[2] (₹)	Damages leviable (₹in lakh)
AP-6	24.06.10	23.06.15	31.08.17*	770	3790.11	3,79,011	2918.38
AP-7	11.06.10	10.06.15	28.02.17	599	3673.64	3,67,364	2200.51
AP-8	22.07.09	21.07.14	31.12.15	498	2119.26	2,11,926	1055.39
AP-2	26.03.09	25.03.14	30.12.14	250	9377.32	9,37,732	2344.33
						Total	**8518.61**

(* The work was commenced but had not been completed till 31 August 2017)

Despite the inordinate delays in completion of renewal of wearing surface in respect of all the four projects, NHAI failed to recover the damages of ₹85.19 crore from the concessionaires. Further, these damages were also not recovered from the Escrow Account as per the terms of the CAs.

While accepting the audit observation in respect of AP-6, AP-7 and AP-8 projects, the Management stated (September 2017) that the concessionaires failed to pay damages despite issuance of notices and repeated reminders and the same were being contemplated to be recovered from Escrow Account of the concessionaires as per the provisions of the CAs. In respect of AP-2 project, the Management stated that though the Independent Consultant had recommended for levy of penalty, the concessionaire contested the same and the matter was referred to the Conciliation Committee of Independent Experts as per NHAI policy. The recovery action would be taken based on the outcome of the settlement.

The Ministry endorsed (December 2017) the reply of the Management in respect of AP-6 and AP-7 projects. In respect of AP-8 project, the Ministry stated that the concessionaire had approached the Conciliation Committee and final outcome of conciliation process would be intimated to Audit in due course. The Ministry further stated that Independent Consultant had worked out the damages of ₹10.81 crore in case of AP-2 project as against ₹23.45 crore worked out by Audit.

[2] ***The per day damages calculated on the basis of 0.1 per cent of cost of renewal were more than ₹10,000 in all the four projects. Therefore, the same has been considered to calculate the damages leviable on the concessionaire***

The reply of the Management/Ministry is not acceptable since NHAI did not exercise the powers conferred on it by clause 18.12 and 25.2.1 of the CAs as per which the penalty/damages could be recovered directly from the Escrow Account. Further, the reply of the Ministry in respect of AP-2 project is also not acceptable as the methodology adopted for calculation of damages was same in respect of all the four projects and accordingly the damages leviable in respect of AP-2 project worked out to ₹23.45 crore only.

Thus, NHAI failed to recover damages of ₹85.19 crore on account of delayed/non-completion of work relating to renewal of wearing surface of the road pavements by the concessionaires.

11.3 Undue financial benefit to the concessionaire

NHAI failed to recover from the concessionaire damages of ₹9.20 crore for non-achievement of project milestone and delay in completion of punch list items, along with interest of ₹1.20 crore thereon as per contractual terms.

A concession agreement (CA) for construction, operation and maintenance of four laning of Armur-Adloor-Yellareddy section on Nagpur–Hyderabad section of National Highway (NH)-7 from Km 308.000 to Km 367.000 on Design, Build, Finance, Operate and Transfer (DBFOT) basis was entered into (August 2009) between M/s. Navayuga Dichpally Tollway Private Limited (concessionaire) and National Highways Authority of India (NHAI) for a concession period of 20 years. In terms of the agreement, the concessionaire furnished the performance security for ₹24.53 crore. The scheduled date for commencement of the project was fixed as 02 February 2010 and the completion date was agreed as 01 February 2012.

In terms of clause 12.4.2 of CA, in the event of the concessionaire failing to achieve any project milestone within a period of 90 days from the stipulated date of achieving such milestones in Schedule-G and unless such failure was due to force majeure or for reasons solely attributable to the Authority, it shall pay damages to the NHAI at the rate of 0.1 *per cent* of the amount of performance security for each day of delay until such milestone is achieved. Further, as per clause 15.2, subject to provisions of Clause 12.4, if Commercial Operation Date (COD) did not occur prior to 91st (ninety first) day from the scheduled four-laning date i.e. 02 May 2012, unless the delay was on account of reasons solely attributable to the NHAI or due to force majeure, the concessionaire shall pay damages to NHAI at the rate of 0.1 *per cent* of the amount of performance security for each day of delay until COD is achieved.

The COD of the project was achieved on 01 April 2013 with a total delay of 424 days. Based on the recommendations (October 2013) of the Independent Engineer (IE), the Project Implementation Unit (PIU), Nirmal, Andhra Pradesh of NHAI proposed (November 2013) to extend the scheduled four-laning date by 272 days (for reasons attributable to NHAI) and to levy damages amounting to ₹3.73 crore for the delay beyond the extended period (i.e. 152 days) attributable to the concessionaire. The proposal was agreed to (January 2014) by NHAI Headquarters with the directions to enter into a supplementary agreement with the concessionaire. However, on receipt (June 2014) of the draft supplementary agreement from the concessionaire, NHAI RO Hyderabad observed that the damages payable by the concessionaire had been worked out for 62 days (instead of 152 days) after excluding the grace period of 90 days. The matter regarding inclusion/exclusion of grace period in calculation of damages was deliberated between NHAI RO, Hyderabad; PIU, Nirmal and Independent Engineer during July 2014 to November 2014 and was subsequently referred (January 2015) for legal opinion. The correctness of inclusion of grace period of 90 days in the calculation of damages was confirmed (February 2015) by the legal consultant. As the concessionaire was not in agreement with the legal opinion, the matter was referred (July 2015) by RO Hyderabad to NHAI Hqrs for further directions. Based on the directions from NHAI Hqrs to recover the damages for the entire period of delay (inclusive of grace period), PIU, Nirmal intimated (11 March 2016) the same to the concessionaire and requested concessionaire to submit the draft supplementary agreement for extension of scheduled four-laning date by 272 days.

Audit observed that though the COD of the project was achieved on 01 April 2013, NHAI did not levy damages on the concessionaire for delay in completion of the project for three years (upto March 2016) due to ambiguity in the concession agreement regarding calculation of damages. Even after the raising the claim for damages on the concessionaire (March 2016), the recovery thereof was awaited (December 2017).

Further, as per clause 14.4.1 of the agreement, the concessionaire had to complete all the punch list items within 90 days from the date of issue of Provisional Completion Certificate (PCC) and for delay thereafter, other than for reasons solely attributable to NHAI or due to force majeure, NHAI shall be entitled to recover damages from the concessionaire to be calculated and paid for each day of delay until all items are completed, at the lower of (a) 0.1 *per cent* of performance security, and (b) 0.2 *per cent* of the cost of completing such items as estimated by the IE. Though the PCC had been issued to the concessionaire on 1 April 2013, the punch list items were not completed within 90 days i.e. by 30 June 2013. However, NHAI notified the concessionaire regarding the damages due to non-completion of punch list items only on 6 February 2017, after a delay of about four years. As on 31 December 2017, the damages of ₹5.47 crore were recoverable from the concessionaire (₹4.78 crore upto July 2016 as recommended by the IE and ₹68.71 lakh as worked out by Audit for two punch list items of which one was completed on 7 April 2017 and the other was incomplete even up to 31 December 2017).

The delay in payment of damages by more than 15 days of receipt of demand from one party to another party would also attract interest at Bank rate plus 5 *per cent* as per clause 47.5 of the agreement. Accordingly, the interest of ₹1.20 crore (₹74.15 lakh[3] for delay in recovery of damages of ₹3.73 crore for not achieving the project milestone and ₹46.11 lakh[4] for delay in recovery of damages of ₹4.78 crore as recommended by the IE for not completing the Punch List items within the stipulated date) for the period upto 31 December 2017 also was recoverable from the concessionaire. Further, NHAI

[3] ***Interest on delayed payment of ₹3.73 crore has been calculated from the expiry of 15 days from 11 March 2016 i.e. 26 March 2016 to 31 December 2017 i.e. 645 days at Bank rate of 6.25 per cent as on 31 December 2017 plus 5 per cent***

[4] ***Interest on delayed payment of ₹4.78 crore from the expiry of 15 days from 6 February 2017 i.e. 21 February 2017 to 31 December 2017 i.e. 313 days at the rate mentioned at (1) above***

sustained loss of interest due to delayed raising of claims for damages on the concessionaire.

The Management stated (September 2017) that before granting extension of time upto 1 April 2013 along with damages amounting to ₹3.73 crore for delays attributable to the concessionaire, the matter was referred to concessionaire for giving their consent to sign the supplementary agreement. However, in spite of repeated reminders the response of the concessionaire was still awaited (September 2017). Further, despite several reminders, the concessionaire had failed to pay damages for delay in completion of punch list items. The Management further stated that the recovery process was in progress and the final status would be intimated to Audit.

The reply of the Management is not acceptable since clause 31.3.1 (h) of the agreement enabled NHAI to recover the dues/damages from Escrow Account. However, NHAI failed to recover the dues amounting to ₹9.20 crore (₹3.73 crore for failure in achieving the milestones and ₹5.47 crore for non-completion of Punch List items within the scheduled dates) and interest of ₹1.20 crore thereon upto 31 December 2017 apart from the loss of interest due to delayed raising of claims for damages. This resulted in extension of undue financial benefits to the concessionaire.

The Ministry stated (December 2017) that NHAI had already issued (October 2017) notice to the Escrow Bank for recovery of damages and the final recovery position would be intimated to Audit in due course of time.

11.4 Excess payment of bonus to Concessionaire

As per the concession agreement, Independent Engineer (IE) was to issue the provisional completion certificate for the project only after obtaining safety audit report. However, the IE issued provisional completion certificate 45 days prior to the safety audit report and the Authority paid bonus to the Concessionaire based on it, leading to payment of excess bonus of ₹6.11 crore to the Concessionaire.

National Highways Authority of India (Authority) entered (July 2010) into a Concession Agreement (CA) with M/s Shillong Expressway Private Limited, New Delhi (Concessionaire) for construction of two lane Shillong bypass in Meghalaya on Build Operate and Transfer (BOT) on annuity basis. As per the CA, the project was scheduled to be completed by 06 February 2014, i.e., on the 1095th day from appointed date (07 February 2011). Project completion would be marked by the completion/ provisional completion certificate issued by Independent Engineer (IE). The Concessionaire would be entitled to receive bonus from the Authority for completing the project prior to the scheduled completion date.

It was stipulated in the CA (Article 14.1.2, 14.1 & 14.2) that the IE would issue completion/provisional completion certificate after successful accomplishment of required tests of the project highway. Such tests included safety audit of the highway by the safety consultant to be appointed by the Authority. The safety audit report was a pre-requisite for issue of completion/provisional completion certificate, as specified in paragraph 2.9 of Schedule I and paragraph 3 of Schedule L.

The Authority appointed (March 2013) Indian Institute of Technology Guwahati as the Safety Consultant. The safety audit report was submitted on 29 April 2013 with some observations. The IE submitted the compliance report on the safety audit report on 08 May 2013 based on which, the Safety Consultant suggested (09 May 2013) opening the highway for traffic movement. The project completion date would therefore be on or after 9 May 2013.

Audit, however, noticed that at the request of the Concessionaire, IE conducted tests of the project highway and issued (April 2013) a provisional completion certificate with effect from 25 March 2013 prior to the safety audit report (dated 09 May 2013). On the basis of the provisional completion report, the Authority paid (November 2013) bonus amounting to ₹43.21 crore to the Concessionaire for early completion of the project by 318 days[5].

Issue of the provisional completion certificate 45 days[6] prior to the safety audit report (09 May 2013) was not in line with the provisions of the CA. This has led to excess payment of bonus amounting to ₹6.11 crore[7] to the Concessionaire for 45 days.

The Management stated (December 2017) that:

- Provisional completion certificate was issued by IE w. e. f. 25 March 2013 after conducting all the required tests including safety tests by the Road Safety Expert of the IE which were carried out in the first week of February 2013.

- The Authority paid bonus to the Concessionaire for 318 days considering the provisional completion certificate w. e. f. 25 March 2013.

Reply of the Management is not tenable as:

- As per article 18.1.2 and paragraph 3 of Schedule L of CA, the safety consultant was to be appointed by the Authority itself. Safety audit by such safety consultant could not be substituted by safety tests carried out by expert appointed by the IE.

- The CA (2.9 of schedule I) provided that Completion/provisional completion certificate would be issued by IE only after successful accomplishment of all the required tests which included safety audit. The Authority should have considered that the safety audit report was issued 45 days after the provisional completion certificate while making the bonus payment to the concessionaire.

Thus, non-compliance of the provisions of CA has resulted in extra expenditure of ₹6.11 crore by the Authority.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

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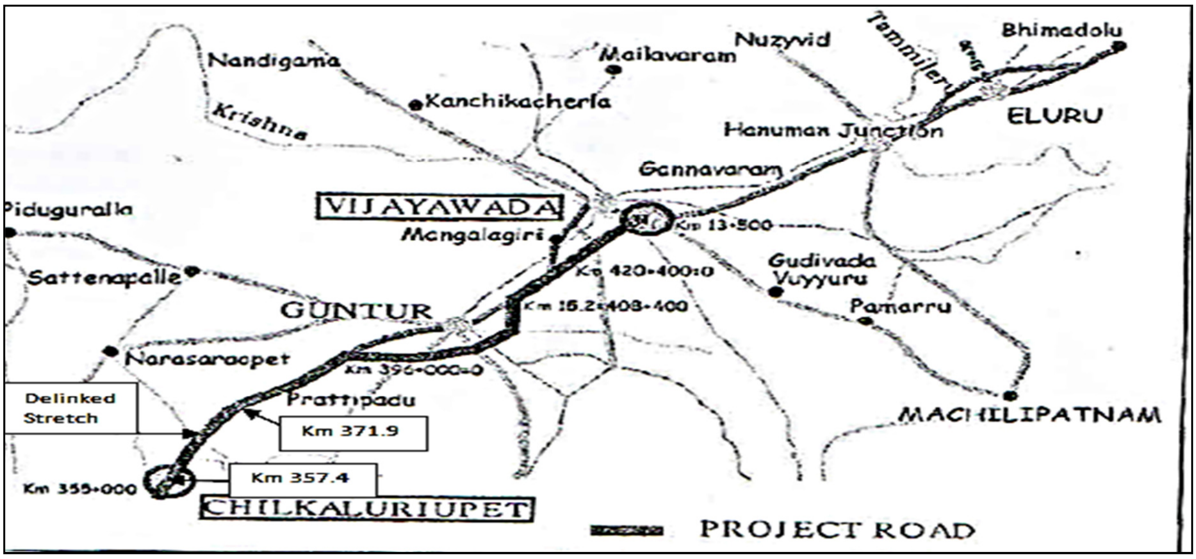
[5] ***25 March 2013 to 06 February 2014***
[6] ***From 25 March 2013 to 08 May 2013***
[7] ***₹43.21 crore x 45/318 = ₹6.11 crore***

11.5 Loss of interest on toll revenue due to delay in delinking of road stretch

National Highways Authority of India failed to delink the Chilakaluripet town stretch from the project relating to six-laning of Chilakaluripet-Vijayawada section in the State of Andhra Pradesh, as per terms of the agreement entered into with the concessionaire. Consequently, it suffered loss of interest to the tune of ₹9.69 crore on account of delayed remittance of toll revenue collected by the concessionaire on the delinked stretch.

National Highways Authority of India (NHAI) entered into (June 2008) a concession agreement (CA) with Vijayawada Tollway Private Limited (concessionaire) for six laning of 82.5 kilometer (km) long Chilakaluripet-Vijayawada section in the State of Andhra Pradesh on Design, Build, Finance, Operate and Transfer (DBFOT) basis with a concession period of 15 years. The appointed date, i.e., the date of commencement of the concession period, was declared as 1 May 2009 and the construction was to be completed within 30 months from appointed date i.e., by 29 October 2011. As per terms of the agreement, collection of user fee on the existing four-lane highway which was hitherto being done by NHAI, was handed over by it to the concessionaire from the appointed date.

The concessionaire could not achieve the project milestones within the stipulated time frame due to land acquisition issues relating to a 14.5 km Chilakaluripet town stretch from Km 357.4 to Km 371.9, apart from other reasons attributable to both NHAI and the concessionaire. Based on a proposal by the concessionaire, a supplementary agreement (SA) was entered into between NHAI and the concessionaire on 9 September 2013. The terms of the SA provided, *inter alia*, that NHAI would hand over the 14.5 km stretch within three months from the date of SA i.e., by 9 December 2013. In the event of NHAI not being able to fulfil its commitment within the aforesaid period, the stretch would be delinked[8] from the project and the toll revenue for the toll length of 14.5 km collected by the concessionaire from the appointed date would be passed on to NHAI.



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[8] *Delinking means that the stretch of 14.5 km would be deleted from the scope of work and the concessionaire would be required to carry out the six-laning work on the remaining length of 68 km (82.5 km–14.5 km). The concessionaire would collect the toll on the entire 82.5 km stretch and would pass on to NHAI the toll revenue for the proportionate length of 14.5 km*

As NHAI could not fulfil its commitment to hand over the stretch to the concessionaire within three months of SA i.e., by 9 December 2013, the stretch was to be delinked from the project and the toll revenue collected by the concessionaire with effect from 1 May 2009 was to be passed on by the concessionaire to NHAI. However, NHAI communicated the decision of delinking the stretch to the concessionaire after a delay of 17 months on 7 May 2015. Consequently, the toll revenue of ₹75.45 crore (net of expenditure) for the period from 1 May 2009 to 30 April 2015 was paid by the concessionaire to NHAI after a delay ranging from 5 to 22 months in November 2015.

Audit observed that as NHAI could not hand over the 14.5 km stretch to the concessionaire within the agreed period of three months from SA, it should have forthwith communicated to the concessionaire the decision of delinking of the stretch from the project. The delayed communication of its decision led to consequent delay in remittance of toll revenue collected by the concessionaire due to which NHAI suffered loss of interest to the tune of ₹9.69 crore **(Annexure-XIV)** at the rate of 8 *per cent* per annum[9]. This comprised of loss of interest of ₹7.83 crore on the toll revenue of ₹53.42 crore pertaining to the period between the appointed date of the project and the scheduled date of delinking the stretch from the project i.e., May 2013 to November 2013, and the loss of interest of ₹1.86 crore on the toll revenue of ₹22.02 crore pertaining to the period from December 2013 to April 2015.

The Management stated (September 2017) that the time taken by the concessionaire in remittance of toll revenue collected from the appointed date could not be considered as delay since the decision of delinking of 14.5 km stretch was communicated by NHAI only on 7 May 2015. The delay in remittance from 7 May 2015 to the actual date of payment i.e. 14 November 2015 would be notified to the concessionaire for payment of interest on delayed remittances.

The reply of the Management is not acceptable since Audit has commented upon the delayed communication of delinking of stretch by NHAI and not on the delayed remittance of toll revenue by the concessionaire as the latter was only a consequence of the former. The loss of interest on the delayed remittance of toll revenue by the concessionaire resulted from the delayed delinking of stretch by NHAI.

The Ministry in its reply (December 2017) accepted that there was delay in communication of delinking of the 14.5 km stretch by NHAI.

Thus, due to delayed delinking of stretch from the project by NHAI and consequent delay in remittance of toll revenue on that stretch by the concessionaire, NHAI suffered loss of interest to the tune of ₹9.69 crore.

11.6 Non-recovery of claims from Concessionaire

National Highways Authority of India's inaction for more than two years (July 2015 to November 2017) despite the recommendation by the IE, led to failure to recover damage claims amounting to ₹24.74 crore, while the concessionaire did not complete a single punch list item and continued to collect toll throughout the period.

[9] ***During the years 2013 to 2015, the average rate of interest on term deposits for 1-2 years duration was 8 per cent per annum***

National Highways Authority of India (NHAI) signed Concession Agreement (CA) (31 March 2011) with M/s. Patna Bakhtiyarpur Tollway Limited (SPV of M/s BSC-C&C Consortium), Hyderabad (Concessionaire) for four-laning of Patna-Bakhtiyarpur section of NH-30 from km 181.300 to km 231.950 on Design, Build, Finance, Operate and Transfer (DBFOT) toll basis. The concession period was 18 years with scheduled date of completion being 24 March 2014.

Clause 14.3 of the CA stated that the Independent Engineer (IE), at the request of Concessionaire may issue provisional certificate upon completion of 75 *per cent* length of the project by appending a list of outstanding items (punch list) signed jointly by the IE and the Concessionaire. Further, Clause 14.4 of the CA states that if the punch list items were not completed within 90 days of the date of issue of Provisional Certificate, NHAI was entitled to recover damages from the concessionaire for each day of delay at the lower of 0.1 *per cent* of the performance security or 0.2 *per cent* of the cost of completion of the punch list items. Subject to payment of such damages, the Concessionaire was entitled to a further period not exceeding 120 days for completion of punch list. Failure of the Concessionaire to complete all the punch list items within this period, for reasons other than force majeure or reasons solely attributable to the Authority, the Authority was entitled to terminate the agreement.

The project could not be completed within the stipulated time and extension of time was allowed up to 30 June 2015. The Concessionaire applied for grant of provisional completion certificate on completing 46.847 km of road; the IE reviewed the project and recommended (October 2014) grant of provisional completion certificate after completion of the items identified in the immediate list[10]. The items on the immediate list was completed by the Concessionaire by April 2015 and provisional completion certificate was issued on 10 April 2015. The Concessionaire started collecting user fees from 12 April 2015. The IE had also identified a punch list of works which had to be completed by the Concessionaire within 90 days (9 July 2015).

The IE informed the Project Director (July 2015) that the Concessionaire had not completed the punch list items within the scheduled time (work of only about ₹3 crore out of the estimated cost of ₹45 crore had been completed). In line with the CA, the IE requested the concessionaire (July 2015) to deposit the damages and ensure completion of all punch list items within next 120 days. The Concessionaire, however, failed to either deposit the damages or complete the punch list items.

Audit noticed that the IE kept the Project Director, NHAI, informed about delay in completion of punch list items and failure of the Concessionaire to deposit damages for the same (July 2015 to October 2016). In November 2016, IE recommended to the Project Director, NHAI for recovery of damages of ₹13.98 crore (@₹2.87 lakh[11] for 487 days for the period 10 July 2015 to 10 November 2016) from the Concessionaire. As the Concessionaire did not pay the damages or complete the works, the damage claim increased to ₹24.74 crore in November 2017.

[10] ***List of work to be completed before grant of provisional completion certificate***

[11] ***Damages calculated based on Performance Security (as per Clause 9.1.1 being ₹28.70 crore) @ 0.1% per day i.e. ₹28.70 crore x 0.1%= ₹2.87 lakh***

Audit noticed that no action had been taken by NHAI during July 2015 to November 2017 despite recommendation of the IE to levy damages as per the agreement. Only after the matter was pointed out in Audit (August 2017), NHAI raised a claim of ₹24.74 crore in November 2017.

The Management replied (February 2018) that this was one of the few BOT projects which were successfully completed upto provisional completion certificate stage and that NHAI itself had delayed land acquisition for the project. Therefore, the Management did not consider termination of the contract and decided to levy penalty beyond the permissible grace period of 90 days.

Reply of the Management is not acceptable as

(i) As per the terms of the CA, the punch list items were to be completed within 90 days of provisional completion certificate and only if the damages as per the agreement were paid, the Concessionaire was entitled to a further period not exceeding 120 days. NHAI failed to take any action against the concessionaire when the punch list items remained incomplete after 90 days, despite IE highlighting the lapse to NHAI.

(ii) Grant of second extension of time, upto 30 June 2015, was approved by Executive Committee (February 2015) and a supplementary agreement was signed (7 April 2015) by the Authority and the concessionaire, which absolved NHAI from all losses, claims, expenses or impact due to delay on its part in meeting its obligation. Thus the delay on the part of NHAI in land acquisition had been considered and extension for the delay had already been allowed before provisional completion certificate.

(iii) Though the IE had recommended recovery of damages from the concessionaire in November 2016, it was only after lapse of a year in November 2017, that the Management raised the demand.

Thus, the punch list items worth ₹31.68 crore remained incomplete (November 2017) though the concessionaire continued to collect toll charges (since April 2015). Due to delay on the part of the Management, the claims have increased from ₹13.98 crore to ₹24.74 crore (November 2017). As of February 2018, recovery of damages has not been effected even after the lapse of 33 months from the date of provisional completion certificate.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

11.7 Undue favour to a concessionaire

National Highways Authority of India extended undue favour to the concessionaire amounting to ₹25.67 crore by not levying penalty for delay attributable to the concessionaire in construction of Railway Over Bridge (ROB)-3 at Sitamarhi by-pass in the project of two laning of Muzaffarpur- Sonbarsa Section of NH-77 from km 2.80 to km 89.00 (approx. 82.08 km) in the state of Bihar.

National Highways Authority of India (NHAI) entered into a Concession Agreement (CA) with M/s North Bihar Highway Limited (Concessionaire) on 3 September 2010 for two laning of Muzaffarpur- Sonbarsa Section of NH-77 from km 2.80 to km 89.00 (approx. 82.08 km) in the state of Bihar under NHDP-III on design, build, finance, operate and transfer (DBFOT) on annuity basis. Appointed date of the project was 30 May 2011 and the project was required to be completed by 25 November 2013. The project included three Railway Over Bridges (ROB) one at Jappaha and two at Sitamarhi by-pass.

As per clause 14.3.1 of the CA, the Independent Engineer (IE), at the request of the Concessionaire could issue a Provisional Certificate of Completion if at least 75 *per cent* of the total length of the project highway was complete which could be safely and reliably placed in commercial operation. On issue of such certificate, the Concessionaire would be entitled to receive annuity. As per schedule-M of the CA, 35 semi-annuity amounts of ₹52.40 crore each were payable to the concessionaire in case the project achieved provisional completion by the scheduled date (25 November 2013).

IE recommended (December 2014) issue of provisional completion certificate. However, a committee constituted (April 2015) for inspection of the project, noted that the three by-passes (Kwari, Singrahia and Bhutahi) had to be completed for safe movement of traffic before provisional completion certificate could be issued. The land for the by-passes could only be made available by NHAI in March 2015. After completion of these by-passes, provisional completion certificate was issued on 29 June 2015 and NHAI started to collect toll since 07 July 2015. Thus, there was a delay of 582 days from the scheduled date of completion.

With delay of 582 days, three annuities, due prior to the provisional completion date, had been missed. The concessionaire requested the IE that the three annuity payments that had been missed be paid. IE reviewed the request (July 2015) and determined that the concessionaire was responsible for a delay of 90 days out of the total delay of 582 days and recommended a deduction of ₹25.67 crore on account of such delay. The Project Director, NHAI, requested the IE (July 2015) to re-examine the proposal in the light of the letters issued to Concessionaire by IE during 2012-2015 for slow progress of work. The issue was re-examined (17 July 2015) by the IE and a deduction of ₹25.67 crore was re-affirmed.

A committee comprising of three Chief General Managers of NHAI considered the case for penalty attributable to the concessionaire. The committee stated that the concessionaire had completed work up to DBM[12] in 75 *per cent* length up to July 2013, and hence could have achieved provisional completion by scheduled date (25 November 2013) after carrying out BC[13] on this length. The committee also noted that the provisional completion certificate was delayed at the behest of NHAI and hence recommended the restoration of missed annuities with no deduction. The Executive Committee (EC) of NHAI accepted the recommendation.

Audit observed that the contention of the Committee that the entire delay was on account of inability of NHAI to make available land was not accurate.

[12] ***Dense Bituminous Macadam***
[13] ***Bituminous Concrete***

- The delay of 90 days, attributed to the concessionaire by IE was for delayed structural completion of ROB-3 at Sitamarhi by-pass. The ROB at Jappaha and structural portion of one of the ROBs at Sitamarhi by-pass were completed before provisional completion date. The required approvals and railway land for ROB-3 at Sitamarhi by-pass was available with the concessionaire in September 2013 and ROB-3 could also have been completed by March 2015. This delay should not be subsumed in the delay on the part of NHAI in handing over of land as more than 90 *per cent* of the land was handed over before November 2013.

- It was noticed that NHAI had handed over 64.86 kms (more than 75 *per cent* of the stretch) to the concessionaire till December 2012 and 74.90 kms (more than 90 *per cent*) by 25 November 2013. While the Concessionaire completed the work upto DBM level on 68.20 km by November 2013, they had completed BC work on only 29.90 km by that date and hence was not ready for provisional completion certificate. The concessionaire could complete BC on 75 *per cent* of the stretch only by July 2014 i.e. eight months after the scheduled completion date. Since tests prescribed in the CA were completed by December 2014, provisional completion certificate could have been issued earliest on that date.

Thus, provisional completion certificate could not have been granted in 2013 and the restoration of annuities without any deduction despite the recommendation of IE and the Project Director, resulted in undue favour to the Concessionaire amounting to ₹25.67 crore.

NHAI in its reply stated (January 2018) that

- NHAI had also defaulted in handing over of land. Annuities were restored with the approval of Executive Committee based on the recommendations of three Chief General Managers Committee, after detailed analysis of the defaults on the part of NHAI and concessionaire.

- Delay days worked out to 588 against 582 days noted by IE. NHAI had considered the lesser of the two.

Reply of the Management was not acceptable as

(i) IE recommended that the delay of 492 days was attributable to NHAI after considering the delay in handing over of land. Considering the fact that 12-18 months was reasonable period for construction of ROB-3 and required approvals and land became available in September 2013, the ROB-3 work could have been completed by March 2015. However, it was not completed even by the provisional completion date. Thus, the premise of NHAI, that the concessionaire could complete 75 *per cent* of the highway length, did not hold ground. Besides, it was noted from the minutes that the delay in the construction of structure of ROB-3 was not discussed by the committee.

(ii) The Policy Matters – Technical Circular (January 2016) provided that IE should consider the delays on the part of concessionaire due to his inadequate mobilisation of resources and financial constraints for calculating the compensation payable to the Concessionaire. In the subject case, IE had recommended delay of 492 days attributable to NHAI and not 582 days as considered by the management. However, the reply was silent on why the 90 days delay on the part of the concessionaire was not considered by NHAI and ₹25.67 crore was not deducted from the annuity.

Thus, by restoring the annuities without any deduction for the delay on the part of the Concessionaire in completion of ROB-3 at the project highway, NHAI extended undue favour to the concessionaire amounting to ₹25.67 crore.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

11.8 Loss of revenue due to non-collection of toll

National Highways Authority of India failed to collect the toll at two toll plazas even after completion of the project relating to strengthening and upgradation of Karur-Coimbatore section of NH-67 which resulted in revenue loss of ₹142.28 crore.

National Highways Authority of India (NHAI) directed (April 2003) all Project Implementation Units (PIUs) to submit proposal for levy of toll fee on newly constructed sections at least 150 days prior to the likely date of completion of the project to the Headquarters. Rule 3(2) of the National Highways Fee (Determination of Rates and Collection) Rules, 2008 provided (December 2008) that the collection of fee for use of any section of National Highway should commence within 45 days from the date of completion of the project and Rule 4(3) provided that the rate of fee for use of National Highway, having two lanes and on which the average investment for up gradation had exceeded ₹one crore per kilometre (km), should be 60 *per cent* of the rate of fee specified under Rule 4(2).

The Ministry of Road Transport and Highways (MoRTH) accorded (February 2006) administrative sanction for strengthening and upgradation of 114 km long Karur-Coimbatore Section of National Highway-67. The project was completed in June 2010 under the supervision of PIU, Karur at a cost of ₹279.14 crore, i.e., ₹2.45 crore per km. As per the directions (April 2003) of NHAI Headquarters, the proposal for toll collection on the Karur-Coimbatore stretch should have been forwarded by PIU, Karur in January 2010 i.e., 150 days prior to completion of project. However, the proposal for toll fee collection was forwarded by PIU, Karur only in September 2010, with a delay of eight months. Concurrently, MoRTH vide its notification (December 2010) revised the monetary limit of average investment on upgradation from ₹one crore per km to ₹2.5 crore per km for toll collection. As the cost of investment in the project was ₹2.45 crore per km (i.e., less than ₹2.5 crore per km), the proposal for toll collection was not approved by NHAI. In December 2013, MoRTH issued another notification which removed the provision related to average investment on upgradation and provided that the rate of fee for use of a section of National Highway, having two lanes with paved shoulders and above but below four lane on which substantial improvement had been made by widening carriageway by three meters or more, should be 60 *per cent* of the rate of fee specified under Rule 4(2).

Accordingly, NHAI Headquarters instructed (February 2014) its Regional Office (RO), Chennai to submit a proposal for toll collection on the Karur-Coimbatore stretch after examining whether it qualified for toll collection. As the strengthening and upgradation work on the stretch had resulted in widening of the road by three meters, i.e., from 7 meters to 10 meters, the stretch was qualified for levy of toll. Accordingly, the proposal for construction of two toll plazas at Pongalur and Thennilai, was forwarded (April 2014) by PIU, Karur and approved (July 2014) by NHAI Headquarters. Temporary toll plazas were constructed at a cost of ₹7.35 crore. Based on competitive bidding, letters of award were issued (December 2014/January 2015) for collection of toll at Pongalur and Thennilai toll plazas at ₹6.13 lakh per day and ₹7.23 lakh per day respectively for three months from 31 January 2015. However, toll collection was not commenced on any of the toll plazas on the ground that there was public resentment and a demand for converting the highway into four/six lane. Subsequently, the stretch (Karur-Coimbatore) was handed over to State Government for maintenance vide notification dated 9 April 2015.

Audit observed that:

- NHAI failed to collect the toll fee on both the toll plazas even after incurring expenditure of ₹279.14 crore and ₹7.35 crore respectively on strengthening/ upgradation of the Karur-Coimbatore stretch and construction of two toll plazas. The non-collection of toll by NHAI on this stretch resulted in loss of revenue of ₹142.28 crore[14] from 31 January 2015 to 31 December 2017.

- The project had been completed in June 2010 and as per the extant instructions the proposal for toll collection should have been forwarded by PIU, Karur in January 2010 itself. However, the proposal was submitted belatedly in September 2010 due to which it was rejected by NHAI Headquarters as the project did not qualify for toll collection in terms of notification of December 2010. Had the proposal for toll collection been submitted in time by PIU, Karur, the stretch would have qualified for toll collection in terms of the then prevailing notification (December 2008) as the average investment of upgradation of the stretch was ₹2.45 crore per km which was more than the required ₹one crore per km. Thus, NHAI lost the opportunity to collect toll on the Karur-Coimbatore stretch right since the year of its completion i.e. 2010.

The Management stated (September 2017) that Gazette notification for commencement of toll collection at Thennilai and Pongalur toll plazas on the Karur-Coimbatore section was issued on 10 December 2014. However, the toll collection could not be commenced due to agitation by local public/ public representatives. Further, MoRTH directed (March 2015) that NHAI should carry out substantial improvement on the stretch as per Rule 4(11) of its notification dated December 2013.

The reply of the Management needs to be viewed against the fact that (i) the notification of December 2013 had defined substantial improvement as widening of the carriageway by three meters or more. As the same had been done in the instant case, the stretch qualified for toll collection. Thus, NHAI should have brought these facts to the notice of the Ministry, and (ii) the issue of Gazette notification for toll collection by the Ministry

[14] ***(₹7.23 lakh per day + ₹6.13 lakh per day)*1065 days from 31.01.2015 to 31.12.2017***

establishes the fact that the requirements of the notification of December 2013 with regard to carrying out of substantial improvement had been met. Further, the reply of the Management was silent on the initial delay of eight months (January 2010 to September 2010) in submission of the toll proposal which would have paved the way for collection of toll after completion of the project in June 2010 itself.

The matter was referred to the Ministry in November 2017; their reply was awaited (February 2018).

CHAPTER XII: MINISTRY OF STEEL

Steel Authority of India Limited

12.1 Import, Shipping and Transportation of Coal

12.1.1 Introduction

Steel Authority of India Limited (SAIL or Company) manufactures steel products and requires about 15 MMT (Million Metric Ton) coking coal annually, of which 12-13 MMT is imported. Coking coal is imported either through global tenders or through Long Term agreements (LTAs). The Company's Coal Import Group (CIG) is responsible for import of coal. The CIG assists the Empowered Joint Committee (comprising SAIL and RINL) and SAIL Directors Committee (SDC) to take import related decisions. The Transport and Shipping Department (TSD) of the Company is responsible for chartering of vessels for overseas transport of imported coal and limestone, port handling and dispatches of imported cargo from ports located at Visakhapatnam, Gangavaram, Paradip, Dhamra and Haldia to respective steel plants. Value of its annual coal imports ranged between ₹6937 crore to ₹11,656 crore during 2013-14 to 2016-17 which was 15 to 22 *per cent* (approx) of the Company's total expenditure annually.

The audit objective was to assess whether import of coking coal and its shipping, handling and transport to the steel plants were managed in a transparent, competitive and fair manner ensuring efficiency and economy.

SAIL imported 51.10 MMT of coking coal valuing ₹37,254 crore during 2013-17. Audit reviewed records relating to import of 38.79 MMT of coal valuing ₹25,598 crore at Coal Import Group of SAIL. All eight long term agreements for import of coal entered into by SAIL during 2013-16 were covered during the audit. Audit examined the entire activity relating to import of cargo and dispatches to steel plants through records kept at Transport & Shipping Headquarter of SAIL, Kolkata and its five Branch Transport and Shipping Offices (BTSOs) located at Visakhapatnam, Paradip, Haldia, Kolkata and Dhamra. During this period (2013-17), 670 vessels were chartered / handled by the TSD for import of 53.08 MMT of coal and limestone at a logistic cost of ₹12,797.07 crore. Audit examined chartering of 511 vessels by TSD for import of 40.93 MMT coal and limestone at total logistic cost of ₹9633.40 crore. All handling contracts related to coal and limestone awarded during the same period were also examined by the audit.

12.1.2 Audit findings

12.1.2.1 Import of Coal

A. Vendor base for import of coal not augmented

The Company's policy on coal import is to procure the bulk of its imports through long term agreement (LTA). LTAs are entered into with suppliers in the vendor base of the Company. A large vendor base increases competition and leads to more competitive prices for the Company. Clause 5 of the Policy for Import of coal of the Company stipulates that the supplier base be broadened by open, global, invitation for Expression of Interest (EOI) throughout the year. The EOIs that are accepted technically are tested before a new vendor is added.

Audit noted that the Company failed to develop any new vendor during 2010-17, and only one vendor was added in 2017-18. It was seen that the Company had not framed any time frame for evaluation of EOIs, Pilot Oven Testing and Industrial trial run. Out of 21 responses received against 4 EOIs issued during 2013-17, the Management failed to complete technical evaluation for two, though these EOIs had been issued as early as June-July 2015. Only three responses were found to be technically compliant. Audit noticed that one of these have been finalised in 2017-18 and there were considerable delays in the process as indicated below:

- One bid was identified as technically compliant in December 2013. The pilot oven tests were completed in August 2014 and the case was abandoned in May 2015 as the vendor and company were fighting in the court in another case.

- Another bid was found technically compliant in December 2015 and pilot tests were completed in April 2016. The Management decided (June 2016) to conduct industrial trial which has not yet materialised (June 2017).

The Management stated (June 2017) that they are making all efforts to increase the vendor base and that time taken in processing the EOI was based on completeness of the bid. The Management also stated that the bidders were to be intimated regarding acceptability or otherwise of their bid within six months of receipt of the bid.

The reply of the Management is not acceptable as the vendor base remained virtually static over the last seven years and considerable delays in processing of EOIs issued during 2013-17 were noticed.

B. Poor assessment of coal import requirement

The Company assesses the imported coal requirements on an annual and quarterly basis. The prices for the quantity ordered for the quarter are accordingly finalised with the LTA suppliers. Audit observed that quarterly import requirement for April- June quarter of 2015 was decided in March 2015 as 4,50,000 MT of Moranbah Hard Coking Coal which was to be supplied by the LTA supplier M/s Anglo American. In June 2015, the Company requested the LTA supplier to deliver the remaining quantity of 75000 MT in 3rd or 4th quarter of 2015-16 to reduce the stock of the company. The coal was finally delivered in the April – June quarter of 2016. As per the arrangement with the LTA supplier, the coal was to be delivered at the price applicable in April-June quarter of 2015. Audit noticed that the price of coal in April-June quarter of 2016 was lower than the price in April-June 2015 quarter by USD 25.50 per MT. As such, the Company could have saved ₹12.43 crore had it assessed the requirement of coal accurately in March 2015.

The Management stated that they reviewed (April 2015) the stock of imported coal and decided to regulate the receipts of imported coal.

The reply highlights the fact that the Management failed to assess the actual requirement of imported coal in March 2015 and had to revise the delivery schedule within a month of placing the order, which led to avoidable expenditure of ₹12.43 crore.

C. Sampling and Inspection of imported coal

The LTAs with the suppliers stipulated that the seller was to carry out sampling and inspection of the materials at the loading port by a mutually agreed inspection agency. Such inspection report was the basis for accepting the coal quality and making payments. The inspection agency would also retain a part of the sample for independent verification by the purchaser.

C.1 Audit observed that during 2013-16, the Company did not exercise its right to independently verify the quality of coal and routinely paid for the quality and quantity established by the mutually agreed inspection agency.

The Management stated (June 2017) that in case there were significant, continuing and material deviations in the quality and quantity supplied against the Agreement, the reason would be investigated to reach a mutually agreeable solution.

Reply of the Management is not acceptable. Audit test checked seven invoices raised between January and December 2014 and noted that all seven shipments from M/s Werris Creek had total moisture of 12 *per cent* (maximum tolerance limit being 12 *per cent*) and in 11 shipments (out of 25 shipments) during the same period, coal supplied by M/s BHP had ash content of 9.8-9.9 *per cent* (maximum tolerance limit being 10 *per cent*). Despite these persistent borderline quality parameters, the Company did not exercise its right to independently verify the quality of coal.

C.2 Rotation of inspection agencies is envisaged in the LTAs for import of coal. The Company selected three inspection agencies with provision of rotation every six months in the LTA signed with M/s Werris Creek (no. 706/2008). Likewise, the LTA signed with M/s BHP (no. 224/10), provided for two inspection agencies to be rotated every five vessels. Audit noticed however, that inspection at loading ports was always conducted (2013-16) by a single agency for both suppliers (M/s Actest for shipments from M/s Werris Creek and M/s SGS for shipments from M/s BHP).

The Management replied (June 2017) that M/s Werris Creek had commenced rotation of inspection agencies and stated that as one of the agencies (M/s Bureau Veritas) closed (January 2013) their office, M/s BHP was getting inspection done by M/s SGS till another suitable inspection agency was selected.

Reply of the Management needs to be seen against the fact that rotation of inspection agencies is in the interests of the Company to ensure that their results are not biased and are independent in respect of M/s BHP is not acceptable as even after a gap of more than four years, no other Inspection Agency was selected by the Management.

C.3 As per LTA signed with M/s Werris Creek (valid till December 2014), guaranteed moisture and total absolute moisture should be upto 10 *per cent* and 12 *per cent* respectively. Moisture level beyond 10 *per cent* would lead to penal deduction in coal price and beyond 12 *per cent* would lead to rejection of coal. In the new agreement signed with M/s Werris Creek, effective January 2015, the guaranteed moisture and total absolute moisture limits were modified from 10 *per cent* and 12 *per cent* to 11 *per cent* and 13 *per cent* respectively. However, these revised parameters were made effective, retrospectively from July 2014. Due to increase in the tolerance limits, the supplier could avoid payment of penalty on inferior quality of coal supplied and the company had to forgo a rebate of ₹1.92 crore during September to December 2014.

The Management stated (June 2017) that changes in guaranteed limit and absolute maximum limit for total moisture was in line with the EJC settlements and for the new LTA to be entered into w.e.f. from 1 January 2015.

The reply of the Management is not acceptable as change in parameters for the new agreement should be with prospective effect alone.

D. Inadequate exploitation of captive mines leading to dependence on import

The Company is heavily dependent on import of coal though it has three captive coking coal mines. Development of captive mines augments indigenous coking coal availability and safeguard against volatility of import prices. The Company has two fully functional captive mines (Jitpur and Chasnalla) to extract coking coal. Besides, mining is done at Tasra colliery on a small scale.

Audit observed that production from captive collieries was in range of 40 to 80 *per cent* of the rated capacity[1] of the mines during 2013-17 (except Chasnalla for the year 2016-17)[2] and there was a shortage in production vis-a-vis the rated capacity of 0.728 Million tonnes during 2013-17 as given in the table below:

Production of coal from captive mines

(in Million Tonnes)

	Chasnalla			Jitpur		
	Rated capacity	**Actual production**	**% to Rated capacity**	**Rated capacity**	**Actual production**	**% to Rated capacity**
2013-14	0.60	0.480	80	0.14	0.056	40
2014-15	0.60	0.326	54	0.14	0.092	66
2015-16	0.60	0.483	80	0.14	0.075	54
2016-17	0.45	0.46	101.16	0.12	0.09	70
Total		**1.749**			**0.313**	

Reasons provided by the Management for low production included non-deployment of outside agencies, non-availability of equipment and material, shortage of sand, equipment breakdown, all of which were within their control. It was also noticed that the Company

*1 **Here rated capacity means consent to operate as agreed by SAIL and Mining Authorities***

*2 **The rated capacity at Chasnalla was reduced to 0.45 million tonnes in 2016-17 and though the physical production declined over previous year, the production as a per cent of rated capacity increased to 101 per cent*** took five years (June 2002 – July 2007) to submit the mining plan to Ministry of Coal and finally approval of Ministry of Coal for the mining plan for Tasra could be obtained in June 2009 after a lapse of seven years. Mining on a small scale in pits started in 2009 in Tasra, but the Company took another four years to enter into a contract with Mine Developer cum operator (MDO) for coal development and mining (in September 2013) to start full scale operations.

While accepting the audit observations, the Management stated that actions are being taken to minimize the production losses at Jitpur and Chasnalla coal mines. The Management assured development of Tasra Opencast Project during 2017-18.

The low level of production from Jitpur and Chasnalla and delay in development of Tasra mine contributed to increased dependence of the Company on imported coal.

12.1.2.2 Shipping and Transportation Activities

SAIL chartered vessels for import of cargo and also engaged contractors for material handling at ports from shore clearance to loading into railway wagons.

A. Injudicious management decision to enter into long term shipping contracts

SAIL decided (December 2007) to enter into long-term shipping agreements of up to 15 years for import of coal in order to reduce incidence of freight. The Company entered into four long-term[3] Contracts of Affreightment (COA) between November 2007 and August 2008 for import of coal from Australia.

Audit observed that ocean freight rates had been highly volatile during this period (2007-08). The Baltic Dry Index, used by shipping trade for assessment of freight fluctuated from 2000 points in August 2005 to 5000 in March 2007 and 10000 in November 2007, indicating the high levels of volatility. As such, entering into long term contracts at this stage was injudicious.

After economic meltdown (2008), the ocean freight fell sharply and freight rates agreed in the COAs (November 2007 to August 2008) proved to be much higher than the spot freight rates. The Company started chartering vessels based on spot rates outside the COAs and decided (August 2012) to abandon or even terminate some COAs. Out of the agreed quantity of 11.50 MMT to be shipped through COAs, the Company imported only 4.92 MMT. Four vessel owners went into arbitration against SAIL for not offering shipments as per contract. In two of these cases, the arbitration orders went against the Company (August 2014 and May 2016) and an amount of ₹343.51 crore[4] is payable to the COA owners with interest up to actual realisation.

The Management replied (June 2017) that the long term COAs were entered into to obtain competitive rates. In view of the unprecedented market volatility, the Board had decided to not to honour the COAs and let them expire or even terminate them as it was felt that as

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[3] ***Two COAs of five years duration (November 2007 @ USD 48.5 per tonne, March 2008 @ USD 34 per tonne) and one each of four years six months and four years nine months duration (December 2007 @ USD 40 per tonne)***

[4] ***USD 14.05 million @ INR 60.67 + USD 38.60 million @ INR 66.91***

even in case some ship owners sought for legal remedy, the liability of the Company would be confined to the financial impact of honouring the existing contracts.

Reply of the Management does not explain the decision to enter into long-term COAs based on peak rates in a highly volatile market.

B. Poor management of tenders for handling imported material

The Competition Act (2002) explicitly prohibits collusion among the bidders which could result in eliminating or reducing competition for bids or adversely affect or manipulate the process for bidding.

Audit reviewed four tenders for handling of coal and limestone at Paradip and Haldia ports during the period under review (2013-17). From the tender documents submitted by the bidders against these four tenders, some of the bidders appeared to be related parties as detailed in the table below:

Details of bidders

	Paradip works		**Haldia works**	
Name of work	**Handling job of Limestone**	**Handling job of Coal**	**Handling job of Limestone**	**Handling job of Coal**
Bidders[5]	OSL, MM, RCPL and SCDC	OSL, MM, RCPL and ECBC	RCL, RCSHL and OSL	
L-1 party	OSL	MM	RCL	
Validity period and rate	August 2014 to July 2016 at ₹155.88 per MT	November 2012 to October 2016 at ₹122.50 per MT	October 2012 to October 2014 at ₹167.35 per MT for handling limestone November 2012 to November 2014 at ₹147 per MT for handling coal	

- In response to the tender for handling limestone at Paradip port, four parties submitted their bid (June 2014). Two of these parties, M/s OSL and M/s M Mishra appeared to be related from the documents submitted by them. The board members of M/s OSL were partners in M/s M Mishra, both companies had the same contact details and demand drafts submitted by both parties were issued by the same bank, on the same date, and numbered consecutively. M/s OSL won the tender. Audit noticed that M/s OSL had been handling limestone at Paradip since 2010. In the subsequent tender (February 2016), three technically eligible bids were received and a new competitor, M/s Seaways participated. It was seen that M/s Seaways Shipping won the tender at a price which was less than the earlier handling contract with M/s OSL by 33 *per cent*.

- M/s OSL and M/s M Mishra also submitted separate bids for coal handling in Paradip port (August 2012). M/s M Mishra won the bid. In a subsequent tender of May 2016, the competition improved and two new competitors (M/s Seaways Shipping Logistics Limited and M/s Swastik Stevedores Private Limited) also

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5 ***M/s Orissa Stevedores Limited (OSL), M/s Mahimananda Mishra (MM), M/s Roy Chatterjee (P) Limited (RCPL), M/s Satish Chandra Das & Co. (SCDC), M/s EC Bose & Co. (Paradip) Private Limited (ECBC), M/s Ripley and Company Limited (RCL), M/s Ripley and Co. Stevedoring and Handling Private Limited (RCSHL)***

emerged as technically eligible. In this tender, M/s M Mishra again won the contract but with a lower quote of 34 *per cent* with respect to the previous work order.

- The same three parties, viz., M/s RCL, M/s RCSHL and M/s OSL bid for both the limestone and coal handling tenders (October 2012) at Haldia. Both bids were won by M/s RCL. A review of the tender documents indicated that M/s RCL and M/s RCSHL were likely to be related. The promoter of M/s RCSHL was partner in M/s RCL. Both companies had the same contact details and demand drafts submitted by both were issued by the same bank on the same date and consecutively numbered. The contract for handling of limestone was extended up to August 2015. Subsequently, a composite handling contract (for limestone and coal both) at Haldia was awarded to M/s Netincon Marketing Private Limited for the period 06 August 2015 to 31 March 2017.

M/s OSL, M/s M Mishra and M/s RCL executed work valuing ₹11.66 crore (August 2014-August 2016), ₹84.34 crore (December 2012 to September 2016) and ₹38.43 crore (2012-2015) respectively. The Management failed to carry out due diligence while scrutinising the bid documents to prevent collusion among the bidders. The possibility that competition was compromised in all four tenders could not be ruled out.

The Management stated (June 2017) that the audit observations have been noted for future guidance and that the bidders were separate entities.

The reply needs to be viewed against the fact that the bid documents itself indicated that the bids had been submitted by related parties.

C. Non-recovery of demurrage from DPCL

M/s Dhamra Port Company Limited (DPCL), which owned and managed Dhamra port, was the service provider for handling import and export vessels at the port. The Transport and Shipping Department (TSD) placed work order on DPCL effective from April 2015. As per the agreement with DPCL, priority berthing was allowed for TSD vessels and demurrage was to be borne by DPCL in case the time taken to discharge the SAIL cargo exceeded the free time[6] allowed under the agreement. Audit observed that demurrage[7] amounting to ₹8.83 crore (₹1.28 crore for cape size vessels and ₹7.55 crore for Panamax vessels) had to be paid to vessel owners by the Company for vessels berthed at Dhamra port during the period 2015-17. The demurrage was not recovered from DPCL by the Company.

The Management stated (June 2017) that DPCL had fulfilled the guaranteed discharge rate in respect of all the cape size vessels and therefore recovery was not made on account of cape size vessels.

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[6] ***Free time is the number of free days allowed to DPCL to discharge the SAIL cargo***

[7] ***Demurrage was payable by DPCL on exceeding the free time allowed to discharge SAIL cargo as per the demurrage rate in the agreements between SAIL and vessel owners***

Reply of the Management was not acceptable since demurrage was recoverable from DPCL as per the agreement, irrespective of the vessel type. The reply was silent about non-recovery of demurrage charges on account of Panamax vessels.

D. Under-recovery of idle freight from contractors

Railway freight is charged based on the permissible carrying capacity of the railway wagon. Even if the wagon is under-loaded, full freight charges have to be paid. Audit noticed that the handling contracts were not uniform in penalising under-loading of railway wagons.

- The handling contract with M/s M Mishra and M/s OSL at Paradip port did not contain any recovery clause for idle freight and therefore ₹69.46 crore paid during 2013-17 for under-loaded wagons could not be recovered from them.

- The handling contracts at Haldia, Vizag and Dhamra included a clause for recovery of idle freight but the Company did not implement it. The contract with M/s DPCL for Dhamra port stipulated recovery of idle freight but against dues of ₹21.82 crore, TSD recovered only ₹2.94 crore from DPCL. At Haldia, against idle freight charges of ₹78.31 crore payable by the handling agent, TSD recovered only ₹6crore and in Vizag, against the idle freight of ₹105.12 crore paid, TSD recovered only ₹1.08 crore.

Thus, TSD paid idle freight of ₹274.71 crore during 2013-17 for short quantity of coal and limestone loaded in railway wagons but could recover only ₹10.02 crore from the handling contractors while the balance ₹264.69 crore remained unrecovered.

The Management stated that under normal circumstances, imported coal with lower bulk density cannot be loaded technically up to 'permissible carrying capacity' and accordingly no penal provision was envisaged. Further, based on a load-ability study conducted by TSD in 2015-16, the handling agents would now be required to load maximum quantity in rakes so as to minimize idle freight.

The Management's technical concerns regarding full loading of wagons needs to be seen against the contracts it entered with some handling agents penalising under-loading. Even, the loadability study only fixed (April 2015) a minimum loading quantity per wagon while stressing that handling agents should load the maximum quantity in rakes to address idle freight.

E. Non-recovery of overloading charges from Haldia port

During 2010-12, the Transport and Shipping Department (TSD) agreed to avail the cargo handling services of Haldia port. It was decided that the representative of TSD would monitor weighment and loading of import cargo on railways wagons. TSD, however, did not depute their representative despite several requests from Haldia port. During this period, Railways recovered ₹2.88 crore from TSD as overloading charges which could not be recovered from Haldia port as TSD had not deputed its representative to monitor weighment and loading.

The Management stated (June 2017) that they have decided to take up the issue with Ministry of Steel as per the existing guidelines. Any commercial claim with the Port would be ultimately dealt with under Major Port Trust Act / Tariff Authority of Major Ports guidelines.

The reply does not justify non-deputation of a representative at Haldia port to monitor weighment and loading.

F. Short receipt of coking coal at steel plants

Quantity shortages were often noticed when the cargo was weighed at the receiving steel plants. Based on an Expert Committee recommendation, Board of Directors of the Company approved (March 2004) norms for such shortages. The norm for transit losses in respect of imported coking coal received at steel plants was (+/-) 3 *per cent*. Audit reviewed the coal dispatched from Paradip, Dhamra and Haldia to steel plants during the period 2013-17 and noted shortages beyond 3 *per cent* (3.01 *per cent* to 10.47 *per cent*) in the coal received at Bokaro, Durgapur, Bhilai, Rourkela and Burnpur steel plants. Transit losses in excess of the norm accounted for 38,900 MT coal valued at ₹29.23 crore. Audit also noticed that transit losses higher than norm was common and seen in 25 out of the 48 months reviewed. Even after TSD engaged (June 2014) an escort agency for transportation of coal from Paradip port to steel plants, transit losses in excess of the norm was noticed in despatch from Paradip to RSP during 8 out of 12 months annually in 2015-16 and 2016-17.

The Management replied (June 2017) that there was no sign of en-route theft and variation in weighment was due to scale variation between port and plant weighbridge.

Reply of the Management is not acceptable as it failed to calibrate and maintain the weighbridges to retain accuracy despite noticing variations in excess of norms continuously. Due to persistent transit losses during 2013-17, audit is unable to rule out unauthorised diversion.

12.1.3 Conclusion

Audit observed that vendor base for imported coal remained almost static over last seven years and there were considerable delays in processing of responses received from prospective vendors. Despite persistent borderline quality parameters, the Company did not exercise its right to independently verify the quality of coal, nor ensured rotation of Inspection Agencies. Besides, low levels of production from existing captive mines and delay in development of Tasra coal mines contributed to increased dependence on imported coal. Audit observed that there was poor management of tenders for handling imported material and the possibility that competition was compromised in all four tenders for handling limestone and coal in Paradip and Haldia during 2012-16 could not be ruled out. Audit also observed that Company failed to recover demurrage, idle freight and overloading charges paid by it to the vessel owners/Railways from the handling agents leading to loss to the Company. Transit losses in transportation of coal from the port to the steel plant were also in excess of the norms, with a high loss in 8 out of 12 months annually during 2015-16 and 2016-17 from Paradip port. The financial impact of audit observations cited in the para is ₹319.98 crore.

12.1.4 Recommendations

- The Company should fast track expansion of its vendor base for import of coal.
- Rotation of inspection agencies and independent inspection of quality should be instituted to ensure that appropriate quality of coal is imported.
- The Company should appropriately scrutinise the tender documents submitted by bidders to ensure that competition is not compromised.
- The Company should protect its own interest by introducing suitable clauses in handling contracts for recovery of demurrage, idle freight/ overloading charges and ensure their implementation.
- Suitable steps need to be taken to eliminate losses during transit of coal from port to steel plants, particularly in Paradip port.

The matter was referred to the Ministry in January 2017; their reply was awaited (February 2018).

12.2 Sale of Secondary and By-products of steel

Steel Authority of India Limited (SAIL/Company), a Maharatna Public Sector undertaking under the Ministry of Steel, is the largest steel manufacturing company of India. During the process of production of steel, it also generates by-products like tar, benzol products, ammonium sulphate and blast furnace granulated slag etc. Secondary products like blooms and rails, cuttings of rail/rod/coil, rejected pipe etc. which are defective or rejected and scraps that are iron bearing are also generated during the process. These secondary and by-products are generated in huge volumes and are in high demand in the metallurgical, cement and chemical industry and are sold through e-auction, tender, fixed price and Inter Plant transfer by the Marketing departments of the respective steel plants as per the guidelines issued by the SAIL Corporate Material Management Group (CMMG) from time to time.

The objective of audit was to assess:

- whether the Company had procedures in place for timely identification, segregation and storage of secondary products;
- fixation of reserve price and fixed price was realistic;
- sale/e-auction of secondary and by-products was managed efficiently and effectively;
- Internal controls were adequate.

Audit examined the records in all five integrated steel plants[8] for the period 2013-14 to 2016-17. The sample selected for review comprised 100 *per cent* of secondary product sale and 25 *per cent* of by-product sale.

12.2.1 Audit Findings

12.2.1.1 Lack of separate storage yard for secondary products

CMMG guidelines stipulate that secondary products identified for sale be removed from the place of generation/main shop and be stored at a separate location for disposal to avoid the mix up with the prime materials.

Separate stockyard helps in proper storage of secondary products to maintain its saleable value and also helps in formation of small-size lots for sale through auction. BSL, BSP and RSP have dedicated in-house stockyard facilities which can stock secondary products for a few months. DSP and ISP, however, do not have separate secondary storage facility and material is sold directly from the stacks of the production units. This resulted in blockage of space at production units and mixing of primary products with such secondary products.

Audit observed that in ISP, prime quality fresh pig iron produced in the blast furnace was traditionally stored in an open yard. During the initial days of operation of blast furnace 5, some off-grade pig iron was generated. In December 2014, 2500 tonnes of such off-grade pig iron were auctioned and two parties were issued delivery orders for 1250 tonnne each at a total price of ₹5.95 crore (₹2.96 crore and ₹2.99 crore respectively). Both parties deposited (29 December 2014) their respective amounts. The off-grade pig iron was stored in the yard meant for fresh pig iron and got covered under the fresh pig iron. ISP, therefore, was unable to deliver the off-grade pig iron and had to refund (January 2015) the advance of ₹5.95 crore.

The Management accepted (June 2017) that cancellation of delivery order happened due to inadequate storage capacity and stated that a temporary secondary stockyard had been created (January 2017) at ISP. DSP also assured that the observation had been noted for compliance.

12.2.1.2 Unrealistic price fixation for secondary products/ by-products

Secondary products/ by-products are sold through Forward Auction[9] (FA). Lots with unique numbers are formed and put to auction with unsold lots carried forward to the next auction. Forward auction begins with a start bid price and sale orders are issued after comparing the bid price with the reserve price fixed by the Reserve Price Fixation Committee (RPFC). RPFC fixed the reserve price through e-auction after taking into consideration factors such as prevailing market conditions, prices fixed by sister plants, prices of corresponding material, age, condition and availability of stock, rates obtained in

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[8] ***Bokaro Steel Plant (BSL), Bhilai Steel Plant (BSP), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP) and IISCO Steel Plant (ISP)***

[9] ***Forward auction are electronic auctions, which can be used by sellers to sell their items to many potential buyers. Sellers and buyers can be individuals, organisations etc. Buyers can continuously bid for the items they are interested in. Eventually the highest bidder wins the item***

last e-auction or open tender, information available in journals, magazines, newspapers, websites etc. Secondary products/ by-products are also sold on fixed price basis. The CMMG guidelines provide that for such sales, some quantity of the material be sold periodically through e-auction or open tender to assess the realistic market price.

12.2.1.3 Loss due to unrealistic fixation of reserve price in BSL

Audit reviewed the fixation of reserve price in 496 cases of e-auctioning at BSL (April 2013 to August 2016). The lots were repeatedly auctioned upto 71 times with no case finalised in one auction. Repeated auction was on account of un-realistically high reserve price being fixed. With successive auctions, the reserve price was lowered until bids matched with the reserve price. This led to a situation where the actual sale price was often lower than the highest bid received for the lot.

In case of the lots that were auctioned upto 71 times, the highest bid received was higher than the actual sale price, the difference being ₹5.36 crore, leading to an actual loss of BSL. In 52 cases (10.4 *per cent* of e-auction cases reviewed), the lots were sold at prices which were more than 10 *per cent* lower than the highest bid that had been received for the lot. The loss could have been avoided by fixation of realistic reserve prices.

The Management stated (June 2017) that RPFC fixed the reserve price taking into consideration the prevailing market condition, available stock, order balance, variable cost of material, rates obtained in last Forward Auction, etc.

The reply that prevailing market conditions were considered is not acceptable as reports of 10 RPFC meetings held during 2014-15 and 2015-16 revealed that there were no discussions on market conditions in these meetings.

12.2.1.4 Loss of ₹2.39 crore due to injudicious fixation of reserve price for BFG[10] slag in ISP

The reserve price for BFG slag at ISP was fixed at ₹900 per tonne. An open tender was issued (March 2014) for disposal of the material and the highest bid received was ₹635 per tonne. Since the highest bid was much lower than the reserve price (29.45 *per cent* lower), the offer was rejected and the tender evaluation committee recommended re-tender. In the re-tender (August 2014), the reserve price was reduced to ₹625 per tonne and the highest bid received was ₹510 per tonne. Though this was 18.40 *per cent* lower than the reserve price, this bid was accepted. In the process, ISP incurred a loss of ₹2.39 crore.

Audit observed that during re-tender, the reserve price was fixed considering market report submitted by M/s. Metal Junction while in the original tender, market trend was not considered for fixing reserve price leading to fixation of an un-realistic reserve price and the Company lost an opportunity to generate additional revenue of ₹2.39 crore[11] being the differential bids obtained in the two auctions.

[10] ***Blast Furnace Granulated***

[11] ***1,91,000 tonne* (₹635- ₹510)***

The Management stated (June 2017) that slag price at ISP was traditionally fixed in line with the price trend of DSP and ISP.

The reply was not acceptable because market conditions for fixation of reserve price was not considered, though the Management had access to market inputs.

12.2.1.5 Failure to fix prices in line with price discovered in e-auctions

For sale of material at fixed prices, the CMMG guidelines provide that such prices should be discovered based on e-auction or open tender. BSL had sold 400 tonnes of Ammonium Sulphate through e-auctions in April 2014 at prices ranging between ₹8000 to ₹8500 per tonne. However, BSL fixed an average price for Ammonium Sulphate at ₹6634 per tonne, without considering the discovered price and sold 5214 tonnes of it at this price (during May to July 2014). This led to BSL disposing Ammonium Sulphate at lower than the discovered market price, the price difference being ₹0.78 crore[12].

The Management stated (June 2017) that comparison of fixed prices with auction prices was not appropriate and that the material was sold at fixed prices because of their hazardous nature and storage problems.

The reply of the Management does not address the concern of fixing price below the price discovered through e-auction, as provided in the CMMG guidelines.

12.2.1.6 Deficiencies in determining the price for sale through the fixed price mode in DSP

In DSP, few by-products (Flue dust, Lime fines, Power plant cinder, Waste gas cleaning dust and Liquid nitrogen) were being sold through fixed price mode. Audit observed that in the last two years (ending March 2017), auction for flue dust and power plant cinder were held only in June 2016 and July 2015 respectively. No auction was held for any of the other products.

The Management stated (June 2017) in its reply that the material are of low value. Besides, availability was uncertain and disposal had to be immediate on account of operational hazards.

The reply of the Management does not address the concern of fixing price of products without discovering their price through e-auction, as provided in the CMMG guidelines. Besides, these products were being sold every year, average sale value being ₹3 crore per annum (approximately) and as such, discovery of price through e-auction would be prudent.

12.2.1.7 Inconsistencies in sale below reserve price

CMMG guidelines stipulated that if the highest bid received in an auction is lower than the reserve price, the material may be sold to the highest bidder (subject to a limit of 90 *per cent* of reserve price), after approval of the competent authority.

[12] ***(Average price obtained in auction ₹8125/tonne–average fixed price at which Ammonium Sulphate sold ₹6634/tonne * 5214 tonne***

Audit observed that the Company did not follow this guideline in a consistent manner.

(i) During seven auctions conducted at BSL for sale of mixed coke between December 2013 and December 2014, BSL obtained bids ranging between 91 to 99 *per cent* of the reserve price. BSL, however, did not accept the bid price and decided to re-tender though the bid was within the acceptance range prescribed under the CMMG guidelines.

(ii) On the other hand, ISP issued an open tender in August 2015 for disposal of Blast Furnace Granulated (BFG) slag with the reserve price of ₹459 per tonne. Only one party (M/s. AC Limited) submitted a bid of ₹100/tonne which was later revised to ₹250/tonne after negotiation. Though a single bid had been received and the price quoted was 46 *per cent* lower than the reserve price, ISP awarded (December 2015) the contract for a period of three years. Audit noted that the previous contract for BFG had been awarded by ISP (September 2014) @ ₹510/tonne (for one year). Accepting a single price bid lower than 90 *per cent* of the reserve price was not in line with the CMMG guidelines.

The Management stated (June 2017) that mixed coke was sold at or above 100 *per cent* of reserve price as per policy. At ISP, regular disposal of granulated slag was necessary for smooth operation and ramping up of newly built blast furnace 5.

The reply does not address the inconsistent application of CMMG guidelines across the units of SAIL.

12.2.1.8 Delay in disposal of secondary products

(a) Delay in sending secondary materials for disposal resulted in loss of ₹17.04 crore in BSL

Defective CR un-annealed coil (7737 tonne), HR coil (7200 tonne) and HR plate (8500 tonne) which had accumulated over previous years were sent to the secondary yard during 2015-16 for creation of lots and disposal in BSL. Audit observed that the average market prices for these products over the previous three years (2012-13 to 2014-15) were higher than those in 2015-16 when these were finally disposed. BSL's failure to send the secondary materials to the storage yard in time and the consequent delay in disposal resulted in loss of ₹17.04 crore on account of lower prices as detailed in table below:

Product	Accumulated stock over previous years	Average selling price during last three years per tonne	Actual selling price per tonne	Difference (₹ per tonne)	Loss (₹ in crore)
CR Un-annealed coil	7737[13]	32482	24587	7895	6.11
Defective HR Coil	7200	30958	24450	6508	4.69
Defective HR plate	8500	30892	23547	7345	6.24
Total					**17.04**

[13] ***Data derived at by subtracting average defective quantity sold during 2012-15 (3202 tonne) from 10939 tonne sold during 2015-16***

(b) Delay in identification of surplus assets in BSL

In BSL, 419 old rolls had gone out of circulation between March 1991 and September 2015 in view of various defects. Of these, 399 rolls had accumulated over more than five years. The scrap declaration committee for rolls of BSL declared these rolls as scrap only in April 2016 after a lapse of 7 months to 25 years. Delay in identification of surplus assets resulted in delay in realising revenue from the sale and loss due to possible deterioration in the quality of the rolls with the passage of time.

The Management stated (June 2017) that marketing and production departments were in constant touch to arrange maximum materials for sale and that sometimes though the materials have favourable market price, they were kept for internal use as melting scraps.

The reply was not acceptable as both stock had accumulated over time and were neither disposed nor utilised as melting scrap.

12.2.1.9 Sale terminated prematurely leading to loss of revenue

BSP issued (June 2012) a sale offer valid for one year (June 2012 to June 2013) to M/s International Commerce Limited (ICL) for sale of 1,20,000 tonne of rejected/ broken Ingot Mould and Bottom Stool (IMBS) scrap at the rate of ₹24850 per tonne. ICL deposited payment for 10000 tonne for the month of July 2012 and lifted 6361 tonne till August 2012. BSP suspended delivery of material to ICL (August 2012) and initiated termination proceedings citing failure of ICL to deposit payment for lifting 10000 tonne material in August 2012 by due date. BSP sent two demand letters to ICL (24 September 2012 and 29 September 2012) for payment due for August, September and October 2012. Meanwhile, ICL filed (21 August 2012) an arbitration application in the District Court, Durg. BSP terminated (October 2012) the contract and ₹26.58 crore[14] deposited by ICL was forfeited. In the legal proceedings that followed, Supreme Court considered the special leave petition of ICL and directed the Company to settle the dispute with ICL through conciliation proceedings. The sole arbitrator passed (April 2016) an award in favour of ICL directing BSP to refund the forfeited amount of ₹26.58 crore to ICL along with ₹1.50 crore towards loss of business/profit. Subsequently, BSP auctioned (September/October 2016) the material at prices ranging between ₹17700 and ₹20550 per tonne, much lower than the contract price of ₹24850 per tonne. Undue haste on the part of the Management in terminating the contract resulted in loss of revenue of ₹48.86 crore[15] besides an additional liability of ₹1.50 crore.

The Management stated (June 2017) that action was taken due to non-fulfilment of contractual obligation.

The reply needs to be seen against the sale offer which only stipulated that 1.20 lakh tonne of scrap be lifted during one year without any earmarked quantity for monthly lifting. As per clause 12 and 18 of the RFQ, the purchaser has to make advance payment for the

[14] ***Comprising of Security Deposit (₹14.91 crore), Material value (₹10.67 crore) and EMD (₹one crore)***

[15] ***113639 tonne (120000 tonne - 6361 tonne)* ₹4,300/ tonne (₹24850/ tonne – ₹20,550/ tonne being maximum bid price received by BSP) = ₹48.86 crore***

material to be lifted in a particular month by the first week of the month and penalty can be imposed for short lifting of material after review of performance of the bidder on a quarterly basis. On failure of depositing penalty, the contract could be terminated after due notice. Hasty termination of the contract led to revenue loss of the Company.

12.2.1.10 Differences in delivery order and dispatch advice quantity in BSL

Secondary items generated in BSL shops are transported to secondary yards in trucks/dumpers which are weighed on a weigh bridge after loading. After the accumulation of material in stockyards, lots are formed and offered for e-auction. After the sale of product a delivery order (DO) is issued and the product is weighed and dispatched in trucks/trailers. Dispatch advice (DA) is prepared based on actual lifting from the stockyard.

Audit observed that weight of secondary product as per DA was lower than that recorded in the DO in 691 orders (during 2013-16) in BSL. The difference in weight ranged between five and 86 *per cent*. In 36 of these 691 orders, DA was lower than DO by 25 *per cent* to 50 *per cent* while in 4 cases, it was lower than 50 *per cent* or more. Since the dispatched quantity was lower than the quantity ordered and paid for in advance, BSL had to refund ₹25.31 crore. This resulted in loss of an opportunity to sale in BSL.

The Management stated (June 2017) that due to various weighment related constraints, quite often lots were formed on eye estimation.

Reply of the Management is not acceptable as eye estimation was used to form lots only for products such as coke breeze, lime dust and other fine materials. Trucks carrying secondary goods were weighed at the same weighbridge during entry into the stockyard and during dispatch, hence there was no scope for difference between the DO and the DA on account of weighbridge variations. The Management has not determined reasons for the variations noticed. As such, the internal controls were not effective and possibility of unauthorised diversion or under-reporting of material dispatched to supplier remains.

12.2.2 Conclusion

Secondary products and by-products, generated during operation of the steel plants need to be stored and disposed of timely and efficiently, in a transparent manner, to maximise returns to the Company. Audit observed that reserve prices for auction of these products were often un-realistic leading to repeated re-auction and eventual loss to the Company. For sale of material at fixed prices, it was noticed that the prices were fixed injudiciously, often without considering prices discovered through e-auction as envisaged in the CMMG guidelines. There were delays in disposal of secondary/ by-products which led to deferment of revenue as well as deterioration of quality. In two of the steel plants, there was no separate stockyard for storing secondary products leading to their mixing with primary products. Significant differences were noticed in delivery order and dispatch advice which could not be explained by Management leaving open the possibility of unauthorised diversion and under-reporting of material. The financial impact of the audit observations regarding sale of secondary and by-products in the sample scrutinised is ₹107.19 crore.

12.2.3 Recommendations

(i) The Company should ensure that reserve prices for auction and fixed prices for sale are fixed judiciously, considering the market inputs and prices discovered during e-auction.

(ii) Efforts need to be made for separate storage of secondary material in ISP and DSP.

(iii) The Company should scrutinise the reasons for differences in weights quoted in delivery order and dispatch advice of secondary material and take necessary steps to ensure that such variations are eliminated.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

12.3 Land and Township Management

12.3.1 Introduction

Steel Authority of India Limited (SAIL or Company) operates five integrated steel plants[16], three special steel plants[17] and a Ferro Alloy Plant located in the States of Chhattisgarh, Jharkhand, West Bengal, Odisha, Tamil Nadu, Karnataka and Maharashtra. Each steel plant has its own township containing residential quarters, shopping complexes, community centres, educational institutions, hospitals, public gardens and other facilities like electricity and water supply, sewerage and roads etc. Townships are maintained and managed by the Town Services Departments of the respective plants.

A study on ‘Land and Township Management in SAIL’ was conducted to assess whether land and township services were adequately and effectively managed, leasing and sub-leasing of Company’s land and buildings to other parties was in accordance with the policy and rules framed in this regard, leases were renewed on time, estate dues were recovered and adequate legal action taken against the defaulters and adequate and effective system was in place to timely identify and remove encroachment of land and buildings. The scope of audit was limited to examination of records available at the five integrated steel plants at Bokaro (BSP), Bhilai (BSL), Rourkela (RSP), Durgapur (DSP) and Burnpur (ISP) for a period of three years from 2014-15 to 2016-17.

12.3.2 Audit findings on Land Management

12.3.2.1 Maintenance of land records

Ownership of land is determined on the basis of revenue records. It is, therefore, essential that ownership records available with the Company be matched with those available with

[16] ***Bhilai Steel Plant (BSP), Bokaro Steel Plant (BSL), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP), IISCO Steel Plant, Burnpur (ISP)***

[17] ***Alloy Steels Plant, Durgapur; Salem Steel Plant; and Visvesvaraya Iron and Steel Plant, Bhadravati***

the State Governments. Audit noted that as of 31 March 2017, the Company possessed title deeds of 48918 acre (48.15 *per cent*) out of the 101598 acre land available with the five integrated steel plants[18]. The Company would have to incur expenditure (depending on the State Government rates at the time of actual registration) towards registration of the balance land for which title deeds were yet to be obtained.

- BSL did not possess any title deeds for the entire land (28744 acre) occupied by them.
- DSP possessed 12935 acre land. The records maintained in DSP, however, indicated a difference of 3692 acre of land when compared with the land records of the State Government.
- As per ISP records, 3348 acre of land were in its possession but State Government records indicated only 2259 acre.
- Reconciliation of records for 12.07 acre land of BSP with State Government records was under process.

The Management stated (January 2018) that the records of DSP and ISP were being reconciled with the records of the State Government.

The reply is to be viewed against the fact that SAIL Board directed (July 2016) that land records be reconciled with help from revenue authorities and Ministry of Steel, if necessary. The reply is also silent on the delay in registration of 52680 acre land though the land was acquired for the steel plants approximately 50-60 years ago.

12.3.2.2 Computerisation of land records

Traditionally, paper maps of land were maintained which are prone to fire, flood, white ants etc. Land Record Management System (LRMS) was installed in BSL in September 2009 and land records like village maps, possession maps etc. were digitised though it was not being used since 2015. At RSP, the land records have been computerised/ digitised. DSP was still maintaining maps made on paper/cloth. Tender for digitisation of land records was under process (July 2017) in BSP and ISP.

The Management stated (January 2018) that LRMS installed at BSL became inoperative due to obsolescence of the hardware. Finalisation of tender specifications for LRMS at RSP was under process. All possibilities were being explored by DSP to implement LRMS.

[18] ***BSP-28200 out of 28463 acre, BSL-0 out of 28744 acre, RSP-15357 out of 28108 acre, DSP-3623 out of 12935 acre and ISP-1738 out of 3348 acre***

12.3.2.3 Utilisation of land

The status of the Company's land as on 31 March 2017 under the jurisdiction of the five integrated steel plants is shown in the table below:

(Area in acre)

Status	BSP	BSL	RSP	DSP	ISP	Total
Total land available	28463	28744	28108	12935	3348	101598
Plant area	12841	8333	16203	2984	1659	42020
Township area	11763	5898	6953	4699	1257	30570
Leased and others	2005	3520	651	2260	64	8500
Encroached land	510	1932	391	1163	20	4016
Land not in use	1344	9061	3910	1829	348	16492

Note: *(i) Plant area includes land occupied by steel plants for factory and office/ administrative buildings. (ii) 9494 acre land available with other steel plants/units of SAIL was not covered in the scope of the present study.*

Audit noted that out of the total 101598 acre of land, 29008 acre, i.e. 28.6 *per cent* was either leased, encroached or vacant and, therefore, not in use in direct plant operations.

12.3.2.4 Vacant land

As seen from above Table, 16492 acre land in these five steel plants remained vacant. Of this, 9061 acre (55 *per cent* of vacant land) was with BSL. Audit noticed that though BSL had prepared a comprehensive land use plan in November 2014, it was not implemented. Besides, the plan did not include utilisation of 1030.2 acre of land in the township area and 119.78 acre in the Garga river area[19]. Other steel plants, however, did not prepare any detailed/ master plan for utilisation of vacant land under their possession.

The Management stated (January 2018) that the unused land has been earmarked for future growth and expansion. It was added that the vacant land at DSP has been earmarked for future modernisation and expansion as per National Steel Policy (Vision 2025) and at RSP for Smart City development, expansion of aerodrome, setting up a 40 MW solar power plant and additional afforestation.

The reply that unused land has been 'earmarked' for future modernisation and expansion is not acceptable as there was no concrete plan in place to utilise the vacant land in accordance with the National Steel Policy or Vision 2025. In fact, the next phase of expansion would be taken up only after stabilisation of the new facilities created in the ongoing modernisation and expansion plan and also after taking into consideration sustained demand growth in the domestic steel industry and availability of financial resources.

12.3.2.5 Encroachment of land

SAIL Board had recommended (July 2015) fencing, use of satellite imagery etc. for prevention of encroachment. The Board reiterated this recommendation in July 2016. Audit noticed that despite the large scale encroachment, no signboards/ barbed wire

[19] ***This area is a water body zone and consist of Garga Dam and reservoir including the catchment area within the land under possession of Bokara Steel Plant***

fencing/ compound wall etc. were constructed by the plants. As on 31 March 2017, 4016 acre of land were under encroachment, of which 48 *per cent* (i.e. 1932 acre) was at BSL, followed by 29 *per cent* (1163 acre) at DSP.

The Management stated (January 2018) that due to the fragmented nature of the encroached land, it was difficult to get it fenced or erect a compound wall.

(a) Non removal of encroachment at BSL

The anti-encroachment activities in BSL were carried out by the Security Department. Removal of encroachment was done with the help of security personnel, failing which eviction suits were filed in the Estate Court[20]. Audit observed that the details of patrolling/ monitoring activities of Security Department were available only for the last one year. BSL had filed cases in the Estate Court for the entire encroached area of 1932 acre for which it does not possess any title and orders had been passed between January 2010 and February 2017 for eviction of 1790.42 acre. However, BSL was able to evict only 1.07 acre.

The Management stated (January 2018) that Estate Court orders were executed with the help of Police and District Administration. The issue was discussed (February 2016) with Deputy Commissioner, Bokaro. It was decided that whenever some concrete utilisation action was to be taken, the District Administration would be requested to take eviction action about 2 months in advance so that the areas freed from encroachment would not come under encroachment again as had been the case in the past. However, the Company was, as a cost control measure, currently not implementing any land related projects.

The reply is not acceptable. An unauthorised occupant is given 15 days' time to vacate the premises beyond which Estate Court is empowered to get the premises vacated. In the above cases, the Company did not take action for eviction even after seven years of orders being passed by the Estate Court. Allowing encroachments to continue in Company premises, instead of executing the orders of the Estate Court, is not in the interest of the Company and, therefore, not justified. Delay in removal of encroachments may also contribute to further encroachments.

(b) Inaction against encroachment

Scrutiny of records revealed that the plants failed to take timely action to repossess the premises under encroachment. It is pertinent to state that the existing lessees encroached Company premises. Even after detection of such encroachment, no effective action was taken by the plants. The following table summarises instances of encroachment by the lessees along with the period when such encroachment came to be known by the plant authorities:

[20] ***Established by SAIL under the Public Premises (Eviction of Unauthorised Occupants) Act, 1971***

Instances of encroaches by existing lessees

Sl. No.	Name of plant	Name of encroaching lessee	Encroachment	
			Area (Acre)	First noticed in
1	BSL	Bokaro Steel Employees Cooperative House Construction Society Limited	5.00	1975
2	RSP	Ispat Gurudwara Prabandhak Committee (IGPC)	1.38	1965
3	BSP	Bhilai Institute of Technology (BIT)	34.58	2008
4		Shri Sanatan Dharm Sabha (SDS)-Sector 2	1.65	2007
5		Shri Sanatan Dharm Sabha (SDS)-Sector 6	0.61	2001
6		Bhilai Nagar Nigam (BNN)	30.01	2006
7		Bhilai Nagar Masjid Trust (BNMT)	2.58	2011
8		Sindhi Brather Mandal (SBM)	0.11	2008

As seen from the table above, encroachments of land, detected as early as 1965 are yet to be cleared. BSL does not possess title for the cited land under encroachment while BSP and RSP has title for its lands. Audit also noticed that the encroachers had constructed buildings for educational, religious, sports and cultural purposes.

The Management stated (January 2018) that:

- A reputed survey agency was being searched for to find exact quantum of encroachment by Bokaro Steel Employees Cooperative House Construction Society Limited.

- Action was being taken for valuation of the land in case of Ispat Gurudwara Prabandhak Committee and the possibilities of revising license fee based on the fair market value was being explored in case of Bhilai Institute of Technology.

- A decree to evict Shri Sanatan Dharm Sabha-Sector 2 could not be effected as the matter related to public faith/ religion and due to the lukewarm response from District Administration/Police. Legal case against Bhilai Nagar Nigam was not preferred as it would be a lengthy process.

- In the case of Shri Sanatan Dharm Sabha-Sector 6, notices had been issued from time to time, including a show cause notice on 09 June 2012 and electric supply to the premises was disconnected on 08 December 2011.

- The process of renewal of lease in case of Bhilai Nagar Masjid Trust and legal action against Sindhi Brather Mandal were being taken.

The replies are not acceptable as the management of steel plants had failed to take timely and effective action for eviction of encroachments though it was aware of it and these encroachments had come to its knowledge as early as 1965. Disconnection of electric supply to encroached premises is an effective tool for eviction of encroachment as was noticed in the case of Shri Sanatan Dharm Sabha-Sector 6, which the Company could have considered in other cases also. The Company is, however, still contemplating action for regularisation or legal remedy. It was also seen that:

- Though BSL requested (August 2015) Jharkhand Geo-Spatial Data Centre for survey, the agency did not start the work and expressed their inability to complete the work. However, the management has not be able to depute any new agency till date (January 2018).

- IGPC encroached land in 1965 and constructed a school building on the encroached land though lease agreement had not been entered into.

- BIT has been using 34.58 acre over and above their allotment which is tantamount to encroachment. BIT had also taken up construction in the encroached land without any permission from BSP.

- Though the Management informed that lease renewal for BNMT was underway, Audit noticed that BNMT had also encroached land and constructed buildings.

12.3.2.6 Land used for unauthorised purposes

Audit noticed instances where the lands leased by BSL were being used by the lessees for unauthorised purposes and no effective action had been initiated by the Management. BSL also does not possess title deeds for these lands.

(a) BSL sub-leased 1133 plots over several years starting from 1965. As per the Land Allotment Manual of BSL, plot holders were allowed to run any trade on the leased land except restricted trades for which permission was required to be obtained from BSL. Audit noted that 59 lease holders were running restricted trades such as nursing home/ pathological lab/ hospital/ clinic/ diagnostic centre without obtaining permission from BSL. The State Pollution Control Board had also objected to dumping of bio-medical and solid wastes in the township area by these establishments. BSL served notices (August 2015 and October 2015) to these parties for violation of the terms and conditions of the lease and asked them to stop the unauthorised business/trade. Audit observed that no follow-up action was taken by BSL though the unauthorised businesses continued even after issue of notice in October 2015.

The Management stated (January 2018) that a fresh survey was being conducted to ascertain the lease holders who indulged in restricted trade without permission.

The reply did not address the inaction on part of the Management since August-September, 2015.

(b) BSL leased 413 plots from 1987 for construction of buildings in conformity with the approved plans and drawings. Many lessees constructed additional floor without approval of BSL. BSL issued notices to 160 identified lessees in July 2011 for removal of additional construction. Unauthorised constructions were removed by 10 lessees but BSL did not take any action against the remaining 150 lessees who did not remove unauthorised construction.

The Management stated (January 2018) that a meeting of the Town Development and Allotment Committee was held in September 2013 with all such lessees and action was being taken as per its recommendations.

The reply, however, did not furnish details of the recommendations or the action taken there against since 2013.

12.3.2.7 Land leased without agreement

Audit noticed that the plants had allowed land to be leased in a number of instances without execution of formal lease agreements.

(a) DSP allotted 233 acre land to NTPC Limited (NTPC) for 33 years from May 1984 without a formal lease agreement. NTPC constructed a sub-station on the said land and transferred the rights, title and interest of the sub-station and its underlying land to Power Grid Corporation of India Limited (PGCIL) during 1993-94. Lease charges were never recovered from NTPC. Audit observed that, in the absence of lease deed and land valuation, DSP could not get any financial benefit out of this land. DSP also does not possess title for this land.

The Management stated (January 2018) that the lease deed could not be registered in the absence of the Khatian number of the mouza and would be executed once the requisite data was obtained from the Government Authority. Further, proposal for valuation of land in question would be initiated for renewal of lease.

Absence of title records and valuation pointed out by the Management in January 2018 is not tenable considering that the land had been awarded as early as 1984.

(b) BSP allotted (December 1965) 266283 sq. ft. land (6.11 acre) for 30 years from May 1963/ April 1967 to the P&T Department to construct office building and quarters. BSP did not execute any lease deed at the time of allotment though it had clear title for this land. The initial allotment period expired in May 1993/April 1997. BSP belatedly sent a demand notice (February 2008) to the P&T Department which expressed its willingness (October 2012) to surrender 16250 sq. ft. land in view of dilapidated condition of the colony. BSP demanded (November 2012) ₹1.12 crore as applicable charges and interest for 4.68 acre of land. In the meantime, the erstwhile P&T Department was split into two independent organisations, viz. 'Indian Postal Department' and 'Bharat Sanchar Nigam Limited' and the onus of payment of charges came under dispute.

The Management stated (January 2018) that intimations were sent in September 1969/March 1970 for execution of lease deed and in November 2000 for renewal of the lease. Due to bifurcation of erstwhile P&T Department, BSP worked out the lease renewal charges and issued revised demand in November 2012.

The reply points to inaction of the Management in finalising and renewing the lease agreement leading to loss of lease charges.

(c) SAIL Board approved (February 2012) allotment of 126.15 acre land under DSP to Damodar Valley Corporation (DVC) on lease for 33 years on payment of land premium (based on valuation to be done by authorised valuer). Audit observed that though DVC took possession of the land from 10 April 2013, DSP did not carry out its valuation or recover lease dues. Valuation of the land was done belatedly in September 2015 but the lease deed was yet to be executed. DSP also does not possess title for this land.

The Management stated (January 2018) that efforts were being made to finalise the lease agreement early.

(d) ISP had allotted 19117 sq. ft. in its Riverside Township to Burnpur Riverside School Educational Society for a school in 1977 without any lease/license agreement. ISP possessed title for their land. As the school facilities expanded, the school encroached further land. The land under possession of the school also increased to 5.32 acre. ISP belatedly filed a case in Estate Court in September 2016 for eviction as the school did not respond to its notices for finalising the license agreement.

The Management stated (January 2018) that negotiations with the school since 2012 for license agreement remained futile and the school had been treated as unauthorised occupant since February 2014. Attempts were re-initiated to enter into license agreement with the school.

However, the school was operating without license agreement since 1977 and though it had been declared unauthorised occupant in 2014, a case was filed only in 2016. Besides, even as ISP filed a case for eviction before Estate Court, it has been discussing the matter with the encroacher to finalise license agreement to make it an authorised occupation which points to contradiction in the Management action.

(e) DSP allotted 226.92 acre of land in 1980s to Eastern Railways to construct yard and residence. However, till date (January 2018) no formal agreement was entered into though the title of the land was in the name of DSP.

The Management stated (January 2018) that the issue has been taken up with the Divisional Railway Manager, Asansol for settlement.

12.3.2.8 Non-adherence of lease agreement

DSP allotted 851.23 acre land to West Bengal Pulpwood Development Corporation Limited (WBPDCL) between 1987 and 1989 for plantation and harvest of pulpwood. As per the agreement, ₹50 per ha per year was payable to DSP during the period of agreement (14 years). WBPDCL would also pay an amount equivalent to 25 *per cent* of the produce at a mutually agreed rate after completion of each harvest. Presently, 908.189 acre land were occupied by WBPDCL, the title for which is in the name of DSP. Audit noted that WBPDCL had paid ₹0.57 crore (over 1987/89 up to 2011-12). DSP was unaware of actual harvesting done by WBPDCL since allotment of land in 1987/1989. Further, the lease expired in April 2003 and has not been renewed even after the lapse of 14 years.

The Management stated (January 2018) that lease renewal has been taken up (September 2017) with WBPDCL and the matter was being followed up.

The reply is silent about non-receipt of payments since 2011-12 and dues from WBPDCL for the harvesting done since 1987/1989.

12.3.2.9 Delay in lease renewal

As per the policy of SAIL, a lease may be renewed on payment of renewal charges within one year from the due date of renewal without paying charges for delay in renewal. In case the lessee fails to renew it within one year, the lessee shall be considered un-authorised occupant of the premises and action shall be taken as per rules/law. Audit noted, however, that in the following cases, the leases had not be renewed within the stipulated time, causing revenue loss to the Company.

(a) BSL leased 1133 plots to various parties on renewable basis to provide civic amenities/market complexes though BSL does not possess title of these lands. Ground rent, water, electricity and service charges and renewable fee as fixed by the Management were recoverable from the lessee. Audit noted that 399 leases had expired as on 31 March 2017 including 274 cases where the lease had expired more than 5 years ago but had not been renewed. Lease renewal of only 293 out of these 399 plots was under process and in none of the cases, renewal process has been completed due to non-completion of valuation of leased plots. In 120 cases, though the lease period had expired on 31 March 2016, the valuation process was completed only in July 2017. Due to this, BSL was not able to realise ₹19.25 crore[21] as lease charges from these 120 cases.

The Management stated (January 2018) that lease renewal has been completed (01 January 2018) for 106 plots and was under process for 36 plots, valuation had been completed for 120 plots in July 2017 and ₹1.18 crore have been deposited by 11 lessees. Further, notice was being issued to the respective lessees for payment of renewal charges along with delay charges.

(b) Other cases of delays in lease renewal noticed in audit are summarised in the table below:

Summary of delay in renewal of leases

Sl. No.	Name of plant	Name of party	Details of lease	
			Area (Acre)	Expired in
1	BSL	35 Educational Institutions (non-profit)	164.42	2004-2016
2		Council for Agriculture Industrialisation and Rural Employment (CAIRE)	4.77	2005
3	RSP	P&T Department	12.68	1993-2017
4		10 various parties	20.895	1993-2017
5	DSP	22 various parties	970.26	1999-2017
6	BSP	Indian Oil Corporation Limited (IOCL)	0.41	2013
7	ISP	Asansol Municipal Corporation	1.00	2009

Thus, leases that had expired as early as 1993 were yet to be renewed though the steel plants except BSL and DSP possessed title of the above lands. Yet, no action had been taken by the plant managements to renew them to ensure recovery of applicable charges from the parties concerned. Audit noted that in 4 out of 7 cases above, the Company could not recover ₹6.83 crore (31 March 2017).

[21] ***Renewal charges for commercial plots worked out on the basis of the valuation report of the valuer appointed by the Company (₹48.24 crore @ 25 per cent = ₹12.06 crore) and for non-commercial plots (₹71.94 crore @ 10 per cent = ₹7.19 crore)***

The Management stated (January 2018) that:

- Letters to all the 35 institutions were under issue for renewal of lease.
- Lease was made with CAIRE on monthly rental basis, but the lessee did not make any payment.
- Regular follow ups were being done with P&T Department to ensure realisation of outstanding dues.
- The onus of renewal lies with the lessee, effort was being made to renew the expired lease cases and legal options were explored only as a last resort.
- The Estate Court passed order on 25 October 2017 for eviction of IOCL and recovery of dues and electricity supply to this premises was disconnected on 21 November 2017.
- ISP has referred the matter relating to Asansol Municipal Corporation to corporate office in March 2010.

The replies are not acceptable considering the significant delays that have taken place in renewal of these leases.

12.3.3 Audit findings on Township Management

Townships included residential quarters, shopping complexes, community centres, educational institutions, hospitals and public gardens. The construction of townships, their further development and maintenance was the sole responsibility of the plant management. Plant managements also provide basic infrastructure such as electricity and water supply, sewerage and roads etc. in the township.

12.3.3.1 Unauthorised occupation of quarters

Status of quarters in the townships of the five plants, as on 31 March 2017, is summarised in Table below:

Status of quarters in the Townships as on 31 March 2017

Name of plant	Number of quarters					
	Available	Allotted	Vacant	Damaged/ unfit	Unauthorised occupation	
					Ex-employee	Others
BSL, Bokaro	37386	32005	3055	198	1934	194
BSP, Bhilai	33638	29013	1915	1608	578	524
RSP, Rourkela	25541	21157	2602	1419	347	16
DSP, Durgapur	19141	17858	243	5	879	156
ISP, Burnpur	7118	6232	82	779	5	20
Total	**122824**	**106265**	**7897**	**4009**	**3743**	**910**

As seen from the table, 13.48 *per cent* of the quarters were either vacant, damaged or under unauthorised construction (7897 quarters were vacant, 4009 were damaged and 4653 were under unauthorised occupation). Test check of unauthorised occupation in BSL and BSP indicated the following:

- In BSL, 194 quarters were under unauthorised occupation by private parties while 1934 quarters were occupied by ex-employees beyond the admissible retention period of two years. BSL had filed eviction cases in the Estate Court for 478 quarters. Though the Estate Court had passed orders in 198 cases during the period 1999 to 2017, the Management had not been able to evict the occupants. Further, the occupants had not been paying electricity charges, water charges and license fees.

- In BSP, 578 ex-employees had been retaining quarters beyond the admissible retention period, outstanding dues against which stood at ₹0.82 crore (30 July 2017).

The Management stated (January 2018) that the matter was being pursued with District Administration to carry out eviction. The Management informed that in BSP, the unauthorised occupation of quarters by ex-employees and others had been reduced to 567 and 446 respectively. Eviction drives were also undertaken at DSP. At RSP, 34 persons had vacated quarters. Steps had been taken in past to evict the unauthorised occupants in ISP.

The reply is to be viewed against the loss sustained by the plants on account of unauthorised occupation of quarters.

12.3.3.2 Unauthorised construction in leased buildings

Under the SAIL Scheme (2001-02) for Leasing of Houses, 17500 quarters had been leased to employees/ex-employees of the Company. During a Board Meeting (July 2008), unauthorised construction in about 50 *per cent* of these quarters was reported and the Board approved regularisation of such unauthorised construction subject to payment of fee at 150 *per cent* of the replacement cost. Audit noticed unauthorised construction in leased buildings in BSP and BSL.

(a) BSP had leased out 4475 quarters under the SAIL Scheme for Leasing of Houses during 2001-03. Over a period of time, around 70 *per cent* of the lessees had carried out unauthorised construction. Survey conducted up to December 2013 revealed that the lessees had occupied extra plot area of 26.82 lakh sq. ft. and carried out unauthorised construction of 18.28 lakh sq. ft. However, BSP did not implement Board's decision (July 2008) as it faced resistance from the occupants/stakeholders.

The Management stated (January 2018) that a committee to address regularisation of unauthorised construction has submitted its report/recommendations in September 2017 and the same has been processed for approval of the local management and corporate office.

(b) As per Clause 4 of the agreement (February 1987) with Delhi Public School (DPS) Society, BSL would temporarily provide one building in the township for running the school and it would set apart a plot of land for construction of a new building by DPS. Audit observed that:

- Even after 30 years, DPS did not construct its own building and was running its school in the temporary building though 8 acre land was allotted in October 1988. Instead of pressing DPS to construct its own building BSL allotted another building to DPS and allowed it to run the school from the existing building. It was also noticed that DPS had constructed a swimming pool in the school premises without prior consent of BSL violating the terms of agreement.

- BSL provides water and electricity, free of charge, to DPS. Audit noted that around 70 *per cent* of the students in the school were not related to BSL employees from whom full fees were recovered. Though BSL intimated (June 2016) withdrawal of free electricity and water and raised bills from October 2016 onwards, DPS did not pay the bills. The dues in this regard stood at ₹1.01 crore as of October 2017. Audit noted that Research and Development Centre for Iron and Steel of SAIL at Ranchi and RSP were recovering electricity charges from DPS, Ranchi and Rourkela respectively.

The Management stated (January 2018) that a committee has been constituted in November 2017 to review the existing agreement and all related matters with DPS.

The reply was, however, silent on non-recovery of dues.

12.3.3.3 Non-realisation of estate dues

Apart from their own employees, the Plants also allotted quarters to employees of Central/ State Governments, other PSUs and other agencies/individuals. License fee, electricity and water charges were recoverable at applicable rates from time to time from the lessees. Audit noted that estate dues amounting to ₹144.87 crore were outstanding as on 31 March 2017, of which ₹63.64 crore were due for more than three years and ₹94.94 crore were recoverable from private parties. Details are shown in the Table below:

Details of outstanding estate dues as on 31 March 2017

(₹ in crore)

Lessees	BSL		BSP		RSP		DSP		ISP		Total	
	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years	Total estate dues	Dues >3 years
Govt. parties	19.43	13.83	13.59	8.80	7.21	2.65	6.41	3.21	2.84	0.49	49.48	28.98
Private parties	18.18	16.04	21.26	3.34	26.27	9.61	26.98	5.56	2.25	0.11	94.94	34.66
Employees	-	-	-	-	0.01	-	0.44	-	-	-	0.45	-
Total*	**37.61**	**29.87**	**34.85**	**12.14**	**33.49**	**12.26**	**33.83**	**8.77**	**5.09**	**0.60**	**144.87**	**63.64**

** Includes house rent, electricity charges, water charges, license fees and other estate dues.*

The Management stated (January 2018) that in DSP, the outstanding dues have reduced to ₹30.47 crore as on 30 September 2017 while RSP realised ₹9.45 crore out of ₹33.49 crore outstanding as on 31 March 2017. It was informed that a taskforce has been constituted (May 2017) at BSL which issued notices to all defaulters. The matter was being taken up by ISP with all parties concerned for recovery of pending dues.

Some significant cases noted at BSL are summarised below:

- BSL entered into an agreement with Hans Regency (HR) in March 2008 for leasing out 39 rooms in Bokaro Niwas for use as hotel rooms for three years from October 2007. Audit noted that even after expiry of the agreement in October 2010, HR continued its business and the lease had not been renewed (January 2018) while BSL did not take any action either to renew the lease, raise the monthly bills for the charges receivable from HR or to evict the occupant. The outstanding dues receivable from HR stood at ₹2.54 crore as on 31 March 2017.

  The Management stated (January 2018) that unbilled dues were raised in June 2017 and currently bills were being raised regularly.

  Audit, however, noted that the outstanding dues had increased to ₹2.83 crores as on 30 November 2017.

- As on 31 March 2017, an amount of ₹6.27 crore and ₹1.96 crore were outstanding against quarters allotted to Superintendent of Police Pool and District Commissioner Pool respectively.

  The Management stated (January 2018) that individual notices had been issued to all defaulters.

- BSL provides drinking water to the Chas Municipal Corporation for supply in Chas urban area. Out of the ₹2.78 crore recoverable towards the cost of water thus supplied, ₹0.18 crore was outstanding since September 2000.

  The Management stated (January 2018) that water supply had been disconnected since October 2015.

  Audit noted that though BSL had disconnected its water supply, the Chas urban area continued to be supplied by Chas Municipal Corporation from other sources. Hence, chances of recovery of dues is doubtful.

12.3.3.4 Non-implementation of Board/Corporate Office decisions

(a) Recovery of electricity charges:

Steel plants procured electricity from the State Electricity Boards (SEBs) concerned/ DVC for supply to the townships. The cost of electricity purchased by the plants was significantly higher than the amount recovered from the employees. In order to rationalise the electricity subsidy, SAIL Board decided (March 2002) that the chargeable rate for electricity supplied to the employees in the townships would be at least equal to the minimum of the domestic tariff of the respective SEBs effective from 01 April 2002. Review of records revealed that RSP, BSP and BSL had implemented the Board decision. DSP started recovery of electricity charges as per applicable SEB tariff from 2002 but did not carry out subsequent revisions made by SEB since 2014-15. At ISP, though tariff was revised from October 2016, electricity charges were not recovered as per the revised tariff. As a result, ISP and DSP extended undue benefits to their employees amounting to ₹7.91 crore and ₹1.78 crore respectively during 2014-15 to 2016-17.

The Management stated (January 2018) that at DSP, electricity charges for executives were recovered at the lowest rate of SEB from 2002 and for non-executives from 01 April 2014 onwards. Electricity charges were being recovered from executives of ISP as per DVC rate and for non-executives at ₹4.94 per unit as per agreement with recognised Workers' Unions.

The reply confirms that the Board decision was not made effective from 01 April 2002.

(b) Recovery of water charges

In view of non-uniformity in water charges fixed by individual steel plants, SAIL Corporate Office issued a directive (4 August 2016) to levy water charges in the Company quarters at the prescribed rates[22] with immediate effect. Audit observed that BSL and RSP had implemented the decision. In BSP, the rate of recovery in some type of quarters for executives was less than the prescribed rate. DSP did not implement this directive and continued to recover water charges at the existing rates (between ₹20 and ₹70 per quarter depending on the type of quarter instead of on the basis of BHK). ISP implemented the directive for its executive employees only.

The Management stated (January 2018) that the quarters in the DSP township had been categorised on the basis of plinth area and not on the basis of BHK. At ISP, negotiations were underway with recognised Workers' Unions to deduct water charges as per the directive.

12.3.3.5 Transmission and Distribution Loss

Power plants supplied electricity to consumers residing in the townships and for the common facilities such as street lights, hospital, school, club etc. Each steel plant had fixed norms for transmission and distribution loss. Scrutiny of records revealed that the loss at BSL, BSP, DSP and RSP was much higher than their respective norms. Four steel plants[23] incurred extra expenditure of ₹371.93 crore on transmission and distribution losses beyond norms during the period from 2014-15 to 2016-17. Details are shown in the table below:

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[22] ***1 BHK: ₹50 per month, 2 BHK: ₹75 per month, 3 BHK: ₹150 per month and 4 BHK & above: ₹250 per month***

[23] ***Computation of actual loss is not possible due to different rate slabs, therefore calculation has been done considering cost of power. ISP management booked all TDL (about 42 per cent to 54 per cent) under common facilities hence no TDL is shown for ISP***

Transmission and Distribution Losses during 2014-15 to 2016-17

Name of plant	Norm	Actual	Excess beyond norm	Loss due to unaccounted energy
	(per cent)			*(₹ in crore)*
RSP, Rourkela	8	50 to 75	42 to 67	193.24
BSL, Bokaro	10-11	42 to 52	32 to 41	157.81
BSP, Bhilai	7	12 to 15	5 to 8	15.35
DSP, Durgapur	7	10	3	5.53
ISP, Burnpur	6	-	-	-
Total				**371.93**

As seen from the table, highest transmission and distribution loss was reported at RSP, which ranged from 42 *per cent* to 67 *per cent* beyond the norm, followed by BSL with 32 *per cent* to 41 *per cent*. Review of records indicated that:

In RSP, electricity charges were being collected based on self-declaration of the employees or predetermined flat rates, though electricity meters were installed in all the quarters. The flat rates fixed on the basis of quarter type was last revised in November 2009.

BSL noticed that locals were illegally tapping power supply. The raids conducted to control unauthorised drawal of power did not yield results as the teams that conducted the raids were manhandled by the illegal consumers. Local Administration had asked (February 2016) BSL to prepare a plan to prevent repeat unauthorised connections once these had been removed but no such plan had been submitted. As a result, loss due to unauthorised usage remained largely unmitigated.

Audit also noticed the following issues which may be contributing to high transmission and distribution losses in BSL and BSP.

- As per Multi Year Tariff for the year 2013-16 fixed by Jharkhand State Electricity Regulatory Commission, domestic consumers who use electricity for non-domestic purpose and had assessed load of more than 85.044 KV would come under High Tension (HT) consumers. BSL identified only seven HT consumers in its township. Since there were several hotels, shops, commercial establishments, hospitals and nursing homes being run in the township, it was, likely that the number of HT consumers would be much higher.

- In BSP, about 34000 electromechanical meters were installed in the residential units and various public buildings in the township. Majority of these meters were non-functional or sluggish. Hence billing was being done based on standard/ assumed consumption which led to revenue loss. Audit noted that till May 2013, BSP procured and installed 20000 electronic energy meters replacing the old electromechanical meters. Though procurement of another lot of 8000 electronic energy meters was proposed in May 2013, the same did not materialise.

The Management stated (January 2018) that RSP employees were being charged electricity based on actual construction from September 2016 onwards. Unauthorised power connections in BSL township were being removed to reduce transmission and distribution losses. The establishments which required LT to HT conversion in BSL township had been identified and the process of conversion was underway. In case of BSP, purchase order for 8000 energy meters was placed on 27 November 2017.

12.3.3.6 Non-recovery of Property Tax

Property tax is the annual amount paid by a land owner to the local government or the municipal corporation. The municipal corporation of a particular area assesses and imposes the property tax annually or semi-annually. The tax amount is based on the area, construction, property size, building etc. Since the plants pay property tax against all the buildings in the township including those rented/ leased to employees and others, the proportionate amount pertained to each tenant is required to be recovered along with other dues. A test audit of documents in BSP and DSP revealed the following:

- BSP paid ₹36.27 crore as property tax to Bhilai Nagar Nigam for the period 2011-12 to 2015-16. Since the property tax was paid on behalf of the residents of the townships, it should have been recovered from them. BSP started raising bills on third parties (non-employees) for recovery of property tax from June 2015, but it did not take any decision to recover it from its employees, though the proportionate share of expenditure against the quarters occupied by its employees were significant as ₹18.37 crore (2011-12 to 2016-17).
- DSP did not recover property tax from either third parties or its employees though it paid ₹6.69 crore from 2011-12 to 2016-17.

The Management stated (January 2018) that property tax paid on behalf of BSP employees would be recovered as per Company Policy.

The reply is be viewed against the fact that no company-wide policy was in place. The reply was also silent on recovering property tax from the occupants of DSP premises.

12.3.4 Conclusion and Recommendations

12.3.4.1 Conclusion

The five integrated steel plants of Steel Authority of India Limited (SAIL) held a total land of 101598 acre. SAIL possessed title deeds of only 48.15 *per cent* of the available land. One steel plant did not possess title deeds for its entire land. Audit noted that 4016 acre land was under encroachment while 16492 acre was vacant and unused as of 31 March 2017. Another 8500 acre land was under lease. About 50 *per cent* of the encroached land was held by one steel plant.

No signboards/ barbed wire fencing/ compound wall were constructed to prevent encroachment, despite Board's directives in July 2015/2016. The Company did not take adequate measures to evict the encroachments though it was aware of it and even after eviction orders had been passed by the Estate Court. In a number of cases, existing lessees of the Company had encroached area outside the leased area and instances were noticed where lease holders were running restricted trades or had undertaken unauthorised construction. Company failed to enter into formal lease agreements with a number of lessees while in other cases it failed to renew existing leases.

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

The financial impact of audit observations worked out to ₹596.18 crore.

12.3.4.2 Recommendations

Audit suggest the following recommendations for consideration and implementation by the Company/plants.

- Lease agreements may be entered into/ renewed immediately on allotment of land or upon expiry of existing lease to avoid non-realisation of lease income. Effective steps may be taken to evict all encroachments and unauthorised occupations of Company premises.
- Computerisation of land records needs to be taken up on an urgent basis. Efforts may be taken to obtain title deeds for all the land possessed by the Company in a time bound manner. Suitable steps may also be taken to reconcile title deeds of all land owned by the Company and correct discrepancies between records of the Company and that of the concerned State Governments.
- Effective steps may be taken to reduce the transmission and distribution losses and an action plan may be formulated progressively to achieve the transmission and distribution losses in line with the norms fixed by each steel plant.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

12.4 Avoidable expenditure towards payment of stamp duty and registration charges

Unrealistic projection of production from Taldih mine in the Mining Plan for 2010-15, led to avoidable expenditure of ₹10.79 crore towards payment of stamp duty and registration charges by SAIL.

Steel Authority of India Limited (SAIL) operates captive mines for iron ore which is used as a raw material for making steel. The mines are managed by the Raw Materials Division (RMD) of SAIL. Mining Lease (ML-130) located at Bonai range in Odisha covers three iron ore deposits namely Barsua, Kalta and Taldih. Iron ore has been mined from Barsua Iron Mines (BIM) and Kalta Iron mines (KIM) since 1960s. SAIL decided (2007) to develop Taldih iron ore deposit in order to meet the enhanced requirement of iron ore for higher level of hot metal production in future.

The mining lease (ML-130) was renewed (November 2014) for a period of 20 years from 6 January 2010 to 5 January 2030, through agreement with Government of Odisha (GoO). The stamp duty and registration fees for execution of the lease deed were assessed and paid as per the GoO Gazette Notification (January 2012), which provided for payment on the basis of highest annual production projected in the approved mining plan. The approved mining plan for 2010-11 to 2014-15 formed the basis for this payment.

SAIL had prepared (April 2008) the mining plan for ML-130 for the period 2010-11 to 2014-15 projecting an annual production of 8.05 million tonne (mt) of Run Of Mine (ROM) which included 4.25 mt from Taldih Iron Mines (TIM). The mining plan was approved by Indian Bureau of Mines in July 2008. Based on the annual production projections, the company paid (November 2014) stamp duty and registration fees of ₹89.74 crore, out of which the pro-rata amount for 2010-11 to 2014-15 for the projected production from TIM was ₹10.79 crore[24].

Audit observed the following:

1. There were a number of pre-requisites for development of TIM. Mandatory clearances would need to be obtained and infrastructure facilities would need to be created. After approval for the mining plan (July 2008), the Management could apply for Environment clearance and Phase-II Forest clearance. Following the clearances, various facilities would need to be created including construction of approach road, installation of primary and secondary crushing unit, washing plant, pellet plant, conveyor system, wagon loading system etc. The Feasibility Report prepared (October 2005) by MECON projected a time schedule of 56 months for the completion of major facilities without considering the time required for the mandatory clearances. Even considering that the Management expected to receive the mandatory clearances by January 2010 and commence work on the facilities immediately afterwards, the development of the mine would take nearly five years. As such, the projected annual production of 4.25 mt from TIM over 2010-15 was unrealistic.

2. During 2010-15, no mining could be carried out at TIM. In the mining plan for 2015-20 (approved by IBM in September 2015), projected production from ML-130 was retained at 8.05 mtpa but that from TIM was reduced from 4.25 mt per annum to 2.05 mt per annum, till the mining facilities could be installed at Taldih. Even the lower production projected from TIM was on the basis of augmentation of capacity of beneficiation plant at BIM and temporary transport of ore by road as against the long-distance conveyor belt envisaged initially.

3. Production from TIM could actually be started in October 2016 after obtaining forest clearance (March 2013) and environment clearance (March 2016) with the help of mining equipment from BIM where mining operations were stopped since May 2014 in compliance of Supreme Court orders. A meagre quantity of 0.174 mt of ROM could be produced from TIM in 2016-17 which is 8 *per cent* of the projected annual production.

[24] ***Stamp duty and Registration fees is ₹89.63 crore (after excluding surface rent of ₹0.75 crore). Stamp duty and Registration fees for one year is (89.63/20).= ₹4.4815 crore. Five years projected production from Taldih is (2.38 (for the first year)+4.25*4)=19.38 mt. Thus, Avoidable expenditure is (₹4.4815 crore/8.05 mt)*19.38 mt= ₹10.79 crore***

No equipment has yet been procured at TIM (October 2017). The likelihood of achieving the production level envisaged in the mining plan 2015-20 at TIM is remote. Thus, even in the subsequent period, company has made unrealistic projection of production from TIM.

The Management replied (December 2017) that the mining plan for ML-130 approved in 2008 covered the mining lease period 2010 to 2030. It was also stated that grant of forest clearance was expected by January 2010 but was actually obtained in March 2013 and that any subsequent change of plan may have taken further time for obtaining clearances as well as mining plan.

Reply of the Management is not acceptable in view of the following:

(i) The mining plan approved in 2008 was for the five year period from 2010-11 to 2014-15 and not for the mining lease period 2010 to 2030.

(ii) The reply is silent on the reasons for projecting production from TIM in the mining plan 2010-15, though it was known that creating the infrastructure facilities at TIM would require considerable time (5 years) even if mandatory clearances were obtained as per the Management expectations by January 2010.

Thus, unrealistic projection of 4.25 mt ROM per annum from TIM in the mining plan for 2010-15 resulted in avoidable expenditure of ₹10.79 crore towards stamp duty and registration fees. The likelihood of achieving the projected production is remote even for the mining plan 2015-20. This reaffirms the audit observation that company incurred avoidable expenditure on payment of stamp duty and registration fees due to unrealistic projection of production.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

CHAPTER XIII: MINISTRY OF TEXTILES

National Handloom Development Corporation Limited

13.1 Implementation of Yarn Supply Scheme

13.1.1 Introduction

The handloom sector is one of the largest unorganised economic sector after agriculture and constitutes an integral part of the rural and semi-rural livelihood which provided direct and indirect employment to 43.32 lakh of Handloom weavers & allied workers as per latest available handlooms census of India 2009-10. Government of India (GoI) introduced Yarn Supply Scheme in 2011-12 in continuation of erstwhile Mill Gate Price Scheme of 1992 to make available all types of hank yarn at the price in which it was available at the Mill Gate to the eligible handloom weavers so as to facilitate regular supply of raw material to the handloom sector and help utilise the full employment potential of the sector.

The National Handloom Development Corporation (NHDC) Limited was set up in February, 1983 in pursuance of the imperative need for a national level Agency to assist the speedy development of the Handloom sector by coordinating all actions covering the procurement and supply of inputs at reasonable prices, augmenting the marketing efforts of state handloom agencies and initiating developmental activities for upgrading the technology in the handloom sector and improving productivity. NHDC functions under the administrative control of the Office of the Development Commissioner (Handlooms).

Yarn, being the main raw material supplied to the handloom sector, is the highest contributor to the turnover of the Company. It contributed 98 *per cent* of the turnover during the period from 2014-15 to 2016-17, as depicted below:

(₹ in crore)

	2016-17		**2015-16**		**2014-15**	
	Turnover	**Percentage**	**Turnover**	**Percentage**	**Turnover**	**Percentage**
Yarn	2947.55	98.46	2361.20	98.14	2167.30	97.76
Dyes and Chemicals	45.97	1.54	44.84	1.86	49.48	2.23
Fabric	-	-	-	-	0.18	0.01

13.1.2 Salient features of Yarn Supply Scheme (YSS)

Under Yarn Supply Scheme (YSS), following assistance is provided by the Government of India to NHDC on reimbursement basis:

I. Freight reimbursement for transportation of hank[1] yarn (all types).
II. Expenses of operating the yarn depots.

[1] *Hank is a coiled or wrapped unit of yarn*

III. 10 *per cent* Price Subsidy on hank yarn (cotton, silk, wool).

IV. Service Charges to NHDC as a nodal Company for the services provided under the scheme.

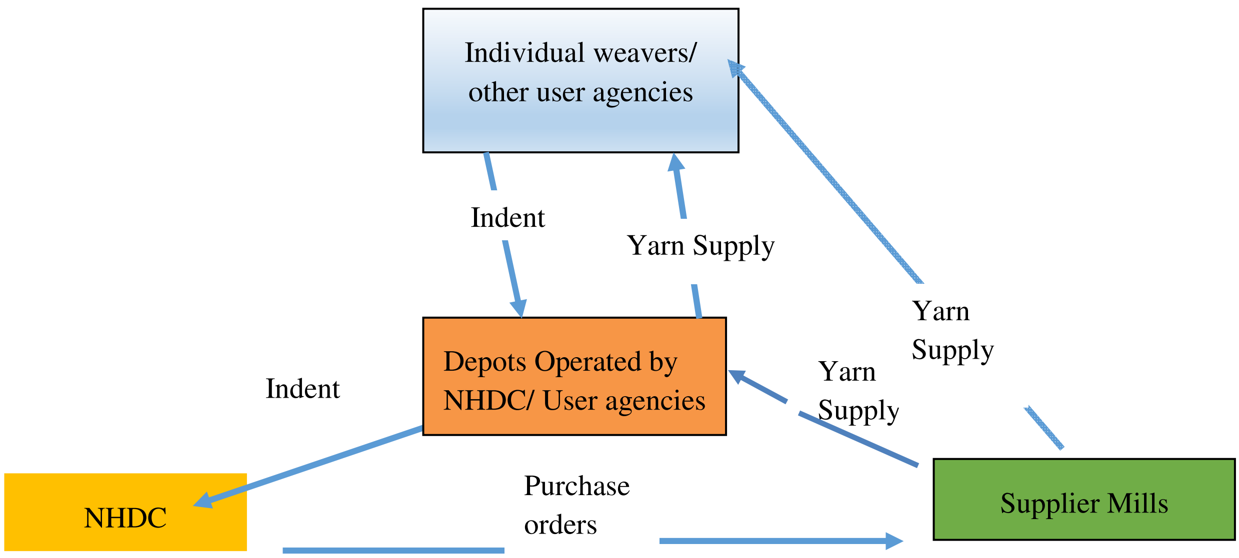
As on 31 March 2017, 21 *per cent* of total hank yarn requirement of handloom sector was fulfilled by NHDC for which the financial assistance received by NHDC from the Government of India during the years 2014-15 to 2016-17 was as under:

(₹ in crore)

Year	10 *per cent* subsidy	Transportation and depot charges	Service charges to NHDC	Total Assistance
2014-15	102.68	64.25	49.96	216.89
2015-16	92.75	76.41	53.00	222.16
2016-17	141.73	92.89	68.10	302.72

13.1.3 System of Supply of yarn to Handloom Weavers

The system of supply of yarn to Handloom weavers/other user agencies from the supplier mills through NHDC is as per flow chart given below:



13.1.4 Audit Objectives

The objectives of audit were to assess:

(i) Whether the handloom weavers in all parts of the country were adequately covered;

(ii) Whether sufficient infrastructure was created for timely supply of yarn to weavers /users agencies;

(iii) Whether sufficient publicity was made for creating awareness among the handloom weavers;

(iv) Whether sufficient marketing facilities were provided to the handloom weavers;

(v) Whether a monitoring mechanism was in place in the Company to ensure timely supply of yarn and ensure effective implementation of the Scheme.

13.1.5 Audit Scope, Sampling, criteria and Methodology

Audit covered the implementation of the scheme for the past three years i.e. from 2014-15 to 2016-17 in nine states[2] viz. Rajasthan, Haryana, Punjab, Delhi, Uttar Pradesh, Andhra Pradesh, Tamil Nadu, Odisha and Assam out of twenty-nine states and one Union Territory (Puducherry), where the YSS was implemented during these years. Beneficiary verification[3] was also done in five states viz. Tamil Nadu, Odisha, Rajasthan, Punjab and Haryana.

Audit examined the records at the Head Office/ Corporate Office and Regional Offices of the Company covering the implementation of the schemes on the basis of scheme guidelines, report of the Steering Committee on Handlooms and Handicrafts constituted for the twelfth Five Year Plan (2012–2017) and handlooms census 2009-10.

13.1.6 Audit Findings

13.1.6.1 Inadequate coverage of handlooms

As per the operational guidelines of the YSS, the Company would verify the looms and collect the relevant data for handloom weavers cooperative societies and handloom exporters registered with Handloom Export Promotion Councils. The State Governments would verify and collect the data with regard to Self Help Groups, Joint Liability Groups, weaver entrepreneurs and individual handloom weavers. For the purpose of giving yarn subsidy, the quantity of hank yarn supply to a weaver or to an eligible agency was to be restricted in terms of number of handlooms. Yarn passbooks were to be issued to all eligible individual weavers/agencies to record the quantity of yarn supplied.

The details of geographical distribution of working looms as per census data and coverage of handlooms, issuance of passbooks upto 31 March 2017 are given in **Annexure-XV.**

Audit analysis revealed that the coverage of handlooms under the scheme was not commensurate with the number of handlooms as detailed below:

- Coverage of looms under the Scheme ranged from 0.10 *per cent* to 25 *per cent* in 13 states, 26 *per cent* to 50 *per cent* in 5 states and more than 50 *per cent* in 6 states.

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2 ***Selection of States was made based on volume of sales by NHDC in 30 States/UTs. For this, State wise sales was arranged in descending order and four states were selected from top 10 states, 3 states were selected from middle 10 states and two States were selected from bottom 10 States on simple random sampling basis***

3 ***282 individual weavers / 111 Societies/exporters/other user agencies***

- The coverage of looms was very poor in North Eastern States except Sikkim, i.e. Nagaland, Tripura, Arunachal Pradesh, Mizoram, Assam, Meghalaya and Manipur which ranged from 0.10 *per cent* to 6.66 *per cent* though these states were having 65 *per cent* of total handlooms of the country. Although emphasis was to be given to the weavers/user agencies located in the North Eastern Region as per the scheme guidelines, the Company was not able to give adequate coverage to the handlooms in the North Eastern States.

The Company stated that passbooks were issued to all eligible agencies and individual weavers by the Company as per scheme guidelines. So far as coverage in North Eastern States was concerned, there was no manufacturing mill in the north eastern region and transportation facilities there were also not adequate. However, the Company also stated that it was exploring the facilities to enhance the supply of yarn in North East Region.

13.1.6.2 Low coverage of individual weavers

The individual weavers covered under the scheme either worked from their home independently by buying yarn directly from NHDC depots or they were registered with the Co-operative Societies, Exporters/Weaver Entrepreneurs on job work basis. Out of total 23.77 lakh loom as per census 2009-10 **(Annexure-XV)**, 4.58 lakh looms were covered under the scheme upto 31 March 2017. This comprised of 2.08 lakh handlooms (45.41 *per cent*) of individual weavers and 2.50 lakh handlooms (54.59 *per cent*) of Societies/ Exporters/Weaver Entrepreneurs

The user agency wise details of disbursement of 10 *per cent* subsidy are given at **Annexure XVI A, XVI B** and **XVI C** respectively.

Audit analysis of the state wise and user agency wise details of disbursement of 10 *per cent* subsidy during the years 2014-15, 2015-16 and 2016-17 revealed that out of a total subsidy of ₹337.16 crore (₹102.68 crore, ₹92.75 crore and ₹141.73 crore respectively), only ₹0.85 crore (₹0.32 crore, ₹0.05 crore and ₹0.48 crore respectively) was disbursed to individual weavers. Share of total subsidy passed on to individual weavers during 2014-15 to 2016-17 was 0.31, 0.06 and 0.34 *per cent* respectively.

The low coverage of Individual weavers under YSS was mainly due to:

- Lack of sufficient infrastructure facilities
- Lack of awareness of the scheme among weavers due to inadequate publicity
- Lack of marketing facilities

Low coverage due to above reasons is discussed in detail in subsequent paragraphs.

A. Inadequate infrastructure facilities

A.1 Inadequate operation of Depots by NHDC

Considering the constant problems faced by the handloom weavers in obtaining timely supplies of yarn in remote, interior and distant places, Clause 6 of YSS envisaged that yarn depots were to be operated to facilitate timely supplies of yarn. During XII plan period (2012-2017), the Company was to set up more yarn depots with better and wider spatial distribution to solve the problem of delay in supply of yarn.

Audit observed that the Company operated 18 Warehouses/Depots till 2013-14 when the scheme was made operational, but no warehouse/depot was opened subsequently.

A.2 Finalisation of MoU parameters

The target for increase in the number of yarn depots was incorporated as a parameter in the Memorandum of Understanding (MoU) signed between the Company and the Ministry of Textiles upto the year 2013-14, but the same was discontinued in the MoUs from the year 2014-15. Hence, the evaluation of the Company since 2014-15 was done by the Ministry of Textiles without this parameter. No recorded justification for discontinuance of this parameter was made available to audit.

The Management replied that MoUs were prepared as per guidelines of Department of Public Enterprises (DPE) and targets were achieved accordingly.

The reply of the Management is to be viewed in the light of the fact that as per MoU evaluation process prescribed by DPE, choice of individual non-financial parameters was left to the combined wisdom of the CPSE, Administrative Ministry and the Task Force. Further, all parameters were required to be SMART (i.e. Specific, Measurable, Attainable, Result-oriented, Tangible) and objectively verifiable. Since the operations of Yarn Depots was an important element of YSS and was in line with the above mentioned parameters i.e. SMART and objectively verifiable, discontinuance of the same without any recorded reason was not justifiable.

A.3 Disproportionate allocation of Depots

A total number of 935 depots were being operated by the User Agencies/NHDC throughout the country as on 31 March 2017, to cover 28,68,319 number of handloom weavers as per Handloom Weaver Information System (HWIS) of Ministry of textiles, Govt. of India (**Annexure XVII**). In this regard, it was observed that:

- Number of depots set up in the States were not proportionate to the number of eligible Handlooms/weavers in that state. In the States of Bihar and Rajasthan, only two depots in each State were being operated to cover 25,510 and 22,841 handloom weavers respectively i.e. one depot to cater 12,755 and 11,421 handloom weavers respectively, whereas in the States of Tamil Nadu and Uttar Pradesh 230 and 156 number of depots were being operated to cover 2,22,901 and 1,24,949 handloom weavers respectively i.e. one depot to cater approximately 970 and 800 handloom weavers respectively in these two states.

- Out of 935 depots, only 128 depots were in NER States[4], though 59 *per cent* of the total handloom weavers were in these states. Assam having largest (44 *per cent*) number of handloom weavers (12,51,816) had only 25 depots i.e. more than 50,070 weavers were to be covered by each depot. Further, there was only one

[4] ***Arunachal Pradesh, Assam, Manipur, Mijoram, Meghalaya, Nagaland, Sikkim and Tripura***

depot in the state of Nagaland, despite having 61,673 number of handloom weavers.

- There was no depot facility in 30 districts including 25 districts in the North Eastern states (Assam-12, Arunachal Pradesh-3, Mizoram-3 and Nagaland-7) out of 105 districts in 9 states[5] having 5000[6] or more weavers. The distance from the nearest depots available to these 30 districts was ranging from 24 kms to 334 kms. District wise details of nearest depots available is given in **Annexure XVII A.**

- Forty six *per cent* of the individual weavers surveyed, stated that they did not have any depot within 20 kms of their location.

The Management stated that the Depots were allotted to the user agencies on receipt of applications after verifying their eligibility as per the prevalent process of the Company within the budget limits.

The reply has to be viewed against the fact that it was the responsibility of the Company also to set up depots as envisaged in the Scheme. In the absence of depot facility, the weavers procured yarn from the open market and could not avail the benefits of YSS.

A.4 Non appointment of persons in major clusters

As per Clause 5.3.2 of YSS, in order to reduce the delivery period and supply smaller quantities as well to the handloom weavers/agencies in lesser time, the Company was required to appoint one person each on contractual basis at 50 to 75 major clusters, who would collect the indents from the handlooms weavers in that cluster, submit the same to the nearest NHDC warehouse in the state and distribute the yarn to the concerned handloom weaver with the relevant invoice and collect the balance payment, if any.

Audit observed that the Company did not engage any person in any state, even in 18 warehouses/depots operated by the company, to cater to handloom weavers as envisaged in the scheme.

The Management replied that as per practice the indents were being received through branch offices, emails, mobile applications, fax, SMS and other electronics modes to speed up the supplies of yarn. Further the documents for supplies were also being forwarded to user agencies in the same manner. At present ERP system implemented in the Company takes care of indenting by user agencies, payment made through mobile app & internet banking and supply thereto. Moreover, the user agencies can track their order/supplies positions through ERP system and E-dhaga mobile app.

The reply is not tenable because user agencies particularly individual weavers in remote areas may not have access/knowledge about the mobile app and internet banking system which is evident from fact that coverage of individual weavers was very low as discussed under Para 13.1.6.2.

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[5] ***Tamil Nadu, UP, Rajasthan, West Bengal, J&K, Assam, Arunachal Pradesh, Mizoram and Nagaland***

[6] ***As per Comprehensive Handloom Development Scheme, Financial Assistance is provided to clusters having 5000 handlooms per cluster***

A.5 Non operation of Mobile Vans

Clause 7 of the operational guidelines of YSS requires that to reach the weavers in remote areas, user agencies/the Company needs to operate mobile vans periodically, so that weavers were not affected due to non-availability of yarn. Upto 40 mobile vans could be operated in such a manner that facility of at least one mobile van was available in each state.

Audit observed that no mobile vans were deployed in any state (even in North East states) which would have facilitated reaching out to the weavers especially in the remote areas thereby minimising the delay in supply of yarn from the depot to the weavers.

The Management assured that if necessary, the yarn supply through mobile van would be operated.

B. Lack of awareness of the scheme among weavers due to inadequate publicity

Clause 9 of the operational guidelines of YSS stipulates that focused publicity of the scheme was to be done through newspapers in vernacular languages, printing and distribution of pamphlets and hand bills, pasting of posters, wall paintings and Buyers-Sellers Meets etc.

Audit observed that the expenditure incurred on Publicity and Business Promotion by the Company during the years 2014-15 to 2016-17 was ₹11.27 lakh, ₹33.74 lakh and ₹39.88 lakh respectively, mainly for organising 16 Buyer seller meets. No other modes such as publicity in newspapers in vernacular languages, printing and distribution of pamphlets and hand bills, pasting of posters etc. were used which would have been more useful in creating awareness of the schemes amongst weavers in rural and remote areas.

The Management replied that publicity of scheme is available on the website of the Company/Ministry of Textiles/Development Commissioner (Handlooms) etc. Further, the Company has organised sensitisation programme in various States. Management also assured that if necessary to create further awareness among weavers about the scheme, the more expenditure on publicity and awareness would be done.

While utility of above modes of publicity adopted by the Company is not denied, audit would suggest that the Company should adopt other methods of publicity to create awareness of the scheme amongst weavers in remote areas keeping in view low coverage of individual weavers.

C. Lack of marketing facilities

One of the Corporate objectives of the Company was to take up development programmes so as to contribute to increasing the awareness of schemes/products and marketing avenues etc. Further, the activities of the Company as per YSS were intended to create marketing opportunities for higher output.

Audit observed that during the year 2016-17, the Company organised 16 Buyer seller meets (3 in North eastern regions and 13 in other than NER) and 21 silk fab exhibitions[7] out of which only one was held in North Eastern States, 3 wool fab exhibitions at Lucknow, Bhopal and Jabalpur and one national expo exhibition at Ahmedabad wherein only cooperative Societies were provided space for exhibiting their finished goods. The Company did not provide any platform for marketing the handloom products of individual weavers. Therefore, the individual weavers had to depend on the master weavers and handloom societies for marketing their products.

The Management has replied that the corporation was providing research and developmental activities of new product by using different kind of yarn for the benefit of handloom weavers and commencement of fabric business from cluster by opening Handloom Fabric Division & extend market aggregator. The corporation was providing a niche marketing platform to weavers for development of products as well as extending marketing support for sale of their product.

The reply is not tenable as the Company provided marketing facilities to the Cooperative Societies only and not to the Individual Weavers to sell their own products and get benefits of the Scheme.

13.1.6.3 Reimbursement of depot charges to exporters

The Recommendations of the Steering Committee on Handlooms and Handicrafts Constituted for the twelfth Five Year Plan (2012 – 2017) specifically stated that thrust should be to make yarn available at competitive prices to handloom weavers only and care should be taken that support was not cornered by exporters, merchants, etc.

Audit observed that exporters were operating most of the depots in Haryana and Tamil Nadu. Out of 93 depots in Haryana, 89 depots (96 *per cent*) were operated by exporters. Similarly, in Tamil Nadu out of 230 depots, 101 depots (44 *per cent*) were operated by exporters. They received yarn from the Company for their own consumption and operated depots in their own premises which were in urban areas. The exporters claimed reimbursement of depot charges of ₹53.68 crore during the years 2014-15 to 2016-17.

The Management replied that Reimbursement of depot charges to the exporters was made as per the guidelines lines of YSS.

While it is correct that exporters were also covered as beneficiaries under the scheme guidelines, non-availability of adequate number of depots to the individual weavers in the above states defeats the main objective of operating of Yarn Depots which was to provide the timely supplies of yarn in remote, interior and distant places to the Handloom Weavers.

[7] ***Mumbai, Ahmedabad, Ernakulum, Surat, Jabalpur, Kolkata, New Delhi, Bengaluru, Chandigarh, Coimbatore, Lucknow, Indore, Hyderabad, Bhopal, Patna, Pune , Guwahati, Vijayawada, Raipur, Jammu and Bhubaneshwar***

13.1.6.4 Delay in delivery of Yarn beyond the Stipulated Delivery period

As per process explained in Figure-1 under Para 3, handloom weavers/user agencies place indent on depots operated by NHDC/other user agencies which are forwarded to regional offices of NHDC. On receipt of these indents, NHDC places purchase orders on Supplier Mills. These mills then deliver the yarn directly to the indenters and send invoices to the Company. As per clause 5.3 of YSS, this process involves a normal delivery period of 10-15 days from the mills in the southern states to the handloom weavers/user agencies in northern states and 30-60 days in North Eastern States.

The Company being the facilitator for supply of yarn to the weavers needed to closely monitor the delivery of yarn within the prescribed time limit. Audit, however, observed that the mills did not supply yarn to the user agencies within the delivery period as stipulated in the scheme. The Company also did not monitor the delivery of yarn to ensure timely supply to the weavers. Resultantly, the mills unduly delayed the supply of yarn in 55.93 *per cent* of total purchase orders placed in 2016-17. In respect of North Eastern States, 67 *per cent* of purchase orders placed were delayed. The state wise details of instances where the delivery time was more than the stipulated time are detailed in **Annexure XVIII**. This delay has been worked out with reference to difference between indent date and Lorry Receipt date after deducting normal delivery period as per YSS. Audit further observed that ERP system of the Company does not contain any field to capture Goods Receipt Note (GRN) date, in the absence of which, further delay on the part of transporters could not be ascertained.

The Management replied that some of the big agencies and exporters were giving their bulk requirement as per their production plan and supply was arranged periodically as per their requirement. So far as other users were concerned, the delay was caused mainly due to production plan of the manufacturing mills. At present in the ERP system, a provision was made for the facilitation of mills, wherein the mills can take directly the details of purchase orders issued and also they can fill the data of their supply shipments. Hence in future the delivery period will be reduced.

The reply is not tenable as there were no conditions stipulated in the Purchase orders which allowed the Mills to supply the yarn as per production plan of buyer agencies/exporters as the whole quantity ordered was required to be supplied within 15 days. So far as reply regarding delay due to production plan of manufacturing mills is concerned, as per YSS, NHDC was required to draw up a viable procurement plan much in advance, to ensure that the supplies were made without interruption from the nearest mills situated in the same or nearby states. However, NHDC had no system in place to monitor timely supply of yarn by the Mills to the user agencies, in the absence of which, the User agencies were deprived of timely supply of yarn in most of the cases.

13.1.6.5 Violation of Yarn Supply Scheme in respect of placement of indents

Clause 10.6.4 of Yarn Supply scheme stipulates that the indent of the individual weavers and other eligible agencies would be routed through depot operating agency. For placing the indent with NHDC & affecting the supplies through depot, the depot operating agency would maintain the proper records, which could be verified by the NHDC on random basis.

However, test check of records pertaining to Regional Office Varanasi of the Company, revealed that seven co-operative societies in the districts of Barabanki, Moradabad, Ambedkar Nagar and Sitapur, which were not operating yarn depots, directly placed indents of other weavers along with their own indents during 2016-17. The Company, instead of directing these co-operative societies to advise individual weavers to route their indents through depots of the Company/user agencies in these districts, accepted these indents of individual weavers and supplied yarn to them in violation of YSS.

The Management stated (December 2017) that the supply has been arranged to the individual weavers through societies who were not having the depots as per the clause 10.4 and 10.6 of YSS scheme. The yarn has been supplied to an individual handloom weaver as per the clause 10.4 (2) and 10.6 (5) of the scheme i.e. the subsidised yarn will be supplied either to an individual handloom weaver or to his agency but not to both.

Reply is not tenable because the clause 10.4 and 10.6 of YSS, are regarding eligible quantity & type of Yarns to be supplied and general guidelines for supply of yarn respectively. Clause 10.6.4 of Yarn Supply scheme is specifically for placement of indents and record keeping which categorically states that all the indents are to be routed through depots. Consequently, the Company could not exercise any control over the genuineness of the supply of yarn to the individual weavers on whose behalf the societies placed the indents. Further, the envisaged purpose of operating depots remained unachieved as there was no sale in the yarn depots operated by the Company in 2016-17 in Moradabad and Sitapur districts.

13.1.6.6 Deficiencies in the ERP system

The Company maintained all records relating to supply of yarn in Tally software. The Company installed new ERP system in 2016-17 and the same was in stabilisation stage (March 2017)**.** The Company fixed the monthly quota of yarn against each passbook holder under the 10 *per cent* yarn subsidy scheme by maintaining an agency master in the system. Detailed examination of 105 sales invoices for supply of yarn made under 10 *per cent* Subsidy Scheme to Madina Handloom Wvrs Coop Society during the year 2016-17 under RO Varanasi of the Company revealed that quantity of yarn supplied as appearing in the Sales invoice did not match with the quantity of yarn shown as supplied to individual weavers in the list attached with the sales invoice. In three instances, the quantity of yarn showed to be issued to individual weavers was more than the quantity indicated in sales invoice whereas the same was less in 8 cases **(Annexure XIX)**. This was an indication of improper maintenance of data on the basis of which subsidy on the supply of yarn was claimed.

The Management stated (December 2017) that the indent was received from individual weavers from depot operating agency as per the guidelines of YSS 10.6.4 and processed accordingly in the ERP system. As observed by audit, the quantity of yarn supplied to individual weavers was not matching with the sale invoice. However, the same was matching with indent available in the ERP system. So there was no excess or less supplies as per the indent placed by the individual weavers through depot operating agency.

Reply is not tenable because the quantity of yarn supplied to individual weavers was required to be matched with sales invoice to ensure the genuineness of supply of yarn to the individual weavers. As there was a difference between invoiced quantity and quantity shown to have been supplied, the correctness of quantity of yarn supplied could not be ensured. Further, with the existing ERP system of the Company, the individual weaver wise sale report of yarn particularly in case of those who were getting yarn through depot operating agencies, could not be generated as the sale of yarn to those individual weavers were booked under the sale of depot operating agencies. Consequently, the supply made by the depot operating agency to individual weavers could not be verified from the ERP system.

13.1.7 Conclusion

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

13.1.8 Recommendations

Audit recommends that the Company may consider:

- Devising a suitable strategy to cater to the needs of handloom weavers in North Eastern region and other under-fed areas.
- Giving priority to operate mobile vans for timely supply of yarn from depots to weavers.
- Increasing number of depots especially in the areas having more concentration of weavers.
- Increasing awareness of the scheme by using various modes of publicity prescribed under Scheme guidelines to ensure adequate coverage of individual weavers and providing sufficient avenues to these weavers for marketing of their products.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

CHAPTER XIV- RECOVERIES AND CORRECTIONS/ RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

Airports Authority of India, Airline Allied Services Limited, Bharat Coking Coal Limited, Bharat Heavy Electricals Limited, Export Credit Guarantee Corporation of India Limited, Heavy Engineering Corporation Limited, Hindustan Petroleum Corporation Limited, HMCT & AN, Mineral Exploration Corporation Limited, National Highways Authority of India, National Insurance Company Limited, NBCC(I) Limited, Northern Coalfields Limited, New India Assurance Company Limited, NHPC Limited, New Mangalore Port Trust, Rashtriya Ispat Nigam Limited, Bhilai Steel Plant-SAIL, United India Insurance Company Limited and Western Coalfields Limited

14.1 Recoveries at the instance of audit

In 25 cases pertaining to 20 CPSEs, audit pointed out that an amount of ₹96.78 crore was due for recovery. The Management of CPSEs had recovered an amount of ₹72.10 crore (74.50 *per cent*) during the period 2016-17 as detailed in **Appendix-I**.

Heavy Engineering Corporation Limited, Indian Oil Company Limited, BPCL and National Highways Authority of India

14.2 Corrections/rectifications at the instance of audit

During test check, cases relating to violation of rules/regulations and deficiencies in the system were observed and brought to the notice of the Management. Details of the cases where corrective action was taken or changes were made by the Management in their rules/regulations, etc. at the instance of audit are given in **Appendix-II**.

CHAPTER XV

Follow-up on Audit Reports (Commercial)

Audit Reports of the CAG represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of PSUs. It is, therefore, necessary that appropriate and timely response is elicited from the executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on various paragraphs/appraisals contained in the Audit Reports (Commercial) of the CAG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- Setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- Setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- Submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the CAG presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the CAG.

A review in Audit revealed that despite reminders, the remedial/corrective ATNs on 55 transaction audit/compliance audit paragraphs/reviews contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in **Appendix-III**, were not received by Audit for vetting.

New Delhi
Dated : 13 April 2018

(Ashwini Attri)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

Countersigned

New Delhi
Dated : 13 April 2018

(Rajiv Mehrishi)
Comptroller and Auditor General of India

APPENDICES
&
ANNEXURES

Appendix-I
(Referred to in Para 14.1)
Recoveries at the instance of Audit during 2016-17

(Amount ₹ in lakh)

Name of Ministry/ Department	Name of the CPSE	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Civil Aviation	Airports Authority of India	Irregular payment to M/s Life Lime Travels	1.95	9.63#
Civil Aviation	Airports Authority of India	Under recovery of electricity charges from employees	4.00	4.00
Civil Aviation	Airline Allied Services Limited	Irregular/ excess Payment to contractor	6.66	5.00
Coal	Northern Coalfields Limited	Excess payment to Forest Department	1874.29	259.99*
Coal	Western Coalfields Limited	Non recovery of transport charges from customers	1662.00	1587.00
Coal	Bharat Coking Coal Limited	Loss due to non-charging of Surface Transport charges	1088.00	1055.00
Commerce and Industry	Export Credit Guarantee Corporation of India Limited	Irregular Settlement of Claim of ₹ 96.90 lakh to M/s. H.B. Gum Industries.	96.91	5.41
Finance	United India Assurance Company Limited	Due to absence of monitoring mechanism, UIIC failed to assess and promptly recover claims amounting to ₹10.79 crore from Reinsurer.	1079.00	1073.00
Finance	The New India Assurance Company Limited	Cases pertaining to excess settlement of claim, Incorrect Payment of profit commission, recovery from Third Party Administrators and Administrative officers	7.97	7.97

Finance	National Insurance Company Limited	Pending recovery from resigned/ retired employee and parties	8.12	7.20
Heavy Industries	Bharat Heavy Electricals Limited	Unwarranted excess payment made to M/s Alstrom amounting to ₹ 451.65 lakh due to inclusion of training charges in the billing breakup applicable for material supply	451.65	458.02#
Heavy Industries	Bharat Heavy Electricals Limited	Non recovery of electricity charges from employees	6.37	6.37
Heavy Industries	Heavy Engineering Corporation Limited	Non adherence of DPE guidelines resulting in short recovery of transport Charges	3.43	2.05
Heavy Industries	Heavy Engineering Corporation Limited	Loss of rent due to possession of extra land by school	2.41	2.41
Heavy Industries	Heavy Engineering Corporation Limited	Irregular payment of DA in foreign tours in violation of DPE guidelines	21.00	7.00
Housing and Urban Affairs	NBCC(I) Limited	Excess payment/ Non recovery of amounts from contractor	10.74	13.06#
Mines	Mineral Exploration Corporation Limited	Non deduction of professional tax	8.00	24.00#
Petroleum & Natural Gas	Hindustan Petroleum Corporation Limited	Loss due to lack of Internal Control	9.12	9.12
Power	NHPC Limited	Irregular Payment towards employers share of EPF contribution on leave encashment	1858.00	989.39
Road Transport and Highway	National Highway Authority of India	Non recovery of premium from concessionaries	292.00	343.00#
Shipping	New Mangalore Port Trust	Non recovery of dredging cost in respect of Captive Jetty	75.00	75.00
Steel	Rashtriya Ispat Nigam Limited	Excess payment of discount to MoU customers	8.10	8.10
Steel	Bhilai Steel Plant, SAIL	Short recovery of entry tax	8.65	8.73#

Steel	Bhilai Steel Plant, SAIL	Avoidable loss due to disallowance of cenvatable taxes on delayed completion of projects	1092.00	1247.00#
Tourism	HMCT & AN	Non realization of amount from IOCL for consultancy work	3.00	3.00
		TOTAL	**9678.37**	**7210.45**

* In addition, an amount of ₹321.33 lakh was recovered till October 2015 and included in Audit Report No.15 of 2016 (Vol. I). Similarly, ₹232.17 lakh was recovered till July 2016 and included in Audit Report No. 9 of 2017.

Audit pointed out recovery on a test check basis and Management has further reviewed the similar cases and carried out the recovery accordingly.

Appendix-II
(Referred to in Para 14.2)
Corrections/Rectifications at the instance of Audit

Name of Ministry/Department	Name of the CPSE	Audit observations/suggestions in brief	Action taken by the Management
Heavy Industries	Heavy Engineering Corporation Limited	Non adherence of DPE guidelines resulting in short recovery of transport charges	Management has started deducting transport charges from employees
Petroleum and Natural Gas	Bharat Petroleum Corporation Limited	Delay in receipt of rent from various facility centers	Payment method has been changed from cheque to RTGS/ NEFT mode
Petroleum and Natural Gas	Indian Oil Company Limited	Deficient Tender document which required the bidder to quote price including taxes.	The company has amended its tender for selection of process licensor by including therein a uniform clause for Taxes and Duties. The amounts in the bid are now invited net of any taxes and duty.
Road Transport and Highway	National Highway Authority of India	Non Deduction of Professional tax	Management has started deducting professional tax from the employees
Road Transport and Highway	National Highway Authority of India	Non installation of electric meters at Campus of Dhanbad for residential Quarters	Management has installed the electric meters at residential quarters.

Appendix-III
(Referred to in Chapter XV)
Statement showing the details of Audit Reports (Commercial) upto to 2017 for which Action Taken Notes were pending

No. & year of Report	Name of Report	Para No.
Ministry of Chemicals and Fertilizers		
9 of 2017	Compliance Audit	Para 6.1
15 of 2016	Compliance Audit	Para 6.1 & 6.2
13 of 2014	Compliance Audit	Paras 2.2
13 of 2013	Compliance Audit	Paras 8.1
Ministry of Civil Aviation		
9 of 2017	Compliance Audit	Para 2.2, 2.4 & 2.5
15 of 2016	Compliance Audit	Para 2.4
21 of 2015	Compliance Audit	Para 2.1,& 2.2
13 of 2013	Compliance Audit	Paras 3.1
Ministry of Coal		
9 of 2017	Compliance Audit	Para 3.1, 3.2, 3.4, 3.5 & 3.6
15 of 2016	Compliance Audit	Para 3.1 & 3.2
21 of 2015	Compliance Audit	Paras 3.2
Ministry of Finance (Department of Financial Services-Insurance Division)		
9 of 2017	Compliance Audit	Para 7.1
21 of 2015	Compliance Audit	Paras 7.3
Ministry of Heavy Industries & Public Enterprises		
9 of 2017	Compliance Audit	Para 8.1
15 of 2016	Compliance Audit	Para 9.3 & 10.1
13 of 2014	Compliance Audit	Para 13.2
Ministry of Petroleum and Natural Gas		
9 of 2017	Compliance Audit	Para 10.3, 10.9 & 10.10
Ministry of Steel		
9 of 2017	Compliance Audit	Para 15.1 to 15.9
15 of 2016	Compliance Audit	Para 5.1 to 5.4
Ministry of Mines		
13 of 2014	Compliance Audit	Para 13.1

Ministry of Power		
9 of 2017	Compliance Audit	Para 11.1,11.3,11.4 &11.5
15 of 2016	Compliance Audit	Para 11.5&11.6
Ministry of Shipping		
9 of 2017	Compliance Audit	Para 14.1
Ministry of Road Transport & Highways		
9 of 2017	Compliance Audit	Para 12.4
Ministry of Commerce and Industry		
9 of 2017	Compliance Audit	Para 4.1
Ministry of Housing & Urban Affairs		
9 of 2017	Compliance Audit	Para 9.1
Ministry of Textile		
9 of 2017	Compliance Audit	Para 16.1

Annexure-I
(Referred to in Para 2.1.1)
Details of records / files / information not provided by AASL

	Records / files / information sought from AASL	Status
1.	Viability / feasibility reports for acquisition of aircraft. Introduction/withdrawal of aircraft (including bidding for RCS routes) on any route.	Partial records (committee report w.r.t induction of 8 ATR 72) received.
2.	Basis and records relating to introduction/withdrawal of flights on different routes.	No records were furnished.
3.	Records pertaining to maintenance of aircrafts. Details of maintenance reserve, standard norms for scheduled/unscheduled groundings, standard and actual time period consumed for various checks/repairs. Arrangement for spares/components and float engine.	Partial record relating to maintenance of aircraft was furnished
4.	Year-wise details of available routes and actual deployment of aircraft on such routes. Norms for fleet availability ratio and under-utilisation of fleet due to shortage of pilots/ non-availability of routes, etc.	No records were furnished.
5.	Records relating to financial management in AASL indicating the process of arranging the funds for its long term and short term needs and the sources of borrowing the funds from various agencies.	No records were furnished.
6.	Records relating to system of verifying the revenue received from Air India.	Partial record was received

The issue of production of records was taken up repeatedly with management of AASL. However, the requisite records were not made available. Efforts made by Audit to obtain the records from AASL are detailed below:

	Details of Reminders / Meetings	Dated
1.	Requisitions issued by the Audit Team to AASL	17.04.2017 to 31.07.2017
2.	Meeting of Director with CEO of AASL to expedite the records	16.06.2017
3.	DO letter by Principal Director to CEO of AASL	04.07.2017
4.	Meeting of CFO of AASL with the Principal Director	25.07.2017
5.	Meeting of the Director with CEO of AASL	15.09.2017
6.	Reminder issued by Director to CEO of AASL	06.10.2017, 24.10.2017
7.	Exit meeting of Director with CEO of AASL wherein the issue of non-production was also discussed	04.12.2017

Annexure-II
(Referred to in Para 2.1.2.3 B)
Details of lease rent paid due to grounding of CRJ fleet

Identity of Aircraft	**VT-RJB**			**VT-RJC**			**VT-RJD**			**VT-RJE**			**Total in-fructuous Lease Rent paid (₹ in crore)**
Year	**DA**	**DG**	**LR**	**DA**	**DG**	**LR**	**DA**	**DG**	**LR**	**DA**	**DG**	**LR**	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	
2014-15	365	0	12.93	288[1]	9	10.95	365	**212**	11.46	365	27	13.71	
2015-16	366	0	11.94	--	--		366	**110**	11.94	366	**46**	12.80	
2016-17	152[2]	30	4.86	--	--		211[3]	**123**	6.81	266[4]	69	8.59	
Total	883	30	29.73	288	9	10.95	942	**445**	30.21	997	**142**	35.1	
Percentage of total DG to total DA [*]	3.17			2.78			**44.90**			**13.54**			
In-fructuous Lease Rent paid for the DG	0.94			0.30			**13.56**			**4.75**			**19.59**

DA = Days available for flying, DG = Days of grounding, LR = Lease Rent paid during the year (₹ in crore),

* Note: Percentage of days of grounding to days available for flying have been worked out after considering 5 *per cent* of the fleet availability for scheduled /unscheduled maintenance

1 ***Scheduled redelivery on 13/2/15. Days available counted till 12/1/15 after giving one month for meeting redelivery requirements.***
2 ***Scheduled redelivery on 30/9/16. Days available counted till 30/8/16 after giving one month for meeting redelivery requirements.***
3 ***Scheduled redelivery on 30/11/16. Days available counted till 28/10/16 since grounded for redelivery process.***
4 ***Scheduled redelivery on 16/1/17. Days available counted till 22/12/16 since grounded for redelivery process.***

Annexure-III
(Referred to in Para 2.1.2.3 C)
Details of lease rent paid due to grounding of ATR 42-320 fleet

Identity of Aircraft	VT-ABA			VT-ABB			VT-ABD			VT-ABO			Total in-fructuous Lease Rent paid (₹ in crore)
Year	**DA**	**DG**	**LR**	**DA**	**DG**	**LR**	**DA**	**DG**	**LR**	**DA**	**DG**	**LR**	
2014-15	365	248	4.36	365	29	4.36	321[5]	100	3.99	365	28	3.22	
2015-16	366	148	3.79	366	39	3.59	--	--	--	266[6]	34	2.39	
2016-17	365	16	3.18	365	71	3.14	--	--	--	--	--	--	
Total	**1096**	**412**	**11.33**	**1096**	**139**	**11.09**	**321**	**100**	**3.99**	**631**	**62**	**5.61**	
Percentage of total DG to total DA *	**35.68**			**12.04**			**29.60**			**9.35**			
In-fructuous Lease Rent paid for the DG	**4.04**			**1.34**			**1.18**			**0.52**			**7.08**

DA = Days available for flying, DG = Days of grounding, LR = Lease Rent paid during the year (₹ in crore),

* Note: The days of groundings have been worked out after considering 5 *per cent* of the fleet availability for scheduled / unscheduled maintenance

[5] *Scheduled redelivery on 16/3/15. Days available counted till 15/2/15 after giving one month for meeting redelivery requirements.*
[6] *Accident happened on 22/12/15. Days counted till 22/12/2015.*

Annexure-IV
(Referred to in Para 2.1.2.4)
Details of amount recoverable from beneficiary agencies/ States under various MOUs

Sl. No.	Name of State Govt./Agency	Sector operated	Amount of VGF agreed	Period of operations		Unrealised amount* (₹ in crore)	Remarks
				Agreed period	Actual period of operations		
1.	Government of Puducherry	Bangalore-Puducherry	₹2 crore p.a. i.e. ₹0.17 crore per month	1 year (April, 2015 to March 2016)	6 months (April 2015 to 15th October, 2015)	3.44	-
2.	M/s Bengal Aerotropolis Project Limited (BAPL)	Kolkata-Durgapur	Cost minus revenue.	May 2015 to March 2016	8 months (May 2015 to Dec. 2015)	3.03	BAPL did not honour the bills after June 2015.
3.	Government of Karnataka	Bengaluru-Mysuru	₹1.14 crore per annum or ₹0.09 crore per month	One year from September 2015	03.09.2015 to 17.11.2015	1.54	No VGF was received from the Govt. of Karnataka
4.	Lakshadweep Administration (LA)	Kochi-Agatti	VGF on the basis of no profit no loss basis considering ₹1.80 lakh per hour cost of flying	3 years from March, 2013	March 2013 to till date	4.03	No agreement or MoU was entered in this regard with LA/Ministry of Home Affairs. Dues outstanding for the period April, 2015 to November, 2016.
5.	North Eastern Council	North Eastern Region	VGF to cover the losses on operations	From 2003 onwards on yearly basis	From 2003 onwards on yearly basis	60.91	Continued operations without any communication for extension during the year 2012.
TOTAL						**72.95**	

* Difference of revenue received and cost incurred during the period of operations

Annexure-V
(Referred to in Para 2.1.2.5)
Details of payment made for buyout/ redelivery of aircrafts

Aircraft Name/ Registration No.	Name of lessor	Date of Induction	Redelivery of Aircraft		Date of sending Aircraft for redelivery check	Redelivery settlement amount paid by AASL	Lease Rentals at the time of redelivery	Lease rentals paid for the Period of repair/settlement ©	Accumulated amount of Maintenance Reserves (MR) retained by lessor
			Scheduled	Actual					
VT-RJC/ MSN10052	M/s Hong kong Airlines Limited	January 2008	Jan 2015	August 2015	February 2015	USD1.45 mn£	USD 0.175 mn per month	USD 0.875 mn for 5 months from April to August 2015 (eq. to ₹5.80 cr @₹66.33 / USD)	USD 0.93 mn
VT-RJD/ MSN 10048	M/s Cilan MSN 10048 Limited	May 2009	Nov 2016	April, 2017	November 2016	USD 1.9 mn	USD 0.15mn per month	USD 0.6 mn For 4 months from December 2016 to March 2017(eq. to ₹3.89 cr @₹64.84 per USD)	USD 1.73 mn
VT-RJB/ MSN 10217	M/s Amentum Aircraft Leasing No. Two Limited	October 2007	Sept 2016	Dec 2016	September2016	USD 1.25 mn	USD 0.15 mn per month	USD 0.03 mn For 2 months from November 2016 to December 2016 (eq. to ₹1.95 cr@ ₹64.84 per USD)	USD 4.67 mn
VT-RJE/ MSN 10029	M/s RBS Aerospace Irelad Limited	July 2008	Jan 2017	In process	January 2017	Yet to be settled	USD 0.145 mn per month	USD 1.31mn For 9 months from March 2017 to November 2017 (eq. to ₹8.46 cr ₹64.84 per USD)	Yet to be settled
VT-ABD /MSN 356	M/s ATR assigned to M/s Abric Leasing Limited.	Dec 2002	Mar 2015	August 2015	The aircraft was retained by AASL as per settlement agreement	USD 1.894 mn€	USD 0.058 mn per month	USD 0.411 mn from March 2015 to July 2015 (eq. to ₹2.63 cr @ ₹64.005 per USD)	USD 1.59 mn
TOTAL						**6.494**		**3.226 (equivalent to ₹22.73 crore)**	**8.92**

© *Period has been counted after allowing one month for meeting redelivery requirements. Rate of conversion for dollar has been taken as that of succeeding 31March of the year in which lease rentals were paid.*

£ *Includes amount paid for Cost of checks to M/s Adria and Repair activities to M/s Goodrich and M/s Belfast.*

€ *Includes amount 0.494 million for fixed redelivery charges.*

Annexure-VI
(As referred to in Para 2.2.1 & Para 2.2.2.1)
Time Overrun

Sl. No.	Airport	Description of work	Estimated cost approved by Board of AAI (₹ in crore)		Award Date/ value in ₹ crore	Name of the Contractor	Scheduled date of Completion	Actual Date of completion/ cost of completion (₹ in crore)	Delay in completion (months)
			For Total Project	Cost of Civil works					
1	Jaipur	Extension &strengthening of runway including CAT-III Lighting system	12/01/2011 89.65 (Revised to ₹140.64 crore on 17/7-2015)	89.65 (Revised to ₹140.64 crore on 17/7-2015)	24/12/13 95.92	M/s G.R. Infra Projects	01/07/15	15/03/16 130.99	8.5 months
2	Jaipur	SITC of design based grid connected Ground Mounted 1.8 MWp solar PV power plant	25/08/2015 14.98	14.98	19/02/16 10.82	M/s Ujaas Energy Ltd.	27/08/16	In progress/ 7.96 (September 2017	13 months
3	Kishangarh	Construction of runway, apron, isolation bay, link taxi way, perimeter road and other allied works	18/04/2013 160.05	59.33	20/09/13 44.60	M/s Khurana Engineering Ltd.	28/09/15	Foreclosed, on 29/03/16 32.26	24 months as balance work still in progress
4	Lucknow*	Construction of Academic Block, Hostel, Substation, Building & Other allied works at National Aviation University-IGRUA, Fursatganj	02/04/2013 149.48	84.63	16/08/13 85.57	M/s KSM Bashir Mohammad & sons	22/08/16	In progress/67.95 (September 2017)	13 months
5	Lucknow*	Construction of Integrated Office complex .-AAI and DGCA	02/02/2011 127.10	11.68	08/05/13 10.44	M/s Aakriti Engineers	17/11/14	21/02/17 14.28 (up to pre final bill)	27 months
6	Delhi	Construction of central air traffic flow management (CATFM) and associated office,	25/10/12 180.77	37.38	01/01/16 11.53	M/s Sunehari Bagh Builders Pvt. Ltd.	10/01/17	In progress/ 4.70 (September 2017)	8.5 months
7	Delhi*	Construction of Indian Civil Aviation Academy and hostel block	02/02/2011 149.70	91.93	18/04/13 93.65	M/s C&C Construction Ltd.	12/11/14	In progress/75.67 (September 2017)	34 months

8	Jaisalmer	Construction of Main terminal building and allied works	25/02/2008 81.00	41.28	17/03/10 32.60	M/s Era Infra Engineering Ltd.	09/04/11	21/02/13 32.15	22 months
9	Khajuraho	Balance work of Construction of New terminal building complex.	20/02/2006 75.32	53.60	24/12/09 50.96	M/s Avantika-GHRA (JV)	02/12/10	31/12/15 53.45	61 months
10	Chandigarh International Airport Limited	Construction of New Integrated terminal building (Mohali Side)	02/022011 452.00	392.99	01/08/12 307.34	M/s Larsen & Toubro Ltd.	17/02/15	15/05/15 330.17	3 months
11	Chandigarh International Airport Limited	Construction of Apron & link taxi track- (Mohali Side)		38.12	22 /12/2011 39.91	M/s NSC Projects Pvt. Ltd.	17/08/14	30/07/14 39.05	N/A

* Deposit Works

Annexure-VII
(As referred to in Para 5.1)

Name of Branch	Sl. No.	Loan Number	Particulars
Agra (7 loans)	1.	01702070000006	Two loans of ₹ 32.50 lakh each were sanctioned on 30 December 2013 for purchase of two flats against which ₹58.50 lakh was disbursed on 31 December 2013.
	2.	01702070000007	
	3.	01702070000011	A loan of ₹35 lakh was sanctioned on 25 February 2014 for purchase of a flat and ₹31.50 lakh was disbursed till 10 March 2014.
	4.	01702070000012	A loan of ₹30 lakh was sanctioned on 27 February 2014 for purchase of a flat and ₹27 lakh was disbursed on 28 February 2014.
	5.	01702070000001	A loan of ₹66 lakh was sanctioned on 31 October 2013 for purchase of two flats and ₹33.61 lakh was disbursed till 21 November 2013.
	6.	01702080000006	Two loans of ₹11.70 lakh and ₹15 lakh were sanctioned on 21 January 2014 as housing equity loan and ₹26.70 lakh was disbursed till 23 April 2014.
	7.	01702080000009	
Bhopal (4 loans)	8.	00202070004618	Two loans of ₹30.40 lakh and ₹5 lakh were sanctioned on 26 March 2014 and 31 October 2014 respectively for purchase and furnishing of a house.
	9.	00202280000001	
	10.	00202070004589	Two loans of ₹12.50 lakh and 15 lakh were sanctioned on 31 January 2014 for purchase of duplex house and ₹3.56 lakh each was disbursed on the same day.
	11.	00202070004590	
Indore (2 loans)	12.	01302090000019	A loan of ₹7.75 lakh against property was sanctioned on 31 July 2014 and disbursed on 28 August 2014.
	13.	01302080000065	A loan of ₹9 lakh against property was sanctioned on 26 May 2012 and disbursed on 31 May 2012.
Jabalpur (8 loans)	14.	00402070001917	Loan of ₹24.25 lakh was sanctioned on 26 September 2013 and disbursed on 27 September 2013 for purchase of a house.
	15.	00402070001923	Loan of ₹15 lakh was sanctioned on 30 September 2013 for construction of house and ₹13 lakh was disbursed till 12 November 2013.
	16.	00402080000137	Loan of ₹17 lakh was sanctioned and disbursed on 08 October 2013 as loan against property for personal purpose.

	17.	00402070001920	Loan of ₹25 lakh was sanctioned and disbursed on 30 September 2013 for purchase of a house.
	18.	00402070001879	Loan of ₹11 lakh was sanctioned on 18 October 2012 and disbursed on 25 October 2012 for purchase of a house.
	19.	00402080000087	Loan of ₹7.25 lakh was sanctioned on 28 August 2012 and disbursed on 31 August 2012 as loan against property.
	20.	00402080000135	Loan of ₹21 lakh was sanctioned and disbursed on 14 September 2013 as loan against property for personal purpose.
	21.	00402070001921	A loan of ₹30 lakh was sanctioned on 10 October 2013 and ₹15 lakh was disbursed on the same day.
Nasik (2 loans)	22.	01402250000064	Two loans of ₹17 lakh each were sanctioned on 25 August 2014 and the entire amount was disbursed on 31 August 2014.
	23.	01402250000065	

Annexure-VIII
(As referred to in Para 5.5)
Statement Showing Incurred Claim Ratio of Standalone GHIPs of OICL

Year	Name of Insured	Policy Number	Expiring Premium	Incurred Claim	ICR
A	B	C	D	E	F=E/D*100
Mumbai RO-II					
2014-15	HDFC Standard Life Insurance Co.	124200/48/2015/1351	77900000	117000000	150
	Wockhardt Ltd	124500/48/2015/1331	26500000	26700000	101
	Abhyudaya Bank Ltd	124291/48/2015/478	16258700	19493834	120
	Axis Bank Ltd	124500/48/2015/8015	416044078	555419239	134
	CIDCO	124291/48/2015/56	31607831	35185548	111
	HDFC Securities Ltd	124500/48/2015/7767	15000000	20480647	137
2015-16	Wockhardt Ltd	124500/48/2016/931	32600000	37720278	116
	Axis Bank Ltd	124500/48/2016/6734	440000000	587993748	134
	Abhyudaya Bank Ltd	124291/48/2016/642	20000000	22980994	115
	M/s Diabold System Pvt Ltd	121802/48/2016/966	16205000	16826188	104
	CIDCO	124291/48/2016/69	26734826	33091693	124
	Capita India Pvt Ltd	124200/48/2016/10929	32687221	36355964	111
	HDFC Standard Life Insurance Co.	124200/48/2016/2735	73000000	114900000	157
	Viacom 18 Media Pvt Ltd	121802/48/2016/198	16881000	19326000	114
2016-17	Viacom 18 Media Pvt Ltd	121802/48/2017/189	20700000	24057000	116
	HDFC Standard Life Insurance Co.	124200/48/2017/4866	95000000	115900000	122
	Axis Bank Ltd	124500/48/2017/5890	499500000	561447217	112
	Glenmark Pharmaceuticals	124500/48/2017/275	21100000	24052610	114
	Wockhardt Ltd	124500/48/2017/1207	44000000	53800000	122
	HDFC Securities Ltd	124500/48/2017/5762	21300000	23175889	109
	Capital India	124200/48/2017/11550	33699093	38628599	115
RO-Bengaluru					
2014-15	M/s Accenture	Total 5 policies	597248628	664361000	111
	CGI Information Systems	421500/48/2015/3278	120113002	122385049	102
	Scope International	421500/48/2015/1549	48219250	51904255	108
2015-16	M/s Accenture	Total 5 policies	761197893	840963839	110
	GE Group	Total 52 policies	244810088	284110304	116
	SKDRDP	422200/48/2016/219	297626856	314921972	106
	CGI Information Systems	421500/48/2016/3033	143116172	144183421	101
	Astrazeneca	421100/48/2016/369	48863340	52944925	108
	Scope International	421500/48/2016/1894	55947037	63808978	114
	Fisrt American	421100/48/2016/171	29561134	33608793	114

2016-17	M/s Accenture	Total 5 policies	921317979	1060169592	115
	GE Group	Total 52 policies	369779936	398113303	108
	SKDRDP	422200/48/217/423	106186223	110269943	104
	Scope International	421500/48/2017/1622	67790166	82923768	122
RO-Chennai					
2014-15	Daimler India Pvt Limited	411200/48/2015/3220	26231788	31522523	120
2015-16	Daimler India Pvt Limited	411200/48/2016/3360	28255280	31419459	111
2016-17	Temenos India Pvt Limited	411700/48/2017/5189	15686087	15752168	100
	Daimler India Pvt Limited	411200/48/2017/3012	29720416	42912667	144
	Sandisk Private Limited	411600/48/2017/3372	18243128	21882056	120

Annexure-IX
(As referred to in Para 5.5)
Statement Showing Short charging of Premium in respect of Group Mediclaim Policies (Standalone) of OICL during the period 2014-15 to 2016-17

year	Name of Insured	Policy Number	Annualized Claim Outgo Adjusted to the No. of Lives	Brokerage	TPA Charges	Medical Inflation (MI) @ prevailing Monthly MI Rate declared by MOSPI*	Total	Minimum premium to be charged to maintain CR @95 per cent	Premium Actually Charged	Short Charging of Premium (In ₹)
A	B	C	D	E	F	G	H= Sum of D to G	I=H/95%	J	K=I-J
Mumbai RO-II										
2014-15	HDFC Standard Life Insurance Co.	124200/48/ 2015/1351	117000000	0	6435000	5850000	129285000	136089474	73000000	63089474
	Abhyudaya Bank Ltd	124291/48/ 2015/478	19498494	1462387	1072417	974925	23008223	24219182	18507000	5712182
	Wockhardt Ltd	124500/48/ 2015/1331	27846306	2088473	1531547	1392315	32858641	34588043	32600000	1988043
	Axis Bank Ltd	124500/48/ 2014/7649	559682681	0	30782547	27984134	618449363	650999329	440000000	210999329
	CIDCO	124291/48/ 2015/56	35371835	0	1945451	1768592	39085878	41143029	25738697	15404332
	HDFC Securities Ltd	124500/48/ 2015/7767	20609862	1545740	1133542	1030493	24319637	25599618	15918712	9680906
2015-16	Wockhardt Ltd	124500/48/ 2016/931	34584711	2593853	1902159	1729236	40809959	42957852	38500000	4457852
	Axis Bank Ltd	124500/48/ 2016/6734	658715635	0	36229360	32935782	727880777	766190291	499500000	266690291
	Abhyudaya Bank Ltd	124291/48/ 2016/642	22980994	0	1263955	1149050	25393998	26730525	23500000	3230525
	M/s Diabold System Pvt Ltd	121802/48/ 2016/966	16783211	671328	671328	839161	18965028	19963188	13000000	6963188

	CIDCO	124291/48/ 2016/69	32557000	0	1790635	1627850	35975485	37868932	29326453	8542479
	Capita India Pvt Ltd	124200/48/ 2016/10929	36718410	2753881	2019513	1835921	43327724	45608130	33525328	12082802
	HDFC Standard Life Insurance Co.	124200/48/ 2016/2735	114900000	0	4596000	5745000	125241000	131832632	95000000	36832632
	Viacom 18 Media Pvt Ltd	121802/48/ 2016/198	23290551	2329055	1280980	1164528	28065114	29542225	20700000	8842225
2016-17	Viacom 18 Media Pvt Ltd	121802/48/ 2017/189	25807000	1935525	1419385	1290350	30452260	32055011	25000000	7055011
	HDFC Standard Life Insurance Co.	124200/48/ 2017/4866	123600000	0	6180000	6180000	135960000	143115789	99782603	43333186
	Axis Bank Ltd	124500/48/ 2017/5890	567700000	14192500	17031000	28385000	627308500	660324737	515000000	145324737
	Glenmark Pharmaceuticals	124500/48/ 2017/275	21800000	1635000	1199000	1090000	25724000	27077895	18427948	8649947
	Wockhardt Ltd	124500/48/ 2017/1207	56500000	4237500	2825000	2825000	66387500	69881579	52500000	17381579
	HDFC Securities Ltd	124500/48/ 2017/5762	24948000	1247400	1247400	1247400	28690200	30200211	25000000	5200211
	Capita India	124200/48/ 2017/11550	37538000	1501520	1501520	1876900	42417940	44650463	34035169	10615294
	Sub-Total (A)							***3020638133***	***2128561910***	**892076223**
RO-Bengaluru										
2014-15	M/s Accenture	Total 5 policies	664361000	0	16609025	33218050	714188075	751776921	719842830	31934091
	CGI Information Systems	421500/48/ 2015/3278	121553564	10939821	4862143	6077678	143433206	150982322	149150445	1831877
	Scope International	421500/48/ 2015/1549	56067784	4205083.8	3083728	2803389	66159985	69642090	50000000	19642090
2015-16	M/s Accenture	Total 5 policies	840963839	0	21024096	42048191.95	904036127	951616976	882562090	69054886
	GE Group	Total 52 policies	291550553	5650000	11662022	14577528	323440103	340463266	284923445	55539821
	SKDRDP	422200/48/ 2016/219	88666437	6649983	4876654	4433322	104626396	110133048	105186223	4946825
	CGI Information Systems	421500/48/ 2016/3033	157156309	7857815	6286252	7857815	179158192	188587571	156905501	31682070

	Astrazeneca	421100/48/ 2016/369	54679494	0	2187180	2733975	59600648	62737525	50561126	12176399
	Scope International	421500/48/ 2016/1894	69925032	4545127	2797001	3496252	80763412	85014118	56002737	29011381
	Fisrt American	421100/48/ 2016/171	33296463	2497235	1331859	1664823	38790379	40831978	36467895	4364083
2016-17	M/s Accenture	Total 5 policies	1101390650	0	27534766	55069533	1183994949	1246310472	1048164408	198146064
	GE Group	Total 52 policies	387025698	10000000	15481028	19351285	431858011	454587380	427912178	26675202
	SKDRDP	422200/48/ 2017/423	99480862	0	0	4974043	104454905	109952532	98263074	11689458
	Scope International	421500/48/ 2017/1622	84968037	5098082	3398721	4248402	97713243	102856045	75000000	27856045
	Sub-Total (B)							**4665492242**	**4140941952**	**524550290**
RO-Chennai										
2014-15	Daimler India Pvt Limited	411200/48/ 2015/3220	31522523	2364189	1733739	1576126	37196577	39154292	27500000	11654292
2015-16	Daimler India Pvt Limited	411200/48/ 2016/3360	31638685	1581934	1265547	1581934	36068101	37966422	28700000	9266422
2016-17	Temenos India Pvt Limited	411700/48/ 2017/5189	16528158	1239612	826408	826408	19420586	20442722	18000000	2442722
	Daimler India Pvt Limited	411200/48/ 2017/3012	43764286	0	2407036	2188214	48359536	50904775	41200000	9704775
	Sandisk Private Limited	411600/48/ 2017/3372	22480365	1348822	1011616	1124018	25964822	27331391	24399808	2931583
	Sub-Total (C)							**175799602**	**139799808**	**35999794**
	Grand Total (A+B+C)							**7861929978**	**6409303670**	**1452626308**

*MOSPI: Ministry of Statistics and Programme Implementation

Annexure-X
(As referred to in Para 9.4)
Statement showing avoidable payment of surcharge on excess drawal of water by HPCL

Month	Excess Drawal of water from Thatipudi Reservoir		Rate of surcharge (₹ *per* KL)	Amount of surcharge paid (in ₹)	Enhanced quantity approved by ECMP for Thatipudi		Days in month	Quantity of water on which surcharge avoidable if quantity was enhanced by 4 LIGD as suggested by ECMP (in KL)	Amount of surcharge avoidable (in ₹)
	in LIGD	in KL			in LIGD	in KL			
(1)	(2)	(3)	(4)	(5) = (3)*(4)	(6)	(7)	(8)	(9) = (7)*(8)	(10) = (9)*(4)
Mar-15	5.65	79583.54	36	2865007	4	1818.436	31	56371.52	2029375
Apr-15	3.21	43808.00	36	1577088	3.21	1459.295	30	43778.85	1576038
May-15	8.14	114653.54	36	4127527	4	1818.436	31	56371.52	2029375
Jun-15	5.05	68844.00	36	2478384	4	1818.436	30	54553.08	1963911
Jul-15	7.06	99515.54	36	3582559	4	1818.436	31	56371.52	2029375
Aug-15	10.64	150001.54	36	5400055	4	1818.436	31	56371.52	2029375
Sep-15	10.08	137410.00	36	4946760	4	1818.436	30	54553.08	1963911
Oct-15	9.82	138330.54	36	4979899	4	1818.436	31	56371.52	2029375
Nov-15	12.58	171555.00	36	6175980	4	1818.436	30	54553.08	1963911
Dec-15	6.52	91831.00	60	5509860	4	1818.436	31	56371.52	3382291
Jan-16	5.13	72325.00	60	4339500	4	1818.436	31	56371.52	3382291
Feb-16	6.17	81331.00	60	4879860	4	1818.436	29	52734.64	3164079
Mar-16	8.24	116080.00	60	6964800	4	1818.436	31	56371.52	3382291
Apr-16	9.04	123293.00	60	7397580	4	1818.436	30	54553.08	3273185
May-16	7.27	102491.00	60	6149460	4	1818.436	31	56371.52	3382291
Jun-16	6.74	91856.00	60	5511360	4	1818.436	30	54553.08	3273185
Jul-16	4.61	65012.00	60	3900720	4	1818.436	31	56371.52	3382291
Aug-16	8.71	122679.00	60	7360740	4	1818.436	31	56371.52	3382291
Sep-16	12.51	170585.00	60	10235100	4	1818.436	30	54553.08	3273185
Oct-16	10.31	145239.54	60	8714372	4	1818.436	31	56371.52	3382291
Nov-16	12.03	164085.00	60	9845100	4	1818.436	30	54553.08	3273185
Dec-16	9.67	136285.54	60	8177132	4	1818.436	31	56371.52	3382291

Month	Excess Drawal of water from Thatipudi Reservoir		Rate of surcharge (₹ *per* KL)	Amount of surcharge paid (in ₹)	Enhanced quantity approved by ECMP for Thatipudi		Days in month	Quantity of water on which surcharge avoidable if quantity was enhanced by 4 LIGD as suggested by ECMP (in KL)	Amount of surcharge avoidable (in ₹)
	in LIGD	in KL			in LIGD	in KL			
(1)	(2)	(3)	(4)	(5) = (3)*(4)	(6)	(7)	(8)	(9) = (7)*(8)	(10) = (9)*(4)
Jan-17	8.53	120265.54	60	7215932	4	1818.436	31	56371.52	3382291
Feb-17	8.08	102803.52	60	6168211	4	1818.436	28	50916.21	3054972
Mar-17	12.43	175219.54	60	10513172	4	1818.436	31	56371.52	3382291
Total		**2885083.38**		**149016162**					**70749344**

LIGD = Lakh imperial gallons per day, KL = Kilolitres
1 LIGD = 454.609 KL
ECMP – Empowered Committee for Mega Projects

Annexure-XI

(As referred to in Para 9.5)

Statement showing extra discount paid to reseller for FO & LDO sales during 2015-16.

A. F.O sales during the year 2015-16

Slab wise targeted volume vis a vis applicable discount.			
Volume Slab (MT)	**Discount (₹ per MT)**	**Volume of actual sale (MT)**	**Applicable discount (in ₹)**
(A)	**(B)**	**(C)**	**(D) =B x C**
Up to 6000	425	6000	25,50,000
Above 6000, Up to 12000	600	Next 6000	36,00,000
Above 12000, Up to 25000	775	Next 13000	1,00,75,000
Above 25000, Up to 50000	950	Next 25000	2,37,50,000
Above 50000, Up to 75000	1,125	Next 25000	2,81,25,000
Above 75000, Up to 100000	1,300	Next 25000	3,25,00,000
Above 100000, Up to 125000	1,475	Next 25000	3,68,75,000
Above 125000, Up to 150000	1,650	Next 25000	4,12,50,000
Above 150000, Up to 175000	1,825	Next 24335	4,44,11,101
Above 175000	2,000	Not eligible since uplifted quantity is less than 175000 MT	
Total		**174335**	**22,31,36,101**

B. L.D.O sales during the year 2015-16

Slab wise targeted volume vis a vis applicable discount		Calculation of additional discount	
Volume Slab (KL)	**Discount (₹ per KL)**	**Volume of actual sale (KL)**	**Applicable discount (in ₹)**
(A)	**(B)**	**(C)**	**(D) =B x C**
Upto 100	425	100	42,500
Above 100, Upto 500	600	Next 400	2,40,000
Above 500, Upto 1500	775	Next 1000	7,75,000
Above 1500, Upto 5000	950	Next 3500	33,25,000
Above 5000, Upto 10000	1,125	Next 5000	56,25,000
Above 10000, Upto 15000	1,300	Next 5000	65,00,000
Above 15000	1,475	Next 3497	51,58,075
Total		**18497**	**2,16,65,575**

Annexure-XII
(As referred to in Para 9.10)

Year	Month	Gas flared in SCM	Value of flared of gas (₹ in crore)	Value of the gas that could have been sold to GAIL (62.66 % of the gas received at CTF)	Cost of hired compressor (per SCM) in ₹	Total Cost of hired compressor (in ₹)	Total Cost of hired compressor (₹ in crore)	Net loss of revenue (₹ in crore)
2015	March	2869370	3.22	2.017652	1.99	5710046.3	0.57	1.44765
	April	603554	0.68	0.426088	1.99	1201072.46	0.12	0.30609
	May	118012	0.13	0.081458	1.99	234843.88	0.02	0.06146
	June	56423	0.06	0.037596	1.99	112281.77	0.01	0.0276
	July	98685	0.11	0.068926	1.99	196383.15	0.02	0.04893
	August	2641302	3.02	1.892332	1.99	5256190.98	0.53	1.36233
	September	2459783	2.88	1.804608	1.99	4894968.17	0.49	1.31461
	October	3342760	3.41	2.136706	1.99	6652092.4	0.67	1.46671
	November	2718292	2.62	1.641692	1.99	5409401.08	0.54	1.10169
	December	2050488	1.86	1.165476	1.99	4080471.12	0.41	0.75548
2016	January	1985150	1.99	1.246934	1.99	3950448.5	0.4	0.84693
	February	1860450	1.85	1.15921	1.99	3702295.5	0.37	0.78921
	March	695070	0.71	0.444886	1.99	1383189.3	0.14	0.30489
Total		**21499339**	**22.54**	**14.123564**		**42783685**	**4.29**	**9.83356**

Annexure-XIII
(Referred to in Para 9.11)
Status of pending dues as on 30 November 2017

(₹ in lakh)

Sl. No.	Partner/Block	Share of Participating interest in *percentage*	Block Status	Net Pending	Interest	Total pending
	Cairn India Ltd					
1	GS-OSN 2003/1	49	Surrendered	931	1682	2613
2	KK-DWN-2004/1*(*Block jointly held with Tata as indicated below)*	40	Surrendered	294	510	804
			TOTAL	1225	2192	3417
	Tata					
	KK-DWN-2004/1* *(Block jointly held with Cairn as indicated above)*	15	Surrendered	0	33	33
			TOTAL	0	33	33
	IOCL					
3	MB-OSN-97/4	30	Surrendered	0	13	13
			TOTAL	0	13	13
	GSPC					
4	KK-DWN-2005/2	10	Surrendered	9	233	242
5	MB-OSN-2005/5	30	Surrendered	71	1448	1519
6	MB-OSN-2005/6	20	Surrendered	30	1378	1408
7	MB-OSN-2005/1	20	Active	614	2549	3163
8	GK-OSN-2009/1	20	Active	3	434	437
			TOTAL	727	6042	6769
	EEPL					
9	MB-OSN-2005/3	30	Active	5866	577	6443
			TOTAL	5866	577	6443
	OIL					
10	GK-OSN-2010/1	30	Active	2199	388	2587
			TOTAL	2199	388	2587
	Total			**10017**	**9245**	**19262**

**Block jointly held with Tata and Cairn Energy Ltd.*

Annexure-XIV
(Referred to in Para 11.5)
Net toll revenue due from the concessionaire for 14.5 km stretch for the period December 2013 to April 2015 and interest due thereon

(Amount in ₹)

Month	2013-14				2014-15				2015-16			
	Toll revenue for 14.5 km stretch	Maintenance expenditure	Toll revenue net of expenditure	Interest @ 8% on toll revenue	Toll revenue for 14.5 km stretch	Maintenance expenditure	Toll revenue net of expenditure	Interest @ 8% on toll revenue	Toll revenue for 14.5 km stretch	Maintenance expenditure	Toll revenue net of expenditure	Interest @ 8% on toll revenue
April					14086063	77535	14008528	1587633	17118275	100660	17017615	567254
May					14937600	456863	14480737	1544612				
June					14975141	4196366	10778775	1077878				
July					14881369	952123	13929246	1300063				
August					15389206	695145	14694061	1273485				
Sept					16433599	4622241	11811358	944909				
Oct					15885142	470233	15414909	1130427				
Nov					16616349	311270	16305079	1087005				
Dec	14439171	2216308	12222863	1711201	17188783	6078724	11110059	666604				
Jan	13776921	2991265	10785656	1438088	16817869	724128	16093741	858333				
Feb	13206370	955604	12250766	1551764	16010251	5926583	10083668	470571				
March	14921115	7545510	7375605	885073	17835720	5954883	11880837	475233				
	56343577	**13708687**	**42634890 (a)**	**5586125 (d)**	**191057092**	**30466093**	**160590999 (b)**	**12416753 (e)**	**17118275**	**100660**	**17017615 (c)**	**567254 (f)**

Net toll revenue from December 2013 to April 2015 = (a) + (b) + (c) = ₹220243505 (A)
Interest[7] due on toll revenue = (d) + (e) + (f) = ₹1,85,70,132 (B)

Net toll revenue due from the concessionaire for 14.5 km stretch for the period May 2009 to November 2013 and interest due thereon

[7] *As the toll revenue was remitted by the concessionaire in mid-November 2015, the interest has been calculated upto October 2015. One month time for remittance of toll revenue has been considered while calculating interest. Thus, the toll revenue of December 2013 has been considered to be due in January 2014 and interest thereon has been calculated accordingly. The rate of interest has been considered as 8 per cent per annum which was the average rate of interest prevailing during 2013 to 2015 on 1-2 years term deposits.*

(Amount in ₹)

Period	**Toll Revenue for 14.5 km stretch**	**Maintenance expenditure**	**Toll revenue (net of expenditure)**	**Interest @ 8% on toll revenue for 22 months (from January 2014 to October 2015)**
May 2009 to March 2010	105934784	22056386	83878398	12302165
2010-11	134913373	25983284	108930089	15976413
2011-12	151602392	27214233	124388159	18243597
2012-13	159737891	30273778	129464113	18988070
2013-14 (upto Nov 2013)	105245100	17656942	87588158	12846263
	657433540	**123184623**	**534248917**	**78356508**

Net toll revenue from May 2009 to November 2013 = ₹53,42,48,917 (C)
Interest due on toll revenue from May 2009 to November 2013 = ₹7,83,56,508 (D)

Total toll revenue from May 2009 to April 2015 = (A) + (C) = ₹75,44,92,422, say ₹75.45 crore
Interest loss on the toll revenue = (B) + (D) = ₹9,69,26,640, say ₹9.69 crore

Annexure-XV
(Referred to in Para 13.1.6.1 & Para 13.1.6.2)

Details of geographical distribution of working looms

Sl. No.	State	Looms as per census 2009-10	No. of Looms covered under yarn pass book	No. of yarn pass books issued upto 31 March 2017	Percentage of looms covered
1	**Andhra Pradesh**	124714	53672	35292	**43.04**
2	**Telangana**	0	35204	12062	**NA**
3	**Chhattisgarh**	2471	4527	2	**183.21**
4	**Gujarat**	3900	1120	764	**28.72**
5	**Karnataka**	40488	18084	5929	**44.67**
6	**Maharashtra**	4511	1592	934	**35.29**
7	**Kerala**	13097	10719	361	**81.84**
8	**Haryana**	4876	21773	2909	**446.53**
9	**Himachal Pradesh**	5578	1279	78	**22.93**
10	**Jammu & Kashmir**	7301	335	140	**4.59**
11	**Punjab**	261	407	5	**155.94**
12	**Rajasthan**	5403	593	376	**10.98**
13	**Delhi**	2560	172	61	**6.72**
14	**Uttar Pradesh**	80295	75830	45751	**94.44**
15	**Bihar**	14973	3980	2952	**26.58**
16	**Uttarakhand**	3766	4787	294	**127.11**
17	**Madhya Pradesh**	3604	2895	657	**80.33**
18	**Arunachal Pradesh**	27286	198	198	**0.73**
19	**Assam**	1111577	32215	29920	**2.90**
20	**Manipur**	190634	12695	11999	**6.66**
21	**Mizoram**	24136	595	5	**2.47**
22	**Meghalaya**	8967	341	341	**3.80**
23	**Nagaland**	47688	47	1	**0.10**
24	**Sikkim**	345	81	33	**23.48**
25	**Tripura**	139011	604	242	**0.43**
26	**West Bengal**	307829	51586	28258	**16.76**
27	**Odisha**	43652	28942	9506	**66.30**
28	**Jharkhand**	2128	3529	1388	**165.84**
29	**Tamil Nadu**	154509	88665	7053	**57.39**
30	**Puducherry**	1771	1519	2	**85.77**
	Grand Total	**2377331**	**457986**	**197513**	

** State was formed in 2014-15.

Annexure-XVI-A

(Referred to in Para 13.1.6.2)

State wise and User Agency wise subsidy disbursed under 10% component of YSS during the year 2014-15

(Amount in ₹ Lakh)

Sl. No.	STATE	Total Subsidy	Individual Weavers	HEPC/Exporters	Weaver Entrepreneur	Society	others
1	ANDHRA PRADESH	1049.89	0.00	0.00	0.00	582.51	467.38
2	BIHAR	15.15	0.00	15.15	0.00	0.00	0.00
3	CHHATTISGARH	62.18	0.00	0.00	0.00	0.00	62.18
4	DELHI	1.09	0.00	0.00	0.00	1.09	0.00
5	GUJARAT	1.86	0.00	0.00	0.00	0.00	1.86
6	HIMACHAL PRADESH	186.27	0.00	0.00	0.00	186.27	0.00
7	JAMMU & KASHMIR	25.82	0.00	0.00	0.00	25.82	0.00
8	JHARKHAND	58.38	0.00	0.00	0.00	40.05	18.33
9	KARNATAKA	1012.60	7.06	0.00	0.00	187.02	818.52
10	KERALA	48.80	0.18	6.31	4.99	10.52	26.80
11	MADHYA PRADESH	16.09	0.00	0.00	0.00	4.51	11.58
12	MAHARASHTRA	17.16	0.00	0.00	0.00	13.91	3.25
13	ODISHA	236.16	0.00	0.00	0.00	131.92	104.24
14	HARYANA	609.54	0.00	531.66	11.29	61.73	4.86
15	PUDUCHERRY	11.78	0.00	0.00	0.00	0.00	11.78
16	PUNJAB	21.06	0.00	0.00	4.19	16.87	0.00
17	RAJASTHAN	0.59	0.00	0.00	0.00	0.59	0.00
18	TAMIL NADU	4107.42	5.09	795.23	755.39	2181.62	370.09
19	TELANGANA	500.69	0.11	0.00	1.19	62.35	437.04
20	UTTAR PRADESH	1760.46	19.13	72.34	22.57	1146.21	500.21

21	**UTTARAKHAND**	38.37	0.00	0.00	2.21	36.15	0.01
22	**WEST BENGAL**	377.53	0.00	0.00	0.00	360.87	16.66
23	**ARUNACHAL PRADESH**	0.00	0.00	0.00	0.00	0.00	0.00
24	**MANIPUR**	19.23	0.00	0.00	0.88	14.02	4.33
25	**MEGHALAYA**	0.00	0.00	0.00	0.00	0.00	0.00
26	**MIZORAM**	1.23	0.00	0.00	0.00	0.00	1.23
27	**NAGALAND**	0.00	0.00	0.00	0.00	0.00	0.00
28	**TRIPURA**	6.45	0.00	0.00	0.00	0.09	6.36
29	**ASSAM**	82.39	0.00	0.00	0.00	40.04	42.35
30	**SIKKIM**	0.16	0.00	0.00	0.00	0.00	0.16
	Total	**10268.36**	**31.57**	**1420.69**	**802.71**	**5104.16**	**2909.23**
	Percentage		**0.31**	**13.84**	**7.82**	**49.71**	**28.33**

Annexure-XVI-B

(Referred to in Para 13.1.6.2)

State wise and User Agency wise subsidy disbursed under 10% component of YSS during the year 2015-16

(Amount in ₹ Lakh)

	STATE	Total Subsidy under 10% Scheme	Individual Weavers	HEPC/Exporters	Weaver Interpreneur	Society	Others
1	ANDHRA PRADESH	356.65	0.00	0.00	0.00	126.34	230.31
2	BIHAR	12.64	0.00	8.75	0.00	3.50	0.39
3	CHHATTISGARH	51.05	0.00	0.00	0.00	0.00	51.05
4	DELHI	0.34	0.00	0.00	0.00	0.34	0.00
5	GUJARAT	1.15	0.00	0.00	0.00	0.94	0.21
6	HIMACHAL PRADESH	465.31	0.00	0.00	0.00	465.31	0.00
7	JAMMU & KASHMIR	25.35	0.00	0.00	0.00	25.35	0.00
8	JHARKHAND	0.95	0.00	0.00	0.00	0.83	0.12
9	KARNATAKA	248.13	0.04	0.00	0.00	207.20	40.89
10	KERALA	43.45	0.00	5.01	2.31	8.66	27.47
11	MADHYA PRADESH	25.46	0.00	0.00	0.00	6.01	19.45
12	MAHARASHTRA	48.22	0.00	0.00	0.00	7.95	40.27
13	ODISHA	231.48	0.00	0.00	0.00	118.53	112.95
14	HARYANA	6.96	0.00	5.99	0.00	0.97	0.00
15	PUDUCHERRY	15.78	0.00	0.00	0.00	0.00	15.78
16	PUNJAB	1.53	0.00	0.00	0.00	1.53	0.00
17	RAJASTHAN	0.14	0.00	0.00	0.00	0.14	0.00
18	TAMIL NADU	4368.47	0.00	590.82	1580.18	1837.33	360.14

19	**TELANGANA**	591.46	0.00	0.00	4.96	43.69	542.81
20	**UTTAR PRADESH**	2233.45	5.14	79.69	13.61	1762.84	372.17
21	**UTTARAKHAND**	33.52	0.00	0.00	1.71	31.08	0.73
22	**WEST BENGAL**	403.36	0.00	0.00	0.10	323.82	79.45
23	**ARUNACHAL PRADESH**	0.00	0.00	0.00	0.00	0.00	0.00
24	**MANIPUR**	17.11	0.00	0.00	0.15	7.73	9.23
25	**MEGHALAYA**	0.00	0.00	0.00	0.00	0.00	0.00
26	**MIZORAM**	0.00	0.00	0.00	0.00	0.00	0.00
27	**NAGALAND**	0.00	0.00	0.00	0.00	0.00	0.00
28	**TRIPURA**	6.97	0.00	0.00	0.00	0.00	6.97
29	**ASSAM**	86.05	0.00	0.00	1.19	43.13	41.73
30	**SIKKIM**	0.11	0.00	0.00	0.00	0.00	0.11
	Total	**9275.11**	**5.18**	**690.26**	**1604.21**	**5023.23**	**1952.24**
	Percentage		**0.06**	**7.44**	**17.30**	**54.16**	**21.05**

Annexure-XVI-C
(Referred to in Para 13.1.6.2)
State wise and User Agency wise subsidy disbursed under 10 *per cent* component of YSS during the year 2016-17

(Amount in ₹ Lakh)

Sl. No.	STATE	Total Subsidy under 10% Scheme	Individual Weavers	HEPC/ Exporters	Weaver Interpreneur	Society	Others
1	ANDHRA PRADESH	727.58	22.30	0.00	0.00	283.89	421.39
2	BIHAR	57.80	0.00	21.43	0.00	36.37	0.00
3	CHHATTISGARH	59.64	0.00	0.00	0.00	0.11	59.53
4	DELHI	0.00	0.00	0.00	0.00	0.00	0.00
5	GUJARAT	5.47	0.00	0.00	0.00	3.55	1.92
6	HIMACHAL PRADESH	703.58	0.00	0.00	0.00	702.11	1.47
7	JAMMU & KASHMIR	14.49	0.00	0.00	0.00	14.49	0.00
8	JHARKHAND	34.49	0.00	0.00	0.00	8.15	26.34
9	KARNATAKA	468.52	0.06	0.00	0.00	407.07	61.39
10	KERALA	51.64	0.12	5.33	7.27	21.94	16.98
11	MADHYA PRADESH	40.93	0.00	0.00	4.96	4.70	31.27
12	MAHARASHTRA	64.05	0.00	0.00	0.00	12.26	51.79
13	ODISHA	375.04	7.07	0.00	0.00	164.88	203.09
14	HARYANA	0.00	0.00	0.00	0.00	0.00	0.00
15	PUDUCHERRY	10.33	0.00	0.00	0.00	0.00	10.33
16	PUNJAB	0.00	0.00	0.00	0.00	0.00	0.00
17	RAJASTHAN	0.85	0.00	0.00	0.00	0.29	0.56
18	TAMIL NADU	3595.75	8.59	82.31	1427.50	1737.98	339.37
19	TELANGANA	895.83	0.00	0.00	6.07	165.63	724.13
20	UTTAR PRADESH	6204.26	9.17	150.13	27.54	4797.64	1219.78
21	UTTARAKHAND	184.45	0.00	0.00	3.18	181.27	0.00
22	WEST BENGAL	559.62	0.44	0.00	0.80	530.58	27.80

23	**ARUNACHAL PRADESH**	0.00	0.00	0.00	0.00	0.00	0.00
24	**MANIPUR**	33.35	0.00	0.00	0.13	8.73	24.49
25	**MEGHALAYA**	0.00	0.00	0.00	0.00	0.00	0.00
26	**MIZORAM**	0.00	0.00	0.00	0.00	0.00	0.00
27	**NAGALAND**	0.00	0.00	0.00	0.00	0.00	0.00
28	**TRIPURA**	6.31	0.75	0.00	0.00	5.55	0.01
29	**ASSAM**	78.27	0.00	0.00	6.07	28.92	43.28
30	**SIKKIM**	0.74	0.00	0.00	0.00	0.00	0.74
	Total	**14173.00**	**48.50**	**259.20**	**1483.52**	**9116.11**	**3265.67**
	Percentage		**0.34**	**1.83**	**10.47**	**64.32**	**23.04**

Annexure-XVII
(Referred to in Para 13.1.6.2-A.3)

Statement showing statewise number of depots and handlooms as per HWIS

Sl. No.	STATE	No. of depots operational as on March 2017	No. of Hand Loom weavers as per HWIS
	RO -Varanasi		
1	Uttar Pradesh	156	124949
2	Uttarakhand	8	10610
3	Madhya Pradesh	16	9546
	RO- Panipat		
4	Haryana	93	6521
5	Himachal Pradesh	10	7840
6	Jammu & Kashmir	3	17691
7	Punjab	0	2377
8	Rajasthan	2	22841
9	Delhi	1	1876
	RO- Kolkata		
10	Jharkhand	3	14217
11	West Bengal	54	407053
12	Bihar	2	25510
	RO- Bhubaneswar		
13	Odisha	40	42890
	RO- Guwahati		
14	Arunachal Pradesh	7	30513
15	Assam	25	1251816
16	Manipur	76	179058
17	Mizoram	6	39549
18	Meghalaya	2	12489
19	Nagaland	1	61673
20	Sikkim	1	571
21	Tripura	10	120689
	RO - Hyderabad		
22	Chhattisgarh	3	4983
23	Gujarat	6	3724
24	Maharashtra	3	2096
25	Telangana	30	30771
	RO - Vijaywada		
26	Andhra Pradesh	64	159688
27	Karnataka	31	37843
	R.O.- Coimbatore		
28	Tamil Nadu	230	222901
29	Puducherry	1	1727
	RO - Kannur		
30	Kerala	51	14307
	Grand Total	**935**	**2868319**

Annexure-XVII-A

(Referred to in Para 13.1.6.2-A.3)

State wise - District wise Handloom weavers and Distance of nearest Depot

Sl. No.	State	District	No. of handloom weavers	Nearest Depot	Distance in Kms.*
1	Tamil Nadu	Ariyalur	11573	Thanjavur	78
2	Uttar Pradesh	Chandoli	5524	Varanasi	40
3	Rajasthan	Bikaner	5751	Jaipur	334
4	West Bengal	Maldah	46031	Berhampur	131
5	Jammu & Kashmir	Pulwama	5945	Jammu	249
6	Assam	Barpeta	92800	Nalbari	68
7	Assam	Chirang	22402	Bongaigaon	24
8	Assam	Dhemaji	72120	Dibrugarh	75
9	Assam	Goalpara	40611	Bongaigaon	62
10	Assam	Golaghat	73727	Sibsagar	111
11	Assam	Hailakandi	5344	Cachar	62
12	Assam	Jorhat	71890	Sivasagar	58
13	Assam	Karimganj	10480	Cachar	78
14	Assam	Lakhimpur	74017	Itanagar	65
15	Assam	Morigaon	46358	Nagaon	38
16	Assam	Sonitpur	66727	Nagaon	66
17	Assam	South Salmara	27778	Tura	74
18	Arunachal Pradesh	Lohit	9560	Tinsukia	152
19	Arunachal Pradesh	East Siang	7287	Aalo	56
20	Arunachal Pradesh	West Kameng	7234	Nagaon	252
21	Mizoram	Lawngtlai	5934	Thenzawal	156
22	Mizoram	Lunglei	7954	Thenzawal	78
23	Mizoram	Saiha	6318	Thenzawal	213
24	Nagaland	Kohima	12045	Dimapur	67
25	Nagaland	Mokukchung	6192	Sivasagar	129
26	Nagaland	Mon	6843	Sivasagar	98
27	Nagaland	Phek	6917	Dimapur	167
28	Nagaland	Tuensang	9010	Sivasagar	182
29	Nagaland	Wokha	5344	Dimapur	124
30	Nagaland	Zunheboto	7717	Dimapur	217

*** As per google map**

Annexure-XVIII

(Referred to in Para 13.1.6.4)

Statement showing State-wise and year-wise cases of delayed supply of yarn

Sl. No.	State	Years	No. of records	No Delay	01 Day to 30 Days	31 Days to 90 Days	91 Days to 180 Days	181 Days to 365 Days	More than 365 Days
1	Andhra Pradesh	2016-17	2782	559	513	691	591	427	1
		% of delay		20.09	18.44	24.84	21.24	15.35	0.04
2	Uttar Pradesh	2016-17	4331	374	600	946	945	1125	341
		% of delay		8.64	13.85	21.84	21.82	25.98	7.87
3	Odisha	2016-17	923	496	196	130	86	15	0
		% of delay		53.74	21.24	14.08	9.32	1.63	0.00
4	Delhi	2016-17	1	0	0	1	0	0	0
		% of delay				100.00			
5	Punjab	2016-17	0	0	0	0	0	0	0
6	Rajasthan	2016-17	53	29	7	7	2	7	1
		% of delay		54.72	13.21	13.21	3.77	13.21	1.89
7	Haryana	2016-17	19193	6880	3816	3416	3109	1817	155
		% of delay		35.85	19.88	17.80	16.20	9.47	0.81
8	Tamil Nadu	2016-17	22453	13418	3540	3068	1669	732	26
		% of delay		59.76	15.77	13.66	7.43	3.26	0.12
9	Uttarakhand	2016-17	135	8	2	45	16	57	7
		% of delay		5.93	1.48	33.33	11.85	42.22	5.19
10	Bihar	2016-17	43	3	9	11	9	11	0
		% of delay		6.98	20.93	25.58	20.93	25.58	0.00
11	Jharkhand	2016-17	118	9	43	10	47	9	0
		% of delay		7.63	36.44	8.47	39.83	7.63	0.00

12	Madhya Pradesh	2016-17	230	27	70	73	44	15	1
		% of delay		11.74	30.43	31.74	19.13	6.52	0.43
13	Chhattisgarh	2016-17	340	45	64	117	78	35	1
		% of delay		13.24	18.82	34.41	22.94	10.29	0.29
14	Jammu & Kashmir	2016-17	337	93	49	78	53	64	0
		% of delay		27.60	14.54	23.15	15.73	18.99	0.00
15	Puducherry	2016-17	42	14	9	8	1	10	0
		% of delay		33.33	21.43	19.05	2.38	23.81	0.00
16	West Bengal	2016-17	1722	578	409	378	269	86	2
		% of delay		33.57	23.75	21.95	15.62	4.99	0.12
17	Kerala	2016-17	2539	941	595	464	340	197	2
		% of delay		37.06	23.43	18.27	13.39	7.76	0.08
18	Karnataka	2016-17	1486	735	453	87	146	65	0
		% of delay		49.46	30.48	5.85	9.83	4.37	0.00
19	Himachal Pradesh	2016-17	1036	578	105	158	135	59	1
		% of delay		55.79	10.14	15.25	13.03	5.69	0.10
20	Maharashtra	2016-17	176	113	25	18	13	7	0
		% of delay		64.20	14.20	10.23	7.39	3.98	0.00
21	Telangana	2016-17	1730	1278	204	136	61	51	0
		% of delay		73.87	11.79	7.86	3.53	2.95	0.00
22	Gujarat	2016-17	634	535	77	10	9	3	0
		% of delay		84.38	12.15	1.58	1.42	0.47	0.00
		Total	**60304**	**26713**	**10786**	**9852**	**7623**	**4792**	**538**
				44.30	17.89	16.34	12.64	7.95	0.89

Northern Eastern States

23	Assam	2016-17	616	213	54	160	118	68	3
		% of delay		34.58	8.77	25.97	19.16	11.04	0.49
24	Tripura	2016-17	36	10	9	16	0	1	0
		% of delay		27.78	25.00	44.44	0.00	2.78	0.00
25	Sikkim	2016-17	1	0	0	0	0	1	0
		% of delay						100.00	
26	Meghalaya	2016-17	25	5	1	2	16	1	0
		% of delay		20.00	4.00	8.00	64.00	4.00	0.00
27	Arunachal Pradesh	2016-17	26	6	0	8	10	2	0
		% of delay		23.08	0.00	30.77	38.46	7.69	0.00
28	Manipur	2016-17	459	137	74	104	106	33	5
		% of delay		29.85	16.12	22.66	23.09	7.19	1.09
29	Nagaland	2016-17	42	17	2	3	20	0	0
		% of delay		40.48	4.76	7.14	47.62	0.00	0.00
30	Mizoram	2016-17	75	39	5	6	12	13	0
		% of delay		52.00	6.67	8.00	16.00	17.33	0.00
		Total NER	1280	427	145	299	282	119	8
				33.36	11.33	23.36	22.03	9.30	0.63
	Total		**61584**	**27140**	**10931**	**10151**	**7905**	**4911**	**546**
				44.07	17.75	16.48	12.84	7.97	0.89

Annexure-XIX

(Referred to in Para 13.1.6.6)

Deficiencies in quantity of yarn supplied to Madina Handloom Co-op Society in 2016-17

Sl. No.	Invoice No.	Invoice date	Quantity shown in Sales Invoice (In Kg)	Quantity appearing in weavers list attached to invoice (In Kg)	Difference in Quantity Excess /Short (In Kg)
(1)	(2)	(3)	(4)	(5)	(5) - (4)
1	8	16-05-2016	6120	6000	-120
2	9	16-05-2016	6120	9480	3360
3	14	17-05-2016	6060	6000	-60
4	15	17-05-2016	6120	6000	-120
5	16	17-05-2016	5880	6000	120
6	19	17-05-2016	6120	6000	-120
7	22	17-05-2016	6120	6000	-120
8	124	09-06-2016	6300	9480	3180
9	152	28-06-2016	6000	3150	-2850
10	154	28-06-2016	6000	3600	-2400
11	168	01-07-2016	6000	3150	-2850