

CHAPTER V : MINISTRY OF FINANCE

Department of Economic Affairs

Insurance Regulatory and Development Authority

5.1 Extra expenditure due to non-invitation of competitive bids

Failure of the Insurance Regulatory and Development Authority to award the work of printing a journal without ensuring competitiveness of rates by inviting open tenders in accordance with the codal provisions resulted in extra expenditure of Rs. 34.89 lakh during December 2002 to March 2006.

Insurance Regulatory and Development Authority (Authority) was established under the Insurance Regulatory and Development Authority Act 1999 with a view to protecting the interests of the holders of insurance policies. In order to disseminate information on its activities and provide statistical data and other information about insurance industry, the Authority started publication of a monthly journal from December 2002.

Audit noticed (September 2005) that the Authority had not complied with the provisions of Rule 15(1) of the General Financial Rules (GFRs) according to which it had to invite open tenders before placing work order for printing of the journal. Instead it awarded the work of designing and printing of the journal to two firms on the basis of a letter issued by the Chairman of the Authority on 1 November 2002 after obtaining limited quotations. The Authority also did not enter into any agreement with the firms specifying the terms and conditions of the contract. The Authority has been continuously engaging these firms since November 2002 without assessing, at any stage, the reasonableness of the rates charged by them. It had paid Rs. 80.20 lakh to these firms during the period from December 2002 to March 2006 on account of designing and printing of an average number of 1750 copies of the journal with 48 pages (approximately).

A comparative study to assess the reasonableness of the cost of designing and printing of the journal was done by Audit with reference to similar publications printed by a Central Autonomous Body¹ located in New Delhi. This revealed:

¹ Central Council of Research in Unani Medicine, Janak Puri, New Delhi

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Name of Journal/ month	No. of pages per journal		Total no. of pages per journal	Quality of paper	No. of copies	Total no. of pages	Cost of designing, processing, printing and binding (Rupees in lakh)	Cost per page (in Rupees)
	Single colour	Four- colour processing and printing						
News Letter (A Bi-monthly bulletin of CCRUM) (September- October'2005)	-	28	28	Imported Art paper 130 Gsm both for cover and pages	5000	1,40,000	1.71	1.22
Unani Medicine in India (March'2006) published by CCRUM	-	36	36	Imported Art paper 170 Gsm for pages and 210 Gsm for cover	3000	1,08,000	1.77	1.63
IRDA Journal (September 2005) published by IRDA	22	26	48	Royal matt paper 100 Gsm for pages and Royal matt card 220 Gsm for cover	1750	84,000	1.82	2.16

Thus, despite using superior quality of paper (130 GSM both for cover and text pages) and four-colour printing in the journal (News Letter) brought out by the New Delhi based Central Autonomous Body, the cost per page worked out to Rs. 1.22 only as against Rs. 2.16 per page paid by the Authority for single and four colour printing on paper of 100 GSM for text pages and 220 GSM for cover. Another journal (Unani medicine in India) printed by the same New Delhi based autonomous body using much superior quality of paper cost Rs. 1.63 per page only. Although the cost of printing the Journal using better quality paper by New Delhi based Central Autonomous Body was Rs. 1.22 per page only, the expenditure incurred by the Authority using lesser quality paper was 77 per cent higher (Rs. 2.16 per page). The total extra expenditure incurred on this basis was Rs. 34.89 lakh during the period December 2002 to March 2006.

The Authority while admitting that the work order was given without inviting open tenders/quotations, stated (October 2005) that the contract was awarded when the Authority was in the initial stages and it did not have any in-house expertise or the required resources/infrastructure for conducting the tender process, technical and financial evaluation etc. and the objective was to bring out the journal as early as possible. It further stated that the work was entrusted to two firms during November 2002 to September 2005 while keeping the price constant. The reply is not tenable as the printing of the journal is an ongoing process and if it was not possible to call for the tenders at the initial stage in November 2002, action for obtaining competitive rates

should have been taken in the subsequent years. The Authority's plea that the price was being kept constant is besides the point as there was no transparent basis for these rates. Calling for tenders was necessary as per GFRs and the Authority lost an opportunity to choose the most economical option by placing the orders repeatedly with the same firm.

In response to the audit observation, the Ministry while endorsing the above views of the Authority contended (January 2007) that comparing the journal of the Authority with the Newsletter of Unani Medicine etc. may not be relevant as it was incumbent upon the publisher to maintain the international standards where the targetted readers include overseas professionals and reputed regulatory bodies. It added that the whole scheme had been reviewed and the work was being awarded to the competitive bidder after completion of the tendering process in November 2006. The Ministry also argued that based on a comparative analysis of costs incurred by other organisations in getting their material like newsletters printed by the same printer, it came out that the cost per page ranged from Rs. 1.02 to Rs. 4.17. Viewed in this context and the fact that the cost per page was dependent on, apart from the size of paper and its quality, the number of copies printed, the graphics, the number of colours used etc, the cost of Rs. 2.16 per page charged by the printer from the Authority appeared to be reasonable. The reply is not tenable as the comparative study of the cost of designing and printing made by Audit revealed that the quality of paper used in the Newsletter of Unani Medicine etc. was much superior than that used in printing the Journal of the Authority. The fact thus remains that by not awarding the work to the competitive bidder the Authority incurred extra expenditure of Rs. 34.89 lakh during December 2002 to March 2006.

Securities and Exchange Board of India

5.2 Injudicious decision leading to wasteful expenditure

Injudicious decision of the Securities and Exchange Board of India to appoint the Chief Executive Officer and other supporting staff for the Central Listing Authority without formally establishing the latter resulted in wasteful expenditure of Rs. 43.73 lakh on their pay and allowances and office expenses etc. during 2003-05.

The Securities and Exchange Board of India (SEBI), in its press release of 9 April 2003 had announced setting up of the Central Listing Authority (CLA) under Regulation 3 of SEBI (CLA) Regulation, 2003 to bring about uniformity in the exercise of due diligence process in scrutinising listing applications across the stock exchanges and to dynamise the Listing Agreement.

According to these Regulations, CLA would consist of not more than 11 members comprising a President, a Vice-President and not more than nine other members. The Regulations further stipulated that with effect from such date as would be specified by SEBI, it shall be deemed to have delegated its functions and powers to CLA as specified therein. According to these Regulations CLA had to perform the functions of receiving and processing applications for issue and listing of securities on the stock exchanges and any other functions delegated to it by the Board from time to time. In its press release dated 14 May 2003 SEBI, however, clarified that till such time it specified the date of establishment of CLA, all listing applications should be made to stock exchanges directly who should deal with such listing applications as also the pending listing applications as hitherto following the current rules and procedures.

Audit noticed (September 2005) that though SEBI had not notified the date of establishment of CLA, it had appointed a Chief Executive Officer (CEO) for it in January 2004 for a period of three years at a monthly remuneration of Rs. 1.20 lakh and had also deputed five officers from SEBI as its supporting staff with effect from 3 May 2004. Since the date of establishment of CLA had not been notified, it remained non-operational and CEO and other supporting staff could not perform any official duty. Consequently, expenditure of Rs. 43.73 lakh incurred on their salaries, travel and office expenses etc. during 2003-05 was wasteful. It was also observed that during the internal deliberations of SEBI in March 2004, its Legal Affairs Department had raised certain doubts about the operational independence and legal status of CLA. It was further noticed that the SEBI Chief had observed (March 2006) that in view of the proposed opening of 23 regional exchanges, CLA may no longer be required.

Thus, the decision of SEBI to appoint CEO and deputing other supporting staff to CLA without formally establishing the latter resulted in wasteful expenditure of Rs. 43.73 lakh.

In response to the audit observation, the Ministry confirmed (October 2006) that CLA had not performed any function as its date of establishment had not been notified. It further stated (June 2006) that CEO was with CLA upto October 2004. It added (July 2006) that the five officers deputed from SEBI had been repatriated with effect from 22 November 2004. It also stated that recruitment/deputation of CEO/supporting staff was necessary for assistance in the setting-up process of CLA and these officers were involved in the preliminary work of drafting CLA regulations and other operational activities.

The reply is not tenable as SEBI should have considered and resolved the various legal and administrative implications before deciding to constitute CLA.

Thus the decision of SEBI to constitute CLA followed by premature appointment of CEO and other supporting staff resulted in wasteful expenditure of Rs. 43.73 lakh.