CHAPTER 1: DEPARTMENT OF BANKING

Cent Bank Home Finance Limited

1.1.1 Loss due to disbursement of loans without proper verification of documents

The Company suffered a loss of Rs.8.79 crore due to inadequate scrutiny of credentials of borrowers before disbursement of loans and deficient monitoring of the utilisation of the loans. Besides, loans of Rs.6.40 crore remain doubtful of recovery.

The Cent Bank Home Finance Limited (Company) has increased the provisions for bad and doubtful assets in its annual accounts during the last four years ended 2003-04 due to non-recovery of the loan amounts and interest from borrowers. In view of the increase in the provisioning, a test check of records of all 12 branches of the Company was undertaken and 1,652 cases of loans given to individuals and builders were scrutinised by Audit during November 2003 and July to September 2004.

The branches of the Company were required to observe, *inter alia*, the following basic checks before sanction and disbursement of loans:

(i) Submission of all the relevant documents by borrowers, (like income proof, address proof, identity proof, copy of bank passbook for last six months, agreement of sale, registration receipt, margin money receipt, permission to mortgage, etc.) and verification thereof by the branches.

(ii) Creation of equitable mortgage of property in favour of the Company.

(iii) Submission of 60 post-dated cheques towards payment of equated monthly instalments.

During the last seven years upto 2004, 11 branches had disbursed housing loans amounting to Rs.16.28 crore to 534 individual borrowers for purchase of flats from private builders and for construction of houses. Audit scrutiny of these 534 cases revealed that the branches had not observed the basic checks in the sanction and disbursement of housing loans. They sanctioned and disbursed the loans without proper verification of documents and did not keep a watch on the utilisation of the loans after the disbursement. In this connection, following deficiencies were noticed:

(i) Flats were not in the possession of loanees and were already mortgaged to some other agency.

(ii) The property was not mortgaged in favour of the Company.

(iii) Salary certificates were fake.

(iv) Valuation of flats was inflated.

(v) Income tax returns were altered so as to falsely increase the eligibility for loan amount and enhance repayment capacity of the borrower.

(vi) Builders themselves and their relatives availed of the loan.

(vii) Borrowers were heavily indebted and the Company could not recover even a single instalment.

(viii) Loan amounts were diverted by the borrowers to other purposes.

(ix) The Company did not conduct site inspection prior to disbursement of first and subsequent instalment of loans.

As a result of inadequate scrutiny of credentials of the individual borrowers before disbursement of loans and deficient monitoring of utilisation of the loans, loans of Rs.5.74 crore relating to 162 borrowers became non-performing assets, in terms of prudential norms of National Housing Bank, due to persistent defaults in payment of principal and interest by the borrowers. As there was no possibility of recovery of the amount of Rs.6.20 crore (including interest of Rs.46 lakh), the Company made provision for the full amount of Rs.6.20 crore in the accounts for the year 2002-03.

The branches also disbursed (January 1996 to July 1998) loans amounting to Rs.4.01 crore to four builders♣. The following deficiencies were noticed:

(i) Though the flats had been mortgaged in favour of the Company, M/s. Dreamflower Premises Private Limited and M/s. Premsons Constructions (P) Limited sold and transferred the same to others. Further, the Company could receive only Rs.14.44 lakh and was not able to recover any amount from them during the past three to four years. Accordingly, the Company wrote off the amount of Rs.2.59 crore in the accounts for the year 2001-02.

(ii) In respect of M/s. Pawar Builders, the loan was sanctioned and released on the basis of certified copy of title deed. After availing the loan, the borrower failed to repay the loan instalments and interest and the flats mortgaged in favour of the Company were sold to individuals. An amount of Rs.51.06 lakh (including interest of Rs.27.72 lakh) remained unrecovered (March 2004).

(iii) In respect of M/s. Samant Estates the loan was released on the basis of indemnity letter given by the borrower without original documents like original sale deed, power of attorney, possession letter etc. The Company also did not obtain duplicate copies of the title deeds from the registrar of land records before sanction of the loan. The party after availing full loan of Rs.75 lakh defaulted in payment of loan instalment and interest. Dues amounting to Rs.59.57 lakh (including Rs.17.47 lakh towards interest) were outstanding (March 2004).

♣ ***M/s. Dreamflower Premises Private Limited (Rs.2.39 crore), M/s. Premsons Constructions (P) Limited (Rs.35 lakh), M/s. Pawar Builders (Rs.52.76 lakh) and M/s. Samant Estates (Rs.75 lakh)***

While admitting that the loss was due to overvaluation, erosion in value of the assets, fraud in eight cases in Pune and irregularities in Mumbai branches, the Management stated (July 2004) that the Company had recovered a sum of Rs.61 lakh and was hopeful of more recovery. It stated that disciplinary action had been initiated against the delinquent branch managers and criminal action against the borrowers, whose cheques had been returned unpaid. The Ministry added (July 2004) that the Company had strengthened the administrative machinery to avoid recurrence of such instances.

The reply reflects the Company's acceptance of not having a proper system of sanction and disbursement of housing loans and regular verification of loanees. Besides, there was no regular system of loan recovery drives.

Thus, lack of proper verification of documents and inadequate internal control mechanism resulted in loss of Rs.8.79 crore. Besides, out of the balance amount, instalments amounting to Rs.6.40 crore (including interest) were outstanding for more than two years and, as such, were doubtful of recovery (March 2004).

The matter relating to branches other than Mumbai and Pune was reported to the Ministry in October 2004; its reply was awaited.

Industrial Investment Bank of India Limited

1.2.1 Loss due to disbursement of loan and investment in equity shares

Due to extending undue favour to a new client in granting financial assistance in the shape of loan and investment in its equity by relaxing financial security clause, the Company's lending of Rs.9.65 crore is doubtful of recovery besides loss of interest thereon amounting to Rs.3.15 crore and the Company has incurred loss of investment of Rs.2 crore in the equity of the loanee.

The Industrial Investment Bank of India (Company) sanctioned (December 2000) a term loan of Rs.10 crore to Patriot Automation Project Limited (PAPL/Loanee) a free Internet Service Provider (ISP) (providing the site Caltiger.com) and an equity investment of Rs.2 crore[♣] in its equity for expansion of its free Internet service from existing 10 cities to 40 cities in India. The term loan was sanctioned at an interest rate of 16 per cent per annum to be recovered in 16 quarterly instalments commencing from March 2002 and was to be secured by first charge on all movable and immovable assets including receivables and other current assets ranking pari passu with ICICI Bank and Industrial Development Bank of India (IDBI) alongwith escrow arrangement in favour of the Company for advertisement receivables.

On noticing that PAPL had no land or building of its own but its sites/offices were located in rental premises, the Company relaxed the security clause to the extent of creating first charge on immovable assets and released (February 2001) Rs.2 crore for subscription towards equity at a rate of Rs.48 per share and disbursed (March 2001) Rs.5 crore towards term loan on creation of escrow arrangement for advertisement receivables

[♣] ***to subcribe to 4,16,666 shares of PAPL @ Rs.48 each (face value of Rs.10 and premium of Rs.38 per share)***

on pari passu basis with IDBI and ICICI Bank. Though PAPL did not deposit its revenues in the designated escrow account, the Company further disbursed (April 2001) Rs.4.65 crore towards term loan mainly to prepay the short term loan of ICICI Bank (Rs.2.49 crore) and other vendors (Rs.82 lakh).

Subsequently, due to slowdown in the dotcom industry, ISP revenue from advertisements did not come up as envisaged and the loanee did not commence operation (August 2001) in 22 centers out of the proposed 30 new centers and as such started defaulting in payment of interest from November 2001. PAPL was ultimately closed down in March 2003. The Company could neither recover its loan (Principal and interest), nor sell the shares/promoter shares pledged due to non-listing of loanee's shares in Stock Exchanges. The Company recalled the loan in April 2003 and initiated (May 2003) recovery proceedings in the Debt Recovery Tribunal (DRT). The Receiver appointed by DRT took possession of some old telecom equipment. Nothing had been recovered through DRT as yet (August 2004).

The Management stated (December 2003) that at the time of sanctioning the loan, the ISP sector was totally new and the industry was growing. Subsequently, there was a slowdown in the industry and the free internet service of the loanee failed. It also justified the rate of purchase of equity of PAPL at Rs.48 per share by saying that it was supported by KPMG and Ernst and Young valuation and IDBI had purchased equity at this rate.

The reply was, however, silent as to why the Company relaxed the security provisions relating to creation of first charge on all immovable assets on coming to know that PAPL had no land or building and all the sites/offices were located in rented premises and instead of cancelling the sanction letter, subscribed to its equity and also made disbursement of first instalment of loan of Rs.5 crore. The reply was also silent as to why the Company disbursed another instalment of loan of Rs.4.65 crore when PAPL had not deposited its revenues in the designated escrow account.

Thus, as a result of imprudent decision of granting relaxation in the security provisions after noticing that loanee had no immovable assets of its own and further relaxation in disbursement of loan even after knowing that the loanee had not deposited its revenues in the escrow account, the Company had shown undue favour to a private party, and an amount of Rs.9.65 crore remains doubtful of recovery besides loss of interest of Rs.3.15 crore for the period from March/April 2001 to March 2003 and the Company incurred loss of investment of Rs.2 crore in the equity of the loanee.

The matter was reported to the Ministry in March 2004; its reply was awaited (September 2004).

1.2.2 Blocking of funds of Rs.1.55 crore in the acquisition of flats

The decision of the Company to acquire residential accommodation for officers at Ghaziabad without a realistic assessment of future demand from officers, led to blocking of Rs.1.55 crore.

Considering the likely future requirement for residential accommodation for its officers in the event of future expansion of its North Zonal Office (NZO), the Industrial

Investment Bank of India Limited (Company) decided (August 1998) to purchase ten flats at Ghaziabad from the Stock Holding Corporation of India Limited (SHCIL). Accordingly, the Company purchased (July 1999) ten flats at Ghaziabad at a total cost of Rs.1.35 crore. Though the Company paid Rs.14 lakh towards Stamp duty and other expenses, registration of flats was held up as the Revenue Authority, Ghaziabad, imposed further Stamp duty of Rs.16.50 lakh on the ground that the current value of the flat stood at Rs.20.70 lakh.

The Company filed a case in the Court (June 2000) which, however, directed the Company (December 2003) to pay Stamp duty at the rate of 14.5 per cent instead of 10 per cent already paid with a total financial impact of Rs.6 lakh. Registration of flats was awaited (June 2004) pending completion of process by revenue authorities.

The flats could not be utilised as the business of the Company did not expand as projected and the rate of occupancy of the above flats ranged from two to four flats till October 2002. Thereafter, all the flats (except one flat used as old record room) were lying vacant. Meanwhile, the Company had also incurred (upto March 2004) Rs.9.78 lakh towards recurring maintenance charges, electricity and rates and taxes.

In view of the low occupancy of the flats since acquisition (July 1999) the Company, initiated efforts for their sale in 2000-01 which did not materialise because of (i) low prices offered by prospective purchasers and (ii) non-registration of flats in favour of the Company.

The Management/Ministry, while confirming the facts, stated (December 2003 /June 2004) that due to change in economic environment in the subsequent years, business plans of the Company were also changed and, thus, there was no increase in the number of officers posted at NZO.

The contention of the Ministry/Management is not tenable, as the Company had no planned expansion schemes (August 1999) necessitating doubling the number of their officers in NZO. Further, the Company was already in possession (1998) of 13 flats at New Delhi for its 15 officers and the situation did not warrant purchase of additional flats.

Thus, failure to make realistic assessment of the requirement of flats for the officers of NZO resulted in blockage of Rs.1.55 crore since July 1999 and unfruitful expenditure of Rs.9.78 lakh upto March 2004.

CHAPTER 2: DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Hindustan Organic Chemicals Limited

2.1.1 Blocking of capital and consequential loss

The Company's failure to assess the market potential before taking up the construction of storage tank terminal facility at Jawaharlal Nehru Port area and subsequently abandoning the project midway resulted in blocking of capital of Rs.23.49 crore and consequent loss of Rs.13.38 crore towards annual lease rent and wharfage charges.

In order to set up a storage tank terminal at Jawaharlal Nehru Port Trust, (JNPT), Mumbai, for storage of imported raw materials as well as finished products meant for export and also to hire out the excess capacity, if any, the Company acquired two hectares of land (20,000 square metre) from JNPT on lease (November 1995). As per the terms of the allotment of land, the Company had to pay an annual rent of Rs.250 per square metre (with escalation @ 10 per cent per annum) and wharfage in the event of failure to provide minimum guaranteed traffic to the port authorities.

However, taking into account the low soil bearing capacity noticed during soil investigation of the land and the consequent improvement required for foundation works, the project capacity for the proposed terminal was reduced (September 1996) from 71,000 KL[♦] to 45000 KL with estimated cost of Rs.25.24 crore. In the project viability analysis put up to the Board for approval in September 1996, the project was to be financed by way of equity (Rs.10.10 crore) and loans (Rs.15.14 crore) and a provision of interest to be capitalised was envisaged at Rs.1.51 crore. Subsequently the cost of the project was enhanced to Rs.25.64 crore (November 1996). However, the market potential and the recurring expenditure towards lease rent and wharfage charges were not taken into cognisance.

The project was to be completed in two phases-Phase I (25,000 KL) to be completed in two years at a cost of Rs.16.98 crore and Phase II (20,000 KL) at a cost of Rs.8.66 crore was to be implemented subject to timely completion of phase-I and the demand for the envisaged storage capacity.

As against the estimated cost of Rs.16.98 crore under phase-I, the Company could complete 95 per cent of the civil works and 60 per cent of tank construction works up to March 1998 after incurring an expenditure of Rs.23.49 crore (including interest of Rs.8.60 crore). Thus, there was a cost overrun of Rs.6.51 crore mainly on account of interest on loans. Besides this, the Company was also liable to pay Rs.1.99 crore to JNPT towards lease rent (Rs.1.30 crore) and wharfage charges (Rs.68.75 lakh) upto the end of March 1998.

♦ *Kilo Litre*

The Board decided (October 1998) to abandon the project keeping in view the financial constraints in meeting the anticipated increase in cost from Rs.25.64 crore to Rs.32 crore in the completion of the project and the change in business environment that required better focus on its core business activities. It also decided to dispose off the partially completed project. JNPT accepted the proposal of the Company for the transfer of leasehold land and partially created facilities to another party (January 1999). However, the Company's efforts to dispose off the same twice in March 1999 and again in December 1999 did not materialise as both the parties backed out for which the Company forfeited their earnest money deposits of Rs.2.24 crore.

The consultants appointed by the Company to conduct the techno-economic study of the partially completed storage facilities at JNPT, recommended (November 2002) that expeditious decision for the disposal of the said facilities should be taken to avoid the recurring expenditure of Rs.2.40 crore per annum. However, the Company was not successful in its efforts to dispose off the same even after a lapse of more than five years (May 2004).

Thus, the Company's decision to abandon the project midway and its inability to dispose off the same resulted in blocking up of funds to the extent of Rs.23.49 crore. Further, the Company was liable to pay Rs.13.38 crore upto March 2004 on account of lease rent (Rs.6.16 crore) and wharfage charges (Rs.7.22 crore) to JNPT, that were recurring in nature.

The Management stated (May 2004) that they were making vigorous efforts for disposal of the partly completed JNPT project on "as is where is basis" and due to sluggish condition in the industry/slow growth in the infrastructure field, it could not succeed in disposal of the project so far.

The Ministry concurred with the Management view and stated (October 2004) that the decision of the Management to dispose of the partially complete tank facilities was in the best interest of the Company at that time. Further, the Ministry also stated that JNPT authorities had also assured waiver of wharfage charges (Minimum Guaranteed Throughput) and the same was vigorously followed with JNPT authorities.

The contention of the Ministry is not tenable as the waiver would be for charges from October 2002 provided all earlier dues were cleared. The Company had not cleared earlier dues (October 2004).

The lapses on the part of the Management in failing to assess the market potential for the proposed storage tanks properly and not taking into cognisance the recurring expenses, led to blocking of funds of Rs.23.49 crore (without taking into account the forfeited earnest money deposits) in the abandoned project with consequent additional liability of Rs.13.38 crore towards lease rent and wharfage charges upto March 2004.

2.1.2 Unfruitful expenditure on Methylene Di-phenyl Di-isocyanate project

Failure to ensure financial and technical viability of the project before releasing payment for know-how, expertise and other expenses rendered the expenditure of Rs.10.68 crore on MDI project unfruitful.

The Company entered into a shareholders' agreement with M/s. Chematur Engineering AB (CEAB), Sweden, for setting up a plant with a capacity to produce 20,000 MT per year of Methylene Di-phenyl Di-isocyanate (MDI) as Joint Venture (JV) Company (December 1995). The main terms and conditions of the agreement, *inter alia*, stipulated the following:

(i) The orders for the supply of know-how, licence, engineering and imported equipment for MDI were to be placed after obtaining necessary approvals from the Government of India.

(ii) The subscription and payment of shares by the parties would be conditional, *inter alia*, upon the availability of loan funds required for the project according to the financing plan.

(iii)The overall responsibility for the implementation of the project upto commercial production would be with the Company.

(iv)Expenditure on the project would be borne initially by the Company and in case the project was abandoned before the formation of the JV Company, all expenditure incurred would be borne by the Company, and

(v) Before the Company makes any payment, Chematur would furnish Bank Guarantee for the down payment as well as proportionate equity investment in the project.

The estimated cost of the project was Rs.390 crore which was to be financed through equity contribution of Rs.156 crore (Company: Rs.47.74 crore, CEAB: Rs.31.82 crore, Public issue: Rs.76.44 crore) and through term-loan from financial institutions (Rs.234 crore).

The Company entered into an engineering and supply contract with CEAB for supply of know-how and various services such as engineering drawings and procurement of imported equipment (September 1996). The approval of the Government of India for establishing the joint venture with Company's participation was received on 9 April 1997.

The Company modified the terms and conditions of the Engineering and Supply contract dated 17 September 1996 and the Shareholders' agreement dated 11 December 1995 by fixing the effective date of the agreement as 18 February 1998 with a commitment to pay SEK 21.3 million in two instalments (SEK 12.78 million) and (SEK 8.52 million) before 30 April 1998 and 30 June 1998 respectively, even before ensuring tie-up arrangements for term-loan and for the equity through public issue. Besides this, the Joint Venture Company (JV) named HOC-Chematur Limited was also formed in December 1997.

The Company released (May 1998) the first instalment of SEK 12.78 million (Rs.6.64 crore) to CEAB for basic engineering, know-how and expatriate services and Rs.56 lakh to M/s. IBI, Chematur towards advance payment for carrying out detailed engineering against bank guarantees. The Company also incurred expenditure of Rs.3.48 crore on Company formation, financial charges, office equipment and civil works. In the mean time M/s. BOB Capital Market Limited which had been appointed as lead manager for

financial tie-up for the implementation of the project (December 1997) submitted (April 1998) a report with a revised capital outlay of Rs.419 crore (Equity contribution: Rs.159 crore and Term loan: Rs.260 crore) and presented it to various banks and financial institutions including the Industrial Development Bank of India (IDBI) for grant of loan.

IDBI conducted (December 1999) independent appraisal and declined to finance the project after taking into account the decline in the Company's performance due to increased competition from imports and fall in international prices besides uncertainties in technology, small plant capacity, sluggish domestic demand and unremunerative prices which would impair the sustained viability of the project. Thereupon, the Company invoked the bank guarantee (expired in March 2001) for the recovery of the amount paid to CEAB but the claim was rejected by the Swedish Bank (October 2001) as CEAB had not deposited SEK 21.30 million as per the guarantee and also did not approve the claim.

The total expenditure incurred on the project upto 31st March 2004 was Rs.10.68 crore. The Company's decision to release the first instalment of fee to CEAB and also to incur formation and other expenses without ensuring the financial viability and tie up arrangement for term-loan was not prudent and rendered the expenditure of Rs.10.68 crore on the MDI project unfruitful.

The Management stated (May 2004) that the project had been kept in abeyance on the ground that (i) IDBI had not given clearance to the appraisal report of the project and (ii) the project viability was not attractive due to higher input cost and lower sale price and CEAB had been asked to work on a higher capacity of the plant with the same capital cost and make the project viable. It was further stated that unless financial institutions like IDBI cleared the appraisal report it would not be possible for JV to raise the debt and equity from the market.

The reply of the Management is not tenable as even after four years the Company had not been able to prepare any concrete proposal to revive the project in the absence of financial tie up for full amount of term-loan and equity through public issue.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

Indian Drugs and Pharmaceuticals Limited

2.2.1 Avoidable expenditure of Rs.2.32 crore due to inordinate delay in reduction of Contracted Maximum Demand from APCPDCL

Failure on the part of the Management in taking timely decision for reduction of Contracted Maximum Demand and pursuing with APCPDCL for its sanction resulted in extra expenditure of Rs.2.32 crore towards the minimum billing charges from November 2000 to December 2003.

The Synthetic Drug Plant (the Unit) of the Company has been meeting its requirement of power from Andhra Pradesh State Electricity Board (APSEB) with a Contracted

Maximum Demand (CMD) of 12000 KVA[♥] and from its power share (6.38 MW[♠]) in the collective captive power plant viz. Andhra Pradesh Gas Power Corporation Limited (APGPCL). As per the terms and conditions, the consumer has to pay APSEB a minimum charge equivalent to 80 per cent of CMD and energy charges even though the utilisation (recorded demand) may be less. The Unit gradually reduced the CMD from APSEB now AP Central Power Distribution Company Limited (APCPDCL) from 12,000 KVA to 5,000 KVA by August 1998 as not only did the phase-II expansion plant of the Unit not take place due to lack of load but also the operation of plant itself was stopped from November 1996.

In November 1999, the Unit Management decided to further reduce the CMD from 5,000 KVA to 2,000 KVA. But, no action was taken. The Unit again examined (November 2000) the requirement and found that the CMD could be further reduced to 1,500 KVA keeping in view of the actual average Recorded Maximum Demand of only 1,250 KVA and accordingly sought (January 2002) approval of the Corporate Office. The Corporate Office communicated its approval (March 2002) and the Unit applied (March 2002) to APCPDCL for the reduction of CMD to 1,500 KVA. APCPDCL sanctioned (December 2003) the reduction of CMD to 1,500 KVA effective from the billing month of January 2004. It, however, charged the Unit for 80 per cent of CMD of 5,000 KVA as per the terms of supply till December 2003.

The Company having decided in November 2000 to further reduce the CMD, approached APCPDCL only in March 2002 and got the sanction of the latter in December 2003. Thus, due to the inordinate delay on the part of the Management in applying/getting the CMD reduced from 5,000 KVA to 1,500 KVA, the Company suffered additional burden of Rs.2.32 crore towards the minimum billing charges (80 per cent of CMD and energy charges) for the period from November 2000 to December 2003.

The Management stated (May 2004) that

a) despite vigorous follow up, due to the indifferent attitude of top officials, APCPDCL had not taken decision for over two years for no fault of IDPL; and

b) it was true that their demand of 80 per cent of CMD was as per terms of agreement but the Company would pursue with appropriate authorities for its waiver.

The reply of the Management is not tenable as there was nothing on record to show that the Management had pursued the case of reduction of CMD with APCPDCL after submitting (April 2002) the information in the proforma called for (March 2002). On the earlier occasion, the Company's application in March 1998 for reduction of CMD from 7,680 KVA to 5,000 KVA, was sanctioned by APSEB in May 1998, i.e. within three months. Further, as the billing at 80 per cent CMD was as per the agreement, the chances of waiver of minimum charges are remote.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

[♥] ***Kilo Volt Ampere***

[♠] ***Mega Watt***

CHAPTER 3: MINISTRY OF CIVIL AVIATION

Airline Allied Services Limited

3.1.1 Wasteful expenditure due to delay in obtaining Certificate of Airworthiness

The Company bore wasteful expenditure of Rs.45.14 lakh as lease rent due to delay in obtaining Certificate of Airworthiness.

The Airlines Allied Services Limited (Company) entered into lease agreement with M/s. Avions De Transport Regional Gie, France (6 December 2002) for leasing of four ATR-42-320 aircraft at monthly lease rent of US$ 67,500 per aircraft. The Company received two aircraft (VT-ABD and VT-ABB) in December 2002 and two aircraft (VT-ABA and VT-ABC) in February 2003. The Company obtained Certificate of Airworthiness for the first aircraft (VT-ABD) from the Director General of Civil Aviation (DGCA) on 24 December 2002 in five days after its arrival in India on 19 December 2002, but for the other three aircraft (VT-ABB, VT-ABA and VT- ABC) the Company took 14 days, 21 days and 22 days respectively. The Company, thus, took a total of 42 days (9+16+17) in excess with reference to the time taken for obtaining the Certificate of Airworthiness in respect of the first aircraft and bore lease rent for this period before bringing these aircraft into commercial operation.

Scrutiny in Audit revealed (November 2003) that the Company had taken four days for mandatory modifications in respect of the first aircraft and took 10 days for similar modifications in respect of third and fourth aircraft (VT-ABA and VT-ABC). Besides, DGCA was not initially informed (22 February 2003) about all the modifications in respect of these two aircraft. The Company confirmed these only on 3 March 2003. Another mandatory formality of submission of weight schedules to DGCA, which was completed for the first aircraft within four days of its arrival, took 14 days for the second aircraft and 16 days for the third/fourth aircraft. Thus, delay occurred in obtaining of the Certificate of Airworthiness due to late completion of requisite procedural formalities/submission of necessary documents. The Company bore the payment of lease rent of US$ 94,500 (Rs.45.14 lakh) for this excess period of 42 days.

The Management stated (March 2004) that DGCA officials required detailed inspections and also checked compliance of the modifications and airworthiness directives before issuance of Certificate of Airworthiness. They further stated (April 2004) that the first aircraft (VT-ABD) was committed to fly before end of December 2002 and all Government agencies including DGCA made special efforts for providing the required clearances. The next batch of two aircraft was received in February 2003 and the DGCA officials required submission of all documents pertaining to any new aircraft arriving for the first time in India.

The reply of the Management is not tenable as the Certificate of Airworthiness for the first aircraft was issued within a span of 5 days after its arrival after completion of the procedural formalities simultaneously. The delay in respect of the other three aircraft was mainly in carrying out the required modifications and complying with the weight

schedule requirements, piecemeal. In the absence of clearance time norms, the Management is required to take all steps to avoid incurring wasteful payment of lease rent in a commercial transaction and fix definite norms for the time to be taken for obtaining the Certificate of Airworthiness.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Air India Limited

3.2.1 Unproductive expenditure in purchase of Master Change

Air India Limited incurred an expenditure of Rs.26.33 crore in enhancing payload limit of its aircraft, which did not yield desired results due to unrealistic estimation of cargo growth and injudicious decision-making.

In April 1999, Air India Limited (AIL) reconfigured seating capacity to create additional 26 Economy class seats in all its six B-747-400 aircrafts. However, due to the increased passenger payload and increase in weight due to the additional seats, AIL experienced loss of cargo payload/revenue. It was observed in Audit that AIL had failed to consider the impact of the creation of additional seats on the cargo load capacity, though it was apparent due to the prescribed payload limitations for each aircraft. Further, without ascertaining the cargo volume/revenue actually foregone, AIL constituted a committee in August 1999 to analyse cost-benefit of increasing the payload limits to enable the aircraft to carry additional cargo.

In November 1999, the committee recommended increase in the payload limit (alternatively known as increase in 'Maximum Zero fuel Weight'[♦]), which did not require any physical or structural changes to the aircraft, by obtaining a revision to the relevant manuals (known as Master Change) from the manufacturers after payment of a fee of US$ six million. The recommendation was simply based on the study report of Cargo Division, which had projected an average yearly additional cargo of 2.5 MT on India–USA route and two MT on USA-India route per flight and estimated to recover the cost of the 'Master Change' in about 22 to 27 months of operation. The Board of Directors approved (December 1999) the purchase of 'Master Change' for increase in payload limit by 9072 kg and implemented (May 2000) it for all the six aircraft at a total cost of US$ 5.89 million (equivalent to Rs.26.33 crore, @ 1 USD = Rs.44.72).

A scrutiny of the actual cargo carried after the 'Master Change' revealed that the projected incremental cargo did not materialise, rendering the entire expenditure of Rs.26.33 crore unproductive. It was observed in Audit (March 2003) from the relevant agenda/minutes of meetings of the Committee and the Board, that the basis of projecting the additional cargo by the Cargo Division was not reviewed/verified while recommending/approving the substantial expenditure.

♦ ***Total maximum operating weight empty plus maximum pay load. It is also maximum operation weight without usable fuel***.

In April 2004, the Management stated that the Master Change was carried out in May 2000 and during the period between June 2000 and March 2001 the cargo revenue had gone up by Rs.7 crore as compared to earlier period; but after the event of 11 September 2001 economic slowdown had drastically altered the aviation industry scenario in USA.

The contention of the Management is not tenable because even during the substantive period of 10 months (June 2000 to March 2001), prior to the adverse developments of 11 September 2001, the actual cargo on India-USA sector, in terms of weight, had gone down. In fact, the cargo volume of pre-master change period could never be achieved in the post-master change period, as per the information made available to Audit for the period upto October 2003.

Thus the unrealistic projection of cargo growth and the injudicious decision-making led to an unproductive expenditure of Rs.26.33 crore on the purchase of Master Change.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

3.2.2 Avoidable payment of Immigration fines

Continued failure of Air India staff to verify travel documents of passengers at originating stations and contest the fines imposed, resulted in an avoidable expenditure of Rs.2 crore on account of immigration fines.

Mention was made in the Report of the Comptroller and Auditor General of India (Paragraph 4.1.2. of Report No.3 of 1998, Union Government-Commercial) of payment of immigration fines of Rs.3.15 crore during 1993-96 by Air India, London. In its Action Taken Note furnished in April 1999, the Ministry stated that checking instructions and orders for necessary training to staff had been issued to avert such fines in future. The Management also stated (December 2002) that multiple checkpoints had been introduced, frontline employees had been constantly briefed, and their skills upgraded to prevent passengers from travelling with invalid/expired documents.

The Immigration (Carriers Liability) Act 1987[♣] and section 40 of the Immigration and Asylum Act 1999[♦] of the United Kingdom (UK) provide for a penalty of GBP[♠] 2,000 on the owners or agents of a ship or aircraft, where a passenger (other than a British citizen or national of the European Economic Area) arrives in UK and fails to produce (i) either a valid passport or some other document satisfactorily establishing his identity and nationality or citizenship, and (ii) if the individual requires a visa, a visa of the required kind. These Acts further provided that no fine was payable (i) if the carrier could show by way of representation that the required documents were produced when the person embarked on the aircraft/ship for voyage to UK and (ii) where a person presents a forged document or is not the rightful holder of the document presented, unless the falsity of a document was reasonably apparent.

[♣] ***Till 8 December 2002***
[♦] ***After 8 December 2002***
[♠] ***Great Britain Pound***

Scrutiny of the records of London Office of Air India Limited (AIL) for the period from April 1996 to December 2003 disclosed that AIL paid GBP 0.22 million (equivalent to Rs.1.38 crore) towards immigration fines for 110 passengers disembarking in UK, without proper travel documents. In addition, transportation and other incidental cost of GBP 19,626 (Rs.15.72 lakh) was incurred on such passengers.

Air India, London contested the levy of fine in two cases of 2003 and in response the fine imposed was waived. However, AIL had not contested in any other case in the past.

Similarly according to the provisions of Schedule No.45.2658 of November 2, 1945 – Ordinance relating to conditions of entry and stay from abroad in France, any airline, irrespective of the points of origin, transporting a passenger who is improperly documented such as lack of passport, expired passport, false or tampered passport and lack or expired French Visa is subject to a fine of FF♥ 10,000 (since changed to Euro 5,000 with effect from 27 November 2003). In addition, the carrier is liable to bear the detention and other costs in respect of such passengers who are denied entry on landing.

Scrutiny of the records of Air India, Paris revealed that an amount of Rs.46.43 lakh was incurred during the period September 1996 to January 2004 towards immigration fines, meal and hotel stay and deportation charges in respect of 101 passengers who arrived in France on its flights without proper documents.

The Management stated (May and June 2004) that:

(i) Immigration fines were imposed at Paris due to lack of Schengen Visa;

(ii) Number of cases at London where fines have been levied showed a declining trend; and

(iii) During the year 2004, Air India, London could get the fine waived in seven out of eight cases where fines were levied by the immigration department.

The fact remains that the weak controls in the Management and ineffective monitoring of performance of its staff in verifying travel documents of passengers at originating stations and failures to contest fines imposed at London and Paris, led to an avoidable expenditure of Rs.2 crore even after the corrective measures stated to have been instituted in response to the Report of the Comptroller and Auditor General of India.

The matter was reported to the Ministry in November 2004; its reply was awaited.

3.2.3 Avoidable expenditure on hotel accommodation for cabin/operating crew

Due to delay in finalising agreements for hotel accommodation for providing layover to cabin/operating crew at Delhi and London, Air India Limited incurred an avoidable expenditure of Rs.1.50 crore.

♥ ***French Francs***

(A) Air India limited (AIL), New Delhi

AIL, New Delhi had an agreement with Hotel Ashok, New Delhi, valid for a period of 3 years upto September 1999, for providing hotel accommodation for layover to its cabin/operating crew @ Rs.3,200 per room per day. On expiry of the agreement, the In-flight Services Department (IFSD) of AIL, Mumbai, directed (October 1999) the Regional Director, Delhi Region (RD/DR) to invite fresh tenders/quotations keeping in view the reported fall in hotel tariffs in Delhi. However, there was no follow up by IFSD for 9 months between October 1999 and June 2000. In July 2000, when IFSD reminded RD/DR to invite tenders, RD/DR replied that the projected expenditure involved in the tender was beyond his financial powers. It was observed in Audit (August 2002) that at no stage RD/DR referred the matter back to AIL headquarters for relaxation of the limit on financial powers. However, in July 2000, RD/DR appointed a local tender committee, which recommended (August 2000) the offer of Rs.1,790 per room per day by Centaur Hotel, New Delhi, for the entire requirement of 513 room nights per week. The rates were to be reviewed mutually for the period beyond September 2001. The recommendation was forwarded by RD/DR to IFSD in September 2000 but no action was taken thereon by IFSD and AIL continued with the accommodation in Hotel Ashok, without an agreement, at a reduced room rate of Rs 3,000 per day from October 1999 to August 2000 and at a further reduced room rate of Rs.2,325 per room per day from September 2000 to July 2002.

Thus, by not accepting the lower bid, AIL incurred an avoidable expenditure of Rs.1.31 crore {(Rs.2,325 minus Rs.1,790) x 24,560 room days)} during the period of 13 months between September 2000 and September 2001. In addition to this, AIL failed to avail of the opportunity of the lower hotel tariffs, for the period between October 1999 and August 2000, due to the delay in inviting fresh tenders/quotations. However, for the period after September 2001, the difference in room rates of the two hotels was negligible.

(B) AIL, London

AIL, London, had an agreement with Hotel Crown Plaza, London (hotel) for accommodation of its operating crew for the period upto December 1999 at a room rate of £96.95 per day. The Hotel Selection Committee of AIL, after negotiations with seven hotels, recommended (December 1999) the offer of £93 per room per day by Hotel Crown Plaza for the year 2000. AIL, London, without entering into a fresh agreement, asked the hotel in January 2000 to extend the accommodation for one month on the terms of the old agreement. However, AIL did not sign the fresh agreement with the hotel and continued to make the payment at the old rate. When AIL approached the hotel on 8 May 2000 with a request to charge the room rate of £93 per day with retrospective effect from 1 January 2000, the hotel replied that in the absence of fresh agreement they could not charge the new rates from the back date. However, the hotel agreed to charge £93 effective from 10 May 2000, even though AIL did not enter into a fresh agreement. In the process, AIL incurred an avoidable expenditure of £ 8,279.20 (equivalent to Rs.5.90 lakh) for 2,096 room days used during the period from 1 January 2000 to 9 May 2000.

On 13 June 2000, a newly constituted Hotel Selection Committee of AIL reviewed the matter and, after fresh negotiation, recommended the hotel's offer of reduced room rate

of £91 per day, which was to be effective from the date of signing a fresh agreement. However, yet again, AIL did not sign a fresh agreement with the hotel and continued to pay @ £93 per room per day. In January 2001, when AIL approached the hotel to charge the room rate of £91 per day, the hotel again declined to accept the same. In February 2001, AIL signed a fresh agreement with the hotel at the room rate of £93 per day for the period upto December 2001. This delay in signing a fresh agreement led to a further avoidable expenditure of £18,138 (equivalent to Rs.12.92 lakh) for 9,069 rooms days used during the period between 13 June 2000 and 31 December 2001.

In September 2004, the Management stated that it had issued instructions to local Management at London to streamline the procedure for timely renewal of the contracts. However, the Management expressed its inability to offer comments in respect of hotel accommodation at New Delhi as the relevant records for the year 1999 were not traceable.

Thus, the delay in finalising the agreements for hotel accommodation at New Delhi and London led to an avoidable expenditure of Rs.1.50 crore (Rs.1.31 crore plus Rs.5.90 lakh plus Rs.12.92 lakh).

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

3.2.4 Loss due to delay in finalising ground handling contract

Air India Limited suffered a loss of Rs.99.83 lakh due to delay in processing of new tenders after expiry of existing ground handling contract and in taking follow up action in respect of legal suit against it.

As per agreement, M/s. Triangle Services Inc. (TSI) had been providing ground handling services to Air India Limited (AIL) at JFK Airport, New York, from September 1996 to December 1999. In October 1999, Airport Manager, JFK received a proposal from M/s. Evergreen Aviation for handling of AIL flights, which was sent to Director, Ground Services, pointing out that the ground handling contract with TSI would expire in December 1999. AIL did not initiate any advance action for inviting new tenders for the ground handling services till TSI sent a proposal for reviewing the existing contract in December 1999. Having failed to put in place any alternative arrangements for ground handling services, AIL requested TSI to extend the existing contract for 90 days.

TSI agreed to extend the contract upto March 2000 on the same terms and conditions but insisted on renewal of the contract. As new tender process was not complete by March 2000, AIL again requested TSI for extension of the existing contract upto April 2000. TSI stipulated that a surcharge of US$ 5000 per flight would be levied and the same would be credited to AIL if the new contract was awarded to them. AIL awarded the new contract to M/s. Dynair effective from 1 May 2000. As the contract was not renewed, TSI claimed US$ 0.16 million towards the surcharge, which was rejected by AIL. TSI insisted on settlement of the claim within 30 days failing which they would have recourse to legal action. However, AIL did not communicate with TSI for withdrawal of the claim.

In June 2002, AIL received summons to appear before the Supreme Court of New York to reply to the complaint of TSI within 20 days or face a default judgement. As AIL did not respond to the summons from the Court, the Court awarded ex parte judgement in favour of the party on 11 October 2002. It was only after an amount of US$ 0.28 million was debited to AIL's bank account in November 2002 in satisfaction of the judgement of the court that AIL took up the matter with the attorneys of TSI in December 2002. This amount included the disputed surcharge, other costs, interest and other claims. After negotiation with their attorneys, TSI returned US$ 0.08 million as full and final settlement and AIL closed the issue. An enquiry committee, constituted by the Company in December 2002 to enquire into the loss suffered by it, concluded (January 2003) that there was delay in commencing the procedure for renewal of the contract, which necessitated extension and resultant imposition of the surcharge. The committee also stated that Regional Director, USA, who retired in June 2002, did not seem to have briefed his successor on the pending summons, which, if replied, could have been defended successfully. It was, however, observed in Audit that no responsibility was fixed for the delay in initiating the process of new tenders, which was the main cause for the loss.

In June 2004, the Management admitted that there were lacunae in their contract management system and in handling of legal matters as pointed out by Audit and assured to issue fresh guidelines to all departmental heads to prevent recurrence of such lapses. The Ministry endorsed (July 2004) the views of the Management. However, no responsibility for the lapse had been fixed.

AIL, thus, had to make an avoidable payment of US$ 0.21 million (Rs.99.83 lakh - @ 1 US$=INR 48.49) for lack of due diligence on its part in processing of new tenders and in follow-up action in respect of the legal suit against the Company.

Airports Authority of India

3.3.1 Loss of revenue due to delay in award of licences to operate money exchange counters

Arbitrarily fixing eligibility conditions for money exchange counters by Airports Authority of India led to unnecessary litigation, which delayed award of licences for money exchange counters at various airports. This resulted in loss of revenue of Rs.18.11 crore on account of royalty and licence fee.

The money exchange counters of nationalised banks and private parties are in operation at major airports of the Airports Authority of India (Authority). The Authority decided in April 1999 to invite open tenders from reputed authorised money exchange agencies, nationalised banks and foreign banks for setting up money exchange counters at the international airports as per the commercial policy in vogue. The Authority issued instructions to float open tenders (July 1999) for award of licences and tenderers were asked to quote a royalty payable to the Authority as a percentage on their gross turnover (GTO) in addition to space rent payable @ Rs.3,500 (domestic)/Rs.6,000 (international) per square meter per month. It further advised that the eleven airports make allout efforts for inviting, processing and finalising the facility expeditiously. The Authority did not,

however, lay down any time-frame within which the entire process was to be completed. Deviating from the commercial policy in vogue, the eligibility conditions for participation in the tender were changed as given below which were impractical and discriminatory.

(i) The prospective agencies/banks should possess minimum experience of five years of operating money exchange counters at ports/railways/airports and should possess valid licence from the Reserve Bank of India to conduct money exchange business at the airport.

(ii) The tenderer should possess minimum experience of 15 branches including branches in India and abroad.

The tenderer participating in the tenders for International Airports viz. Delhi/Mumbai/ Chennai/Kolkata/Thiruvananthapuram Airports should also have minimum annual turnover of Rs.50 crore during the last financial year.

The eligibility conditions mentioned above straightaway precluded most of the Indian firms from tendering as they were not having overseas branches. The firms which were operating money exchange counters at seaports and railway stations could not fulfill the requirement of five years experience as these exchange counters had been introduced only recently at ports/railway stations in India.

Some of the aggrieved firms challenged the eligibility conditions in the Mumbai (August 1999) and Kolkata High Courts (October 1999). The Mumbai High Court granted stay (August 1999) on the tender proceedings. While admitting the petitions (October 1999) the High Court observed that the eligibility conditions were totally irrational, unreasonable and illegal. The Kolkata High Court followed suit (October 1999). Petitions challenging the eligibility conditions were similarly filed at Bangalore, Chennai, Delhi, Hyderabad and Thiruvananthapuram High Courts (between September 1999 and October 1999) where the respective High Courts ordered that the award of licences was subject to result of petitions filed before them. But no stay orders were issued.

Keeping in view the multiple litigation at various High Courts, the Authority should have re-examined the eligibility conditions in October 1999 itself. The Authority decided as late as in September 2001 to modify the eligibility conditions and intimated this to all the airports after which the pending petitions were withdrawn/closed. The licences were finally awarded at Mumbai and Kolkata airports after a delay of 30 and 34 months respectively causing loss of royalty of Rs.12.67 crore. At other airports (Bangalore, Chennai, Delhi and Hyderabad airports) the delay in issuing licences ranged between six and 37 months causing a loss of royalty[♦] of Rs.1.03 crore. As regards the Thiruvananthapuram airport fresh tenders with modified conditions were called for (November 2001) and licence was awarded in February 2002. Thus, there was a delay of 25 months in award of licences causing a loss of royalty of Rs.41.90 lakh.

Meanwhile it was observed in Audit that in the absence of a prescribed timeframe, four airports at Ahmedabad, Amritsar, Goa and Jaipur did not follow the instructions at all.

♦ ***Calculated on the average percentage of royalty paid on turnover by parties after award of work***

These airports initiated the tender process only after repeated instructions by the Headquarters. The award of licences was delayed which ranged between 18 and 44 months causing a loss of royalty of Rs.27.78 lakh to the Authority.

The total loss of Rs.14.40 crore[♣] due to delay in award of licences could have been avoided had the Management drafted the eligibility conditions and time schedule with due care initially and completed the process by 31 December 1999. Besides, the Authority also lost Rs.3.71 crore towards space rent (licence fee) in respect of these airports due to delay in award of licence for money exchange counters. It could have, thus, started earning royalty and licence fee revenue from January 2000 itself, if timely action had been taken.

The Management in its reply (May 2003) relating to delay at Thiruvananthapuram airport stated that tenders were invited (September 1999) on the directives of Headquarters. As a result of the delay, the airport got a higher rate of royalty from the same party against the subsequent tender, which proved beneficial to the Authority.

The Ministry stated (October 2004) that the response to the call of tender with pre-modified specification did not unilaterally result in litigation all over India. Further, tender action was successful at Delhi and Chennai. Hence no need was felt to change the conditions at that stage.

The reply of the Management is not tenable as the Authority was well aware of adverse observations made by Mumbai High Court on discriminatory eligibility conditions at the admission stage itself (October 1999) but did not modify them till September 2001. The Kerala High Court, while setting aside the eligibility conditions, stated (August 2001) that the court was convinced that notice inviting tender was unreasonable, arbitrary and discriminatory. The modified eligibility conditions generated more competition and more number of tenderers participated, which made the tender process competitive leading to offers of higher percentage of royalty, thus, further substantiating Audit stand that enough care was not taken in drafting the tender conditions. The Ministry's reply that pre-modified specifications did not result in unilateral litigation all over India is not factual since cases were filed at all International Airports challenging the inclusion of restrictive conditions.

Legal consultation and expeditious modification in eligibility conditions would have avoided litigation at the airports. The consequent delay in invitation of fresh tenders and their finalisation deprived the Authority of revenue amounting to Rs.18.11 crore.

[♣] ***Ahmedabad 44 months (Rs.1.34 lakh), Amritsar 18 months (Rs.0.80 lakh), Bangalore 31 months (Rs.6.41 lakh), Chennai 9 months (Rs.39.15 lakh), Delhi 6 months (Rs.40.50 lakh), Goa 39 months (Rs.23.62 lakh), Hyderabad 37 months (Rs.16.90 lakh), Jaipur 42 months (Rs.2.02 lakh), Kolkata 34 months (Rs.2.09 crore) Mumbai 30 months (Rs.10.58crore), Thiruvananthapuram 25 months (Rs.41.90 lakh)***

3.3.2 Delay in installation of equipment resulted in idle investment

The Authority purchased eight sets of Instrument Landing System during January 2002 to February 2003 at an expenditure of Rs.11.86 crore which remained unused (July 2004). This resulted in idle investment and consequential loss of interest revenue of Rs.1.02 crore.

The Airports Authority of India (Authority) placed a purchase order (October 2000) for supply of 13 sets of Instrument Landing System (ILS) for installation at various airports maintained by the Authority. Due to delay in acquisition of land/clearance of obstructions/finalisation of declared distances etc., the equipment ordered for five stations (Bhavnagar, Dimapur, Lilabari, Madurai and Silchar) were diverted to other airports as replacements. A repeat order was placed in October 2001 for seven ILS for two additional stations (Trichy and Visakhapatnam). Equipment meant for Silchar airport was again diverted to Chennai.

Out of the 20 ILS equipment sets thus ordered, eight sets costing Rs.11.86 crore received between January 2002 and February 2003 remained without installation/commissioning (July 2004) due to various reasons as under:

Sl. No.	Name of the Station	Date of Receipt of equipment at Station	Cost of equipment (Rs. in crore)	Reasons for non installation /commissioning
1.	Bhavnagar	6 September 2002	1.40	Delay in finalisation of site/distance for installation of antenna from August 1999 to December 2001 and delayed award of civil and electrical contract in March 2003 to be completed in June 2003. The work was delayed inordinately and was expected to be completed in August 2004.
2.	Chennai (diverted from Silchar)	4 February 2003	1.60	Delay in completion of civil and electrical works and installation expected by August 2004.
3.	Dimapur	9 February 2003	1.44	Delay in removal of obstacles in the approach path and delayed finalisation of site plans resulted in equipment remaining idle.
4.	Jammu	13 January 2002	1.46	Non-operationlisation of the extended runway due to non-closure of road running across the overrun portion of extended runway and obstruction by a nearby boundary wall because of which glide path component of equipment is pending commissioning.
5.	Khajuraho	25 May 2002	1.33	Delay in finalisation of site plan and non-completion of runway extension work.
6.	Lilabari	9 September 2002	1.36	Inordinate delay in finalisation of site although land was requisitioned in January 2000. There was delay in getting ‘No Objection Certificate’ of the site. The work of tendering for civil and electrical work of building is under progress. The equipment is to be installed on completion of building work.

7.	Madurai	11 September 2002	1.59	Delay in acquisition of land and finalisation of site followed by delay of award of civil and electrical works (February 2003). As such, equipment could not be installed.
8.	Visakhapatnam	5 February 2003	1.68	The work of runway construction awarded (March 2003) with completion date after 24 months; as such installation delayed.

It is evident that the Authority did not plan in a co-ordinated manner and placed orders for supply of equipment without preparing the ground facilities. It delayed acquisition of sites, finalisation of plans and carrying out of civil and electrical construction works even after equipment ordered in the first order (October 2000) for five airports was diverted and orders for these airports were included in the repeat order (October 2001). The non-commissioning of these equipment resulted in blockage of capital funds amounting to Rs.11.86 crore for period ranging between 17 and 30 months. Had the aforesaid funds been invested as surplus funds, the Authority could have earned interest income of Rs.1.02 crore (at rates ranging between 5 and 7.5 per cent as per Reserve Bank of India Deposit rates) till the end of July 2004.

The Management (May 2004) stated that the procured sets of equipment could not be installed due to delay in acquisition of land, clearance of obstructions/finalisation of declared distances, extension of runway, etc. The reply is not tenable as these problems were required to be sorted out before the procurement. The delay of 17 to 30 months as of July 2004 is a clear indication of lack of proper planning and non-synchronisation of activities by the Authority. The delay in the planned upgradation of airports also deprived the airports of crucial navigational aid.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

3.3.3 Wasteful expenditure due to foreclosure of contracts

Airports Authority of India had to foreclose the contracts for want of clear possession of land after incurring expenditure of Rs.9.65 crore on extension of runway and construction of boundary wall at Bhubaneshwar Airport.

The Airports Authority of India (Authority) approved the work (May 1996) of extension of the existing runway by 457 meters at Bhubaneshwar Airport to enable it for the operations of A-300 wide-bodied aircraft. The Authority awarded (December 1996) the work of extension of "Runway and allied works" at a cost of Rs.7.69 crore to IRCON International Limited and the work was required to be completed by December 1999.

The work was foreclosed (September 2001) after extending the runway upto 380 meters at an expenditure of Rs.8.13 crore. The main reason attributed to the foreclosure of contract was that no clear possession of site/land was available although the site/ land had been taken over by the Authority as far back as in November 1992 at the cost of Rs.25 lakh. There was an existing road cutting across approach path of runway, which was not closed by the State Government due to which work on a stretch of 77 meters could not be executed.

The associated work of construction of boundary wall around the extended runway at Bhubaneshwar Airport awarded (January 1998) at a cost of Rs.74.47 lakh had also to be foreclosed (May 1999) after executing the work upto 2.820 kms against required 2.840 kms at an expenditure of Rs.73.01 lakh because of non-closure of road. For this reason the expenditure of Rs.79.18 lakh on the work of RCC[♦] box culvert and drain construction awarded in March 1998 and completed in April 1999 also became wasteful.

The Controller of Aerodrome, Bhubaneswar, a unit of the Authority, had warned the Chairman of the Authority (November 1995) about consequences of closure of road and had recommended that tenders be issued only after ensuring that there was no retaliation from the public due to closure of road. The Authority nevertheless went ahead with construction. The improper planning in not ensuring clear possession of site/land before proceeding with construction works rendered the expenditure of Rs.9.65 crore unfruitful. The objective of operationalisation of the extended runway for use by wide-bodied Airbus-300 aircraft was also not achieved.

The Management stated (April 2004) that these works were taken up on the assurance of the State Government that the existing road cutting across extension portion of runway would be diverted, but the State Government failed to keep the assurance.

The fact remains that the Authority failed to safeguard its financial interests in awarding the aforesaid works without having clear possession of site/land and this fact was not reported to the Board of the Authority while seeking administrative approval. The non-operationalisation of proposed runway has rendered an expenditure of Rs.9.65 crore ineffectual.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

3.3.4 Blocking up of funds due to injudicious planning

The Authority constructed excess cargo capacity due to incorrect estimation of requirement resulting in idle investment of Rs.5.59 crore.

The Airports Authority of India (Authority) commenced its cargo operations at Delhi in 1986 with an area of 9,600 square metres when 23 airlines were in operation. This was increased to 17,500 square metres in 1989-90. The number of operating airlines increased to 48 in 1995-96 due to the "open sky" policy, registering an average annual increase in export cargo at 9.3 per cent during the period. The Authority decided to construct export cargo phase II (August 1996) with an additional area of 10,130 square metres at an estimated cost of Rs.18.54 crore to cope with the projected growth of 25 per cent per year in cargo operations. The detailed analysis of the projected growth as also the requirement of additional space was, however, not done by the Authority. Construction work of export cargo area measuring 14,737 square metres was completed in December 1999 at a cost of Rs.13.75 crore. The Export Promotion Board decided (July 1997) to provide adequate space for joint venture (JV) private cargo handling to encourage competition. Accordingly, deviating from the original plan, JV private cargo

[♦] ***Reinforcd Cement Concrete***

terminal was approved (November 1998) with an additional area of 4,835 square metres which was shelved by the Ministry in November 2000.

The Authority did not prepare any plan concomitant with the construction of the cargo complex for commercial utilisation of the space or to identify prospective user agencies. As a result, it could only allot an area of 4,034 square metres upto June 2003, besides diverting 3,300 square metres for utilisation by Haj pilgrims for occasional use once in a year from November 2000, which was not part of the original proposal. Further 93 square metres additional space was allotted to M/s. DHL Worldwide Express (India) Private Limited (August 2003) and another non-envisaged area of 218 square metres was allotted on the first floor to five courier operators in October 2003. The Authority started using 1,100 square metres for its own cargo department from May 2004 and in the absence of any cargo area demand, the balance area of 5,992 square metres remained vacant (September 2004), resulting in idle investment of Rs.5.59 crore being proportionate cost of investment. Further, the Authority lost interest of Rs.1.41 crore on the investment from September 2000 to September 2004 calculated at rates ranging between 5 and 8.5 per cent (as per Reserve Bank of India Deposit rates), the minimum rate of interest earned on fixed deposits of one year and above. However, after taking into account savings of house rent allowance (HRA) of Rs.1.33 crore to the Central Industrial Security Force (CISF) personnel from April 2003 to April 2004, the net loss of interest was Rs.8 lakh.

The Management stated (March 2004) that the allotments were subject to formulation of policy of allotment, tendering process and grant of custodianship by Customs. Courier handling facility was a new concept/venture for the Authority for gaining additional revenue and that time was taken in completion of procedural formalities. It further stated that the space was utilised for housing of CISF personnel which saved the HRA/cost of lease for their accommodation.

The reply is not acceptable as export cargo space was originally intended for providing additional space for projected 25 per cent annual export growth and not for Haj/Courier/Parallel Terminal/CISF operations which were conceived later (1998/2000), when the Authority realised that the export cargo growth was not achievable. The actual annual cargo growth during 1995-96 to 2003-04 was 4.01 per cent only. The construction of additional cargo space without in-depth analysis of demand resulted in creation of surplus cargo capacity. This got compounded by the fact that the Authority failed to frame Courier Terminal policy in time despite Board's approval (November 1998). Since CISF vacated the space (May 2004) the setting off of the loss against HRA saved in future would not arise.

The Management's failure to plan and assess the space requirement realistically and gainfully utilise the cargo complex space after its construction, resulted in idle investment of Rs.5.59 crore and consequently annual loss of interest of Rs.28 lakh (approximately).

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

3.3.5 Loss of revenue due to acceptance of lower rate of licence fee

The Authority accepted a lower rate of licence fee from car park licensees resulting in loss of revenue of Rs.4.38 crore.

The Airports Authority of India (Authority) awards licences for running of car parks at 5 international airports at Mumbai, Delhi, Chennai, Kolkata and Thiruvananthapuram (Airports) by calling open tenders from private parties for the highest licence fee. The licensees recover the parking charges from visitors as per the rates fixed by the Authority from time to time. Whenever the Authority increases the parking charges, the license fee recoverable from the licensees is also increased proportionately as per the standard terms of the agreements entered into with the licensees.

The above provision as incorporated in the licence agreements in respect of Airports at Mumbai, Chennai, Kolkata and Thiruvananthapuram leaves no scope for any negotiations with the licensees for such enhancement. However, in respect of Delhi Airport, the Authority modified its own standard terms and made a provision in the award letters (November 2000/October 2001) as per which the increase in licence fee was subject to negotiations with the licensee leaving a scope thereby for undue favour to licensee.

The Authority revised the parking charges in October 2002 at all the above airports. The increase for various categories of car parks ranged from 50 per cent to 150 per cent resulting in substantial increase in income to the licensees. While approving the revised rates for parking charges, the Authority advised (October 2002) the Airports to negotiate with the licensees for prorata increase in the licence fee. During negotiations the licensees offered to pay less than the prorata increase in parking fee which ranged from 19 per cent to 28 per cent of licence fee only. The Authority did not even ensure minimum increase of 50 per cent which was the lowest percentage of increase made for general car park, thus, losing additional revenue to the extent of at least Rs.4.38 crore upto March 2004.

The Management, while confirming the facts and figures, stated (March 2004) that the contention of Audit for proportionate increase in licence fee as charged in the past is not correct since the Authority had always been able to achieve only the best possible increase in licence fee purely based on negotiations with the car park licensees. The increase achieved at the Airports had been approved by Commercial Advisory Board based on recommendations made by Regional Commercial Advisory Committees.

The reply of the Management is not tenable, since in the past (prior to October 2002) the increase in the licence fee was proportionate to the increase in the parking charges e.g. Mumbai, Thiruvananthapuram, and Delhi Airports during April 1996, January 1998 and November 1998 respectively. Further, the provision for negotiation in the instructions (October 2002) of the Authority was misinterpreted by the Airports to the disadvantage of Authority to give undue benefit to the licensees and led to acceptance of lesser rate of licence fee which was only 19 per cent to 28 per cent of the increase in parking charges, resulting in revenue loss of Rs.4.38 crore.

The Authority, thus, failed to protect its commercial interest in earning non-traffic revenue by not linking the enhancement of parking charges to its own earnings. Also, the

fact that different airports were arriving at different rates in their own way shows that it was a highly subjective way of arriving at rates which left scope for manipulation.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

3.3.6 Unfruitful expenditure on paving of land

The civil work of pavement construction and drainage/cable duct was carried out despite cancellation of construction of main building work resulting in wasteful expenditure of Rs.51.67 lakh.

In response to global tenders floated (December 2000) for award of licence for providing ground handling services at various airports, the Airports Authority of India (Authority) awarded (May 2001) ground handling services to a firm at Delhi Airport. The Ministry of Civil Aviation (MOCA) referred the award to the Ministry of Home Affairs (MHA) for security clearance. MOCA advised (June 2001) the Authority to put on hold the award pending clearance from MHA.

Commercial and Land Management wings of the Authority decided (January-March 2001) to keep ready the facilities like office, ground handling equipment, parking space etc., at an estimated cost of Rs.5.73 crore[*]. The work was taken up in two packages i.e. Pavements and Buildings. The pavement work (15,000 square meters) and drainage work were awarded (March 2002) and completed (December 2002) at a cost of Rs.1.64 crore. The work for award of construction of two line maintenance blocks under Building package tendered in June 2002 was, however, cancelled in October 2002 citing the ban imposed by MOCA (June 2001) on award of licence for ground handling services.

The plan for construction of main building was, thus, shelved after having incurred an expenditure of Rs.1.64 crore on pavement and parking area which lost its utility as the construction of main building block, where the ground handling licensees were to occupy office space, did not come up.

The Management, while remaining silent regarding non-cancellation of work relating to pavement, stated (April 2004) that the two requirements i.e. Commercial Department's request for construction of two line maintenance blocks and Land Department's request for paved land were clubbed and approval taken. But tender action was taken separately, being works of different nature. The Ministry endorsed (September 2004) the Management's reply.

The reply of the Management/Ministry is not acceptable as the purpose of construction of paved land and other associated civil work was linked to the construction of main blocks meant for office space and parking space for the proposed ground handling licensees. The construction of bituminous pavement and cable duct was for use by new ground handling agencies and to park the equipment. Of the 15,000 square meters constructed paved area,

[*] ***Building and electrical installations (Rs.2.02 crore); cement concrete pavement (Rs.1.30 crore); bituminous paved area for parking (Rs.79.08 lakh); drainage cable duct and guard rails (Rs.72.52 lakh); power supply (Rs.5.95 lakh); fire fighting (Rs.67.53 lakh); contingencies (Rs.16.70 lakh).***

only 10,274 square meters was being utilised (August 2004). The remaining 4,726 square meters of the freshly paved area continued to remain unutilised (August 2004).

The Authority should not have proceeded with the allotment of works once the Ministry put on hold the work of award of licences to ground handling agencies; more so, since these instructions were heeded for not constructing the main building. Lack of coordination between the Engineering and user wings of the Authority, thus, resulted in only 68.5 per cent of the constructed area getting commercially utilised. The proportionate expenditure of Rs.51.67 lakh on the balance area remained unproductive since there was no real demand for additional office and parking space nor did the Authority have any plans to utilise the same.

Indian Airlines Limited

3.4.1 Avoidable expenditure due to casual handling of legal proceedings

Vayudoot Limited invoked bank guarantee for Rs.50 lakh in breach of the terms of Memorandum of Understanding. Consequently, Indian Airlines, with which it merged, prolonged proceedings and incurred avoidable expenditure of Rs.1.93 crore in the form of interest and litigation costs.

The Vayudoot Limited entered into an agreement (January 1989) with M/s. Tata Sons Limited (Tata Consultancy Services)/Indo Link Computers (P) Limited (TCS/ILC) for computerisation of its various functions. TCS/ILC furnished a bank guarantee for Rs.50 lakh (June 1990) as per agreement having an unusual clause of renewal/revalidation for a period of 5 years without referring to the 'Service Agency' (TCS/ILC). The bank guarantee thus continued to be renewed from time to time. The project could not materialise over the period and hence the parties signed a Memorandum of Understanding (MOU) in June 1991 which provided that the project would be kept in abeyance for a period of 6 months and if by the end of this period no acceptable solution was found, the contract would be terminated without any claims or counter claims and the bank guarantee would be returned to TCS/ILC duly discharged. As there was no mutually acceptable understanding within the period of six months, TCS/ILC terminated the contract (June 1992).

The bank guarantee was due to expire on 15 January 1993 under the last extension. Vayudoot Limited approached the bank to renew the same for a further period of one year, which the bank refused on the grounds that the contract stood terminated. Vayudoot Limited invoked the bank guarantee in January 1993 in violation of the terms of the MOU and received a sum of Rs.50 lakh on 3 February 1993. On a petition moved by TCS/ILC, the court appointed an arbitrator (May 1994). Vayudoot Limited became 100 per cent subsidiary of IAL in February 1994 and functioned in a separate department of IAL as Short Haul Operation Department (SHOD) since June 1994. In the mean time the Supreme Court, while disposing of a special leave petition filed by TCS/ILC (December 1993), directed IAL to furnish security deposit of the amount of Rs.50 lakh for which bank guarantee was furnished by the Company.

The arbitrator took eight years in the legal process and in his award of April 2002 ruled the case in favour of TCS/ILC by awarding a total sum of Rs.2.88 crore for compound interest, litigation cost to claimant, stamp duty and bank guarantee. The amount of Rs.2.88 crore was paid by IAL (August 2002 to December 2002) in full and final settlement of the case. The arbitrator also observed that the conduct of respondents deserved the severest condemnation as the Company generated useless and needless litigation and on false grounds with scant regard to the wastage of public funds. It was noticed in Audit that IAL, during the period of eight years (1994-2002) after taking over Vayudoot, did not seek legal opinion on maintainability of the case nor did it approach TCS/ILC for acceptable solution in spite of the fact that TCS/ILC had made overtures to IAL for mutual settlement (November 2001).

Thus, due to breach of the terms of MOU by Vayudoot through arbitrarily invoking the bank guarantee and subsequent casual handling of the case by IAL, as also commented upon by the arbitrator, it incurred an avoidable expenditure of Rs.1.93 crore (Rs.2.38 crore paid to TCS/ILC as interest and litigation cost etc. plus Rs.15 lakh as litigation costs incurred by the Company less Rs.60.13 lakh the Company would have earned by investing encashed bank guarantee amount in term deposit @ 13 per cent).

The Management stated (February 2004) that the whole sequence of events was that of Vayudoot Limited and not of the making of IAL. They further stated that the matter of invoking of bank guarantee was also appraised to the Ministry of Civil Aviation by Vayudoot and the details of arbitration award were brought to the notice of Board of Directors of the Company and thereafter they acted on the advice of the Board in order to contain/restrict further losses. The reply is not tenable as most of the events in the case pertained to the post-merger period (June 1994) when the management of Vayudoot was being looked after by IAL through its department (SHOD). Had the IAL Management taken due care of the case it inherited and not allowed this case to linger on, the payment of Rs.1.93 crore made could have been avoided. An early amicable settlement would have resulted in lesser financial commitment.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

CHAPTER 4: DEPARTMENT OF COAL

Bharat Coking Coal Limited

4.1.1 Unfruitful expenditure in installation of Captive Power Plant

The expenditure of Rs.91.18 crore incurred on the installation of Captive Power Plant has become unfruitful, as the plant could not give desired performance due to defective installation and inexperienced operational staff. The Management finally decided (August 1999) to lease out the Plant, which has not yet materialised (April 2004).

In order to ensure uninterrupted power supply to the Moonidih Washery and underground mines of Bharat Coking Coal Limited, the Management decided (1980) to install a Captive Power Plant (CPP) of 20 MW capacity. The orders for supply of Plant and Machinery and installation and commissioning of CPP were placed on the Bharat Heavy Electricals Limited (Contractor) on turnkey basis in April 1987 at a total effective value of Rs.55.75 crore with the scheduled date of completion as July/November 1990. The Contractor, however, could not complete the work within the scheduled period and several revisions were made and finally the schedule dates were fixed between January 1996 and November 1996 for supply of Plant and Machinery and other services. The CPP was commissioned in April 1997 at a cost of Rs.91.18 crore as against sanctioned project cost of Rs.71.27 crore (May 1995).

The CPP could not be utilised and the expenditure incurred has become unfruitful as is evident from the following observations: -

(i) The decision for installation of CPP was taken in 1980 and the plant was commissioned in April 1997 i.e. after a lapse of 17 years. The reasons for such abnormal delay as attributed by the Management were, *inter alia*, slow progress of work by Contractor, its delay in appointing sub-contractor and material supplier, local law and order problems and various system failures faced during commissioning stage. The Contractor left the site in April 1997 without properly handing over the Plant and left a number of jobs unattended. However, the Management also failed to revalidate the performance bank guarantee (expired in April 1995) of the Contractor.

(ii) The CPP was not duly commissioned and the productivity was very poor ranging from 137 LKWH[♠] to 2 LKWH per year as against the installed capacity of 1,152 LKWH (80 per cent) per year. Resultantly, the CPP could generate only 585 LKWH in total during the years from 1997-98 to 2003 (August 2003). This was mainly due to the fact that the Contractor left several jobs incomplete and many systems could not be fully commissioned.

[♠] ***Lakh Kilo Watt Hours***

(iii) Due to various deficiencies in the installation of CPP and inexperienced operating personnel, it could not run on full load for commercial generation of power and could not achieve the desired level of generation of power. The CPP could not be operated at its rated capacity at any time. Thus, low generation of power ranging from 2 to 137 LKWH during the period from 1998-99 to 2002-03 as against the annual capacity of 1,152 LKWH, increased the unit cost of power which ranged from Rs.11.35 to Rs.697.75, whereas the average purchase cost of power from Damodar Valley Corporation (DVC) was Rs.2.95 per unit in 2002-03. Thus running of the CPP would be much costlier and would add to the losses of the Company.

(iv) The core object to ensure uninterrupted power supply to Mines/Washery and to bridge the gap between supply and demand, was defeated as no serious shortage of power supply was felt by the Company since the availability of power started improving in the middle of eighties. The Contract Demand of 12.5 MVA[♥] from DVC remained fixed prior to installation of CPP and thereafter.

The Management stated (April 2004) that attempt was being made to lease out the plant and negotiation for getting power at competitive rate was at an advanced stage. However, the Management's contention is not tenable since no tangible development to lease out the CPP had taken place (April 2004) since August 1999, when action to lease out the plant was intended.

Thus, it is evident that taking up of the Project was neither urgent nor necessary. The CPP could not be utilised gainfully and did not serve any purpose of the Company. Furthermore, the requirement of power was met by purchasing power from DVC and the cost of generation of power from the CPP was more than 200 times higher than the average purchase cost of power from DVC. Thus, the expenditure of Rs.91.18 crore in setting up the CPP was unfruitful.

The matter was reported to the Ministry in April 2004; its reply was awaited (September 2004).

4.1.2 Extra expenditure on account of undue benefit to Trammers

In contravention of the National Coal Wage Agreement, the Management paid pushing charges and other allowances to Trammers for jobs which were part and parcel of their work. As a result, the Company incurred an extra expenditure of Rs.2.88 crore during the period from January 2001 to March 2004.

Pursuant to finalisation and signing of National Coal Wage Agreement (NCWA-VI) for the Coal Industry, the wage of piece rated (PR) Trammers[♣] was revised with effect from January 2001. The agreement stipulated that the PR Trammers were entitled to get consolidated emoluments consisting of basic wage, attendance bonus, Variable Dearness Allowance, Special Dearness Allowance and interim relief. Apart from these, no other allowances were admissible to them as per the agreement.

[♥] ***Mega Watt Ampere***
[♣] ***Who push and pull the trams***

It was noticed in Audit (January 2003/August 2004) that during the period from January 2001 to March 2004, an amount of Rs.2.88 crore as other allowances was paid to the PR Trammers towards pushing of empty tubs, rope pulling etc. in addition to consolidated emoluments in different areas of Bharat Coking Coal Limited. The Area Management, while admitting (September 2002) the fact of payment of such undue benefits to PR Trammers, opined that these types of payments should be stopped forthwith as pushing of tubs, rope pulling etc. were part of and incidental to the tramming job and there was no provision in NCWA for payment of such allowances. From the records made available to Audit, it was observed that such payments were being traditionally made at unit level without referring to the provisions of NCWA.

In spite of knowing the fact that overpayment was being made from January 2001 which was also pointed out by the Area Management, the Company did not stop payment of such undue allowances and payment of pushing charges, rope pulling and other extra allowances of Rs.7.38 lakh per month on an average to the PR Trammers was continued to be paid by different area offices of the Company.

The Management stated (April 2004) that action had been taken to stop payment with effect from 1 April 2004 and to recover the amount paid in excess to the PR Trammers. The contention of the Management is not correct since no fruitful action had been taken so far (August 2004) either to stop payment or to recover the excess payment already made.

As a result of extending such undue benefit to the PR Trammers and the Management's failure to stop the irregular payments, the Company incurred an extra expenditure of Rs.2.88 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

4.1.3 Avoidable railway freight

The Company incurred avoidable expenditure of Rs.1.34 crore as underloading charges of railway freight during the period from September 1999 to November 2002 due to despatch of coal without weighment at loading point.

The weighbridge at Dhansar siding of Kusunda Area, Bharat Coking Coal Limited (Company) went out of order in August 1999. As an alternative arrangement the Management started weighment of coal of all the rakes loaded at Dhansar siding by another weighbridge at Patherdih with effect from September 1999. The Goods Railway Receipt was prepared on the basis of weighment at Patherdih weighbridge.

It was noticed that wagons were not loaded as per their carrying capacity due to non-functioning of the weighbridge during the period from September 1999 to November 2002. The Company had to pay avoidable freight charges of Rs.1.34 crore to the Railways for underloading of 29,549.9 MT of coal despatched from Dhansar siding because of coal found underloaded at weighment point (Patherdih).

The repairing of the weighbridge was inordinately delayed and took more than 40 months to complete (August 1999 to January 2003). Even the issue of the work order (September 2001) took more than two years. The contractor having failed to deliver, the Management got the repairing work done by another firm in seven weeks at a cost of Rs.1.50 lakh and the weighbridge was commissioned and weighment started from January 2003. This proved that the action to rectify the defects of weighbridge by another firm could have been taken earlier to avert a huge underloading charge instead of waiting for more than three years during which the weighbridge remained idle.

The Management's plea (May 2004) that the inordinate delay in commissioning of weighbridge was totally due to failure of the repairer in timely rectifying and commissioning of weighbridge was not tenable since due to lack of internal control and efficient day-to-day functioning, the Management failed to get the crucial weighbridge repaired, resulting in a loss of Rs.1.34 crore towards payment of railway freight as underloading charges.

Further, there was possibility of pilferage of coal in transit between Dhansar and Patherdih, the amount of which could not be quantified by the Management.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Central Coalfields Limited

4.2.1 Wasteful expenditure due to non-completion of the Cross Country Conveyor Transport Project

Misinvesment of Rs.14.29 crore by Central Coalfields Limited on an unsuccessful Project of Cross-Country Conveyor Transport.

The Central Coalfields Limited (CCL) entered into an agreement with M/s. TRF Limited in November 1994 for commissioning on turnkey basis Kedla Cross Country Conveyor Transport (CCCT) System for transporting 2.60 million MT coal per year at a cost of Rs.19.50 crore. The scheduled date of completion was May 1996. The agreement stipulated that the Company would hand over the site by January 1995 but due to the problems created by the villagers and non-availability of land there was delay. Resultantly, the contractor could not complete the work within the stipulated period. Ultimately, the work was suspended in February 2000. Provisional extension up to March 2002 was granted to the contractor and it was also decided that work would be done departmentally in case the contractor did not restart the work by December 2001. By March 2002, Rs.12.64 crore had been spent on the Project and the project work had not been restarted.

As a result, the Company was transporting coal from the Mines to Washery, a distance of 3.5 Km by road through private transport.

Audit observed that as per the Project Report of January 1993, the operating cost of coal transportation through CCCT was estimated to be Rs.16.48 per MT and the same through departmentally run truck transportation was Rs.16.69 per MT. However, the Company

had not considered the operating cost of coal transportation through private transporters, which was found to be Rs.15.02 in 1993 and Rs.15.75 in 1994 for a distance of 3.75 Km in other collieries of CCL. It came down further to Rs.12.50 and Rs.15.37 per MT during the period from November 1997 to August 2003. It is evident, therefore, that the cost of transportation by road through private transporter was cheaper even when the project was conceived.

A high level Committee constituted (November 2002) to examine the status of CCCT *inter alia* observed (September 2003) that the cost of transportation through private transporter was cheaper and so the Project was recommended for foreclosure.

While accepting these facts, the Management had stated (August 2003) that they were considering abandonment of the Project, alternative use of Plant and Machinery and writing off the rest of the expenditure. The Ministry endorsed (September 2004) the same view as that of the Management.

By March 2003, Rs.14.29 crore had been spent (including bills payable of Rs.62.64 lakh to the contractor) on the Project. The Company had already made a provision to write off Rs.5.01 crore in the Annual Accounts of 2002-03.

Thus, due to a wrong decision to undertake an unviable project, the Management had to foreclose it at a later date and an expenditure of Rs.14.29 crore became wasteful.

4.2.2 Avoidable expenditure on minimum guaranteed energy due to non-review of power requirement on a realistic basis

Central Coalfields Limited entered into an agreement with Damodar Valley Corporation for supply of power in a phased manner from 1,500 KVA to a maximum level of 6,000 KVA in spite of being aware that actual consumption was around 1,600 KVA to 3,750 KVA, resulting in avoidable expenditure on minimum guaranteed energy of Rs.4.29 crore.

In order to cater to the power requirement of Khas Mahal, Karo, Special Phase II-Karo projects and Konar (new) project, Central Coalfields Limited (Company) entered into an agreement (June 1990) with Damodar Valley Corporation (DVC) for supply of power at Karo special point of supply. The phased annual Contract Demand (CD) as stipulated in the agreement was 1,500 KVA, 2,500 KVA, 4,000 KVA, 5,000 KVA and 6,000 KVA respectively for each year, beginning from February 1996. The contract demand was to remain static at 6,000 KVA from the fifth year.

In February 1998, the Company anticipated the Contract Demand at 2,500 KVA as the new Konar Project could not come up owing to land and other associated problems. Accordingly, the Company asked DVC not to increase CD from the existing 2,500 KVA. At this time the CD as per agreement had reached 4,000 KVA. However, the Management did not review their CD for the future.

As per clause 23 of the agreement (June 1990) with DVC, the Company could increase or decrease the contract demand by giving 12 months' notice in writing stating the quantity of power required alongwith the timeframe. This provision of notice period was

subsequently amended (July 2001) to six months if the reduction exceeded 20 per cent of the existing contract demand and two months in other cases.

The Management approached DVC in February 1998 to keep Contract Demand at 2,500 KVA. The Management again approached DVC in November 1998 to keep CD at 4,000 KVA for the next year. Subsequently, in September 2001 the Company again approached DVC for reduction of CD to 3,000 KVA, DVC revised the CD from February 1999 to February 2,000 to 4,000 KVA, from March 2000 to 9 March 2002 to 5,000 KVA and ultimately reduced the CD to 3000 KVA with effect from 10 March 2002, considering six months notice period from September 2001.

It was noticed (June 2002) that the actual consumption of power during February 1997 to January 1998 ranged from 1,867 KVA to 2,400 KVA per month (except 2,600 KVA in May 1997), during February 1998 to January 1999 from 2,000 KVA to 2,667 KVA (except 3,200 KVA in January 1999) and during February 1999 to February 2000 from 667 KVA to 3,200 KVA. Further, it ranged from 2,267 KVA to 3,750 KVA per month during March 2000 to March 2002. As a result of non-assessment of realistic requirement of power, the Company had to incur an avoidable expenditure of Rs.4.29 crore on account of Minimum Guaranteed Energy[♦] during the period from February 1998 to March 2002, which could have been saved by timely assessment of power requirement and reducing the contract demand.

The Management stated (August 2003) that they had written several times to DVC for reduction of contract demand but to no effect. This was not tenable as the Management did not approach DVC before February 1998 in spite of reduced consumption of power and only three letters were written to DVC during four years without giving any notice and revised timeframe of the power requirement. Further, they did not approach DVC at all during the period from December 1998 to August 2001 to keep the CD at a realistic level.

The Ministry, while directing the Company to fix the responsibility, observed (June 2004) that the Company was lax and it failed to safeguard its financial interest and to utilise the provision of clause available in the agreement for sorting out the dispute with DVC nor explored the possibility of approaching higher level (i.e. Coal India Limited/ Ministry) for solution.

Thus, due to failure to take proper action in time to realistically assess and reduce contract demand, the Company incurred avoidable expenditure of Rs.4.29 crore on minimum guaranteed energy till March 2002.

♦ ***Minimum Guaranteed Energy is minimum energy for which the consumers guaranteed to pay in case of less consumption than guaranteed figure.***

4.2.3 Wasteful expenditure due to delay in assessing the viability of the project

Central Coalfields Limited incurred expenditure of Rs.1.83 crore (excluding cost of land) upto March 2003 under advance action plan for diversion of river Damodar without getting approval for the project report from the Government. The Company could not find ways to mobilise the required sources as Government of India declined funds for the project. As a consequence, an amount of Rs.1.83 crore became wasteful.

Coking Coal reserves in Bokaro and Kargali (B and K) area of Central Coalfields Limited (Company) were getting depleted. The Company approved in 1982 a scheme for diversion of River Damodar for eventual release of coal reserve of 65.55 MT under the river with a capital investment of Rs.120.28 crore involving major works of excavation of channels and construction of dams to be completed by 1989-90. The cost of the project was revised to Rs.266.97 crore in August 1988 and to Rs.373.12 crore in October 1991. The Project Report was sent to the Government of India (GOI) for approval in October 1988. However, the approval for the same could not be obtained. No updated cost estimate was prepared since 1991.

The Company took up (April 1983) advance action for acquisition of land, purchase of vehicle and furniture, construction of service buildings, roads/culverts, rehabilitation and afforestation etc. for the project. This was finally approved in April 1993 by the GOI for Rs.5.59 crore. The Company incurred an expenditure of Rs.4.66 crore towards development expenditure (Rs.1.43 crore) and acquisition of various fixed assets including Rs.2.83 crore for land upto March 2003. The Company did not wait for the approval of the project report for mining of coal lying beneath the Damodar River to ensure economical viability of the project. The project report was yet to be approved (August 2004).

In 2002-03, the estimated cost for the Diversion of River Damodar (DRD) project worked out to about Rs.900 crore and the liquidity position of the Company was critical and it was suffering continued losses. At this stage, the Management made a financial assessment of the project and realised that the project would not be viable since cost of clean coal of DRD project would be Rs.3,171 per MT whereas Steel Authority of India Limited was paying Rs.2,414 per MT to the Company. To make the project viable, the Company felt that GOI should provide full cost of the project as a grant and SAIL should also be ready to pay for clean coal on cost plus basis. The Management approached the GOI (April 2003) for funding the project as a grant through Coal Mines (Conservation and Development) Act of 1974 (CCDA). The GOI, however, declined (May 2003) to extend CCDA funding for implementation of the said project.

The Management stated (January 2004) that the country would have to extract the reserves in the foreseeable future and at the appropriate time the Company would find ways to mobilise the required resources. The Management's reply is vague and hence not acceptable.

Thus, the expenditure of Rs.1.83 crore (Rs.4.66 crore less Rs.2.83 crore towards the cost of land) incurred under Advance Action Plan on the project became wasteful due to

embarking on development expenditure without getting approval for the project report from the GOI and not assessing the viability of the DRD project in time.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Coal India Limited

4.3.1 Avoidable expenditure on hired office accommodation and idle investment

Coal India Limited purchased office space in Scope Minar Building; the possession of space had not been taken, resulting in an avoidable expenditure of Rs.63.50 lakh being rent paid for its various hired offices. Besides, the amount of Rs.6.31 crore spent for the office space remained blocked.

The Coal India Limited (CIL) purchased office space in Scope Minar Building, Laxminagar, Delhi, on payment of Rs.6.31 crore made over a period from 1988 to 2000.

In August 2001, SCOPE[♥] informed CIL that premises meant for it were ready for possession and interior work could commence. They reiterated this in January 2002. In the meantime, Scope Minar Constituents Society (SMCS) had been entrusted with the responsibility of operation and maintenance services of the Building. On demand from SMCS, the Company paid Rs.36 lakh towards its share of maintenance charge for 2002-03.

CIL had not taken over possession of the allotted premises for interior work as yet (September 2004) in spite of the fact that Scope Minar Building at Laxminagar was ready for possession with all its facilities. Award of contract for interior work including design and drawing was also not finalised, though initiated in October 2002. CIL continued payment of rental charges for its different offices in New Delhi @ Rs.2.54 lakh per month.

Had the interior work been undertaken by CIL from August 2001 when premises were ready for possession, the work could have been completed by August 2002 as 12 months were required for completion of the work and the rental charges could have been avoided since then.

The Management stated (April 2004) that several defects such as roof leakage, flowing of water from floor to floor, lack of drainage system etc. prevented them from taking over possession of the allotted space. The contention of the Management is not tenable as it was three years since the space was allotted and for which maintenance charges were being paid and these defects could have been got repaired by the Company. Moreover, these defects were not brought to the notice of the Management while initiating the proposal for interior work. The Chief Engineer (Civil) of CIL had also informed the Chief General Manger (ES) that the building was ready for possession with all its facilities (November 2002).

[♥] ***Standing Conference of Public Enterprises***

As a result of not taking over possession of the premises for interior work and completing that in time due to lack of monitoring and control, shifting of the Company's various offices to Scope Minar Building could not be done. This resulted in an avoidable expenditure of Rs.63.50 lakh, being the rent paid for various hired offices in New Delhi from August 2002 to August 2004. Besides, investment of Rs.6.31 crore in the property remained blocked till date and the Company would also be required to meet property tax liability.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Northern Coalfields Limited

4.4.1 Short-recovery of burnt oil

Short-recovery of burnt oil below the target led to loss of revenue to the extent of Rs.6.29 crore during 2000-01 to 2003-04.

In eight open cast mines of Northern Coalfields Limited (Company), coal is being extracted by deploying Heavy Earth Moving Machines (HEMM). Lubricating oil used in HEMM is required to be drained out from engines after certain hours of operation.

The World Bank under Environmental and Social Mitigation Project (ESMP), funded five of the open cast projects of the Company. While reviewing these projects (November 1999), a norm of 80 per cent recovery of burnt oil was recommended by Coal India Limited in consultation with the World Bank Mission. The burnt oil so drained out and recovered has saleable value and the Company has been disposing of the same regularly.

However, recovery of burnt oil was much below the norm of 80 per cent. The actual rate of recovery of burnt oil varied from nine to 23 per cent during four years ending March 2000-01. On this being pointed out in Audit (July 2001), the Management stated (September 2001) that they had kept 35 per cent target for recovery of the burnt oil. It was noticed that the recovery of burnt oil was 23-24 per cent during the period from 2000-01 to 2001-02. However, it was noticed that after being pointed by Audit, the percentage of recovery was improved to 31-32 per cent during years 2002-03 to 2003-04. The quantity of short-recovery of burnt oil works out to 8,802 Kiloliters valuing Rs.6.29 crore against the target of 80 per cent during four years from 2000-01 to 2003-04. Even considering the norm with reference to the 35 per cent target, the loss of revenue works out to Rs.92.34 lakh during this period.

The Management stated (July 2003) that 80 per cent recovery of burnt oil was not feasible due to tropical climate in the mines of the Company and frequent failure of hoses and 'O' rings. The Management further stated that the World Bank might not have considered the climatic condition of the Company while fixing the norm. They intended to keep the target of recovery of burnt oil as 35 per cent in the years to come. The Ministry endorsed (October 2003) the contention of the Management. The reply is not tenable since the Management had proposed (September 2001) the following measures to improve recovery of burnt oil:

(i) Periodical inspection of hydraulic hoses, especially high pressure hoses to arrest premature failure;

(ii) Procurement of quality hoses from Original Equipment Manufacturer or approved sources only;

(iii) Leakage of hydraulic oil and falling on the hot zone to be stopped by all means;

(iv) The provision had been made at all projects for wheel mounted trolleys with pump and collecting funnels at different locations for collecting the used oil in the trolley through funnel;

(v) The provision for recovery of burnt oil in underground tank was in progress.

In two projects of the Company the recovery of burnt oil was 64 to 69 per cent during the quarter July 2003 to September 2003, which refutes the Management's argument that higher rate of recovery was not feasible due to climatic condition. Thus, inadequate measures for improving the recovery of burnt oil led to short-recovery, which resulted in to loss of revenue of Rs.6.29 crore during the period from 2000-01 to 2003-04 against the norm of 80 per cent. Even with reference to the low target norm of 35 per cent, the Company suffered a loss of revenue of Rs.92.34 lakh during the same period.

Furthermore, poor recovery would encourage pilferage apart from causing environmental pollution.

Western Coalfields Limited

4.5.1 Unfruitful expenditure of Rs.12.52 crore

Due to defective agreement, the Company could not get intended benefits of the water supply scheme. As a result, expenditure of Rs.12.52 crore incurred thereon remained unfruitful.

In order to cater to the domestic and industrial requirements of water for mining and non-mining population of Pench and Kanhan coalfields area, the Western Coalfields Limited (Company) entered into an agreement with the Government of Madhya Pradesh, Public Health Engineering Department (PHED) (May 1986) for execution of the project. The project was to be completed within a period of three working years from the date of starting actual construction work. PHED was to undertake the operation and maintenance of the headworks and make bulk supply to the Company at appropriate points.

According to the agreement, the estimated cost of the project (Rs.9.99 crore) as well as operation and maintenance (O and M) cost was to be shared in the ratio of 2:1 by the Company and PHED, respectively. However, the agreement did not stipulate any clause for committed supply of water by PHED to meet the requirements of coalfields areas.

Although the project was not yet fully completed even after 18 years (September 2004), PHED has been supplying water since September 1991. However, though the Company had borne Rs.8.83 crore, being 60.40 per cent of total capital expenditure of Rs.14.62

crore upto October 2004 on the project and had incurred expenditure of Rs.3.69 crore towards O and M charges, PHED had been supplying water only to an extent of 0.345 MGD (average quantity), against the proportionate share of 2.33 MGD.

As such, even after incurring an expenditure of Rs.12.52 crore, the Company could not get its due share of water because of lacunae in the agreement as regards committed supply of water by PHED. As a result, the Company had to make alternate arrangements for water through water-tankers, incurring an expenditure of Rs.57.96 lakh during the period from 1993-94 to 2001-02.

The Ministry accepted (November 2003/February 2004) that the Company had not only made a deficient, weak and non-enforceable agreement but also failed to initiate proper remedial measure for dispute resolution with PHED. It further stated that the Company had been advised to warn the concerned officials and to avoid recurrence of such cases in future.

Thus, due to defective agreement, the Company could not get intended benefits of the water supply scheme, as a result of which, the expenditure of Rs.12.52 crore incurred thereon remained largely unfruitful.

4.5.2 Idle power supply line due to non-completion of the related substation

Due to improper planning in execution of the project and non-synchronisation of the related activities, 220 kV power system could not be completed. As a result, the supply line and equipment valuing Rs.6.56 crore remained idle for almost two years, with consequential loss of interest amounting to Rs.1.06 crore.

The Board of Directors of the Company approved (August 1991) the project report for supply of 220 kV power to its mines located in the west bank of Wardha river. The project involved setting up of an incoming 220 kV supply line and 220 kV/66 kV substation. While the line was to be constructed by the Maharashtra State Electricity Board (MSEB), the substation was to be installed by the Company.

The Company procured (1992 to 1994) various electrical equipment[♣] worth Rs.3.54 crore for the 220 kV substation. It also deposited (February 1995) a sum of Rs.5.78 crore with MSEB for construction of the supply line, which was expected to be completed in 30 months.

In April 1995, the Company decided to award the work of commissioning of the 220 /66 kV transformers on turnkey basis. However, it invited tenders in February 2001 after a period of almost six years and awarded the work to M/s. Crompton Greaves Limited (contractor) in March 2003 at a total cost of Rs.4.85 crore, with completion schedule of 22 months. The contractor had not started (June 2004) the work due to non-settlement of its demand of 20 per cent increase in rates owing to delay in awarding the work by the Company.

[♣] ***25 MVA transformer, 220/66 kV, 220 kV circuit breaker, current and potential transformer***

Meanwhile, the work of 220 kV supply line had been completed by MSEB in October 2002. However, the supply line constructed at a cost of Rs.5.78 crore could not be put to use due to non-synchronisation of related activities.

The Ministry stated (October 2003/August 2004) that since additional power was urgently required at Wani Area and establishing 220 kV system was expected to take time, MSEB had agreed to provide power at 66 kV as a tentative arrangement on receipt of Rs.5.78 crore towards the erection of 220 kV line. They added that it was decided to carry out the work of installation of 220/66 kV substation on turn-key basis due to lack of expertise, involvement of more than one agency, etc. Further, most of the equipment procured were now in use for availing 66 kV supply.

The reply is not acceptable as the Company took almost six years in finalisation of the tender documents and further two years in award of the work, indicating improper planning in execution of the project. Further, equipment worth Rs.78 lakh procured prior to March 1994 were yet to be utilised (July 2004).

Thus, improper planning in execution of the project, coupled with non-synchronisation of the related activities, resulted in advance procurement of the equipment as well as inordinate delay in tendering, award and completion of the substation work. Consequently, the supply line and equipment valuing Rs.6.56 crore[♦] remained idle for almost two years since October 2002, which resulted in loss of interest amounting to Rs.1.06 crore[♥] on blocking of funds (September 2004). Besides, the Company could not derive the intended benefits of the 220 kV power system even after 10 years of commencing the process.

[♦] ***Rs.5.78 crore deposited with MSEB and Rs. 78 lakh towards unutilised equipment***

[♥] ***calculated at 8.43 per cent, average rate of interest***

CHAPTER 5: MINISTRY OF COMMERCE

Export Credit Guarantee Corporation of India Limited

5.1.1 Avoidable payment of claim

The Company made an avoidable payment of claim of Rs.92.34 lakh to Punjab National Bank. This claim was not sustainable as PNB had not disclosed the material facts about the adverse financial standing of the exporter at the time of seeking guarantee cover as per terms and conditions of export performance guarantee.

The Export Credit Guarantee Corporation of India Limited (Company) under the export performance guarantee (EPG) scheme issues counter guarantee to banks to protect their losses against guarantee issued by them to foreign buyers on behalf of exporters. The terms and conditions of EPG, *inter alia*, stipulate that the banks should disclose all material facts affecting the liability of the Company immediately on becoming aware of the same and failure, if any, would render the counter guarantee void.

M/s. Paam Pharmaceuticals Limited (exporter) obtained (May 1997) an export order from M/s. Ransat PLC, London (buyer) for the supply of pharmaceutical products valuing US$ 6 lakh (equivalent to Rs.2.16 crore♦). The buyer placed (July 1997) an interest free advance of US$ 3 lakh (equivalent to Rs.1.08 crore♦) against an unconditional and irrevocable bank guarantee issued in June 1997 by the Punjab National Bank (PNB).

In turn, PNB approached (July 1997) the Company for issuing a counter guarantee for US$ 3 lakh (equivalent to Rs.1.08 crore♦) with 5 per cent margin money. While seeking the guarantee cover PNB, as a trustee to debenture-holders, had knowledge that the financial standing of the exporter was adverse, as the exporter had failed to pay the dues to the debenture- holders and the Industrial Development Bank of India had already treated the exporter's account as non performing asset (NPA) as on 31 March 1997. PNB, however, did not disclose this fact to the Company. On the basis of declarations made by PNB in the proposal form for the issue of guarantee, the Company issued (October 1997) the said counter guarantee for the period from 20 June 1997 to 14 August 1998.

As the exporter could not make the shipment within the stipulated time the buyer invoked the bank guarantee (January 1998). PNB remitted (February 1998) the amount of US$ 3 lakh (equivalent to Rs.1.08 crore♦) to the buyer and, in turn, preferred a claim (November 2000) with the Company. The Company paid Rs.92.34 lakh to PNB in full and final settlement of the claim (February 2002).

♦ ***Foreign exchange rate applied was 1US$ = Rs.36.***

The lapse on the part of PNB in not disclosing the material facts about the financial standing of the exporter at the time of seeking guarantee cover, entitled the Company to forfeit the claim of the bank as per the terms and conditions of EPG but it did not invoke these provisions. This resulted in avoidable payment of claim of Rs.92.34 lakh.

In reply, the Management stated (October 2003) that the statistical data called for before granting counter-guarantee to assess the future risk did not reflect anything adverse about the exporter and that the general assessment of the performance and credit-worthiness of the exporter, who was dealing with PNB for the past 11 years, was good.

The reply of the Management is not tenable because PNB, as a trustee of debenture-holders, was aware of the adverse financial standing of the exporter and treatment of their account as NPA by Industrial Development Bank of India as on 31 March 1997 and hence it should have brought these facts to the notice of the Company at the time of seeking the counter- guarantee. Had the above-cited facts been disclosed by PNB at the time of seeking EPG cover, the Company would not have issued the guarantee cover.

The matter was reported to the Ministry in June 2003; its reply was awaited (September 2004).

MMTC Limited

5.2.1 Loss due to negligence in raising claims

The MMTC Limited suffered a loss of Rs.99.36 lakh due to negligence in reconciling the stock on consignment to consignment basis. Consequently, claims when raised on handling agent belatedly were rejected by the Arbitrator.

The MMTC Limited (Company) entered into two separate agreements in July 1991 and September 1994 with M/s. Kandla Shipping Services (KSS) for handling, stevedoring and transportation of Sulphur and Rock Phosphate during the period from July 1991 to September 1996. In terms of the agreement, KSS was liable to make good the shortages beyond the permissible limit of 1.5 per cent upto September 1994 and 0.75 per cent thereafter, to be calculated on the selling price while handling both commodities on a consignment to consignment basis. Audit noticed (May 2002) that the Company claimed shortage of 540 MT of Sulphur for the first time in January 1997 but no valuation was done for the same. The matter was referred to the Arbitrator appointed on 15 September 2000. Shortages on account of Sulphur and Rock Phosphate claimed were then subsequently revised three times till the final claim of 2884.978 MT valuing Rs.77.94 lakh was made. This arbitrary attitude of the Company created confusion and doubts about the authenticity of the claims. Besides, claims of Rs.16.58 lakh and Rs.4.84 lakh were also raised (between November 2000 and September 2002) towards cost of contamination of stock of 597 MT of Sulphur noticed during the physical verification (October 1996) and damage caused to the bins.

The Arbitrator rejected the claims of Rs.99.36 lakh of the Company (September 2002) on the ground that they were time-barred and were not worked out on consignment to consignment basis although a specific clause to this effect existed in the agreement. It was noticed that the Company was negligent in carrying out reconciliation of stock on

consignment to consignment basis. The claims for shortage were lodged after the expiry of second contract (September 1996), though the extended period of first contract expired in September 1994. Since the Management did not allocate the shortages/contamination to respective consignments, the average rate applied for valuing shortages/contamination raised doubts on exactness of the claims. The shortages were adjusted in the normal course in the trading account for the years 1992-93 to 1996-97. Further though contamination of sulphur was noticed during stock verification in October 1996 the claim for the same was lodged (November 1999) after a delay of three years. The claim, thus, became time barred. The performance bank guarantee taken at the beginning of the first contract (July 1991) was also released before claiming the shortages/contaminated stock.

The Management stated (May 2004) that it was impossible either for handling agent or the Company to reconcile shortages on consignment to consignment basis due to constant inflow and outflow of material, it was difficult to ascertain specific reasons for the delay in making the claims for shortages/damages from the available records and consequently the Company had not fixed any responsibility.

The reply of the Management is not acceptable as it did not make any attempts to reconcile the shortages on consignment to consignment basis from the beginning i.e. from July 1991 despite the specific clause incorporated in the agreement. The Management could not explain reasons for delay in filing of claims. The Ministry stated (August 2004) that the Company was in the process of locating records of the relevant period.

Thus, the Company suffered a loss of Rs.99.36 lakh due to negligence in reconciliation of shortages and failure to raise its claims on KSS in time.

PEC Limited

5.3.1 Loss in export due to violation of contract conditions

The Company suffered a loss of Rs.3.63 crore due to violation of the terms of agreement and non-collection of security.

The PEC Limited (Company) is a trading Company which enters into contracts with Associates for the purpose of rendering assistance in their trading activities. The terms of contracts are negotiated at the time of finalisation of deal giving due weightage to the requirements of Associates besides keeping in view the safety and interest of the Company, there being no uniform and standard procedures in PEC for import/export contracts. The Company entered into two contracts (1 August 2001 and 23 August 2001) with M/s. Commodity Intertrade, New Delhi (Associate) for rendering its services for arranging Export Packing Credit; negotiation of export documents and realisation of export proceeds for the export of Indian white sugar to Sudan. The Associate was to transfer the Letters of Credit (LC) in favour of the Company and deposit an amount of Rs.2.50 crore as Security Deposit for ensuring fulfillment of obligations under the Agreement. The Company was to make the payment directly to the sugar manufacturers as also for shipment of sugar while the Associate was to take delivery of cargo from the sugar factory/godown on behalf of the Company. Quality requirement was to be the responsibility of the Associate but the Company could appoint an independent surveyor/inspection agency. Upon realisation of payment from foreign buyer, the

Company was to pay to the Associate after deducting all the expenses incurred as per the contract.

In actual terms, the Company rendered financial assistance in these contracts. Against the financial assistance of Rs.37.64 crore rendered, the Company could only realise Rs.33.72 crore. This included negotiating the LC (Rs.30.43 crore) endorsed in its favour by the Associate, appropriation of cash security (Rs.1.25 crore) paid by the Associate and realisation (Rs.2.04 crore) from DEPB[@] Licence/Cash/Demand Drafts. The balance financial assistance of Rs.3.92 crore provided to Associate could not be realised mainly because about 5,000 MT of sugar out of third consignment supplied by the Associate was rejected. This resulted in a net loss of Rs.3.63 crore to the Company mainly because of not following the contract conditions.

Scrutiny in Audit (January 2004) revealed that the Company collected security deposit of Rs.1.25 crore against Rs.2.50 crore required under the first agreement in violation of the conditions stipulated in the agreement. Further, the Company agreed to treat this security as security deposit for the second contract as well, though the export obligation under the first contract was not completed on that date. The Company, thus, chose to be satisfied with insufficient security (Rs.1.25 crore) in respect of both contracts.

The Company did not ensure prior inspection at mills in any of the consignments. The buyer's surveyor, at the time of inspection of cargo in respect of the third consignment at load port, rejected (1 October 2001) approximately 5,000 MT of sugar due to inferior quality, which the Company replaced at its own cost to reduce demurrage of the vessel. Further, there being no condition laid down for dealing with rejected cargo, the Associate disposed off the rejected cargo without the Company’s concurrence. The Company not only bore excess freight of Rs.24 lakh in failing to detect a forged charter party agreement before making payment but also paid Rs.1.90 crore (foreign agency commission Rs.84 lakh, insurance Rs. six lakh and demurrage Rs. one crore approximately) which it was not contractually liable to pay.

The Company accepted (December 2001 and January 2002) post-dated cheques (PDC) worth Rs. four crore from the Associate to cover the deficit as well as payments not covered by the agreement. Out of PDCs of Rs. four crore, cheques of Rs.25 lakh were encashed in January 2002. Seven PDCs worth Rs.35 lakh presented on 14 November 2002 and 13 January 2003 to the bank for encashment were returned unpaid due to insufficient funds. The Company filed suits under sections 138 and 142 of the Negotiable Instruments Act praying prosecution and punishment. The Associate paid Rs.17 lakh through Court requesting withdrawal of suits and was further required to pay the balance Rs.18 lakh with interest. The Company realised Rs.five lakh in July 2004 and for balance Rs.13 lakh the Court granted time. Balance PDCs of Rs.3.40 crore presented (May 2004) after Audit objection were also dishonoured.

The Management stated (March 2004) that while all efforts were made to ensure that the contracts were executed satisfactorily, total elimination of inherent risk involved might not be feasible. They further stated that the Company was in possession of undated cheques worth Rs.3.40 crore, which would be utilised for balance legal process. They

[@] ***Duty Entitlement Pass Book***

considered collection of Rs.2 crore towards margin from the Associate as reasonable. The Management also stated that foreign agency commission was paid to arrange extension of LC.

The reply of the Management is not tenable as the Company collected Rs.1.25 crore only in cash as security in the first contract against Rs.2.50 crore and balance Rs.75 lakh was paid by the Associate directly to local mills. It did not collect any security in the second contract despite knowledge of inherent risk in the new business. Further, payments not covered by the agreement like foreign agency commission, demurrage, financing towards rejected cargo etc. were made. Thus, acceptance of a risk involving Rs.37.64 crore for an earning of Rs. six lakh as service charge was not a prudent commercial decision particularly in a new area of business. Besides, PDC could not serve as effective guarantee as PDCs worth Rs.3.75 crore were dishonoured. The Company filed and initiated arbitration proceeding (August 2004) for a total claim of Rs. seven crore (Rs.3.81[*] crore towards principal and Rs.2.27 crore towards interest and Rs.91.86 lakh towards claim of shipping company).

The Ministry in its reply (June 2004) stated that the transaction related to business/commercial activities of the Company and hence it was not in a position to offer any comments.

Thus, non-collection of agreed security deposit and extension of financial assistance for items not contemplated in the agreement, resulted in loss of Rs.3.63 crore to the Company.

5.3.2 Loss on account of insufficient financial security

Non-collection of financial security resulted in loss of Rs.69.82 lakh.

The PEC Limited (Company) entered into three separate contracts in April 2000, September 2000 and November 2000 with M/s. Constellation Enterprises Private Limited (Associate) valuing US$ 0.45 million (equivalent to Rs.2.04 crore) for import of wood[♣]. As per the terms of the contracts, the Associate was to make advance payment of 10 per cent and post-dated cheques (PDCs) for 91.5 per cent of value of import (including Company's service charge of 1.5 per cent being US$ 6,724 (equivalent to Rs.3.06 lakh) as security with an undertaking to honour the PDCs. The Company was to conclude contract with foreign supplier after realisation of 10 per cent advance. The Company had to establish usance LC[♦] for 90 days from the date of Bill of Lading by arranging credit from its bankers after receipt of advance and PDCs from the Associate. The material had to be warehoused in the Company's name and Associate had to lift all the material within usance period (three months), failing which the Company had the right to sell the goods at the risk and cost of the Associate.

[*] ***Excluding Rs.18 lakh recoverable as per Court order***

[♣] ***Indonesian Teak/Hardwood logs***

[♦] ***Deferred payment letters of credit, the buyer accepts the documents related to LC and agrees to pay the issuing bank after a fixed period. This credit gives the buyer a grace period for payment.***

Of the three contracts, the Company collected the stipulated advance (Rs.5.91 lakh) and PDC (value Rs.53.15 lakh) against the first contract only. LC for the first contract was opened for US$ 0.14 million (equivalent to Rs.58.93 lakh) in April 2000 and the contract was completed successfully. The Company opened LCs for the second and third contracts for US$ 82,000 (equivalent to Rs.37.45 lakh) and US$ 0.19 (equivalent to Rs.90.28 lakh) in September 2000 and December 2000 respectively. However, the value of third LC was enhanced to US$ 0.23 (equivalent to Rs.1.07 crore) on account of increased quantity of wood which was duly accepted by the Associate. The Company received Rs.14.63 lakh as advance against second and third contracts. The Associate requested that cheque dated 20 July 2000 be treated as post-dated cheque under the Associate agreement of November 2000. The Associate at that stage informed the Company that the cheque stood revalidated since the alteration in the date already had a signature and in case the need arose the Company could fill in the date and present the same for encashment. The acceptance of the Associate's unreasonable request was to the detriment of the Company's interest and resulted in the Company exposing itself to total risk.

The Associate did not lift the wood valued at Rs.61.36♥ lakh which was imported in the second and third contracts in January 2001 due to one reason or another such as earthquake, cyclone, depressed market conditions etc. The quality of the material started deteriorating due to open storage. Consequently, the Company had to dispose off the material through distress sale (April 2002) for Rs.5 lakh after a timelag of more than a year, thus suffering a loss. The Company did not present the PDC lying with it for encashment for full one year even though the consignment had been lying with it since January 2001.

The Company presented the PDC (value Rs.53.15 lakh dated 20 July 2000 which was revalidated, dated 20 February 2002) lying with it from the first contract to the bank for payment on 15 March 2002 but the same was returned unpaid on 16 March 2002 as "Account closed". It served a legal notice calling upon the Associate (March 2002) to make the payment towards the dishonoured PDC and filed a legal suit in the court in May 2002. It also filed an Arbitration claim (July 2002) for the loss of Rs.69.82 lakh (Principal Rs.56.36 lakh and interest of Rs.13.46 lakh at 18.35 per cent as per contract). The notice on arbitration served to the Associate was returned undelivered due to its closure.

The Management stated (January 2004) that it was normal in business to accept PDCs after having executed many contracts with an Associate and that they had initiated legal/arbitration proceedings against the Associate. The Ministry stated (June 2004) that transaction under scrutiny related to business/commercial activity of the Company and hence it was not in a position to offer any comment.

The contention of the Management is not tenable as it extended undue favour to the Associate by accepting PDC as guarantee instrument, though it is not an effective guarantee instrument, as it is not backed by any legal commitment by bank/financial institution. The acceptance of the old post dated cheque by cutting the earlier date, on the part of the Company and then waiting for about one year before attempting to encash it, points at the impropriety of the manner in which the affairs were conducted exposing the

♥ ***After adjusting the advance received Rs.14.63 lakh***

Company to high risk. The fact that the Associate got a chance to close the bank account points out further the slack approach of the Company in this matter. Further, it failed to adhere to the contractual provision viz. collection of PDC, before opening each of the two different LCs. Thereby it exposed itself to risk for earning of Rs.3.06 lakh as service charge and incurred a loss of Rs.69.82 lakh. The Company has since acknowledged this amount as bad debt and made provision in its accounts for the year 2002-2003.

CHAPTER 6: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

6.1.1 Incorrect recovery of penal interest –Rs.81.84 crore

Rs.81.84 crore was charged incorrectly by the State Bank of India as penal interest on Zonal Cash Credit account during July 1997 to January 2004.

The Corporation has an agreement with the State Bank of India (SBI) for Cash Credit facility to finance its credit needs for procurement and distribution of foodgrains. The agreement *inter alia* provided for payment of penal interest on drawals exceeding the overall Central Cash Credit limit. A part of Cash Credit limit was allocated to Zonal Offices, which, in turn, was sub-allocated to its Regional/District offices. The daily net debit/credit balances in the Cash Credit account at various centres were to be transferred to the Zonal Office at the close of the business on the same day. Whenever the zonal limit of cash credit was exceeded, the excess had to be transferred to the Central Cash Credit account.

The North Zone Office of the Corporation which accounts for 74 to 79 per cent of the procurement of foodgrains, was allocated per day credit limit ranging from Rs.200 crore to Rs.300 crore during July 1997 to January 2004[♦]. As per the agreement between the Corporation and SBI the per-day drawal in excess of the allocated Cash Credit to the Zone was to be transferred to the Central Cash Credit Account.

It was noticed from the statement, containing the details of interest charged by SBI for the period July 1997 to June 2000, furnished in July 2000, that penal interest of Rs.29.29 crore was charged on the premise that the drawals in North Zone exceeded the credit limits on a given day. But the excesses arose due to delay by SBI in posting day to day left over transactions, which, on an average, ranged from 30 to 40 days. SBI recast the daily balances of earlier dates with retrospective effect. The daily balances, thus, recast were found to be in excess of the Zonal Credit limits on a given date. SBI, instead of transferring the recast balances on the date of posting to Central Cash Credit account treated the balances as excesses with reference to Zonal Cash Credit limits.

It was observed that despite existence of a system of reconciliation of Inter-office remittance with Daily Bank Statements in FCI, no checks were exercised to ensure that all remittances were recorded timely by SBI and that the interest charged was correct. Resultantly, the penal interest erroneously charged by SBI for every quarter remained undetected for three years from July 1997 to June 2000. Since the agreement provided for transfer of the daily drawals in excess of the Zonal Cash Credit limit to the Central Cash

♦ ***Except a small period from 14 October 1999 to 5 November 1999 during which the limit was Rs.500 crore and Rs.450 crore during 17 April 2000 to 26 April 2002***

Credit account and the limit of Central Cash Credit account was not exceeded* charging of penal interest by SBI was not in order. This showed failure of the Internal Control mechanism in the Corporation.

The Management held discussions (November 2001) with SBI and had a series of routine correspondence subsequently for withdrawal of penal interest charged but SBI declined. Further, SBI continued to levy penal interest and Rs.52.55 crore was charged for the period July 2000 to January 2004 on the same premise that the credit limit of North Zone was exceeded. The Management took up the issue with the central office of SBI only in August 2003 though it was aware of the system deficiency as early as in July 2000. This reflects a lackadaisical attitude on the part of the Management, in view of the serious financial implication. The Corporation eventually closed the Cash Credit account of North Zone with effect from 1 February 2004.

Though the Corporation did not avail overall Central Cash Credit facility in excess of the limit stipulated during July 1997 to January 2004* it was put to penal interest burden amounting to Rs.81.84 crore during July 1997 to January 2004.

The Management replied (September 2002) that the matter was pursued with the bank and there was no provision for charging penal interest in the Zonal Cash Credit account. They had requested SBI central office to advise its branch to reverse the amount of penal interest wrongly charged. SBI had not yet agreed to this (July 2004). The Ministry endorsed the reply of the Management (September 2003). The Management did not approach the Ministry for taking up the issue of recovery of penal interest with SBI.

Thus, due to failure of the Internal Control system to monitor the Zonal Cash Credit account properly and the Management's failure to take appropriate and timely corrective action, the Corporation suffered a loss of Rs.81.84 crore, being the penal interest incorrectly charged by SBI.

6.1.2 Issue of higher grade rice in place of common rice to BPL categories

The Corporation issued grade 'A' rice instead of common rice to the BPL Schemes resulting in additional subsidy burden of Rs.35.86 crore to the Government of India.

The Government of India, Ministry of Consumer Affairs, Food and Public Distribution (GOI), while streamlining the Public Distribution System (PDS) with focus on the poor, *inter alia*, stated that common variety of rice would be reserved exclusively for the population below poverty line (BPL) and fine and superfine rice would be issued to population above poverty line (APL) (February 1997). Later on rice was reclassified into two varieties viz., Common and Grade 'A' (November 1997). The Management issued instructions (December 1997) to its Zonal Offices that only common rice be issued against BPL allocations in the normal course. Only in exceptional circumstances when no stock of common rice was available Grade 'A' rice was to be issued against BPL

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* ***Except in June 2001 and February 2003***

allocation and in such cases a certificate of non-availability of common rice in the depot had to be recorded by the concerned Depot Manager.

During test check in Audit it was noticed that:

(i) North Lakhimpur District Office of North East Frontier Zone issued 1,675 MT of Grade 'A' rice to BPL families, despite availability of common rice in the Depots during March 1998 to October 1998. This resulted in payment of additional subsidy of Rs.58.62 lakh by GOI.

The Management accepted the irregularity (September 2002), which was endorsed by the Ministry (November 2002). It was clarified that a team had been constituted to investigate the matter (September 2002). The team identified three officers responsible for the irregularity and could punish only one, as the other two were not in service by the time the report was finalised (July 2004).

(ii) The Government of India in the process of revamping PDS and improving the off-take of foodgrains, brought (November 2000) the Mid-day-Meal (MDM) Scheme implemented by the Department of Elementary Education and Literacy as a part of the Programme for Nutritional Support to Primary Education, under BPL category. The Management communicated orders of GOI to its Zonal Offices for implementation with immediate effect (November 2000). As per the instructions of December 1997 referred to above, only common rice was to be issued under MDM Scheme since this was brought under BPL category. However, West Bengal and Jharkhand regions of the Corporation did not follow the instructions and issued 62,425 MT of Grade 'A' rice instead of common rice during November 2000 to March 2001. This resulted in an additional subsidy burden to the Government of India amounting to Rs.35.27 crore being the difference between issue price of Grade 'A' rice for APL families and common rice for BPL families.

The Management replied that the District Offices of West Bengal and Jharkhand regions had flouted its instructions and the matter was referred to their Vigilance Division for investigation and fixing responsibility on the defaulters (September 2002). The Ministry endorsed the views of the Management (October 2002).

It is seen from the report of the Vigilance Division (November 2003) that the delinquent officers were exonerated on the premise that FCI headquarters' instructions on the issue were not clear and the officials could not be held responsible for the loss which also appeared to be notional in view of the fact that otherwise too FCI issued Grade-'A' rice in large quantity in MDM and other BPL Schemes all over India in the absence of common rice. The conclusions drawn by Vigilance Division were not correct, as these were contrary to the Management's own instructions, which were in line with the decision of the Government of India on the subject. Further, in no other Zone as seen in Audit, Grade 'A' rice was issued in place of common rice during the said period. This substantiates the fact that West Bengal and Jharkhand regions flouted the instructions issued.

Thus, the Government of India incurred an additional subsidy burden of Rs.35.86 crore due to issue of Grade 'A' rice instead of common rice under Schemes of BPL category.

6.1.3 Transportation contracts in the North East Zone

The Corporation incurred an avoidable expenditure of Rs.71.88 lakh on transportation of foodgrains during 1998-99 to 2001-02, besides payment of Rs.15.14 crore towards demurrages during 1997-98 to 2001-02 in the North East Zone.

The North East Zone of the Corporation (NEZ) comprising Assam, Arunachal Pradesh Manipur, Meghalaya, Mizoram, Nagaland and Tripura transports stocks of foodgrains by road as well as by rail for which it enters into transportation contracts. NEZ has distinct features, that is, hilly terrain as well as plains and most of the hill sections have poor road connectivity while plains are lowlying and flood prone. A review of the contracts entered into during 1998-99 to 2001-02 revealed certain deficiencies, which are dealt with in the succeeding paragraphs after giving due cognisance to the distinct features of the zone.

***(A) Ad-hoc contracts*: ** The Corporation can enter into ad hoc contracts in an emergency for a period of three months initially which could be extended for further three months, provided it was not possible to finalise regular contracts. It was observed that the ad hoc contracts entered into continued for nine months which were beyond the powers of the District Manager and the ad hoc rates were higher than the regular rates. For instance, due to failure of the Regional Office, Guwahati, in appointing regular transport contractors in time the District Manager, Jorhat, awarded an ad hoc contract at the rate of Rs.121 per MT as against the regular rate of Rs.89 per MT for transportation of foodgrains from Titabar to Cinnamora. Consequently, there was an additional expenditure of Rs.23.18 lakh on transportation of 72,439 MT during 1998-99 and 1999-2000. The value of contract awarded was beyond the powers of the District Manager. The action of the District Manager was yet to be ratified (August 2004). No justification was recorded for entering into ad hoc contracts.

The Management replied (December 2003) that the case was under investigation with Vigilance Section of the Regional Office.

***(B) Irregularities in awarding contracts*: ** There is a provision in sub-para (ii) of para 25.21 of the Storage and Contract Manual that in case of indication of formation of cartel among the tenderers or where the quoted rate was unreasonably high compared to the rates prevailing in or nearby area of operation, action was be taken to re-invite tenders. For transportation of foodgrains from Churaibari to Agartala, NEZ obtained a rate of Rs.736.59 per MT, which was much higher than the prevailing market rate of Rs.550 per MT. However, the Zonal Management awarded a contract (December 2000) at a negotiated rate of Rs.660 per MT instead of re-tendering as envisaged in the Manual. Consequently, on transportation of 18,913 MT of foodgrains, NEZ suffered a loss of Rs.20.80 lakh being the difference between the market rate and the rate at which the contract was awarded.

The Management reply (December 2003) that scrapping of the tender at that time might not have been practicable as re-tendering would not have guaranteed lower rates and would have affected the Public Distribution System is not tenable as the Manual instructions were categorical in prescribing re-tendering whenever ring formation was suspected.

Further there was an avoidable expenditure of Rs.27.90 lakh due to awarding a contract at Rs.855 per MT as against the prevailing market rate of Rs.700 per MT on transportation of 18,000 MT of foodgrains from Guwahati to Ramnagar during 2001-02.

The Management replied that in the North East Zone only a handful of contractors were available in a particular route, making the chain either monopolistic or oligopolistic and the matter was under investigation at Zonal Vigilance level (December 2003). However, the Management did not take effective steps to break the grip of transporters for obtaining competitive rates.

***(C) Payment of demurrages*:** As per para 21 of the model tender form, the contractor shall be responsible for loading and unloading the wagons within the free period allowed by the Railways and also for loading and unloading the truck/carts, or any other transport vehicle expeditiously. The contractor shall be liable to make good any compensation, demurrage/wharfage as per railway rule in force during the period of contract. There were also standing instructions for fixation of responsibility and recovery of demurrage from the delinquent officials and labour contractors and the position was to be reviewed every month by Senior Regional Managers (December 2003). However, there was no mechanism/practice in vogue to review periodically the performance of contractors and fix responsibility for recovery of demurrages. Resultantly, of the Rs.12.39 crore paid to the Railways as demurrages, only Rs.7.42 lakh could be recovered from the contractors in Assam region whereas in other parts of the NEZ only Rs.38.49 lakh could be recovered out of Rs.3.21 crore incurred, during 1997-98 to 2001-02.

The Management attributed the incidence of demurrages to various uncontrollable factors such as mismatch of working hours between FCI and Railways, late placement and excess placement of rakes, placement of rakes on Sundays and holidays, lack of infrastructure, poor road condition in and around railway yards, traffic curbs imposed by local administration and placement of rakes without considering the availability of space etc. (December 2003). Most of the factors categorised by the Management as uncontrollable are in fact not insurmountable and could have been remedied through proper planning in deployment of manpower and transport contractors to minimise the incidence of demurrages and initiating timely action in fixing the responsibility of delinquent officials/contractors to enforce proper recovery of demurrages as envisaged in the Manual.

The Ministry endorsed the reply of the Management (December 2003)

Thus the Corporation incurred an avoidable expenditure of Rs.71.88 lakh on transportation of foodgrains during 1998-99 to 2001-02, besides Rs.15.14 crore towards demurrages during 1997-1998 to 2001-02 in the NEZ.

6.1.4 Irregular payment of over time allowance

The Corporation incurred avoidable payment of over time allowance of Rs.12.08 crore despite judgement of the High Court.

Under the Uttar Pradesh Dukan aur Vanijya Adhisthan Adhiniyam, 1962 over time allowance (OTA) was payable at twice the normal wages per hour to the workers

working in the defined establishments, unless exempted by the State Government. The State Government issued Notification exempting the Corporation from the provisions of the Act (September 1985). The staff bodies of the Corporation filed a Writ Petition challenging the validity of the Notification in the High court, Allahabad and obtained interim stay order (October 1985) which was later vacated (November 1985). However, the staff bodies filed another Writ Petition in the Lucknow Bench of the Allahabad High Court and obtained interim stay orders (March 1987). Consequently, OTA continued to be paid at twice the normal wages per hour in the Uttar Pradesh (UP) region.

The High Court of Allahabad finally decided the Writ Petition in December 1995 upholding the Notification of the State Government. Accordingly OTA at twice the normal wages per hour was not payable in the entire State of UP since the Allahabad Bench had jurisdiction extending to the entire State. The Management should have got the stay given at Lucknow Bench in March 1987, vacated without delay making reference to the Judgement of the Allahabad High Court, which had ruled that FCI was not a commercial establishment. However, the issue was allowed to be kept pending and finally the Lucknow Bench vacated the stay in December 1999. During this period payment of OTA at twice the normal wages per hour was made This resulted in avoidable payment of Rs.12.08 crore during January 1996 to December 1999, which was written off subsequently (January 2004).

The Management while admitting the facts, stated that on finalisation of the Court case, payment of OTA to the staff in the UP region was being done at single rate. They also stated that the Executive Committee of the Corporation, after deliberation at length and considering the multiplicity of litigation in the matter, decided to waive the amount of OTA already paid to the employees of the UP region during the period September 1985 to December 1999 (August 2004). The Ministry endorsed the reply of the Management (October 2004).

The reply is untenable as the Management made payment of OTA in contravention of the judgement of Allahabad High Court and failed to mention the final judgement of December 1995 soon after the event, before the Lucknow Bench. As a result the Corporation made avoidable payment of OTA of Rs.12.08 crore, during January 1996 to December 1999, that is, subsequent to the judgement of Allahabad High Court in December 1995. No responsibility has been fixed by the Management for this payment made in contravention of court order.

Thus, the decision of the Management to make payment to its employees to which they were not entitled and later waive the amount so paid as it would be difficult to effect recovery, was financially imprudent.

6.1.5 Acceptance of sub-standard rice

The Corporation suffered a loss of Rs.7.03 crore due to acceptance of rice in deviation of specification laid down by the Government of India and on its transportation.

The Corporation, the State Government and its agencies and private millers procured paddy which was milled to rice by private rice millers and delivered to the Corporation.

The rice procured should conform to uniform or relaxed specifications fixed by the Government of India. Further as per the standing instructions rice delivered by the millers was to be checked to the extent of 25 per cent by the Assistant Manager (Quality Control) 10 per cent by the Deputy Manager (Quality Control) and 5 per cent by the District Manager.

A quantity of 57,271 MT rice relating to the crop years 1997-98 and 1998-99 procured in Sangrur District of Punjab region was despatched to various destinations in deficient States. Of the quantity despatched, the consignees reported quality-related complaints in respect of 40,699 MT of rice that the stocks contained higher percentage of broken, discoloured, damaged, dehusked grain and foreign matter. As a result, these stocks could not be issued to the PDS. This showed that the Corporation accepted beyond rejection level (BRL) rice stocks from the private rice millers in deviation of uniform/relaxed specifications fixed by the Government of India. The percentage checks exercised by various offices were also called for (May 2004) but no reply was received (August 2004)

As per the details received from consignees during January 2001 to December 2003, of the 40,699 MT of rice that had quality related complaints, 12,675 MT of rice was sold in the market. Resultantly, the Corporation suffered a loss of Rs.4.66 crore being the difference between Central Issue Price and the amount realised on disposal of the stocks. There was a balance stock of 28,024 MT pending liquidation, which would increase the loss. Further, the rice stocks of Fair Average Quality only were to be despatched to the deficient States for distribution through PDS whereas the Corporation despatched BRL stocks and spent Rs.2.37 crore towards freight charges which became wasteful.

The Regional Office, Chandigarh, of the Corporation stated (May 2004) that under policy guidelines, FCI Headquarters instructed that the URS (under relaxed specification) stocks under reference were frozen and were not to be issued under PDS and hence were sold in the market at a fixed price. The contention of the Management is not tenable since the loss sustained by the Corporation was mainly due to accepting the rice with higher percentage of deviations ranging from 31 to 35 per cent for brokens and discolouration from 13 to 17 per cent as against 30 and 27 per cent for brokens and 13 and 8 per cent for discolouration for the years 1997-98 and 1998-99 respectively, stipulated for URS rice stocks by the Government of India. Further the stocks contained 14 to 28 per cent dehusked grains as against permissible maximum limit of 10 to 13 per cent.

Thus, the Corporation suffered a loss of Rs.7.03 crore due to accepting rice in deviation of the specifications stipulated by the Government of India and in transportation of the stocks which was unwarranted.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

6.1.6 Avoidable payment of Custody and Maintenance charges- Rs.5.26 crore

Custody and maintenance charges of Rs.5.26 crore were reimbursed during 1997-98 to 2002-03 without ensuring that these were incurred by the State of Haryana and its agencies leading to avoidable subsidy burden on Government of India.

The Government of India, Ministry of Consumer Affairs, Food and Public Distribution fixed rates for Custom Milled Rice (CMR), delivered by the State Governments/agencies to central pool out of paddy procured under price support operations, in which custody and maintenance charges were also included.

The paddy procured by the State Governments and their agencies was stored in the premises of the millers. The agreements entered into by the Government of Haryana and its agencies with the millers did not provide for a specific provision for payment of custody and maintenance charges. However as per clause 4 (viii) the millers would be paid for the services not included in the milling charges at the rates notified by the Government of India. Therefore, it was imperative that payments other than those defined would be based on certification that these were incurred. In other words the reimbursement of custody and maintenance charges was to be on proof of payment.

In a meeting held (April 2000) for finalising incidentals for 1997-98 for CMR by the Ministry with the representatives of the Government of Haryana and FCI, it was decided that Custody and Maintenance charges could be paid only after the State Government furnished a certificate that they had actually paid such charges including the rates at which these had been paid. It was not ensured that the State of Haryana complied with this requirement. The Ministry while according approval for the rates of CMR for the years 1997-98 (final) and 1999-2000 to 2002-03 (provisional), did not include a clause to the effect that Custody & Maintenance Charges were payable subject to the State Government giving a certificate that they had actually incurred the expenditure on the custody and maintenance of the stocks.

However the Corporation reimbursed Rs.5.26 crore as Custody and Maintenance charges for the years 1997-98 to 2002-03 without obtaining a certificate to the effect that these charges were actually incurred.

The Management while replying to the Audit observation on a similar issue relating to the State of Punjab stated that no agency would render services free of cost. The reply was too general and did not address the issue. In fact, the Ministry, in respect of the State of Punjab stipulated a clause that Custody and Maintenance charges would be further subject to certificates of the quantities stored in open/covered and plinth and covered godowns by the procuring agencies (July 2000). This clause was further amplified while fixing the final rates for 1999-2000 that the Custody and Maintenance charges were payable subject to the condition that the State Government gave a certificate that they had actually incurred the expenditure on the custody and maintenance of the stocks (March 2002).

Thus, the reimbursement of Rs.5.26 crore towards Custody and Maintenance charges without ensuring that the State of Haryana and its agencies had actually incurred these charges, was not in order as it led to avoidable subsidy burden on the Government of India.

The matter was reported to the Management and the Ministry in April 2004; their replies were awaited (September 2004).

6.1.7 Incorrect application of rates for value cut

Recovery of value cut on Custom Milled Rice at rates for Levy Rice resulted in loss of Rs.2.56 crore.

The Corporation procures Custom Milled Rice (CMR) as well as Levy Rice at rates fixed by the Government of India (GOI). The rates fixed for Levy Rice are less than those for CMR. As per GOI specifications for procurement, rice (both raw and parboiled) can be procured with moisture content upto a maximum limit of 15 per cent with value cut[♦]. There would be no value cut upto 14 per cent. Between 14 per cent and 15 per cent moisture, value cut would be applicable at the rate of full value.

The Management, however, took a decision to effect quality cuts on CMR taking Levy Rice rate as the basis. The decision to effect recoveries in respect of CMR at levy rates was not in accordance with GOI instructions and hence irregular. Resultantly, Rs.2.56 crore was short-recovered during 1997-98 to 2002-03 towards value cut from various rice millers in the districts of Ludhiana, Patiala, Sangrur and Ferozepur of Punjab region of the Corporation, which were test checked in Audit. The amount short recovered represents (i) the difference between the Levy rates and final rates of CMR for the years 1997-98 to 2000-01, upto which CMR rates had been finalised and (ii) the difference between the Levy rates and CMR provisional rates for the years 2001-02 and 2002-03 for which years CMR rates had not been finalised.

The Management replied (October 2003) that the final price of the custom milled rice was finalised after two and half years of procurement of paddy/delivery of rice and in the absence of final price of custom milled rice, the value cut for moisture between 14 per cent and 15 per cent was made at full value as applicable for levy rice. Instructions were issued to all concerned to recover the differential as and when the final price of the custom milled rice was fixed by the GOI.

The reply of the Management is not tenable since non-finalisation of final price of CMR is not a valid reason for effecting recovery on rates of Levy Rice instead of on CMR provisional rates, which are invariably higher than the Levy rates and are more relevant. Moreover, no recovery was effected wherever CMR rates were finalised, that is, for the years 1997-98 to 2000-01.

Thus, undue benefit of Rs.2.56 crore was allowed to private millers resulting in avoidable payment of subsidy by GOI to this extent.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

6.1.8 Avoidable loss in disposal of wheat through tender

The Corporation suffered a loss of Rs.2.14 crore on tender sale of wheat instead of issuing the wheat under SGRY Scheme.

[♦] ***Recovery towards moisture content (in per cent)***

The Government of India introduced a Sampoorn Grameen Rozgar Yojana (SGRY) and allocated additional funds to the districts of Uttar Pradesh in October 2001. Under SGRY, the Corporation was to supply wheat to the State Government at economic cost of Rs.8,300 per MT.

The Corporation was holding 41,484 MT of wheat stocks in Food Storage Depots at Barabanki, Faizabad, Balrampur, Bahraich and Gonda of UP Region relating to crop years 1996-97 to 1999-2000. These stocks were included in an action plan of disposing of stocks more than four years old through tender sales (October 2001). Of this, 20,234 MT of wheat was sold through tender during January 2002 to March 2002 at an average realisation ranging from Rs.5,815 per MT to Rs.5,925 per MT and the balance quantity was issued to the Public Distribution System. It was seen in Audit (December 2003) that during this period 9,086 MT of wheat was issued under SGRY from stocks relating to the crop years 2000-02, instead of issuing from the stocks sold through tender, deviating from the practice of first-in-first-out. Thus, the Management did not avail the opportunity of issuing from the stocks sold through tender, under SGRY at a realisable price of Rs.8,300 per MT and thereby suffered a loss of Rs.2.14 crore being the difference between the economic cost of 9,086 MT of wheat which it could have realised under SGRY and proceeds realised on sale of wheat through tender.

The Management reply (February 2004) that the tender was opened (12 November 2001) prior to receipt of GOI orders on SGRY (22 November 2001) is not tenable since the Corporation had received the said orders before the offers were accepted in December 2001. The Ministry endorsed the views of the Management (June 2004).

Thus, the Corporation suffered an avoidable loss of Rs.2.14 crore due to sale of good quality wheat through tender instead of issuing under SGRY.

6.1.9 Over payment of interest charges

Over payment of Rs.1.70 crore during 1998-99 and 2000-01 due to inconsistency in computation of interest charges.

The Government of India, Ministry of Consumer Affairs, Food and Public Distribution (GOI) fixes rates of Custom Milled Rice (CMR) delivered by the State Governments/agencies to central pool milled out of paddy procured under price support operations. The rates so fixed consist of Minimum Support Price, Statutory Charges and Non-Statutory Charges, which *inter alia* included interest charges incurred by State Governments and its agencies. The interest is paid on four elements viz., Minimum Support Price and Statutory Charges and Mandi Charges and Transportation/Internal Movement Charges, which formed part of Non-Statutory Charges.

The Government of Punjab and its agencies financed their operations of procurement of paddy and other incidentals thereto including those incurred for conversion of paddy to rice through Cash Credit availed from various banks. It was noticed that the banks had charged interest on daily basis on the Cash Credit availed whereas the interest charges paid by GOI were worked out on monthly basis (April 2004). Consequently, there was an excess payment of interest charges ranging from Rs.1.64 to Rs.4.03 per MT for the crop

years 1998-99 and 2000-01 for which period GOI finalised the rates in November 2000 and January 2004 respectively.

Thus, the excess payment of Rs.1.70 crore by the Corporation on procurement of 53.62 lakh MT of rice during 1998-99 and 2000-01 in the State of Punjab, due to reimbursing the interest charges computed on monthly basis instead of on daily basis, was not in order as it led to avoidable payment of subsidy by the Government of India.

The matter was reported to the Management/Ministry in April 2004; their replies were awaited (September 2004).

6.1.10 Avoidable delay in disposal of wheat stocks

The Corporation suffered a loss Rs.1.18 crore on account of delay in taking action in disposal of deteriorated stocks.

The Government of India, Ministry of Consumer Affairs, Food and Public Distribution (GOI) authorised the High Level Committee of the Corporation (HLC) to dispose off the C and D category stocks of wheat and those more than two years old as on 1 November 1999 on as is where is basis (January 2000). It was stipulated that (a) stocks proposed to be disposed off through tender should be specifically identified and put to auction and (b) HLC would give clearance for the actual stocks to be disposed off and approve the bids received in response to the tender enquiry.

The Management communicated the decision of HLC (February 2000) to its Zonal/Regional offices for inviting tenders to dispose off the said stocks of wheat. Accordingly, Regional Office (RO) Patna floated tenders (February 2000) for disposal of 4,655 MT of 'D' category of wheat, in response to which it received offers ranging from Rs.5,510 to Rs.5,910 per MT. The RO, while communicating the details of offers received, to its Headquarters Office, stated that the stocks lying in Food Storage Depot (FSD) Gaya were 3 to 4 years old and had deteriorated and needed early disposal (February 2000). However the condition of the stocks was not brought to the notice of HLC as evident from the statement showing the results of tender which were considered in the meeting held in March 2000 for taking appropriate decision. Thus the decision of HLC to scrap the tender and routing the disposal process through District/Regional Roller Flour Mills and later hiking the rates of the stocks, which the market could not absorb was not in order as it led to unnecessary delay in liquidating the deteriorated stocks.

Of the 4,655 MT of wheat earmarked for disposal, 1,081 MT was upgraded till June 2000 and the balance quantity of 3,574 MT was kept unsold at FSD Gaya and downgraded (September 2001) as Feed I for eventual disposal at Rs.2,440 per MT to the Government of Nagaland (March 2002). Resultantly the Corporation suffered a loss of Rs.99.93 lakh being the difference between the amount that could have been realised through tender sale (March 2000) and the amount realised from sale of 3,255 MT of wheat stocks to the Government of Nagaland (March 2002), besides Rs.17.58 lakh, the value of 319 MT wheat lost due to prolonged storage.

The Zonal Management while replying to the Factual Statement stated (October 2003) that disciplinary action had been taken against the officials found responsible for

downgradation and storage in field offices, whereas the loss suffered was mainly due to deferring/prolonging the disposal process by the Management (at Corporate level) which did not give due cognisance to the condition of the stocks.

Thus, the Corporation suffered an avoidable loss of Rs.1.18 crore due to not taking prompt action in disposal of deteriorated stocks.

The matter was reported to the Management/Ministry in February 2004, their replies were awaited (September 2004).

6.1.11 Avoidable expenditure due to delayed acquisition of land

The Corporation incurred an avoidable expenditure of Rs.97.07 lakh due to delayed acquisition of land for railway siding.

The Corporation acquired in 1988, land measuring 2.514 hectare out of 2.544 hectare required for construction of additional railway siding at Mulangunnathukavu Depot in Kerala Region (project). The balance piece of land of 0.03 hectare could not be acquired, as the landowner was reluctant to sell it. Subsequently, the Railways indicated requirement of 0.03 hectare of land for execution of the project at the earliest so that siding work could progress without any obstruction (November 1995).

Instead of initiating action for acquisition of land by invoking "Urgency Clause" to expedite the acquisition process when the landowner had already given consent to sell the land (March 1995), the Management resorted to normal land acquisition procedure, which took three years (July 1997 to July 2000). Pending acquisition of land, the Corporation deposited Rs.1.47 crore (after adjusting Rs.1.96 lakh paid towards centage charges) for the project (March 1997), which was scheduled for completion by December 1997. The Railways did not adhere to the scheduled date, as the Corporation was not in a position to hand over the 0.03 hectare land crucial for completion of the project. Eventually the Corporation could acquire the piece of land only in July 2000 through normal land acquisition process.

Consequently, the Railways had to resort to re-tendering process for formation/embankment work as the original contractor had backed out and the work had to be suspended. The work was resumed in July 2000 after handing over the land to the Railways. Meanwhile the Railways revised its earlier cost estimate and increased it from Rs.1.49 crore to Rs.1.90 crore. (March 2001). Finally the work was completed in January 2002 and the project was commissioned in July 2002.The final cost of the project was yet to be furnished by the Railways (February 2004).

Thus, there was undue delay exceeding four years in completion of the project. This resulted in an avoidable extra expenditure of Rs.56.34 lakh on handling and transportation of foodgrains by road to the non-siding godown during 1998-99 to 2002-03 (July 2002). Further the Corporation had to incur additional expenditure of Rs.40.73 lakh as cost was revised due to delayed completion of the project.

The Management replied (September 2004) that there was no demand from the Railways over and above the land acquired to the extent of 2.514 hectare and that the Railways

insisted on additional piece of land measuring 300 square metre as they encountered certain difficulties during alignment/setout of the track curve. The Ministry endorsed reply of the Management in (September 2004). The reply is untenable since the Railways had indicated the requirement of the piece of land as early as November 1995, that is, well before commencement of the project.

Thus, delayed acquisition of land resulted in avoidable extra expenditure of Rs.97.07 lakh.

6.1.12 Irregular refund

The Zonal Management refunded Rs.75 lakh to a private party without ensuring the interest of the Corporation.

The Corporation was lifting levy sugar under Levy Sugar Supply (Control) Orders, from various sugar mills for supply to the PDS. On the basis of allotment orders by the Directorate of Sugar and despatch instructions from the District Office Hapur, Daurala Sugar works (party) supplied sugar during April 1983 to July 1994 to various Regions. The Regions noticed, besides shortages, that the supplies contained wet and sweated lots.

A Vigilance Division Committee that investigated into the matter *inter alia* found that the party loaded wet and sweated sugar even when objected to by the FCI representative (November 1995). The District Office, Hapur and the Regional Office, Lucknow, of the Corporation recovered Rs.1.16 crore (including interest of Rs.69.75 lakh) from the party during July 1994 to September 1996 on account of shortages, wet and sweated lots and excess freight paid to the Railways in respect of supplies made.

The party represented by DCM Shriram Sugar Division filed a writ petition in the High Court, Lucknow Bench, (February 1997) seeking refund of Rs.1.16 crore, the amount that was recovered by the Corporation. The District Office, Hapur and the Regional Office, Lucknow were contesting the court case. While the matter was sub-judice, the party represented (March, April and June 1998 and June 1999) to the Zonal Manager (North) against recoveries. The Zonal Manager (North) constituted a Committee (27 March 2000), which recommended refund of Rs.35 lakh towards principal and Rs.40 lakh towards interest subject to obtaining an undertaking (28 March 2000) that they would not take recourse to legal proceedings. Considering the fact that the party had already filed a case, such an undertaking did not serve any purpose and was, thus, not relevant.

The Zonal Manager (North) accepted the recommendations of the Committee, which had concluded the case in a day (28 March 2000), ignoring the report of Vigilance Division and the orders of the then Zonal Manager wherein the party was found to be responsible for the loss (November 1995) and refunded Rs.75 lakh directly to the party without routing through the normal channel, that is, the District Office and the Regional Office (29 March 2000). The Zonal Management (North), thus, failed to safeguard the interest of the Corporation. Further, the party filed an amendment to the writ petition restraining the Corporation from enforcing any recovery of the amount refunded (January 2001). The Corporation filed a supplementary counter-affidavit with a request not to entertain amendment to the writ petition filed by the party (November 2003). The matter was still sub-judice (August 2004).

Thus, the refund of Rs.75 lakh, by obtaining an undertaking which did not serve any purpose, was not in order.

The matter was reported to the Management/Ministry in May 2004; their replies were awaited (September 2004).

CHAPTER 7: MINISTRY OF DEFENCE

Bharat Electronics Limited

7.1.1 Injudicious purchase leading to blocking of funds

Procurement of spares in anticipation of orders from customers resulted in blocking of funds of Rs.4.60 crore for over seven years and consequential loss of interest of Rs.4.57 crore.

The Company entered into a contract with M/s. Ericsson Microwave System, Sweden (Supplier) (May 1995) for purchase of Antenna unit, KA Band Radar and spares for the equipment used in fire control system in ships. Subsequently, in anticipation of receipt of orders from customers, the Company placed order (November 1995) on the supplier for procurement of spares although as per contract the supply of spares was assured for 10 years after completion of last supply of the equipment. The spares valued at Rs.5.37 crore were imported between April 1996 and April 1997 and the Company could supply to customers spares valued at Rs.76.68 lakh in May 2003 and November 2003. The Company was yet to receive orders (August 2004) for remaining spares and the entire stock valued at Rs.4.60 crore had been lying idle for over seven years, resulting in loss of interest thereon amounting to Rs.4.57 crore. ♣

The Management stated (February 2004) that

(i) procurement of spares alongwith the equipment was a commercially prudent decision since importing at a later date would have been impossible due to obsolescence at supplier's works, higher procurement cost due to exchange rate variations and increase in price; and

(ii) loss worked out by Audit was notional.

The Ministry endorsed (August 2004) the contention of the Management.

The reply is not acceptable in view of the following:

(i) As per agreement with the supplier, the supply of spares was assured for 10 years after completion of last supply of the equipment and in the event of stoppage of production of spares, the supplier had undertaken to offer suitable substitutes or necessary changes in design.

(ii) Any increase in price of spares due to exchange rate variation or otherwise would have been claimed by the Company from the customers.

(iii) The Company was aware of non-receipt of orders from customers at the time of finalisation of order with the supplier in November 1995.

♣ ***Calculated at cash credit rates applicable from time to time from April 1997 to May 2004.***

(iv) The Company availed of cash credit facility from bank to pay for the spares incurring interest burden which is actual and not notional.

Thus, procurement of spares in anticipation of orders was injudicious and the Company's subsequent failure to dispose off the same resulted in accumulation of inventory and blocking of funds of Rs.4.60 crore for a period of over seven years. Consequential loss of interest on blocked funds in the purchase of spares worked out to Rs.4.57 crore upto August 2004.

7.1.2 Extra expenditure in implementation of voluntary retirement scheme

In contravention of DPE guidelines, inclusion of 'family planning incentive' as part of 'emoluments' for payment of *ex-gratia* under voluntary retirement scheme resulted in extra expenditure of Rs.51.60 lakh.

The Bharat Electronics Limited (Company) introduced (October 1994) voluntary retirement scheme for its employees on the basis of guidelines issued by the 'Department of Public Enterprises' (DPE) in October 1988. According to the voluntary retirement scheme of the Company, employees were entitled to an *ex-gratia* payment equivalent to one and half month's emoluments i.e., pay plus dearness allowance drawn at the time of retirement for each completed year of service or for service left in terms of months before the normal date of retirement, whichever was less.

However, while calculating emoluments for the *ex-gratia* for voluntary retirement scheme, the Company also took into account 'family planning incentive', which was in contravention of DPE guidelines of October 1988 as well as its own order of October 1994. Inclusion of 'family planning incentive' for payment of *ex-gratia* resulted in excess payment of Rs.51.60 lakh from 1997-98 to 2003-04.

The Ministry also failed to direct the Company to rectify the mistake in computation of *ex-gratia* though specifically clarified in October 2001 by DPE in respect of another PSU under its control viz. Bharat Earth Movers Limited that the emoluments for *ex-gratia* included salary plus dearness allowance only.

The Ministry stated (August 2000) that even though DPE clarification (October 2001) excluded the family planning incentive for the purpose of calculation of *ex-gratia,* the same could not be applied to other PSUs as it was not a general instruction.

The reply is not tenable as the DPE clarification cannot be held to be applicable only to Bharat Earth Movers Limited in isolation as similar voluntary retirement schemes are in vogue in other PSUs under its control. Moreover, even prior to furnishing (October 2001) a specific clarification in respect of Bharat Earth Movers Limited, DPE had clarified (December 2000) that family planning incentive had to be excluded for the computation of *ex-gratia* under voluntary retirement schemes to be implemented by PSUs and requested administrative Ministries to ensure compliance in PSUs under their control.

Garden Reach Shipbuilders & Engineers Limited

7.2.1 Avoidable expenditure

Introduction of revised pay scales retrospectively in contravention of the DPE guidelines resulted in avoidable expenditure of Rs.3.22 crore.

The Government of India, Ministry of Industry, Department of Public Enterprises (DPE) introduced (June 1999) revised pay scales attached to Board level and below Board level posts (including non-unionised supervisors) in the Central Public Sector Undertakings (PSUs) with effect from 1 January 1997. To avail the benefits of revised pay scales, the unionised supervisors of Garden Reach Shipbuilders & Engineers Limited (Company) opted (March 2001) to become non-unionised and requested the Company to implement the non-unionised pay scales. Accordingly, after taking approval of its Board of Directors in March 2001, the Company implemented (April 2001) the revised pay scales by treating the conversion of unionised supervisors into non-unionised supervisors as new appointment in the new cadre with higher task responsibilities and also making them ineligible for getting overtime for which they were otherwise entitled to in the unionised cadre. The revised pay scale was, however, made effective from 1 January 1997 and the arrears in this regard were to be paid after adjustment of overtime payments made from time to time.

Subsequently, the Board of Directors of the Company waived (June 2001) the recovery of overtime and allowed full benefits of revised pay with effect from 1 January 1997 and the Company made payment of Rs.3.22 crore as arrears of pay revision, thus, extending undue advantage to its employees by allowing revised pay scale retrospectively. This resulted in extending double benefit i.e. higher pay scales in non-unionised cadre and overtime on existing scales of unionised cadre, both from 1 January 1997.

The Management stated (July 2004) that the new pay structure effective from 1 January 1997 was introduced for supervisors in the interest of industrial harmony and recovery of overtime would be inconsistent with the provisions of the Factories Act, 1948. The Ministry endorsed (August 2004) the views of the Management.

The contention of the Ministry/Management is in itself an admission that recovery of overtime was bad in law and could not have been made. As such, allowing revised pay scale meant for non-unionised supervisors to unionised supervisors retrospectively from 1 January 1997 covering the unionised period, was in contravention of DPE guidelines.

Goa Shipyard Limited

7.3.1 Blocking of funds

Due to construction of housing colony without basic amenities such as road and water supply, the Company could not allot the quarters to its employees. This resulted in blocking up of funds amounting to Rs.8.17 crore with a consequent loss of interest of Rs.93.96 lakh.

The Goa Shipyard Limited (Company) purchased land measuring 91,675 square metre at Chicolna village at a total cost of Rs.29.33 lakh (April 1990) for meeting long pending demand of employees for housing accommodation. The Company invited tenders for construction of 515 flats (August 1996) but initially restricted it to 171 flats as approved by the Central Government for undertaking the construction work in three phases.

The Company, without resolving the issue of construction of approach road from the main road to the colony site by the State PWD authorities, awarded the work of construction of 171 flats to the Central Public Works Department (CPWD) at a total cost of Rs.8.58 crore on "Deposit work" basis (December 1997). The work *inter alia* included laying of a water pipeline from the existing municipal supply situated at a distance of two Kms.

CPWD requested the Company to approach local administration to determine the location/construction of the approach road (April 1998) so that the pipeline could be laid accordingly and also to obtain the permission of the State PWD for laying of the water supply line (July 1998).

Accordingly, the Company approached the State PWD to delineate the road so that the water line could be laid at the edge of the road. The State PWD expressed inability to undertake the road work due to non-availability of funds but agreed to take it up on "Deposit work" basis (October 1998). The CPWD submitted an estimate of Rs.16.76 lakh for providing a four metre wide Asphalt topped road for a length of 1250 metre to link the colony to the road junction (January 1999).

The Company, however, did not proceed with the work, as it decided that it was the responsibility of the State Government to provide basic infrastructure such as approach road and water pipeline. After prolonged correspondence, the State PWD submitted an estimate of Rs.2.82 crore for construction of the approach road and water pipeline (November 2001) and asked the Company to deposit 50 per cent of the amount (Rs.1.41 crore) for executing the work. The Company, however, did not take any decision in this regard till date (June 2004).

CPWD completed construction of 171 flats including digging of borewell of 4000 litres per hour capacity and a sump with a capacity of five-lakh litres, at a total cost of Rs.8.17 crore (August 2002). But the flats could not be allotted to employees for want of basic facilities like approach road and drinking water (June 2004).

Thus, due to faulty planning in the construction of housing colony in an under-developed area wherein basic amenities were not available, and not taking timely action in getting the approach road and drinking water line constructed either by State PWD or CPWD, which would have benefited the employees only, resulted in blocking up of capital of Rs.8.17 crore with consequent loss of interest of Rs.93.96 lakh (reckoned @ six per cent per annum) for the period from August 2002 to June 2004.

In reply the Management while accepting the facts mentioned in the para, stated (August 2003) that a decision had been taken by the Company not to run the colony as housing colony and it would be managed by the residents who were going to own the housing

colony. It was added that the Government of India was being requested to accord its approval to run the housing colony as Employees Co-operative Housing society.

The Ministry, while conveying its approval in principle to the sale of 171 flats of the housing colony and surplus land, desired (March 2004) that the case be re-submitted to it for final approval after giving full details of the proposal. Further developments in the matter were awaited (July 2004). The housing colony constructed at a cost of Rs.8.17 crore remained unoccupied since August 2002 without basic amenities and the decision to form Co-operative Society was yet to be implemented.

The matter was reported to the Ministry in June 2003; its reply was awaited (September 2004).

Hindustan Aeronautics Limited

7.4.1 Loss of interest due to abnormal delay in realisation of deferred revenue expenditure

Abnormal delay in realisation of deferred revenue expenditure from the Ministry of Defence resulted in loss of interest of Rs.6.68 crore.

The Hindustan Aeronautics Limited (Company) envisaged (July 1991) deferred revenue expenditure (DRE) of Rs.13.72 crore in setting up facilities for the overhaul of Adour engines. The DRE was intended to meet the cost of fabrication of additional/new tools, technical assistance fee, etc. The Ministry of Defence (MOD) sanctioned (April 1994) reimbursement of DRE to the Company. Further, MOD also allowed (September 1997), the reimbursement of DRE in full on proof of incurrence of expenditure alongwith a profit of 7.5 per cent in terms of fixed price quotation.

The Company incurred a total DRE of Rs.13.12 crore including profit upto 1997-98. The Company initially preferred (December 1994) a substantially lesser claim for Rs.3.63 crore belatedly against its actual dues of Rs.9.43 crore. It also put forth (October 1995) another claim for Rs.2.68 crore against its actual dues of Rs.7.46 crore. These two claims were settled for Rs.3.51 crore and Rs.2.16 crore in March 1995 and March 1996 respectively. The Company lodged (August 2002) the final claim for Rs.7.45 crore after a gap of four years though the total DRE had been fully incurred by 1997-98[♣]. As the Company was incurring DRE regularly upto 1997-98, it should have raised claim periodically for the full amount by providing proof of expenditure incurred rather than claiming part of the amount belatedly. The avoidable abnormal delay, coupled with preferment of lesser claims, resulted in blocking of net funds to the extent of Rs.7.45 crore and consequent loss of interest of Rs.6.68 crore upto March 2004.

The Accounts Manual of the Company places responsibility on the 'Receivable section' to ensure timely raising of the invoices in accordance with the Government letters relating to such payments. The 'Receivable section' failed to raise timely claim on MOD for claiming the DRE. Moreover, the Internal Audit Wing of the Company also failed to point out the lapse while carrying out System Audit.

[♣] ***The amount was received in March 2004***

The Management stated (April 2004) that the claim was preferred after receipt of debits from Foundry and Forge Division and after a review of outstanding DRE. It was further stated that loss of interest pointed out was notional. The Ministry endorsed (July 2004) the views of the Management.

The reply is not acceptable as details of the DRE were available within the Company; as such, delay in lodging the claim with MOD was avoidable. Further, the loss of interest is not notional as the Company could have invested the funds and earned interest thereon had the amount been claimed for reimbursement as and when incurred.

Thus, abnormal delay in realisation of DRE resulted in a loss of interest of Rs.6.68 crore.

7.4.2 Extra expenditure/commitment due to inclusion of imported items as indigenised items in price catalogue

Failure on the part of the Company to detect inclusion of imported items as indigenised items in the price catalogue resulted in avoidable extra expenditure/commitment of Rs.6.60 crore.

The Company's Engine Division procures bought-out finished (BOF) items for manufacture/repair/overhaul of Dart/Adour engines mainly from Rolls Royce plc, UK (RR) on proprietary basis. Besides, a large number of items are fabricated/manufactured in-house as part of the Company's indigenisation programme and their costs are cheaper than those of RR. The indeginised items are included in the price catalogue of the Company. The implication of inclusion of these items in the price catalogue is that the Company in the event of importing these items would recover the cost of imported items only to the extent indicated in the price catalogue and would therefore incur loss if the imported price is higher.

The Company placed (February 2001) two purchase orders on RR for Rs.95.87 crore for yearly staggered supplies of 456 BOF items of different quantities for the manufacture of 40 Adour engines for 20 Jaguar aircraft. Similarly, the Company also placed (April 2001) a purchase order on RR for Rs.41.01 crore for annual staggered deliveries of 224 BOF items for repair/overhaul of Dart engines. The supplies were to be made during 2001-02 to 2005-06. The deliveries upto 2003-04 were completed and those for the subsequent years are in progress.

It was observed in Audit (May/June 2003) that 29 out of the 680 items were included in the price catalogue as indigenised items though these were to be imported from RR. The cost of purchase of these 29 items amounted to Rs.8.07 crore against the fabricating/manufacturing cost of Rs.1.47 crore, resulting in extra expenditure of Rs.3.72 crore on supplies received upto 2003-04 and commitment of Rs.2.88 crore in respect of supplies to be received during 2004-05 and 2005-06.

The Management accepted (April 2004) that the items mentioned were not indigenised and were included inadvertently in the price catalogue. These items were imported to cater to the requirements of manufacturing, repair and overhaul of Adour and Dart Engines and there was no extra expenditure. The Management further stated (September

2004) that inadvertent inclusion should not be viewed as a deficiency in the internal control and this would be corrected in the price catalogue for the revised base year 2004-05. The price catalogue was applicable for supplies made against RMS♠ orders and no RMS order was received except for Rs.30,784 in respect of one Adour engine item from the customer against the items listed in the draft para. The views of the Management were endorsed (September 2004) by the Ministry.

The reply of the Management/Ministry is not tenable in view of the following:

i) Imported items had been actually included in the price catalogue as indigenised items. This was indicative of serious deficiency in the internal control system which allowed incorporation of all the items which were targeted for indigenisation, without checking to verify whether these were actually indigenised or not,

ii) The supplies of Rs.30,784 referred to in the reply was against an RMS order for supply of stores and not against manufacture of Adour engines commented in the para. The Company repaired/overhauled 95 Dart engines during the period 2001-02 to 2003-04 by consuming the items imported and thereby already incurred an extra expenditure of Rs.1.11 crore.

iii) The price catalogue for the revised base year 2004-05 has not yet finalised. The Company is yet to take up the issue regarding deletion of imported items included in the price catalogue as indigenous items. Hence as per the existing system, the Company will get material costs from the customers only at indigenised rates and continue to incur further extra expenditure upto Rs.5.49 crore till the correction takes place.

Thus, failure on the part of the Company to detect inclusion of imported items as indigenised items in the price catalogue resulted in avoidable extra expenditure/commitment of Rs.6.60 crore.

7.4.3 Delay in realisation of dues resulting in loss of interest

Failure to furnish the required indemnity bond/documentation in time, to avoid shortages in supply and to ensure continuous pursuance of the invoices with Mazagon Dock Limited, resulted in delayed realisation of dues with consequent loss of interest of Rs.1.88 crore

The Mazagon Dock Limited, Mumbai (MDL), placed purchase orders in January 2000 on the Hindustan Aeronautics Limited (Company) for up-gradation of Gas Turbine for Rs.12.53 crore and for supply of three ship-sets alongwith accessories at Rs.71.01 crore, Rs.64.21 crore and Rs.65.81 crore respectively. The release of payment by MDL was dependent on the furnishing of indemnity bond by the Company in favour of MDL, valid during warranty period.

♠ ***Repairs, maintenance and supplies***

The Company completed the delivery of the up-graded Gas Turbine and shipsets alongwith accessories between March 2001 and March 2004. Though the Company raised invoices from time to time, there were considerable delays in payments by MDL, ranging from 58 days to 514 days during the years 2000-01 to 2003-04 resulting in loss of interest of Rs.1.88 crore. This was attributable to the delay on the part of the Company in furnishing the indemnity bond/documentation required for processing the claims, failure to ensure supply without shortages and lack of continuous follow up with MDL.

The Ministry accepted (February 2004) that there had been delays in making payment by MDL. The Ministry further stated that the maintenance of continuous follow up at various levels had resulted in improvements in the last one year. The reply confirms the Audit finding that there were delays in realisation of dues. Further, notwithstanding the improvements stated to have been achieved in the last one year, the Company continued to suffer loss of interest on account of delayed realisation of dues.

Thus, failure to furnish the required guarantees/documentation in time to avoid shortages in supply and to ensure continuous pursuance of invoices resulted in delayed realisation of amounts due and loss of interest of Rs.1.88 crore.

7.4.4 Non-realisation of packing and forwarding charges

Hindustan Aeronautics Limited executed an order without finalising the terms of purchase order resulting in non-realisation of packing and forwarding charges of Rs.1.56 crore.

The Hindustan Aeronautics Limited (HAL) received (December 1989) a purchase order (PO) from Bharat Dynamics Limited (BDL) for the supply of a provisional quantity of 1280 structures for airframes for 'Prithvi' Missiles' based on the budgetary quote of Rs.65.62 lakh per set. The PO stipulated that the price was to be negotiated with no additional payment for packing and forwarding (P and F). Pending finalisation of the price, the Company commenced supplies to BDL from 1991-92 onwards and thereafter, in November 1992, furnished a revised quotation of Rs.84.80 lakh per set specifically indicating the P and F charges as extra. However, the Price Negotiation Committee (PNC) approved a price of Rs.68.78 lakh per set (August 1996) and reiterated this price in November 1997. Though there was a difference between the PO terms and the Company's quotation regarding P and F charges, the Company did not make any effort to get this issue resolved in the August 1996/November 1997 PNC meetings. BDL revised the quantity to be supplied by HAL in July 2001 to 1251 structures which were supplied by the latter. The Company, however, raised invoices at the basic rate of Rs.84.80 lakh per set plus P and F charges at 2.5 per cent on the basic rate (March 2003).

However, BDL made adhoc payments at the rates finalised by the PNC in August 1996/November 1997 and also informed the Company (November 2002) that they would not admit P and F charges. As such, an amount of Rs.1.56 crore towards P and F charges remained unpaid, which was provided for in the Accounts for the year 2003-04.

The Ministry stated (June 2004) that the issue of P and F charges had since been recommended (November 2002) for inclusion as agenda for discussion in the next PNC meeting. It further stated that, considering the programme of national interest for which

DRDL[♣] had already set up capital facility at HAL, the Company was not in a position to stop the supplies for want of settlement of payment terms.

The reply is not tenable in view of the following:

(i) Till 2001-02 P and F was charged extra and from 2002-03 these charges were built into man hour rate in respect of supplies to customers.

(ii) The Company's belated efforts in getting the issue included in the next PNC meeting only underlines the Audit viewpoint.

(iii) Audit's point is not about stoppage of supplies to BDL but about the Company's failure to get the issue of P and F charges resolved in the PNC meetings held in August 1996/November 1997.

Thus, executing an order without finalising the terms of purchase order resulted in non-realisation of P and F charges of Rs.1.56 crore.

Mazgaon Dock Limited

7.5.1 Unrealistic estimates for the construction cost of a Tug

The Company incurred a loss of Rs.11.90 crore due to unrealistic estimation while tendering for the construction of a Tug for Jawaharlal Nehru Port Trust.

Pursuant to tenders invited by Jawaharlal Nehru Port Trust (JNPT) for design, construction, supply and delivery of a 45 MT Propulsion Tractor Tug, Mazagon Dock Limited (Company) decided to submit its bid and prepared (October 1997) an estimate of Rs.19.67 crore on the basis of the following factors:

(i) The Tug would be constructed by deploying 28,500 man-days for which the labour cost was estimated at Rs.1.04 crore;

(ii) The total material cost was estimated at Rs.17.24 crore, bulk of which (Rs.13.34 crore) included imported items;

(iii) To overcome the stiff competition in the market, it was proposed to load the cost with only 50 per cent labour overhead and 2.5 per cent material overhead. Accordingly, the labour/ material overheads and builders risk insurance (BRI) were estimated at Rs.78 lakh, Rs.41 lakh and Rs.20 lakh respectively.

Although the above-cited estimate was already exclusive of any profit element, the Company submitted (November 1997) its quotation at a further reduced price of Rs.18.10 crore plus Sales Tax (with an estimated profit element of Rs.12.73 lakh) on the assumption that there was scope for reducing the cost by Rs.1.90 crore by bringing down the cost of imported items through negotiation with suppliers and getting the work executed through sub-contractors. The provision for reimbursement of loss on account of

[♣] ***Defence Research and Development Laboratory***

foreign exchange variation (FEV), which was in the original quotation, was also withdrawn at the stage of revised quotation (March 1998) in spite of the fact that the Company had estimated an increase on this account to the extent of Rs.61.20 lakh.

Accordingly, JNPT issued Letter of Acceptance (LOA) (March 1998) and executed an agreement with the Company (May 1998). As per the agreement, the Tug was to be constructed at a firm price of Rs.20.45 crore, (later enhanced to Rs.20.60 crore including Sales Tax of Rs.2.37 crore). The Tug was to be delivered within a period of 18 months from the date of LOA i.e. by September 1999 or within such extended period as might be allowed by the Deputy Conservator in writing under certain circumstances. In the event of any delay in delivery, the Company was liable to pay liquidated damages (LD) at 0.25 per cent per week of such delays, subject to a maximum of 5 per cent of contractual value.

As against the scheduled date of delivery of September 1999, the construction of the Tug was actually completed in February 2000 and after executing the registration formalities, the Tug was delivered to JNPT in April 2000, entailing a delay of seven months. The total cost incurred in the construction of the Tug was Rs.29.18 crore as against the contract price of Rs.18.23 crore. Further, due to delay in the supply of the Tug, JNPT recovered Rs.95 lakh as LD. The Company incurred a total loss of Rs.11.90 crore in the construction of the Tug.

The loss of Rs.11.90 crore suffered by the Company was mainly due to incurring Rs.6.92 crore towards labour cost (including labour overhead: Rs.28 lakh), which was not envisaged in the revised estimates, as the work was to be executed through sub-contracting at an estimated cost of Rs.1.50 crore. Further, as against the saving of Rs.1 crore in the material cost envisaged in the revised estimates, there was an increase in the material cost by Rs.3.85 crore.

In the construction of the Tug, the Company incurred a cash loss of Rs.3.60 crore as the expenditure on direct material (Rs.19.53 crore) and direct expenses (Rs.2.30 crore) alone exceeded the contract price (Rs.18.23 crore) leaving the labour cost (Rs.6.64 crore) and other overheads (Rs.71 lakh) totally unrecovered.

Out of the cash loss of Rs.3.60 crore, the loss of Rs.3.13 crore occurred due to avoidable factors like (i) mismatch in the technical specifications of gear box contemplated in the purchase order: Rs.60 lakh. (ii) Non-provision towards liability on account of FEV amounting to Rs.1.56 crore in the estimated cost and (iii) non-inclusion of provision/clause in the contract for the refund of statutory duties/taxes in the contract price resulting in expenditure of Rs.97 lakh towards payment of octroi which had to be absorbed by the Company.

In reply, the Management stated (April 2003) that the order position in 1996-97 was very low and MDL had spare capacity to undertake shipbuilding work. It was, therefore, necessary to look for commercial orders and also for harbour craft constructions to effectively employ the available resources. The cash loss incurred in the project could not be avoided due to the above factors.

Even considering the Management contention that the work was taken departmentally in order to utilise the idle manpower/spare capacity, the loss to the extent of Rs.3.13 crore was avoidable for the following reasons:

(i) The additional expenditure of Rs.60 lakh on the modification of the gearbox could have been avoided if the specific technical requirement of motors had been ascertained before placing the order on subcontractor for execution of the job.

(ii) From the time of submitting the quotation (November 1997) to final negotiation (March 1998) the cost implication due to FEV worked out to Rs.61.20 lakh. The Management should have assessed the possible future increase in cost and built it into total cost since the project involved more than 75 per cent imported components when JNPT wanted firm cost to be quoted.

(iii) The Company, for the payment of statutory duties/taxes, should have insisted on inclusion of provision in the contract for the refund of such amounts paid by it.

It would, thus, be seen that while attempting to utilise the available resources and accepting the order for construction of the Tug, the Management not only lost sight of the fundamental concept of commercial viability but also defaulted in making correct estimation while tendering. This resulted in a total loss of Rs.11.90 crore (including Rs.95 lakh towards LD) to the Company.

The matter was reported to the Ministry in December 2003; its reply was awaited (September 2004).

CHAPTER 8: DEPARTMENT OF FERTILIZERS

The Fertilisers And Chemicals Travancore Limited

8.1.1 Undue benefit to the dealers

The Company did not comply with the Ministry's directions in realisation of the price difference from the dealers, which resulted in undue benefit to the dealers and loss of revenue of Rs.3.25 crore.

The Ministry of Chemicals and Fertilizers directed the Chief Executives of Public Sector Undertakings/Co-operatives in the Fertiliser Industry (February 2000) that in case of any price difference between Maximum Retail Price (MRP) mentioned in the Product Release Order and MRP applicable on the day of actual delivery, the difference would be payable by the customers (dealers) before the delivery was effected.

The Government of India revised (February 2002) the prices of fertilisers with effect from 28 February 2002. The base rate of concession in MRP i.e., subsidy was brought down by Rs.450 per MT for Di Ammonium Phosphate (DAP) and Rs.400 per MT in respect of Complex fertilisers. The Fertilisers and Chemicals Travancore Limited (Company) was holding 75,297 MT of complex fertilisers and 5,254 MT of DAP already invoiced between 1 February 2002 and 27 February 2002 but not lifted by the dealers. The goods were physically delivered to customers on various dates between March 2002 and July 2002. On account of the price increase in the interregnum, the customers were liable to pay the difference in prices which worked out to Rs.3.25 crore. The Company, however, did not realise the amount due on account of price difference.

The Management stated (April 2004) that the system of issuing release order as envisaged in the Government circular was not being followed by the Company. The Company issued delivery order to the dealer to lift the goods. Invoice was raised as per price and terms prevalent on the date of delivery order. When invoice was raised the title of the goods got passed on to the buyer and change in price announced subsequently was, therefore, not applicable. As per legal opinion obtained by the Company, the Ministry's suggestion to charge the price prevalent on the date of lifting the material was not consistent with commercial law and the clause suggested by the Ministry could not be incorporated in respect of sales made.

The reply is not tenable as the legal opinion had also suggested (March 2000) that if the enhanced price was to be charged, then the Company, instead of raising the bill, had to enter into an agreement for sale providing for payment of price at the rate prevalent on the date of delivery. In such cases, sale takes place on the date of delivery and not on the date of agreement.

Accordingly, the Company should have modified the sale procedure as suggested by the legal advisor so as to comply with the Ministry's instructions.

Thus, the Company's failure to modify the sales procedure resulted in higher claims for subsidy from Government on the quantities invoiced but not lifted. There was no documentary evidence with the Company to establish that the dealers, in turn, passed on the benefit to the end-users (farmers). This resulted in undue benefit to the dealers and loss of revenue of Rs.3.25 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

8.1.2 Loss in the procurement of rock phosphate

The Company procured raw material from the same vendor through two different tenders with the same delivery schedule and incurred extra expenditure of Rs.1.77 crore.

The Fertilizers and Chemicals Travancore Limited (Company) floated a Tender Enquiry No. R-16 (February 2002) for procurement of one lakh MT of Rock Phosphate (phosphate) to two pre-qualified suppliers, JPMC[♣], Jordan and OCP[♠], Morocco. JPMC, which was L1 offered a different grade of phosphate not used in the plant earlier; however, this was considered on the ground that it was cheaper by Rs.74 per MT than that of OCP. The Company placed Purchase Order (March 2002) on JPMC for one lakh MT at the price of US$ 48 per MT CFR Kochi with delivery period from April to August 2002, 25,000 MT on trial basis and 75,000 MT subject to results of trial production.

The first shipment reached Kochi on 9 April 2002. Performance study revealed some problems on product granular strength in NP Plant and JPMC suggested increasing aluminium oxide in the further supplies of phosphate to eliminate the problem. The Company decided to procure another shipment of 25,000 MT on trial basis and it reached Kochi on 16 June 2002.

As the Company was not hopeful of getting production results till the end of June 2002, it floated another limited tender enquiry (No. R-17) to the same suppliers in June 2002 for procurement of one lakh MT of proven grade phosphate with a delivery schedule from July to December 2002. The enquiry was floated to overcome the perceived production problems with unproven JPMC phosphate and prevent stockout situation. The offer of OCP was L1 and was also technically acceptable. After negotiations, OCP reduced their price to US$ 53 per MT CFR Kochi and offered a further rebate of US$ one per MT in case order for the full quantity was placed.

The Company, however, placed order (June 2002) for just 25,000 MT at US$ 53 per MT (± 5 per cent) CFR Kochi on the grounds that the price offered by OCP was higher than JPMC's price in the previous tender enquiry (No. R-16).

In order to avoid a stockout situation caused by quantity reduction in R-17, the Company floated (September 2002) another tender enquiry (No. R-18) for supply of one lakh MT phosphate with delivery period of October to December 2002. On the basis of fresh

[♣] ***Jordan Phosphate Mines Company Limited, Jordan***
[♠] ***Office Cherifien Des Phosphate – Morocco***

tender (R-18), Purchase Order was placed again (30 September 2002) on OCP for full quantity of one lakh MT at the price of US$ 57 per MT CFR Kochi. The Company's decision of restricting the procurement to 26,250 MT under the previous tender (R-17) and procuring the balance 73,750 MT phosphate at higher price through the next tender (R-18) resulted in extra expenditure of Rs.1.77 crore.

The Ministry stated (July 2004) that the quantity of one lakh MT (R-17) was limited to 26,250 MT on OCP in order to get price advantage under previous tender (R-16). They further stated that increase in the price of rock phosphate under R-18 was on account of increase in freight rate, which could not be foreseen.

The reply is not relevant as the Company should have availed the quantity rebate and procured the entire quantity at the rate of US$ 52 per MT under R-17 instead of inviting fresh tender and procuring the phosphate at US$ 57 per MT under R-18 from the same supplier with the same delivery schedule. In fact the quantity reduction under the previous tender (R-17) only placed the Company in a disadvantageous position since it was forced to procure the shortfall quantity at higher rates from the same vendor through the next tender (R-18).

8.1.3 Loss due to system lapse

Non-observance of sales procedure and laxity in credit control led to non-recovery of Rs.64.94 lakh from a dealer for over two years.

As per the credit policy of the Company, sale of fertilisers is to be made, as far as possible, against Cash/Demand Draft. When credit becomes inevitable, credit upto 30 days from date of supply may be allowed after obtaining adequate security. As per the Company's Finance and Accounts Manual, credit without security may be allowed to select customers on the personal responsibility of the SRM/AM[*] concerned. To have an adequate credit control in place, the Manual provides that a statement of overdues position as on fifth of every month be sent by SRMs/AMs to Deputy General Manager (Finance and Accounts) for submission to the Executive Director/Finance Director (FD)/Chairman-cum-Managing Director (CMD).

Audit scrutiny (June 2003) revealed that the Company sanctioned to its dealer M/s. Bhaskara Fertilisers, Tadepalligudam (Andhra Pradesh) (August 2001) selective credit upto Rs.87 lakh (without security) in addition to a secured credit limit of Rs.29 lakh. Prior to the sanction the Company was required to satisfy itself with the credit worthiness of the dealer with reference to the balance sheet of the firm. This was not done. Instead, the Company merely relied upon the recommendation of the Sales Department in response to a request from the dealer for extending the unsecured credit facility.

After lifting the goods availing the unsecured credit facility, the dealer was not prompt in settlement of invoice amount within the credit period. The Company on its part could only encash (March 2003) the Bank Guarantee of Rs.29 lakh as remedy for breach by the dealer. In respect of the overdue sum of Rs.64.94 lakh as on 31 March 2003 for which there was no security, the Company relied upon the assurances given by the party from

[*] ***Senior Regional Manger/Area Manager***

time to time. The Company, having lost hopes of realising the dues through persuasion, initiated legal action against the dealer (July 2003) and also initiated disciplinary proceedings against its own officers. Both were in progress (May 2004).

The Management in its reply (May 2004) confirmed the facts and figures of the case. While doing so, the Management disagreed with the Audit comment that the Company merely relied upon the recommendations of its Sales Department.

The Management has not denied that credit worthiness was not verified with reference to the balance sheet of the dealer. The fact that the Company had to take disciplinary action against its own officers on one side and create necessary provision for doubtful debts in its accounts (2002-03) confirm the Company's lapse in ensuring credit control in accordance with the laid down procedure.

Thus, a sum of Rs.64.94 lakh remained locked up with the dealer for over two years for the realisation of which the Company was caught up in avoidable litigation.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Madras Fertilizers Limited

8.2.1 Undue benefit to the dealers

The Company's failure to charge enhanced rates resulted in undue benefit to dealers and higher claim of subsidy from the Government to the tune of Rs.77.80 lakh.

The Ministry of Chemicals and Fertilizers directed the Public Sector Undertakings/Co-operatives in the fertiliser industry (February 2000) that in the case of any price difference between Maximum Retail Price (MRP) mentioned in the Product Release Order and MRP applicable on the day of actual delivery, the difference would be payable by the customers (dealers) before the delivery was effected.

The Madras Fertilizers Limited (Company) in the process of sale of goods used to issue a Warehouse – Release Order-cum-Product-Acceptance document (WRO-PA) to the dealers indicating therein the quantity sold, value of the product and the dealers' liability to pay the price prevailing or applicable on the date of actual delivery.

The Company was holding 18,525 MT of 17-17-17 grade complex fertilisers sold to its dealers in Vellore, Salem, Trichy and Madurai regions in the last week of February 2002 (upto 27 February 2002) but not lifted by the them. To accommodate the dealers' request for book-transferring the unlifted quantities, the Company transferred such quantities to dealers' accounts on 27 February 2002. The Government of India increased the maximum retail price of 17-17-17 grade complex fertilisers by Rs.420 per MT effective from 28 February 2002. The dealers, however, lifted the goods on various dates during the months of April to June 2002 at pre-revised prices. Although a sum of Rs.77.80 lakh (18,525 MT x Rs.420) being the increase in value of goods at prices prevailing on the

date of actual delivery fell due from the dealers, the Company did not realise the price difference (June 2004).

When this was pointed out in Audit (April 2004) the Management stated (June 2004) that the issue of collecting the price differential did not arise since title to the stocks was transferred to the dealers on 27 February 2002 immediately on transfer of stocks to their account. They added that each State Agriculture Department had a mechanism to ensure that products available with the dealers prior to revision of prices were sold only at old prices.

The Management's reply is not tenable as the Company failed to charge the rates prevailing on the date of delivery, despite provision in the WRO-PA, to implement the instructions issued by the Department of Fertilizers (February 2000). Further, the Management agreed that they did not have the infrastructure to check that the dealers passed on this benefit to the end users.

Thus, the Company's failure to charge enhanced rates from the dealers on the fertilisers sold but delivered subsequent to price-increase, resulted in higher claim of subsidy from the Government and undue benefit to the dealers to the extent of Rs.77.80 lakh.

The matter was reported to the Ministry in April 2004; its reply was awaited (September 2004).

National Fertilizers Limited

8.3.1 Avoidable expenditure on minimum demand charges

Failure of the Company in assessing actual power load requirement resulted in an avoidable expenditure of Rs.11.86 crore.

The Company entered into an agreement (May 1992) with the Bhakra Beas Management Board (BBMB) for supply of power to the old plant and associated services at its Nangal Unit for a period of five years from July 1991 to June 1996. The agreement entitled the plant to draw energy not exceeding 25 MW power at 80 per cent load factor at the prescribed tariff. The plant was also required to maintain a minimum load factor of 60 per cent of contract demand over each year (January to December) failing which it was liable to pay energy charges for units worked out on the basis of 60 per cent load factor.

The agreement expired in June 1996 and the unit continued to draw power as per old agreement on provisional basis till a new agreement was signed (December 2002) retrospectively for the period 1 July 1996 to 31 December 2003. The contract demand as per the new agreement was fixed as under:

1 July 1996 to 31 May 2000	25 MW at 80 per cent load factor with minimum load factor of 50 per cent
1 June 2000 onwards	21 MW at 85 per cent load factor with minimum load factor of 50 per cent

Due to hike in the price of Naphtha (used as a feedstock in the plant) and decontrol of Calcium Ammonium Nitrate, the plant became unviable and was shut down since October 1999. The demand of power, therefore, came down from 17 MW to around 6 MW. The plant was restarted in June 2001 but could be operated only intermittently depending upon the market prices and demand. Due to consumption of power less than the minimum load factor, the Company had to pay Rs.11.86 crore as minimum demand charges during 1999 to 2001 and 2003 for electricity not consumed, which was avoidable.

Thus, improper assessment of the load requirements and finalisation of new agreement (December 2002) with only marginal reduction in the load factor/contract demand led to payment of minimum demand charges.

The Ministry stated (July 2004) that

(i) Though the drawals were in the range of 5.02 MW to 6.37 MW during November 1999 to June 2000, the contract demand was not proposed for reduction to this level as the plants were temporarily closed due to price hike of Naphtha due to which the sale of Calcium Ammonium Nitrate was not becoming viable. Regular watch on the prices of Naphtha was kept in order to restart the plant.

(ii) Seeing the overall scenario, the Company did not consider it prudent to reduce the contract demand below 21 MW in June 2000.

(iii) Change in economic factors in subsequent period permitted the Company to run the plant and the average drawals were of 11MW to 17.92 MW during this period.

The contention of the Ministry is not tenable as

(i) The Company's demand for power decreased from 17 MW to around 6 MW during October 1999 to May 2001.

(ii) The changes were not temporary because these were due to changes in the Government policy. The price of Naphtha was linked with the import parity price and Calcium Ammonium Nitrate was decontrolled which led to the plant becoming uneconomical and unviable. Even during 2002 when the plant operated, the average annual consumption was only 14.28 MW.

(iii) The short drawal of power during the year 2003 again resulted in payment of minimum demand charges of Rs.3.48 crore.

(iv) The Company got the contract demand reduced to seven MW since October 2004.

Thus, the failure of the Company to assess the power load requirements resulted in avoidable expenditure on minimum demand charges of Rs.11.86 crore.

CHAPTER 9: MINISTRY OF FINANCE

Insurance Division

General Insurance Corporation of India

9.1.1 Non-recovery of dues resulting from inadequate follow-up

Inadequate follow-up coupled with acceptance of insufficient security led to loans amounting to Rs.206.67 crore (including interest) given by the General Insurance Corporation of India and its subsidiaries becoming bad and doubtful of recovery.

In order to maximise the yield on investment and to augment the working capital requirement of assisted companies, the General Insurance Corporation of India (Corporation) had been placing funds by way of unsecured deposits in the form of short-term loans with companies. These deposits were placed for a maximum period of one year and were renewed for a further period of two years provided the Companies met the laid-down criteria. The Corporation was placing these unsecured deposits by obtaining demand promissory notes of the companies and personal guarantee of the Chairman/Managing Director of the companies as collateral securities.

The Corporation decided (October 1991) to have a participation scheme under which these unsecured deposits placed as short-term loans (STL) could be shared equally by it with the four insurance Companies viz. the New India Assurance Company Limited (NIA), the National Insurance Company Limited (NIC), the United India Insurance Company Limited (UIIC) and the Oriental Insurance Company Limited (OIC) which were then its subsidiaries. All the functions for sanction and disbursement of short-term loans to the beneficiaries and their realisation were to be performed by the Corporation after ensuring the compliance of the laid-down criteria. The subsidiaries were required to place the fund with the Corporation, as and when demanded, towards their share.

Out of the principal amount of Rs.191.47 crore placed with 99 companies as on 31 March 1997, and also short term loans disbursed/renewed from 1997-98 to 2001-02, the principal amount of short-term loan and interest thereon of Rs.58.33 crore and Rs.148.34 crore, respectively, sanctioned and disbursed to 41 companies in the private sector (as detailed in Appendix-I) under the participation scheme had become non-performing assets (NPA) as of 31 March 2004. While the Corporation had not recognised the interest as income, it made provision for 100 per cent of principal amount.

Analysis by Audit (July 2004) showed that out of these 41 companies, only in eight cases (Bhor Industries, Beta Industries, Blue Blends (India) Limited, Choksi Tubes Company Limited, Emtex Industries, Ganesh Benzoplast Limited, Indo Nippon Chemical Company Limited and Manekla Harilal Mills Limited) the Corporation could recover the interest for the full year from the date of renewal of deposits. Out of the balance 33 cases, while no interest was received in 12 cases (Atash Industries (India) Limited, GSL (India) Limited, Grand Foundry Limited, HMG Industries, BST Manufacturing Limited, Iaec

India Limited, Krishna Filaments Limited, Madhumilon Syntex Limited, Seshasayee India Limited, Vikram Projects Limited Modern Terry Towel Limited and Western Paques (India) Limited), in the other 21 cases, interest was received only for part of the year.

The review of short-term loans sanctioned and disbursed by the Corporation revealed the following deficiencies:

(i) Out of 41 cases, even though personal guarantees from Chairmen/ Managing Directors were obtained as collateral security in 37 cases, the same were not invoked when the interest dues and/or principal dues, went in arrears. In seven (Beta Naphthol Limited, Blue Blends (India) Limited, Dewan Rubber Industries Limited, Eupharma Laboratories Limited, Shaan Interwell (India) Limited, Precision Fasteners and Paam Pharmaceuticals Limited) out of 37 cases, legal notices were issued to the guarantors but further legal proceedings were not continued.

(ii) Similarly, the demand promissory notes obtained from 23 out of 41 cases were not invoked by presenting the same for collection as required under the statutory provisions of the Negotiable Instruments Act. With the result, the Corporation could not take up further legal proceedings.

(iii) In nine out of the 41 cases, the Corporation had also Non Convertible Debenture (NCD) exposure with these companies. In two out of these nine cases (Modern Terry Towels Limited, Emtex Industries (India) Limited) despite delays in payment of interest on Non Convertible Debentures (NCDs) due to financial constraints, the Corporation disbursed the STL to these companies after recovering interest dues on NCDs.

(iv) In all these 41 cases, the Companies could not either pay the interest or repay the Principal amount as they became sick due to high interest burden and uneconomical operations. One Time Settlement was agreed to (June 2004) in three cases (IFB Industries, Seshasayee Industries Limited and Prakash Industries Limited) by accepting principal amount of Rs.4.50 crore in aggregate and waiving entire interest aggregating Rs.8.77 crore. In yet another case (Ganesh Benzoplast) the deposit and interest was restructured (April 2002) but the Company did not honour the commitment. In the other 37 cases the companies were either under rehabilitation or ordered for winding up, thereby making chances of recovery of outstanding amount bleak.

(v) In respect of one case i.e., M/s. Krishna Filaments Limited, the Corporation approved (February 1999) the short term loan of Rs.2 crore even though it was aware of the adverse financial conditions of the said company due to levy of anti-dumping duty against their products in European countries. Consequently, the company did not pay either interest or the principal amount and the matter was pending before BIFR.

The acceptance of the post-dated cheques was not a precondition in all cases for sanction of short-term loans. When the companies started making default since 1995-96, the Corporation, as a matter of abundant precaution, insisted on post-dated cheques towards principle/interest in a few cases.

Accordingly, in five cases {Krishna Filaments Limited, Vitara Chemicals Limited, Enkay Texofoods Industries Limited, Ganesh Benzoplast and Emtex Industries (India) Limited}, post-dated cheques for principal amount had been received. While the cheques of Emtex and Krishna Filaments Limited, were not presented on due date for the reason that the last interest cheques were returned unpaid, the cheques of M/s. Vitara Chemicals Limited, Enkay Texofoods Limited, and M/s. Ganesh Benzoplast, when presented, were returned unpaid. However, legal proceedings, except issuance of legal notices under Section 138 of the Negotiable Instruments Act, were not taken up for such dishonour.

As post-dated cheques were not obtained towards the interest and principal dues, the Corporation could not avail the opportunity of invoking section 138 of the Negotiable Instruments Act. Further, so long as timely legal action was not taken against non-payment of dues, obtaining of personal guarantee and demand promissory notes did not serve any purpose. The Corporation had also not safeguarded its interest by obtaining bank guarantee from the borrowers for effective recovery.

The Corporation had not formulated any guidelines to monitor situations wherein principal and interest were not recovered on due dates. It is also evident that evaluation carried out while extending the loan facilities to these institutions was not adequate, especially when the loans were not supported by adequate security. Thus, the absence of internal control system and lack of proper security, resulted in loss due to non-recovery of Rs.58.33 crore and Rs.148.34 crore towards principal and interest on STL, respectively, over periods ranging from one to 19 years.

In reply (September 2004) the Corporation, while accepting factual position of the STL cases, stated that, with the opening up of the economy and the impact of globalisation, performance of the corporate, especially mid-cap corporate, was affected adversely leading to the NPA situation from 1995-96 and onwards. It further stated that only when the corporate started defaulting in the subsequent period, the Corporation dispensed with the placement of its funds in short-term loan from 1997-98 onwards.

The Management replied that they did not invoke personal guarantees and demand promissory notes because they were not effective and by the time they could invoke Demand Promissory Notes most of the companies had been referred to BIFR.

The fact remained that when the Companies started defaulting from 1995-96 onwards, the Corporation should have reviewed its STL operation and imposed such conditions as were necessary to safeguard its financial interest in ensuring recovery of its dues. The statement made by the Corporation that loans were given only upto 1997-98 is also not correct because they continued giving loans up to 2001-02. Thus, the failure of the Corporation in imposing the appropriate conditions for ensuring timely recoveries coupled with its failure to take timely legal action for non-payment of dues, resulted in a situation where dues to the extent of Rs.58.33 crore and Rs.148.34 crore recoverable from 41 companies towards principal and interest on STL, respectively, became irrecoverable (March 2004). In view of the large amount involved and serious irregularities pointed out, action on the part of the Government is necessary to investigate the mater in order to fix responsibility.

The matter was reported to the Ministry in October 2004; its reply was awaited.

National Insurance Company Limited

9.2.1 Loss of premium in respect of Group Mediclaim Insurance Policy

National Insurance Company Limited suffered a loss of premium amounting to Rs.2.17 crore due to non-charging of additional premium on account of adverse claim ratio at the time of renewal of the policy.

The National Insurance Company Limited (Company) approved a tailor-made Group Health Insurance Policy in favour of Kolkata Police Family Welfare Centre in December 1998 by allowing a flat Group discount of 55 per cent subject to certain conditions which, *inter alia*, included that: -

(i) The policy must run all through below 80 per cent loss ratio. Whenever the incurred claim ratio exceeds 80 per cent, the renewal premium should be loaded so as to bring down the average incurred claim ratio of previous three years to below 80 per cent on "as if" basis; (ii) The policy is to be issued on 'Named basis'.

The Kolkata Divisional Office of the Company issued an unnamed tailor-made Group Mediclaim Policy to the Kolkata Police Welfare Centre (Insured) from 28 December 1998 to 27 December 1999 and renewed it upto 27 December 2003 despite adverse incurred claim ratio. This ranged between 151.31 per cent to 323.66 per cent in the previous three years. However, no loading of additional premium was charged on the renewal of policy for the years 28 December 2001 to 27 December 2002 and 28 December 2002 to 27 December 2003 to bring down the average incurred claim ratio to below 80 per cent on 'as if' basis as per the stipulated condition.

Thus, the Company suffered a loss of Rs.2.17 crore including Service Tax, for its failure to load additional premium on the basic rate on renewal of the policy in violation of its stipulated conditions of the Group Mediclaim Policy issued to Kolkata Police Welfare Centre. Besides this, un-named policy having risk of spurious payments of claims to unauthorised persons was issued to the Insured.

While accepting the Audit observations in January 2004, the Management stated that the Insured was requested for renewal of the policy on the 'as if' rate basis but the Insured did not agree to this. The policy was not renewed for the year 2003-04. The Management further stated that such instances would not recur in the normal course.

The Ministry admitted (June 2004) that there was lapse on the part of the Company in not loading the premium on renewal based on the past experience.

9.2.2 Avoidable loss due to failure to assess risk in time

Failure of the Company to assess Probable Maximum Loss of a risk in time resulted in avoidable loss of Rs.1.78 crore to lead insurer and co-insurers.

Indian Oil Corporation Limited (Insured) took two policies on Loss of Profit and Material Damage from National Insurance Company Limited (Company) and United India Insurance Company Limited (UIIC) respectively, as lead insurers, on which General Insurance Corporation of India (GIC) was to provide reinsurance.

According to the Indian Market Re-insurance Programme 1997-98 risks with Probable Maximum Loss (PML) exceeding Rs.15 crore were treated as Listed Risks which were required to be underwritten centrally by GIC. Where acceptance of risks exceeded sum insured of Rs.50 crore and above, the lead insurer should carry out inspection to assess the PML well in advance before underwriting risks and should submit a PML assessment report to GIC.

A Divisional Office of the Company at Tinsukia, Assam, as lead insurer with 35 per cent share of the risk, issued a Loss of Profit (LOP) Insurance Policy to the Insured for its Digboi Refinery covering the period from 1 May 1997 to 30 April 1998 for a sum insured of Rs.70.49 crore treating it as a medium-sized risk and without assessing PML.

However, it was only after occurrence of a fire in the premises of the Insured on 9 January 1998 that the Company assessed in March 1998 the PML for LOP at Rs.35.25 crore which came under the purview of 'Listed Risk'. In March 1998, UIIC, being the lead insurer for Material Damage (MD) risk for the same insured, also assessed the PML of the MD policy at Rs.60 crore. GIC declined (May 1998) to accept the risk as a Listed one with retrospective effect as prescribed details were sent to them much later after occurrence of the risk and loss. Moreover, reinsurance for LOP policy covering the Listed Risk of Digboi Refinery with a combined PML of Rs.95.25 crore for both LOP and MD should have been 24.9 per cent as per the Reinsurance Programme for 1997-98 instead of 3.75 per cent as was actually done by the Company considering the risk as unlisted.

The Company finally settled (February 1999) the claim at Rs.8.62 crore towards loss due to fire.

Thus, due to non-assessment of PML well in advance before underwriting the risk within a reasonable timeframe of one to three months, the consequently flawed re-insurance arrangement with the foreign re-insurer resulted in avoidable loss of Rs.1.78 crore to the Company and other co-insurers (the Company suffered Rs.62.36 lakh and co-insurers Rs.1.16 crore).

While accepting the Audit observations, the Management stated (January 2004) that the underwriting lapse might have occurred due to the lack of proper understanding on the part of the operating offices regarding the importance of PML assessment. They also stated that steps like proper training, orientation of officers and staff and improvement of computer systems and procedure had been taken to avoid recurrence of such errors.

The Ministry admitted (July 2004) that there was lapse on the part of the underwriting office of the Insurance Company in not assessing the PML well in advance.

9.2.3 Wasteful expenditure on unoccupied rented space

Delay in the appointment of architect and in finalising layout plan and interior decoration contract rendered an expenditure of Rs.1.03 crore towards payment of lease rent and municipal taxes for unoccupied space in a hired building, wasteful.

The Pune Regional Office (PRO) of the National Insurance Company Limited incurred wasteful expenditure of Rs.1.03 crore towards payment of lease rent and municipal taxes during the period from August 2000 to February 2004 for unoccupied space in hired building due to delay in appointment of architect and finalisation of layout plan and interior decoration.

PRO was occupying a floor space of 6,749 square feet at Asmin Plaza premises as against the then entitled carpet area of 10,055 square feet as per norms. The Board of Directors of the Company accorded approval (July 1998) to shift PRO to new premises on account of shortage of space.

Accordingly, PRO proposed (January 2000) to shift the office to the fourth floor of Pune Municipal Transport (PMT) Building measuring 8,800 square feet and to utilise the present premises for Divisions and other Departments. The Head Office of the Company approved the proposal (April 2000) and the Regional Office took possession of 8,800 square feet (carpet area) of PMT Building (August 2000).

The Company selected an architect for interior decoration of new premises (January 2001). The architect submitted (April 2001) a layout plan for interior decoration at an estimated cost of Rs.1.09 crore including cost of new furniture. As the cost was high, the Head office of the Company cut down the proposal of decoration in August 2001 by restricting the total cost to Rs.49.72 lakh (excluding furniture and flooring). PRO quoting the revised space norms (received in November 2001) of entitlement of 5,656 square feet (revised to 6,320 square feet) only, less than the space already in occupation, recommended (March 2002) surrender of the PMT premises, which was not agreed to by the Head Office of the Company.

After inordinate delay, approval was accorded in June 2003 for carrying out interior decoration of the new premises at a total cost of Rs.48.02 lakh against which an amount of Rs.31.58 lakh was spent till March 2004. PRO occupied the building on 8 March 2004. Thus, taking possession of the building without finalising the plan for occupation and interior decoration rendered the expenditure of Rs.1.03 crore incurred during the period from August 2000 to February 2004 (towards rent: Rs.81.35 lakh and taxes of the PMT building: Rs.21.44 lakh) wasteful.

The Management stated (August 2003) that the delay was unavoidable and their efforts had helped in savings by optimum utilisation of space and reduction in the cost of interior decoration. The Ministry endorsed (September 2003) the reply given by the Management.

The above contention of the Management/Ministry is not acceptable as incurring of wasteful expenditure could have been avoided if there was proper system to monitor and avoid the delays in decision-making and in the appointment of architect, finalisation of the layout/estimates and interior decoration contract.

9.2.4 Loss of premium

The Company suffered loss of premium amounting to Rs.32.62 lakh due to non-adoption of loading prescribed by the Tariff Advisory Committee.

The Tariff Advisory Committee (TAC), in its circular dated 4 May 2000 instructed the insurance companies to load 25 per cent of the full average rate of the perils covered under the Standard Fire and Special Perils Policy of Consequential Loss (Fire) and Industrial All Risks Policies issued effective from 1 May 2000. The Head Office of the Company forwarded (15 May 2000) the above instructions of TAC to all Regional Offices (ROs) for implementation.

Mumbai Regional Office (MRO)-I of the Company, did not, however, communicate these instructions to the Divisional Offices (DOs) and Branch Offices (BOs) under its jurisdiction till July 2002. In the absence of such instructions, the three DOs of the Company issued 12 Industrial All Risk Policies between October 2000 and June 2002 without loading the 25 per cent additional premium. This resulted in loss of premium of Rs.32.62 lakh.

The Management while accepting the facts stated (April 2003) that the efforts made by the DOs to recover the additional premium for the earlier period policies were in vain as the insured companies refused to make such payments for the expired policy period.

Thus, owing to the failure of MRO-I in circulating the tariff instructions, the Company was put to a loss of premium of Rs.32.62 lakh.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

The New India Assurance Company Limited

9.3.1 Shortloading of premium

The New India Assurance Company Limited issued Group Janata Personal Accident insurance policies to the Government of Andhra Pradesh for the years 2001-02 to 2003-04 without adequately loading the premium based on past adverse claims experience. This resulted in loss of revenue to the extent of Rs.87.75 crore.

A Hyderabad-based Divisional Office of the New India Assurance Company Limited (Company) has been issuing Group Janata Personal Accident policy (Policy) since 1998-99 to the Government of Andhra Pradesh. The Policy envisages cover to persons belonging to ‘below poverty line’ families in Andhra Pradesh against death resulting from accident caused by external, violent and visible means and the number of claims was restricted to 2,000 deaths during the period 1998-99 to 2000-01 and 3,200 thereafter.

The Company collected premium of Rs.15.10 crore on the Policies issued for the years 1998-99 to 2000-01. Against this, the incurred claims stood at Rs.58.30 crore and exceeded the premium collected by Rs.43.20 crore.

In view of adverse claim experience, the Chairman-cum-Managing Director instructed the Company (June 2001) *inter alia* to reduce the cap on the number of claims from 2,000 to 1,000 and to load the premium suitably to maintain the claim ratio at 70 per cent

which was in line with General Insurers' (Public Sector) Association of India (GIPSA) guidelines (May 2001).

However, the Policies were issued for the years 2001-02 to 2003-04 with loading of 50 per cent of the premium for 2000-01 and cap on the maximum number of claims was increased to 3,200. Non-loading of the premium to maintain a claim ratio of 70 per cent resulted in a loss of premium of Rs.87.75 crore to the Company.

The Management stated (June 2004) that the Chairman-cum-Managing Director granted approval after review and suitable changes at each renewal and therefore, there was no short-collection of premium. The Ministry endorsed the views of the Company (July 2004). The Company further stated (August 2004) that they were insurers of Andhra Pradesh Government for another scheme known as Gruharaksha and also insured their helicopters, which were profitable ventures and the loss ratio under these schemes put together did not exceed 100 per cent.

The reply is not tenable as the Company had incurred huge loss of Rs.51.20 crore (Incurred claims Rs.90.30 crore less Premium Rs.39.10 crore) for the years 1998-99 to 2002-03 in respect of this Policy. As per GIPSA guidelines each portfolio of client's account must be self-sustaining and non-tariff covers should be segmented to ensure that portfolio comprising non-tariff business does not produce loss. Despite this, the premium was not adequately loaded for the policies issued for the years 2001-02 to 2003-04 to cover past losses and maintain claim ratio at 70 per cent as per GIPSA guidelines. Further, other policies of the Company with Andhra Pradesh Government were not profitable enough to cover the huge loss sustained on this Policy, even the overall claim ratio of Government's account was around 94 per cent for the years 2001-02 and 2002-03 against the desired norm of 70 per cent.

Thus, inadequate loading of premium resulted in loss of premium of Rs.87.75 crore to the Company.

9.3.2 Blocking up of funds

Delay in finalising the contract of interior decoration of the newly acquired premises resulted in blocking of funds of Rs.4.19 crore and consequential loss of interest of Rs.91.90 lakh on the blocked capital.

The New India Assurance Company Limited (Company) decided (September 1998) to purchase an office accommodation at Sakinaka, for its Divisional Office to improve its business.

On completing the tender process, the Company entered into (June 2001) a Memorandum of Understanding (MOU) and paid Rs.1.63 crore by 15 January 2002. The Company also incurred an expenditure of Rs.16.40 lakh towards stamp duty and legal charges. The building at Sakinaka was ready for occupation in September 2001 and all legal formalities for vacating the premises at Kalina were completed by 30 January 2001. But the Management shifted the building at Sakinaka only on 27 January 2004 and Kalina premises were surrendered on 1 February 2004. This inordinate delay of 24 months resulted in blocking up of capital of Rs.1.79 crore and consequential loss of interest of

Rs.35.88 lakh (worked out at 10 per cent per annum) apart from avoidable payment of rent of Kalina Office premises to the extent of Rs.9.27 lakh for 24 months i.e. from February 2002 to January 2004 and loss of expected business increase.

For its Vikhroli Divisional Office also the Company decided (October 1998) to shift to a newly acquired accommodation at Ghatkopar (West) at a cost of Rs.2.40 crore as its lease deed of the present premises expired in March 1996. The Company acquired the possession of the premises in March 2002. But Vikhroli Divisional Office could not be shifted to the newly acquired premises pending interior decoration and furnishing even after a lapse of 28 months.

In reply the Management stated (May 2004) that as water and power connections were yet to be installed and full occupation certificate from Bombay Municipal Corporation was awaited, they could not shift to the new premises. The Company was reported to be contemplating legal action against the builder for enforcement of MOU. The Ministry concurred (July 2004) with the reply of the Management.

This resulted in blocking up of funds to the extent of Rs.2.40 crore and consequential loss of interest of Rs.56.02 lakh (worked out at 10 per cent per annum) for 28 months. Apart from above this also resulted in avoidable payment of rental charges of Rs.17.98 lakh for the period from April 2002 to July 2004.

Thus, due to lack of monitoring of control at the Board level, there was undue delay in occupying the newly acquired premises in the above two cases which resulted in blocking up of capital to the extent of Rs.4.19 crore and consequential loss of interest of Rs.91.90 lakh thereon in addition to payment of rental charges of Rs.27.25 lakh.

9.3.3 Avoidable payment of rental charges

Delay in utilisation of Company's own vacant premises due to improper planning resulted in avoidable payment of rental charges of Rs.3.27 crore.

The New India Assurance Company Limited (Company) incurred an avoidable payment of rental charges of Rs.3.27 crore for the period from April 2002 to March 2004 while keeping own premises vacant, which would have fetched rent of Rs.15.16 crore as per Company's assessment.

The Board of Directors of the Company, in the wake of amended Maharashtra Rent Control Act, directed the Company to formulate prospective planning for utilisation of space to optimum level (July 2001). The Company took back physical possession of five floors, measuring 22,423 square feet of its own building at New India Centre, Mumbai in April/May/December 2001. The then Chairman and Managing Director constituted a committee to examine the matter and submit a report (October 2001). The Committee consisting of two General Managers, Financial Advisor and Chairman and Managing Director approved the proposal of shifting six rented premises located in and around Nariman Point and Ballard Estate areas to the Company's own vacant premises at New India Centre (November 2001) and surrendering their existing premises. Mumbai Regional Offices I, II, and IV were authorised to take up the interior furnishing of the

respective floors allotted for housing six Divisional Offices (DOs) under their jurisdiction and ensure that DOs were shifted latest by 31 March 2002.

However, due to procedural delays and laxity in decision-making, the Company could not shift any of the offices from the rented premises to its own building except one DO located in Free Press area (May 2004). The Company took more than 15 months to identify architects and 27 months to entrust the work to the contractors after taking possession in April/May/December 2001. As a result, while Company's own commercial premises, which would have fetched a rent of Rs.200 per square feet per month, was kept vacant since April 2001 onwards, the Company continued to incur the rental charges.

Thus, in the absence of systematic planning to effectively utilise the vacant premises at New India Centre within a period of three months, the Company incurred an avoidable rental liability of Rs.3.27 crore from April 2002 to March 2004.

In reply the Management stated (August 2003) that being a Central Public Sector Unit (PSU), it had to ensure compliance of all commercial consideration as well as Central Vigilance Commission (CVC) guidelines while executing such relocations and that the delay was due to the procedure involved in finalising the tenders for big budget expenditure and administrative problems. The Company further stated that the selection procedure was almost completed and target date to start the work was end of September 2003 and it was expected to complete the work in three months. The Ministry endorsed (September 2003) the Management's views.

The reply is not tenable since compliance of CVC guidelines and other commercial considerations do not obstruct expeditious decision-making of a Central PSU if the work is executed in a transparent manner. The building was in prime location and required only interior decoration and electrical work. It had not been occupied so far (March 2004).

Thus, laxity in decision-making and monitoring at the level of top Management resulted in avoidable rental payment of Rs.3.27 crore by the Company while keeping its own premises vacant which would have fetched rent of Rs.15.16 crore as per Company's own assessment.

9.3.4 Irregular payment for procuring insurance business

The New India Assurance Company Limited reimbursed part of the expenses incurred by persons other than Insurance Agents for canvassing and procuring Mediclaim Policies, in violation of provisions of the Insurance Act, resulting in irregular payment of Rs.1.05 crore.

The New India Assurance Company Limited (Company) has been issuing Mediclaim Policies to Citibank cardholders since 1991. Citibank started using the services of their Direct Selling Agents (DSAs) who sell credit cards for sourcing the premium for Mediclaim Policies from January 2002 and the Company agreed to reimburse 50 per cent of the cost involved in utilising these services. The amount, thus, paid was Rs.43.09 lakh for the period January 2002 to March 2003 and Rs.62.37 lakh for the year 2003-04.

It was noticed in Audit that the DSAs secure premium for the Mediclaim Policy from the cardholders and are paid remuneration by the Citibank on the basis of the number of

persons who opt for the policy. This amounted to payment of remuneration for procuring insurance business. There was no evidence that either the bank or the DSAs were agents licensed by the Insurance Regulatory and Development Authority.

Section 40 of the Insurance Act, 1938, prohibits payment of any remuneration or reward whether by way of commission or otherwise for soliciting or procuring insurance business in India by any person other than an insurance agent. Insurance Agent means an insurance agent licensed under section 42 of the Insurance Act, 1938, who receives or agrees to receive payment by way of commission or other remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance. DSAs are not insurance agents and the reimbursements to Citibank of the payments to the DSAs amounted to payments to persons other than Insurance Agents and, therefore, was in violation of the said section.

The Company admitted (May 2004) to sharing of DSA cost for facilitating propagation of the insurance policy but contended that the same could not be termed as remuneration. The Company added that the DSAs were also engaged by Citibank to promote and popularise the Company's Good Health Policy although they were primarily utilised for promoting their credit cards, loan products, etc.; that the reimbursement by the Company to Citibank towards a fraction of the cost of such DSAs for propagation of Good Health Policy with the customers would not fall within the provisions of Section 40 of the Insurance Act. The Ministry endorsed (July 2004) the views of the Company.

The reply is not tenable as the Company was, in effect, sharing the remuneration to DSAs for soliciting and procuring insurance business from credit card members of Citibank while they (DSAs) were not actually insurance agents licensed to promote insurance business (for Company's medical and personal accident schemes). This is not permissible as per provisions of Section 40 of the Insurance Act. Consequently, the payment of Rs.1.05 crore was irregular.

9.3.5 Loss of revenue due to under-charge of premium

A Divisional Office charged lower premium in violation of instructions of Head Office, resulting in loss of Rs.74.19 lakh.

In response to an advertisement (September 1997) from the Bar Council of India, Bihar, for an offer for Accident Insurance Scheme to insure the advocates on roll of Bihar State Bar Council, Patna Divisional Office (DO)-I of New India Assurance Company Limited, (Company) negotiated with the Bar Council of India, Bihar and entered into an agreement (December 1997) to issue a tailor-made Group Personal Accident Insurance Policy administered by the Advocates Welfare Fund of the Bar Council of India for the State of Bihar (Insured). The agreement covered 69,017 advocates and employees on roll of Bihar State Bar Council for a period of 10 years with effect from 26 December 1997 with a sum insured of Rs.1 lakh for each member at a premium of Rs.30 per person.

The Company's circular of 8 October 1997 *inter alia* stated that the rate of premium on Janata Personal Accident Policy should be Rs.275 per person which could be reduced to a

minimum of Rs.137.50 per person after allowing 50 per cent group discount for the group size under coverage between 50,001 and 75,000.

While seeking approval for initiating the policy, the Head Office (HO) of the Company advised (September 1997) the Regional Office (RO) to go ahead with the proposal in line with the policy issued by Lucknow DO-I to the Bar Council of UP. It was, however, observed that the initial proposal of RO, Patna, was not in line with the policy issued by Lucknow-DO. Ultimately, the RO approached (January 1998) the HO for approval of the policy as a 'very special case' but the HO declined (February 1998) to do so since actual premium charged (Rs.30 per person) was below the existing premium rate of Rs.137.50 per person. However, in violation of this directive, the RO/DO went ahead with the policy. Thus, the Company lost revenue of Rs.74.19 lakh due to short recovery of premium @ Rs.107.50 per person. No recovery could be made for such short-charged premium from the insured.

In apprehension of generating heavy losses in continuing long-term policies of Janata Personal Accident, the Company decided (April 2002) to cancel all such policies. Accordingly, the Branch intimated to the insured, cancellation of the policy on 30 July 2002. The Branch had, however, already received claims of Rs.30 lakh, out of which Rs.17 lakh was paid till May 2004 against the aggregate premium receipt of Rs.20.71 lakh and the claim ratio of 145 per cent.

The Management stated (August 2004) that the Divisional In-charge of the underwriting office had accepted the proposal without the approval of the competent authority and the case had been referred to Vigilance Department for initiating administrative action against erring officials for violating market agreement. The Ministry endorsed the Management's views (September 2004).

9.3.6 Avoidable payment of claim

The Company incurred an avoidable expenditure of Rs.51.81 lakh due to inordinate delay in obtaining reinsurance cover for the policy issued to M/s. Hanil Era Textiles Limited.

The Mumbai Divisional Office of the Company issued an Industrial All Risk Policy for the sum insured of Rs.310.47 crore including the machinery breakdown (loss of profits) to the extent of Rs.20 crore to M/s. Hanil Era Textiles Limited (Insured) for the period from 29 January 1999 to 28 January 2000, which was further renewed upto 28 January 2001. While renewing the policy, the Company indicated time excess♦ of five days under machinery breakdown loss of profit. It was also mentioned in the policy that the premium charged was provisional and subject to approval of final rating/terms by TAC.

TAC in its letter dated 18 February 2000 delegated the authority for rating to the insurer with effect from 31 December 1999. The proposals for Industrial All Risk Policies with machinery breakdown (loss of profits) cover were required to have acceptance of rating/terms by the re-insurers. The Company, after the lapse of more than four months,

♦ ***'Time excess' of 5 days means that insurer will not bear any loss of profit (including all standing charges) which may have occurred for the first five days after machinery breakdown***

approached re-insurer in July 2000 to submit its quotation for the above-cited cover. The re-insurer, after the lapse of five more months, submitted its quote in December 2000 and further clarifications in January 2001 while the policy was valid upto 28 January 2001. The re-insurer had quoted time excess of 15 days for machinery breakdown loss of profit as against 5 days mentioned by the Company in the initial policy. The insured did not accept the time excess of 15 days communicated to them by the Company (24 January 2001).

Meanwhile, the insured reported the breakdown of turbo charger of DG set No.1 on 18 October 2000 and lodged claim for Rs.4.04 crore inclusive of loss of profit based on the time excess of five days. The surveyors, based on 15 days time excess, recommended payment of Rs.82.19 lakh to the insured.

However, the insured refused to accept the amount of Rs.82.19 lakh based on 15 days time excess since provisional policy indicated time excess of five days only and went to court for settlement of claim applying the time excess of five days as deductible. The Civil Judge, Senior Division, Panvel, passed an order (3 May 2002) directing the Company that all claims of the insured be paid after deducting time excess of the first five days. The Company went in appeal to the High Court, Mumbai, but due to considerable delay of 242 days in filing the appeal as against 30 days from the date of passing the orders plus the copying days specified for appealing the above order of the Civil Judge, Senior Division, Panvel, the High Court, rejected the Company's application for condonation of delay. As a result of this, the Company paid Rs.1.34 crore on 8 April 2003 based on five days time excess to the insured instead of payment of Rs.82.19 lakh based on time excess of 15 days quoted by the reinsurer under the reinsurance arrangement with the Company. This resulted in an avoidable payment of claim of Rs.51.81 lakh to the insured.

The Management, while accepting the procedural delays in taking up the matter with the reinsurer, stated (May 2004) that the matter was taken up with the reinsurer M/s. Swiss Re before occurrence of loss and payment of claim had been as per court directives. The Ministry concurred (August 2004) with the reply of the Management.

The above contention of the Management/Ministry is not tenable, as due to the inordinate delay of more than four months in initiating the case with reinsurer for obtaining the re-insurance quote/support for the policy coupled with inadequate follow up with reinsurer to provide the reinsurance cover, which further resulted in delay of five months, the payment of Rs.51.81 lakh to the insured could have been avoided. Further, the Management's contention that payment had been made as per court directives was also not acceptable as the Company's appeal was rejected in the High Court due to inordinate delay of 242 days in filing the appeal.

9.3.7 Loss of premium

The Company lost a premium of Rs.46.43 lakh due to not levying the rating for the 'Add-On covers' such as flood, storm and tempest and earth quake on the Jewellers Block Insurance Policies.

The Jewellers Block (JB) Insurance Policy, a specially devised policy meant for both retail and wholesale diamontaries and jewellers, was designed to cover the risk involved in their trade. The policy coverage was split into four sections namely Section I - the display of materials in shops; Section II -custody of material with various agencies and persons such as partners, directors, brokers, cutters etc.; Section III - material in transit through Angadias (i.e., couriers), Post Parcel and Air Freight etc. and Section IV - furniture and fixtures in the premises with specific sum insured under each section as opted for by the insured.

The JB insurance policies so issued, covered the perils like fire, explosion, lightning, burglary, housebreaking, theft, hold-up, robbery and riots and strike damage only. The premium rating was in the detariffed regime allowing the insurance companies to fix their own rates for the policy cover. In addition to these covers, in case any insured person desired to have 'Add-On covers' for perils like earthquake and flood, storm and tempest, premium rating as prescribed under the All India Fire Tariff for these perils would have to be additionally levied by the under-writing offices.

In respect of 24 JB policies of 11 insured, issued by two Divisional Offices (Shree Pant Bhavan DO and Mani Mahal DO) of the Company in Mumbai for the period between 2001-02 and 2004-05, even though the said 'Add-on covers' were included in the policy documents, the premium thereof amounting to Rs.46.43 lakh was not recovered at the rates prescribed under the Fire tariff.

The lapse on the part of the Company in extending the 'Add on cover' without recovery of premium resulted in loss of premium amounting to Rs.46.43 lakh.

The matter was reported to the Management/Ministry in July 2004 and October 2004 respectively; their replies were awaited.

The Oriental Insurance Company Limited

9.4.1 Short realisation of premium

Failure to charge premium at prescribed rates and also not to include a special condition in the policy document that the premium charged was provisional and subject to final rating/approval by TAC resulted in short realisation of premium by Rs.4.29 crore.

The Tariff Advisory Committee (TAC) vide its circular dated 27 March 2001 issued instructions to all the Insurance Companies to, *inter alia,* fix 1.77 per cent (alternately Rs.17.70 per mille) as provisional rate with 21 days time excess♦ for Machinery Loss of profit (MLOP) cover under Industrial All Risk (IAR) policies issued/renewed on or after 31 March 2001 and to refer the case to TAC within one month for the finalisation of the rate and time excess. The Head office of the Company circulated the above-cited

♦ ***'Time excess' means that the insurer will not bear any loss of 'gross profit (including all standing charges), which may have occurred for the first 21 days after machinery breakdown.***

instructions of TAC among its underwriting offices on 28 March 2001 for implementation.

The Ahmedabad Divisional Office-IV (DO) of the Company issued IAR Policy for the period from 1 April 2001 to 31 March 2002 to the Gujarat Powergen Energy Corporation Limited (GPEC) covering 655 MW Gas Power plant at Paguthan, District Bharuch for MLOP for Rs.700 crore (later revised to Rs.628.85 crore) with 18 months indemnity period and time excess of 21 days. The DO of the Company, while charging premium for MLOP on 1 April 2001 at the rate of Rs.11.70 per mille and collecting Rs.8.60 crore (Premium: Rs.8.19 crore and Service Tax: Rs.41 lakh) did not indicate in the special policy conditions of the policy that the above cited premium was provisional and subject to final rating/approval by TAC. The DO did not refer the case to TAC for approval within one month in line with TAC's instructions of 27 March 2001.

The DO approached (February 2002) TAC at the time of renewal of the policy for approval from 1 April 2002 to 31 March 2003. TAC assessed the rate for MLOP cover at 1.952 per cent (Rs.19.52 per mille) with the time excess limit of 21 days and advised the Company to apply the same for both policy periods i.e. 2001-02 and 2002-03 (7 March 2002).

Accordingly, the DO raised a demand against GPEC (March 2002) for realisation of differential amount of premium of Rs.4.29 crore for the insurance policy for the period from 1 April 2001 to March 2002. Since the policy for the year 2001-02 was expiring on 31 March 2002 and the Company had not mentioned in the special conditions of insurance cover that the rates given therein was provisional and subject to TAC approval, the insured (GPEC) not only refused to pay the differential amount but also shifted its business to a private insurer for the policy period 2002-03 (March 2002). This resulted in short realisation of premium of Rs.4.29 crore.

In reply the Management stated (August 2004) that prior to receipt of TAC's revised instructions, the firm rate for the said mega policy for 2001-02 was agreed with the insured based on the reinsurer's (Swiss-Re) quotes, which was as per the existing instructions and that the rates so agreed could not be revised at a later date. It was added that TAC's circular of 18 April 2001 contemplated that the revised rates/instructions would be effective from 8 April 2001 and hence the premium charged was in order. The Ministry concurred with the reply of the Management (August 2004).

The above contention of the Management is not tenable as instructions contained in 'Technical Department' circular of the Company dated 28 March 2001 were amply clear and contemplated that the premium at the provisional rate of Rs.17.70 per mille was to be charged subject to final rate confirmed by TAC. The Head office of the Company vide its letter dated 28 January 2002 to the Regional Office, Ahmedabad, also stated that the charging of MLOP premium rate as per Swiss-Re quote certainly was not in line with the Head Office circular. TAC's circular dated 18 April 2001 was not applicable as the same was issued to cover fertilizer plants in addition to power plants, petrochemical plants and other plants covered in its earlier circular dated 27 March 2001.

The DO had violated the instructions of the Head Office on rating and issuance of policy on provisional basis. Had the policy been issued on provisional basis, the Company could

have recovered the differential premium of Rs.4.29 crore (without reckoning the refundable premium withheld by the Company) on the basis of rating approved by TAC.

9.4.2 Loss due to charging of lower premium

The Company suffered a loss of Rs.2.84 crore due to application of incorrect Tariff and consequent lower rate of premium.

As per the revised All India Fire Tariff (effective from 31 March 2001) premium on Tank Farms/ Gas holders located outside the compounds of Industrial/Manufacturing Risks is chargeable at the rate of Rs.3.50 per mille♦

A Delhi based divisional office of the Company issued three fire policies to the Indian Oil Corporation Limited, Noida in respect of their tankages and contents at Panipat, Haldia, Vadinar, Viramgam and Chaksu for storage of petroleum products of their Pipelines Division for the period from 1 August 2001 to 31 July 2002 under the Petrochemical Tariff charging a lower rate of premium ranging from Rs.2 per mille♦ to Rs.2.125 per mille.

These risks were not rateable under the Petrochemical Tariff because Petrochemical Tariff is not applicable to bottling plants of LPG and similar material located outside the Refinery premises. The tanks of Pipeline Division were located outside the refinery premises.

The Management stated (December 2002) that

(i) risk does not come under the purview of All India Fire Tariff (effective from 31 March 2001) as this was rated under Petro Chemical Tariff as per special rating norms of TAC of September 1989 for all the marketing division assets including tanks etc. of oil companies;

(ii) the risk profile of these tanks containing products of Pipeline Division is very much the same as that of Marketing Division; and

(iii) LPG Bottling plants only have been taken out of the Petro Chemical Tariff.

The Ministry endorsed (March 2003) the views of the Management.

The reply is not tenable since

(i) the orders of TAC of September 1989 were related to Marketing Divisions of the Oil Companies and not to the Pipeline Divisions;

(ii) the risk profile of the tankages of Marketing Division and Pipeline Division is not similar because the Marketing Division deals in finished products only while the Pipelines Division deals in finished products as well as crude oil; and

♦ ***per Rs.1,000 of the sum insured***

(iii) further, as per note 2(b) below Para 1.1 of the revised Petro Chemical Tariff not only LPG Bottling Plants but also the similar material located outside the refinery premises are excluded from the scope of the Petrochemical Tariff.

Thus, due to charging of lower rate of premium the Company suffered a revenue loss of Rs.2.84 crore.

9.4.3 Extra payment due to delay in settlement of a case

Delay in settlement of claim by the Company resulted in extra payment of Rs.1.63 crore apart from avoidable litigation expenses of Rs.27.90 lakh

The Aligarh Branch Office of The Oriental Insurance Company Limited (Company) issued (March 1997) a marine cargo policy to M/s. Industries J Matas, SCA, Argentina (insured) covering 80 drums of oil for a sum of US$ 0.41 million (equivalent to Rs.1.48 crore) on warehouse to warehouse basis. The truck carrying the consignment from the port of discharge (Buenos Aires) to the warehouse of the consignee was hijacked (May 1997) and the cargo stolen. The insured preferred a claim on the Company for non-delivery of the entire cargo. The Company took about three months to issue instructions to their surveyors and they took five months to submit their final report as against normal period of three weeks. The surveyor in his final report (January 1998) raised doubts regarding the possible involvement of personnel related to the insured in the case.

The Company sought legal advice in December 1998 after 11 months. The legal advice indicated in April 1999 that the Company was liable to the insured and therefore, must settle the claim. But after about six months the Company again referred the case in October 1999 to an investigator for further investigations.

The investigator submitted his report in August 2000 after ten months stating that no hard evidence could be obtained regarding the involvement of the insured in the theft. The Company then decided (December 2000) to settle the claim on compromise basis at Rs.1.11 crore (i.e., 75 per cent of the sum insured) as the recovery rights were not protected.[♣]

While communicating the decision to settle the claim on compromise basis to the insured (December 2000), the Company did not state the reasons for doing so. The insured filed a suit against the Company in the Court of London (February 2001) claiming £0.42 million (£0.28 million being sum insured plus interest £0.14 million for the period from June 1997 to February 2001). As per the notice of suit served on the local representative of the Company in London on 15 February 2001, the judgement could be entered against the Company if it filed an acknowledgement of service but did not file the defence within 28 days of the service. The Company, however, felt that the matter could be attended to by them till 15 March 2001. As there was no response from the Company, the Court awarded a judgment in default on 6 March 2001 directing the Company to pay £0.42 million including interest.

[♣] ***Recovery rights not protected means the insured did not take action against the carrier for recovery of loss.***

The Company not only defaulted in responding to the Court proceedings in London, but also failed to file the appeal against the judgment in default, till 15 May 2001 by which time the Court had already issued (11 May 2001) an injunction order freezing the bank accounts of the Company in London. The Court dismissed (July 2001) the appeal of the Company and ordered the Company's bankers to pay forthwith to the insured, £ 0.47 million (equivalent to Rs.3.11 crore) including interest and the cost of the order and the amount was paid in July 2001. In addition, the Company incurred expenditure of Rs.27.90 lakh on legal charges paid to the foreign and Indian counsels.

The Management stated (September 2002) that

(i) there was no delay on the part of the Company at any stage;

(ii) despite all positive assurances given by their counsellor they (the counsellor) failed to defend the interests of the Company; and

(iii) the insured was intimated about the likelihood of treating the claim as non-standard.

The Ministry endorsed (March 2003) the reply of the Management.

The contention of the Management/Ministry is not tenable as

(i) the sequence of events as detailed above indicates avoidable delays at various stages. The delay is further proved by the Court judgment which stated that the defendant had shown no real prospect of a successful defence to a claim, which should have been met years ago.

(ii) The Company did not take any action against the solicitor in London except expressing their displeasure.

(iii) The Company while intimating about settlement of claim (December 2000) to the insured did not state the reasons for treating the claim as non-standard.

Thus, delay in settlement of claim resulted in extra payment of Rs.1.63 crore (Rs.3.11 crore paid less the sum insured of Rs.1.48 crore) including interest of Rs.97.50 lakh. Besides, the Company paid avoidable litigation expenses both in India and abroad aggregating to Rs.27.90 lakh.

9.4.4 Loss on settlement of inadmissible claim – Rs.58.73 lakh

The Company settled a claim for loss of profit, which was inadmissible resulting in loss of Rs.58.73 lakh.

A Vizag based Divisional Office of the Oriental Insurance Company Limited (Company), issued Machinery Breakdown Policy (MBP) and Loss of Profit Policy (LOP) to M/s. Varam Power Projects (P) Limited, Srikakulam (Insured) for the period from 11 December 2001 to 10 December 2002. The Insured preferred a claim on the Company towards repair charges under the MBP and LOP as a result of damage to generator stator caused by spark and smoke on 19 December 2001.

The surveyor reported (March 2002) that the damage to the machinery (Generator) was caused due to manufacturing defect which was rectified by the suppliers of equipment (BHEL) free of cost. The surveyor assessed the loss at Rs.1.19 lakh, which represented expenses towards removal of the stator for repairs, refixing, transport etc. After adjustment towards "under insurance" and "excess of policy" the net claim recommended and paid was Rs.4,085.

As per conditions governing MBP, claim towards loss or damage for which manufacturer or supplier of the insured property is responsible are excluded from the purview of the policy. As the machinery breakdown was due to manufacturing defect and was repaired by the supplier free of cost, the claim under the MBP was inadmissible.

The same surveyor also assessed loss of profit at Rs.58.69 lakh, which was admitted (March 2002) by the Company. The conditions governing the LOP insurance stipulate, *inter alia*, that a claim thereunder is admissible only when a claim under the MBP is indemnifiable. As the claim under the MBP was not indemnifiable, the claim towards LOP was also not admissible.

The Company contended (December 2003) that the expenses admitted under MBP were beyond the scope of warranty entered into with the supplier and were fully indemnifiable. The Ministry endorsed (February 2004) views of the Management.

The contention is not tenable since the basis for indemnity arises only when the policy is not subject to general exceptions and special exclusions. When the Company shall not be liable for loss or damage for which the manufacturer is responsible as per special exclusions, the question of indemnifying incidental charges does not arise.

Hence, the amount of Rs.4,085 was inadmissible. As a result the indemnification of the loss of profit (Rs.58.69 lakh) was also not in order.

Thus, non-adherence to the stipulated regulations resulted in loss of Rs.58.73 lakh to the Company.

9.4.5 Loss due to non-loading of premium

The Oriental Insurance Company Limited (Company) did not load the premium as per guidelines resulting in a loss of premium of Rs.17.54 lakh.

According to the guidelines of Inter-Company Coordination Committee of the Public Sector Insurance Companies followed by the Company, the net premium rates for the Group Personal Accident (GPA) policies were to be fixed in such a manner that the average claim ratio[♣] during the preceding three years should not exceed 80 per cent. It should preferably range between 70 per cent and 75 per cent. In cases where three years' experience was not available, such shorter periods as available could be taken.

The Jaipur-based divisional office of the Company issued a GPA policy covering about 25,000 employees of Rajasthan State Road Transport Corporation for the years 1997-98 to 2000-01. Though the claim ratio during the years 1997-98 and 1998-99 was 205.22 per

[♣] ***The ratio of claims to premium under the policy***

cent on the average, the Company while renewing the policy in 2000-01 did not load the premium as per the guidelines. Instead of charging the premium of Rs.44.28 lakh the Company charged the premium of Rs.26.74 lakh resulting in a loss of Rs.17.54 lakh.

The Management stated (January 2004) that

(i) As far as the rating was concerned, a collective decision was taken by all the four Public Sector Insurance Companies as each one had co-insurance share in this policy;

(ii) Policy was not renewed for the subsequent year 2001-02 as the insured did not accept the enhanced quoted rate; and

(iii) Though attempts were made to recover premium, Rajasthan State Road Transport Corporation had taken a stand that they would not pay any additional amount since the premium paid by them was based on rates quoted by the Company.

The reply of the Management is not tenable because

(i) while renewing the Policy for the subsequent year, the Company was required to review the claim ratio and load the premium if it was more than 80 per cent. Further, joint ratings do not permit the Company to undercharge the premium as the instructions were applicable to all the companies and the Company being the leader, its decision was binding on other co-insurers.

(ii) the Guidelines do not delegate any discretionary power to the underwriting office for not loading the premium in case of adverse claim ratio.

(iii) non-recovery of additional premium was on account of failure on the part of the Company to give proper quotation based on the claim experience of the insured.

Thus, failure to load the premium according to the guidelines resulted in a loss of revenue amounting to Rs.17.54 lakh.

The matter was reported to the Ministry in March 2004; its reply was awaited (September 2004).

United India Insurance Company Limited

9.5.1 Loss of premium in Group Personal Accident Policy

The Company suffered a loss of Rs.3.67 crore due to allowing of excess discount and non-loading of premium on account of adverse claim ratio.

In order to introduce improvements in provisions of Group Personal Accident (GPA) Insurance policies a meeting of Chairman-cum-Managing Directors of the General Insurance Corporation of India, United India Insurance Company Limited (UIIC) and the New India Assurance Company Limited was held in September 1999. It was *inter alia* decided that group discount might be considered on the basis of actual number of persons

instead of anticipated group size and group discount wherever eligible be limited to 30 per cent instead of 60 per cent applicable earlier. This decision was made effective from 1 November 1999. The Head Office of the UIIC circulated the above instructions to all the Regional Offices on 5 October 1999 for implementation.

Further, as per Company's circular dated 1 October 1992, the loading to the premium of GPA policies transferred from other subsidiaries, was also to be made by collecting incurred claim ratio for earlier years so as to maintain incurred claim ratio of previous three years (excluding the year preceding the renewal year) as a maximum of 70 per cent on as if [♣] basis.

The Divisional Office (DO) of the Company at Rashtriya Chemicals and Fertilisers, Mumbai while entering into Letter of Undertaking on 24 December 1999 with the Director General of Police, Maharashtra State, to underwrite GPA policies for three years from 24 December 1999 to 23 December 2002, did not restrict the group and other discount to 30 per cent and instead, agreed to charge premium at a rate of Rs.35 (including service tax) per person per year for every sum insured of Rs.1 lakh after reckoning 25 per cent discretionary discount, 60 per cent group discount and loading of Rs.7 towards adverse claims ratio for the previous years.

The Maharashtra State Police had taken GPA policies from the Oriental Insurance Company Limited (OIC) earlier during seven years upto 1998-99. As per the information furnished (September 1999) by OIC for the years from 1992-93 to 1997-98, the incurred claim ratio for the above-cited policies for the three years preceding the immediate policy years 1999-2000, 2000-01 and 2001-02 worked out to 102.74 per cent, 97.11 per cent and 114.55 per cent respectively. Against the loading of 46.77 per cent, 38.73 per cent and 63.64 per cent on the premium required to be charged from the insured to maintain incurred claim ratio as a maximum of 70 per cent, the loading of Rs.7 added to rating worked out to 25.93 per cent only.

Due to failure to restrict the discount to 30 per cent as contemplated in the October 1999 circular (effective from 1 November 1999) and also by not loading the basic rate of premium based on the incurred claim ratio in line with Company's own laiddown instructions of October 1992, the Company, during the three years from 1999-2000 to 2001-02, charged premium of Rs.72.46 lakh, Rs.72.48 lakh and Rs.73.42 lakh instead of realisable amount of premium of Rs.1.90 crore, Rs.1.80 crore and Rs.2.15 crore respectively. This resulted in loss of premium of Rs.3.67 crore.

In reply the Management stated (April 2004) that quotation (adopting discretionary discount of 25 per cent and group discount of 60 per cent) for the issue of GPA Policy for three years to the Maharashtra State Police was submitted in July 1999 to the Maharashtra Government while the limit of overall discount to 30 per cent was received only in November 1999. When the above circular was received there was no scope of

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[♣] ***'as if ' means that the basic rate of premium for the current year policy was to be loaded by the adverse incurred claim ratio of previous three years excluding the year immediately preceding the renewal period of the policy so as to maintain the incurred claim ratio at a maximum of 70 per cent.***

going back. It was also added that at the time of quotation, claim experience for the years 1996-97 and 1997-98 (when policy was with the OIC) was not available.

The above contention of the Management is not tenable as the Government of Maharashtra approval for the issue of GPA policy to the Maharashtra Police Department was accorded on 5 November 1999 and formal agreement in the form of 'Letter of Undertaking' between the Company and the Director General of Police was entered into on 24 December 1999 i.e. after the effective date of Head Office circular of restricting group and other discounts to 30 per cent. Thus, the discretionary discount of 25 per cent and 60 per cent group discount should not have been allowed. Even the Company's laid down circular of October 1992 restricted the allowing of the discount under GPA policy to only 60 per cent. Further, the contention of the Management that information with regard to incurred claim ratio of the policies issued by OIC were not available, was not sustainable as OIC in its letter dated 15 September 1999 had furnished the requisite information.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004.

9.5.2 Loss of revenue due to undue favour to Insured

Contrary to the practice of annual renewal, the Company issued a short-term renewal policy to avoid loading of premium due to adverse claim experience and circumvented the All India Fire Tariff regulations. This resulted in loss of revenue to the Company to the extent of Rs.50.52 lakh.

A Bangalore based Divisional Office of the United India Insurance Company Limited (Company) issued fire and other policies to M/s. MICO Limited (Insured) and settled a claim of loss by fire at Rs.10.50 crore during the year 1999. Section I – Regulation 16 of the All India Fire Tariff (AIFT), (effective from 31 March 2001) provides that loading/discounts shall be made in the premium of certain risks based on the incurred claims experience of the Insured for the preceding 36 months excluding the expiring policy period. During renewal of fire policy for the period from 1 January 2003 to 31 December 2003, the Company advised the Division (March 2002) to load the premium by 25 per cent, in view of the incurred claims for the years 1999, 2000 and 2001.

The Divisional Office, accordingly, renewed the standard fire policy covering assets of the Insured's plant at Bangalore for a period of 15 days from 1 January 2003, for which the applicable premium was loaded by 25 per cent. However, this policy was cancelled on 10 January 2003 and a fresh policy for the period from 11 January 2003 to 10 January 2004 was issued for the plant. For this policy, the Insured was granted 15 per cent discount, on the ground that for period of 36 months (2000, 2001 and 2002) preceding the expiring policy period 1 January 2003 to 10 January 2003, the incurred claim was 'nil' and hence the Insured was considered eligible for the discount. The Fire Loss of Profit Policy for the period 1 January 2003 to 31 January 2003 was also foreclosed on 10 January 2003 and a fresh policy for the period 11 January 2003 to 10 January 2004 was issued, allowing a discount of 15 per cent. This resulted in loss of premium of Rs.50.52 lakh.

The Company stated (February 2004) that there was no provision in the tariff that the expiring policy should be an annual one. In other words, even if the expiring policy was short period policy, the AIFT provisions would still apply. Hence for the policy period 11 January 2003 to 10 January 2004 the preceding 36 months claim experience excluding the expiring policy period (1 January 2003 to 10 January 2003) was nil and hence no loading was applicable and the Insured was entitled to a discount of 15 per cent as per tariff. The Ministry endorsed the views of the Company (June 2004).

The reply is not tenable as the Company had deliberately extended favour to the Insured to avoid loading of premium and also avail discount, which resulted in loss of revenue to the Company. The matter was also brought to the notice of TAC in December 2003. The TAC stated (May 2004) that General Rule No.16 of Section I, General Rules and Regulations of All India Fire Tariff had been revised to avoid any such ambiguity. As per the revised General Rule No. 16 the expiring policy period shall not be less than nine months for reckoning discount/loading for the renewal period.

Thus, as a result of renewing the policy for short term to avoid loading of premium due to adverse claim experience, the Company incurred loss of Rs.50.52 lakh by extending undue favour to a private party.

9.5.3 Short collection of premium

The Company suffered loss of premium of Rs.42.29 lakh due to erroneous inclusion of Group Mediclaim in Compact policy and non-loading of premium in view of adverse claim.

A Bangalore based Divisional Office of the United India Insurance Company Limited (Company) had been issuing Group Mediclaim Policies to M/s. i 2 Technologies Software Private Limited, formerly known as M/s. Aspect Development India Private Limited (Insured). The Company issued a Compact Policy including Group Mediclaim Policy for the period from 13 November 2002 to 12 November 2003. The Compact Policy covers offices and establishments (non-manufacturing) against various perils such as fire, burglary, house-breaking and personal accident which are stipulated under different sections of the policy. Although the scope of Compact Policy does not include Group Mediclaim cover, the Divisional Office erroneously issued a Compact Policy including the Group Mediclaim cover.

Scrutiny in Audit (May 2003) revealed that:

(i) the premium for the year 2002-2003 should have been loaded by 90 per cent on account of adverse claims experience for the period 1999-2000;

(ii) the insured was ineligible for discount of 20 per cent as the Group Mediclaim policy was not meant to be included in the Compact Policy;

(iii) inclusion of Group Mediclaim cover under the Compact Policy was irregular and should have been issued separately.

Consequently, there was short collection of premium to the extent of Rs.62.29 lakh. The Management stated (January 2004) that additional premium was demanded, as a

consequence of Audit query, and they could recover a sum of Rs.20 lakh from the Insured in June 2003. The Ministry endorsed (May 2004) the views of the Company. The Company informed the Ministry (May 2004) that the loading should be 55 per cent and not 90 per cent as claims ratio worked out to 116 per cent based on premium and incurred claims for the years 1999-00 and 2000-01 of Rs.46.91 lakh and Rs.54.25 lakh respectively.

However, the Company subsequently confirmed (September 2004) the original figures of Rs.48.26 lakh of premium and Rs.60.90 lakh of incurred claims for the two years 1999-2000 and 2000-2001 and expressed its inability to recover the balance amount as the Insured did not renew the policy further. Based on these figures the claim ratio worked out to 126 per cent and attracted 90 per cent loading on premium for the year 2002-03.

Thus, failure to load the premium by the required percentage and issue of Compact Policy to the Insured including Group Mediclaim cover to their employees and dependants led to under-recovery of premium amounting to Rs.42.29 lakh.

General Insurance Companies

9.6.1 Recovery at the Instance of Audit

A test check in Audit revealed non/short recovery of premium by General Insurance Companies in 27 cases aggregating to Rs.3.30 crore as detailed in Appendix-II due to allowing excess discount, incorrect application of premium rates, allowing excessive refund, non-recovery of loss/claim from the transport carrier/ re-insurers, etc. Out of this, Rs.3.03 crore was recovered after being pointed out in Audit (May 1999-November 2003).

CHAPTER 10: MINISTRY OF FOOD PROCESSING INDUSTRIES

Hindustan Vegetable Oils Corporation Limited

10.1.1 Poor cash management

Hindustan Vegetable Oils Corporation Limited lost an interest income of Rs.98.60 lakh by keeping the surplus fund of Rs.13.92 crore in saving/current account, which could have been invested in fixed deposits.

The Government of India released loans of Rs.67.70 crore* (October 2000 to March 2001) carrying an interest of 18.5 per cent per annum to the Hindustan Vegetable Oils Corporation Limited (Company) for implementation of Voluntary Separation Scheme (VSS) in the Company. The Company introduced VSS as a result of which 1151 of the regular strength of 1276 employees got relieved between May 2001 (1148) and December 2001 (3). The undisbursed funds, in respect of employees who did not opt for the VSS, remained parked in saving and current accounts of the Company. The Board directed that Government be approached for approval to keep the unutilised VSS funds in term deposits with scheduled banks but this was not done (October 2001).

Review of available balances in saving account revealed that a minimum balance of Rs.7.18 crore was available from 1 January 2002 to 31 March 2004 which, if invested in term deposits, would have earned interest of Rs.19.97 lakh at lowest rate of five per cent for 30 to 45 days for the period from January 2002 to July 2004 after adjusting the income (Rs.72.77 lakh) earned in savings account. Similarly, the Company's current account with another Bank also had a minimum balance of Rs.6.74 crore available from 1 April 2002 to 31 July 2004 which could have similarly earned Rs.78.63 lakh as interest had it been invested in term deposits.

The Management stated (April 2004) that the matter was discussed informally by the Board in February 2002 when it was decided not to invest the funds in term deposits or otherwise or to put such amount in operational use in the Company because the loan was given for a specific purpose. The Company could not make profit out of the amount lying undisbursed.

The reply of the Management is not tenable, as the Company should have returned the money to the Government and saved interest of Rs.2.70 crore or at least tried to get better return through term deposits and earned interest of Rs.98.60 lakh. Keeping surplus funds in current and saving accounts was against normal business prudence. The inaction on the part of the Management in this regard resulted in loss of interest income of at least Rs.98.60 lakh.

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* ***(i) Excluding Rs.1.50 crore released on 23 Ocober 2000 for payment of net salaries upto August 2000 and outstanding statutory due of employees seeking VSS.***
(ii) Excluding Rs.80 lakh released on 29 January 2001 for payment of salary of September 2000.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

CHAPTER 11: DEPARTMENT OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

11.1.1 Improper selection of firm

Improper selection of firm led to delay of 32 months in the establishment of facilities for total impregnation of Turbo Generator. Resultantly, the Company's funds of Rs.12.32 crore remained idle for more than two years, with consequential loss of interest amounting to Rs.3.62 crore.

To reduce the manufacturing time and cost as well as to compete in the international market, Bharat Heavy Electricals Limited (Company) decided (April 1999) to establish facilities for total impregnation of Turbo Generator at Heavy Electrical Equipment Plant (HEEP), Hardwar, at a cost of Rs.13.25 crore. Four machines were to be installed under the project which was to be completed by November 2000.

For procurement of curing oven (one of the machines), the Company placed a purchase order (PO) on M/s. Wellman Incadescent India Limited (WIIL) (August 1999) at a cost of Rs 1.38 crore, with completion schedule by August 2000. However, the Company had not assessed the financial status of WIIL before awarding the work.

Though the supply was to be commenced from April 2000, WIIL made partial supply during August and September 2000. In October 2000, WIIL intimated that it was suffering from liquidity crunch and would not be able to supply the balance material in the absence of payment. As per the PO, 80 per cent payment for main equipment was to be made progressively on receipt of material and stores receipt voucher. Since the stores receipt vouchers were not prepared for part receipt of capital equipment, payment was not made to WIIL. On the request of WIIL for release of payment, the Company amended the PO (November 2000) that 80 per cent payment would be made progressively against receipt challan and the Company accordingly released an amount of Rs.62.16 lakh. WIIL supplied further material till December 2000 and no supply was received thereafter due to dispute regarding release of balance payments and extension of delivery schedule.

In June 2001, the Company initiated the process of terminating the contract. This process, however, took more than eight months (March 2002). The Company commissioned the curing oven in November 2003 after getting the work completed through sub-vendors of WIIL. In the mean time, the other three machines of the project had already been commissioned in March 2001 at a cost of Rs.11.70 crore. They, however, could not be put to use in the absence of the curing oven.

Thus, improper award of work without taking into account the financial position of the firm and subsequent delay in termination of the contract, led to delay of more than two years in the establishment of the facilities for total impregnation of Turbo Generator. Resultantly, the Company's funds of Rs.12.32 crore remained idle for 32 months, with consequential loss of interest amounting to Rs.3.62 crore based on prevailing rate of

interest on cash credit. Besides, the Company could not reap the projected benefits of savings in manufacturing time and cost during this period, as envisaged in the investment proposal.

The Management stated (October 2003) that WIIL was a regular supplier to its sister units and other public sectors. They also stated (October 2004) that as per practice, financial position of a vendor was evaluated at the time of its registration and thereafter in specific cases when felt necessary. In this case the financial position of the vendor got affected after the placement of the order. They added that the Company had not lost any order due to delayed commissioning of the curing oven.

The reply is not tenable as WIIL had been referred to the Board of Industrial and Financial Reconstruction in 1998 and their financial position would have changed since the time they made the last supply to HEEP in 1992. Further, the Feasibility Report of the project had envisaged an average annual profit (after tax) of Rs.30.98 crore on installation of the facility and average annual loss (after tax) of Rs.2.48 crore in case the facility was not installed. Clearly, the Company could not gain the envisaged benefits during the period of delay due to improper selection of the firm.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

11.1.2 Avoidable loss due to non-availing of facility under EXIM Policy

The Company blocked its funds of Rs.6.83 crore with consequential loss of interest of Rs.1.47 crore due to non-availing of facility provided under EXIM Policy.

The Company received (November 1999) an order for the work of design, engineering, manufacture, inspection and testing at manufacturer's work including type testing etc., for Steam Generator Package for the 4x 500 MW Talcher Thermal Power Project (stage-II) from National Thermal Power Corporation Limited. This project was awarded with deemed export status under EXIM policy under which it was entitled to three benefits, namely, advance licence, duty drawback and refund of terminal excise duty (TED). It was scheduled for completion by February 2003 (Unit-I), December 2003 (Unit-II), June 2004 (Unit-III) and December 2004 (Unit-IV).

In the execution of this Project, the Trichy division of the Company placed orders during the period from November 2000 to February 2002 on various sub-vendors for direct dispatch of supplies. In all purchase orders placed, the division, instead of asking the sub-vendors to avail the benefit of getting refund of TED directly from the Government of India by following the procedure prescribed in para 10.12 of EXIM Policy, reimbursed the TED paid by them. Against the Excise Duty (ED) incidence of Rs.7.02 crore, the Division paid (between March 2001 and March 2003) Rs.6.83 crore as ED re-imbursement to the sub-vendors, with the intention of claiming its duty drawback from the Government after completion of all the supplies under the contract. However, as only two units of Talcher Project had been commissioned, the Trichy Unit could not submit the claim of duty drawback to the Government (March 2004) and as such, it had to bear additional interest burden of Rs.1.47 crore on the amount of Rs.6.83 crore locked up.

The Management stated (June 2004) that the sub-vendors were declining to accept this clause as it involved time-lag for obtaining refund of ED from the Government. It further stated that in respect of projects presently being executed, sub-vendors were being persuaded to claim TED themselves but they were not enthusiastic to adopt this procedure in view of their financial weakness involving locking up of their working capital.

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

(i) There was nothing on record to show that the division, in fact, asked the vendors to get the excise duty refund themselves.

(ii) The Unit had complied with the procedure laid down under EXIM policy in immediately preceding deemed export contract for Simhadri 2x500 MW project by indicating the names of the sub-vendors in the project authority certificate and they, in turn, got the refunds without having to wait for the whole project to be completed. The Company could have adopted this procedure in this contract too.

Thus, by not availing of the facility provided under EXIM policy, the Company incurred avoidable loss of interest of Rs.1.47 crore (March 2004) on the funds of Rs.6.83 crore locked up in duty paid. Besides, the incidence of further interest loss would be of the order of Rs.81.96 lakh per annum till the realisation of entire duty drawback from the Government.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

11.1.3 Loss due to acceptance of order at lower than cost price

The Company suffered loss of Rs.1.86 crore, due to acceptance of an order at unremunerative price by not adhering to its pricing policy as well as failing to estimate the workable cost.

In view of stiff competition in transformer manufacturing industry, the Bharat Heavy Electricals Limited (Company), revised its pricing policy during May 1999 to provide *inter alia* that ratio of the overall sale price to the cost of material would be 1.85:1 and cost of material should be in the range of 54 per cent of the sale value.

In contravention of the above pricing policy, the Company accepted (January 2000) an order from Uttar Pradesh State Electricity Board for supply of two numbers of three-phase auto transformers at a value of Rs.2.27 crore (including price variation) against the estimated factory cost of Rs.3.12 crore. In view of the revised pricing policy, the accepted sale price should not have been less than Rs.3.67 crore, based on the estimated cost of material amounting to Rs.2.39 crore. During execution of the works, the Company had to incur actual expenditure to the extent of Rs.4.13 crore, which indicated that the estimated cost was inaccurate and unrealistic.

Thus, the Company not only failed to estimate the workable cost, but also did not even ensure recovery of the actual cost (Rs.3.17 crore) of material. This resulted in loss of

Rs.1.86 crore to the Company, as it realised only Rs.2.27 crore against the actual expenditure of Rs.4.13 crore.

The Management stated (March 2004) that, at the time of acceptance of the order there was stiff competition and industrial recession due to which acceptance of rock bottom prices was necessary to stay in the market. Further, due to commercial consideration for utilising the shop capacity as well as to have customer loyalty to the product, the order was accepted at lower than the estimated factory cost. They added that the actual material booking was higher due to cross accountal of bookings and a new system had been introduced to prevent/ rectify such accountal.

The reply is not tenable because the sale value of the order was less than even the estimated material cost of Rs.2.39 crore. Further, on verification it was found that no corrective measure had been taken and no cost investigation had been carried out to analyse the reasons for wide variations in cost bookings.

Thus, the Company suffered a loss of Rs.1.86 crore, due to acceptance of the order at unremunerative price by not adhering to its pricing policy as well as failure to estimate the workable cost.

The matter was reported to the Ministry in December 2003; its reply was awaited (September 2004).

11.1.4 Blocking of funds of Rs.2.62 crore due to inordinate delay in commissioning of machine

By not ensuring the receipt of the machine as inspected, there was inordinate delay of almost three years in getting the machine commissioned, as a result of which, the Company's funds amounting to Rs.2.62 crore remained blocked, with consequential loss of interest of Rs.71.75 lakh.

The Board of Directors of the Bharat Heavy Electricals Limited (Company) approved (30 June 1999) a proposal to establish facilities for modernisation of fabrication shop at Heavy Electrical Equipment Plant, Hardwar. One of the machines to be installed was a four roll Bending Machine. It was expected to effect saving in cost of material to the extent of Rs.1 crore per annum by reducing scrap generation and wastage of consumables.

For supply of a four roll Bending Machine, the Company placed (January 2000) a purchase order (PO) on M/s. MGS International Sales, Italy (supplier) at a total value of Italian Lira 881.664 million (equivalent to Rs.2.11 crore). For inspection and fullload testing of machine before dispatch by the supplier, the Company decided to get the machine inspected at supplier's works through M/s. Lloyds. The scope of the inspection included simple visual and physical checking, verification of all functions of the machine, and testing of all parameters. However, there was no clause in the scope of M/s. Lloyds either for putting of inspection/identification mark on the inspected machine or ensuring dispatch of the machine as inspected by it. Accordingly, the purpose of getting the machine inspected by a third party at the suppliers' works got defeated.

On receipt of the inspection report from M/s. Lloyds, the Company gave dispatch clearance to the supplier, with release (January/February 2001) of 80 per cent payment as per the PO. The machine was received in April 2001 and accepted provisionally subject to successful commissioning. During installation of the machine (July/October 2001), the Company noticed that the roller did not match with the specifications mentioned in the PO and Lloyds' test report.

When the Company operated the machine on trial run, it broke down (January 2002) and remained unrepaired for more than two years. As the machine in its present form was of no use to the Company, it refused (January 2002) to make the 20 per cent balance payment stating that the supplier had not dispatched the equipment which was inspected by M/s. Lloyds. After prolonged persuasion, the supplier repaired and commissioned the machine in February 2004. Thus, the Company's funds of Rs.2.62 crore remained blocked for almost three years, with consequential loss of interest amounting to Rs.71.75 lakh.

The Management stated (November 2003) that because of change in specification of the roller supplied, the matter was taken up with the supplier, who confirmed that the inspection was done as per the PO's specifications and at the time of dispatch, the rollers were changed to give a better machine to the Company.

However, the fact remains that in the absence of any clause in the scope of M/s. Lloyds for putting inspection mark on the inspected machine or ensuring dispatch of the inspected machine, the supplier changed the rollers after inspection by M/s. Lloyds. As the machine broke down during trial operation and could be commissioned after inordinate period of almost three years, the Company's funds of Rs.2.62 crore remained blocked, with consequential loss of interest of Rs.71.75 lakh. Besides, the Company could not achieve the projected savings in the cost of material to the extent of Rs.3 crore (approximately), as envisaged in the investment proposal.

The matter was reported to the Ministry in March 2004; its reply was awaited (September 2004).

11.1.5 Additional expenditure of Rs.1.83 crore on replacement of damaged parts

The Company incurred an avoidable expenditure of Rs.1.83 crore on replacement of damaged parts without ascertaining the reasons for damages.

The Heavy Power Equipment Plant of the Company (Unit) manufactured (March 2000) a Gas Turbine (GT) for supply against an anticipated order, which did not materialise due to steep increase in Naphtha prices. Subsequently, on receipt of an order from Tengizchevroil (Customer), Kazakhstan in February 2002, the unit decided to utilise the GT against this order and it carried out customer testing of the GT on 17 March 2002. However, the post-test borescope inspection conducted on 18 March 2002 revealed that all the second stage bucket tips towards forward side were damaged. After replacing the damaged buckets with those available in stock, the unit conducted the borescope tests again (24 March 2002) and dispatched (March 2002) the GT to the customer. The Unit replenished the stock (June 2003) at a cost of Rs.1.83 crore.

Though the matter was investigated by an officer of the rank of Deputy General Manager (DGM) of the same unit to establish the reasons for damage to the buckets and found that ingress of foreign object between rotating bucket and stationary shroud had caused damages, the investigation report did not explicitly mention a possible human failure. As such, the Management had not fixed any responsibility for those damages.

Thus the Company incurred an expenditure of Rs.1.83 crore on replacement of damaged parts which could have been avoided if thorough check had been ensured during manufacturing of GT.

While accepting the irregularity, the Management stated (June 2004) that the process (quality control) had been made more stringent to reduce the possibility of the type of damage that had occurred. The Corporate Office, at the instance of Audit, decided (June 2004) to get the matter investigated by an external independent agency.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

11.1.6 Loss of Rs.68.45 lakh due to extension of undue benefit to a private firm

Deviating from the provisions of the contract resulted in loss of Rs.68.45 lakh.

As per contract entered (June 2000) into with M/s. Varam Power Project Private Limited, Srikakulam, Andhra Pradesh (party), the Company was to design, engineer, manufacture and supply equipment on ex-works basis and supervise erection and commissioning of a 6 MW Turbo Generator and its auxiliaries at a lumpsum price of Rs.4.75 crore. The entire work of the contract was scheduled to be completed by 30 April 2001. The contract *inter alia*, provided for payment of (a) 10 per cent of the contract price as interest free advance (b) 80 per cent of the contract price on pro-rata basis for the equipment delivered on ex-works basis on production of documents of despatch with a nationalised bank and c) balance 10 per cent on successful commissioning. The contract also provided for levy of liquidated damages (LD) for delay in delivery (maximum of 5 per cent of contract price) and shortfall in guaranteed performance (maximum of 7.5 per cent of the contract price).

The supplies were completed by the Heavy Power Equipment Plant of the Company, Hyderabad, by September 2001 and the equipment was commissioned in December 2001, but generator coils immediately burnt out. After repair of generator coils in January 2002, the plant was finally commissioned in February 2002.

Since, the Unit did not insist on the customer opening a letter of credit, the customer did not open letter of credit for any amount at any point of time. Instead of negotiation through a Bank as per terms of payment of the contract, the Company sent the despatch documents including invoices of Rs.2.07 crore directly to the party during July 2001 to March 2002. The party, however, did not make the payment. Together with the 10 per cent balance amount, a total sum of Rs.2.53 crore was outstanding from the party as on 1 March 2004. LD of Rs.23.75 lakh were imposed by the party for delay. After protracted negotiations, the customer agreed (5 March 2004) to waive the LD of Rs.23.75 lakh for delays and to pay the dues of Rs.2.53 crore to the Company by a down payment of Rs.43

lakh and the balance Rs.2.10 crore in seven quarterly equal instalments starting from 15 July 2004 till December 2005.

Thus, by deviating from the provisions of the contract, the Company had blocked Rs.2.53 crore for over two years. The total interest burden due to blockage of these funds worked out to Rs.92.20 lakh. After adjusting LD of Rs.23.75 lakh waived by the customer, the Company finally suffered a loss of Rs.68.45 lakh.

The Management stated (July 2004) that it had made best efforts to realise the outstanding payments. While the total interest on amounts outstanding worked out to Rs.92.20 lakh, net loss was only Rs.32.82 lakh after adjusting LD leviable for delay in supplies (Rs.23.75 lakh) and failure to achieve the performance parameters (Rs.35.63 lakh).

The reply of the Management is not tenable as the Company failed to enforce the provisions of the contract. Further since the plant was finally commissioned in February 2002, liability towards LD for performance parameters did not arise as performance guarantee test was yet to be done and the plant was running satisfactorily. This was also confirmed by the Committee constituted by the Company in March 2002 to discuss various issues raised by the customer.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

11.1.7 Failure to include 'third party inspection clause' in the purchase orders resulting in additional expenditure of Rs.65.82 lakh on cross transportation

Due to omitting a vital clause regarding third party inspection in the purchase orders, the Company incurred an extra expenditure of Rs.65.82 lakh on cross transportation.

The Indian Oil Corporation Limited (IOC) placed (October and November 1999) two orders on Heavy Power Equipment Plant (Unit) of Bharat Heavy Electricals Limited Hyderabad to procure Boiler Quality (BQ) steel plates and fabricate, erect and commission 3X 600 MT and 3X1400 MT mounded type pressure vessels for storing LPG/Propane at their LPG bottling plants at Ajmer (Rajasthan) and Madanpur Khadar, Delhi respectively. The prices were Rs.6.66 crore and Rs.13.50 crore and scheduled periods of completion were 11 months and 14 months i.e. by September 2000 and January 2001 respectively.

IOC's tender specifications and the purchase orders clearly specified that the imported BQ steel plates required for fabrication of mounded vessels should be inspected by either M/s. Lloyds or M/s. Bureau Veritas before their despatch from the supplier's end. The Unit placed (November 1999) three orders for BQ steel plates on Dillinger Hutte, France with deliveries scheduled to reach Mumbai by April 2000. However, the Unit did not include a clause requiring third party inspection by Lloyds or Bureau Veritas in its purchase orders on the vendor.

BQ plates were received at Mumbai during April/May 2000. The Unit initially planned to send these BQ plates directly to Ajmer (1071 Kms.) and to Madanpur Khadar (1378

Kms.) for undertaking fabrication and erection work at site by the sub-contractors. However, IOC's quality inspection agency insisted on third party inspection by Lloyds or Bureau Veritas before they were transported. As such, the Unit had to transport all the BQ plates from Mumbai to its plant at Hyderabad (700 Kms.) for carrying out the inspection. After the inspection by M/s. Lloyds, the BQ plates were transported (May - June 2000) from Hyderabad to Ajmer (1402 Kms.) and Madanpur Khadar (1500 Kms.). In the process, the Unit incurred an expenditure of Rs.1.36 crore on the transportation of these plates from Mumbai to Hyderabad (Rs.55.89 lakh) and from Hyderabad to customer's sites (Rs.80.72 lakh). Thus, due to the Management's failure to specify third party inspection as stipulated by IOC in its tender/purchase order, the Unit incurred avoidable additional expenditure of Rs.65.82 lakh being the difference necessitated by detour to Hyderabad for third party inspection.

On this being pointed out (January 2004) the Management while confirming the facts stated (March 2004) that the specification for BQ plates provided that 'BQ Steel plates be procured from IBR recognised mill or unrecognised steel makers, the certification in form IV, if inspected and certified by an IBR recognised inspection authority, who has inspected the material'. The Company saw from the vendor's statement that they were IBR recognised steel makers and the manager of the inspection house of the mill was an IBR recognised inspection authority who would be issuing the certificate. Therefore, it did not mention about inspection by Lloyds or Bureau Veritas in the purchase orders.

The contention of the Management is not tenable as the provision quoted in the reply is from annexure 9 of IOC's purchase order that deals with specification for imported BQ Steel Plates. The same annexure under the head Test Certificates and also the provisions of paragraph 20 of Annexure - 3 of the purchase order, which contains special conditions of contract, clearly stipulate the condition regarding inspection by Lloyds and Bureau Veritas. Before ignoring the clearly stated conditions in both the annexures of the purchase order, the Unit should have at least sought confirmation from IOC to avoid any dispute later, which it did not do.

The matters were reported to the Management and Ministry in April 2004 and May 2004 respectively; their replies were awaited (September 2004).

11.1.8 Avoidable expenditure of Rs.58.23 lakh due to failure to avail of the lowest technically acceptable offer

Failure of the Company in negotiating the rates for the first offer based on subsequent lower offer resulted in incurring avoidable extra expenditure of Rs.58.23 lakh in February 2002.

Deputy General Manager (DGM), Material Planning Section (MPLS) raised an indent for 50 items of Seamless Carbon and Alloy Steel Pipes required for Nuclear Power Corporation of India Limited, Tarapur project. Based on this indent, the Piping Center unit at Chennai issued limited tenders (19 November 2001) and on receipt of quotations, it placed an order (26 February 2002) on M/s. Vallourec and Mannesmann Tubes, France (VMT) for 10 items out of above 50 items at a total FOB value of Euro 0.681 million. (equivalent to Rs.3.27 crore approx. @1 Euro = Rs.48).

DGM, MPLS raised another indent soon thereafter for 35 items of seamless steel tubes for the same project. The Piping Centre unit, Chennai issued (31 December 2001) another enquiry in pursuance of this and second order was placed (12 March 2002) on the same supplier for eight items of seamless steel tubes at a value of Euro 0.365 million (equivalent to Rs.1.75 crore). Interestingly, this second order included two items of the first order. The prices of these two items were lower in the second order. The table below gives the details of these orders and extra expenditure involved:-

Item	Qty./ meter	Euro/meter		Difference in Rate (Euro)	Difference in Value	
		1st Order	2nd Order		Euro	Rs. in lakh
660.4x 26.67 Dia Pipe	72	1381	1066	315	22680	10.89
811.6x 30.18 ID Pipe	102	3335	2368	967	98634	47.34
Total						**58.23**

Considering that the rates offered (13 February 2002) by the supplier viz. VMT were lower on the second occasion and by that time, the order against the first enquiry had not been finalised, it was possible to negotiate the rates for the latter. Thus, despite having technically acceptable lower offer on hand before finalisation of order against first enquiry, the Unit failed to negotiate with supplier to bring down the prices of first offer. By placing purchase order (on 26 February 2002 and 12 March 2002) at different rates for identical items, the Unit had incurred avoidable extra expenditure of Rs.58.23 lakh.

The Management while confirming the facts stated (April 2004) that comparison of the two offers missed their attention due to movement of two files between departments at Piping Centre, Chennai and Trichy. It further informed that in view of the omission pointed out by Audit, the system has been suitably amended to prompt purchase executive about the parallel enquiries, if any, for the same pipe sizes. It was also added that whether the omission was an inadvertent mistake or malafide was being investigated.

Since it was the same Committee that negotiated with VMT against both the offers and the file relating the first purchase order was already received back in Piping Center, Chennai by the time the Committee started negotiation (5 March 2002) for the second order, there was a clear failure on the part of the Management in negotiating the price.

The matter was reported to the Ministry in April 2004; its reply was awaited (September 2004).

Bharat Heavy Plate and Vessels Limited

11.2.1 Improper Implementation of Voluntary Retirement Scheme

By allowing employees who had already attained the age of 58 years to avail VRS, even when the retirement age was proposed to be lowered to 58 years, the company incurred avoidable extra expenditure of Rs.3.02 crore.

Following the Government of India's circular (19 May 1998), the Company raised (28 May 1998) the retirement age of employees (below Board level) from 58 to 60 years. Shortly thereafter, the Government of India clarified (21 August 1998) that while increase in retirement age was binding on all, a PSU could obtain exemption in case it did not want to so increase the retirement age. The Government further stated (9 May 2000) that in case of sick/unviable PSUs where rehabilitation/revival packages were under consideration, the Board should review its decision on raising the retirement age and make suitable recommendations to the Administrative Ministry concerned for obtaining approval of the Cabinet. As the capital restructuring proposal submitted by the Company (December 1997) was under consideration of the Government, the Board decided (27 November 2000) to roll back the retirement age from 60 to 58 years and directed the Company to seek the approval of the Administrative Ministry for the roll back. The Ministry communicated (27 March 2001) its approval for roll back of retirement age and accordingly the Company rolledback the retirement age to 58 years (10 April 2001).

While the above changes were taking place, the Company chose to offer a voluntary retirement (VR) package through its circular (4 December 2000) which was amended later (26 December 2000) to enlarge the scope of coverage. As per the terms of this circular the employees were eligible to receive salary of 35 days for every completed year of service and 25 days of salary per year of the balance of service left until superannuation or the salary that the employee would draw for balance period left before superannuation whichever was less.

Thus, the amount would be different depending upon the assumption regarding retirement age because the salary had to be worked out for the balance service. When it had already decided (27 November 2000) to roll back the retirement age and it was awaiting a decision in this regard, the introduction of Voluntary Retirement Scheme (VRS) in December 2000 simultaneously was unwarranted. The Company relieved 502 employees (4 and 9 April 2001) despite, the fact that it had, by then, received (27 March 2001) the approval of the Ministry for the roll back of the age of superannuation from 60 to 58 years. After effecting the relief of 502 employees as above, the Company rolled back the retirement age to 58 years by issuing circular on 10 April 2001. This resulted in avoidable extra payment of Rs.7.22 crore by way of compensation under the VR scheme.

The Management stated (June 2004) that:

(i) The Company would have incurred Rs.5.07 crore towards additional salary to those 502 employees had the offer of VR been deferred till December 2001 as the Company was dependent on the Government for funding the scheme and these funds would have been made available only around December 2001.

(ii) Besides, subsequent VR Schemes were given at one and half times the VR compensation, which would have also resulted in additional funding by the Government of India.

It is true that the Company would have had to pay salaries to some of the employees till their separation eventually and subsequent separation might have been at a higher compensation. However, had the Company either withdrawn or withheld the scheme till the roll back was effected, it would have allowed 161 employees (who were already 58 years of age and above when they applied for VRS) to retire in the normal course and avoided payment of Rs.3.02 crore as additional compensation to them. Thus, the Company's decision to apply the VRS even to those employees who would have superannuated at the age of 58, resulted in avoidable extra expenditure of Rs.3.02 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Engineering Projects (India) Limited

11.3.1 Loss due to tardy execution of work

Failure of the Company in evaluating financial worthiness of the contractor and poor monitoring of execution of the work coupled with delayed action to encash guarantees resulted in loss of Rs.1.06 crore.

The Government of Andhra Pradesh (client) entered into a contract (February 1999) with Engineering Projects (India) Limited (Company) for execution of widening and strengthening of Mydukur-Tadicherla and Nellore-Bellary road in Cuddapah district of Andhra Pradesh at a cost of Rs.5.73 crore. As per terms and conditions of the contract, the work was to be completed in 15 months i.e. by May 2000. The Company subcontracted (February 1999) the work to M/s. Lorven Projects Limited (sub-contractor) on back-to-back basis[•] for Rs.5.30 crore. The sub-contractor furnished (October/November 1999) two performance guarantees and one advance bank guarantee (value Rs.67.48 lakh including mobilisation advance[♣] of Rs.26.50 lakh) after a delay of eight months.

The sub-contractor could not adhere to the two different milestones (first for initial five months and the next in the subsequent ten months) stipulated in the contract. They could only complete the work to the extent of five per cent of the entire work by July 1999 against target of 26 per cent for the first milestone and achieved only 13 per cent (Rs.75 lakh) of the entire work (Rs.5.73 crore) till the scheduled date of completion (May 2000). Even thereafter, till the grant of extension of time (June 2001) by client, the sub-contractor had completed work to the extent of 18 per cent only (Rs.95.98 lakh). The poor progress in the execution of work was attributable to the sub-contractor's financial constraints and non-possession of requisite machinery to execute the work. Part of the work valued at Rs.56.68 lakh was then got done by another agency.

[•] ***Award of work on same terms and conditions stipulated by client***
[♣] ***Advance given for mobilising resources***

The client terminated the contract (September 2001) with the Company and encashed the bank guarantees amounting to Rs.40.98 lakh for non-performance. Besides the client adjusted Rs.9.19 lakh from retention money of the Company and withheld Rs.40.49 lakh from another contract towards penalty of Rs.83.94 lakh imposed due to non-completion of work. The Company could not encash any of the three guarantees provided by the sub-contractor as the sub-contractor obtained (July 2001) a stay order from City Civil Court, Hyderabad restraining its action. The sub-contractor owed an amount of Rs.15.57 lakh when the Company terminated the contract with it (September 2001). The sub-contractor, however, invoked arbitration clause and preferred a claim for Rs.70.76 lakh against the Company on grounds of misrepresentation and breach of contract (January 2002).

Scrutiny in Audit revealed (January 2003) that although the terms and conditions of the contract required the approval of the client for appointment of sub-contractor for execution of the work, the Company did not take approval of the client before their engagement. Review in Audit further showed that the Company did not properly assess the capability of the sub-contractor for the execution of the above work as it did not have requisite experience in road works nor possessed the required machinery. The Company was required to ensure availability of equipment, past performance, capability and above all acceptability of the sub-contractor to the client before entering into any pre-tender tie up.

The Management stated (February 2004) that the records produced by the sub-contractor before pre-qualification tie up showed that it was technically and financially sound. They further stated that the encashment of bank guarantee could not be made because of the deliberate attempt by the sub-contractor's bankers in not honouring the encashment.

The contention of the Management is not tenable as the earlier contracts executed by the sub-contractor related to civil construction/water works and the list of plant and equipment furnished mostly related to civil construction work and not road works. The Company failed to ascertain the financial viability as well as availability of machinery with the sub-contractor before entering into pre-tender tie-up. This is evident from the fact that the sub-contractor, as early as in June 2000, expressed his inability to execute the work. The Tender Scrutiny Committee of the Company recommended in May 2001 to get the work executed through other local agencies and recover the extra cost by encashing bank guarantee /invoking arbitration while vindicating the sub-contractor's plea about non-cooperation from the client's side. The probable loss from the ongoing arbitration case is not ascertainable at this stage. The Company has not lodged a counter-claim with the client.

The Ministry, while endorsing the Management's view, stated (September 2004) that fresh empanelment of contractors/vendors would be done every two years.

Thus, the failure of the Company in not evaluating financial worthiness of the sub-contractor coupled with ineffective monitoring of the execution of work, non-validation of appointment of sub-contractor from client and delayed action to retrieve the situation or to encash guarantees resulted in a loss of Rs.1.06 crore in the execution of work.

Heavy Engineering Corporation Limited

11.4.1 Avoidable loss of Rs.16.43 crore on transit loss of Producer Gas

By not taking effective measures for checking loss of gas during transit, the Company suffered loss of Rs.16.43 crore during 1999-2000 to 2002-03.

The Heavy Engineering Corporation Limited (Company) has a coal-based gasplant generating 'Producer Gas' to be utilised for forging, heat treatment, mould drying, ladle heating and refractory heating. Although no loss of gas during transit was envisaged, the Company was experiencing transit loss as high as 40 per cent of gas actually produced.

In order to explore the possibility of reduction in line losses and efficient utilisation of gas, a committee was set up by the Management. The committee in its report observed (October 1999) that the main reasons for transit losses were leakages through pipeline, non-sealing of undesired pipelines, non-cleaning of drain pot, etc. The committee recommended (October 1999) various long-term measures at a cost of Rs.84.60 lakh to prevent excess transit loss of gas. The committee also suggested some short-term measures which would reduce the transit loss by 15 per cent. Even after acceptance of the recommendations of the Committee, the transit loss of gas during 1999-2000 to 2002-03 was 30 per cent of total production of gas resulting in loss of Rs.16.43 crore which could have been avoided by taking effective measures as suggested by the committee.

The Management stated (November 2003) that the transit loss was slightly higher than normal and short-term measures had been taken actively for reduction of transit loss. The Ministry while admitting the fact of the transit loss stated (October 2004) that considering unavoidable volumetric loss of 15 per cent and earning on disposal of coal tar, the loss was Rs.2.25 crore only.

The reply is not tenable as while working out the loss, the cost of gas had been considered after purification and the earnings on account of coal tar and slack coal production have been taken into account. Further, the transit loss continued to be high, though no loss of gas during transit was anticipated. Though more than four years had passed since observations were made by the committee, the measures taken as stated by the Management were not effective as the transit loss continued to be as high as 30 per cent.

Hindustan Photo Films Manufacturing Company Limited

11.5.1 Non-realisation of dues from Guest House Licensee

Due to defective agreement with a private party, the Company could not recover Rs.52.30 lakh on account of licence fee.

A Guest House measuring 24,000 square feet of built up area in Udhagamandalam Hill Town owned by the Hindustan Photo Films Manufacturing Company Limited (Company) was licensed to M/s. Siddhartha, Nilgiris – a Mysore based private firm (party) in March 1998 for three years to be used by the party for residence/Guest House/Holiday

Home/Hotel purpose, at an annual fee of Rs.16.50 lakh per annum payable by monthly instalments in advance. The licence deed expired in March 2001.

The Company collected the licence fee regularly only till June 1998 and belatedly every month till May 2000 and could collect nothing thereafter till March 2004. Thus, the Company could collect the licence fee for 26 months only out of total 72 months for which the Guest House was under occupation of the party.

Audit scrutiny revealed (August 2002) that the Licence Agreement was not formally extended on completion of three years on the grounds that the party defaulted in Licence Fee payments even though the Board approved the extension. It was also noticed that the original agreement in force till March 2001 did not provide any safeguard for eviction in the event of breach of agreement. Under these circumstances, the Company gave up its efforts to evict the party and approached the Government of India (GOI) for intervention in the matter. Thereupon GOI appointed an Estate Officer (January 2003) under the Public Premises (Eviction of Unauthorised Occupants) Act, 1971. The Company then defined the party as unauthorised occupant before the Estate Officer. Ultimately, the Company evicted the party in March 2004 without realising its arrears of Licence Fee till then.

According to the audited accounts of the Company for the year 2003-04, a sum of Rs.52.30 lakh was shown as realisable and accounted for after adjusting Rs.12.51 lakh towards bills payable to the party.

The Ministry stated (February 2003) that there was breach of mutual trust of the Licence Agreement. The Ministry was, however, hopeful that the Management could realise the dues through legal recourse once the party was evicted.

HMT (International) Limited

11.6.1 Violation of DPE Instructions on foreign travel

Failure of the Company to regulate foreign travel claims of the employees in accordance with the instructions of the Department of Public Enterprises resulted in irregular payment of Rs.1.10 crore.

With a view to bringing about economy in expenditure on foreign travel by the officers of the Public Sector Undertakings (PSUs), the Department of Public Enterprises (DPE) issued instructions (September 1995) according to which the consolidated amount paid in respect of foreign travel as per the guidelines of the Reserve Bank of India (RBI) was to cover room rent, taxi charges, entertainment, official telephone calls and other contingent expenditure apart from daily allowance. This consolidated amount was only an upper limit of foreign exchange one could draw and was not one's entitlement. On return from tour, the officials were required to render accounts for all items of expenditure other than daily allowance (DA) prescribed by the Ministry of External Affairs (MEA).

After deliberating on the DPE's instructions in the Board meeting (June 1996) the Company sought (July 1996 and April 1997) exemption from implementation of the instructions on grounds that it would not be feasible to follow the instructions of DPE

unless higher limit as per RBI guidelines was stipulated. The Company did not pursue the matter further with DPE and continued to admit the claims of the employees on foreign travel in excess of MEA rates without supporting vouchers. The Company during the period from October 1995 to August 2004 admitted claims amounting to Rs.1.10 crore without supporting vouchers in contravention of the DPE's instructions.

The Management stated (April 2004) that the Company actually saved on foreign travel expenditure by retaining the existing norms by not implementing RBI guidelines on foreign travel, which was almost twice of what was allowed by the Company.

The reply of the Management is not acceptable as:

(i) The RBI instructions envisage the procedure for release of foreign exchange for travel abroad and the maximum quantum of foreign exchange that could be drawn per day,

(ii) The rates allowed by the Company were higher than MEA rates and by insisting on supporting vouchers the Company could have reduced the foreign travel expenditure.

Thus, non-regulation of foreign travel claims of employees in accordance with the instructions of DPE resulted in an irregular payment of Rs.1.10 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

HMT Machine Tools Limited

11.7.1 Loss due to delay in clearance of imported consignments

Lack of proper monitoring mechanism for clearance of imported consignments resulted in loss of Rs.79.77 lakh.

The Company imports materials regularly for its production requirements. However, some of the consignments imported during April 1999 to December 2000, were not cleared from Customs and were kept at the Customs-approved warehouse. Delays in clearance of consignments were stated to be due to lack of demand for the end products and financial constraints in paying customs duty. As there was delay in clearance of imported consignments, Customs Authorities issued notices under Section 48 of the Customs Act, 1962 to the Company in January 2000, January 2001 and March 2001 to get the imported consignments cleared within seven days failing which these would be auctioned. Even after receipt of notices, no action was taken by the Company for clearance of these imported consignments. Thereupon, Custom Authorities auctioned six consignments valued at Rs.34.89 lakh during January 2001 to December 2001. Three more consignments valued at Rs.20.02 lakh on which customs duty amounting to Rs.12.15 lakh was paid in May 2001, were also auctioned in August 2001 and January 2002 due to lack of coordination among the Company, clearing agent, Custodian of goods and Customs Authorities. The Company came to know of the auction of the consignments only in November 2002. Due to delay in clearance of materials, the

Company also suffered liquidated damages and interest amounting to Rs.12.71 lakh due to delay in supply of end products. The Management took up in December 2002 with Customs Authorities the case for refund of customs duty and interest on materials which were auctioned on which customs duty had been paid. The Company also lodged in June 2003 a claim with the Custodian of imported goods for the value of the goods. There was, however, no progress in realisation of the claim either from the Custodian or from the Customs Authorities (September 2004).

The Management stated (September 2004) that delay in clearance had to be viewed in the light of vagaries in the market conditions coupled with financial constraints faced by the Company due to cash losses suffered.

The reply is not tenable in view of the following:

(i) poor financial position of the Company warranted close monitoring of the imported consignments based on requirements and prompt clearance of consignments from Customs;

(ii) non clearance of consignments in respect of which customs duty was paid is indicative of failure of monitoring mechanism of the Company; and

(iii) order for import of materials should have been made taking into account market requirements.

Thus, lack of proper monitoring mechanism for clearance of imported consignments resulted in loss of Rs.79.77 lakh during January 2001 to January 2002.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

NEPA Limited

11.8.1 Unfruitful expenditure of Rs.2.21 crore

The Company incurred capital expenditure of Rs.2.21 crore on the purchase of equipment, which could not be utilised in the absence of funds for procurement of raw material. This resulted in unfruitful expenditure of Rs.2.21 crore.

The NEPA Limited (Company) is a loss-making enterprise and has been referred to the Bureau of Industrial and Financial Reconstruction (BIFR) in 1998. The Company purchased a second-hand de-inking cell assembly with a capacity of 25 TPD♣ to improve the brightness and quality of newsprint. The same was commissioned in March 1999 at a total cost of Rs.50.21 lakh.

Later, for augmentation of de-inking system to manufacture de-inked pulp of 250 TPD with a linked enhancement in production of newsprint by 5000 TPA♦, the Company

♣ ***Tonne per day***

♦ ***Tonne per annum***

submitted (August 1999) a proposal to the Government of India (GOI) for providing funds. Though GOI did not release the funds as the Company was in the process of disinvestment, the latter went ahead with its proposal and purchased (1998-99 to 2000-01) various equipment (HD♥ 100 TPD pulper with mini-sorter, turbo-separator, pressure screen and plastosort screen with accessories) at a total cost of Rs.1.71 crore out of its internal resources after obtaining the Board of Directors' approval.

These equipment were commissioned during the period from March 1999 to November 2000, which could, however, be operated only for less than two years. They were lying idle since February 2002 due to non-procurement of raw material owing to paucity of funds. Further, as the 25 TPD de-inking cell assembly was not technically compatible with these equipment, it was also lying idle since June 2000. As a result, the overall production decreased from 50,555 MT in 2001-02 to 20,215 MT in 2002-03 and 22,450 MT in 2003-04.

Thus, not only did the Company fail to achieve the objective of additional production of 5000 TPA as envisaged in the proposal, but also incurred unfruitful expenditure of Rs.2.21 crore (Rs.50 lakh plus Rs.1.71crore), in purchasing equipment which could not be used in the absence of funds for procurement of raw material.

The Management stated (November 2003/April 2004) that the Company was a new player, having no knowledge in the field of making paper with recycled raw material. The de-inking cell was purchased, as the market demand was for brighter and speckfree paper and the HD pulper was installed to use cheaper raw material and to bring down the level of chemical consumption. They accepted that the production went down due to non procurement of the raw material owing to fund constraints.

The reply is not acceptable as the Company, having eroded its net worth, was already a sick unit and was referred to BIFR in 1998. Accordingly, it was not prudent on the part of the Company to incur capital expenditure without properly working out financial arrangements for the requisite working capital for the procurement of raw material. Further, it was observed that consumption of chemicals in the paper mill had in fact increased.

Thus, the imprudent decision of the Company resulted in unfruitful expenditure of Rs.2.21 crore.

The matter was reported to the Ministry in March 2004; its reply was awaited (September 2004).

♥ ***high density***

CHAPTER 12: MINISTRY OF INFORMATION AND BROADCASTING

National Film Development Corporation Limited

12.1.1 Non-recovery in television marketing

The Company could not recover advertisement revenue of Rs.3.98 crore from marketing agents for want of written agreement, defective collection procedure and ineffective recovery action.

The National Film Development Corporation Limited (Company) was given free commercial time (FCT) slots by the Doordarshan (DD) to be marketed during telecast of films on Friday and Saturdays on DD-I. The Company, in turn, engaged marketing agents to book advertisements through release orders for the said FCT. The marketing agents were also to collect payments from advertisers and pass them on to the Company after deducting their commission. However, the Company did not enter into any formal agreements with the marketing agents.

M/s. Panjon and its sister concerns (M/s. Sanitex Chemicals, M/s. Aditya Enterprises and M/s. IPSEM Healthcare Limited) and M/s. Plus channel were engaged by the Company to market the FCT on DD. The marketing agents were irregular in remittance of collections from advertisers to the Company. This resulted in non-recovery of dues amounting to Rs.3.98 crore as brought out in the succeeding paragraphs:

(i) M/s. Panjon group, during the period between August 2000 and August 2002, booked the advertisements for FCT on DD to the extent of Rs.1.95 crore (net of commission). However, they remitted only Rs.21 lakh thereagainst to the Company leaving a balance of Rs.1.74 crore till August 2004. M/s. Panjon group were irregular in remittance of collections from advertisers to the Company, but the Company accepted belated part payments without taking any corrective action against them.

In reply the Management stated (June 2004) that the Company had issued winding up notices to M/s. Panjon Limited and IPSEM Healthcare Limited and they also proposed to initiate legal proceedings in case no payments were forthcoming towards full and final settlement.

(ii) M/s. Plus channel were also irregular in the remittance of their collections from advertisers to the Company. During the period from 1993-94 to 1995-96 they booked advertisements to the extent of Rs.16.84 crore (net of commission) and remitted Rs.13.80 crore intermittently upto 31 March 1996 leaving a balance of Rs.3.04 crore in arrears. M/s. Plus channel, as a producer of film, had also placed rights of 10 films with the Company for telecasting on DD channel. After adjusting an amount of Rs.80.73 lakh towards film right, the net recoverable from M/s. Plus channel was brought down to Rs.2.24 crore at the end of March 1999. Since the chances of recovery from M/s. Plus

channel were remote the Company, in the accounts for the year 2000-01, wrote off amount of Rs.2.24 crore as irrecoverable.

The Management stated (June 2004) that the Company's effort to recover the said dues was not successful and the chances of recovery of dues was remote as the financial position of M/s. Plus channel had suffered a setback and winding up petition was filed against them.

Thus, entering into business with the marketing agents without agreement to safeguard its interest, allowing agents to appropriate the revenue of the Company and ineffective recovery action, resulted in non-recovery of advertisement revenue of Rs.3.98 crore.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

CHAPTER 13: MINISTRY OF INFORMATION TECHNOLOGY

National Informatics Centre Services Incorporated

13.1.1 Loss due to poor inventory management

The Company procured networking equipment without assessing the demand in a fast changing technological environment. Consequently, stock valuing Rs.3.04 crore became obsolete as there was no demand in the market.

The National Informatics Centre Services Incorporated (Company) undertook import of Very Small Aperture Terminals (VSATs) of different specifications intended for stock and sale to the prospective users viz. public sector undertakings, autonomous bodies etc. to facilitate the use of a Government network called 'NICNET' set up by the National Informatics Centre (NIC) for transfer of data. These VSATs alongwith other accessories were required to be installed at the user sites to make the network functional.

The Company procured 447 Frequency Time Division Multiple Access (FTDMA) VSATs from Israel and 250 Internet Protocol Advance (IPA) VSATs from USA between March 1997 and March 2000 alongwith other accessories and spares, but could sell 402 FTDMA and 214 IPA VSATs respectively till July 2004. Scrutiny in Audit (August 2003) revealed that the Company had not laid down any inventory management system prescribing therein the minimum and the maximum stock levels, reordering level and the economic order quantity nor did the purchases made have any relation with the actual sales and movement of inventory. The Company, thus, resorted to bulk purchases without commensurate sales and consequently the stock kept on piling. When the Company stopped making further purchases (March 2000), it had 253 of FTDMA and IPA VSATs in stock and could sell 172 only thereafter upto July 2004. During 2003-04 the Company stopped promoting the above mentioned VSATs and a new technology called Digital Video Broadcast (DVB) was ushered in. Accordingly, all the clients of the Company were advised to shift to new technology and 105 clients out of 231 shifted to DVB. The existing VSATs, therefore, became redundant. Alternate use/buyers had not been identified (September 2004).

A Committee constituted (August 2003) by the Company recommended (December 2003) write off of VSATs spares over a period of three years, cannibalise the VSATs and sell them in parts. The Committee further reviewed (April 2004) the existing old inventories valuing Rs.3.84 crore (excluding one VSAT valuing Rs.2.21 lakh sold after the Committee's report) and recommended inventory valuing Rs.58.95 lakh to be declared as scrap and revaluation of the remaining inventory at cost or realisable value whichever was less. The Committee further recommended sale of various VSAT items at the best possible price so that meaningful amount would be realised instead of declaring them as scrap or auctioning at a later date. The Board of Directors accepted the recommendations of the Committee (June 2004).

The Management stated (March 2004) that the Company had earned a profit of Rs.5.16 crore from maintenance and support service provided to its clients. As import of spare parts was costlier as compared to the import of full set, the Company kept full sets of VSATs as spares to service its clients. The Company had since discontinued (January 2004) the maintenance contract with its manufacturers and decided to use existing spare inventory for future maintenance and support on which the Company was expected to save an amount of Rs.35.80 lakh annually.

The Ministry, while reiterating (August 2004) the arguments of the Management, stated that the Company had been using the stock for warranty services/maintenance services during warranty and post warranty period.

The contention of the Management/Ministry that it would be using VSATs for maintenance and support services is not tenable as it was purchasing spares separately for service/ maintenance purposes apart from converting stock into spares with the specific approval of the competent authority. No VSATs had been used/sold (except one sold) since April 2003. Approval of competent authority for conversion of the balance 81 VSATs as appearing in the list of inventory was not on record. Further, since the Company was having only 22 AMCs for VSATs, the existing inventory was far more than its maintenance inventory requirements. The profit of Rs.5.16 crore as claimed by the Company was attainable without having the surplus inventory of Rs.3.04 crore. Moreover, the items other than Indoor Unit, Outdoor Unit, Radio Frequency Terminal and Low Noise Blocker of the inventory were not used for maintenance purposes.

Thus, procurement of VSATs far in excess of the actual/realistic demand coupled with failure of the Company to keep itself updated with the advancement in technology, resulted in loss of Rs.3.04 crore to the Company after excluding the spares of Rs.79.52 lakh.

CHAPTER 14: DEPARTMENT OF MINES

Bharat Gold Mines Limited

14.1.1 Injudicious decision to increase the age of superannuation of employees

Failure of the Company to obtain exemption from the DPE instructions regarding increase in retirement age of employees resulted in avoidable expenditure of Rs.65.03 lakh.

The Bharat Gold Mines Limited (Company) introduced a Voluntary Retirement Scheme (VRS) (October 1989) to reduce the manpower which became surplus due to abandonment of mining activities at deeper levels and shrinkage of other allied activities.

Since the response to the VRS was not encouraging, the Management, with the concurrence of the Board of Directors (February 1998), approached the Government seeking permission to retrench the employees under the Industrial Disputes Act, 1947 by paying retrenchment compensation. In the meantime, based on the Department of Public Enterprises (DPE) OM of 19 May 1998, the Company enhanced (June 1998) the age of retirement of the employees below the Board level from 58 to 60 years with effect from 26 June 1998. DPE in its subsequent instructions of August 1998 advised the PSUs to seek specific approval if they did not want to increase the age of retirement from 58 to 60 years. The Company did not take any action on DPE instructions of August 1998. Subsequently, the Company decided (March 2000) to reduce the retirement age of the employees from 60 years to 58 years with effect from 1 October 2000 on the ground that it was incurring losses every year, was dependent on financial support from the Government, and was referred to BIFR. The approval for the same was sought from the Government. Meanwhile the Company was closed down with effect from 28 February 2001.

The enhancement of the retirement age defeated the main objective of the VRS as well as that of the resolution to retrench employees to reduce the surplus labour and manpower cost. Also, it had an adverse effect on the already precarious financial position of the Company, as the Company had to incur an additional expenditure of Rs.65.03 lakh from September 1998 towards wages and salaries paid to the employees working beyond the age of 58 years.

The Ministry stated (August 2004) that the Company had taken the decision to increase the age from 58 to 60 years keeping in view the Government's attempt to revive the Company through Joint Venture and that rolling back the age of retirement within two months of its increase was not a practical proposition.

The reply of the Ministry is not tenable as increasing the age of retirement and thereby keeping the workforce static had only jeopardized the attempt to revive the Company. Moreover, the Company had sought to retrench employees barely three months before enhancing the retirement age. The Board having representatives from the Ministry of

Mines should have pondered over the impact of increasing the retirement age on the finances of the Company and should have approached the Government in August 1998 to obtain exemption from the enhancement of the retirement age.

Thus, failure of the Company to obtain timely exemption from DPE regarding increase in retirement age of employees resulted in avoidable expenditure of Rs.65.03 lakh from September 1998 to February 2001.

National Aluminium Company Limited

14.2.1 Avoidable payment of Dividend Tax of Rs.1.90 crore

Despite being aware of the fact regarding increase in dividend tax rates from 11 per cent to 22 per cent (including surcharge) with effect from 1 June 2000, the Company paid final dividend thereafter resulting in an additional expenditure of Rs.1.90 crore towards dividend tax.

In consultation with the Government of India, the National Aluminium Company Limited (Company) provisionally decided (November/December 1999) to declare 20 per cent dividend for the year 1999-2000. Meanwhile, in the Finance Bill 2000-2001 the rate of dividend tax was increased from the existing 11 per cent to 22 per cent (including surcharge) effective from 1 June 2000.

Considering the position of profit after tax for 11 months upto February 2000 amounting to Rs.450.94 crore, the Company anticipated (March 2000) that profit after tax for the full financial year 1999-2000 would be of the order of Rs.500 crore. Accordingly, in order to avail the benefit of the existing lower rate of dividend tax, the Board of Directors of the Company (BOD) approved (March 2000) 15 per cent interim dividend on its equity of Rs.644.31 crore. In order to discharge the liability of Rs.107.28 crore on this account before 31 May 2000 for saving 11 per cent dividend tax thereon, the Company borrowed Rs.85 crore at interest rate of 10 per cent per annum.

As per provisional decision of November/December 1999, the BOD, while adopting the accounts in June 2000 finally recommended 20 per cent dividend for the year 1999-2000, which was approved by the shareholders in the Annual General Meeting and paid in November 2000. As such, the Company had to pay dividend tax at enhanced rate of 22 per cent on the 5 per cent final dividend paid after 31 May 2000. Had the Company paid the entire 20 per cent as interim dividend and later confirmed it as total dividend for the year it could have availed the advantage of the lower rate of dividend tax available till 31 May 2000 and saved Rs.1.90 crore.

In fact, the Company had to bear an additional expenditure of Rs.3.55 crore towards enhanced rate of dividend tax on final dividend of Rs.32.22 crore (five per cent of Rs.644.31 crore). After adjusting Rs.55 lakh[♣] towards cost of raising additional money to

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♣ ***Rs.89 lakh interest at the rate of 10 per cent for three months minus Rs.34 lakh tax advantage at the rate of 38.5 per cent admissible on interest charges = Rs.55 lakh.***

meet the expenditure before 31 May 2000, and savings of Rs.1.10 crore♦ on account of interest for holding Rs.35.76 crore♥ for the period from June 2000 to November 2000 (date of payment of final dividend) the Company had to suffer a loss of Rs.1.90 crore♠.

The Management/Ministry while accepting the loss (June 2003/June 2004), stated that the decision was taken in the context of (i) keeping shareholders' expectation alive to get something more towards final dividend, (ii) declaration of final dividend was always subject to approval of shareholders in AGM and (iii) saving of Rs.7.88 crore by declaring 15 per cent interim dividend.

None of the above contentions of the Ministry/Management is tenable due to the fact that (i) the Government of India, being the major stakeholder, had already agreed for 20 per cent dividend; so, much more expectation was not required to be anticipated, (ii) there was no chance of controversy over the issue in the AGM and (iii) the Company could have saved Rs.1.90 crore more in addition to Rs.7.88 crore as claimed.

Thus, due to non-declaration of the committed dividend at the opportune time, the Company had to bear an additional expenditure of Rs.1.90 crore towards dividend tax.

♦ ***Rs.1.79 crore interest at the rate of 10 per cent for six months on Rs.35.76 crore minus Rs.69 lakh tax at the rate of 38.5 per cent on interest income = Rs.1.10 crore.***

♥ ***Rs.32.22 crore dividend and Rs.3.54 crore dividend tax at the rate of 11 per cent = Rs.35.76 crore***

♠ ***Rs.3.55 crore minus Rs.55 lakh minus Rs.1.10 crore = Rs.1.90 crore.***

CHAPTER 15: MINISTRY OF NON-CONVENTIONAL ENERGY SOURCES

Indian Renewable Energy Development Agency Limited

15.1.1 Non-recovery due to deficient guidelines and weak internal control

Lacunae in the guidelines for loan assistance and absence of an effective internal control mechanism resulted in doubtful recovery of outstanding loan amounting to Rs.33.64 crore in addition to interest of Rs.57 crore and liquidated damages of Rs.8.47 crore thereon.

The Company was set up (March 1987) for the promotion and development of new and renewable sources of energy under different sectors in the country, consisting mainly of wind power generation, small hydro, solar photo voltaic systems and bio mass briquettes. The Company has been advancing/financing loans mostly to private parties in these sectors.

As on 31 March 2004, loans amounting to Rs.280.73 crore extended by the Company had become Non-Performing Assets (NPA) and were doubtful of recovery. The agewise breakup of the NPAs as on 31 March 2004 was as below:

(Rs. in crore)

Less than 1 year (No of cases)	1 year to 2 years (No of cases)	2 years to 3 years (No of cases)	More than 3 years (No of cases)	Total (No of cases*)
80.50 (9)	48.46(10)	5.93(15)	145.84 (78)	280.73 (112)

*In 16 cases repeat loans were made to same parties thus the number of borrowers was 112-16=96

A test-check of seven NPA borrowers out of total 96 NPA borrowers as on 31 March 2004 disclosed lacunae in the guidelines followed by the Company and absence of an effective internal control mechanism in sanctioning and disbursement of loan as detailed below, thereby resulting in non-recovery of the outstanding dues amounting to Rs.99.11 crore as on 31 March 2004 (principal Rs.33.64 crore, interest Rs.57 crore and liquidated damages Rs.8.47 crore).

Borrower	Lacunae in guidelines and weaknesses in the internal control
1. **M/s. Vasavi Industries Limited** Loan sanctioned Rs.5.65 crore (July 1998) Loan disbursed Rs.4.23 crore (October 1998 to March 2000) Loan Outstanding Rs.4.23 crore First default in repayment of principal September 1999 The borrower completed only 50 per cent	(i) As per the loan agreements, the mortgage was to be created before the loan disbursement. But interim loans were released without creation of the mortgage. The Ministry stated (October 2004) that the system of interim disbursement had since been discontinued. If disbursement is required prior to creation of mortgage the

of the project. They did not provide proper justification for the delay in the project and the Company felt that the funds might have been diverted for some other purpose. **2. M/s. Sarita Steel and Industries Limited** Loan sanctioned Rs.5.65 crore (July 1998) Loan disbursed Rs.2.82 crore (October 1998) Loan outstanding Rs.2.82 crore First default in repayment of principal September 1999 The borrower did not complete the project. **3. M/s. Sarita Synthetics Limited (name changed to M/s. Sarita Software and Industries Limited)** Loan sanctioned Rs.5.65 crore (July 1998) Loan disbursed Rs.3.96 crore (October 1998 to July 2000) First default in repayment of principal September 1999 Loan outstanding Rs.3.96 crore. The borrower was a willful defaulter	same is permitted against bank guarantee (ii) The Company did not inspect sites before disbursement of loan on the plea that these sites were identified by the Ministry of Non-Conventional Energy Sources. The Ministry stated (October 2004) that the Company had subsequently set up the practice of inspection of all new sites prior to sanction of projects. (iii) These three borrowers belonged to Vasavi group of Companies. Loans were sanctioned to these Companies in the same group at the same time. It was a new field of business (setting up wind farms) for the group. The funds were blocked as the entire group became defaulter. The Ministry stated (October 2004) that setting up of wind electric generator did not require particular experience. The reply is not tenable as the Company had sanctioned Rs.16.95 crore loan to the three Companies under the same group without mortgage of properties thereby exposing itself to risk in case of unsatisfactory performance by the group. (iv)The details of appointment, continuance and reporting by the nominee directors to be appointed by the Company on the Boards of Directors of the borrowing Companies were not furnished to Audit. The Ministry stated (October 2004) that the Company made the appointments but the induction was not taken up by the borrowers. The reply indicates that the Company was unable to enforce the terms of the agreement to watch its interests.
4. M/s. Ushdev International Loan sanctioned Rs.10.35 crore (Agreement signed March 1997) Loan disbursed Rs.10.35 crore (March 1997 to September 1997) Loan outstanding Rs.7.43 crore First default in repayment of principal December 1998. The borrower deliberately dishonoured the	(i) The loan to the borrower was rescheduled in July 2001 despite the borrower having expressed (November 2000) difficulty in adhering to the schedule due to liquidity crunch. This resulted in delay in initiating recovery proceedings up to May 2004 i.e. by about three years from the date of reschedulement of loan. The Ministry stated (October 2004) that filing recovery proceedings is an extreme step that had to be taken only in the

post dated cheques tendered by them to the Company. Criminal complaints were filed by the Company.	circumstances when all other measures failed. The reply is not tenable as the party was in default and was gaining time by reschedulement of loan. (ii) Rebate of 4.5 per cent in the rate of interest (Rs.4.04 crore) was allowed to the borrower. The Ministry stated (October 2004) that the rebate was extended to all loans bearing the rate of interest of 19 per cent. The reply is not acceptable as the borrower was already in default since September 1998. (iii) The project financed by Company was earning profits but payments made to Company for repayment of loans were not commensurate with their earnings. In the absence of incorporation of a suitable provision in the loan agreement for an escrow account, the Company could not prevail upon the earnings / profit generated by the borrower. The Ministry stated (October 2004) that the then prevailing guidelines did not stipulate the opening of an escrow account. The guidelines had been later strengthened to provide for the opening of escrow account. (iv)Non-monitoring of accounts of borrower Company resulted in diversion of profits by borrower to investment, deposits without payment of Company's dues. (v) The Company could not safeguard its interest through the nominee director though there was provision for regular reporting regarding affairs of the borrower Company. The Ministry stated (October 2004) that the nominee director was attending the meetings of the Board of the borrowing Company. The reply is not tenable as even then the nominee director did not safeguard the interests of the Company.
5. M/s. Haryana Energy Fuels Private Limited Loan sanctioned Rs.39.36 lakh (July 1992 and September 1993) Loan disbursed Rs.39.36 lakh (March 1994 to March 1996) Loan outstanding Nil.	(i) Failure on the part of the Management to protect assets which were mortgaged to Company as the borrower had leased out Company's secured assets (March 2001) to a third party without approval of the Company. (ii) The plant was in operation till March

Interest on OTS outstanding Rs.3 lakh Dues written off Rs.53.15 lakh. First default in repayment of principal June 1995 The unit remained closed since March 1999 due to technical and financial difficulties. The Company was aware of the borrower's problems since 1997 but took action only in 2001	1999 and generating income but no repayment had been made to the Company. The Ministry stated (October 2004) that the plant was in working condition but due to resignation of the promoter directors the plant was not generating sufficient revenues to repay Company's dues. The reply is not tenable as the revenue being generated was not passed on to the Company for repayment of dues. (iii)The grant of One Time Settlement (OTS) (October 2002) itself was irregular as the Company had knowledge of the fact that the borrower had leased out Company's secured assets to third party. The Ministry stated (October 2004) that the OTS was sanctioned as per the guidelines. This shows that the guidelines were deficient to safeguard the interests of the Company. (iv)Failure of the Management to appoint a nominee director to secure its interest in violation of guidelines for providing loan assistance. The Ministry accepted that in briquetting sector the units being very small, the system of nominee directors was not working effectively
6. M/s. Silcal Metallurgical Limited Loan sanctioned Rs.24.85 crore (Loan agreement signed in April 1996) Loan disbursed Rs.8.90 crore (March 1997 to August 1998) Loan Outstanding Rs.8.90 crore First default in repayment of principal June 1999 The project could not progress as the borrower could not acquire the necessary land. The borrower started making losses from 1996-97 and their financial performance deteriorated	(i) Despite knowledge of the fact of indebtedness/default by the borrower with other financial institutions (March 1998), the Company released loans of Rs.6.90 crore to the borrower between March 1998 to August 1998. The Ministry stated (October 2004) that the guidelines have since been amended to facilitate disbursement only on certification by chartered accountant that the borrower has no defaults with other institutions. (ii) Considering the cash profits of the borrower for the last three years ranging from Rs.1.55 crore to Rs.2.33 crore at the time of sanction of loan the borrowers projected cash accruals for the years 1995-96 to 1997-98 ranging from Rs.6.09 crore to Rs.7.33 crore which were unrealistic. The Ministry stated (October 2004) that the defaults occurred because the main business of the borrower did not show good

	results. The reply is not tenable as the past results of the borrower did not support the projections
7. M/s. MSK Construction Private Limited Loan sanctioned Rs.7.80 crore (Loan agreement signed in May 1996) Loan disbursed Rs.6.30 crore (June 1996) Loan outstanding Rs.6.30 crore First default in repayment of principal June 1997 The borrower incurred losses in their business during 1995-96 and 1996-97.	(i) Release of loan without obtaining Income tax clearance certificate. The Ministry stated (October 2004) that as per the prevailing practice of the Company a chartered accountant's certificate confirming no dues towards income tax is acceptable for disbursement in the absence of Income tax clearance certificate. The reply shows that the deficiencies still exist in the guidelines. (ii) Owing to non-compliance of its terms, OTS sanctioned in April 2001 was withdrawn but subsequently restored at the request of the borrower. The Ministry stated (October 2004) that the borrower had planned the sale of their hotel property to meet the OTS of the Company. The sale did not get through in time and the borrower, therefore, requested for extension of time. To speed up the recovery and in anticipation of receiving OTS amount the OTS was restored/ extended. The reply is not acceptable as the OTS sanctioned in April 2001 was not honoured by the buyer and the DRT proceedings were filed only in November 2002. (iii) Failure to safeguard the financial interests of the Company by the nominee director as there was no regular reporting. The Ministry stated (October 2004) that the nominee director was appointed and remained on the Board of Directors of the borrowers till the loan was recalled. The reply does not address the fact that the nominee director did not submit reports to the Company to safeguard its interests.

The Management/Ministry in their reply (September 2004 / October 2004) further stated:

(i) Company had comprehensive financing guidelines and these guidelines are reviewed periodically and strengthened based upon on requirements. Loans were sanctioned to the borrowers keeping in view the financing guidelines in force at the time of sanction.

(ii) The defaults, as observed by Audit, should not be construed as lack of internal control procedures.

(iii) Being a development Institution risks had to be taken.

The reply of the Ministry/Management is not tenable in view of the following:

(i) Having been in the field of financing since 1987, lacunae still existed in the financing Guidelines of the Company and their implementation.

(ii) non-inspection of the project site prior to disbursement, inadequacy in the system of appointment/reporting of Nominee Directors/concurrent auditors, insufficient security before disbursement, leasing out of property/secured assets by the borrowers are indicative of the inadequacies of the internal control system.

(iii) Though the general steps viz. issue of letters/notices as per recovery manual are followed, recovery proceedings were delayed by not initiating timely action against the defaulting borrowers. Also, in none of the seven cases concurrent auditors were appointed.

(iv) The Company being a commercial organisation should have ensured adequate security in the disbursement of loans

Consequently, recovery of loans amounting to Rs.33.64 crore (31 March, 2004) were rendered doubtful besides loss of interest of Rs.57 crore and liquidated damages of Rs.8.47 crore.

CHAPTER 16: MINISTRY OF POWER

National Hydroelectric Power Corporation Limited

16.1.1 Avoidable loss of Rs.4.51 crore due to non-maintenance of circuit breakers

The Company incurred an avoidable expenditure of Rs.3.80 crore due to not carrying out overhauling of circuit breakers as per manufacturer's maintenance manual. Besides, there was generation loss of 46.35 MUs, resulting in loss of revenue of Rs.71.39 lakh.

The National Hydroelectric Power Corporation Limited (Company) commissioned (March/April 1992) three units of Tanakpur Hydro Power Station (THPS).The total installed capacity of THPS was 94.2 MW[♣] and annual design energy was 447.67 MUs[♦].

On 15 April 2002, Unit II was running at full load. In view of the increasing trend in water level, the generation schedule was revised upward and accordingly, Unit III was started and was attempted to be synchronised with the grid. During this process, circuit breaker (breaker) tripped immediately after synchronisation. As one of the breaker's poles did not open on trip command and the breaker of another line also did not open, this resulted in feeding single phase supply to Unit III from the grid, which caused heating of the rotor and stator. As a result, stator of Unit III caught fire, a major fire broke out in the power house and Unit III went under forced outage.

The breakers were required to connect/disconnect the machines with the main line at the time of synchronisation/de-synchronisation of the system. It was observed in Audit (June 2003) that as per supplier's maintenance manual, the overhauling of the breakers was required to be done every sixth year or after approximately 5,000 operations, whichever was earlier. However, the Company had not overhauled the breaker system for 10 years since its commissioning in March 1992 till occurrence of this event.

The Company could restore Unit III on 21 November 2002 after incurring an expenditure of Rs.3.84 crore. According to the minutes of the meeting held with the firm, which did the repair work, the Y- phase mechanism got stuck, which was the cause of non-tripping of the pole at the time of backfeeding to the Unit III and the problem, which developed in the operating mechanism might have been due to ageing effect. The firm also recommended overhauling of the other breakers for reliability.

As such, had the Company carried out preventive overhauling of the breaker system in 1998 after a period of 6 years, chances of its failure could have been minimised. The overhauling of circuit breakers of the other two units was carried out by the Company after 10 years in 2003 at a cost of Rs.7.73 lakh.

[♣] ***Mega Watts***
[♦] ***Million Units***

Due to closure of Unit III for 7 months, there was generation loss of 46.35 MUs, as compared to the design energy pertaining to the corresponding months. Further, since the energy sent out during the year 2002-03 was 413.37 MUs as compared to the design energy of 447.67 MUs, there was a loss of secondary energy (energy generated in excess of design energy) to the extent of 12.05[♥] MUs. As the project was entitled to recover secondary energy charges, the Company would have earned revenue to the extent of Rs.71.39 lakh[♠].

The Ministry stated (August 2004) that the maintenance manual had recommended only overhaul inspection every sixth year or after 5,000 operations, but renewal of parts of operating mechanism was recommended only after 5,000 operations. It also contended that routine preventive maintenance was done every year and that though the generation fell short by 22 MUs, the Company had fully recovered annual fixed charges.

The reply is not tenable since the purpose of overhaul inspection was to maintain the designed ability of breaker and prevent failure which could be achieved only through overhauling. Accordingly, the overhaul inspection should have been carried out every sixth year or 5,000 operations, whichever was earlier. Further, there was actually generation loss of 46.35 MUs, as compared to the design energy relating to the corresponding months and even though the Company had recovered full annual fixed charges, it could not recover the secondary energy charges.

Thus, by not carrying out the overhaul of the circuit breakers as per the manufacturer's maintenance manual, the Company incurred an avoidable expenditure of Rs.3.80 crore[•]. Besides, there was generation loss of 46.35 MUs, resulting in loss of revenue of Rs.71.39 lakh.

Power Grid Corporation of India Limited

16.2.1 Blocking of funds due to non utilisation of surplus high tensile steel

Failure to utilise 2,989 MT of imported steel for the past eight years resulted in locking up of borrowed funds of Rs.7.05 crore and loss of interest amounting to Rs.9.03 crore.

In order to fabricate towers for construction of various transmission lines associated with Kathalguri Transmission System, the Power Grid Corporation of India Limited (Company) received 24551 MT of imported High Tensile (HT) steel of different sections during the period from 1992 to 1995. The imported steel was exempt from customs duty and could not be utilised elsewhere or sold without the prior permission of the Government of India (GOI). Any surplus steel that remained after completion of the works was either to be returned to the Company or sold to contractors at prevailing rates.

[♥] ***(413.37 plus 46.35) minus 447.67 = 12.05***
[♠] ***excluding 12 per cent free energy***
[•] ***after deducting cost of Rs.3.86 lakh incurred on overhauling of an unit***

A scrutiny of records relating to utilisation of the steel revealed that there was considerable variation between the quantity of steel procured and utilised. While examining the issue of surplus steel, the Company noticed in March 1996 that the unutilised steel, being of non standard sections, could not be utilised internally and accordingly asked the contractors to retain the same at the prevailing rates. As the contractors refused the same due to applicability of customs duty on the imported steel, the Company decided (January 1998) to take back the steel. However, the Company did not initiate any action for obtaining the GOI's permission for diversion/disposal of the surplus steel till April 2003, even though the contractors had started returning steel in 1998-99. As a result, 2989 MT (approximately) of the surplus HT steel valuing Rs.7.05 crore was lying unutilised with the Company (March 2004).

While contending that the steel sections were of standard sizes, the Management/Ministry stated (March and May 2004) that sections and quantity of the steel were estimated by NEEPCO[♣] as per the requirements furnished by the contractors, based on their design of the tower. The Ministry further stated that the Company had been making consistent efforts to utilise the surplus steel from 1996 onwards and as the process of return of steel had taken substantial time, action for the GOI's permission was possible after November 2002 when the steel was in possession of the Company. They added that after getting the GOI's permission in January 2004, the Company worked out the plan for utilisation of the surplus steel.

The reply is not tenable as the Company itself had noted in March 1996 that the unutilised steel was mostly of non-standard sections. Further, instead of making arrangements for taking back the surplus steel from the contactors, the Company kept on pursuing them to retain the unutilised steel, though they had refused the same (June to October 1996). Though most of the unutilised steel had been returned by the contractors in 1998-99, the Company approached the GOI only in April 2003 for utilisation in other ongoing projects after Audit pointed out the matter in January 2003. In fact, the Ministry itself has observed (October 2003) that having received the surplus steel from the contractors in 1998-99, the Company should have taken necessary steps for its utilisation elsewhere in 1998-99 after getting necessary permission.

Thus, failure to dispose off 2989 MT of surplus steel valuing Rs.7.05 crore over a period of more than eight years not only blocked borrowed funds but also resulted in payment of interest of Rs.9.03 crore[♦] upto March 2004.

16.2.2 Incorrect measurement of transmission line length

Incorrect measurements recorded at the time of construction of transmission lines resulted in overpayment of Rs.56.18 lakh to the contractors on length-specific material.

The Company awarded (1987 to 1996) works for construction of various transmission lines to different contractors in the North Eastern Region from time to time. The payments to the contractors were to be released on the basis of measurements recorded in

[♣] ***North Eastern Electric Power Corporation Limited***

[♦]***At the interest rate of 16 per cent applicable on the funds borrowed from the Governmenr of India***

the Measurement Book (MB), duly signed by the concerned engineer and the contractor and test-checked by the field engineer and work-in-charge.

These transmission lines were commissioned during July 1995 to November 2000. Subsequently, the Company awarded (September 2000) the work of stringing the Optical Fibre Ground Wire (OPGW) on the existing transmission lines under Unified Load Dispatch and Communication Scheme (ULDC) to M/s. Siemens, which also included conducting of survey for the line length.

In respect of four transmission lines[♣], it was noticed that the total length measured by M/s. Siemens was 457.627 Kms, as compared to 472.320 Kms determined at the time of construction of the lines. This indicated that the measurement recorded at the time of construction of these lines was not correct, which resulted in overpayment of Rs.56.18 lakh to the contractors on the excess portion of 14.693 Kms, towards length-specific material (survey, conductors, stringing and earthwire).

Similar overpayment due to incorrect measurements in respect of location-specific items like foundations, etc. and avoidable expenditure on higher type of towers due to incorrect angle of deviation, could not be ruled out.

The Ministry/Management stated (February/March 2004) that the discrepancy in the line length corresponded to length-specific component which was due to cumulative effect of difference in measurement of span length between towers at different points of time by different agencies. Further, the difficult accessibility of the site and concern about the safety of the persons from the militancy prevailing in the region might have contributed to the variation in measurement. Stating that the Company initiated action for recovery on realizing the discrepancy, the Ministry contended that the recovery had to be restricted to the length-specific items only (like cost of survey, conductors, earthwire and stringing), as the towers and associated civil works remained the same. They added that revised reconciliation with two contractors had been completed and reconciliation with the remaining two contractors was under finalisation.

The reply indicated that the procedure for recording measurement and prescribed test-checks had not been followed scrupulously due to the militancy and difficult geographical conditions. These reasons could justify delays in construction of these lines and not incorrect measurement resulting in overpayments to the contractors. Moreover, the Company itself had noticed wide variations in angle of deviation in various locations in one line[♦], which might have resulted in provision of higher type of towers in place of optimum ones. Under these circumstances, it is difficult to assume that measurements relating to location-specific works had been recorded correctly.

Thus, the incorrect measurements resulted in overpayment of Rs.56.18 lakh to the contractors for length-specific material on excess length of 14.693 Kms. Besides, similar overpayments due to incorrect measurements in respect of location-specific works could not be ruled out.

[♣] ***Badarpur-Khleihriat, Dimapur- Imphal, Kumarghat-Agartala and Misa-Dimapur***

[♦] ***Agartala–Kumarghat***

Tehri Hydro Development Corporation Limited

16.3.1 Avoidable payment of penalty

Tehri Hydro Development Corporation Limited (Company) paid penalty of Rs.3.60 crore to Uttaranchal Power Corporation Limited (UPCL) during the period June 1999 to June 2002 due to failure to assess its demand for power properly and delay in getting additional load sanctioned.

The Company entered into an agreement with Uttar Pradesh State Electricity Board, (UPSEB) (June 1990) now Uttaranchal Power Corporation Limited (UPCL) for supply of six MVA load from sub-stations at Chamba and Dobata for its units at Tehri. Subsequently, the Company requested UPSEB (March 1997) to increase the contracted load from six MVA to 10 MVA in view of anticipated increase in the requirement of power for construction of main dam. UPSEB approved (December 1998) additional load of four MVA subject to the conditions that

(i) the tariff for the same shall be charged at the rate applicable to temporary connections;

(ii) additional load shall be released from Chamba sub-station through a separate bay for which the cost was to be borne by the Company.

As the conditions were not acceptable to the Company, it did not enter into an agreement with UPSEB. It, however, did not formally take up the issue of withdrawal of these conditions with UPSEB. Subsequently, the State of Uttaranchal was formed in November 2000 and the work of UPSEB in the region was transferred to UPCL. The Company formally took up the matter with UPCL in December 2000 and followed it up only in March 2001. UPCL asked the Company (May 2002) for a fresh application for enhancement of load. On an application by the Company (May 2002), the additional load of four MVA was sanctioned by UPCL in June 2002 without the above conditions.

Meanwhile a revised tariff plan of UPSEB was notified in June 1999 which provided for levy of penalty for drawal of power in excess of sanctioned load. During the period from November 1999 to June 2002 the recorded demand exceeded 10 MVA and ranged from 11 to 15.9 MVA but even the additional load of four MVA seeking increase in contract demand from six MVA to 10 MVA, had not been got sanctioned till June 2002. As the Company was drawing power in excess of the sanctioned load it had to pay a penalty of Rs.3.60 crore during the period June 1999 to June 2002.

The Ministry stated (May 2004) that

(i) discussions were held with UPSEB to amend the technically faulty sanction order;

(ii) copies of the revised tariff plan of June 1999 were not given to the Company;

(iii) UPCL authorities were requested time and again to refund the penalty and the Company was in the process of filing a complaint in the Consumer Disputes Redressal Forum.

The reply of the Ministry is not tenable since

(i) the Company formally took up the issue of amendment to the sanction order of UPSEB of December 1998 after two years in December 2000 and followed it up only in March 2001;

(ii) as the notification for revised tariff was issued in June 1999, it was incumbent on the Company to take note of the changes in the tariff and its financial implications; and

(iii) despite requests for refund of penalty by the Company there was no response from UPCL. The application with the Consumer Disputes Redressal Forum had also not yet been filed by the Company (September 2004)

Thus, failure of the Company to assess its demand for power properly from time to time and delay on its part in getting the additional load sanctioned by UPSEB resulted in an avoidable payment of penalty of Rs.3.60 crore.

CHAPTER 17: MINISTRY OF RAILWAYS

Container Corporation of India Limited

17.1.1 Avoidable loss of Rs.1.13 crore due to imprudent decision to continue the operation of parcel train

The Company decided to continue the operation of the parcel train, despite its unsuccessful trial run, which resulted in an avoidable loss of Rs.1.13 crore.

To achieve increase in the share of freight traffic of Railways, the Railway Board offered (May 2000) 20 VPH (Vehicle Parcel Unit) trains to the Container Corporation of India Limited (Company) to run as super-fast parcel express train, (later called the 'Millennium Express'). The Company agreed (July 2000) to run the train initially with 10 VPH twice a week between Delhi and Chennai with a stipulation that a benefit of 20 per cent of freight charges would be allowed towards terminal handling, security, documentation and marketing. The Company took the decision based on a quick study at Delhi end without preparing any feasibility report.

The Company commenced the service between Delhi and Chennai on 29 July 2000, as a trial measure for three months. It suffered a loss of Rs.52.22 lakh during the experimental period, largely because of empty movement from Chennai end. Utilisation of the service at Chennai end was 38 per cent only, resulting in imbalance in traffic. The Company also faced various operational problems such as inadequate terminal facilities, absence of loading platform, pre-stacking facilities, incomplete market package and insufficient warehousing facility.

Notwithstanding these constraints, the Board of Directors (BOD) of the Company decided (October 2000) to continue the service and also directed the Company to explore the possibility of introducing the parcel service on other traffic corridors♠ , so that by triangular movement, incidence of empty haulage could be reduced.

The Company finally discontinued the Delhi-Chennai service in August 2001, by which time it had already incurred a loss of Rs.1.65 crore. Had the Company deferred the service after the trial period till the completion of the market survey, it would have restricted the loss to Rs.52 lakh only. Thus, the imprudent decision of the Company to continue the service despite the unsuccessful trial run resulted in an avoidable loss of Rs.1.13 crore.

Based on various market surveys (March 2002) for introducing the service on other corridors, the Company arrived at the conclusion that the service required extensive infrastructure and manpower. Besides, the freight forwarders also could not rope in

♠ ***Delhi-Kolkata, Delhi-Guwahati, Kolkata-Mumbai and Delhi-Bangalore-Chennai***

enough cargo for full trainload due to non-competitive rates. It also realised that the parcel traffic was predominantly moving on road and that longterm gain or loss was uncertain with a complete absence of a reliable road map on which a decision could be made to formally enter in this business.

The Management contended (November 2003) that the initial period of three months was comparatively a short period to stabilise the service and hence a considered decision to continue the service was taken by the BOD. They added that a new business might not give desired results and that profit and loss was essentially a part of every business.

The reply is not tenable because the Company had not prepared a feasibility report based on market survey before taking up the project, which is a prerequisite for embarking upon any new service to ascertain its viability, and even the quick study carried out was at Delhi end only. Despite being aware of the operational problems, the Company took no remedial action after the trial run.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

CHAPTER 18: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

Ahmedabad Vadodra Expressway Company Limited

18.1.1 Loss of income due to delay in carrying out wayside amenities

Failure of the Company to plan and manage its activities with financial prudence resulted in loss of lease income of Rs.55.50 lakh.

Ahmedabad Vadodara Expressway Company Limited (Company) was formed to create and maintain infrastructure facilities and works relating to Ahmedabad-Vadodara Expressway in Gujarat State. The Detailed Project Report (DPR) of September 1999 of Ahmedabad Expressway (Phase I) provided for creation of comprehensive wayside amenities such as fueling and servicing facilities, hotel, telephone, sufficient parking space for vehicles etc. to be opened to the user public simultaneously with the opening of Expressway for traffic. The Company evaluated the pre-qualification applications of the parties interested (January 2002) for establishing the wayside amenities. Since there was only one bid, it was decided to invite fresh bids (July 2002) for better competition. In the subsequent tender, the highest bid of M/s. Reliance Industries Limited (RIL) received in February 2003 for an annual lease amount of Rs.55.50 lakh was accepted in June 2003 after a delay of four months. Even then, the lease agreement for a lease period of 15 years could not be finalised as part of land measuring 1,356 square meters had not been acquired. The Company acquired the land (Plot No.1292) in February 2004 after payment of Rs.3,051 towards its cost. The lease agreement with the lessee was thereafter finalised in March 2004. Audit noticed (October 2004) that the Company could not finalise lease agreement due to non-acquisition of Plot No.1292 which was missed out by the Company and pointed out by RIL in July 2003.

The avoidable delay in acquisition of small piece of land valuing Rs.3,051 resulted in loss of income of Rs.55.50 lakh.

The Ministry stated (July 2004) that the delay in finalisation of contract was on account of rebidding with a view to ensure better competition as well as due to land acquisition. The reply is not acceptable, as there existed avoidable delay in finalising the second bid. The delay on account of land acquisition occurred due to the serious lapse on the part of the Company in not ensuring the availability of required land taken over from the Government of Gujarat more than 12 years earlier. Had the Company acted with due care before the calling of tenders and acted promptly in acquisition of requisite land, the loss could have been avoided.

CHAPTER 19: MINISTRY OF SHIPPING

Cochin Shipyard Limited

19.1.1 Wasteful expenditure on contract for technical documentation for Aframax Tanker

The Company's decision of getting the basic design vetted without having a firm contract in hand for construction of Aframax Tanker resulted in wasteful expenditure of Rs.1.98 crore.

The Company received a Letter of Intent (LOI)[♣] (November 2001) for building two Aframax Crude Oil Tankers of 1.10 lakh DWT[♠] each. The LOI stated that the Company might initiate necessary action so that construction of vessel could start without delay.

Accordingly, the Company entered into an agreement (May 2002) with M/s. IHI Marine Co, Japan (IMC) for vetting of the basic design prepared by it. The technical documentation was to be prepared by IMC at a price of 42.5 million Japanese Yen (Rs.1.70 crore) based on contract specifications signed between the Company and SCI.

The basic specification for the tanker with 20 per cent additional capacity was frozen by SCI in August 2002. The Company signed (January 2003) a Memorandum of Understanding (MOU) with SCI after 14 months from the date of LOI for supply of one tanker at a cost of US$ 34.70 million (Rs.219.14 crore[♦] approximately). The Company estimated (November 2002) a loss of Rs.22.05 crore on this venture. However, considering that the project would absorb a fixed cost of Rs.85.13 crore, the Company prepared itself to go ahead in view of net contribution of Rs.63.08 crore.

Subsequent to the MOU, the Company issued a global tender (January 2003) for supply of Design Technical Documentation and Material Package. The offers evaluated in August 2003 revealed that material cost had shot up by Rs.30 crore and loss on account of foreign exchange variation worked out to Rs.14 crore, over and above the loss estimated in November 2002. Thus, total estimated loss worked out to Rs.66 crore (August 2003).

The Company initiated action (August 2003) for further price negotiation with SCI, in view of the increase in the price of steel, other raw materials and exchange rate fluctuations. This was not accepted by SCI and the MOU was terminated (September 2003).

[♣] ***from Shipping Corporation of India***

[♠] ***MT dead weight***

[♦] ***US $ 34.70 million = Rs. 168.57 crore plus Government subsidy @ 30 percent i.e., Rs.50.57 crore. Total Rs.219.14 crore***

The Company had paid IMC a sum of Rs.1.98 crore and a balance payment of Rs.8 lakh, though yet to be made (May 2004), was a committed expenditure. The Company's decision to go ahead with the agreement with IMC for vetting of the basic design without a firm order from SCI resulted in wasteful expenditure of Rs.1.98 crore.

The Company stated (March 2004) that they had to go in for construction of Aframax Tanker as the order book position was very bad; but it did not mean that the Company should undertake a contract with a heavy loss of Rs.66 crore while the market conditions had changed considerably. The Company also stated that the drawings obtained could be made use of for future construction of large vessels as a database and, therefore, the amount spent on consultancy was not a loss.

The reply is not tenable as the Company did not protect its interest against the price variation and foreign currency fluctuation in a contract of such a huge magnitude and agreed to a fixed price in the MOU. Further, as the design was prepared for a non-standard Aframax Tanker, its use in future is doubtful and will also be required to be approved by regulatory bodies as per rules and regulations applicable. The Company had also decided not to quote for Aframax tanker in the near future in view of the order book position.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Dredging Corporation of India Limited

19.2.1 Avoidable loss of Rs.1.89 crore due to incorrect interpretation of terms regarding depth related disincentives in the contract with Kolkata Port Trust

Due to incorrect interpretation of the conditions in the contract, the Company suffered a loss of Rs.1.89 crore during 2002-03.

The Company entered (March 2002) into an agreement with the Kolkata Port Trust (KPT) for undertaking dredging of navigable waters of Kolkata/Haldia by deploying Company's Trailer Suction Dredgers for a period of five years with effect from 1 April 2002. As per provisions of clause eight of the agreement, the Company was required to execute the dredging as directed by KPT from time to time for maintenance of the required navigable depth in the approach channel of Kolkata/Haldia Ports. The Company had also agreed for depth related incentives/ disincentives (penalties) for dredging at Jellingham Channel based on Joint Neap Survey (JNS). No penalty was envisaged for dredging done at other areas like Lower Auckland Bar (LAB)

During the year 2002-03, the Company deployed its dredgers for a total period of 38,383 hours and 34 minutes. Of this, 37,624 hours and 8 minutes were deployed in dredging at Jellingham Channel for which the depths achieved were reported through JNS conducted. The balance 759 hours and 26 minutes (31 days 15 hours and 26 minutes) were deployed in the dredging at LAB for which no JNS was envisaged in the agreement and as such no depths reported. The Company, however, billed KPT for the dredging work on monthly basis for both Jellingham Channel and LAB in a single bill. KPT reduced the hire charges for the entire work done in Jellingham Channel and LAB applying depth related penalties

uniformly. As against total recovery of Rs.35.74 crore towards disincentives, a sum of Rs.1.89 crore pertained to the dredging work in LAB for which no penalty was applicable. Had the Company billed separately for Jelligham Channel and LAB, this loss of Rs.1.89 crore would have been avoided.

The Management stated (May 2004) that KPT identified Jellingham Bar as a single entity for the purpose of penalty/incentive. The dredging carried out at Auckland Bar is in the interests of the Company as it facilitated attainment of increased depths at Jellingham Bar due to the flushing effect

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

(i) While the scope of the Agreement envisaged that the Company would carry out dredging and maintain required navigable depths in approach channels of Kolkata/Haldia ports, the incentives/disincentives were limited to Jellingham channel as per Clause 8 of the Agreement. The Company's contention that 'for the purpose of penalty/incentive, KPT identified Jellingham Bar as a single point factor instead of employing different yardsticks at different places' is neither supported by any provision in the Agreement nor was there any such understanding between the Company and KPT outside the Agreement.

(ii) The Management's justification of the dredging work undertaken at LAB by referring to 'flushing effect' was also not relevant as Audit has not questioned the dredging in LAB. Audit has objected only to the incorrect disincentives applied to the dredging work done at LAB which were not in accordance with the Agreement.

Thus, failure on the part of the Management in presenting a combined bill instead of separate bills, resulted in an avoidable loss of Rs.1.89 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

19.2.2 Avoidable loss of Rs.93.59 lakh

Failure to evaluate the local regulations before entering into a contract with a foreign firm for dredging resulted in loss of Rs.93.59 lakh.

The Company entered into an agreement with M/s. Hung Hua Construction Company Limited, Taiwan (HHCL) (August 2001) for dredging 3.5 million M^3 from the Access Channel, Approach Channel and Inner Channel in Taichung Harbour, Taiwan. The rates for dredging for each channel were firm throughout the execution of the contract except for the increase in the cost of fuel i.e. High Flash High Speed Diesel (HFHSD) after 23 July 2001. HHCL was to reimburse 80 per cent of the increase in the fuel cost whose initial price was taken as US$ 262 per MT, subject to a maximum quantity of 4,300 MT. The dredger Dredge-XVI detailed for this contract, commenced the work from 12 September 2001 in Approach and Inner Channels and took up the dredging work in Access Channel from 30 October 2001. When the dredger encountered hard strata and stones, disputes relating to production loss and fuel cost escalation arose. After

negotiations, the contract was foreclosed on 4 May 2002 by mutual agreement after dredging a quantity of 2.64 million M^3.

In the execution of this dredging work, the dredger consumed 3,246.226 MT of HFHSD. As the fuel was arranged by HHCL, it deducted US$ 1.089 million (equivalent to Rs.5.33 crore) from the bills of the Company towards the cost of fuel. As per the local laws, the dredger was classified as a 'working vessel' and as such, it was allowed bunkering (receiving fuel) at domestic prices which included customs duty and other local taxes applicable on international price. Accordingly, the fuel cost deducted by HHCL was at domestic price of US$ 391 per KL•. The Company claimed reimbursement of US$ 0.191 million (Rs.94 lakh) being 80 per cent of increase in cost of fuel in terms of the contract. However, HHCL turned down the Company's claim on the ground that there was no increase in actual international market price of HSD from the base price of US$ 262 per MT. As a result the Company sustained a loss of Rs.93.59 lakh due to fueling of the dredger at domestic price.

The Management stated (June 2004) that (a) the price of HFHSD US$ 262 was mentioned on the basis of ruling international price as on 23 July 2001, which as per intention of the contract should be used as the base and (b) the matter was still being pursued with HHCL.

The reply of the Management is not tenable as the Management failed to correctly understand the implications of its vessel being declared a working vessel and to factor in the costs in its quotation. The legal counsel of the Company was also of the opinion that the Company's claim was not sustainable.

Thus, the Management's failure to evaluate the commercial terms regarding fuel escalation in the light of local laws and conditions resulted in the Company suffering a loss of Rs.93.59 lakh.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

Hooghly Dock and Port Engineers Limited

19.3.1 Liquidated damages due to delayed delivery of a Tug

Hooghly Dock and Port Engineers Limited entered into an agreement with Kolkata Port Trust for construction supply and delivery of one 30 tonne BP Tug which after a delay of 20 months resulted in loss of Rs.63.17 lakh towards liquidated damages.

The Hooghly Dock and Port Engineers Limited entered in to an agreement with Kolkata Port Trust (KPT) on 7 October 1998 for construction and delivery of one 30 tonne BP Tug for Haldia Dock Complex at a price of Rs.6.28 crore. The delivery of the Tug was due within a period of 18 calendar months from the date of placement of work order failing which the liquidated damages @ 0.5 per cent of the contract price per week was payable subject to maximum of 10 per cent of contract price. The Company received stage wise payment as per terms and condition of the agreement. The work order was placed on 7

• ***equivalent to US$ 461.19 per MT***

October 1998. The Tug was ready for delivery in December 2001 after a delay of 20 months against scheduled date of delivery in April 2000.The KPT deducted Rs.63.17 lakh (10 per cent of revised contract price of Rs.6.32 crore) from the Company's bills. The Management accepted the facts.

The Ministry in their reply stated (April 2004) that during the period from 1993 till mid 1998, no work was going on in both the workshops in HDEPL because of the proposed closure of the Company. As a consequence thereof, no maintenance work was being carried out for the infrastructure/machineries including tools, tackles etc. during this period. The Ministry admitted further that there had been delay and the delay resulted in avoidable loss of Rs.63.17 lakh. They also advised the Management to fix responsibility in the instant case and to avoid recurrence of such delay. The nodal officers have been appointed to oversee each of the projects.

Inland Waterways Authority of India

19.4.1 Extra expenditure due to not accepting available valid offer

The Inland Waterways Authority of India did not accept the valid lowest bid and re-invited bids resulting in extra expenditure of Rs.1.34 crore.

The Inland Waterways Authority of India (Authority) approved two separate schemes (December 2000) for procurement of two Cutter Suction Dredgers, two Work Boats, two Accommodation Boats (Scheme I) and one Cutter Suction Dredger, one Work Boat, one Accommodation Boat (Scheme II) at an estimated cost of Rs.12.76 crore and Rs.6.38 crore respectively. The Authority floated a Global Tender (January 2001) against which eight tenders were received. The lowest offer of M/s. Tebma Shipyard Limited, Chennai (Tebma) was negotiated at Rs.4.28 crore each (excluding tax) for Dredgers and Rs.1.40 crore each (excluding tax) for the Work Boats. Accommodation Boats were not included in the tender. During the process of placement of order, the Ministry observed (April 2001) that in view of the total cost exceeding Rs.15 crore, both the schemes I and II be combined and approval of Expenditure Finance Committee (EFC) be obtained. The Authority, meanwhile, sought (June 2001) and obtained (August 2001) extension of validity of the offer upto October 2001 for the negotiated price, which was later extended (February 2002) upto March 2002 by Tebma. Tebma indicated at the time of extending the validity in August 2001 that there were increases in prices of inputs and raw materials.

The Government approved (January 2002) the proposal for procurement of three Cutter Suction Dredgers, three Work Boats and three Accommodation Boats at a cost of Rs.41.30 crore including recurring operational expenditure. The Authority, instead of placing order on Tebma, cancelled (May 2002) the earlier tenders without citing any market study and floated a fresh global tender anticipating recession in the world market. On evaluation of the fresh tender, orders were placed on M/s. Mazagaon Dock Limited (January 2003) at Rs.15.84 crore (exclusive of taxes) for three Cutter Suction Dredgers. Similarly, order was placed on M/s. Neptune Marine Private Limited (January 2003) for three Workboats at a cost of Rs.3.31 crore (excluding tax). Thus, by not accepting the valid offer of Tebma and despite being aware of the inflationary trend (August 2001), the

Authority incurred avoidable extra expenditure of Rs.1.34 crore being the difference between the purchase cost of dredgers and workboats including taxes (Rs.20.07 crore) and the negotiated cost with Tebma plus taxes (Rs.18.73 crore against first tender).

The Management stated (July 2004) that the re-tender was decided by the Board as more than one year had elapsed since last tender and due to change in the specifications of the dredger. The reply is not tenable as there was no indication that the Authority went for any market study in spite of having sufficient warning in advance about the inflationary trend in the prices. Also specifications were reduced in respect of maximum dredging depth, dead weight of dredgers and capacity of hydraulic cutting drive in the revised tender. These should have further reduced the prices. But the Authority lost on account of both prices and specifications which shows that their decision to go for retender was made without any sound basis.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

19.4.2 Loss due to failure to insure navigation system

Failure to insure the night navigation system installed in river Brahmaputra resulted in a loss of Rs.53.96 lakh.

The Inland Waterways Authority of India (Authority) installed (March 2002) 60 sets of navigational buoys and lighting equipment on Bangladesh border-Pandu stretch of National Waterway 2 (NW-2) in river Brahmaputra at a cost of Rs.74.50 lakh to provide round the clock navigational facilities. Forty five of these night navigational buoys and 55 sets of navigational lighting equipment valued at Rs.60.42 lakh got either damaged by miscreants/anti-socials or were missing. The Authority had not renewed the insurance cover after July 2001 pending settlement of their earlier claim with the insurance company. As a result, the Authority had to bear a loss of Rs.53.96 lakh (after deducting insurance liability payable).

The Authority, while admitting the observation stated (February 2004) that the navigational buoys and lighting equipment were presently under insurance cover with effect from 11 July 2003. They further stated that the pilferage could not be prevented/reduced in the remote area and introduction of night navigation system was a new concept and as such the extent of theft and pilferage could not be foreseen. The reply is not to the point and Audit observation is regarding non insurance between July 2001 and July 2003 and not about the extent of pilferage and theft. The Authority had insured its equipment before and after this period.

Thus, failure to get the insurance cover on expensive navigational equipment in a pilferage prone area resulted in a net loss of Rs.53.96 lakh to the Authority.

The matter was reported to the Ministry in March 2004; its reply was awaited (September 2004).

The Shipping Corporation of India Limited

19.5.1 Avoidable expenditure on chartering a vessel

Chartering of MV Lok Kranti vessel ignoring stringent PSC and Class Inspection checks in and around Canada led to detention of vessel by PSC Inspectors of Canada and avoidable expenditure of Rs.3.32 crore.

The Company acquired MV Lok Kranti, a vessel of 1978 vintage in 1992. The vessel was due for fifth Intermediate Survey in September 2000. A techno-economic study carried out for repairs to continue its operations for the balance life of about two years revealed (July 2000) that:

(i) It was not economical to carry out major repairs at the proposed budgetary provision of Rs.5.45 crore and to keep the vessel operating till the end of its economic life of 25 years as the break-even point would be at US$ 7,000 per day whereas the present market rate was not expected to be more than US$ 6,200-6,500 per day.

(ii) The vessels of this age were not readily accepted in the market. Earnings were quite meagre and every time such vessels were subjected to stringent Port State Control (PSC) and Class Inspection leading to frequent detention and expensive repairs.

Considering the above, the Management decided to go in for intermediate dry-docking to carry out minimum essential repairs, steel renewals and machinery repairs at a cost of Rs.2.60 crore (August 2000) in order to operate the vessel upto September 2002. The vessel was dry-docked at a cost of Rs.2.08 crore (September/October 2000) at which the break-even point worked out to US$ 5,700 per day.

However, the Company hired the vessel to M/s. J.K. International for shipment of grain/bulk peas cargo from Vancouver (Canada) for a charter hire of US$ 4,214 per day as against its break-even point of US$ 5,700 per day (June 2002). PSC (Canada) detained the vessel on its arrival at Vancouver for its structural deficiencies (June 2002) and allowed it to sail after 51 days on completion of certain minimum repairs at an expenditure of Rs.73.53 lakh. The Company also incurred Rs.1.84 crore towards standing charges, ballasting etc., and Rs.74.93 lakh for bunker consumption. Later on the vessel was disposed off for Rs.5.57 crore (November 2002).

The Management stated (May 2003) that the vessel was sailing very smoothly after intermediate dry-docking and that the vessel did not face any detention in any of the previous ports of call and had also passed condition survey carried out by P and I Club at Ulsan, South Korea, during its idling period. It was a commercial decision to send the vessel for Vancouver. The Ministry while concurring with the views of Management added (September 2004) that the developments at Vancouver were sudden and not anticipated.

The above contention of the Management/Ministry is not tenable in view of the fact that prior to sending the vessel to Vancouver, it was sailing among the Asian ports only where

the PSC conditions were not stringent as compared to those of USA and Paris. Further, the Director General of Shipping, Government of India vide his circular dated 10 July 2001 also categorically cautioned that Indian Ships of all the shipping companies were in the watch list of US coast guard and in the grey list of Paris MOU and urged the concerned seafarers to perform their part of duties diligently in the improvement of housekeeping of the ships. The contention of the Ministry that developments at Vancouver were sudden and not anticipated was not acceptable as the Management was aware (July 2000) that the aged vessels such as Lok-Kranti were subjected to stringent PSC and class inspection, which might result in frequent detentions and expensive repairs. The Management itself admitted (September 2004) that developed countries like Canada had very stringent internal instructions to carry out the PSC inspection of vessels belonging to developing countries like India and this was a well-known fact. Keeping in view the caution notice and the poor condition of the vessel as evident from 170 defects in housekeeping pointed out on inspection by PSC (Canada) inspectors at Vancouver, the chartering of the vessel to Vancouver was not prudent.

Thus, the decision of the Company to charter the vessel on hire below its break-even level ignoring stringent PSC and Class Inspection checks in and around Canada as well as the health of the 24-year-old vessel, especially when only minimum essential repairs had been carried out, resulted in detention of the vessel during PSC and Class Inspection at Canada. This, in turn, resulted in an avoidable expenditure of Rs.3.32 crore.

19.5.2 Idle investment

The Company could neither surrender nor occupy the booked space in the Scope Minar Complex, Laxminagar, resulting in blocking up of funds of Rs.1.33 crore besides payment of rental charges amounting to Rs.81.44 lakh with a recurring liability of Rs.3.05 lakh per month on rent.

The Company acquired 6,000 Square feet of office space area in the Scope Minar Complex, Laxminagar, to accommodate its Regional Office at New Delhi. An amount of Rs.1.33 crore was paid over a period of time from November 1981 to March 1995 to the Standing Conference of Public Enterprises (SCOPE) towards cost of the office space. The Board approved (July 1999) a proposal for surrendering the office space to SCOPE as it was not found convenient to shift its Regional office to Scope Minar Complex, Laxminagar, in trans-yamuna area as liaison office was required to interact with the Company's administrative Ministry and other Ministries.

Accordingly, the Management approached the SCOPE authorities for surrender of the office space area (July 1999). The SCOPE authorities stated (August 1999) that money for the office space area would be refunded if they were able to find any of the existing constituents or any other Public Sector Enterprise for acquiring this space.

The office space in the Scope Minar complex, Laxminagar, was ready from April 2002 onwards but the Management did not take possession of the office area and continued to operate its Delhi Office from Chandralok building in Cannaught place, New Delhi, on a monthly rent of Rs.3.05 lakh per month.

The Management, while accepting facts mentioned in the para, stated (June 2004) that the contention of Audit regarding blocking of capital and losing interest was correct; however, the Company could not dispose off the premises as situation was totally beyond their control.

The above reply of the Management is not tenable as the unsuitability and inconvenience of the place due to its distant location far off was brought to the notice of the Management by the Regional Manager, Delhi Office and Executive Director (Finance) in December 1982 itself i.e. much before the Company decided in August 1983 to book the office space in Scope Minar Complex at Laxminagar. The decision of the Management to book the office space in Scope Minar Complex at Laxminagar was, thus, injudicious. It could neither surrender the space nor could lease out the premises after taking the decision to surrender the office space in July 1999. The Company paid rental charges amounting to Rs.81.44 lakh during the period from April 2002 to August 2004. Apart from the above recurring revenue expenditure, the Company also incurred loss of interest of Rs.60 lakh (worked out at an average interest rate of 9 per cent per annum) during the period from August 1999 to July 2004 on the idle investment of Rs.1.33 crore.

The matter was reported to the Ministry in June 2004; its reply was awaited (September 2004).

CHAPTER 20: MINISTRY OF STEEL

Indian Iron and Steel Company Limited

20.1.1 Loss of Rs.2.54 crore on short receipt of coal

The Company suffered a loss of Rs.2.54 crore on account of short receipt of coal at destination point due to not taking steps to avoid such shortages.

Burnpur works of the Company was purchasing semi-coking coal from Chinakuri colliery of the Eastern Coalfields Limited (ECL) which is located at a distance of about 25 Kms. from Burnpur. The coal was transported to Burnpur by the Railways at owner's risk and the payment for coal was being made on the basis of weighment at the loading point. It was noticed that the Company short received 13,113.86 MT of coal during 2000-01 to 2003-04.

Though the short receipt of coal was with an increasing trend of shortage ranging from 1.95 per cent (2000-01) to 12.28 per cent (March 2004) of quantity purchased, the Management did not analyse the reasons for short receipt of coal, the cost of which worked out to Rs.2.54 crore. As transportation of coal was at owner's risk, no claim could be lodged with the Railways. Audit analysis revealed that on various occasions the shortage was in the range of 12.83 per cent to 20.65 per cent during 2002-03 and 2003-04 but no concrete steps were taken by the Management to avoid the heavy shortages during transit even though the distance was only 25 Kms. The Management took up (May 2001) the matter with ECL for faulty weighment at loading point. ECL did not agree (June 2001) that the weighment was faulty and advised the Company to provide escort with the rake upto unloading point. During coking coal allocation meeting held on 26 November 2002, ECL pointed out that the shortage could be due to pilferage of coal enroute and again advised the Company to examine the scope of engaging security escorts. The Company, however, did not take any steps to avoid shortage/pilferage and continued to suffer the loss on account of short receipt of coal.

The Management stated (September 2003) that the actual tare weight was always lower to the tune of approximately one MT per wagon in comparison to the printed body tare weight; as such reported shortage would come down. The shortages were also attributed to moisture loss and handling loss. The Management further stated that they were exploring the possibility of engaging escorts.

The Ministry, however, stated (August 2004) that the shortages had been observed only on coal received from Chinakuri and in other similar cases the shortages were within the norm of three per cent and after rectification of the weighbridge at Chinakuri, the incidence of short receipt had reduced. The reply is not tenable in view of denial of ECL and even after rectification of weighbridge the shortages were in the range of 8.65 per cent to 14.80 per cent during February 2004 to August 2004.

Thus, because of the failure to take concrete steps to avoid shortage of coal during transit, the Company suffered a loss of Rs.2.54 crore being the cost of coal received short.

MECON Limited

20.2.1 Loss of Rs.6.01 crore due to unrealistic estimation

The Company suffered loss of Rs.6.01 crore in execution of a work awarded by ONGC, due to its being taken up on the basis of unrealistic estimates.

The Oil and Natural Gas Corporation Limited (ONGC) awarded MECON Limited (Company) the work of setting up main plant for its In-Situ Combustion Project, Mehsana, on turnkey basis at a total lumpsum price of Rs.54.33 crore. The work, which was to be completed by January 1998, was mechanically completed and commissioned in July 1999. The Company was to carry out one month's operation but the same was not carried out due to non-availability of downstream facilities at the project and so the plant could not be handed over to ONGC. Reactivation of above work alongwith work of erection, testing and commissioning of Injection water pumps and Compressor trains was also awarded to the Company at a price of Rs.2.03 crore. The work was actually completed (June 2001) at a total cost of Rs.62.92 crore against a total contract fee of Rs.56.36 crore, entailing overall loss of Rs.6.56 crore. The plant was handed over to ONGC in July 2001.

Analysis of cost overrun revealed that the Company did not make estimation correctly, due to which it had to incur extra expenditure mainly on manpower. Against the estimated 51,050 engineering hours for engineering and supervision works, the work was completed after taking 1,89,910 engineering hours and in completion of other additional jobs 18,662 engineering hours were utilised against estimated 6,600 hours. The main reasons for the increase were the additional hours spent on expediting the work at various stations and the time taken by engineers for vetting of drawing and technical specifications which were not considered by the Management at the time of preparation of estimates. The excessive man-hours consumed led to delay in completion of work as the work was completed in 38 months against the original schedule of 20 months.

Thus, due to improper estimation and delay in completion of work, the Company incurred extra expenditure and suffered a loss of Rs.6.56 crore.

The Ministry stated (June 2004) that ONGC had admitted extra claim of Rs.54.76 lakh and thus, total contract price admitted was Rs.56.91 crore against which the Company spent Rs.47.16 crore on procurement and Rs.21 lakh on tours. It further stated that the assignment was taken up as diversification activities and the Company was not well conversant with the intricacies of the work which caused the Company personnel to spend more time in carrying out work.

The above reply is not tenable in view of the fact that the expenditure of Rs.47.16 crore incurred towards procurement cost was only the direct material cost and did not include other direct expenses relating to the work. The manpower expenditure, being the main ingredient of expenditure for an engineering concern, should have been estimated on realistic basis before taking up the work. Even after taking into account the amount of

Rs.54.76 lakh admitted by ONGC, the loss suffered by the Company worked out to Rs.6.01 crore.

Thus, due to taking the project on the basis of improper estimates, the Company suffered loss of Rs.6.01 crore.

20.2.2 Irregular decision to sell property to a private party

The Company made an irregular agreement with a private party for sale of property though it was not holding conveyance deed and handed over the possession of the property on receipt of only 50 per cent of the sale proceeds. This resulted in non-realisation of amount of Rs.1.60 crore for more than two years while the private party was enjoying the benefits of the property.

The MECON Limited (Company) shifted (April 2001) its Delhi office from Hauz Khas to Scope Minar Complex and advertised (June 2001) to sell/rent out the Hauz Khas premises even though the Company was not holding any legal document (perpetual lease and conveyance deed) except allotment and possession letter. The bid document, *inter alia,* provided that in case of sale of premises, transfer of possession of premises would be effected on receipt of full and final payment.

On the basis of evaluation of offers received, the Company decided (December 2001) to sell the property to M/s. Clan Morgan Private Limited (buyer) at the negotiated price of Rs.4.20 crore. As the Company was not having any document of perpetual lease and conveyance deed it decided to hand over the possession of the premises on receipt of 50 per cent of sale proceeds and remaining amount was to be received on execution of conveyance deed. Accordingly, a sale agreement was executed in February 2002 in deviation of the original provision of bid document to hand over the possession only on receipt of full payment.

The Company received (February 2002) Rs.2.10 crore from the buyer and handed over the possession of the property. However, in the absence of clear title of the property, the Company could not execute the conveyance deed and the balance amount of Rs.2.10 crore due from the buyer remained unpaid for two years while the private party enjoyed the benefits of the property. Another sum of Rs.50 lakh was subsequently paid (February 2004) by the buyer to enable the Company to incur expenditure relating to conversion of leasehold to freehold and registration of the property.

Thus, the Company entered into an irregular agreement to sell the property and handed over the possession of the property to the buyer in deviation of the original condition of bid document. Due to non execution of conveyance deed, an amount of Rs.1.60 crore remained unrealised (September 2004) even though the property was in the possession of a private party since February 2002. This was tantamount to undue favour to a private party.

The Ministry stated (July 2004) that during 2001-02, the Company was passing through serious financial difficulties and was under tremendous pressure to pay its statutory dues, salary to the employees and payment to superannuating employees and as such the Company did its best under the prevailing circumstances to overcome the financial crisis.

It further stated that the Company had a Bank Guarantee for the balance amount of Rs.1.60 crore valid till November 2004.

The reply is not tenable as the Company did not consider the fact of non-availability of conveyance deed in the absence of which the sale agreement went in favour of a private party who had been enjoying the benefit of the Company property by paying only 50 per cent of the cost. On this being pointed out in Audit, the Management encashed the bank guarantee and realised Rs.1.60 crore from the Bank (October 2004).

Thus, the irregular and unjustified decision to sell the property resulted in non-realisation of Rs.1.60 crore for more than two years besides undue favour to a private party.

20.2.3 Avoidable loss of Rs.1.29 crore due to faulty project management

Avoidable loss of Rs.1.29 crore due to taking up work without properly assessing the financial position of the private firm.

The MECON Limited (Company) received an order (April 1995) from M/s. Sri Vishnupriya Industries Limited (SVIL) for execution of design, engineering, manufacture, supply, erection and commissioning of Site Trimming cum Electrolytic Cleaning Line at a contractual fee of Rs.5 crore with a stipulated commissioning date of June 1996. The Company was required to receive Rs.1 crore (20 per cent) as advance but SVIL released (September 1995) only Rs.75 lakh. Due to paucity of funds, SVIL could not release further advances as per terms of contract and the project was suspended.

The contract was subsequently renewed/amended in November 1997 with a revised contract price of Rs.6.35 crore (Supply contract-Rs.5.75 crore and erection charges Rs.60 lakh) and scheduled date of completion as September 1998. Thereupon Rs.40 lakh was released by SVIL in December 1997 making total advance as Rs.1.15 crore. The Company placed orders on various vendors for Rs.5.45 crore, between April and August 1998 for manufacture of equipments for this work and released an amount of Rs.81.53 lakh to vendors. The Company received only Rs.57.50 lakh in August 1999 on approval of drawings and no further amounts though the Company was regularly communicating with SVIL for payments since equipments were getting ready with vendors.

Though the Company was aware of adverse financial condition of SVIL during 1995-96, the Company had not reviewed the financial condition of the client while accepting the renewed/amended order in November 1997 and further the Company did not initiate any action to put on hold the manufacturing activities on non-receipt of payments. The work was, however, suspended only in December 1999 but the Company continued its manufacturing activities up to 2000-01 on the plea that the project was alive. In all an expenditure of Rs.2.20 crore (Manhour cost- Rs.2.06 crore and Direct cost- Rs.13.93 lakh) was incurred up to April 2001 besides payment of Rs.81.53 lakh to the vendors. Against this the Company had received only Rs.1.73 crore from the client and remaining amount of Rs.1.29 crore alongwith the amounts due to various vendors, with whom the accounts are yet to be settled, remained unrealised (May 2004).

The Ministry stated (January 2004) that the order on various vendors were concluded because it was felt that situation would improve and later the Company did take remedial measures when it was seen that payments had become irregular.

The Ministry's reply is not tenable as the Company had not suspended the work even after non-receipt of payment and prior knowledge of the poor financial position of the client. Further the Management has only intimated the status position to the vendors instead of holding up the manufacturing activities.

Thus, due to taking up the work without properly verifying the financial condition of SVIL, the Company incurred loss of Rs.1.29 crore.

National Mineral Development Corporation Limited

20.3.1 Continued irregular payment of Rs.14.36 crore as ex-gratia under 'Payment by Result' Scheme

The Company continued to make an irregular payment of Rs.14.36 crore in violation of DPE's guidelines and Government directions during 2000-01 to 2003-04.

The Company paid Rs.13.52 crore as *ex-gratia* during 1989-90 to 1996-97 to the employees who were not covered by the Bonus Act 1965 because they were drawing wages/salary beyond the limit stipulated in the Act. The Ministry of Steel admitted (September 1997) that such payments were irregular and asked the Company to obtain ex-post facto approval of Cabinet Committee on Economic Affairs to regularise the expenditure. The Ministry also directed the Company (January 1998) accordingly. As this payment of *ex-gratia* was without approval of the Government, the irregularity was reported in CAG's Audit Report (Commercial) No.3 of 1999 vide paragraph No. 16.4.1.

In September 1997, the Company evolved another scheme viz. "Payment by Result" and sent it to the Ministry for approval (October 1997). The Government neither gave ex-post facto approval for payments made earlier nor approved the Company's new scheme. Nonetheless, the Company paid under the new scheme Rs.11.29[♣] crore during 1997-98 to 1999-2000 to the employees not covered by the Bonus Act. This irregular payment was also reported in CAG's Audit Report (Commercial) No.3 of 2001vide paragraph No. 21.3.2.

However, the Company continued to make such irregular payments under "Payment by Result Scheme" during 2000-01 to 2003-04, amounting to Rs.14.36 crore. The Ministry also neither issued any mandatory instructions for preventing the Company from making such payment nor initiated any remedial/corrective action on paragraphs 16.4.1 and 21.3.2 of CAG's Audit Reports mentioned above.

The Management repeated the arguments (April 2004) stating that the payment was made considering the past tradition to serve as a tool to boost the employees' morale and motivate them to contribute towards increased production and productivity and to avoid industrial relations problems.

[♣] ***Rs.11.37 crore according to the Company***

The Management's reply is not tenable as the payment made under this scheme ran parallel to the existing production incentive scheme and was in contravention of DPE guidelines and Government directions.

The matter was reported to the Ministry in May 2004; its reply was awaited. (September 2004).

Rashtriya Ispat Nigam Limited

20.4.1 Avoidable extra expenditure of Rs.33.84 crore due to failure in procurement of Semi Soft Coking Coal

Due to failure in procurement of Semi Soft Coking Coal, the Company had incurred an extra expenditure of Rs.33.84 crore during September 2000 to June 2003.

The Company mixes imported hard coking coal with indigenously available prime and medium coking coal for charging the Coke Oven Batteries to produce metallurgical coke for its blast furnaces. The Company decided to substitute the costly imported hard coking coal with the cheaper Semi Soft Coking Coal (SSCC) after experiments proved that there was no adverse effect on the quality of output. The Board of Directors recommended (July 1997) use of SSCC to the extent of 10 per cent as a substitute for Imported Coking Coal. It was estimated that substitution of imported hard coking coal with SSCC would result in substantial saving of Rs.535 PMT in view of lower price of SSCC. Accordingly, the Company used SSCC at around 10 per cent of the charge from July 1997 to August 2000. However, due to its non-availability the Company stopped the usage of SSCC from September 2000 onwards.

The Company's failure which led to non-availability of SSCC were explained below:

Though under the agreement of November 1998, the Company could procure additional 45,000 MT (± 5 per cent) of SSCC from M/s. OCAL, Australia (OCAL) by exercising the option before the validity period (i.e. by end of July 1999), it was not done due to its failure in obtaining performance reports of the first consignment received (May 1999) in time.

Again, it could not place the order for procurement of SSCC for the period from July 2000 to June 2001 on OCAL, against an offer (May 2000) of 1.80 lakh MT (including option quantity of 45,000 MT), due to its failure in obtaining the approval of the competent authority before expiry date of the validity period (9 June 2000) of the offer.

The Company had an opportunity to conclude Long Term Agreement with OCAL for the procurement of SSCC for 3 years commencing from October 2000 extendable by a further period of 2 years as accepted (August 2000) by OCAL in the Empowered Joint Committee meeting (EJC) by relaxing specifications as sought by OCAL (maximum limit of volatile matter as 35 per cent), it did not avail this opportunity despite the fact that the specification insisted by OCAL was suitable for the production requirement. While SAIL had already entered into a Long Term Agreement (LTA) as early as

September 2001 with such specifications insisted by OCAL, the Company entered into a LTA 20 months later in June 2003 with delivery schedule commencing from July 2003. As a result, the Company incurred avoidable extra expenditure of Rs.33.84 crore from September 2000 to June 2003.

The Management stated (February 2004) that:

(i) The performance test of first trial shipment received in May 1999 was not carried out within the validity period (i.e. end July 1999) as SSCC procured earlier was used in production.

(ii) No action was taken for obtaining approval of the competent authority because OCAL had given an assurance to extend the validity but later went back on the promise.

(iii) OCAL did not have the capability or willingness to supply SSCC until May 2003, as it did not participate in the discussions with EJC in early 2001 and did not participate in the two global tenders issued in 2001.

The Ministry confirmed (June 2004) the views of the Management.

The reply is, however, not tenable due to the following:

(i) Management preferred using available SSCC procured from other sources instead of SSCC from the first consignment supplied by OCAL although it was aware that testing SSCC supplied by OCAL was necessary for taking a decision whether or not to exercise the option for additional quantity.

(ii) Failure to conduct the stipulated test, seeking extension of validity date and not obtaining approval of competent authority shows lack of seriousness on part of the Management to derive the expected advantage from using SSCC as envisaged.

(iii) When the Company was not willing to relax the specifications i.e. from 34 per cent to 35 per cent volatile material, the question of OCAL responding to the Company's tenders did not arise. The Company, however, relaxed the specification of volatile matter of SSCC to 35 per cent finally in the agreement entered with OCAL in June 2003 only.

Thus, the delay in taking action to tie up procurement of SSCC resulted in an avoidable extra expenditure of Rs.33.84 crore from September 2000 to June 2003.

20.4.2 Avoidable loss of Rs.2.16 crore on the power exported without dispatch instructions and non realisation of revenue of Rs.6.84 crore

Due to non-renewal of agreement for export of surplus power to APTRANSCO, the Company suffered a loss of Rs.2.16 crore on the power exported without dispatch instructions besides unrealised revenue of Rs.6.84 crore.

The Company entered into an agreement for a period of three years with Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) for export of surplus power @ Rs.1.95 per unit, the last one being for the period 2000-2002, which expired on 31 December 2002. As per terms of agreement, the Company was also exempted from payment of minimum demand and energy charges to APTRANSCO.

Pending finalisation of agreement for the period January 2003 to December 2005, the Company, in a meeting with APTRANSCO put up (9 December 2002) a proposal for sale of surplus power @Rs.2.75/kwh. APTRANSCO, however, declined the proposal and offered a rate of Rs.1.40/kwh which was later increased (10 January 2003) to Rs.1.65 per unit on par with other power generators. This would have given a contribution @ Re.0.20 per unit. The Company however, did not accept the counter-offer made by APTRANSCO considering it uneconomical. As such, no agreement could be concluded with APTRANSCO for export of surplus power for the period 2003-2005, failing which APTRANSCO instructed the Company not to export any power from 11 January 2003 and indicated that no payment would be made for the power exported after 11 January 2003. It also started levying the tariff minimum on contract maximum demand of 150 MVA from 1 January 2003 in the absence of any agreement. However, upon receiving an undertaking (20 May 2003) from the Company, APTRANSCO ultimately agreed to buy power upto 30 MW at the rates to be decided by the Andhra Pradesh Electricity Regulatory Commission (APERC) and payments to be made thereafter. The Company, thus, lost Rs.2.16 crore being the value of 13.122 MU of power exported during the period from 1 January 2003 to 20 May 2003 as they were not backed by dispatch instructions from APTRANSCO.

Although APTRANSCO agreed (November 2003) to make interim payment @ Rs.1/KWH for the power exported after 20 May 2003 and the Company collected Rs.10.52 crore towards 105.198 MU exported between 21 May 2003 and 30 April 2004, APERC in the Tariff Orders for 2003-04 and 2004-05 did not permit APTRANSCO to purchase any power from the Company as the "agreement had expired". The Company could not realise Rs.6.84 crore towards the tariff differential (Rs.1.65 minus Re.1.00) on the power exported upto April 2004.

The Management replied (May 2004) that accepting a rate of Rs.1.65 per KWH which was far less than the rate agreed in the previous agreement, was not rational and logical. During the negotiations with APTRANSCO officials for concluding the export agreement, it was understood by the Company that a suitable clause in the ensuing agreement would be included as was done earlier. The Ministry confirmed (July 2004) the views of the Management.

The contention of the Management is not tenable as the Company, in treating the rate of Rs.1.65 per unit on sale of surplus power as uneconomical, did not show proper appreciation of the changing trends in the power sector and erred in continuing to supply power during the period from 1 January 2003 to 20 May 2003 without a valid agreement and without dispatch instructions from APTRANSCO. This resulted in loss to the Company and left the Company without a legal remedy.

Thus, due to non renewal of agreement for export of power, the Company suffered a loss of Rs.2.16 crore besides potential loss of Rs.6.84 crore in unrealised revenue.

20.4.3 Avoidable loss of Rs.6.43 crore due to procurement of LAM Coke at higher prices

Due to failure of the Management to show validity period correctly in purchase order for exercising optional quantity, the Company incurred extra expenditure of Rs.6.43 crore in procurement of LAM coke during the year 2002.

The Company invited (August 2001) quotations for procurement of firm quantity of two lakh MT and optional quantity of one lakh MT of Low Ash Metallurgical (LAM) coke through global tender. After following the tender process, the Company identified M/s. Shanxi Minmetals (SM), China, as the lowest bidder at an evaluated landed cost of Rs.4,577 per MT for firm quantity of 60,000 MT to be delivered in two shipments during November 2001 with option to be exercised before 30 June 2002 for additional quantity of 2.40 lakh MT at Rs.4,682 (from February 2002-June 2002)/Rs.4,787 (from July 2002-December 2002) per MT. While placing the order for 60,000 MT (25 October 2001), the Company by mistake indicated the validity period for exercising option as 31 January 2002 instead of 30 June 2002. SM shipped (November 2001) the firm quantity of 60,000 MT, which was received in November/December 2001.

The Purchase Committee while recommending (17 October 2001) placement of order, suggested parallel tendering to obtain the market price through wider participation and competition. Accordingly, global tender was issued (8 November 2001) and quotations of six parties were received of whom only one party (EZ Weld Intl. Inc. USA) was found suitable. As this party was new, the Company placed (March 2002) a trial order for 30,000 MT at a landed cost of Rs.4,157 per MT. When EZ failed to deliver and as the validity period for exercising the option with SM of China was over, the Company issued another global tender (May 2002) for 2.10 lakh MT of LAM coke. In response, only one offer for Rs.5,095 per MT was received from SM which was higher than the earlier quotation of Rs.4,787 per MT. The order was placed (July 2002) on SM for a firm quantity of 60,000 MT against which SM supplied only 30,000 MT of LAM coke due to fire and explosions in its two mines.

Due to mentioning a wrong date of 31 January 2002 for exercising option in the first purchase order of October 2001, the Company failed to obtain additional quantity of LAM coke at the lower price. Consequently, the Company procured 33,271 MT (upto December 2002) of LAM coke from the market at a price ranging from Rs.6,237 per MT to Rs.7,238 per MT at an avoidable extra expenditure of Rs.6.43 crore.

The Management stated (May 2004) that the Company could have exercised the option before 30 June 2002 as per the offer of SM only if the Company had advised the supplier of the purchase of optional quantity by 31 January 2002. However, as decided by the purchase committee, another global tender was invited and order was placed on EZ. Thereafter, there was no question of informing SM about the purchase of optional quantity before 31 January 2002. The Ministry confirmed (July 2004) the views of the Management.

The reply is not tenable as not only was there slippage from the purchase committee's decision by indicating validity period for exercising option as 31 January instead of 30 June 2002, but also the Management placed (March 2002) a trial order on EZ, without

protecting the Company's interest, which later on, failed to fulfill even its trial order leaving no other alternative to the Company but to procure LAM coke indigenously at higher prices.

Thus, the Company unilaterally and quite unnecessarily changed the terms of offer to its own disadvantage, resulting in procurement of 33,271 MT of LAM coke at higher prices and an avoidable extra expenditure of Rs.6.43 crore.

20.4.4 Deferment of procurement of an insurance spare resulting in avoidable expenditure of Rs.6.05 crore

Failure of the Company in ensuing timely procurement of an essential spare rotor resulted in avoidable extra expenditure of Rs.6.05 crore during June-August 2002.

The Company meets its power requirements from Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) and its own Captive Power Plant (CPP) comprising three Turbo Generators (TGs) each 60 MW established as part of the steel plant and one TG of 67.5 MW added in May 1996. Any major repair of TG due to failure of rotor would take considerably long time as the procurement lead time for rotors was 15 months. Such down time of TG would naturally adversely affect generation of power. In order to avoid unnecessary loss of generation due to failure of TG, the Management decided (September 1997) to procure one Rotor Assembly as insurance spare. After going through all the formalities and negotiating a price of Rs.3.15 crore, Executive Director (Works)/Director (Operations) decided (August 1998) to defer placement of order on Bharat Heavy Electricals Limited (BHEL) due to financial constraints which were neither specifically recorded nor vetted by the Finance Department.

The rotor of TG-4 encountered an earth fault due to short circuit in November 2000. The TG was operated with second earth fault protection system till June 2002 when the rotor was sent to BHEL, Hyderabad for repair. As the Company did not have a spare rotor assembly, TG-4 had to be shut down for a period of 72 days from 1 June to 11 August 2002. Ultimately, in September 2002, the Management placed an order on BHEL for the supply of one rotor assembly complete with coupling/slip rings suitable for 60 MW/67.5 MW at a cost of Rs.4.59 crore which was received on 12 November 2003 and is now held as insurance spare. However, in order to make up the shortfall in the power generation during the shut down period, the Company imported 51,476 MWH of power from APTRANSCO. As a result, the Company had to incur an extra expenditure of Rs.11.78 crore being the difference between the energy charges paid to APTRANSCO and the variable cost of generation in CPP for 51,476 MWH of power.

The Management stated (April 2004) that although generator rotor was an insurance category spare, it was not a standard recommended spare to be maintained in all situations like other critical spares. Depending on the financial condition of the Company and criticality of alternative source, the procurement of the rotor was decided. The 72 days total time taken for repair of the 4th Generator Rotor included about 35-45 days of capital repair time of turbine as well. The Ministry confirmed (August 2004) the views of the Management.

The contention of the Management/Ministry is not tenable for the following reasons.

(i) The Company (Maintenance Department) recognised the necessity of spare rotor because of its implications of purchase of high cost power from APTRANSCO. Accordingly, a rotor was indented in 1997 as insurance spare to meet unforeseen TG failure. However, its procurement was deferred by one year due to financial constraint which was eventually procured by the Company in September 2002.

(ii) The normal time taken for capital over haul of a TG is 35 days as is evident from the capital overhaul carried out on TG-2 from 25 January to 29 February 2004. However, even after excluding the period of 35 days for normal capital repairs, the repair of TG-4 rotor took extra 37 days at additional cost of Rs.6.05 crore.

Thus, failure on the part of the Management in procuring an essential spare rotor had resulted in the Company incurring an avoidable expenditure of Rs.6.05 crore for power purchased from APTRANSCO for 37 days.

20.4.5 Avoidable loss of Rs.4.62 crore in procurement of Low Silica SMS grade limestone

Due to relaxation in contract conditions, the Company suffered a loss of Rs.4.62 crore in import of Low Silica SMS grade limestone.

The Company issued global tenders in July 2000 for supply of four lakh MT of low silica Steel Melt Shop (SMS) Grade Limestone with the option for additional quantity of four lakh MT, exercisable at the sole discretion of the purchaser on or before 30 August 2001. Three firms responded to the tender by the due date of 13 August 2000. The bid of M/s. Emirates Trading Agency (ETA), Dubai, was found technically acceptable. After negotiations, a contract was entered into (May 2001) for supply of a firm quantity of 10 lakh MT and an optional quantity of two lakh MT (option to be exercised before 30 June 2003 as offered by the supplier) at an FOB price of US$ 7.95 per MT for four lakh MT and at US$ 8.15 per MT for 8 lakh MT. The contract *inter alia*, provided that (a) content of SiO_2[•] should not exceed 0.7 per cent and (b) quantity of limestone with size-'25mm' should not exceed five per cent.

M/s. ETA delivered 10.36 lakh MT of limestone valued at US$ 7.925 million (equivalent to Rs.35.48 crore) between May 2001 and September 2003. A review of these transactions revealed that the Company suffered a loss of Rs.4.62 crore in this contract due to the following:

(i) The Management relaxed (March 2002) the condition regarding SiO_2 content in favour of the supplier to 1.2 per cent with penalty ranging from 1.5 per cent to six per cent of FOB value and for limestone with SiO_2 more than 1.2 per cent, payment was to be restricted to US$ 1 per MT for the material received. Although 1.18 lakh MT of limestone with SiO_2 content of 1.44 per cent and 1.24 per cent was received in two

[•] ***Silicon dioxide***

consignments in October 2001 and January 2002, the Company did not restrict the payment to US$ 1 per MT and as such made an extra payment of Rs.3.50 crore.

(ii) Though the Company received 8.57 lakh MT of limestone during October 2001 to September 2003 having a size fraction (25mm) in excess of admissible limit of five per cent, it did not levy penalty of Rs.1.12 crore on the supplier as per terms of contract.

The Ministry replied (July 2004) that the High Level Committee (HLC) formed in this regard noted that ETA was the lone supplier of Low Silica Limestone for the last so many years and for meeting the requirement, a mutual settlement was reached for acceptance of SiO_2 upto 1.5 per cent with penalties. It further stated that to resolve the issue of deviations in size fractions, discussions of HLC with ETA were in progress.

The reply is not tenable as the response of three bidders in August 2000 and eight bidders in July 2002 (against a subsequent tender invited by the Company in May 2002) revealed that ETA was not the lone source of supply for limestone. Besides, after September 2003, the Company started procuring Low Silica Limestone from three firms simultaneously. Further, during technical evaluation, the bids with SiO_2 content exceeding 0.7 per cent were rejected by the Company. So subsequent acceptance of the limestone with SiO_2 upto 1.5 per cent lacked justification. This violated the Company's own tender conditions.

Thus, the Company suffered an avoidable loss of Rs.4.62 crore in this contract.

Steel Authority of India Limited

20.5.1 Avoidable payment of interest subsidy amounting to Rs.74.21 crore

The Ministry of Steel did not adjust the interest of Rs.74.21 crore earned by SAIL, MECON Limited and HSCL on deposits kept out of unutilised borrowed funds thereby providing incentive to these PSEs to borrow funds unnecessarily and resulting in avoidable payment of interest subsidies.

The Ministry of Steel provided guarantees to the Public Sector Enterprises (PSEs) under its administrative control to enable them to raise loans from market for implementation of Voluntary Retirement (VR) Schemes. While extending such guarantees, the Ministry also approved 50 per cent interest subsidy to the Steel Authority of India Limited (SAIL)/MECON Limited and 100 per cent interest subsidy to the Hindustan Steelworks Construction Limited (HSCL) on loans raised from market. Under the scheme, loans of Rs.1568.36 crore were raised by the three PSEs as per details given below:-

Year of raising loan	PSEs Name	Amount of loan (Rs. in crore)	Interest subsidy paid (upto March 2004) by Government of India (Rs. in crore)	Interest earned upto March 2004 by PSEs on the term deposits out of unutilised loan (Rs. in crore)
2000-01	SAIL (March 2001) HSCL (June 2000)	315.00 209.82	55.80 112.77	30.52 4.63
2001-02	SAIL (June 2001) MECON (December 2001) HSCL (Nov 2000 - May 2001)	185.00 25.00 108.54	19.86 3.94 42.66	4.52 0.52 2.60
2002-03	SAIL (June 2002) HSCL (August 2002-March 2003)	500.00 200.00	25.63 24.90	28.23 3.19
	Total	**1543.36**[♣]	**285.56**	**74.21**

Scrutiny of records of the PSEs revealed that the PSEs raised the loans from banks/financial institutions without properly assessing the requirement of funds to meet the VR liability and unutilised amount was kept under term deposits with banks carrying lower rates of interest than the borrowing rates on loans. An amount of Rs.315 crore raised on loan by SAIL during March 2001 was kept as term deposit with banks and utilised during 2001-02 and 2002-03. Similarly, Rs.25.00 crore borrowed by MECON during December 2001 was utilised during 2002-03 and the amount of Rs.518.36 crore borrowed by HSCL during the period from June 2000 to March 2003 was kept as term deposits with banks and utilised on the basis of requirement leaving a balance of Rs.50.54 crore as unutilised (May 2004).

While claiming interest subsidy from the Government of India, these PSEs had not taken into account the interest earned (Rs.74.21 crore) on these term deposits. Accordingly, the Ministry of Steel without enquiring into the financial prudence of excess borrowings released excess interest subsidy of Rs.74.21 crore.

In reply, the Ministry stated (September 2003) that interest subsidy payable solely bears relationship with the interest payable to the bank/financial institution from which funds were raised. It further stated (January 2004) that neither the General Financial Rules (GFR) of the Government of India nor the sanction orders issued for grant of interest subsidy stipulated any adjustment of interest earned on unutilised funds.

The Ministry's reply is not tenable as GFR clearly provides that every officer incurring or authorising expenditure from public money should be guided by high standards of financial propriety and should enforce financial order and strict economy at every step. Further, being the administrative Ministry, it had to ensure the financial prudence in PSEs in raising loans. The Ministry instead of enquiring into the reasons for borrowing funds in excess of requirements by the PSEs, causing avoidable payment of interest, allowed them

[♣] ***Does not include Rs.25 crore borrowed by MECON Limited during July 2002 to February 2003 as the amount was drawn from bank only on requirement***

to retain interest income of Rs.74.21 crore which is tantamount to extending incentive to these PSEs to borrow funds unnecessarily.

Thus, due to failure of the Ministry to exercise prudent financial management, excess interest subsidy of Rs.74.21 crore was released to these three PSEs during 2000-01 to 2003-04, which was avoidable.

20.5.2 Loss of Rs.1.65 crore on supply of defective pipes

The Company incurred a loss of Rs.1.65 crore due to supply of the defective pipes to Indian Oil Corporation Limited.

The Company received (March 1999) an order for Rs.15 crore from Indian Oil Corporation Limited (IOC) for supply of pipes for Sonepat-Meerut, Kurukshetra Saharanpur and Mathura–Tundla Branch lines. The order value was subsequently (July 1999) reduced to Rs.10.48 crore and supply was completed in October 1999.

During the hydro-test, which was carried out after pipe-laying and back-filling, 26 leaks in 15 pipes of Sonepat- Meerut branch line and 11 leaks in seven pipes of Kurukhestra-Saharanpur branch line were detected by IOC. The Company's representatives visited the site on various occasions for analysing the failures of pipes and admitted that the defects were due to entrapped oxide[♣] film at the time of manufacture of the pipes.

For carrying out the leak detection and rectification got done through their contractor, IOC made (January 2002) a claim for Rs.2.50 crore. The Company, however, agreed to pay a sum of Rs.52.80 lakh being replacement cost of the pipes @ Rs.2.40 lakh per pipe in terms of clause 4.3.4 of the purchase order. But IOC did not agree to this proposal of the Company on the plea that its contractor had made a claim of Rs.8.12 crore due to overstay for carrying out the leak detection and rectification. IOC revised (March 2002) the claim to Rs.3.19 crore.

On subsequent discussions and considering the long business relations with the Company, IOC agreed (September 2002) to accept a sum of Rs.1.65 crore in full and final settlement of their claims and the Company made the payment on 25 October 2002.

The Management, while accepting the fact of deficiency, attributed it (October 2003) to old age of equipment used for manufacturing of pipes. They further stated that action had been taken for modernisation of the plant.

The reply of the Management is not convincing as manufacturing defects could have been avoided by taking quality control measures such as fine tuning of heat input rate and accurately controlling seam normalising temperature as analysed by the Company. Further, before despatch of pipes, it should have been ensured that these were free from defects in view of the terms and conditions of the purchase order which made the Company liable for a higher claim also in the case of failure of pipes during hydro-testing.

[♣] ***Oxides formed during welding process may get entrapped are called entrapped oxides. These may be present in isolated, scatted or lump form.***

Thus, due to manufacturing defects in the pipes supplied to IOC, the Company had to incur a loss of Rs.1.65 crore.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

20.5.3 Non-disposal of idle/surplus land valuing Rs.1.25 crore

Non-disposal of surplus land due to not signing the lease agreement resulted in blocking of fund of Rs.1.25 crore.

The Steel Authority of India Limited (Company) acquired (September 1992) 54.71 acres of land at Ahmedabad, on lease from Container Corporation of India Limited (CONCOR), of which 22.71 acres of land (valuing Rs.1.25 crore) had been lying idle since then. As there was no scope to utilise this land in the near future, the Management proposed (December 2000) to give this land on sub-lease or on rent. The Management, however, could not proceed further for renting out/ sub-leasing the land as it did not obtain 'No Objection Certificate' (NOC) from CONCOR for want of lease agreement with CONCOR.

The Management could finally sign lease agreement with CONCOR on 10 May 2004 after a gap of more than three years and, later on, the Company applied for NOC on 2 June 2004 which was still awaited (August 2004).

Thus due to not signing lease agreement with CONCOR in time, the Company could not sub-lease or rent out the surplus land, resulting in blockage of funds of Rs.1.25 crore for 12 years.

The Management stated (December 2003) that the issue of registration was not taken up seriously since both SAIL and CONCOR were public sector companies. The Ministry, while agreeing with the Management's reply, stated (August 2004) that the Company had applied to CONCOR for issuance of NOC so that further action for disposal of land could be taken.

Thus, failure to register the lease agreement immediately after acquisition of land, led to avoidable delay in sub-leasing or renting out the surplus land, which resulted in blocking of fund of Rs.1.25 crore towards lease-premium paid for acquisition of the land.

20.5.4 Avoidable expenditure of Rs.1.14 crore

Due to change of specifications of the work, the side wall of Ash Pond-B of Rourkela Steel Plant of the Company slid and the Company had to incur avoidable expenditure of Rs.1.14 crore on making alternative arrangement and immediate repair.

The Company sanctioned (January 2000) a proposal of raising the dyke height of the existing Ash Pond-B of Captive Power Plant of the Rourkela Steel Plant (RSP) at a cost of Rs.2.90 crore excluding incidental expenditure during construction (Rs.28.31 lakh). Before awarding the work, the Pond was cleared and it was found that actual quantities of the work involved were substantially different from the estimated quantities on the basis

of which sanction was obtained. In order to contain the cost within sanctioned amount the Management changed the specifications by adopting the parameters of slope of 1:2 and 1:2.5 from the original parameter of 1:3 and earth cover of 500 mm in the side slope instead of 900 mm. Based on revised drawings and designs, RSP awarded the work (April 2000) to Hindustan Steelworks Construction Limited (HSCL) on single tender basis for Rs.2.90 crore i.e. sanctioned amount. The work was completed at a cost of Rs.2.74 crore in June 2001 and the Ash Pond was made operational in July 2001.

On 9 September 2001 i.e. just after two months of operation, 110 meters wall of the Ash Pond slid because of adoption of steeper slope of embankment, improper height of the skimmer♥ resulting in impounding of water about 10 meter high level at low line areas and improper discharge points leading to non-uniform filling of the pond in the revised design. This rendered the pond unusable and necessitated immediate repair of the dyke which was carried out through HSCL during February 2002 to June 2002 for which Rs.48.44 lakh was paid (December 2003). In addition, an expenditure of Rs.65.90 lakh was incurred towards diversion of ash slurry discharge, de-watering of Ash Pond-B, consultancy charge and generating space in another Ash Pond to accommodate the slurry till Ash Pond-B was ready for operation.

The Management stated (April 2004) that the design parameters of slope were revised to 1:2 and 1:2.5 from the original parameter of 1:3 to keep the cost within the sanctioned amount. The Ministry, however, stated (August 2004) that it was not correct to assume that due to adoption of steeper slope, sliding of wall of the Ash Pond had occurred and incurrence of the expenditure was necessary to carry out retrofitting works which resulted in additional benefits of increase in capacity and life of pond and availability of pipeline for future discharge of Ash Slurry.

The contention of the Ministry is not tenable as the Committee which examined the reasons for sliding of wall clearly observed in December 2001 that the wall had slid due to adoption of steeper slope of embankment, improper height of the skimmer and improper discharge points leading to non-uniform filling of the pond in the design. Regarding the additional benefits, the expenditure was incurred on repair and other works without increasing the capacity/life of pond already available and there was also no immediate requirement of creation of space in Ash Pond A1 and pipeline diversion work.

Thus, changing the originally approved design in order to keep the cost within the sanctioned amount, led to the sliding of wall of the pond necessitating immediate repair and other works at an additional expenditure of Rs.1.14 crore which could have been avoided if the designs had not been changed.

20.5.5 Extra payment of cash discount of Rs.80.67 lakh

The Company incurred an extra expenditure of Rs.80.67 lakh during 2002-03 by considering 360 days in a year instead of 365 days.

In order to have continual customer satisfaction and thereby build up a dedicated clientele with consistent off-take, the Central Marketing Organisation (CMO) of the Company had

♥ ***Skimmer is used in the ponds to separate and discharge the water from the pond.***

a scheme of allowing the customers Interest Free Credit (IFC), according to their entitlement, for certain number of days. The scheme further provided for a cash discount in lieu of IFC in cases of prepayment.

In order to calculate the cash discount, the CMO circulates to the branches, from time to time, the applicable rate and the cash discount is to be calculated with the month taken as 30 days.

During the course of Audit it was noticed that the cash discount in lieu of IFC was calculated by some of the branches of CMO taking a month as 30 days which worked out to 360 days in a year, whereas some of the branches calculated cash discount considering the year as 365 days. Interestingly, the customers taking materials from more than one branch were allowed cash discount taking 360 days in a year in one branch and 365 days in another branch.

Thus, there was no uniformity in the manner of calculation of discount. Further, adoption of 360 days in a year when the year comprises 365 days, was not appropriate. This resulted in extra expenditure of Rs.80.67 lakh during 2002-03.

On this being pointed out in Audit, the Management changed (January 2004) the method of working out cash discount and issued instructions for considering 365 days in a year instead of 360 days. The Ministry confirmed (July 2004) the stand taken by the Management.

Thus, by considering 360 days in a year instead of 365 days for calculating the cash discount payable to the customers, the Company incurred an extra expenditure of Rs.80.67 lakh during 2002-03.

CHAPTER 21: MINISTRY OF TEXTILES

Central Cottage Industries Corporation of India Limited

21.1.1 Irregular payment of ex-gratia

The Company made payment of Rs.1.94 crore as *ex-gratia* to its employees in gross violation of the Payment of Bonus Act and instructions of the Government of India

The payment of bonus or *ex-gratia* is regulated by the Payment of Bonus Act, 1965 (Act). As per the Act, a salary limit for the purpose of drawal of bonus has been prescribed. Employees of the public sector, drawing salary above this limit are not entitled to draw bonus or *ex-gratia*, unless the amount is so authorised by the Government under a duly approved incentive scheme, framed in accordance with prescribed procedure.

The Central Cottage Industries Corporation of India Limited (Company) was paying bonus to its employees as per the provisions of the Act. In addition to bonus, the Company was also making payment of *ex-gratia* described as Diwali Gift ranging from Rs.4,950 (2002) to Rs.9,750 (2001) per employee to those who were not covered by the Act by virtue of their drawing salary beyond the limits stipulated in the Act. The Company had not formulated any incentive scheme as per the instructions issued by the Department of Public Enterprises (DPE). The Company paid Rs.1.94 crore during the period from 1999-2000 to 2003-04 as *ex-gratia* to its employees.

The payment of *ex-gratia* to the employees who were not eligible for bonus was irregular and inconsistent with the guidelines issued by DPE and was also against the provisions of the Act.

The Management, while confirming the facts, stated (April 2004) that the benefits available to the PSUs under The State Trading Corporation of India Limited (STC) umbrella such as Handicrafts and Handlooms Export Corporation of India Limited, PEC Limited, MMTC Limited etc. were extended to the employees of the Company. Accordingly, the payment of Diwali Gift was also made as per practice followed in these PSUs. The reply of the Management is not tenable, as the STC and other PSUs mentioned above have approved policy for payment of Productivity Linked Incentive/*ex-gratia*. The payment of benefit could not be justified by the Company on the plea of similar payments made by other PSUs unless Government authorised it under a duly approved incentive scheme.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

21.1.2 Avoidable expenditure on regularisation of contract labour

Non-compliance with legal provisions on engagement of contract labour resulted in avoidable expenditure of Rs.72.28 lakh upto 2003-04 and recurring annual expenditure of Rs.27 lakh

Sections 7 and 12 of Contract Labour Act, 1970 provide for fulfillment of two conditions for valid employment of contract labour (i) every principal employer of an establishment must be registered and (ii) the contractor must have valid license. Where either or both the conditions are not fulfilled, the workmen remain workmen of the principal employer.

The Central Cottage Industries Corporation of India Limited (Company) as a principal employer entered into an agreement (April 1997) with M/s. Advance Security Service and Management (Private) Limited (Contractor) for providing security, sanitation and house keeping services. Accordingly, the agency deployed 120 personnel on daily wages.

The Company as a principal employer not only failed to register themselves with the Chief Labour Commissioner, but also failed to ensure that the contractor had a valid licence. Meanwhile, the contract employees alongwith employees union of the Company filed two writ petitions (May and November 1998) with the Hon'ble High Court, Delhi for appointing them as regular employees of the Company. The Company, however, went for out-of-court settlement with the petitioners (March 2000) and regularised the employment of 34 out of 120 petitioners thereby incurring avoidable additional expenditure of Rs.72.28 lakh upto 2003-04, apart from annual recurring expenditure of approximately Rs.27 lakh from 2004-05 onwards.

The Company engaged workers on contract basis while it was implementing voluntary retirement scheme open to all cadres of employees. While the total number of employees decreased from 492 as on 31 March 2001 to 428 as on 31 March 2004, the number of Class IV employees increased from 133 to 141 despite 14 employees taking voluntary retirement during 2001-2004.

The Management's reply (June 2003) is silent with regard to failure of the Company to follow the provisions of the Act. It stated that they agreed for out-of-court settlement in the interest of the Company; otherwise they would have been forced to regularise the appointment of other petitioners also. The Company's reply is not tenable as the Company got into legal tangle in the first place due to violation of the Contract Labour Act, 1970 which forced them to regularise the appointment of 34 employees, who otherwise could have been continued to be engaged on contract basis on the rolls of the private contractor.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

National Textile Corporation (TN&P) Limited

21.2.1 Avoidable payment of damages

The Company defaulted in remitting the provident fund dues from August 2001 onwards and the PF Authorities recovered damages of Rs.78.44 lakh by attachment of current accounts of closed mills.

The National Textile Corporation (TN&P) Limited defaulted on several occasions in remitting the Provident Fund (Fund) dues to the PF Authorities. A sum of Rs.3.17 crore recovered from employees' salary and Rs.4.39 crore representing employers' share for the period from August 2001 onwards was not remitted to the Fund Authorities till as late as February 2003. By virtue of the powers vested under Section 14 B of the Employees Provident Fund Act, 1952 (Act) the Fund Authorities levied damages by way of penalty on the Company to the tune of Rs.4.03 crore for the said default. By the end of the year 2003-04, the demand notices served by the Authority for the damages for the period upto February 2004 in respect of the 15 unit mills went upto Rs.5.13 crore. Meanwhile, the Company closed down five mills (May 2002 - January 2003) under a Revival-cum-Rehabilitation Scheme.

By virtue of the powers vested under Section 8 F of the Act the Fund Authorities recovered damages of Rs.13.37 lakh (December 2002) levied under Section 14 B from Balaramavarma Textile Mills by attachment of the Company's current account with the Bank. This was followed by similar attachment of current accounts of other closed mills in December 2003 viz., Om Parasakti Mills (Rs.7.85 lakh), Kishnaveni Textile Mills (Rs.5.86 lakh), Kaleeswarar 'A' Mills (Rs.5.30 lakh) and Somasundaram Mills (Rs.46.06 lakh).

The request of the Company (December 2003) for waiver of damages was turned down by the Fund Authorities (January 2004) on the ground that damages once levied could be waived or reduced only in respect of an establishment for which a rehabilitation scheme had been sanctioned by the BIFR. The Fund Authorities were emphatic on their stand stating that no such scheme had been sanctioned by the BIFR for the said five mills and hence the Company's request for waiver of damages was not found worth considering.

The Ministry attributed (September 2004) the Company's default to continuous cash losses in the past. However, the reply was silent as to the reasons for failure to remit statutory dues to the Fund Authorities so as to avoid payment of damages, which further added to the cash losses of the Company.

Thus, due to delay in remitting the provident fund dues the Fund Authorities imposed damages and the Company suffered loss to the extent of Rs.78.44 lakh.

CHAPTER 22: MINISTRY OF URBAN AFFAIRS AND POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

22.1.1 Irregular payment of productivity linked incentive of Rs.12.42 crore

Due to non-deduction of statutory reserve for determining the distributable profits, the Company made an irregular and excess payment of incentives amounting to Rs.12.42 crore to its employees during the last four years ended 31 March 2003 in contravention of DPE's instructions.

The Department of Public Enterprises' (DPE) OM (25 June 1999) *inter alia*, provided that performance related payments to the employees should not exceed five per cent of the distributable profits in an enterprise. DPE further clarified (12 September 2000) that distributable profits represent the profit after tax after providing for transfers to Statutory Reserves such as Foreign Project Reserve, Investment Allowance Reserve, General Reserve (Section 205 (2A) of the Companies Act, 1956), etc.

The Housing and Urban Development Corporation Limited (Company) had appropriated the profit after tax by transferring amounts of Rs.63.12 crore, Rs.72.50 crore, Rs.77.30 crore and Rs.227.85 crore to 'Special Reserve' under Section 36 (1) (viii) of the Income Tax Act, 1961 (IT Act) during the last four years ended 31 March 2003, respectively. Though the special reserve was created under a statute, the Company did not consider the same as statutory reserve for determining the amount of distributable profit. Accordingly, it paid performance linked incentives (PLI) of Rs.19.85 crore to its employees during the last four years ended 31 March 2003, as against the admissible amount of Rs.7.43 crore, worked out after deducting the special reserve from the profit after tax. Resultantly, the Company made irregular and excess payment of PLI amounting to Rs.12.42 crore to its employees.

The Management stated (January 2003) that the transfer to 'Special Reserve' was not statutory in nature as the transfer was at the discretion of the Company and the same was made in order to claim deductions available under the IT Act. The Ministry added (June 2004) that distributable amount of profit could not be different for payment of dividend and payment of PLI to the employees and the Company had been paying dividend as well as PLI based on profit after tax. Subsequently, it furnished (October 2004) opinions of two Additional Solicitor Generals of India (ASG) who opined that the special reserve was not like various reserves (General Reserve, Investment Allowance Reserve and Foreign Project Reserve) mentioned in DPE circular and hence, not covered under statutory reserves.

The reply is not acceptable, since for not claiming in deduction in computing the taxable income, the Company was statutorily required to create and maintain the Special Reserve under section 36 (1) (viii) of the IT Act. Further, payment of dividend is governed by the

provisions of the Companies Act, 1956 whereas payment of PLI is governed by the DPE's instructions and, therefore, these two cannot be equated. In fact, DPE, in consultation with the Department of Company Affairs, clarified (February 2004), *inter alia*, that special reserve under Section 36 (1) (viii) of the IT Act, being required to be created/maintained under the Parliamentary Act , should be treated as statutory reserve. However, DPE's specific clarification had not been considered in the ASG's opinions.

Thus, the irregular and excess payment of performance linked incentives amounting to Rs.12.42 crore to the employees was in contravention of DPE's instructions.

22.1.2 Avoidable extra expenditure of Rs.4.84 crore on borrowings availed from LIC

The Company has not taken into account the softening trend of interest rates and availed loan of Rs.300 crore from LIC at rates of 12.35 and 12.5 per cent, which resulted in an avoidable extra interest expenditure of Rs.3.12 crore. Further, the loan amount of Rs.300 crore was kept in short-term deposits for 82 days at cheaper rates resulting in an extra expenditure of interest amounting to Rs.1.72 crore.

The Housing and Urban Development Corporation Limited (Company) executed (September 2000) two agreements with Life Insurance Corporation of India (LIC) for loans of Rs.500 crore each for tenure of five and 10 years at rates of interest of 12.35 per cent and 12.5 per cent respectively, for part of its resource mobilisation for the year 2000-01. The rates of interest were based on the discussions (August 2000) held with LIC, which indicated that the rates/yield on G-Sec (Government Securities) had gone up by about 1 per cent since March 2000.

The loans were to be drawn before 31 March 2001. While five year loan was to be repayable at the end of five years, the 10- year loan was repayable in 10 equal annual instalments. According to the agreement, the Company did not have the right to prepay the outstanding principal of the loan before due dates except after obtaining prior approval of LIC, which would be subject to such terms and conditions including payment of premium, as may be stipulated by LIC.

The Company drew Rs.400 crore on 26 September 2000 (10-year loan) and utilised the same in business. In the second drawal on 3 January 2001, the Company drew Rs.300 crore (Rs.200 crore for five year and Rs.100 crore for 10-year). It is observed that during the period of the second drawal, there was declining trend in interest rates, as the G-Sec rates for 10-year maturity had come down to 10.25 per cent in January 2001 as compared to 11.60 per cent in September 2000 and the Company raised funds through bonds (maturity period of five and 10 years) from the market at cheaper rates ranging between 11.50 per cent and 12.00 per cent. However, the Company has not taken into account the softening trend of interest rates and availed loan of Rs.300 crore at rates of 12.35 and 12.5 per cent. This has resulted in an avoidable extra expenditure of Rs.3.12 crore on account of interest, as compared to rates of the bonds[♣].

It is also observed that the second drawal of Rs.300 crore was not immediately required which is evident from the fact that the Company kept these funds in short term deposits

[♣] ***after taking into account certain cost attached to raising of bonds, like stamp duty, arrangers' fee, etc.***

for period of 82 days with effect from 4 January 2001, at rates of interest ranging between 9.5 to 10.25 per cent (i.e. lower than the borrowing rates of 12.35 and 12.5 per cent). This has resulted in an extra expenditure of interest amounting to Rs.1.72 crore, being the excess of the amount of interest paid to LIC over that earned on the deposits.

The Management stated (June 2004) that there was huge requirement of funds and it was incorrect to say that the deposits were placed out of the LIC borrowings. They also stated that loans and bonds were not comparable, as both differed in features and characteristics and there were certain costs attached to raising of bonds, like, stamp duty, arrangers' fee, etc. Further, there was a date of commitment of drawal of loan and there was no softening of interest rates. They added that the Company has reset the interest rates to 6.25 per cent on the outstanding amount of these loans with effect from 29 January 2004.

The reply is not tenable as the Company had not prepared cash flows during the year 2000-01 so as to forecast the requirement of funds on a regular basis. Further, the funds of Rs.300 crore were borrowed from LIC on 3 January 2001 and the amounts of Rs.40 crore, Rs.150 crore and Rs.110 crore (totalling Rs.300 crore) were placed in three short-term deposits on 4 January 2001, indicating that the loan funds from LIC were not immediately required. As regards the cost attached to issue of bonds, the same has been factored in working out the extra expenditure of Rs.3.12 crore. As the loan was to be drawn upto 31 March 2001, by which time the interest rate had further come down, the Company could have obtained the benefits of cheaper rates, which is substantiated by the fact that it did not draw the remaining amount of Rs.300 crore from LIC due to downward trend of interest. For resetting of rates, the Company had to pay a premium of Rs.48.08 crore to LIC on the outstanding loan of Rs.600 crore.

Thus, the Company incurred avoidable extra expenditure of Rs.4.84 crore on account of interest due to not taking into account the softening trend of interest rates and premature drawal of funds.

The matter was reported to the Ministry in May 2004; its reply was awaited (September 2004).

22.1.3 Imprudent decision of purchasing land

The Company blocked Rs.2.44 crore on purchasing land which could not be put to use since 1990. This resulted in loss of interest of Rs.2.86 crore.

The Housing and Urban Development Corporation Limited (Company) decided (January/February 1989) to purchase a plot of land measuring 8,120 square metres in Ahmedabad on perpetual lease from Ahmedabad Municipal Corporation (AMC) at a cost of Rs.2.44 crore for office and residential development. The payment was made in March 1989 and July 1990.

Though the plot was purchased for 'office cum residential' purpose (including commercial purpose), the selected site was meant for residential purpose, which was got changed to 'office cum residential' in March 1990. However, as the Company was to utilise the land for commercial purpose also, its legal consultant emphasised (June 1990) that the land use should be specific, i.e., 'commercial', in the absence of which the

Company would not be entitled to construct a building for commercial activity. He, accordingly, advised the Company against making payment to AMC without getting the land use changed to 'commercial'. Nonetheless, the Company released the final payment of Rs.1.95 crore in July 1990.

Further, though the Company's official had visited the site in September 1988 before the purchase decision, the fact that the site had about 300 fully-grown trees was not taken into account. As the local residents protested (February 1991) on environmental considerations, the Company, fearing litigation, requested (March 1991) AMC, *inter alia,* to adjust the amount paid for the plot against a scheme sanctioned earlier to the latter or dispose off the plot at a cost not less than the amount paid plus interest at the rate of 15 per cent. AMC, however, refused (April 1991) to adjust the amount, stating that the money would be repaid as and when it was able to dispose off the plot. AMC said that the Company was in complete know of the likely objections from the public and knowingly paid the money for the plot. It also declined to pay interest.

Even after 14 years of making the payment, the Company has neither executed the lease deed in its favour, nor has taken over the possession of the plot and was yet to make use of the land. This indicated that the decision to purchase the land was imprudent. As a result, the Company's funds amounting to Rs.2.44 crore remained idle for more than 14 years since 1990, which resulted in consequential loss of interest of Rs.2.86 crore[•] upto March 2004.

The Management/Ministry stated (July/August 2004) that it was a well planned conscious business decision to purchase the land, which underwent change because of business development, change in circumstances and the Company's business experiences. While stating that the land would be used for effective commercial purpose, they asserted that possession would be taken over at the time of starting the construction. They also claimed that the intrinsic value of the land could not be ignored and the present land value was higher than the initial investment plus notional interest.

The reply is not tenable since not taking possession of the land during the last 14 years indicated that right from the proposal stage itself, the Company did not have any definite plan for its utilisation. Further, the Company had paid the amount for the plot with full knowledge of the likely objections from the public and as such was aware of likely problems in making use of the plot. By releasing the final payment ignoring the likely public objections due to the existence of trees on the land, as well as advise of the legal consultant, the Company has blocked its funds of Rs.2.44 crore for more than 14 years. As regards appreciation in the value of the land, this is not relevant as the Management has stated in their reply that they have no intention of selling the land.

Thus, the Company suffered loss of interest of Rs.2.86 crore on blocking of funds of Rs.2.44 crore for more than 14 years due to its imprudent decision of purchasing the land.

[•] ***calculated at a rate of 8.43 per cent, being the average cost of borrowing for the year 2002-03***

CHAPTER 23

Follow-up on Audit Reports (Commercial)

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 the various paragraphs/appraisals contained in the Reports of the Comptroller and Auditor General of India (Commercial) as have been 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 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 PSUs;

- setting up of a monitoring cell in the Department of Public Enterprises for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and that

- follow-up ATNs duly vetted by Audit in respect of all Reports of the C&AG presented to Parliament should be furnished to the Committee within six months from the date of presentation of the relevant Audit Reports.

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 recommendation that the Department of Public Enterprises (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.

A review has revealed that inspite of reminders from Audit, the remedial/corrective action taken notes on the paragraphs/appraisals contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of the various Ministries, as detailed in Appendix-III, have not been forwarded to Audit for vetting.

Out of 348 paragraphs contained in the last five years Audit Reports, on which ATNs are still awaited, 24, 35, 50, 88, and 151 are awaited for Audit Reports (Commercial) of 1999, 2000, 2001, 2002 and 2003 respectively. 240 ATNs are awaited for Audit Reports (Commercial) of 2004, which were presented to Parliament in February 2004.

Out of 588 paragraphs on which ATNs are awaited, 100 paragraphs related to PSUs under the Ministry of Finance (Banking Division), 80 paragraphs related to PSUs under the Ministry of Petroleum and Natural Gas and 69 paragraphs related to PSUs under the Ministry of Steel.

(T. G. SRINIVASAN)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
The

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

New Delhi
The

APPENDIX -II

(Referred to in para 9.6.1)

Name of the Company	Audit Observation in brief	Amount of recovery pointed out by Audit	Amount recovered
			(Rs. in Lakh)
1. Oriental Insurance Company Limited	1. The Company allowed excess discount to an insured in issue of Group JPA policy in violation of its own norms resulting in loss of Rs.2 crore. On being pointed out by Audit, the policy was cancelled and excess discount of Rs.48 lakh allowed for the run period of the policy was recovered from the refund amount of unexpired portion of the policy.	48.00	48.00
	2. Short/ under recovery of premium from the following Insured due to incorrect application of rate of premium: (i) M/s. Dyaneshwar S S K Limited Rs.78,450 (ii) M/s. Jain Aromatics Limited Rs.7,900 (iii) M/s. Onida and MIDC Moka Electronics Rs.63,182 iv) M/s. Ruchi Soya Industries Rs.3,77,424 (v) M/s Bank of Baroda Rs.2,132	5.29	5.29
	3. Failure to recover the loss from the Transport Carrier under subrogation rights under Marine Insurance Policy.	101.22	79.81
	4. Excess refund to the Insured against cancellation of a Policy.	0.07	0.07
2. New India Assurance Company Limited	1 Short/ under recovery of premium from the following Insured due to incorrect application of rate of premium	76.67	73.57

	(i) M/s. Insurance Awareness Group — Rs.11,35,142 (ii) M/s. Videocon Appliances Limited — Rs.33,516 (iii) M/s. Southern Petrochemical Industries Corporation Limited — Rs.45,07,776 (iv) M/s. Shivna Spinners Limited — Rs.7,77,570 (v) M/s. Indian Oil Corporation Limited — Rs.3,96,885 (vi) M/s. GSFC Limited — Rs.8,16,062		
	2. Excess EI discount allowed to M/s. Godrej GE Appliances Limited resulting in short collection of Premium of Rs.2,98,300.	2.98	0.23
	3 Non-recovery of premium from the Agent (M/s. Users Company Limited Tokyo) due to bankruptcy JPY 18,57,664	7.94 JPY18.57	0.43 JPY 1.00
	4 Non recovery of Claim from XL Reinsurers-A/c Stock Holding Corporation of India Rs.34,82,400	34.82	71.69
	5 Non recovery of Terrorism Surcharge from Garware Enterprise on Insurance Policies Rs.5,40,677	5.40	0.15
3. United India Insurance Company Limited	1 Short/ under recovery of premium from the following Insured due to incorrect application of rate of premium:	2.22	2.22
	(i) M/s. Crystal Granite and Marble Private Limited — Rs.16,259 (ii) M/s. Camlin Limited — Rs.1,50, 881 (iii) M/s. Avanti Jewellers Private Limited — Rs.54,675		
	2 Non recovery of overage extra from M/s. K.M. Bros. Rs.1,16,522	1.17	0.41
4. National Insurance Co. Limited	1 Short/ under recovery of premium from the following Insured due to incorrect application of rate of premium:	20.36	20.22
	(i) M/s. VXL Saurashtra Chemicals — Rs.17,47,349 (ii) M/s. Finolex Technologies — Rs.2,42,940 (iii) M/s. D. Link India Limited — Rs.29,629 (iv) M/s. Glass Fibre Limited — Rs.15,863		

	2 Short recovery in respect of Marine Claims from Agents Rs.24,08,912	24.09	1.47
	Total	**330.23**	**303.56**

APPENDIX -III

(Referred to in Chapter 23)

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes are pending as on 15 December 2004

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Agriculture		
1. No. 3 of 2003	Transaction Audit Observations	Para 1.1.1
Department of Bio-Technology		
1. No. 2 of 2000	Comments of Accounts	Paras 2.1.32 and 2.5.1
2. No. 2 of 2001	Comments of Accounts	Para 2.1.35
3. No.2 of 2002	Comments of Accounts	Paras 1.4.1, 2.1.2, 2.2.1, 2.3.3, and 2.8.1
4. No.2 of 2003	Comments of Accounts	Para 2.1.2
5. No.2 of 2004	Comments of Accounts	Paras 2.2.2 and 2.3.1
Department of Chemicals & Fertilizers		
1. No. 2 of 1999	Comments of Accounts	Para 2.4.2
2. No. 2 of 2000	Comments of Accounts	Para 2.5.2
3. No. 6 of 2000	Appraisal on Hindustan Antiboitics Limited	
4. No.2 of 2003	Comments of Accounts	Paras 2.1.3, 2.2.4, 2.2.5, 2.3.2, 2.4.6 and 2.8.1
5. No.3 of 2003	Transaction Audit Observations	Para 3.1.1
6. No.2 of 2004	Comments of Accounts	Paras 1.2.1, 1.2.2, 1.3.3, 2.1.2, 2.1.3, 2.3.2, 2.4.2 and 2.5.2
7. No.3 of 2004	Transaction Audit Observations	Paras 1.1.1, 1.2.1, 1.3.1 and 1.4.1
Department of Fertilizers		
1. No.3 of 2003	Transaction Audit Observations	Para 10.2.1
Ministry of Civil Aviation		
1. No.2 of 2002	Comments on Accounts	Para 1.2.8

No. and Year of Report	Name of the Report	Para No., if any
2. No.3 of 2002	Transaction Audit Observations	Paras 3.1.1,3.1.3, 3.2.2 and 3.3.2
3. No. 4 of 2002	Review on Revenue Management in AAI	Chapter 1 of A/R
4. No.2 of 2003	Comments of Accounts	Paras 1.2.6 and 2.4.9
5. No.3 of 2003	Transaction Audit Observations	Paras 4.1.3 and 4.1.4
6. No.3 of 2004	Transaction Audit Observations	Paras 2.1.1 & 2.1.2

Ministry of Coal

1. No. 7 of 2000	Appraisal on Eastern Coalfields Limited	
2. No. 3 of 2001	Transaction Audit Observations	Para 15.3.1
3.No. 2 of 2002	Comments on Accounts	Para 2.5.4
4. No.3 of 2002	Transaction Audit Observations	Paras 4.6.1 and 4.7.1
5. No. 2 of 2003	Comments of Accounts	Paras 2.5.5 and 2.5.6
6.No.3 of 2003	Transaction Audit Observations	Paras 5.1.5 and 5.5.1

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Department of Commerce

1. No. 4 of 2001	Review on Oil Extraction Operation by STC	Chapter 2
2. No. 2 of 2002	Comments on Accounts	Para 1.2.16
3. No. 3 of 2002	Transaction Audit Observations	Paras 5.2.1, 5.2.3, 5.2.6 and 5.2.7
4. No. 2 of 2003	Comments of Accounts	Para 2.2.12
5. No.3 of 2003	Transaction Audit Observations	Paras 6.1.1, 6.2.1 & 6.3.1
6. No.2 of 2004	Comments on Accounts	Paras 2.2.4, 2.2.5, 2.2.7 & 2.3.4
7. No.4 of 2004	Review on MMTC	Chapter III-Paras 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8 and 3.9

Ministry of Communications
Department of Telecommunications

1. No.2 of 2002	Comments on Accounts	Para 1.2.19
2. No.5 of 2003	Telecommunications Sector-Chapter-2	Paras 3 and 4 (Part)
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4. No.2 of 2004	Comments on Accounts	Paras 1.2.10, 2.2.8 and 2.4.8
5. No.5 of 2004	BSNL	
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	Chapter-VIII	Paras 8.2 and 8.3
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1. No.3 of 2002	Transaction Audit Observations	Para 7.2.3
2. No.3 of 2003	Transaction Audit Observations	Paras 7.1.3 and 7.1.5
3. No.4 of 2003	Fraud Control in FCI	Para 2.1
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5. No.3 of 2004	Transaction Audit Observations	Paras 5.2.2, 5.2.4, 5.2.5, 5.2.6 and 5.2.10
7. No.4 of 2004	Review on Food Corporation of India	Chapter-IV-Paras 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8 and 4.9

Department of Defence Production and Supplies

1. No. 2 of 2000	Comments of Accounts	Para 2.5.14
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3. No.3 of 2003	Transaction Audit Observations	Para 8.2.1

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4. No. 3 of 2004	Transaction Audit Observations	Paras 6.4.1 and 6.4.2
5. No.4 of 2004	Review on BEML	Chapter-V-Paras 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, 5.13, 5.14, 5.15 and 5.16

Department of North Eastern Development

1. No. 2 of 2002	Comments of Accounts	Paras 2.3.23 and 2.6.73
2. No. 2 of 2003	Comments of Accounts	Paras 1.2.15 and 1.4.11
3.No. 3 of 2003	Transaction Audit Observations	Para 9.1.1

Ministry of Environment & Forest

1. No. 2 of 1999	Comments of Accounts	Paras 2.5.9 and 2.6.13
2. No.2 of 2002	Comments of Accounts	Paras 2.4.19, 2.5.7 and 2.6.22
3. No. 2 of 2004	Comments on Accounts	Para 2.5.8
4. No.4 of 2004	Review on A&NIF&P Development Corporation Limited	Chapter-VI-Paras 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7 and 6.8

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1. No. 2 of 1999	Comments on Accounts	Paras 1.2.28, 1.2.29, 1.2.30, 1.2.31, 1.2.32, 1.2.33 and 1.2.34
2. No. 3 of 1999	Transaction Audit Observations	Paras 8.1 and 8.4
3. No. 2 of 2000	Comments on Accounts	Paras 1.2.24, 1.2.25, 1.2.26, 1.2.27, 1.2.28, 1.2.29, 2.1.17, 2.2.22, 2.5.21, 2.6.19, 2.6.20, 2.6.21, 2.6.23, 2.6.26 and 2.6.27
4. No. 3 of 2000	Transaction Audit Observations	Paras 10.1.1, 10.1.2 and 10.1.3
5. No. 2 of 2001	Comments on Accounts	Paras 1.2.22, 1.2.23, 1.2.24, 1.2.25, 1.2.26, 1.2.27, 2.1.21, 2.1.22, 2.2.18, 2.2.19, 2.6.13, 2.6.14 and 2.6.16
6.No. 3 of 2001	Transaction Audit Observations	Paras 11.1.1, 11.2.1 and 11.3.1
7.No.2 of 2002	Comments on Accounts	Paras 1.2.24, 1.2.25, 1.2.26, 1.2.27, 2.1.14, 2.2.15, 2.2.16, 2.2.17, 2.2.18, 2.2.20, 2.6.23, 2.6.24, 2.6.25 and 2.6.27

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8. No.3 of 2002	Transaction Audit Observations	Paras 11.1.1, 11.2.1, 11.3.1 and 11.4.1
9. No. 2 of 2003	Comments of Accounts	Paras 1.2.16, 1.2.17, 1.2.18, 1.4.12, 1.4.13, 2.1.22, 2.1.23, 2.1.24,2.3.5, 2.3.6, 2.6.21, 2.6.22, 2.6.23, 2.6.24, 2.6.25, 2.6.26, 2.6.27, 2.6.28, 2.8.10, 2.8.11, 2.8.12 and 2.8.13
10. No. 2 of 2004	Comments on Accounts	Paras 1.2.13, 2.1.14, 2.1.15, 2.2.11, 2.2.12, 2.2.13, 2.3.5, 2.4.11, 2.6.12, 2.6.13, 2.6.14, 2.6.15 and 2.6.16
11. No. 3 of 2004	Transaction Audit Observations	Paras 9.1.1, 9.2.1, 9.2.2 and 9.3.1

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2.No.2 of 2002	Comments on accounts	Para 1.3.21
3. No. 2 of 2003	Comments of Accounts	Paras 1.2.21, 1.3.20, 2.1.26, 2.2.16, 2.6.30, 2.8.14 and 2.8.15
4. No.2 of 2004	Comments on Accounts	Paras 1.2.14, 1.2.15, 1.3.12, 2.1.16, 2.2.14 and 2.6.17
5. No.3 of 2004	Transaction Audit Observations	Paras 8.2.1, 8.2.2, 8.2.3, 8.2.4, 8.2.5, 8.2.6, 8.2.7, 8.3.1, 8.3.2, 8.4.1, 8.5.1, 8.5.2, 8.5.3 and 8.5.4

Ministry of Health & Family Welfare

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1. No. 2 of 1999	Comments on Accounts	Paras 2.2.10 and 2.4.14
2. No. 2 of 2000	Comments on Accounts	Paras 2.6.28 and 2.8.8
3. No.2 of 2002	Comments on Accounts	Paras 2.1.15, 2.2.27 and 2.4.20
4. No.3 of 2002	Transaction Audit Observations	Para 12.1.1
5. No. 2 of 2003	Comments of Accounts	Para 2.6.32
6. No.3 of 2003	Transaction Audit Observations	Para 12.1.1
7. No.2 of 2004	Comments on Accounts	Para 2.6.18
8. No.3 of 2004	Transaction Audit Observations	Para 10.1.1

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Ministry of Home Affairs

1. No.2 of 2002	Comments on Accounts	Para 2.6.40
2. No. 2 of 2003	Comments of Accounts	Para 2.8.24
3. No.2 of 2004	Comments on Accounts	Paras 1.2.20, 2.3.22 and 2.6.53

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1. No.2 of 1999	Comments on Accounts	Para 1.2.36
2. No. 2 of 2000	Comments on Accounts	Paras 1.2.43, 2.6.49 and 2.8.16
3. No. 2 of 2001	Comments on Accounts	Paras 2.1.34, 2.2.30 and 2.6.31
4. No.3 of 2004	Transaction Audit Observations	Para 12.1.1

Ministry of Human Resources & Science Technology

1. No.2 of 2001	Comments on Accounts	Para 2.1.35
2. No.2 of 2002	Comments on Accounts	Paras 2.1.21 and 2.6.42
3. No. 2 of 2003	Comments of Accounts	Para 2.2.26

Ministry of Heavy Industry & Public Enterprises

1. No. 3 of 2003	Transaction Audit Observations	Paras 13.1.1 and 13.1.2
2. No.2 of 2004	Comments on Accounts	Para 2.3.14
3 No. 3 of 2004	Transaction Audit Observations	Paras 11.1.6, 11.1.8, 11.1.9, 11.3.1 and 11.8.1
4. No.4 of 2004	Review on HMT Watches Limited	Chapter-VII-Paras 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7.9, 7.10, 7.11, 7.12, 7.13, 7.14, 7.15 and 7.16

Department of Information Technology

1. No. 2 of 2003	Comments of Accounts	Paras 2.6.47, and 2.5.19
2. No.2 of 2004	Comments on Accounts	Paras 2.2.21, 2.4.18 and 2.5.13

Ministry of Information & Broadcasting

1. No. 2 of 2001	Comments on Accounts	Para 1.3.33
2. No. 3 of 2001	Transaction Audit Observations	Para 13.1.1
3. No.2 of 2002	Comments on Accounts	Paras 1.3.33 and 2.5.16
4. No.3 of 2002	Transaction Audit Observations	Para 14.1.1
5. No.2 of 2004	Comments on Accounts	Paras 1.2.21, 1.3.17, 2.1.21,

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1.No. 3 of 2003	Transaction Audit Observations	Para 16.1.1

Ministry of Petroleum and Natural Gas

1. No. 2 of 1999	Comments on Accounts	Paras 1.2.53 and 1.2.56
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4. No. 3 of 2000	Transaction Audit Observations	Paras 16.1.1 and 16.3.3
5. No. 2 of 2001	Comments on Accounts	Paras 1.2.50, 1.3.38, 1.3.39 and 1.3.43
6. No. 3 of 2001	Transaction Audit Observations	Paras 17.2.1, 17.2.2, 17.4.1, 17.6.2, 17.6.3 and 17.8.2
7. No.2 of 2002	Comments on Accounts	Paras 1.2.37, 1.2.40 and 2.3.16
8. No.3 of 2002	Transaction Audit Observations	Paras 16.1.2, 16.1.4, 16.5.1, 16.6.2, 16.6.3, 16.6.4, 16.6.6 and 16.7.4
9. No. 2 of 2003	Comments of Accounts	Paras 1.2.27, 1.2.28, 1.2.32, 1.3.29, 1.3.32, 2.1.41, 2.2.29, 2.2.30, 2.5.20, 2.5.21, 2.6.48, 2.6.49 and 2.6.50
10. No.3 of 2003	Transaction Audit Observations	Paras 17.2.2,17.4.2, 17.6.1, 17.6.2, 17.6.4, 17.6.5, 17.6.6, 17.7.1, 17.7.4, 17.7.6 and 17.7.7
11. No. 2 of 2004	Comments on Accounts	Paras 1.2.24, 1.2.27, 2.1.23, 2.2.23, 2.2.24, 2.4.24, 2.6.29, 2.6.30, 2.6.32 and 2.7.7
12. No. 3 of 2004	Transaction Audit Observations	Paras 14.1.1, 14.2.1, 14.3.1, 14.4.2, 14.4.3, 14.5.3, 14.5.5, 14.5.6, 14.6.1, 14.6.2, 14.6.4, 14.6.5, 14.6.6, 14.6.7, 14.6.8, 14.7.1 and 14.7.2
13. No.4 of 2004	Review on GAIL	Chapter-VIII- Paras 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10 and 8.11
	Review on Oil India Limited	Chapter-IX-Paras 9.1, 9.2, 9.3, 9.4, 9.5, 9.6 and 9.7

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Ministry of Power

1. No. 3 of 1999	Transaction Audit Observations	Paras 13.1.2, and 13.3.2
2. No. 2 of 2001	Comments on Accounts	Paras 1.3.45 and 2.2.43
3. No.2 of 2002	Comments on Accounts	Paras 1.2.44, 1.3.43, 2.1.26, 2.6.56 and 2.8.19
4. No.4 of 2002	Review on implementation of Rehabilitation Plan by THDC	Chapter 5
5. No. 2 of 2003	Comments of Accounts	Paras 1.2.36, 1.2.37, 2.1.43, 2.1.44, 2.2.33, 2.2.34, 2.6.56, 2.6.57, 2.8.25, 2.8.27 and 2.8.28
6. No.3 of 2003	Transaction Audit Observations	Paras 18.1.1 and 18.2.2
7. No. 2 of 2004	Comments on Accounts	Paras 1.2.30, 1.2.32, 1.4.20, 1.4.21, 2.1.26, 2.1.27, 2.2.27, 2.2.28, 2.3.19, 2.6.36, 2.6.37 and 2.7.9
8. No. 3 of 2004	Transaction Audit Observations	Paras 15.1.1, 15.2.2 and 15.4.1

Department of Public Enterprises

1. No.4 of 2003	Reviews on some of the activities of selected PSUs	Para 5.1
2. No. 3 of 2004	Transaction Audit Observations	Para 16.1.2

Ministry of Railways

1. No.2 of 2004	Comments on Accounts	Paras 1.2.37, 1.3.25, 2.1.29 and 2.5.16

Department of Small scale Industries & Agro and Rural Industries

1. No.2 of 2002	Comments on Accounts	Para 2.3.17
2. No. 2 of 2003	Comments of Accounts	Paras 1.2.44, 2.1.51, 2.2.40. 2.4.37and 2.6.62
3. No.2 of 2004	Comments on Accounts	Paras 1.4.25, 2.1.31, 2.2.32, 2.4.26 and 2.6.41
4. No. 3 of 2004	Transaction Audit Observations	Para 19.1.1

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2. No. 2 of 2000	Comments on Accounts	Paras 2.1.56 and 2.2.64
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5. No.2 of 2002	Comments on Accounts	Paras 2.1.34, 2.2.43 and 2.6.63
6. No.3 of 2002	Transaction Audit Observations	Para 20.1.1
7. No. 2 of 2003	Comments of Accounts	Paras 2.1.52, 2.1.53, 2.2.41, 2.2.42, 2.2.43, 2.3.15, 2.4.38, 2.4.39, 2.5.22, 2.6.63, 2.6.64, 2.8.30, 2.8.31, 2.8.32 and 2.8.33
8. No.2 of 2004	Comments on Accounts	Paras 1.2.40, 1.4.26, 2.1.32, 2.1.33, 2.2.33, 2.6.42, 2.7.10 and 2.7.11
9. No.4 of 2004	Review on NSCF&DC	Chapter-XII-Paras 12.1, 12.2, 12.3, 12.4, 12.5, 12.6, 12.7, 12.8, 12.9, 12.10 and 12.11

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No. and Year of Report	Name of the Report	Para No., if any
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3. No. 2 of 2001	Comments on Accounts	Paras 2.5.25 and 2.8.19
4. No. 3 of 2001	Transaction Audit Observations	Paras 21.3.2, 21.4.5, 21.4.6 and 21.4.7
5. No. 4 of 2001	Review on Execution of CCP of Rourkela Steel Plant by MECON	Chapter 7
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7. No.3 of 2002	Transaction Audit Observations	Paras 21.2.1, 21.5.2, 21.6.2, 21.7.1 and 21.7.9
8. No. 4 of 2002	• Review on Modernization of BSP-SAIL • Review on Township Management in SAIL • Review on R&D Centre for Iron & Steel-SAIL	Chapter 6.1 Chapter 6.2 Chapter 6.3
9. No. 2 of 2003	Comments of Accounts	Paras1.3.37, 1.3.38, 1.3.39, 2.1.54, 2.4.40, 2.6.65, 2.6.66, 2.6.67 and 2.6.70

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10. No. 3 of 2003	Transaction Audit Observations	Paras 23.5.1, 23.5.3, 23.5.4, 23.5.5, 23.6.4 and 23.6.8
12. No.4 of 2003	Business Restructuring Plan of SAIL	Para 3.1
	Rail and Structural Mill of Bhilai Steel Plant of SAIL	Para 3.2
13. No.2 of 2004	Comments on Accounts	Paras 1.2.45, 1.3.29, 1.4.30, 2.1.36, 2.2.34, 2.2.35, 2.2.36, 2.2.37, 2.5.17, 2.5.18, 2.6.43, 2.6.44, 2.6.46, 2.6.47 and 2.7.12
14. No.4 of 2004	Review on NMDC	Chapter-XIII-Paras-13.1, 13.2, 13.3, 13.4 and 13.5
15. No.6 of 2004	Steel Sector Section-I, SAIL	Chapter-2 Review on Captive Mines of SAIL Chapter-3 Paras 3.1, 3.2, 3.5, 3.6, 3.7, 3.8, 3.10, 3.11 and 3.12
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No. and Year of Report	Name of the Report	Para No., if any
1. No.3 of 2004	Transaction Audit Observations	Paras 18.2.2 and 18.2.4
2. No.4 of 2004	Review on Hindustan Shipyard Limited	Chapter-XI-Para 11.1, 11.2, 11.10, 11.12, 11.14, 11.15 and 11.16

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1. No.4 of 2003	Working of River Service Division of Central Inland Water Transport Corporation Limited	Para 4.1

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Ministry of Textiles

1. No. 2 of 2003	Comments of Accounts	Paras 2.3.16 and 2.6.75
2. No.2 of 2004	Comments on Accounts	Para 2.1.40

Ministry of Tourism

1. No. 2 of 1999	Comments on Accounts	Para 2.4.49
2. No. 2 of 2001	Comments on Accounts	Paras 2.1.60, 2.2.60 and 2.6.61
3. No. 2 of 2003	Comments of Accounts	Para 2.6.76

Ministry of Urban Development and Poverty Alleviation

1. No. 2 of 2001	Comments on Accounts	Para 1.2.65
2.No. 3 of 2001	Transaction Audit Observations	Para 24.1.1
3. No.2 of 2002	Comments on Accounts	Para 1.2.61
4.No.2 of 2004	Comments on Accounts	Paras 1.2.48, 1.4.35, 2.1.41 and 2.2.40
5. No.3 of 2004	Transaction Audit Observations	Paras 20.1.1 and 20.2.1

Ministry of Water Resources

1. No.2 of 2004	Comments on Accounts	Paras 1.2.49 and 1.4.36