सत्यमेव जयते

Report of the Comptroller and Auditor General of India

for the year ended 31 March 2020

लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

Union Government (Commercial)
No. 14 of 2021
(Compliance Audit Observations)

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PREFACE

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

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

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

4. The Audit Report for the year 31 March 2020 contains 42 individual audit observations relating to 32 CPSEs under control of 10 Ministries/ Departments. These Ministries/ Departments have been further grouped in the Audit Report under three Clusters namely, Energy, Industry and Infrastructure. There are 15 audit observations under Energy Cluster, 21 under Industry Cluster and 06 under Infrastructure Cluster. Instances mentioned in this Report are among those which came to notice in the course of audit during 2019-20 as well as those which came to notice in earlier years. Results of audit of transactions subsequent to March 2020 in a few cases have also been mentioned.

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

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

EXECUTIVE SUMMARY

I Introduction

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

2. The Report contains 42 individual observations relating to 32 Central Public Sector Enterprises (CPSEs) under 10 Ministries/ Departments. These Ministries/ Departments have been further grouped in the Audit Report under three Clusters namely, Energy, Industry and Infrastructure. There are 15 audit observations under Energy Cluster, 21 under Industry Cluster and 06 under Infrastructure Cluster. The draft observations were forwarded to the Secretaries of the concerned Ministries/ Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/ comments in each case within a period of six weeks. Replies to 21 observations were not received even as this Report was being finalised as indicated in para 3 below. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

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

Sl. No.	Ministry/ Department (CPSEs involved)	Number of paragraphs	Number of paragraphs in respect of which Ministry/ Department's reply was awaited
Energy Cluster			
1.	Coal (Coal India Limited, Central Coalfields Limited, South Eastern Coalfields Limited, Western Coalfields Limited, Neyveli Uttar Pradesh Power Limited, NLC TamilNadu Power Limited)	4	0
2.	Petroleum and Natural Gas (Indian Oil Corporation Limited, Numaligarh Refinery Limited, Oil and Natural Gas Corporation Limited, ONGC Petro additions Limited, ONGC Videsh Limited)	10	4
3.	Power (NHPC Limited)	1	0
Industry Cluster			
4.	Finance - Department of Financial Services (India Infrastructure Finance Company Limited, IFCI Venture Capital Funds Limited,	6	4

Sl. No.	Ministry/ Department (CPSEs involved)	Number of paragraphs	Number of paragraphs in respect of which Ministry/ Department's reply was awaited
	The New India Assurance Company Limited, National Insurance Company Limited, The Oriental Insurance Company Limited)		
5.	Heavy Industries (Bharat Heavy Electricals Limited, Heavy Engineering Corporation Limited)	4	4
6.	Mines (Hindustan Copper Limited, National Aluminium Company Limited)	2	1
7.	Steel (MSTC Limited, NMDC Limited, Rashtriya Ispat Nigam Limited, Steel Authority of India Limited, The Bisra Stone Lime Company Limited, The Orissa Mineral Development Company Limited)	7	3
8.	Textiles (India United Textile Mill Limited, National Textile Corporation Limited	2	1
Infrastructure Cluster			
9.	Civil Aviation (Airports Authority of India, Air India Limited)	4	4
10.	Road Transport and Highways (National Highways Authority of India)	2	0
Total		**42**	**21**

4. Total financial implication of individual audit observations is ₹4,779.99 crore.

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

- Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹453.62 crore in nine audit paragraphs.
- Non-safeguarding of financial interest of organisations involving ₹3,103.45 crore in 20 audit paragraphs.
- Defective/ deficient planning involving ₹376.33 crore in nine audit paragraphs.
- Inadequate/ deficient monitoring involving ₹846.59 crore in four audit paragraphs.

6. The Report contains a Chapter on "Recoveries & corrections/ rectifications" by CPSEs at the instance of audit. The Chapter contains two paragraphs viz., (a) recoveries of ₹2,771.14 crore made by 15 CPSEs at the instance of Audit, and (b) corrections/ rectifications carried out by four CPSEs at the instance of Audit.

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

Indian Oil Corporation Limited collected ₹262.60 crore of Turnover Tax from consumers in Andhra Pradesh in violation of legal provisions of Andhra Pradesh General Sales Tax Act, 1957 and afterwards settled the legal case with Government of Telangana by making payment of ₹65.65 crore (25 *per cent*) against total imposed penalty of ₹262.60 crore, thus resulting in undue enrichment to Indian Oil Corporation Limited by ₹196.95 crore.

(Para 2.1)

To replace two old and less efficient oil fired boilers, Indian Oil Corporation Limited decided (June 2015) to install a Petcoke fired Boiler (Boiler) for its Guwahati Refinery (Refinery) at an estimated cost of ₹132.58 crore (revised to ₹163.09 crore in March 2018). The new Boiler was expected to reduce the power generation and steam cost of the Refinery by ₹79.40 crore per year. 'Consent to Establish/ No Objection Certificate' was required to be obtained from the concerned State Pollution Control Board before construction of the Boiler. Indian Oil Corporation Limited, however, applied for 'Consent to Establish/ No Objection Certificate' to the Pollution Control Board, Assam in April 2018 when the project was already completed to the extent of 70-80 *per cent*. Thereafter, Pollution Control Board, Assam issued (August 2018) a show cause notice to the Indian Oil Corporation Limited with instruction to stop all activities regarding the Boiler project with immediate effect. Thus, non-compliance with the statutory requirement by the Indian Oil Corporation Limited resulted in entire expenditure of ₹120.38 crore incurred on the project till then becoming infructuous while forgoing the cost benefits of ₹79.40 crore per year due to non-commissioning of the Boiler.

(Para 2.2)

High pressure gas evolved in the process of separation of oil, water and gas in offshore process system of Mumbai High offshore fields is further compressed in the process gas compressors and fed to the wells for gas lift purpose. In this process, balance gas is transported to gas processing plant of Oil and Natural Gas Corporation Limited at Uran for further processing and sale to consumers. Any disruption in compression leads to flaring of valuable high pressure gas which also has an adverse impact on environment. During the period of 2012-13 to 2019-20, high pressure gas valuing ₹816.08 crore was flared in Mumbai High field due to non-availability of standby process gas compressors, power shut down and frequent tripping of process gas compressors.

(Para 2.4)

Mumbai High Asset and Bassein & Satellite Assets of Oil and Natural Gas Corporation Limited sent indents for procurement of casing pipes for the year 2015-16 & 2016-17 to Corporate Material Management group. Corporate Material Management clubbed the indents for both the years and floated a tender and took more than 782 days to finalise the tender as against the specified time of 176 days. The delay in placement of purchase order and receipt of material resulted in usage of costlier (2 to 2.5 times) casing pipes due to which, company incurred an avoidable expenditure of ₹21.56 crore.

(Para 2.6)

Mahanadi-Bengal-Andaman Basin of Oil and Natural Gas Corporation Limited at Kolkata carried out drilling activities by using type-I departmental rig (drilling depth capacity upto 3,050 meters). To complete the Minimum Work Programme at Barrackpore well, which was a deep well and beyond the capacity of available type-I departmental rig, it was decided to deploy type-III rig (drilling depth capacity upto 6,100 meters) from Agartala to Kolkata. Therefore, the type-III rig was released in May 2020 from Tripura Asset and commissioned in January 2020. As the ready location was not available at Mahanadi-Bengal-Andaman Basin, Kolkata the rig remained idle for 213 days. Moreover, to continue its operations at Tripura Asset, Oil and Natural Gas Corporation Limited hired another rig. Thus due to improper planning, Oil and Natural Gas Corporation Limited incurred an avoidable expenditure of ₹29.69 crore.

(Para 2.7)

Mehsana Asset of Oil and Natural Gas Corporation Limited produces associated and free gas which is either consumed for internal use, sold to consumers or flared. Delay and non-creation of adequate facilities at Mehsana Asset resulted in avoidable flaring of 193 lakh standard cubic meter gas due to which Oil and Natural Gas Corporation Limited incurred an avoidable loss of revenue of ₹15.13 crore during the period from April 2016 to March 2020.

(Para 2.8)

ONGC Petro additions Limited (OPaL), a joint venture company of Oil and Natural Gas Corporation Limited, started a project with an estimated cost of ₹21,396 crore and signed Rupee Loan Agreement (January 2013) with consortium of banks led by State Bank of India (SBI) and later (July 2014) revised the project cost to ₹27,011 crore. OPaL, accordingly signed an amendatory agreement with SBI & consortium banks and fixed the scheduled Commercial Operation Date as 30 June 2015 and agreed that overall project cost would be funded with debt-equity ratio of 66:34 till 31 December 2015 and thereafter as 58:42, failing which additional interest of 1 *per cent* per annum would be charged by the banks with effect from 01 June 2015. OPAL could not tie up the required equity portion even within the extended time period and incurred an avoidable penal interest of ₹25.81 crore.

(Para 2.9)

ONGC Videsh Limited awarded the work of auditing of its oil and gas reserves valuing ₹10.60 crore to the private parties on nomination basis disregarding Central Vigilance Commission guidelines, thereby, extending undue benefit to the private parties.

(Para 2.10)

NHPC did not levy penalty of ₹11.61 crore for generation of power lower than the minimum generation guaranteed in the contract agreement resulting in undue benefit to the contractor.

(Para 3.1)

India Infrastrucutre Finance Company Limited, under consortium lending, disbursed a loan of ₹470 crore to Essar Power Gujarat Limited for construction of a thermal power project, without conducting due diligence. Despite commissioning, the project could not be run viably due to non-supply of coal at the rates agreed upon under the Fuel Supply Agreement and the entire loan asset of India Infrastrucutre Finance Company Limited turned (April 2018) non-performing asset, for ₹400.49 crore. This has resulted in doubtful recovery of loan amount of ₹400.49 crore and interest of ₹269.43 crore as on 31 December 2020.

(Para No. 4.1)

IFCI Venture Capital Funds Limited sanctioned loans to Ashapura Intimates Fashion Limited (₹10 crore) and Arcotech Limited (₹15 crore) in August 2018 and May 2016 respectively. The Company deviated from the terms of its Lending Policy and Loan Agreements while sanctioning/ disbursing the two loans and also failed to take timely action in compliance with the Share Pledge Agreements for sale of pledged shares of the two borrowers to recover the outstanding dues. This led to non-recovery of outstanding dues of ₹27.34 crore from Ashapura Intimates Fashion Limited (₹12.55 crore) and Arcotech Limited (₹14.79 crore).

(Para 4.2)

National Insurance Company Limited receives premium, under reinsurance, for acceptance of portion of risks of insurance policies underwritten by other general insurance companies under reinsurance treaty and agreement. National Insurance Company Limited pays service tax on the total premium so received. Thereafter, National Insurance Company Limited issues invoices to the insurers from whom premium were received to recover the service tax so paid. During the years 2014-15 to 2016-17, National Insurance Company Limited paid service tax on the total premium so received without carrying out insurer-wise reconciliation. Due to non-maintenance of records and failure to reconcile party-wise reinsurance premium received, National Insurance Company Limited failed to recover service tax of ₹23.81 crore.

(Para 4.3)

The New India Assurance Company Limited participated and was selected (August 2016) in the tendering process for identification of implementing agencies for the 'Pradhan Mantri Fasal BimaYojana', a Crop Insurance Scheme launched by the Ministry of Agriculture, Government of India. The Company took reinsurance for 80 *per cent* of sum insured and decided to bear the risk for the remaining 20 *per cent* on its own. Audit noticed that the Company could have secured its own exposure of 20 *per cent* also by taking a

'Stop Loss treaty arrangement' but no cost-benefit analysis in this regard was done by the Company. The Company earned a premium of ₹501.96 crore (including the share of co-insurers viz. National Insurance Company Limited and The Oriental Insurance Company Limited at 25 *per cent* premium each) for the scheme against which the total claim outgo was ₹1,496.21 crore. While 80 *per cent* of the difference was covered through reinsurance, 20 *per cent*, which works out to ₹299.24 crore was not covered. Had the Company taken the stop loss reinsurance cover, it could have partly covered the loss amounting to ₹63.76 crore, after considering the cost of such stop loss insurance cover as ₹16.56 crore (approx.)

(Para 4.4)

The New India Assurance Company Limited failed to ascertain the Incurred Claims Ratio of the expiring policy while underwriting Livestock Insurance under National Livestock Mission for the year 2016-17 implemented in Telangana State which, resulted in low fixation of premium and subsequent loss of ₹10.31 crore due to high claim ratio.

(Para 4.5)

A contract for setting up of 75 MW Solar Power Plant in Gujarat was awarded to Bharat Heavy Electricals Limited by Gujarat Industries Power Company Limited in March 2018. For this contract, Bharat Heavy Electricals Limited was to supply photo voltaic modules also. Anti-dumping/ safeguard duty on these photo voltaic modules, if any, was reimbursable only if supplies were completed within prescribed time. Photo voltaic modules were procured by Bharat Heavy Electricals Limited from three suppliers, out of which supplies from two was on delivered duty paid basis viz., all the taxes and duties upto project site were to be borne by the suppliers and from one vendor, the supply was on Cost, Insurance, Freight basis Nhavasheva, Mumbai Seaport. As deliveries from the supplier who supplied on Cost, Insurance, Freight basis, were not ensured within the prescribed time, Bharat Heavy Electricals Limited incurred an additional liability of ₹11.58 crore towards payment of safeguard duty for clearing of imports.

(Para 5.2)

Heavy Engineering Corporation Limited received (30 September 2009) order for supply, erection and commissioning of an electric walking dragline from Northern Coalfields Limited. This was subsequently amended by adding two more sets of dragline at the same rate. Heavy Engineering Corporation Limited supplied the three draglines to Northern Coalfields Limited which were commissioned in May 2014, January 2016 and May 2019. Heavy Engineering Corporation Limited, however, was unable to ensure the guaranteed availability of the first two draglines. Northern Coalfields Limited consequently encashed (25 September 2019) four bank guarantees valuing ₹32.74 crore. Thus, failure on the part of Heavy Engineering Corporation Limited to ensure guaranteed availability of two draglines supplied to Northern Coalfields Limited led to loss of ₹32.74 crore due to encashment of performance bank guarantee by the purchaser.

(Para 5.3)

Hindustan Copper Limited (Company) engaged Star Trace Private Limited for commissioning and operation of a pilot plant at Khetri Copper Complex with a capacity to treat 200 tonnes copper ore tailings per day at a total value of ₹6.98 crore. The Company, even before the commissioning of the pilot project in June, 2016, decided (May 2016) to install a full scale plant at Malanjkhand Copper Project with a capacity to process 10,000 MT of copper ore tailings per day. The Company awarded contract to Star Trace Private Limited for setting up of 3.29 million tonnes per annum Copper Ore Tailings Beneficiation Plant at Malanjkhand Copper Project. The pilot project failed to achieve its envisaged parameters even after 33 months of operation and was also found unviable on commercial as well as technical aspects. Trial runs for Malanjkhand Copper Project Plant and Reliability test run failed to produce desired output. Therefore, by adopting technology which was yet to be proven, the Company not only wasted its resources but also made unjustified and imprudent investment decision of ₹158.05 crore by up-scaling it without waiting for outcome of pilot plant which proved to be a failure.

(Para 6.1)

MSTC Limited (MSTC) entered (April 2013) into an agreement w.e.f., 12 December 2012 with Concast Steel & Power Limited, a private party, for financing import/ procurement of Low Ash Metallurgical coke, coal and melting scrap under facilitator mode. As per the agreement, the material was to be pledged in the name of MSTC and stored at a designated warehouse located within the plant of Concast Steel & Power Limited under the custody of a Custodian. Though being aware of the poor financial health of Concast Steel & Power Limited, MSTC continued financing Concast Steel & Power Limited from time to time by increasing the credit limit exposures. The total outstanding dues of Concast Steel & Power Limited to MSTC were ₹220.84 crore till February 2021 and no recovery could be made thereagainst. Since the National Company Law Tribunal recognised MSTC as unsecured operational creditor in the list of stakeholders of Concast Steel & Power Limited, the chances of recovery are doubtful and MSTC also provided for the entire outstanding dues of Concast Steel & Power Limited in the books of accounts for the year 2018-19. Thus, imprudent decision of MSTC towards extending financial assistance to Concast Steel & Power Limited under facilitator mode resulted in non-recovery of dues of ₹220.84 crore.

(Para 7.1)

NMDC Limited incurred avoidable expenditure of ₹48.36 crore due to payment of Registration Charges and Stamp Duty for registering the same mine (Deposit 13) twice within a year, first by NMDC Limited and then for the second time by its Joint Venture Company NMDC-CMDC Limited. On account of failure of NMDC Limited in obtaining specific assurance from the Government of Chhattisgarh regarding waiver from payment of Registration Charges and Stamp Duty in the Shareholders cum Joint Venture Agreement, NMDC Limited had to bear the additional burden.

(Para 7.3)

The Orissa Minerals Development Company Limited (OMDC) operates six iron ore and manganese ore mining leases located in Odisha. Hon'ble Supreme Court of India ruled (August 2017) that penalty be levied on lessees for illegal mining activities like production without/ in excess of environment clearance and forest clearance. Accordingly, Government of Odisha demanded (September/ October 2017) penalty of ₹643.27 crore from OMDC for violation of environment clearance and ₹58.91 crore towards penalty for production of excess minerals beyond the approved limits prescribed in the Mining Plan and Consent to Operate. Despite clear directions for payment by Central Empowered Committee, Government of Odisha, Hon'ble Supreme Court of India, Government of India and legal advices obtained by the Company (December 2017/ May 2018/ December 2018), OMDC did not make full payment of compensation within the stipulated timeline. The delay resulted in avoidable payment of penal interest amounting to ₹174.04 crore.

(Para 7.7)

India United Textile Mill Limited (IUTML) was incorporated (November 2007) for revival of India United Mill Number 1, a sick unit, through private participation with 51 *per cent* of shareholding by National Textile Corporation Limited and the remaining 49 *per cent* shareholding by the strategic partner. During February to April 2019, IUTML paid advances totalling ₹109.34 crore (30 individual payments) to a group company of strategic partner without written contract, security and interest terms. IUTML has neither received fabric material nor recovered the advance and interest thereon, till date (March 2021). Credit period of 90 to 120 days was allowed in the fabric trading business of IUTML, but no interest was levied for any delay in payment. Irregular payment of advances and delayed receipt of sale proceeds from the group companies of strategic partner resulted in loss of ₹29.70 crore apart from blocking of advance amount of ₹109.34 crore.

(Para 8.1)

India United Mill No. 6 was a closed textile mill of National Textile Corporation Limited (NTC) situated in Mumbai and Government of Maharashtra made requests for transfer of the land (around 12 acres) for construction of a memorial for Dr. B.R Ambedkar. Government of Maharashtra offered (March 2016) to compensate NTC in the form of transferable development rights for value of land which was worked out as ₹1,413 crore and also offered to facilitate sale of transferable development rights. Board of Directors of NTC constituted (January 2018) a committee for the sale of transferable development rights but later decided (August 2018) to request Government of Maharashtra, to sell the transferable development rights on NTC's behalf on the ground that the amount of consideration to be received by NTC was fixed and Government of Maharashtra had agreed to facilitate sale of transferable development rights. Audit noticed that there was no prior agreement or consent from Government of Maharashtra's side that they would sell the transferable development rights and hand over the agreed amount to NTC. The lack of affirmative action to sell the transferable development rights by NTC resulted in non-realisation of ₹1,413 crore for four years and consequent loss of interest of ₹268 crore.

(Para 8.2)

Airports Authority of India Limited (AAI) entered (24 September 2018) into a concession agreement with M/s Travel Food Services Private Limited (M/s TFS) to develop, market, setup, operate, maintain and manage the Food & Beverage (F&B) outlets at Goa Airport. Initially, Goa Airport had sanctioned electricity load of 4,000 KW, against the actual consumption of around 2,600 KW, hence an unutilised load of about 1,000 KW was surrendered (June 2015) to avoid penal charges as operation from old Terminal Building was stopped. Hence, AAI was aware that present sanctioned load was only for operational need and that for starting commercial operations, additional sanctioned load (about 827 KW) was required. AAI applied (12 November 2018) for additional sanctioned load of 1,500 KW, which was sanctioned by Goa Electricity Department on 03 January 2019 on a condition that the cost of ₹5.67 crore for enhancement of contract demand would be borne by AAI. However, till date electrical work has not been completed and AAI is supplying electricity to M/s TFS from available load at Goa Airport through DG set. Due to non-availability of full load, M/s TFS claimed a further rebate of ₹17.30 crore against the demand raised by AAI in November 2019. Hence, inadequate assessment and delay in arrangement of required electricity load at Goa Airport resulted into loss of revenue of ₹15.66 crore.

(Para 9.1)

Air India Limited (AIL) entered into an agreement with M/s Boeing for Rotable Exchange Program effective from 06 July 2016, according to which AIL may exchange an unserviceable removed component with Boeing's serviceable component. M/s Boeing provides related repair, overhaul and modification service for exchange components. As per the agreement, AIL was to return/ deliver each removed component to the primary center of the Boeing within 10 calendar days failing which AIL was liable to pay late return charges. Further, if the component was not delivered within 20 days, AIL was liable to pay additional penalty. AIL made penalty payment of ₹43.85 crore to M/s Boeing due to persistent delays in return of removed component during the period July 2016 to December 2019.

(Para 9.4)

As per Article 4 of Model Concession Agreement related to 'Condition Precedent', rights and obligations of National Highways Authority of India (NHAI) and the Concessionaire, under the Concession Agreement, shall be subject to the satisfaction in full of the conditions precedent specified. One of the conditions precedents to be fulfilled by NHAI is 'issue of the fee notification'. Further, Article 4.2 and 4.3 of Model Concession Agreement states that in the event, NHAI or Concessionaire, failed to satisfy any condition precedent of Concession Agreement, they will be liable to pay damages. NHAI entered into two concession agreements for four laning of Shivpuri-Guna Section from km 236.00 to km 332.100 and four laning of Biaora to Dewas section from km 426.100 to km 566.450 of NH-3 in the State of Madhya Pradesh on 15 June 2015 and 27 August 2015, respectively. Audit observed that NHAI failed to levy damages of ₹12.36 crore on the concessionaires for their delay in fulfilment of conditions precedent, due to retention of extraneous condition precedent clause in concession agreement relating to issue of fee notification which was actually required for collection of fee from road users on achieving commercial operation date of the project.

(Para 10.1)

NHAI entered into a concession agreement (March 2005) with West Gujarat Expressway Limited (WGEL) for widening of Highways. WGEL was allowed a concession period of 20 years from the appointed date and allowed to collect tolls from the users during the concession period. WGEL delayed in completion of periodic maintenance and as per the agreement an amount of ₹21.94 crore was leviable as damage. However, in violation of CVC guidelines, NHAI extended undue benefit of ₹10.94 crore to the concessionaire by levying damages lesser than that specified in concession agreement by modifying the calculation method of damage as per NHAI's 'Policy Guidelines/ calculation for periodic maintenance and damages' of February 2018 which was not applicable to the agreement.

(Para 10.2)

ENERGY CLUSTER

CHAPTER I: MINISTRY OF COAL

Coal India Limited

1.1 Avoidable payment towards hangar rent due to retention of inoperative helicopter and aircraft for over eight years

Coal India Limited procured a helicopter (1991) and an aircraft (1993), which remained inoperative from March 2009 and February 2012 respectively. Airworthiness of the helicopter and the aircraft was valid only till July 2010 and September 2013 respectively and was not renewed. Despite decision by Functional Directors (October 2012/ January 2013) to survey and dispose of the helicopter and aircraft, Coal India Limited failed to take timely action, which resulted in avoidable payment of hangar rent amounting to ₹9.02 crore from April 2014 to March 2021.

Coal India Limited (CIL) purchased a helicopter (1991) and an aircraft (1993) from M/s Hindustan Aeronautics Limited (HAL) at a cost of ₹2.87 crore and ₹13 crore respectively, for use during exigencies/ emergencies. CIL hired hangar space at Netaji Subhas Chandra Bose International Airport, Kolkata, on monthly rental basis, for stationing them.

Audit noticed that the helicopter and aircraft were in operation only till March 2009 and February 2012 respectively. Also, air-worthiness of the helicopter and the aircraft expired in July 2010 and September 2013 respectively, which was not renewed thereafter. Both the helicopter and the aircraft remained inoperative in the airport hangar, for which CIL paid monthly rent ranging between ₹7.88 lakh and ₹13.39 lakh during the period from April 2014 to March 2021.

Functional Directors of the Company viewed (October 2012) that the helicopter needed to be surveyed for disposal as efforts to make it air worthy as per Directorate General of Civil Aviation (DGCA) norms, would entail expenditure which was not economical considering its operations. Subsequently, Functional Directors opined (January 2013) that since age of the aircraft was more than 20 years, the frequency of its repairs and consumption of spares was expected to be high. Functional Directors, therefore, recommended that the aircraft be surveyed and eventually disposed off. Audit Committee of CIL also recommended (April 2016) that the aircraft and the helicopter needed to be disposed of latest by July 2016.

Audit observed that notwithstanding the views of Functional Directors and Audit Committee, several committees were constituted time and again, to explore the feasibility for making both aircrafts airworthy/ operational, and for identifying alternate open space for shifting these aircrafts from the airport hangar, which eventually did not fructify.

It was also noticed that a committee was again constituted (January 2019) for fixing the reserve value and method of disposal of these aircrafts. The committee noted that huge amount had already been paid towards hangar rent and recommended (August 2019) that these aircrafts be disposed of at the earliest, without further exploring any other options.

On being pointed out by audit for disposal of aircrafts, CIL appointed valuer only in March 2020, who fixed total reserve value for both aircrafts as ₹74 lakh[1]. The valuer also observed that useful life of both these aircrafts stood depreciated due to efflux of time without usage of these aircrafts for a prolonged period since 2012.

Thus, retaining aircrafts without their operations for over 8 years to 11 years, resulted in avoidable payment of ₹9.02 crore towards hangar rent for the period from April 2014 to March 2021, besides eroding the residual value of these aircrafts.

The Management replied (January 2021) that various steps had been taken for disposing of these aircrafts but those did not fructify. They had no option but to pay hanger rent. It also stated that they have initiated process for auction for disposal of both aircrafts as scrap through MSTC Limited and process of getting these aircrafts de-registered by DGCA also started simultaneously. The Ministry (May 2021) while endorsing the views of the Management, stated that there is no willful delay in disposing these aircrafts. It also stated that both the aircrafts have been finally disposed of[2] in an auction carried out in March 2021 and sale release order has been issued in April 2021 to the successful bidder.

The reply of the Ministry/ Management is to be viewed in light of the fact that the delay in disposal of these aircrafts on part of the Management is evident from the fact that CIL had not timely acted upon the suggestions of Functional Directors that were made as early as in October 2012. Further, it engaged a valuer only in March 2020 (after lapse of 88 months as suggested by the Functional Directors). Despite suggestions of Functional Directors and Audit Committee, CIL paid rent, for more than eight years, for occupying hanger space for the aircrafts which were inoperative and engaged themselves in exploring the feasibility for making both aircrafts airworthy/ operational, which eventually did not fructify.

Thus, due to delay in disposal of inoperative Helicopter and Aircraft, CIL incurred an avoidable payment of hangar rent amounting to ₹9.02 crore.

[1] ***Value for helicopter: ₹9 lakh and aircraft ₹65 lakh***

[2] ***Disposed of at a value of ₹2.19 crore***

Central Coalfields Limited, South Eastern Coalfields Limited and Western Coalfields Limited

1.2 Avoidable payment of penal interest due to delayed payment of deployment charges of CISF

Central Coalfields Limited, Western Coalfields Limited and South Eastern Coalfields Limited failed to pay deployment charges of Central Industrial Security Force in time and consequently incurred avoidable payment of penal interest of ₹6.19 crore during March 2005 to December 2019.

Central Coalfields Limited (CCL), Western Coalfields Limited (WCL) and South Eastern Coalfields Limited (SECL) deploy Central Industrial Security Force (CISF) to meet security requirements of various coal mining projects, on payment of deployment charges which include salary, allowances and other expenses. The deployment of CISF is governed by the guidelines of Ministry of Home Affairs (MHA), CISF Induction and Policy Manual, 2000 and Memorandum of Understanding (MOU) signed between the companies and CISF from time to time.

MHA issued guidelines (May 2005) underlining the need for timely payment and recovery of cost of induction of CISF in Public Sector Undertakings (PSUs). As per the guidelines, penal interest would be levied if a PSU defaulted in payment of monthly dues by more than one month at the rate of two *per cent* above the prime lending rate as decided by Reserve Bank of India from time to time.

Audit observed repeated default by CCL[3], WCL[4] and SECL[5] in making timely payment of monthly dues of CISF which ranged between 1 day and 366 days after the due date. Consequently, CISF demanded penal interest from CCL (₹4.26 crore), WCL (₹1.10 crore) and SECL (₹0.83 crore) for delayed payment of monthly dues.

Representations were made by CCL and SECL to MHA/ CISF (May 2014 and January 2020) for waiver of penal interest but were turned down (August 2014 and August 2020). CCL, SECL and WCL finally paid penal interest of ₹4.26 crore, ₹0.83 crore and ₹1.10 crore to CISF in June 2019, December 2020 and April 2021 respectively.

Thus, CCL, SECL and WCL incurred avoidable payment of penal interest of ₹6.19 crore during March 2005 to December 2019 due to delayed payment of deployement charges of CISF.

While accepting the facts, CCL stated (December 2020) that it had started (March 2019) making centralised payment to CISF and regular follow up was being done to ensure timely payments. SECL while accepting the facts stated (December 2020) that the major delay occurred in the initial years due to procedural delays, implementation of GST and subsequent clarifications from CISF. However, at present there was no case of delayed

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[3] ***March 2005 to November 2018***
[4] ***June 2010 to December 2019***
[5] ***October 2010 to July 2018***

payment. WCL while accepting the facts made the payment towards penal interest in April 2021.

Ministry endorsed (February 2021) the views of the Management.

Audit noted that SECL is regularly defaulting in timely payment to CISF which resulted in payment of penal interest. SECL contention of GST implementation for delayed payment is also not tenable due to the fact that GST came into existence only in 2017 whereas SECL has been defaulting since 2010. The reasons stated above were also furnished to CISF for seeking waiver/ exemption in payment of penal interest, but were not accepted by CISF stating that SECL delayed payment many times during every financial year since 2010-11 and the procedural delay would not be considered to waive off the penal interest.

Thus, due to delayed payment of CISF dues without adhering to the MHA guidelines, CCL, SECL and WCL had incurred an avoidable payment of penal interest of ₹6.19 crore (₹4.26 crore, ₹0.83 crore and ₹1.10 crore).

Neyveli Uttar Pradesh Power Limited

1.3 Violation of CVC guidelines resulted in undue benefit to the private contractors

Extension of mobilization advance to contractors without time bound recovery, in violation of Central Vigilance Commission guidelines, resulted in loss of interest of ₹5.47 crore to Neyveli Uttar Pradesh Power Limited.

Guidelines of Central Vigilance Commission (CVC) *inter-alia* stipulated (10 April 2007) that payment of interest free mobilization advance to the contractor should be discouraged and if the Management feels its necessity in specific cases, then recovery should be time bound and not linked with the progress of work. This was to ensure that even if the contractor was not executing the work or executing it at a slow pace, the recovery of advance could commence and scope for misuse of such advance could be reduced.

Neyveli Uttar Pradesh Power Limited awarded three major packages[6] at ₹7,378.10 crore during 2016-17 for setting up a coal based Supercritical Thermal Power Plant with a capacity of 1,980 MW (3x660 MW) at Ghatampur, Kanpur (Uttar Pradesh). These contracts *inter-alia* provided for release of interest free mobilization advance to the extent of 10 *per cent* of the total awarded cost.

Neyveli Uttar Pradesh Power Limited released interest free mobilization advances of ₹767.90 crore to the contractors between 09 September 2016 and 09 March 2018.

Audit noticed that no specific time schedule was stipulated for recovery of interest free mobilization advance. Instead, the recovery was linked to the progress payments (linked to the progress of work) in contravention of the CVC guidelines.

[6] *Steam Generator Package (GA1), Turbine Generator Package (GA2) and Balance of Plant Package (GA3) with M/s L&T-MHPS Boilers Private Limited, M/s Alstom Bharat Forge Power Private Limited (GE) and M/s BGR Energy Systems Limited, respectively*

Due to such lacunae in the contract, the first recovery of advance was made from the respective first running bills of the contractors presented for payment after a period of more than a year of advance payment i.e., in November 2017. Thus, in the absence of scheduled recovery timeline, interest of Neyveli Uttar Pradesh Power Limited could not be protected during this period and advance amount was allowed to be retained by the contractor without much progress of work, which resulted in extension of undue benefit of ₹5.47 crore[7] to the contractors. Moreover, since the recovery was linked with the progress of work, down payment has not yet been fully recovered (December 2020).

The Management stated (February 2021) that:

- If the contractor fails to adhere to the contractual delivery period of the contract, then interest will be levied and recovery of advance at scheduled manner may not be possible in absence of any sources for deducting/ adjusting the amount as per the contract conditions. Therefore, it was linked to progress of work and recovery of advance started from respective first running bills.

- The time bound recovery of mobilization advance will be reviewed for incorporation in the future tenders for which a committee is being constituted.

Ministry endorsed (March 2021) the reply of the Management.

Though Management/ Ministry agreed to review time bound recovery of mobilization advance, the reply is to be viewed against the fact that the CVC guidelines provided that bank guarantees against the mobilization advance should be taken in as many numbers in the proposed recovery instalments and should be equivalent to each instalment. This would ensure that at any point of time even if the contractor's money on account of work done is not available with the organisation, recovery of such advance is made by encashing the bank guarantee.

Thus, extension of mobilization advance to contractors without scheduled recovery timeline in violation of CVC guidelines resulted in loss of interest of ₹5.47 crore to Neyveli Uttar Pradesh Power Limited.

NLC TamilNadu Power Limited

1.4 Avoidable payment of compensation charges

NLC TamilNadu Power Limited entered into a Coal Supply Agreement without finalising logistic contract for transportation of coal, which resulted in avoidable payment of compensation charges of ₹12.58 crore.

NLC TamilNadu Power Limited (NTPL), a subsidiary of NLC India Limited, commissioned (June 2015 and August 2015) two units of coal based power plant with a capacity of 500 mega watt each at Tuticorin, Tamil Nadu. The plant was designed to use

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[7] ***Half yearly installment recovery of advance (if schedule decided upfront as emphasised by CVC) X Rate of Interest (9.35 per cent) as charged by banks from Neyveli Uttar Pradesh Power Limited X (Time gap between release & start of recovery of advance minus 6 months for submission of first running bill)***

both indigenous and imported coal. For indigenous coal, NTPL had a long term agreement (25 years) with M/s Mahanadi Coalfields Limited (MCL), a subsidiary of Coal India Limited (CIL) for supply of 3.0 Million Tonnes (MT) of coal per annum. To supplement their remaining coal requirements, NTPL imported coal on need basis through separate agreements.

In order to reduce the import of coal, as directed by Government of India, NTPL approached CIL to supply additional quantity of coal. As MCL was not in a position to supply additional quantity of coal, CIL directed (September 2016) Eastern Coalfields Limited (ECL) to supply 0.3 MT of higher grade coal, which was to be adjusted against 3.0 MT of coal to be supplied by MCL and to supply additional quantity of 1.0 MT of coal as per the side agreement.

Accordingly, ECL signed (14 September 2016) a Coal Supply Agreement with NTPL for an annual contracted quantity of 0.3 MT which contained a penalty clause for non-lifting of agreed quantity of coal. The Board of Directors of NTPL accorded (October 2016) post facto approval for the agreement with a direction to ensure lifting of committed quantity of coal to avoid levy of penalty. However, NTPL did not have logistic contract for transportation of coal from ECL at the time of entering into agreement in September 2016. NTPL awarded the logistic contract only in June 2017 and started lifting of coal from July 2017.

As per the agreement, the coal was to be lifted immediately i.e., from the date of entering into agreement, however, in the absence of logistical support, NTPL could not lift the agreed quantity of coal. Hence, by invoking the penalty clause, ECL levied (December 2017) compensation charges of ₹12.58 crore for the period from September 2016 to March 2017.

Audit observed that NTPL entered into the Coal Supply Agreement even though it was aware that logistical support was not available. Moreover, NTPL did not persuade ECL to amend the contractual provision to protect its interest at the time of signing the agreement, which resulted in avoidable payment of compensation charges of ₹12.58 crore.

Management replied (February 2020) that in a high level meeting at CIL Headquarters on 14 September 2016, NTPL was informed to stop import of coal and as an import substitute, ECL would supply higher grade of coal. On the same day, CIL directed ECL to sign the Fuel Supply Agreement (FSA) with NTPL, accordingly, ECL signed the FSA with NTPL on 14 September 2016. All these things happened on the same day whereas NTPL did not have any logistic support in place to move the coal from ECL mines and as per the FSA the timeline for lifting of coal started immediately i.e., as on 14 September 2016. Normal procedure of signing the FSA was not followed in the instant case, since the FSA was signed as import substitute. The matter has been taken-up with CIL for getting back the amount.

Ministry while endorsing the views of the Management stated (February 2021) that the penalty clause is applicable for all the FSA holders and coal from ECL was import substitute and there was saving of foreign exchange.

The reply of the Management confirms that NTPL had entered into the agreement hastily without analysing the agreement clauses, its impact and the time required for finalising logistic contract. Moreover, in the absence of any response from CIL, NTPL charged the entire amount of compensation paid as expenditure in the financial statements for the year ended 31 March 2018. The reply of the Ministry is to be viewed against the fact that in other FSAs, sufficient time is provided to arrange for logistics. Penal clause would be attracted only when there was short lifting of coal in spite of availability of logistic support. In the instant case, though NTPL was well aware of the fact that logistic support was not available, it neither insisted for any lead time to arrange for logistic support nor persuaded to amend the contractual provision. Further, the reply of Ministry is not acceptable, as the supply of 0.3 MT of coal from ECL was not an import substitute rather it was adjusted against the 3.0 MT of coal to be supplied by MCL. Import substitute was another 1.0 MT of additional quantity of coal to be supplied by ECL as per a side agreement.

Thus, NTPL failed to safeguard its interest while entering into the agreement, which resulted in avoidable payment of compensation charges of ₹12.58 crore.

CHAPTER II: MINISTRY OF PETROLEUM AND NATURAL GAS

Indian Oil Corporation Limited

2.1 Undue enrichment through recovery of turnover tax from consumers

Indian Oil Corporation Limited collected ₹262.60 crore of turnover tax from consumers in Andhra Pradesh in violation of legal provisions of Andhra Pradesh General Sales Tax Act, 1957 and afterwards settled the legal case with Government of Telangana by making payment of ₹65.65 crore (25 *per cent)* against the total imposed penalty of ₹262.60 crore, thus resulting in undue enrichment to Indian Oil Corporation Limited by ₹196.95 crore.

Government of Andhra Pradesh (GoAP) introduced (*w.e.f.* 30 November 2001) new sub-sections 5-A (1-A) to (1-C) to impose turnover tax under Andhra Pradesh General Sales Tax Act, 1957 (APGST Act). Sub-section 5-A (1-A) mandated that every dealer shall in addition to existing taxes will pay turnover tax @ two paise on every rupee *inter alia* in respect of petrol and diesel oil. However, no dealer shall be entitled to collect turnover tax from purchasers and collection of turnover tax from purchasers would attract penalty of equivalent amount of turnover tax as per sub-section 5-A (1-B) and sub-section 5A (1-C) respectively.

Oil Marketing Companies (OMCs) approached Ministry of Petroleum and Natural Gas regarding irrecoverable turnover tax in Andhra Pradesh from consumers. Ministry of Petroleum and Natural Gas clarified (August 2002) to OMCs that no compensation on account of under recoveries due to this tax would be payable beyond 31 March 2002. However, OMCs may recover the additional costs by appropriately revising the Retail Selling Prices (RSP) of Motor Spirit and High-Speed Diesel in Andhra Pradesh. Clarification from Ministry of Petroleum and Natural Gas was in contravention of the legal provision of the APGST Act. Indian Oil Corporation Limited (IOCL) started recovery of turnover tax from the consumers as state surcharge by including the same in RSP of Motor Spirit and High-speed Diesel thereby increasing RSP from 1 September 2002.

Commercial Tax Department of GoAP imposed penalty under sub-section 5-A (1-C) of APGST Act, for recovering turnover tax from consumers in contravention to the APGST Act *ibid* and raised demands in May 2006, June 2007 and May 2008 for the years 2002-03, 2003-04 and 2004-05 respectively aggregating ₹262.60 crore[1].

IOCL filed writ petitions against these demands and obtained stay order (May 2006/ June 2007/ May 2008) from the Hon'ble High Court of Hyderabad for the years 2002-03,

[1] *₹52.17 crore on 31 March 2006 for 2002-03, ₹93.43 crore on 31 March 2007 for 2003-04, ₹95.45 crore on 31 March 2008 for 2004-05 and ₹21.55 crore on 28 March 2007 for 2003-04*

2003-04 and 2004-05. The writ petitions were transferred (2008) to the Hon'ble Supreme Court. However, Hon'ble Supreme Court dismissed (10 October 2012) the appeals and directed Appellate Authority to entertain the appeals if preferred within 30 days. Accordingly, appeals for 2002 to 2005 were filed (November 2012) with first Appellate Authority, which was rejected (November 2013) by the Appellate Authority as well as by Sales Tax Appellate Tribunal in April 2014. However, while admitting tax revision cases filed (2014) by IOCL, Hon'ble High Court of Hyderabad granted (August 2014) conditional stay on payment of 10 *per cent* of penalty. IOCL challenged the said order before Hon'ble Supreme Court, which was dismissed (September 2014). Accordingly, IOCL paid ₹24.11 crore in 2014 towards 10 *per cent* penalty[2]. The Tax Revision cases filed in the High Court remained pending till 2020.

In the meantime, IOCL received (March 2018) an offer for an out of court settlement from the Government of Telangana[3]. Later IOCL obtained (May 2019) a legal opinion from Solicitor General of India who advised to opt for an out of court settlement on the basis of quantum of penalty, the long drawn pendency of the dispute and overall merit of the matter on the facts as well as law. Subsequently with mutual understanding, Government of Telangana initiated an out of court settlement under which a Memorandum of Understanding was entered in (27 March 2020) between IOCL and Government of Telangana wherein IOCL agreed to pay 25 *per cent* of penalty amount i.e., ₹65.65 crore and withdraw all appeals pending before various judicial forums. The Government of Telangana in turn agreed to waive off the balance penalty. Accordingly, IOCL paid (30 March 2020) ₹41.54 crore after adjusting pre-deposit of ₹24.11 crore.

Audit observed that collection of turnover tax from the consumers of Andhra Pradesh by IOCL, as also advised by the Ministry of Petroleum and Natural Gas, was in contravention of the legal provisions of the APGST Act resulting in payment of penalty amounting to ₹65.65 crore and undue enrichment to IOCL by ₹196.95 crore, through recovery of turnover tax from consumers.

The Management replied (October 2020) that contravention of Section 5-A (1-C) of the APGST Act would arise only when IOCL collects any amount by way of turnover tax or purporting to be by way of turnover tax from the buyers. Even if it is assumed that the amount is collected purporting to be by way of turnover tax, it should have been conveyed/ denoted/ expressed/ indicated etc. None of the ingredients were present when invoiced to customers in the instant case. The increase in the price of Motor Spirit and High-Speed Diesel through state specific cost/ state surcharge in the state of Andhra Pradesh with effect from 01 September 2002 was to meet cost of operation in the state on sale of these products.

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[2] ***The matter was pending before the Joint Commissioner (Appeal) hence no pre-deposit was paid for IOCL***

[3] ***Successor State which has right to recover arrears in this instant case as per Section 50 of the Andhra Pradesh Reorganisation Act, 2014***

The increase or decrease in price is a regular feature in the business/ trade on reviewing the cost of operation.

Ministry replied (June 2021) that with the introduction of turnover tax by Andhra Pradesh Government w.e.f. 01 December 2001, the impact of turnover tax was included in the price revision w.e.f. 01 September 2002 for compensating the OMCs for irrecoverable taxes. Inclusion of the state surcharge to recover the additional cost of such irrecoverable state levies were in practice for long time during the Administrated Price Mechanism period and it is the consumers of the respective state who have been bearing the burden of such taxes.

The reply of the Management/ Ministry is not tenable because clarification of Ministry of Petroleum and Natural Gas to recover the cost of irrecoverable turnover tax on Motor Spirit and High-Speed Diesel @ two *per cent* in Andhra Pradesh as a state surcharge, collected through the consumers selling price, was *ultra vires* of APGST Act. Moreover, while awarding the case against IOCL, both Appellate Authority and Sales Tax Appellate Tribunal observed that the collection of turnover tax as part of the price was not permissible as per sub-section 5-A (1-B), and it attracted penalty under sub-section 5-A (1-C) of the APGST Act. Further, out of court settlement of penalty payment with Government of Telangana also substantiated the unjustified action of IOCL in shifting of turnover tax burden of ₹262.60 crore to consumers in the State of Andhra Pradesh. Ministry also while justifying the acceptance of State Government proposal for out of court settlement stated that Tribunal Order is a speaking order giving reasons for the levy of demand and it would have been a challenge to overcome the observations of the Tribunal.

Thus, unlawful collection of turnover tax from consumers of ₹262.60 crore and after adjusting ₹65.65 crore out of court settlement of penalty amount resulted in undue enrichment to IOCL to the extent of ₹196.95 crore.

2.2 Non-adherence to statutory requirement of pollution clearance resulted in infructuous expenditure

Non-compliance to the statutory requirement of obtaining prior clearance from Pollution Control Board, Assam for commissioning of a Pet Coke Boiler resulted in infructuous expenditure of ₹120.38 crore, while also forgoing the cost benefits of ₹79.40 crore per year.

Section 21 of Air (Prevention & Control of Pollution) Act, 1981 as amended requires that no person shall without the previous consent of the concerned State Pollution Control Board establish or operate any industrial plant in an air pollution control area. Further, Government of Assam declared the whole State of Assam as Air Pollution Control Area under Section 19 of the Air (Prevention & Control of Pollution) Act, 1981, with effect from 12 May 1993. Section 25 of Water (Prevention & Control of Pollution) Act, 1974 inter-alia states that no person without the previous consent of the concerned State Pollution Control Board shall establish or take any step to establish any industry; operation or process or any treatment and disposal system or any extension or addition thereto, which is likely to discharge sewage or trade effluent into a stream or well or sewer or land.

To replace two old and less efficient oil fired boilers, Indian Oil Corporation Limited (Company) decided (June 2015) to procure and install a Petcoke fired Boiler (Boiler) for its Guwahati Refinery (Refinery) at an estimated cost of ₹132.58 crore (revised to ₹163.09 crore on March 2018). The new Boiler was expected to reduce the power generation and steam cost of the Refinery by ₹79.40 crore per year.

The Detailed Feasibility Report for installation of the Boiler was approved in December 2015 which clearly mentioned that 'Consent to Establish/ No Objection Certificate' ought to be obtained from the concerned State Pollution Control Board before construction/ setting up of the Boiler. The Company, however, did not apply for such prior consent from the Pollution Control Board, Assam and the project work was started in September 2016. The Company applied for 'Consent to Establish/ No Objection Certificate' to the Pollution Control Board, Assam in April 2018, when the project was already completed to the extent of 70-80 *per cent*. Thereafter, Pollution Control Board, Assam served (August 2018) a show cause notice to the Company with the instruction to stop all activities regarding the Boiler project with immediate effect. The show cause notice inter-alia stated that the Company did not obtain necessary prior consent from Pollution Control Board, Assam for the project work. As the Company did not get the consent from Pollution Control Board, Assam till March 2021 resulting in uncertainty on completion of the project, the Company made a provision of ₹120.38 crore for the cost incurred on the project in their books of accounts for the year 2020-21.

Audit observed that despite being aware of the statutory requirement of getting a 'Consent to Establish/ No Objection Certificate' from Pollution Control Board, Assam prior to construction of any project, the Company started the project without the certificate, which led to stoppage of all project activities after an expenditure of ₹120.38 crore had already been incurred. This resulted in the entire expenditure of ₹120.38 crore incurred on the project becoming infructuous. In addition, the cost benefit of ₹79.40 crore per year was also foregone due to non-commissioning of the Boiler.

The Management stated (March 2021) that the Company applied to the Ministry of Environment, Forest and Climate Change (MoEF&CC) for grant of environment clearance in August 2016 and thereafter, on the instruction of MoEF&CC it had applied to Pollution Control Board, Assam for granting consent in April 2018. Further, the Company mentioned that they had proactively applied to the Pollution Control Board, Assam for Consent to Establish in February 2017. The Management also added that the Company appointed M/s Thermax Babcock & Wilcox Solutions to explore possibility of running the Boiler with other feedstock (100 *per cent* gas/ fuel oil firing boiler) and received a draft feasibility study report in March 2021.

The reply of the Management is not tenable as the initial approach of the Company (August 2016) to MoEF&CC for environment clearance was not at all linked with 'Consent to Establish/ No Objection Certificate' required from Pollution Control Board, Assam, which was essential prior to start of construction of any project, likely to discharge sewage or trade effluent into a stream or well or sewer or land. Therefore, assertion of the Management that they had proactively applied for Consent to Establish to Pollution Control Board, Assam in February 2017, was not a proactive action as they had approached Pollution Control Board, Assam after five months of starting of the project. Further, the draft feasibility study report of Thermax Babcock & Wilcox Solutions does not mention additional time and cost required for conversion of the Boiler which indicates uncertainty over completion and sustainability of the project in future.

Thus, non-compliance to statutory requirement by the Management resulted in the entire expenditure of ₹120.38 crore incurred on the project becoming infructuous, in addition to forgoing the cost benefits of ₹79.40 crore per year due to non-commissioning of the Boiler.

The Audit paragraph was issued to the Ministry in May 2021; their response was awaited (July 2021).

Numaligarh Refinery Limited

2.3 Idle investment towards installation of Naptha Splitter Unit

Idling of Naphtha Splitter Unit plant worth ₹82.70 crore due to improper due diligence.

Numaligarh Refinery Limited (Company) was commissioned in 1999 having a capacity to process 3 million metric tonnes per annum crude oil and the main products included Liquid Petroleum Gas, High Speed Diesel and Superior Kerosene Oil, etc. Intermediary products of the Company included Straight Run Naphtha, reformate, etc. The production of Straight Run Naphtha during 2001 to 2006 ranged between 1.44 to 2.06 lakh metric tonnes per annum. Therefore, accumulation of Straight Run Naphtha became a problem. The Company tried to evacuate this accumulated Straight Run Naphtha by exporting or through domestic sale. The export of Straight Run Naphtha from Haldia impacted net sales realisation from the product due to higher transportation cost. Therefore, export of Straight Run Naphtha was not a viable option.

The Company envisaged two other options to solve the problem of accumulation of Straight Run Naphtha viz., setting up of Motor Spirit Plant (2002) to use Straight Run Naphtha to produce Motor Spirit and setting up of Naphtha Splitter Unit (2004) to produce Petrochemical grade Naphtha from Straight Run Naphtha. Motor Spirit Plant was an attractive option because all the refineries[4] in the North-Eastern Region of the country were eligible to pay excise duty only at the rate of 50 *per cent* of the applicable excise duty[5] payable on production of Motor Spirit. Therefore, a Motor Spirit Plant of 2.25 lakh metric tonnes per annum capacity was commissioned in July 2006. The utilisation of Straight Run Naphtha for producing Motor Spirit increased after commissioning and stabilisation of the Motor Spirit Plant from 1.10 lakh metric tonnes per annum to 3.11 lakh metric tonnes per

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[4] *Digboi Refinery, Guwahati Refinery, Bongaigaon Refinery and Numaligarh Refinery Limited*
[5] *Government of India notification dated 13 May 2002*

annum during 2006-07 to 2014-15. Consequently, accumulation of Straight Run Naphtha reduced substantially.

The Company in the meantime entered (June 2010) into an agreement with Brahmaputra Cracker and Polymer Limited for 15 years from the date of its commissioning for supply of 1.60 lakh metric tonnes per annum of Petrochemical Grade Naphtha. As per the agreement, in case of short supply, the Company would reimburse additional price paid by Brahmaputra Cracker and Polymer Limited over and above the contractual price of Petrochemical Grade Naphtha for procuring it from other sources.

The Company commissioned Naphtha Splitter Unit in November 2013 at a cost of ₹82.70 crore to convert Straight Run Naphtha to Petrochemical Grade Naphtha to honour its commitment to Brahmaputra Cracker and Polymer Limited. The commercial operation of Brahmaputra Cracker and Polymer Limited commenced in January 2016 i.e., two years and three months after commissioning of Naphtha Splitter Unit.

In this regard, Audit observed the following:

- The Company required approximately 1.81 metric tonnes of Straight Run Naphtha to produce 1 metric tonne of Petrochemical Grade Naphtha, i.e., almost double the quantity. Due to commissioning of Motor Spirit Plant, the maximum surplus Straight Run Naphtha available during 2007-08 to 2017-18 was 52,000 metric tonnes (in 2013-14). Since adequate Straight Run Naphtha was no longer available, the agreement of the Company with Brahmaputra Cracker and Polymer Limited for committed supply of 1.60 lakh metric tonnes per annum of Petrochemical Grade Naphtha was not prudent.

- The above is corroborated by actual performance of Naphtha Splitter Unit after its commissioning in Novemebr 2013. The Company could produce only 19.5 metric tonnes, 53.6 metric tonnes, 12.1 metric tonnes and 15.8 metric tonnes of Petrochemical Grade Naphtha during the years 2013-14 (since November 2013), 2014-15, 2015-16 and 2016-17 respectively and the capacity utilisation ranged between 7.56 *per cent* and 33.5 *per cent*. The Naphtha Splitter Unit remained idle during the years 2017-18 to 2020-21.

- The Company could not supply the scheduled quantity of Petrochemical Grade Naphtha to Brahmaputra Cracker and Polymer Limited due to low utilisation of Naphtha Splitter Unit.

- On account of short supply of Petrochemical Grade Naphtha to Brahmaputra Cracker and Polymer Limited, the Company incurred an additional expenditure of ₹163.77 crore on the differential price between the contracted and actual price.

Thus, there was idle investment in setting up of Naphtha Splitter Unit plant worth ₹82.70 crore due to lack of due diligence.

While accepting the audit observation that Naphtha Splitter Unit remained idle, the Management stated (December 2020) that the decision regarding installation of Naphtha Splitter Unit was taken for assured supply of Petrochemical Grade Naphtha to Brahmaputra

Cracker and Polymer Limited and to evacuate surplus Straight Run Naphtha. It was further contended that the Naphtha Splitter Unit may be utilised in the future.

The reply of the Management is not tenable as the Company had already installed Motor Spirit Plant to solve the problem of evacuation of Straight Run Naphtha in 2006-07. Besides, the use of Straight Run Naphtha in Motor Spirit production yielded better margin than in production of Petrochemical Grade Naphtha. Further, the contention of the Management that the Naphtha Splitter Unit may be utilised in future does not appear to be feasible as the value of the Naphtha Splitter Unit was impaired during the financial year 2020-21 due to its continuous non-operation since 2017-18. The feasibility of operating Naphtha Splitter Unit in future by purchasing Straight Run Naphtha is also remote as cost of externally sourced Straight Run Naphtha (₹46,240 per metric tonne in 2019-20) was more than sale price of Petrochemical Grade Naphtha (₹35,352 per metric tonne in 2019-20).

Thus, lack of prudence on the part of Management regarding installation of Naphtha Splitter Unit led to an idle investment of ₹82.70 crore.

The Audit paragraph was issued to the Ministry in January 2021; their response was awaited (July 2021).

Oil and Natural Gas Corporation Limited

2.4 Loss due to flaring of High Pressure gas

High Pressure gas valuing ₹816.08 crore was flared in Mumbai High field of ONGC during 2012-13 to 2019-20 due to non-availability of standby Process Gas Compressors, power shut downs and frequent tripping of Process Gas Compressor.

Mumbai High field is mainly an oil field and gas produced along with crude oil is called associated gas. Separation of well fluid into oil, water and gas is done in three stages i.e., in High Pressure separator, Low Pressure separator and surge tanks at the various process platforms of Mumbai High field. Gas coming out of High Pressure separator at high pressure is known as High Pressure gas. The well fluid after separation in High Pressure separators is sent to Low Pressure separators where the balance gas, which is of lower pressure, gets separated. High Pressure gas coming out of High Pressure separator is further compressed in Process Gas Compressor and is fed to the wells for gas lift purpose and balance gas is transported to the oil and gas processing plant of Oil and Natural Gas Corporation Limited (ONGC) located at Uran for further processing and sale to consumers.

Any disruption in compression due to power shutdown, tripping of Process Gas Compressor, process upsets, etc., leads to flaring[6] of valuable High Pressure gas due to inbuilt safety mechanism in the Process Gas Compressor. Thus, in order to maximise gas production, it is imperative that all equipment is maintained and run effectively so that there

[6] ***In the event of tripping of Process Gas Compressor, the High Pressure gas coming out of High Pressure separators bypasses the Process Gas Compressor and gets automatically flared due to inbuilt safety mechanism in the system.***

is no loss of production. Flaring of gas also has an adverse impact on environment as the emission of carbon dioxide leads to greenhouse gases and global warming. During 2012-13 to 2019-20, total of 1,227.343 mmscm (million metric standard cubic meters) High Pressure gas valuing ₹1,021.08 crore was flared. Value of High Pressure gas flared due to avoidable reasons viz., power shut down, non-availability of standby Process Gas Compressor, and tripping of Process Gas Compressor was ₹816.08 crore ***(Annexure-I)***.

In this regard, Audit observed that 980.523 mmscm High Pressure gas, valuing ₹816.08 crore, was flared during 2012-13 to 2019-20 on account of the following:

i) Power shut down: Power supply is required for operating the control panels of Process Gas Compressor. During 2012-13 to 2019-20, there were 62 instances of power shut down. This was because of the fact that the battery banks at the process platforms were as old as 26 years and could not provide adequate back up during power shut down. Consequently, the control panels of Process Gas Compressors could not be operated, which resulted in gas flaring.

ii) Non-availability of standby Process Gas Compressors: Out of 29 Process Gas Compressors, five were to be kept as standby for utilisation during maintenance/ overhaul/ breakdown of Process Gas Compressor. However, due to operational problems, all 29 Process Gas Compressors were required to be run. Thus, due to non-availability of standby Process Gas Compressors during routine maintenance/ inspection jobs at platform and overhaul of Process Gas Compressors, gas had to be flared. During 2012-13 to 2018-19, there were 302 incidents where gas was flared due to non-availability of standby Process Gas Compressors. In 2019-20, seven Process Gas Compressors were not available for more than a month and there was no standby Process Gas Compressor.

iii) Tripping: Total quantity of 196.947 mmscm High Pressure gas was flared on account of frequent tripping of Process Gas Compressors. As against the vision of Offshore Maintenance Group of ONGC to sustain 'zero trips', the instances of Process Gas Compressor trips were 2,534 during 2012-13 to 2019-20. The frequent tripping was attributed to the following:

- Mumbai High asset has 29 Process Gas Compressors[7] of which 22 were 15 to 36 years old. Main components of Process Gas Compressors like power turbine, compressors, gas generators are required to be overhauled at intervals as stipulated by the original equipment manufacturer. The power turbine is required to be overhauled after 1,00,000 hours and compressors after 50,000 hours. There have been delays in overhauling of these components of Process Gas Compressors. Running hours of power turbine and compressors of 16 Process Gas Compressors had far exceeded the stipulated hours ***(Annexure-I)***. During

[7] ***11 Process Gas Compressors were installed between the years 1983-1990, 10 Process Gas Compressors in 1994, one Process Gas Compressor in 2004 and seven Process Gas Compressors between 2009 and 2015***

2014-15 to 2019-20, there were 160 instances[8] of tripping on account of issues related to power turbine and 360 instances of tripping on account of compressor related issues.

- The gas generators are to be overhauled after 24,000 hours and are to be given due attention and priority for immediate replacement once they fail or are due for overhaul as they are run continuously taking full load. During 2014-15 to 2019-20, there were 286 instances of tripping due to issues relating to gas generators.

- 'Control systems' of Process Gas Compressors are required to be replaced after 10 years. Out of 21 Process Gas Compressors wherein the control system was required to be replaced/ upgraded, control system was replaced only in nine Process Gas Compressors as at the end of March 2021. In the two year period i.e., 2018-19 to 2019-20 there were 163 instances[9] of tripping due to issues related to control systems.

In September 2012, the original equipment manufacturer had carried out health check-up of 24 Process Gas Compressors. Original equipment manufacturer observed that 'gas flow passage' had worn out due to deterioration of compressor which was operating for about 25 years. Therefore, original equipment manufacturer recommended overhaul of nine Process Gas Compressors for safe and economical operation. ONGC, however, moved the proposal for 'rotors' and 'assembly' only in January 2016 i.e., after more than three years and the material was delivered in June 2018 and March 2019. Overhauling was completed (December 2019) in two Process Gas Compressors only and balance jobs in seven Process Gas Compressors is proposed to be got done in 2021-22. As of September 2020, there were 21 Process Gas Compressors more than 25 years old.

Thus, due to non-availability of standby Process Gas Compressors, power shut downs and frequent tripping of Process Gas Compressors, High Pressure gas valuing ₹816.08 crore was flared in Mumbai High field of ONGC during the period 2012-13 to 2019-20.

Management/ Ministry stated (June 2020) that:

- Overall flaring at offshore is inclusive of technical flaring which is a safety requirement. Technical flaring is required to avoid escape of unburnt hydrocarbons in the atmosphere to avoid potential fire explosion hazard around the installation.

- Unavoidable flaring happens during scheduled maintenance or tripping of equipment such as Process Gas Compressors and turbine generators and also during unplanned process upsets.

- During 2013-14 to 2015-16, overhaul of gas generators suffered as business transactions with Rolls-Royce had to be stopped as per instructions from the Ministry of Defence.

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[8] ***As per the Management, tripping data for 2012-13 and 2013-14 was not available***

[9] ***Break up for earlier years is not readily available with Management as this was clubbed under Instrumentation***

- Out of 15 power turbines which were due for overhauling, four were completed, one was under execution and balance 10 would be completed by March 2021. Out of 21 compressors, six were completed and balance 15 would be completed by March 2022.
- Control system of six Process Gas Compressors has been upgraded, three systems have been replaced and three are under implementation which will be completed by December 2020. Order for balance nine systems will be placed by March 2021.
- In cases, where the components are becoming due for overhaul around the same time their overhauling is clubbed together to reduce the equipment downtime.
- Age of a compressor as such may not have an adverse effect on its performance as after every overhaul which is a zero-hour overhaul, reliability of service is ensured till the original equipment manufacturer recommends next overhaul.
- In case of non-availability of required Process Gas Compressors due to routine maintenance/ major break downs/ inspection/ engine replacements/ overhauling jobs, flaring is controlled to minimum possible quantity by closing free gas wells and diverting gas to other platforms.
- Periodic capacity tests are conducted on the battery banks as part of regular maintenance and based on the test results condition based replacement of UPS, battery chargers and battery banks were taken up during the period 2012-13 to 2018-19.

The reply of the Management/ Ministry needs to be viewed in the light of the following:

- The Internal Audit of ONGC had clarified (December 2020) that some quantity of low pressure gas is required to be flared, which is called technical flaring. We have commented on flaring of High Pressure gas, which is not meant to be flared.
- During maintenance activity, the standby Process Gas Compressor is required to be put in operation. However, as there was no standby Process Gas Compressor, the gas was being flared.
- As of March 2021, overhauling of eight power turbines and 11 compressors in respect of 13 Process Gas Compressors were pending.
- As per ONGC policy on floats, each platform should have one unit of gas generator as float as the equipment on breakdown needs to be put in service immediately. However, ONGC did not have any float for gas generator.
- Control system of 21 Process Gas Compressors was required to be upgraded/ replaced in the year 2000. As of March 2021, control system of only nine Process Gas Compressors has been upgraded/ replaced.
- Overhauling needs to be done as and when it becomes due for smooth and trouble free operations. Further, cost of overhauling also increases with increase in run hours.
- The vision of Management of 'Zero trips' needs to be viewed in light of the fact that the Project Completion Report for Gas Flaring Reduction Project (with the assistance from

World Bank - Report No. 18463) stated that the Company has eliminated flaring completely from 1993-94 and that there would be no more flaring except for technical reasons such as low pressure tail gas.

- Age of compressor does have a bearing on the performance. To illustrate, in case of NQG Process Gas Compressor C (installed in 1986), major repairs were undertaken incurring an expenditure of ₹85.44 crore in February 2017. However, during 2017-18 to 2018-19, the Process Gas Compressor had tripped more than 30 times due to various issues pertaining to power turbine, gas generator and compressor.

- Mumbai High field is an oil field wherein the oil wells are on production and associated gas continues to be flared.

Thus, non-availability of standby Process Gas Compressors, power shut downs and frequent tripping of Process Gas Compressors resulted in flaring of High Pressure gas valuing ₹816.08 crore in Mumbai High field of ONGC during the period 2012-13 to 2019-20.

Recommendation No. 1

ONGC should pay attention for preventive maintenance and adhere to the overhauling schedule as prescribed by the original equipment manufacturer so as to minimise the flaring of High Pressure gas at Mumbai High fields. ONGC may also fix responsibility on the officials responsible for lapses which leads to avoidable flaring of High Pressure gas.

2.5 Loss due to acquisition of low-lying marshy land and delay in putting up of land for its intended use

Oil and Natural Gas Corporation Limited proposed to acquire land with basic infrastructure facilities to augment its storage facilities at Kakinada. However, the company's decision to acquire a low-lying plot resulted in incurring additional expenditure of ₹36.19 crore in filling the plot. Besides, delay in hiring a consultant and awarding construction contract resulted in payment of extension of time fee of ₹12.97 crore to Andhra Pradesh Industrial Infrastructure Corporation Limited.

Oil and Natural Gas Corporation Limited (ONGC/ Company) proposed (March 2014) to acquire land admeasuring 25 acres with basic infrastructure facilities within 10-15 kilometers of Kakinada Port for storing and handling materials procured for its eastern offshore operations. On inspection of available sites of Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC), the company selected (June 2014) two plots admeasuring 20 acres in Vakalapudi village. However, APIIC informed (July 2014) the company about availability of land admeasuring 47 acres in a plot of 72 acres at industrial park area of Vakalapudi. The company requested (July 2014) APIIC to allot the entire plot of 72 acres citing upcoming KG-DWN-98/2 project. APIIC allotted (February 2015) the said land admeasuring 72.14 acres (after excluding litigated area of 1.08 acres in 73.22 acres plot), which was low-lying, inundated with water and covered with jungle and on *'as-is-where-is'* basis upon payment of ₹123.50 crore (at ₹1.71 crore per acre). The company took advance possession (March 2015) of land and sale agreement was registered (April 2016) for 71.13 acres as the balance 1.01 acres was under litigation since November 2015. The total land acquisition cost was ₹128.93 crore as the company incurred frontage charges, processing fee, stamp duty and registration fees etc.

Audit scrutiny of this land acquisition revealed the follows:

i) Acquisition was without following the due process: As per delegation of powers for an un-budgeted capital expenditure above ₹50 crore, approval of Board of Directors was required. In this case, the acquisition was done without the approval of the Board of Directors.

ii) Acquired land was on 'as is where is basis': As per APIIC's regulations of 2012, generally, industrial parks shall have minimum infrastructure such as roads, water supply, power supply, land filling etc. While ONGC initially sought to acquire land with basic infrastructure facilities, it finally ended up acquiring land which was seven feet below land level, and hence clearly un-developed. An expenditure of ₹36.19 crore had to be incurred towards land filling.

iii) Penalties due to delay in land utilitsation: As per the land sale agreement, the company was required to put the land for its intended purpose within two years from the date of taking over possession. However, delay of two years in hiring the consultant (March 2017) and four years in awarding the construction contract (March 2019) necessitated the company to pay avoidable extension of time fee of ₹12.97 crore to APIIC and extension till March 2021 was obtained (March 2020).

Thus, the decision to acquire a plot admeasuring 72.14 acres with estimated average depth of seven feet below land level at land rates of developed plots resulted in incurring additional expenditure of ₹36.19 crore in filling the low-lying land. Besides, delay in hiring the consultant and awarding construction contract resulted in payment of extension of time fee of ₹12.97 crore to APIIC.

The Ministry stated (March 2020/ February 2021) that detailed estimation of work was not practicable due to slushy/ marshy land and unsafe conditions of site/ hindrance to traffic movement. Delay in construction of designed facilities at storage yard is due to various court cases against APIIC wherein ONGC was made party and the company is regularly following up the court cases along with APIIC.

The response of the Ministry is not acceptable since the company acquired low-lying land inundated with water and covered with jungle at notified rates of developed plot ignoring that it had previously selected developed land of 20 acres. The company failed to conduct due diligence as it acquired land, a part of which was already under litigation.

Thus, the company's failure to assess and acquire land based on its project requirements resulted in incurring additional expenditure of ₹36.19 crore in filling the low-lying land. Besides, delay in hiring the consultant and awarding construction contract resulted in payment of extension of time fee of ₹12.97 crore to APIIC.

2.6 Avoidable expenditure due to delay in procurement of regular casing pipes

Delay in processing of the tender for procurement of premium threaded casing pipes by Oil and Natural Gas Corporation Limited for the years 2015-16 and 2016-17 forced Bassein & Satellite Asset, Mumbai to use 2 to 2.5 times costlier casing pipes, which resulted in avoidable expenditure of ₹21.56 crore.

As per clause 34.10 of the Integrated Materials Management Manual of the Oil and Natural Gas Corporation Limited (ONGC), a maximum of 136 days is provided for various activities and processing of tenders. An additional 20 days are allowed for each round of clarifications. Further, an additional 5 days and 15 days are allowed wherever approval of Director and the Executive Procurement Committee (EPC) is required.

Corporate Material Management Department of the ONGC received indents for premium casing pipes[10] for the years 2015-16 and 2016-17 from Mumbai High Asset in April 2015 and October 2015 respectively. It also received indents from Bassein & Satellite Asset for the same period in August 2014 and October 2015 respectively. The Tender Committee recommended (December 2016) floating of Notice Inviting Tender (NIT) for casing pipes under 11 Groups and the same was published in February 2017 by clubbing the requirements of both the years. Against the said tender, four offers were received on e-portal. After two rounds of clarifications, the Tender Committee recommended (September 2017) for opening of price bid of M/s Oil Country Tubular Limited, Hyderabad (OCTL) for Groups[11] 1 to 7 & 11 and of M/s TMK Middle East for Group 3-A subject to receipt of validity of bid. Accordingly, price bid was opened on 19 September 2017. After detailed deliberation, the Tender Committee recommended (November 2017) to place order on M/s OCTL for Groups 2, 3, 5, 6 & 7 for ₹259.99 crore and to re-invite the tender for Groups 1, 4, 8, 9, 10 & 11, which was endorsed (November 2017) by Director (Onshore).

Accordingly, Notice of Award (NOA) was placed (05 December 2017) on M/s OCTL. However, despite several reminders, M/s OCTL failed to submit the performance bank guarantee within the specified cut-off date due to which it was proposed (January 2018) to invoke the earnest money deposit of ₹3.67 crore. M/s OCTL requested (January 2018) ONGC to convert the earnest money deposit into performance bank guarantee and to consider deducting 13 *per cent* from each supply invoice till the balance performance bank guarantee value was covered. In view of urgency of requirement and based on the Tender Committee's recommendation, the Director (Onshore) approved to (i) convert the earnest money deposit amount as performance bank guarantee and (ii) deduct 25 *per cent* value of each invoice and keep the amount till the performance bank guarantee amount was fully recovered. M/s OCTL was also advised to supply 12,000 meters of casing pipes within six weeks as against the stipulated period of 23 weeks from the date of issuance of the detailed purchase order to meet the urgent requirement. After receipt of confirmation from

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[10] 9-$^{5}/_{8}$", L-80, 47 pound per feet (ppf) specification
[11] 1A, 2A, 3A, 4A, 5A, 6A, 7A, 11A

M/s OCTL, purchase order was placed in February 2018. However, the supplier failed to honor the purchase order despite repeated requests and finally, the purchase order was cancelled (November 2018).

The Asset Manager, Bassein & Satellite Asset, Mumbai brought (August 2017) to the notice of the Corporate Material Management, Delhi that stock of 9-$^5/_8$" L-80 premium casing pipes in Western Offshore Asset and Basin was 'nil' and further submitted that due to non-availability of the casing pipe and to avoid idling of rig, the Asset was forced to use 2 to 2.5 times costly 13 chrome L-80 premium casing pipe in two wells of Bombay High platform and Vasai East Wells.

Thus, due to non-finalisation of regular tender for procurement of premium threaded casing pipes on time, the Bassein & Satellite Asset was forced to use costlier casing pipes, which resulted in avoidable expenditure of ₹21.56 crore ***(Annexure-II)***. Operations at Mumbai High Asset were continued by using casing pipes of similar type arranged from other establishments of the Company.

ONGC stated (January 2020) that:

- Centralized procurement of casing pipes is being done through International Competitive Bidding tenders by Corporate Material Management Department on yearly basis and all indents generated by Assets/ Basins are being consolidated at Corporate Material Management for tendering purposes. The tender for procurement of premium thread casing pipes was processed in right earnest; however, there were delays on various issues beyond the control of ONGC.

- Since there was shortage of premium casing pipes, ONGC had no option but to use 13 chrome casing pipes to sustain the operations and drilling of two wells of Bombay High platform and Vasai East. Had the 13 chrome casing pipes not been lowered in place of premium casings, the rigs would have to be moved to different locations, thereby entailing mobilization and demobilization charges. Thus, ONGC managed the operations and avoided costly shutdown and cost overrun.

- There was delay in processing of the tender due to changes in premium connections of casing pipes, ascertaining whether Anti Dumping Duty is applicable for procurement of premium casing pipes, Steel Policy Notification in May 2017, implementation of GST with effect from July 2017 and a Court case in a writ petition filed by M/s Hunting Energy Services Private Limited in Delhi High Court.

- It was decided to convert the invoked earnest money deposit amount (₹3.67 crore) as performance bank guarantee and deduct 25 *per cent* value of each invoice as performance bank guarantee.

Ministry while reiterating the views of Management stated (June 2021) that the combined indent was placed in order to arrest the buildup of inventory and reduce inventory carrying cost. The requirement of 2014-15 and 2015-16 were met with buffer stock available with various work centers, which is a normal practice in oil and gas business. Ministry further stated that several corrective measures were taken by the Management to avoid delay in processing of tender.

Management/ Ministry's reply needs to be viewed in light of the following:

- The Company failed to comply with its policy of centralised procurement on yearly basis as it clubbed the requirement of 2015-16 with that of 2016-17, which led to delay in processing the indents. This resulted in usage of 2 to 2.5 times costlier premium casing pipes. Para 1.3 read along with para 1.4.2 of Integrated Materials Management Manual must be taken in a constructive manner. Consolidation must refer to the consolidation of all the requirements received from various Assets/ Basins during a particular year and not the consolidation of requirements of various years. ONGC should have processed the tender for procurement of casing pipes timely keeping in view the lead time of material, availability of stock, etc. However, NOA for procurement of casing pipes was placed with inordinate delays of 782 to 1,201 days from the date of indent as against time norms of 176 days given in the Materials Management Manual.

- Clause 34.10 of the Materials Management Manual of the Company provides processing time of 176 days for procurement of goods. This period covers all the normal requisite activities involved in processing of tender till issue of NOA. Hence, the activities viz., revision of technical Bid Evaluation Criteria, review of premium thread connections, clarifications to bidders etc., should have been completed in the due course of time for timely delivery of the casing pipes, especially in view of shortage of requisite materials at its various establishments.

- Requirement of premium casing pipes was for 2015-16 and indent thereof was received in August 2014. Hence, if the Management had processed the tender as per timelines of Materials Management Manual, issues as cited in the reply viz., applicability of Anti Dumping Duty, Steel Policy, GST and Court case etc., would not have impacted the procurement.

- Placing of purchase order for the requirement of any particular year should not affect the next tender cycle. However, there were persistent delays in tender processing as the purchase order for the requirement of 2014-15 was placed in April 2016 and the purchase order for the requirement of 2015-16 and 2016-17 was placed in February 2018. As such, ONGC failed to place purchase order timely for its yearly requirement of casing pipes.

- The constraints due to use of premium casing pipes in view of operational requirements viz., mobilization/ demobilization charges, rig idling, loss of production, etc., could have been avoided by finalising the tender and placing the purchase order timely for the Company's yearly requirement of casing pipes.

- Clubbing of indents to avoid inventory carrying cost attracts avoidable transportation expenses. Further, every year, Corporate Material Management brings to the notice of all units that while finalising the indent for next cycle, order placed/ material in transit of current cycle should be taken into account. Hence, the buffer stock with various work centres raises questions on the assessment of requirement done by the work centre.

Thus, had ONGC initiated and completed the tendering process after consolidation of all indents received from Assets/ Basins on yearly basis well within the time as stipulated in the Materials Management Manual, expenditure of ₹21.56 crore incurred by the Company due to use of costlier casing pipes could have been avoided.

Recommendation No. 2

ONGC may ensure adherence to its procurement policy and initiate the procurement process in time so as to avoid stock out situation of critical materials required for its exploration activities.

2.7 Avoidable expenditure due to idling of departmental rig at Mahanadi-Bengal-Andaman Basin, Kolkata and hiring of another rig at Tripura Asset

Tripura Asset of Oil and Natural Gas Corporation Limited released departmental rig to Mahanadi-Bengal-Andaman Basin, Kolkata for drilling of deep well. However, due to improper planning, the rig remained idle for 213 days on account of non-availability of ready location leading to unfruitful expenditure of ₹17.36 crore during 2019-20 and 2020-21. Further, Tripura Asset hired another rig during the same period, leading to avoidable expenditure of ₹12.33 crore[12].

During the year 2018-19, Oil and Natural Gas Corporation Limited (ONGC)'s Mahanadi-Bengal-Andaman (MBA) Basin at Kolkata carried out drilling activities by Type I departmental rig (drilling capacity in terms of depth of well upto 3,050 meters). To complete the Minimum Work Program of New Exploration Licensing Policy Block (WB-ONN-2005/4), Barrackpore#A location was released on 17 July 2018 for exploration with a target depth of 4,800 meters. As the Barrackpore#A well was a deep well and beyond the capacity of the available departmental rig, it was decided (July 2018) in the Joint Review Meeting to deploy Type-III rig (drilling capacity in terms of depth of well upto 6,100 meters) during 2019-20 in the MBA Basin and to relocate the departmental rig in other work center.

MBA Basin, Kolkata initiated (August 2018) proposal for deployment of Type-III rig (BI-2000-1) with effect from May 2019 in the budget estimate of MBA Basin for the year 2019-20. The competent authority approved (October 2018) deployment of Type-III rig from Agartala to Kolkata and the rig was released (8 May 2019) from Tripura Asset for MBA Basin, Kolkata and was commissioned on 31 January 2020. As ready location was not available at MBA Basin, Kolkata, the rig remained idle for 213 days from February 2020 (when rig was ready for drilling activities) to August 2020.

In this regard, Audit observed that:

[12] ***Payment made for hiring of one rig from March 2020 to August 2020 (DR#15: ₹12.33 crore)***

i) During Joint Review Meeting of Drilling and Well Services held in January/ April 2019, Director (Technology & Field Services) instructed to ensure availability of released locations and readiness of drill site for rig BI-2000-1 prior to its release from Agartala. The rig was, however, released from Tripura Asset, Agartala even though it was known that no land was readily available with the Basin for drilling purpose. The rig remained idle for 213 days, thereby incurring unfruitful expenditure of ₹17.36 crore[13] on idling cost.

ii) Prior to release of rig BI-2000-1 from Tripura Asset, it was in working condition and had completed three exploratory wells and one development well in the Asset during June 2017 to May 2019. After the release of this rig, Tripura Asset hired rig DR#15 from March 2020 to August 2020 to complete the drilling work and incurred an avoidable expenditure of ₹12.33 crore.

Thus, due to improper planning, the departmental rig released by Tripura Asset to MBA Basin, Kolkata remained idle for 213 days on account of non-availability of ready location leading to unfruitful expenditure of ₹17.36 crore during 2019-20 and 2020-21. Further, Tripura Asset hired another rig during the same period, leading to avoidable expenditure of ₹12.33 crore.

ONGC stated (February 2021) that:

- For fulfilling the Minimum Work Programme commitment, location Barrackpore#A was released on 17 July 2018. The location was supposed to be drilled by a deep drilling Type-III rig, which was not available with the MBA basin. To expedite the whole process of drilling within the stipulated time-frame, it was decided to arrange for deep drilling rig and simultaneously go ahead with the process of land acquisition for the location.
- There was an inordinate delay in land acquisition and getting clearance from the State Government due to unforeseen circumstances, which were beyond the control of ONGC. This delay in land acquisition resulted in rendering the rig idle for a period of 213 days and incurred idle cost of ₹17.36 crore.

The reply is not tenable in view of the following:

- At the time of shifting of rig from Tripura Asset to MBA Basin Kolkatta, the Basin neither had any ready location nor any acquired land. Further, even after acquisition of the land, at least three to four months are required for civil work. Hence, as a prudent decision, the company should have released the rig once the Basin had at least acquired the land for drilling of wells so that the departmental rig could be utilised optimally.

- Director (Technology & Field Services) desired that location for the rig at Kolkata should be ensured prior to its release from Agartala. However, this was not adhered to and the rig BI-2000-1 was released without confirming the readiness of location for drilling.

- The company had to hire another rig (DR#15) at a cost of ₹12.33 crore for continuing its operations at Tripura Asset though its own rig was lying idle at the MBA Basin, Kolkata

[13] ***As calculated by the management based on staff cost and other expenditure incurred on idling of rig***

for want of location. The company could have used the departmental rig for drilling in Tripura Asset and then proceeded to transport the rig to MBA Basin once the location was ready.

Thus, ONGC incurred an avoidable expenditure of ₹29.69 crore[14] due to improper planning, which not only resulted in idling of departmental rig for 213 days but also led to hiring of another rig for completion of its operations.

The Audit paragraph was referred to the Ministry in February 2021; their response was awaited (July 2021).

Recommendation No. 3
ONGC should ensure maximum utilisation of its own rigs before going in for hiring in the best financial interests of the Company.

2.8 Non-creation of adequate facilities resulted in avoidable flaring of Low Pressure gas

Non-creation of adequate facilities at Mehsana Asset of Oil and Natural Gas Corporation Limited led to avoidable flaring of Low Pressure gas and consequent loss of revenue of ₹15.13 crore during the period from April 2016 to March 2020.

Mehsana Asset of Oil and Natural Gas Corporation Limited (ONGC) produces associated and free gas of 5.5 to 6 lakh standard cubic meter per day (LSCMD) from its fields which is either consumed for internal use, sold to customers or flared for want of adequate facilities. Associated gas constitutes 90 *per cent* of total gas production of the Asset and the balance 10 *per cent* is free gas. Associated gas of Low Pressure produced along with oil is compressed to increase its pressure and to facilitate free flow and the balance Low Pressure gas, which is not compressed is flared.

Audit observed that out of 8,569 LSCM of Low Pressure gas produced during the period from 2016-17 to 2019-20, the Asset supplied gas of 4,136 LSCM to various consumers and 4,074 LSCM was utilised for captive use. The total flaring of Low Pressure gas at Mehsana Asset during four years was 359 LSCM (4.2 *per cent* of the total production). The quantity of Low Pressure gas flared due to technical reasons, isolated locations, lack of facilities and other reasons were 126 LSCM, 21 LSCM, 193 LSCM and 19 LSCM respectively. The Nandasan Group Gathering Station and Linch Early Production System (EPS) alone contributed 157 LSCM out of 193 LSCM flared due to lack of facilities.

The Production & Development Directorate of ONGC intimated Directorate General of Hydrocarbons (DGH) the acceptable limit of Low Pressure gas flaring (technical limit) of 2.70 *per cent* due to process reasons for Mehsana Asset. However, the actual Low Pressure gas flaring at Mehsana Asset was 5.12 *per cent*, 4.40 *per cent*, 4.11 *per cent* and 3.18 *per cent* during the years 2016-17, 2017-18, 2018-19 and 2019-20 respectively, which

[14] Rig idling cost of ₹17.36 crore plus ₹12.33 crore towards hiring cost of DR#15

was higher by 2.42 *per cent*, 1.70 *per cent*, 1.41 *per cent* and 0.48 *per cent* as compared to the technical limit.

Thus, avoidable flaring of Low Pressure gas led to loss of revenue of ₹15.13 crore during the period from April 2016 to March 2020.

Management stated (February 2020) that despite continuous efforts, flaring due to lack of facilities could not be brought down to desirable level because of uncertainty in production profiles of Nandasan and Linch fields owing to the nature of the fields (small and isolated).

Ministry stated (January 2021) that Mehsana Asset was in constant touch with the Institute of Reservoir Studies on matters related to performance of fields. The sales commitment and decisions on creation of facility are based on profiles by Institute of Reservoir Studies even though the profiles for small and marginal fields consisting of multiple pools and layers are difficult to predict. Ministry further added that Mehsana Asset went ahead with gas sale tenders and creating additional compression facility based upon actual production figures to avoid flaring of gas. Further, Asset had made efforts such as shifting of Low Pressure compressors to Linch and commissioning of a micro turbine at Linch Group Gathering Station. In order to further reduce flaring due to unpredictability of profile and temporary availability of excess Low pressure gas, methodology for supply of additional gas to consumers, available due to operational reasons was approved in the 537th Executive Committee meeting. The Asset has brought down flaring to 2.71 *per cent* (technical requirement) in January 2020 and the flaring was close to 3 *per cent* in September 2020; the Asset endeavours to keep it down to the technical requirement.

The reply needs to be viewed in light of the following:

- There were only two Low Pressure compressors (with capacity of 10,000 SCMD each) installed at Linch Group Gathering Station as on 31 March 2018. As of March 2020, four Low Pressure compressors (with capacity of 10,000 SCMD each) are installed at Linch Group Gathering Station; the additional compressors were shifted from other fields (where the compressing facility was underutilised) of Mehsana in May/ October 2018. Audit further observed that there was delay in ascertaining the necessity to shift the Low Pressure compressors from North Kadi Group Gathering Station and Jotana Group Gathering Station to Linch and Nandasan, despite the compressors not being in use in these fields since 2017-18. Thus, timely action was not initiated to cut down flaring of Low Pressure gas at Linch and Nandasan fields.
- Mehsana Asset, having successfully operated 65 KVA micro turbine for over a year, have initiated proposal for procuring three micro turbines (one with capacity of 200 KVA and other two with 65 KVA each); tendering has been completed but notice of award has been put on hold because of COVID-19 pandemic situation. Thus, it is clear that additional facilities are essential to control avoidable flaring and ONGC initiated action only in 2019-20 though flaring of Low Pressure gas due to lack of facility in the fields has consistently occurred since 2016-17.

- Ministry considered the exceptional months alone during the year 2019-20. On scrutiny of 2019-20 data, Audit noticed that flaring was consistently well above 3 *per cent* of production from April to August 2019 and 4.8 *per cent* of gas was flared in March 2020. Further during the entire year 2019-20, flaring due to lack of facility at Nandasan and Linch continued to exceed the technical limit.
- Audit appreciates that methodology for supply of additional gas to consumers available due to operational reasons was approved in the 537th Executive Committee meeting and standard operating procedure for finalisation of tenders to minimise time was issued in March 2019 and there is a system now in place. However, the fact remains that timely action to shift the available Low Pressure compressors was not taken by the Asset and the creation of additional facilities is yet to be completed, because of which, the flaring *vis-a-vis* production has continued to be above the approved technical levels at Mehsana Asset.

Thus, non-creation of adequate facilities considering the existing projected production profile and positive variance in production resulted in flaring of 193 lakh standard cubic meter of Low Pressure gas amounting to ₹15.13 crore, which could have been avoided.

Recommendation No. 4

ONGC should examine flaring of Low Pressure gas at its other Assets and take remedial action to ensure that the flaring is kept within the permissible limits.

ONGC Petro additions Limited

2.9 Avoidable payment of penal interest due to non-maintenance of debt-equity ratio stipulated by the State Bank of India

ONGC Petro additions Limited incurred an avoidable penal interest of ₹25.81 crore due to non-maintenance of stipulated debt-equity ratio in a project financed by consortium of banks led by the State Bank of India as per the terms and conditions of the loan agreement.

The Board of Directors of ONGC Petro additions Limited (OPaL) approved (March 2012) Dahej Petrochemical Complex project at an estimated cost of ₹21,396 crore with debt-equity ratio of 70:30 prior to the scheduled commercial operation date of January 2014 and a ratio of 60:40 thereafter. OPaL signed (January 2013) Rupee Loan Agreement (RLA) with a consortium of Banks/ Financial Institutions led by the State Bank of India (SBI) for debt of ₹14,977 crore. Later in July 2014, the Board approved revision of project cost at ₹27,011 crore with debt-equity ratio of 66:34 up to December 2015 and thereafter debt-equity ratio of 58:42. The Company increased the debt portion by signing a supplemental and amendatory agreement to RLA in April 2015 with the consortium of Banks/ Financial Institutions led by SBI.

SBI while signing (April 2015) the amendatory agreement to RLA, fixed the scheduled commercial operation date as 30 June 2015 and stated that the overall project cost should be funded with debt-equity ratio of 66:34 by 31 December 2015 and, thereafter, the ratio should be brought down to 58:42. Besides, SBI put forth another condition that the entire equity requirement would be tied up on or before 31 May 2015, failing which additional interest of 1 *per cent* per annum will be charged with effect from 1 June 2015.

OPaL sought (August 2015) extension of time till December 2015 for tying up the equity requirement and for non-levy of additional interest. OPaL also stated that ONGC had infused equity of ₹1,922 crore (through share warrants) increasing total tied up equity to ₹3,943.93 crore and prospective investors were keen to invest in the project. In response, SBI permitted (7 December 2015) time till 31 December 2015 to OPaL to ensure stipulated compliance, failing which penal interest of 1 *per cent* per annum over and above the interest rate would be charged from January 2016.

OPaL failed to raise additional equity and thus, could not maintain the stipulated debt-equity ratio despite lapse of seven months permitted by SBI. Resultantly, the Bank started charging penal interest with effect from January 2016. It is pertinent to note that the Company proposed (March 2016) to raise equity of ₹7,286 crore through placement of compulsory convertible debentures only after RBI instructed SBI to declare OPaL account as NPA (Non-Performing Asset) from 31 March 2016 for non-infusion of requisite equity in the project. SBI recovered ₹25.81 crore from OPaL towards penal interest for the period from January 2016 to May 2017.

Thus, due to non-maintenance of the stipulated debt-equity ratio, OPaL incurred an avoidable penal interest of ₹25.81 crore.

OPaL acknowledged (December 2020) the levy of penal interest till the equity gap was funded through compulsory convertible debentures to comply with the stipulated debt-equity ratio. The Ministry stated (February 2021) that though ONGC/ OPaL started the process of getting equity/ quasi equity in the form of compulsory convertible debentures to secure compliance of the SBI sanction terms, the process was delayed due to complexities involved in connection with the issuance of such a financial instrument, formulation of documents, checking the legality under provisions of the Companies Act, 2013 and other compliances. The Ministry further stated that the concept of compulsory convertible debentures was new for ONGC/ OPaL requiring more deliberations.

Reply of OPaL/ Ministry is not tenable due to the fact that OPaL started the process of raising equity at the desired level through placement of compulsory convertible debentures only in February 2016, i.e., two months after the due date (December 2015) of stipulated compliance. Besides, SBI had permitted seven months' time for compliance of the terms and conditions of amendatory agreement, which was sufficient for completion of the process of compulsory convertible debentures issuance. Further, OPaL should have resorted to compulsory convertible debentures route before the extended due date of December 2015 in view of the fact that the Company was aware about the sanctioning terms and conditions of SBI. OPaL could raise the additional equity in two tranches only in July 2016 (₹5,615 crore) and in May 2017 (₹1,671 crore) i.e., after a lapse of more than a year of the due date.

Thus, OPaL delayed the tie-up of stipulated equity in the overall project cost despite seven months' extension permitted by SBI, resulting in avoidable payment of penal interest of ₹25.81 crore for the period January 2016 to May 2017, leading to increased project cost.

Recommendation No. 5

OPaL may ensure adherance to the terms and conditions stipulated in the finance/ loan agreements with Banks/ Financial Institutions in the best financial interests of the Company.

ONGC Videsh Limited

2.10 Undue benefit extended to private parties by awarding work in violation of CVC guidelines

ONGC Videsh Limited awarded the work of auditing of its oil and gas reserves valuing ₹10.60 crore to private parties on nomination basis, disregarding Central Vigilance Commission guidelines, thereby extending undue benefit to the private parties.

ONGC Videsh Limited (OVL) is having presence in 19 diverse countries across the globe with 39 Exploration & Production (E&P) assets (March 2020). OVL is getting its oil and gas reserves audited by third party auditors periodically (after every five years) or as per other company requirements. The reserve auditing is helpful for prospective financers interested in knowing the reserves of an exploration, and production company for actual representation of its true worth. It is also required for statutory compliance as well as for good corporate governance.

OVL awarded (November 2013) third party consultancy job of auditing of oil fields to two agencies viz., M/s DeGolyer & MacNaughton (D&M) for 25 fields in Russia and M/s Sproule for 52 fields in Sudan on nomination basis at the total cost of USD 7,95,000 (D&M: USD 3,00,000, Sproule: USD 4,95,000) for long term fund raising at competitive costs from global market to acquire new oil fields. The Company had selected the consultants on nomination basis considering the tight time-lines for reserve estimation.

During the year 2019-20, the work of reserve estimation for 54 selected reserves in Russia was awarded (October 2019) again to M/s D&M, on nomination basis, at a total cost of USD 7,95,000. The work was awarded on nomination basis on the ground of data sensitivity, reliability and earlier work association with the Company.

As such, OVL awarded both the works of reserve estimation on nomination basis at the total cost of USD 15,90,000 (₹10.60 crore[15]).

Audit observed that:

[15] *USD = ₹62.31 for 19 November 2013 (date of transaction), USD = ₹71.09 for 18 October 2019 (date of transaction),*
*USD 7,95,000 * ₹62.31 = ₹4.95 crore + USD 7,95,000*₹71.09 = ₹5.65 crore;*
Total = ₹4.95 crore + ₹5.65 crore = ₹10.60 crore

i) As per directions (5 July 2007 and 11 July 2018)[16] of Central Vigilance Commission (CVC), the award of contracts on nomination basis was to be resorted to only under exceptional circumstances like where the supplier or contractor has exclusive rights in respect of the goods or services and no reasonable alternative or substitute exists etc. In response to a query of audit about availability of other internationally recognised reserves auditors who could carry out the job for OVL, it was informed that there are four other international reputed agencies[17] who could carry out the jobs for OVL. As such, award of both the works on nomination basis, despite availability of international consultants, was a violation of CVC guidelines.

ii) Budgetary quote of M/s D&M in 2013 was USD 6,923.01 per field whereas work was awarded @ USD 12,000 per field. The work was awarded at higher rate by USD 5,076.99 per field[18] and no justification for the same was found recorded in the records produced to audit. Similarly, rate quoted in 2019 per field (USD 17,187.5) by M/s D&M was higher by 2.48 times w.r.t. their earlier quote of November 2013 (USD 6,923.01). Analysis of the same was also not found in the record produced to audit. Finally, work was awarded @ USD 14,722.22 per field to M/s D&M.

iii) Since the process of reserve estimation is a regular phenomenon for an exploration & production company and OVL is getting its reserves audited on regular intervals, reason of tight time-lines for awarding of contracts on nomination basis is not tenable. Besides this, there is general practice in the industry to appoint third party certification job of oil and gas fields on competitive basis. For example, Indian Oil Corporation Limited had engaged international consultants for similar job on competitive basis in 2008 and Imperial Energy in Russia had engaged international consultants for similar job on competitive basis in 2010 and 2012.

iv) Both M/s D&M and M/s Sproule were private entities and factors like data sensitivity and reliability did not hold ground as rare and exceptional circumstances. Awarding of reserve estimation work to the same contractor on repeated basis for many years has hindered competitive pricing and revalidation of reserve figures given by erstwhile reserve estimation consultants.

Thus, the company awarded works of ₹10.60 crore to private parties on nomination basis disregarding the CVC guidelines which resulted in undue benefit to the private party.

Management replied (March 2021) that:

- CVC guidelines allow award on nomination in exceptional circumstances. The current case has been awarded on nomination basis considering such exceptional case.

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[16] *Office order No. 23/07/07 dated 5 July 2007 & Circular No.06/07/18 dated 11 July 2018*

[17] *i) Gaffney Cline & Associates (GCA), UK, ii) Robertson (UK), iii) Bayphase Ltd (UK) and iv) Schulumberger Asia Services*

[18] *USD 12,000 – USD 6,923.01 = USD 5,076.99*

- ONGC has shifted its reserve reporting to PRMS 2018 (Petroleum Reserve Management System) and for ONGC this work was done by M/s D&M. It was incumbent upon OVL to shift to PRMS 2018 for which an in-principle approval was obtained from EC (Estimates Committee). Therefore, to maintain uniformity in approach of process of migration to PRMS 2018, D&M was considered as an appropriate choice by OVL.

- M/s D&M is an internationally recognised reserves auditor for many oil majors and the Company has to ensure only reputed companies are awarded such contract to ensure acceptable audit. D&M has worked with ONGC/ OVL for long period as the reserves audit was awarded to them and audit has general acceptability globally. Invitation of open tender can lead to data pilferage and misuse.

- The work of reserve estimation for 54 selected fields was awarded (October 2019) to M/s D&M at a total cost of USD 7,95,000 i.e., USD 14,722 per field whereas in case of M/s MECL, Colombia, three year' contract for reserves audit of seven fields at a total cost of USD 5,87,000 i.e., USD 27,952 per field per year was awarded to M/s Ryder Scott. Hence, price for current contract to M/s D&M was reasonable.

Management reply is to be viewed against the fact that CVC, to a reference by Audit and a separate reference by Ministry of Petroleum and Natural Gas, clarified (December 2020 and May 2021 respectively) that the Chief Technical Examiner's Organisation of CVC has opined that exceptional circumstances mentioned by OVL like sensitivity of data, reliability, firms associated with OVL earlier etc., during such award do not appear to be in the list of exceptional circumstance provided in the Commission's circular.

Thus, award of work in violation of CVC guidelines had resulted in undue benefit of ₹10.60 crore to the private parties.

The Audit paragraph was issued to the Ministry in June 2021; their response was awaited (July 2021).

CHAPTER III: MINISTRY OF POWER

NHPC Limited

3.1 Undue benefit to the contractor

NHPC did not levy penalty of ₹11.61 crore on the contractor for monthly generation of solar power lower than the minimum guaranteed generation.

NHPC awarded (14 June 2017) an Engineering, Procurement and Construction (EPC) contract for 50 MW (25 x 2 units) Solar Power PV Grid Connected Project in Tamil Nadu to L&T Limited (Contractor) at a price of ₹287.48 crore with a completion period of nine months from the date of award of contract.

Terms of the contract stipulated that the Performance Guarantee Test shall be conducted for a period of one year after 30 days from the date of successful commissioning of the plant(s). The Contractor agreed for a Minimum Guaranteed Generation (MGG) of 105.96 MUs[1] of power during Performance Guarantee test period. In case the plant is not able to achieve the calculated 'Base Generation'[2] during the Performance Guarantee Test period at interconnection point, the sum of the monthly shortfall during one year Performance Guarantee test shall be considered annual shortfall on which the penalty would be levied and the contractor would compensate employer penalty at the rate of ₹49 per unit of the shortfall in generation.

Both the units of 25 MW each of the solar plant were commissioned in February 2018 and March 2018 respectively.

Audit observed that the actual Performance Guarantee test was conducted from 15 December 2018 to 14 December 2019 and the power generation in five months[3] was lower by 2.37 MUs, compared to the minimum guaranteed generation for the respective months as guaranteed by the Contractor, against which penalty of ₹11.61 crore[4] was to be levied on the Contractor as per the terms of the contract. However, NHPC did not levy any penalty on the contractor for the monthly shortfall in generation, which resulted in undue benefit to the contractor of ₹11.61 crore.

NHPC/ Ministry of Power replied (April 2020/ April 2021) that as per the final report of Performance Guarantee test conducting agency i.e., National Institute of Wind Energy, the Performance Guarantee test was completed with 0.64 *per cent* higher than minimum guaranteed generation and as such no penalty is imposed or proposed to be imposed by NHPC.

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1 *Calculated based on specified radiation and quoted power generation there-against, for each month*
2 *Base generation for the month is computed by correcting the quoted month wise generation by the bidder in the technical data formats with a factor taking into account the actual average global solar radiation measured by the calibrated pyranometer for the month*
3 *December 2018, January, April, November and December 2019*
4 *Monthly shortfalls in generation x penalty per unit (2.37 MUs x ₹49 per unit)*

The reply may be viewed against the fact that in compliance of the contract condition, the Contractor submitted month wise minimum guaranteed generation in the bid. Accordingly, penalty should have been imposed on monthly shortfall of power generation. Thus, non-levy of penalty of ₹11.61 crore for generation of power lower than the minimum guaranteed generation has resulted in undue benefit to the Contractor.

Recommendation No. 6

Penalty of ₹11.61 crore for generation of power lower than the minimum guaranteed generation may be levied and recovered from the Contractor.

INDUSTRY CLUSTER

CHAPTER IV: MINISTRY OF FINANCE
(Department of Financial Services)

India Infrastructure Finance Company Limited

4.1 Doubtful recovery of loan and interest

India Infrastrucutre Finance Company Limited, under consortium lending, disbursed a loan of ₹470 crore to Essar Power Gujarat Limited for construction of a thermal power project, without conducting due diligence. Despite commissioning, the project could not be run viably due to non-supply of coal at the rates agreed upon under the Fuel Supply Agreement and the entire loan asset of IIFCL turned (April 2018) non-performing asset, for ₹400.49 crore as on 31 December 2020. This has resulted in doubtful recovery of loan amount of ₹400.49 crore and interest of ₹269.43 crore.

Under a consortium lending, India Infrastrucutre Finance Company Limited (IIFCL) sanctioned (August 2007) a loan of ₹470 crore to Essar Power Gujarat Limited[1] for 1,200 MW imported[2] coal-based power plants at Vadinar, Gujarat. The estimated cost of the project was ₹4,820 crore, which was to be funded in debt-equity ratio of 3:1 with scheduled commissioning in May 2011. Supply of coal as fuel was planned by Essar Power Gujarat Limited through a sister[3] company.

Essar Power Gujarat Limited had signed (February 2007) a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited for sale of 1,000 MW power for 25 years at a firm price and an MoU (June 2007) with a sister company Essar Shipping & Logistics Limited[4] for signing a Fuel Supply Agreement (FSA) for getting supply of imported coal for 25 years. The borrower signed the FSA with the same sister concern, Essar Shipping & Logisitics Limited in May 2008. IIFCL disbursed loan of ₹470 crore to Essar Power Gujarat Limited during October 2009 to May 2012. The plant was commissioned in June 2012.

In September 2010, there was a change in Indonesian regulations, which had implication of increase in coal prices to be imported from Indonesian suppliers. On the plea of hike in prices of imported coal being covered under force majeure clause of the FSA, Essar Shipping & Logistics Limited did not supply the coal and terminated the FSA in December 2013. Since the tariff of power to be supplied under the PPA was insensitive to increase in fuel cost, the additional cost of coal affected the operations and financials of Essar Power Gujarat Limited. The plant was shut down in November 2017 after suffering

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1 *A subsidiary of Essar Power Limited*
2 *Indonesian coal*
3 *Sister Company directly or indirectly belong to the same promoters*
4 *Another subsidiary of Essar Power Limited*

financial loss of ₹2,514.46 crore during 2012-13 to 2016-17 due to higher cost of generation at ₹3.10 per unit against revenue of ₹2.90 per unit.

On default in repayment of the loan/ interest by Essar Power Gujarat Limited, IIFCL classified the entire loan as Non-Performing Asset (NPA) in April 2018 under RBI guidelines. Government of Gujarat vide its policy direction (3 July 2018) constituted High Power Committee (HPC) to address the stressed assets of three[5] thermal power projects in the State of Gujarat and proposed a rehabilitation package which included, *inter alia*, sacrifice on the part of lenders by 20 paise per unit in capacity charge upto normative availability of 90 *per cent* by reduction in the debt and increase in power tariff. Gujarat Electricity Regulatory Commission approved (April 2020) rehabilitation package. Management informed (February 2021) that sacrifice on the part of lenders by reduction in the debt shall be finalised after formulation of Restructuring/ Resolution plan.

As of 31 December 2020, IIFCL loan recoverable from Essar Power Gujarat Limited stood at ₹400.49 crore excluding interest of ₹269.43 crore. IIFCL created a provision of ₹240.30 crore i.e., 60 *per cent* of outstanding principal against this loan asset.

In this regard, Audit observed that in the PPA, definition of law and change in law/ force majeure covers only laws in India. 'Change in Law' covers 'change in consent/ approvals or licences available or obtained for the project'. Project under the PPA has been defined as design, financing, engineering, procurement, construction of the power station and its operation and maintenance. As such, it did not cover the impact due to change of foreign law for imported coal. Whereas in the FSA, 'Force Majeure'/ 'Change in Law' event covers change, enactment, promulgation, amendment, suspension, or repeal of any applicable laws after the date of agreement which has a material adverse effect on the ability of the party to perform its obligations under this agreement. As such, it did cover any event which had an impact on the price of coal and subsequent refusal of the party to honor its commitment. This fact was neither included in the appraisal note nor any measure was taken to mitigate this risk. This has resulted in the doubtful recovery of dues amounting to ₹669.92 crore (loan of ₹400.49 crore + ₹269.43 crore towards interest) against this loan account.

IIFCL replied (June 2021) that they followed the lead bank for financial appraisal of the project in disbursing the loan as per SIFTI[6] policy and FSA was terminated by Essar Shipping & Logistics Limited due to changes in Indonesian regulations, which led to increase in price of the coal to be imported by Essar Shipping & Logistics Limited. The project was in operation till November 2017.

Reply of IIFCL is to be viewed in light of the following facts:

[5] ***Adani Power Limited: 4,620 MW, Coastal Gujarat Power Limited: 4,150 MW and Essar Power Gujarat Limited: 1,200 MW***

[6] ***Scheme for financing Viable Infrastructure Projects through IIFCL, approved by the Ministry of Finance***

- The primary responsibility of any financial institution is to satisfy itself about the credentials of projects under consideration for sanction of loan, irrespective of its appraisal by other financial institutions.

- Even though FSA was terminated in December 2013, changes in Indonesian regulations on coal pricing in September 2010 had implication of increase in price of coal and lenders including IIFCL failed to reassess in September 2010 ability of Essar Shipping & Logistics Limited to supply the coal at agreed rate to ensure viability of the project. This change was not covered in the PPA. Even after this event, IIFCL disbursed loan of ₹163.21 crore to Essar Power Gujarat Limited.

Thus, failure of IIFCL in due diligence of the project appraisal led to imprudent disbursement and doubtful recovery of NPA of ₹400.49 crore and ₹269.43 crore towards interest.

The Audit paragraph was issued to the Ministry in May 2021; their response was awaited (July 2021).

IFCI Venture Capital Funds Limited

4.2 Non-recovery of dues from borrowers

IFCI Venture Capital Funds Limited sanctioned two loans to Ashapura Intimates Fashion Limited (₹10 crore) and Arcotech Limited (₹15 crore) in August 2018 and May 2016 respectively. The Company deviated from the terms of its Lending Policy and Loan Agreement while sanctioning/ disbursing the two loans and failed to take timely action in compliance with the Share Pledge Agreements for sale of pledged shares of the borrowers to recover the outstanding dues. This led to non-recovery of outstanding dues of ₹27.34 crore from the two borrowers.

4.2.1 The Executive Committee of Directors of IFCI Venture Capital Funds Limited (Company) sanctioned (8 August 2018) a corporate loan of ₹10 crore to Ashapura Intimates Fashion Limited (AIFL) for general corporate purposes of which ₹9 crore were disbursed on 28 September 2018. The loan was secured by way of pledge of 6,50,000 shares of AIFL, personal guarantee of promoters, post-dated cheques for interest and principal repayment and demand promissory note of ₹10 crore. As per terms of the loan agreement, loan was sanctioned for a period of 33 months, having moratorium of six months and a security cover of 2.5 times of the outstanding loan amount was to be maintained by AIFL at all times.

Lending Policy of the Company stipulated, *inter-alia,* the following:

- The borrower's name should not appear in a latest CIBIL defaulter list, not older than 30 days at the time of sanction. Besides, credit score of borrower/ promoter/ personal guarantors shall not be less than 600 and any deviation shall be approved by the Executive Committee.

- Further, deterioration in any of these conditions has to be referred to the sanctioning authority for taking decision to approve the changes or otherwise, prior to disbursement.

- Updated Net worth certificates of the personal guarantors containing full details of the properties to be obtained before disbursement of loan.

- In case stipulated security cover falls by 10 *per cent* or market value of pledged shares goes down by 25 *per cent* with the security cover being lower than the stipulated security, the borrower shall provide cash margin, failing which the Company may exercise the option to sell the shares.

Further, the Share Pledge agreement stipulated that in case there is a fall in share price of 20 *per cent* or more, as compared to the price at the time of pledging, the borrower shall provide top-up of additional free equity shares or deposit cash margin to provide liquid coverage of at least 2.5 times of the outstanding loan. In case of default in providing top-up or payment of cash margin, the Company shall have right to sell the pledged shares in the open market with one day notice.

The loan agreement stipulated, *inter alia*, the following:

- Prior to disbursement of loan, Credit Information Report would be obtained from existing lenders, which should be satisfactory and the borrower shall submit a letter of No-Set-Off with respect to the account in which disbursement is to be made.

- In case the borrower/ promoters/ guarantors/ pledgers are found to have committed any economic offence or involved in any criminal or unlawful act involving dishonesty, any material breach of trust or violation of statutory laws in force which could have material adverse effect on the business, the Company reserves the right to recall the loan after giving two week's notice.

The market price of shares of AIFL declined to ₹341.50, i.e., by 22.20 *per cent*, on the date of disbursement of the loan (28 September 2018), as against the pledged price of ₹439, and therefore, the Company demanded a top up of 83,138 shares to maintain security cover of 2.5 times on the same day. AIFL pledged 2,55,000 additional shares on 01 October 2018. On 03 October 2018, the share price of AIFL further declined to ₹246 (i.e., by 44 *per cent* from the pledge price) leading to a shortfall in available security cover by ₹2.47 crore[7] against the required security cover of ₹22.50 crore. The Company, therefore, raised a demand (03 October 2018) for cash margin of ₹2.50 crore from AIFL, which was not deposited by AIFL. The Company directed (08 October 2018) AIFL to submit bank account statement in which the loan was disbursed, which disclosed that the amount disbursed by the Company had been transferred to the personal account of the promoter. Further, the

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[7] ***No. of shares pledged as on 3 October 2018 = 6,50,000+2,55,000= 9,05,000***
Share price as on 3 October 2018 was ₹246 and the Company takes 90 per cent of the closing market price for evaluating the security cover. Hence, the available security cover was ₹20.03 crore (i.e., 246 * 90% * 9,05,000). Minimum security cover required was 2.5 times of loan amount i.e., ₹22.50 crore. Therefore, shortfall in security was ₹2.47 crore (₹22.50 crore - ₹20.03 crore).

main promoter of AIFL was missing since 02 October 2018. CARE ratings of AIFL also got downgraded to CARE C in December 2018.

AIFL defaulted in payment since 31 December 2018 i.e., within a short period from the date of disbursement of loan. The Company deposited the post-dated cheques in December 2018, January 2019 and February 2019 but the same were returned by the drawee banks due to insufficient funds. The outstanding loan stood at ₹9.31 crore[8] as on 28 February 2019. After several follow-ups for cash margin and top-up of security, the Company issued a recall notice on 18 February 2019. As there was no response from AIFL, the Company sold (19 February 2019) 41,369 shares of AIFL and recovered an amount of ₹4.36 lakh. Further sale of shares was put on hold to avoid further erosion in the security cover. Guarantee invocation notice was issued on 26 February 2019. Loan account of AIFL was declared as NPA on 31 March 2019. The Company declared AIFL as fraud case and reported (May 2019) the same to Reserve Bank of India and also filed (January 2020) a complaint with the Central Bureau of Investigation. The Company also filed (March 2019 and May 2019) criminal complaints u/s 138 of Negotiable Instruments Act and application before Debt Recovery Tribunal, Delhi in July 2019. The National Company Law Tribunal passed order (05 October 2020) for liquidation of AIFL based on a Corporate Insolvency application filed by IDFC Bank. Accordingly, the Company filed claim with the liquidator on 14 October 2020.

In this regard, Audit observed that the Company deviated from its own lending policy, share pledge agreement and loan agreement as detailed below:

- At the time of sanctioning of loan, CIBIL defaulters' list considered was more than 30 days old.

- At the time of sanctioning of loan, the credit score of one of the promoters was 662, which decreased to 543 (26 September 2018) before disbursement. This deviation was, therefore, required to be approved by the Executive Committee, being the sanctioning authority. However, it was not submitted to Executive Committee but disclosed in the disbursement note only, which was submitted to the Managing Director.

- The Company accepted Net worth certificates of personal guarantors as on 31 March 2017 instead of 31 March 2018. Moreover, net worth of personal guarantors majorly included investment in shares of AIFL itself.

- Credit Information Report from the largest lender to AIFL i.e., State Bank of India (SBI) and letter of No-Set-Off from SBI were not obtained by the Company before disbursing the loan amount.

- Despite being aware (10 October 2018) of the fact that missing promoter of AIFL had siphoned off the loan amount, the Company did not recall the loan immediately in accordance with the loan agreement and recalled the loan only on 18 February 2019.

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[8] ***₹9.31 crore = Principal ₹9 crore and Interest ₹31 lakh***

- Between the date of failure (03 October 2018) to deposit cash margin by AIFL and the date (19 February 2019), on which the Company sold 41,360 shares of AIFL, approximately 2.83 crore shares of AIFL had been traded in NSE/ BSE at a price ranging from ₹221 to ₹11 per share. However, the Company did not initiate timely action for sale of pledged shares after the failure to deposit cash margin by AIFL and waited till 19 February 2019 when it sold only 41,369 shares out of 9,05,000 pledged shares for ₹4.36 lakh. The share price had declined by 95 *per cent* during the intervening period.

Thus, the Company did not comply with the provisions of lending policy while sanctioning and disbursing the loan to AIFL and also failed to take timely action as per the provisions of loan agreement and share pledge agreement for recalling the loan or for selling the pledged shares to recover the outstanding loan of ₹12.55 crore from AIFL.

The Management accepted (February 2021) the facts that (i) Net worth certificate of personal guarantors was one year old instead of updated net worth certificate, and (ii) the deviation from lending policy regarding requirement of CIBIL credit score was submitted in disbursement note only instead of submitting to the Executive Committee. The Management further stated that:

- As per the directions of the Executive Committee, an affidavit/ undertaking/ other supporting documents from the borrower regarding the regular conduct of AIFL with SBI, supported with copy of request letter submitted to SBI for said NOC to verify the conduct of the loan account, was obtained from the borrower.

- The Company was unable to sell any share due to continuous downward freeze and low liquidity in the market, and to safeguard further erosion in security cover, the sale was put on hold.

- The Company did regular follow-ups to pressurise the borrower for top-up of additional shares/ alternate security/ for providing cash margins and clear the overdues to regularise the loan account.

The reply is not tenable in view of the following:

- Submission of deviation regarding credit score in the disbursement note was not justified as any deviation after the sanction of loan should have been submitted to sanctioning authority (i.e., Executive Committee).

- Affidavit obtained from the borrower regarding regular conduct with SBI cannot serve the purpose of obtaining Credit Information Report from SBI.

- The share price of AIFL was depicting a persistently declining trend right after the disbursement of loan. The Company should, therefore, have taken prompt action for sale of pledged shares right after the failure of AIFL to provide cash margin i.e., after 03 October 2018. There was adequate trading volume at NSE/ BSE between the period 03 October 2018 and 19 February 2019 (date of sale of shares) to dispose off the pledged shares.

Thus, non-compliance with the terms of the lending policy, loan agreement and share pledge agreement and failure to take timely action to sell the pledged shares led to non-recovery of outstanding dues of ₹12.55 crore[9] from AIFL (as on 31 January 2021).

4.2.2 The Executive Committee of Directors of IFCI Venture Capital Funds Ltd. (Company) approved (May 2016) a corporate loan of ₹15 crore at an interest rate of 14.50 *per cent* per annum payable on monthly basis to Arcotech Limited (Borrower). As per lending policy of the Company, if external credit rating of the borrower is more than six months old, internal rating was required to be got done. However, the Company relaxed the required condition of obtaining a credit rating certificate, not more than six months old, at the time of sanctioning the facility to the Borrower. The approved loan was to be utilised for long-term augmentation of working capital requirements of the Borrower. The tenure of the loan was 48 months (including moratorium of 12 months) from the date of first disbursement, and it was to be repaid in equal quarterly instalments payable on the last day of each quarter after moratorium period. Corporate Loan Agreement and Share Pledge Agreement were entered into with the Borrower on 09 June 2016 and the loan amount was disbursed on 09/10 June 2016.

As per the Loan Agreement, the loan was secured with a total security cover of 2.5 times by way of pledge of listed 13,00,000 equity shares of ₹370 each. In addition, post-dated cheques for interest and principal repayment were also obtained. Borrower split (June 2017) its share in the ratio of 1:5. Accordingly, the number of shares pledged with the Company increased from 13 lakh to 65 lakh. Due to split of share, the market price of the same was also adjusted accordingly i.e., ₹74 per share (₹370/5).

The loan agreement further stipulated that in case of fall in share price, between 10 *per cent* to 20 *per cent*, as compared to the price at the time of pledge, the Borrower would top-up pledge of free equity shares within three working days and in case there is 20 *per cent* or more fall in share price, the Borrower shall deposit cash margin to maintain the security coverage of at least 2.5 times of the outstanding debt at all times during the currency of the loan.

The Borrower was irregular in payment of interest on due dates from May 2017 and in repayment of principal due from August 2017 (being the due month for first instalment of principal repayment). Requisite security cover was maintained by the Borrower till September 2017. Meanwhile, the share price of the Borrower declined, from pledged price of ₹74 (derived pledged price after split of share) to ₹65.10 (more than 10 *per cent* decline) on 16 October 2017 and to ₹58.95 (more than 20 *per cent* decline) on 25 October 2017. The Company asked the Borrower (October 2017) to replenish additional shares/ cash margin to maintain the security level of 2.5 times of outstanding loan amount. Though the Borrower repeatedly assured to top up the security and repay the dues, it did not keep up the promise.

[9] ***₹12.55 crore = Principal ₹9.00 crore + Interest ₹3.55 crore***

The Company sold (May 2018) 4,20,401 shares at ₹1.04 crore and adjusted the same towards payment of principal/ interest. Though, the Borrower topped up 30 lakh shares[10] between 02 May 2018 and 02 July 2018, the security cover in July 2018 could only reach ₹10.90 crore[11] against the required minimum security cover of ₹37.50 crore on account of the drastic fall in share price and was ultimately 70.93 *per cent* less than required minimum security cover. Considering the continuous default by the Borrower, the Company further sold 7,57,787 shares during 25 September 2018 to 24 December 2020 at ₹0.41 crore. The Company also deposited the post-dated cheques in the bank in May 2018, September 2018 and March 2019, but the same were returned by the drawee banks due to insufficient funds.

The loan account of the Borrower was declared by the Company as Non-Performing Asset (NPA) on 31 December 2018. The Company filed (May 2019) criminal complaint u/s 138 of Negotiable Instruments Act, application before Debt Recovery Tribunal (DRT) in July 2019 and National Company Law Tribunal (NCLT) in November 2020, which were in the process of hearing by the respective Court/ Tribunals (January 2021). The outstanding dues stood at ₹14.79 crore[12] as on 31 January 2021.

In this regared, Audit observed that:

- Loan was given on the security of pledged shares. Considering the fluctuating nature of the share price, timely action for selling the pledged shares in the event of deteriorating share price should have been taken. But the Company did not sell the shares on time as per Share Pledge Agreement despite repeated failure of the Borrower to replenish the additional shares/ cash margin from October 2017 to April 2018. The relaxation in share pledge agreement was approved from time to time by the Managing Director of the Company after October 2017 when share price fell by more than 20 *per cent*. During this period, the share price was ranging from ₹27.55 per share to ₹57.95 per share. Had the Company sold the pledged shares during this period, it could have realised the entire outstanding amount[13].

- As per the Loan Agreement, in the event of cross default committed by the borrower with IFCI Limited (Parent Company) or any of its subsidiary/ associate company in terms of their respective legal agreements in repayment of dues, the said event of default shall be deemed as default committed to the Company also and in such event the Company shall reserve the right to recall the assistance. The borrower defaulted in making payment to IFCI Limited in February 2018. However, the Company was not aware about the status of the

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[10] ***30,00,000 shares = 5,00,000 shares on 02 May 2018, 10,00,000 shares on 14 May 2018, 5,00,000 shares on 08 June 2018 and 10,00,000 shares on 02 July 2018.***

[11] ***No. of pledged shares as on 02 July 2018 = 65,00,000+30,00,000-4,20,401 = 90,79,599~90.8 lakh. Share price on 02 July 2018 was ₹15 and Company takes 80 per cent of the closing market price for evaluating the security cover. Hence, the available security cover was ₹10.90 crore (₹15*80 per cent *90.8 lakh shares) which was 70.93 per cent less than the required minimum security cover of ₹37.5 crore (₹15 crore*2.5).***

[12] ***₹14.79 crore = Principal ₹9.65 crore and interest ₹5.14 crore as on 31 January 2021***

[13] ***Considering the lowest price of ₹27.55 per share, the Company could have realised an amount of ₹17.91 crore (i.e., 65,00,000 shares * ₹27.55), which was sufficient to recover the outstanding dues.***

loan of the borrower in the parent/ subsidiary companies. Therefore, Company could not consider this default for immediate sale of pledged shares.

- Despite that the Borrower topped up the security cover in four installments during 02 May 2018 to 02 July 2018, it was not maintained at the required level of 2.5 times of the outstanding debt. Subsequently, the share price further deteriorated and was ranging from ₹12.55 per share to ₹18.70 per share during 03 July 2018 to 24 September[14] 2018. However, the Company did not sell the pledged shares during this period. Even if the lowest price of ₹12.55 per share is considered, the Company could have recovered at least an amount of ₹11.39 crore (90,79,599 shares[15] x ₹12.55).

- The Borrower regularly defaulted in the payment of interest and principal since May 2017 and August 2017 respectively. However, the Company started depositing the post-dated cheques in the bank only after a lapse of more than 10 months from the default.

The Company while sanctioning the loan did not comply with its own lending policy and relaxed the rating condition for the borrower. Further, relaxation in compliance with Share Pledge Agreement was not justified when the Borrower was irregular in payment of principal/ interest and failed to keep up its promise for top up of security. This led to non-recovery of outstanding dues of ₹14.79 crore from the Borrower.

The Management stated (January 2021) that:

- The Company in the event of default did regular follow ups to pressurise the Borrower for top up of additional shares/ alternate security/ for providing cash margins and clear the overdues to regularise the loan account. The Company also started selling with effect from 04 May 2018. Despite regular attempt for sale of shares, the Company could only offload limited quantity of shares due to low trading volumes. Accordingly, considering huge gap in the security cover required and available and also considering pledged shares being the primary security, total recovery only by way of sale of shares at the prevailing price was not possible and the sale of shares was put on hold.

- Matter has been taken up with IFCI Limited to know the status of loan account of the Borrower.

The reply is not tenable in view of the following:

- The huge gap between the security cover required and available had arisen only due to the fact that the Company did not sell the shares on time despite repeated failure of the Borrower to replenish the additional shares/ cash margin from October 2017 to April 2018. Subsequently, the share prices further declined resulting in inadequacy of security cover.

- The contention of the Management that the Company could offload limited quantity of shares due to low trading volumes is also factually incorrect. It was observed that, from

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[14] ***The Company sold further 7,57,787 shares beginning from 25 September 2018. Therefore, the share price up to 24 September 2018 has been considered.***

[15] ***65,00,000 + 30,00,000 - 4,20,401 (sold in May 2018)***

25 October 2017 (i.e., date of decline in the price of pledged shares by 20 *per* cent) to 03 May 2018 (i.e., before the date of first sale of shares by the Company), a total of 14.12 crore shares of the Borrower company were traded in both the stock exchanges (NSE/ BSE). Further, during 03 July 2018 (i.e., after the date of last top up of shares) to 24 September 2018 (i.e., before the date of further sale of shares), 97.66 lakh shares of the Borrower company were traded in both the exchanges. Thus, the trade volume was adequate enough in both the exchanges to sell the pledged shares.

- Borrower defaulted in February 2018 with IFCI Limited. However, nothing was found on record to show that IFCI Venture Capital Funds Limited ever initiated any action to know the status of loan account with its parent company. Moreover, parent Company too, never shared such details with IFCI Venture Capital Funds Limited, which shows that no system/ mechanism was there to give effect to the clause relating to cross default in the loan agreement. The matter was taken up with IFCI Limited only in July 2020 i.e., after a lapse of more than two years.

Thus, non-compliance with the terms of lending policy and loan agreements while sanctioning and disbursing the loans and failure to take timely action in compliance with the Share Pledge Agreements for sale of pledged shares of the borrowers led to non-recovery of outstanding dues of ₹27.34 crore from Ashapura Intimates Fashion Limited (₹12.55 crore) and Arcotech Limited (₹14.79 crore).

The Audit paragraph was issued to the Ministry in March and June 2021; their response was awaited (July 2021).

National Insurance Company Limited

4.3 Non-recovery of service tax from other insurers under reinsurance acceptances

Due to non-maintenance of records and failure to reconcile party-wise reinsurance premium received under reinsurance, NICL was unable to raise invoices for recovery of service tax from other insurers which resulted in non-recovery of ₹23.81 crore.

National Insurance Company Limited (NICL), a public sector general insurance company, is engaged in underwriting of risks by charging premium and settlement of claims in case of loss to insured. NICL also receives premium, under reinsurance, for acceptance of portion of risks of insurance policies underwritten by other general insurance companies.

During Service Tax regime, NICL received reinsurance premium from insurers under reinsurance treaty and agreement and booked the premium in their accounts at the end of each quarter/ year. Subsequent to the booking of the premium, NICL paid service tax on total premium so received to the Service Tax Department as per the provisions of Service Tax Act. Pending receipt of service tax from the insurers, the tax was paid by NICL from its own funds. Thereafter, NICL issued manual invoices to the insurers from whom premium were received and accordingly recovered the service tax so paid by NICL. Government of India introduced Goods and Service Tax (GST) in July 2017. Since then

NICL started generating invoices through the system, in place of manual system, at the time of booking of premium itself.

Audit noticed that during the years 2014-15 to 2016-17, NICL paid service tax on total premium received without carrying out insurer-wise reconciliation. Due to non-reconciliation of insurer-wise receipt of total premium, NICL failed to issue invoices to all the insurers from whom premium was received. Thus, NICL failed to recover the service tax paid by it from other insurers.

During the above period, NICL paid a total ₹110.61 crore as service tax to the Service Tax Department of which only ₹86.80 crore was recovered, leaving a shortfall of ₹23.81 crore. The company failed to reconcile the above balances due to non-availability of insurer wise details even after the lapse of over three to five years. Thus, NICL had to absorb an amount of ₹23.81 crore as service tax.

The Management, while confirming the above facts, stated (March 2021) that the deposit of service tax against the premium of acceptances was made based on the summary figure in course of closing of annual accounts for respective years which calls for reconciliation to ascertain the exact party wise recoverable. It further stated that identification/ reconciliation of the above balances was pursued continuously but party-wise reconciliation could not be achieved till date. As service tax calculation, its payments, raising of invoices and further recovery were done manually, it experiences difficulty in the process of reconciliation.

Thus, due to lack of internal control and monitoring, failure to maintain party-wise reconciliations and non-raising of invoices, NICL had to absorb an amount of ₹23.81 crore as service tax, which could have been recovered from other insurers.

The para was issued to the Ministry in March 2021; their response was awaited (July 2021).

Recommendation No. 7

Management should take steps for regular monitoring and ensure timely reconciliations of party-wise reinsurance premium to avoid instances of non-recovery of tax.

The New India Assurance Company Limited

4.4 Failure to obtain stop loss reinsurance cover resulted in loss

The New India Assurance Company Limited failed to obtain stop loss reinsurance coverage, for its exposure in the crop insurance business under Pradhan Mantri Fasal BimaYojana (PMFBY) in the State of Tamil Nadu for 2016-17, as per the operational guidelines of PMFBY, thereby resulting in loss of ₹63.76 crore (₹31.88 crore to the Company and ₹15.94 crore each, for the two co-insurers).

The New India Assurance Company Limited (Company) participated and was selected (August 2016) in the tendering process for identification of implementing agencies for the

'Pradhan Mantri Fasal Bima Yojana' (Scheme), a Crop Insurance Scheme[16] launched by the Ministry of Agriculture, Government of India. The Company was the lead member with 50 *per cent* share of premium while two co-insurers viz., National Insurance Company Limited (NICL) and The Oriental Insurance Company Limited (OICL) shared 25 *per cent* premium each. The Company was selected (August 2016) as the implementing agency in 10 districts[17] of Tamil Nadu for the years 2016-17 to 2018-19. As per the Scheme guidelines, the insurance companies shall take all necessary steps for appropriate reinsurance cover for their portfolio. Insurance Regulatory and Development Authority of India (General Insurance-Reinsurance) Regulations, 2016 also stipulated that the Reinsurance Programme of every Indian Insurer/ Indian Reinsurer/ Foreign reinsurer branch shall be to secure the best possible reinsurance protection/ coverage required to protect the interest of the policy holder/ insurer at a reasonable cost.

Board of Directors of the Company decided (November 2016) that the Company being the lead member would arrange reinsurance protection for all three participating members. The Company took reinsurance for 80 *per cent* of sum insured and decided to bear the risk for the remaining 20 *per cent* on its own (referred to as 'net retention'). This is known as Facultative Quota Share[18] proportional arrangement. Audit noticed that the Company could have secured its own exposure of 20 *per cent* also by taking a 'Stop Loss treaty arrangement' but no cost-benefit analysis in this regard was done by the Company. This was also not in consonance with the Annual Reinsurance Programme of the Company, approved by its Board of Directors. The Company earned a premium of ₹501.96 crore (including the share of co-insurers) for the Scheme against which the total claim outgo was ₹1,496.21 crore[19]. While 80 *per cent* of the difference was covered through reinsurance, 20 *per cent*, which works out to ₹299.24 crore was not covered. Audit noticed that, had the Company taken the stop loss reinsurance cover, it could have partly covered the loss amounting to ₹63.76 crore, after considering the cost of such stop loss insurance cover as ₹16.56 crore[20] (approx.).

Thus, the failure of the Company to take stop loss reinsurance for its exposure under the scheme for 2016-17 resulted in loss of ₹63.76 crore (₹31.88 crore to the Company and ₹15.94 crore each, for two of its co-insurers).

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16 The scheme, launched w.e.f. Kharif 2016 season, provided a comprehensive insurance cover against failure of crops due to non-preventable natural calamities. The farmers contributed a share of 2 per cent, 1.5 per cent and 5 per cent of the actuarial premium for Kharif, Rabi and Horticulture crops respectively. The balance of actuarial premium was borne by the Government, equally shared between the State and Central Government.***

17 Pudukottai, Nagapattinam, Tuticorin, Thanjavur, Virudhunagar, Theni, Krishnagiri, Dharmapuri, Villupuram, and Vellore

18 A Quota Share Treaty is a pro-rata re-insurance contract (proportional arrangement) in which the insurer and re-insurer share premiums and losses according to a fixed percentage. Facultative means case to case basis.

19 The claims outgo occurred in the years 2017-18, 2018-19, 2019-20 and 2020-21 was ₹1,159.28 crore, ₹323.22 crore, ₹7.86 crore, and ₹5.85 crore respectively.

20 On the lines of stop loss cover taken in 2017-18.

The Company's reply (January 2021/ February 2021), endorsed (March 2021) by Ministry of Finance, Department of Financial Services stated that:

- This was the first year of business and hence past claim data/ trend was not available.
- The *Kharif* season 2016 was nearing its end at that time and there was no capacity for reinsurance in the market. Even if stop loss reinsurance was available, the cost would have been higher.
- Subsequent data has shown that there was profit on the *Kharif* portion but for *Rabi*, vagaries of nature took over leading to the loss. Also, the year (2016-17) was particularly bad in terms of severity.
- Scheme guidelines did not specifically mention that stop loss reinsurance was to be taken and it was left to the insurance companies to mitigate their exposure and honour their claims.
- Though loss has occurred, it was within the tolerance limit of the Company. This was because the Company's net worth for 2016-17 was ₹12,000 crore and the general rule of thumb is that per risk exposure should not be more than three *per cent* to five *per cent* of net worth, which was not exceeded in this case.

The reply is to be viewed against the following:

- The Company was in crop insurance business earlier also through coinsurance arrangement[21] and hence was not entirely unfamiliar with the risk. Further, the procedures for coinsurance and reinsurance in crop insurance business were discussed in the meeting held on 27 September 2016 by Agriculture Insurance Company of India Limited (AICL), wherein the terms for stop loss reinsurance were also elaborated. The Company took part in this meeting and hence was aware of the terms regarding stop loss reinsurance. Other insurance companies (United India Insurance Company Limited and AICL) have taken stop loss cover for their crop insurance coverage in 2016-17 (part-year). The Company itself had earlier, placed stop loss reinsurance protections for less than annual period/ in the middle of the year in other portfolios (Fire/ Engineering and Miscellaneous). In this case, no such cost benefit analysis was done on whether or not to take a 'Stop Loss' cover.

- Management's contention regarding capacity constraints and higher costs for stop loss reinsurance are not supported by records and hence, not taking stop loss reinsurance was not a conscious decision of the Company.

- The argument citing the profit earned for *Kharif* may be misplaced since Rabi is a different season. Further, more than 99 *per cent* premium was for *Rabi* crop (₹498.99 crore) as compared to *Kharif* crop (₹2.97 crore), indicating higher exposure and the need for better protection for *Rabi*. Regarding exceptional severity of vagaries of nature in 2016-17, Audit

[21] ***Prior to 2016-17, the Company was the co-insurer for Weather Based Crop Insurance Scheme with 49 per cent holding and Agriculture Insurance Company of India Limited was the leader with 51 per cent holding.***

noticed that there was loss in all the years and the situation was worse in 2019-20[22] than in 2016-17, which calls for a robust reinsurance strategy for crop insurance.

- The Scheme Guidelines mention 'appropriate' reinsurance and hence the onus was on the insurance company to choose the type of reinsurance, which proved to be inadequate in this case.

- Though management has contended that the loss was within the tolerance limit of the Company as per general rule of thumb of per risk exposure not exceeding three to five *per cent* of net worth, no such tolerance limit/ rule of thumb is mentioned in the Reinsurance Programme for the year 2016-17 or the policy decisions taken while underwriting the business in 2016-17. Also, no supporting document has been provided by management for this contention.

Thus, the failure of the Company to take stop loss reinsurance cover for its exposure under Pradhan Mantri Fasal Bima Yojana for the year 2016-17 resulted in loss of ₹63.76 crore (₹31.88 crore to the Company and ₹15.94 crore each, for two of its co-insurers).

4.5 Loss due to low fixation of premium rate and high claim ratio

Failure to exercise proper due diligence while underwriting livestock insurance resulted in low fixation of premium rate and loss of ₹10.31 crore under Livestock Insurance Policy.

Telangana State Livestock Development Agency (TSLDA) called for (April 2017) quotations from Public Sector General Insurance Companies for implementation of the centrally sponsored livestock insurance under National Livestock Mission. The scheme envisaged to cover death of milk yielding cows/ buffaloes in Telangana State due to accident, diseases, surgical operations and strike, riot and civil commotion risks. The estimated number of animals to be covered was 83,000. The insured had the option to insure the cattle for one year or three years with the sum insured ranging from ₹10,000 to ₹60,000 depending on the value of the cattle.

The New India Assurance Company Limited (NIA) quoted a premium of 1.77 *per cent* of sum insured for one year and 5.25 *per cent* on the sum insured for three years' insurance coverage and got the insurance contract. A Memorandum of Understanding (MoU) was signed (June 2017) between NIA and TSLDA valid for three years. As against the estimated 83,000 animals, 47,439 animals were covered for a premium of ₹4.99 crore under the scheme for the year 2016-17 from nine districts of Telangana State. However, NIA had to pay total claims of ₹15.30 crore resulting in a loss of ₹10.31 crore with claim ratio of 306 *per cent*.

[22] ***In 2019-20, the incurred claim ratio (ICR i.e., Net claims /Net premium x 100) was 308.81 per cent while it was 298.07 per cent in 2016-17.***

Audit observed that during the previous term (2014-15), the Scheme was underwritten by The Oriental Insurance Company Limited, Regional Office Hyderabad for a premium of 3.24 *per cent* on sum insured for one year and 7.30 *per cent* on sum insured for three years and incurred loss of ₹9.54 crore[23] with an Incurred Claim Ratio (ICR) of 217 *per cent.* While quoting the premium, NIA did not consider the high ICR experienced by The Oriental Insurance Company Limited in the earlier period. The underwriting guidelines of NIA also envisaged adjustment of the premium for claim ratio of 100 *per cent* and above. Thus, failure of NIA to ascertain the ICR of the expiring policy resulted in low fixation of premium and loss of ₹10.31 crore on account of imprudent underwriting of risk.

NIA replied (January 2020) that the rates for covering livestock under National Livestock Mission were approved taking into consideration the All India experience of claims ratio and trend of rates prevailing under the competitive market conditions. It further stated that the tender floated by TSLDA, Hyderabad did not provide the previous claims experience as it was a newly carved State and they were floating the tender for the first time.

Ministry stated (March 2021) that while submitting the quote, NIA requested TSLDA for the previous claims experience and the same was not provided. Hence, NIA had no scope to work out a quote taking into account the past loss experience.

NIA's reply is not tenable because data for trend of rates prevailing under the competitive market conditions was neither found on the record nor provided to Audit. Though Telangana was a new state bifurcated from Andhra Pradesh, National Livestock Mission was a continuing scheme and insured/ beneficiary group was same. Thus, as a prudent underwriter NIA should have explored about claims experience of insurance coverage under the scheme besides considering its own All India experience of claim ratio. Ministry's reply that NIA had no scope to work out the premium taking into account the past loss experience is also not tenable since NIA could have quoted provisional premium rates with appropriate claims loading clause subject to finalisation of premium rates on furnishing of claims data of previous policy.

Thus, failure of NIA to ascertain the ICR of the expiring policy resulted in low fixation of premium and loss of ₹10.31 crore on account of imprudent underwriting of risk.

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[23] ***Claims Incurred – ₹17.64 crore Less Premium received ₹8.10 crore***

The Oriental Insurance Company Limited

4.6 Short-collection of insurance premium

The Oriental Insurance Company Limited (the Company) failed to approach Insurance Regulatory and Development Authority of India (IRDAI) for incorporating a clause in the terms and conditions of the Motor Third Party Liability Insurance policies enabling recovery of the differential amount of premium in the event of revision of rates, which led to revenue loss of ₹7.14 crore during the period 2016-17 to 2019-20. Further, the Company charged old rate of premium in 4,264 cases, instead of revised rate notified by IRDAI, which led to revenue loss of ₹0.49 crore.

By virtue of the powers vested under section 14(2)(i) of Insurance Regulatory and Development Authority of India (IRDAI) Act 1999, IRDAI has been notifying the Motor Third Party premium applicable to Motor Third Party Liability Insurance every year starting from 2011. For the years 2016-17 to 2018-19, the rates were notified on 28 March[24] of the preceding financial year for each class of vehicles and these rates were applicable from 1 April of each financial year. For the year 2019-20, the rates were notified[25] on 04 June 2019 to be effective from 16 June 2019. Upon receipt of notification from IRDAI, The Oriental Insurance Company Limited (Company) issues a circular to all the Regional Offices for charging the revised amount of premium.

In this regard, Audit observed (November 2019) that in case of 53,871 requests for new/ renewal of existing motor policies, received prior to 1 April 2016, 17 April 2017 and 1 April 2018 with policy effective date from 1 April of each respective financial year, the Company processed the requests and issued motor third party policies at the rates prevailing on the date of proposal. Similarly, in the year 2019-20, in case of 47,190 proposals received prior to 16 June 2019 (i.e., the date from which the revised third party premium rates were effective) and having policy effective date on or after 16 June 2019, the Company charged the motor third party premium at the rate prevailing on the date of proposal as detailed in ***Annexure-III***. As no discount could be allowed by insurers in respect of motor third party rates decided by IRDAI, the differential amount of premium should have been received from the policyholders.

The Company could not recover the differential amount of premium of ₹7.14 crore in the absence of any clause in the terms and conditions of Motor Third Party Liability Insurance policies. Further, the Company charged pre-revised rate in 4,264 proposals received after the date from which revised rates as notified by IRDAI became effective[26] as detailed in ***Annexure-IV*** which led to short collection of premium amounting to ₹0.49 crore.

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24 Rates notified on 28 March 2017 were again revised on 17 April 2017 and made applicable retrospectively from 1 April 2017

25 IRDAI vide its order dated 28 March 2019 extended the validity of rates for the year 2018-19 beyond 31 March 2019, until further notice. The rates for the year 2019-20 were later notified on 4 June 2019.

26 1 April 2016 for 2016-17, 17 April 2017 for 2017-18, 1 April 2018 for 2018-19 and 16 June 2019 for 2019-20

The Management stated (January 2021) that:

- The said policies with risk commencement dates on or after the date of implementation specified in the IRDAI notification were issued before the revised rates were implemented in the IT system. After every instance of such notifications, the OICL system was duly updated and tested either before or on the effective date of revision. Given the time required for system upgrades and subsequent testing, due care was exercised to ensure prompt and timely change in the system to ensure regulatory compliance.

- The Company through its operating offices regularly reaches out to the insured for collection of the differential premium. However, the same is constrained by the fact that insured persons are seldom willing to pay more than what they have already paid.

- As per IRDAI circular[27] "the terms and conditions of cover and the wordings of policies, endorsements, warranties and clauses set out in the erstwhile tariffs shall continue to apply until fresh market wordings are examined and accepted by the Authority after considering the views of various stakeholders." Consequently, any attempt by the Company to modify any of the terms and conditions of the said policy would be grossly ultra vires of regulatory instructions.

The reply is not acceptable in view of the following:

- The fact that premium was not charged as per the revised rate in case of 4,264 proposals received after the effective date of rate revision, itself indicates that the systems were not upgraded on time to ensure regulatory compliance.

- Owing to non-incorporation of an enabling clause in the policy, there was no legal enforceability for recovery of the differential premium from insured.

- The referred IRDAI circular clearly provided the scope for incorporation of fresh market wordings/ change in terms and conditions. However, reply of the Company indicates that it had never approached IRDAI to apprise about the constraint in recovering the differential premium from the insured, leading to revenue loss to the Company.

Thus, deficient terms and conditions of Motor Third Party Liability Insurance policies and inaction on the part of Management to get the deficiencies addressed, coupled with failure to charge revised rates of premium led to revenue loss of ₹7.63 crore to the Company during the period 2016-17 to 2019-20, which would continue to occur until remedial action was taken.

The Audit paragraph was issued to the Ministry in February 2021; their response was awaited (July 2021).

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[27] ***IRDAI circular reference no 048/IRDAI/De-Tariff /Dec-07 dated 18 December 2007***

CHAPTER V: MINISTRY OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

5.1 Avoidable loss due to laxities in supply of Alternate Current Electrical Multiple Units

Bharat Heavy Electricals Limited suffered a loss of ₹13.69 crore due to laxity in supply of complete sets of Alternate Current Electrical Multiple Unit.

Railway Board (Railways) placed (23 January 2013) an order with Bharat Heavy Electricals Limited (BHEL) for supply of 80 sets[1] of Traction Electrics for Alternate Current Electrical Multiple Unit (ACEMU) motor coaches to its three consignees, namely, BEML (24 sets), Titagarh Wagons Limited (TWL) (33 sets) and Jessop & Company Limited (Jessop) (23 sets) at a total value of ₹128.02 crore *plus* taxes of ₹23.13 crore. As per the terms of payment, 98 *per cent* of the value of equipment with 100 *per cent* taxes and duties was to be made on proof of inspection and dispatch of complete set, and balance 2 *per cent* after receipt of equipment by consignee in good condition.

The Corporate Office, BHEL issued (January 2013) an internal order to BHEL, Bhopal (the Division) for execution of the work with scheduled commencement date of supply as 01 May 2013. As per the order, the supplies were to be made to Jessop as four sets each month from May to November, 2013 except August 2013 where only three sets were to be supplied. However, Railways put on hold the dispatches on 17 May 2013 and withdrew the hold on 09 September 2013 after about four months. The supplies were made during the period October 2013 to February 2014 as against the supply completion schedule of November 2013.

The supplies were made by BHEL in piecemeal instead of complete set and were assembled at the place of the consignee. Out of the supplies made till February 2014, eight complete sets of traction electrics to Jessop could be assembled, whereas supplies of 15 transformers, 21 traction motors and 1 set of control gear group-A could not be assembled as complete sets. Jessop discontinued its production sine die due to labour strike and lockout. The supplies to be made to Jessop were put on hold by Railways on 27 March 2014. The said order was amended (27 May 2016) by the Railways, reducing the quantity from 80 sets to 72 sets (34 sets to TWL, 30 sets to BEML & 8 sets to Jessop) almost after a period of more than two years, in view of which, no further supplies were required to be made to Jessop.

The total value of equipment supplied to Jessop during the period from October 2013 to February 2014 was ₹35.85 crore, out of which, Railways released payment of ₹22.16 crore for the eight completed sets only during November 2015 to August 2017 and refused (June 2016) to pay for the other unassembled items citing that payment would be made only

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[1] *A set is consisting of four traction motors and equal number of gears case assembly, Gear wheel and Nose Suspension Unit (Steel & Rubber Part) each, one main transformer with oil fitted with HV turret & other accessories and other control equipment*

for the complete sets. Railways also advised BHEL to take back those unassembled items from Jessop, as the contract with Jessop was cancelled by Railways. Further, BHEL pursued the matter with Railways (November 2016) for payments which was not acceded to (February 2017). BHEL had not taken back unassembled items despite the advice of Railways in June 2016 before incident of fire which took place in October 2016. BHEL also did not resort to any legal course against the Railways for non-payment and also created a provision of ₹9.21 crore against this debt of ₹13.69 crore (₹35.85 crore - ₹22.16 crore).

BHEL, thus, suffered a loss of ₹13.69 crore due to laxity in supply of complete set of ACEMU Traction Electrics.

BHEL stated (February 2021) that:

i) The supplies were made from different units of BHEL and all the items of a set together could not be supplied. The supply was to be completed in seven months from May 2013 to November 2013. Out of this duration, supplies were put on hold for four months at the behest of Railways. BHEL could supply material for about five months only (till February 2014). It was not possible to complete the supply in five months wherein delivery period is for seven months as these are all manufactured item having minimum process time.

ii) Railways is the only customer for BHEL in transportation business for which BHEL has created exclusive business verticals at Jhansi, Bhopal and EDN, Bangalore plant. Considering this fact, it would not be prudent to risk the future business prospects by entering into any confrontation with the longstanding customer, who has also helped BHEL by way of giving compensatory business on several occasions. Besides this, Railways lodged a complaint against Jessop which includes the total value of BHEL supplied material of ₹35.85 crore, and hence BHEL did not pursue any separate legal action against Railways.

Reply of the Management is viewed against the following facts:

i) BHEL had about four more months from December 2013 to March 2014 after the scheduled completion period of November 2013 for supplying the complete 23 sets stipulated in Railways' purchase order. BHEL, however, supplied only eight complete sets and some partial unassembled items for remaining sets in deviation of the condition of the order and the risk of supplying unassembled items remained with BHEL.

ii) If BHEL is competitive, Railways cannot deny future business for pursuing its valid claims through legal routes.

Thus, BHEL suffered a loss of ₹13.69 crore due to laxities in supply of complete set of ACEMU Traction Electrics in one go.

The Audit paragraph was issued to the Ministry in February 2021; their response was awaited (July 2021).

5.2 Non-safeguarding of financial interest resulted in additional burden towards payment of safeguard duty

Electronics Division, Bengaluru unit of Bharat Heavy Electricals Limited did not take cognisance of the proposed changes in tax structure and the delivery schedules, resulting in additional liability of ₹11.58 crore towards payment of safeguard duty for clearing of imports.

Gujarat Industries Power Company Limited (GIPCL) issued (19 March 2018) a Letter of Intent (LoI) to Bharat Heavy Electricals Limited (BHEL/ Company) for setting up 75 MW (AC) Solar Power Plant at Gujarat Solar Park, Charanka on Engineering, Procurement and Construction (EPC) basis at a contract value of ₹305.63 crore. The zero date for execution of the project was 19 March 2018 and the project was scheduled to be completed within 10 months on best effort basis from the date of LoI.

The contract value of ₹305.63 crore was firm price inclusive of all taxes and duties till completion of the project and the rates were not subject to any escalation. Any variation in taxes during original contractual completion period was to be reimbursed on production of documentary evidence. However, reimbursement of anti-dumping duty/ safeguard duty, if applicable on Photo-Voltaic (PV) modules[2], was to be reimbursed only if supply was completed within five months from the date of LoI. Government of India (GoI) notified (30 July 2018) the levy of 25 *per cent* safeguard duty on the import of "Solar Cells whether or not assembled in modules or panels" during 30 July 2018 to 29 July 2019 (both days inclusive) from China and Malaysia.

The Electronics Division, Bengaluru (EDN) of BHEL executed the order for supply of PV modules for GIPCL 75 MW Solar Plant. The orders for supply of PV modules were placed in the ratio of 50:30:20 after reverse auction conducted by EDN as per the details given below:

Table No. 5.1: Details of bidders in the reverse auction

Bidder	Name of the supplier	Date of purchase order	Price* (₹ in crore)	Quantity (*per cent* to total quantity)	Delivery period	Terms of delivery
L1	M/s ZNSHINE PV-Tech Company Limited, China	12.06.2018	79.10	37,500 (50%)	16.08.2018–16.11.2018	Delivered Duty Paid (DDP) at project site
L2	M/s Renesola Jiangsu Limited, China	14.06.2018	44.65	22,500 (30%)	27.07.2018 – 27.09.2018	Cost, Insurance, Freight (CIF) Nhavasheva

[2] *A PV module is an assembly of photo-voltaic cells mounted in a framework for installation. Photo-voltaic cells use sunlight as a source of energy and generate direct electricity.*

Bidder	Name of the supplier	Date of purchase order	Price* (₹ in crore)	Quantity (*per cent* to total quantity)	Delivery period	Terms of delivery
						(Mumbai) Seaport
L3	M/s Vikram Solar Private Limited, Bangalore	27.06.2018	30.76	15,000 (20%)	25.07.2018–22.08.2018	DDP at Project Site

*Exchange Rate of ₹68.50 as of 16 May 2018 adopted per USD as the same was used for Bid Evaluation.

As can be seen from the above table, in case of M/s Renesola Jiangsu Limited terms of delivery were CIF Nhavasheva Seaport. Imports from this supplier were carried out during 15 August – 5 September 2018 when safeguard duty was already enforced. Accordingly, the Company had to pay ₹11.58 crore towards safeguard duty for clearing the goods from the port. The liability for payment of duty in case of supplies by the other two suppliers was not on BHEL as the terms of delivery were DDP, according to which, all the taxes and duties up to project site were to be borne by the suppliers themselves. In case of supplies from M/s Renesola, however, the Company could have claimed reimbursement for safeguard duty, if supplies were ensured within a period of five months from the date of LoI. However, as deliveries by M/s Renesola Jiangsu Limited were not effected within five months from the date of the LoI, i.e., by 19 August 2018, GIPCL rejected the claim of BHEL for reimbursement of safeguard duty. The PV modules supplied by M/s Renesola Jiangsu Limited reached the project site on 26 October 2018, i.e., more than seven months from the date of LoI.

Audit scrutiny of the records revealed the following:

i) As per Clause 7.13.3 (A) of the Request for Proposal (RFP) floated (18 December 2017) by GIPCL, GIPCL was to reimburse any increase in taxes and duties due to statutory variation upon submission of documentary evidence. However, after the Director General of Safeguards, Customs and Central Excise, proposed (5 January 2018) a levy of safeguard duty of 70 *per cent* on "Solar Cells whether or not assembled in modules or panels" imported from China and Malaysia, GIPCL amended the terms (12 January 2018), safeguarding its financial interests, to restrict reimbursement of anti-dumping duty/ safeguard duty on PV modules only if supply was completed within five months from the date of LoI.

ii) BHEL participated in the bid and bagged the order through reverse auction conducted on 20 February 2018 and floated a tender (28 February 2018) for procurement of PV modules. Clause 5.3.39 of this RFP stipulated that, for PV modules, the vendors have to be Tier-I manufacturers as per Bloomberg NEF[3] (BNEF) Q4 2017 Report and fulfilling

[3] ***Bloomberg New Energy Finance (BNEF) Tier-I manufacturers are those who have provided own-brand, own-manufacture products to six different projects, which have been financed non-recourse by six different (non-development) banks, in the past two years.***

other tender requirements, subject to approval of GIPCL. However, BHEL did not incorporate this requirement of vendors being 'Tier-I manufacturers as per BNEF Q4 2017 Report' as a 'Pre-Qualification Criteria (PQC)'. As a result, of the 12 bids received, only five were BNEF approved vendors and, of these, GIPCL approved only three vendors. As reverse auction guidelines of the Company required a minimum of four bidders, this tender was cancelled (28 March 2018). Subsequently, BHEL floated another tender on 30 March 2018 which was cancelled (4 April 2018) on the grounds of expected changes in the terms and conditions of the tender. Another tender was floated by the Company on 28 April 2018 with the same terms as incorporated in tender of 30 March 2018. In the process, BHEL lost valuable time which was critical to meet the delivery schedule of five months.

iii) As per Clause 6.9.2 of the RFP, the best effort schedule for completion of supply of PV modules, in phased manner, was 210 days (seven months) from the zero date (19 March 2018). This schedule was amended on 12 January 2018 by GIPCL and the schedule was compressed to 150 days (five months) from the zero date. However, BHEL considered only the pre-amended schedule of seven months[4] while floating the tender for supply of PV modules in April 2018, which impacted the overall supply schedule. Ensuring that deliveries are made within five months from date of LoI was all the more important in the case of M/s Renesola Jiangsu Limited, as reimbursement of safeguard duty by GIPCL was dependent upon this. Considering the lead time of 30 days for clearing the goods from port and delivery to project site, the deliveries from M/s Renesola Jiangsu Limited should have been completed by 19 July 2018 so as to reach the project site by 19 August 2018. On the contrary, the order was awarded with delivery up to 27 September 2018.

EDN of BHEL did not take cognisance of the proposed changes in tax structure and the delivery schedules, resulting in additional liability of ₹11.58 crore towards payment of safeguard duty for clearing of imports.

The BHEL Corporate Office endorsed (July 2020) the reply of the EDN Management which stated that:

i) The first tender was floated, proactively before receipt of LoI from GIPCL itself, with requirement of PV modules from Bloomberg Tier-1 list. The cancellation of tender was due to non-acceptance of DDP delivery terms by GIPCL approved PV module manufacturers and rejection by GIPCL of PV module manufacturers who agreed for DDP delivery terms. It is pertinent to mention that these manufacturers were Bloomberg Tier-I listed.

ii) BHEL had made the decision to keep the delivery schedule as specified without linking to the safeguard duty reimbursement cut-off date on 19 August 2018 set by GIPCL owing to the definite costs which will be incurred by BHEL while procuring the PV modules rather than an uncertain cost of safeguard duty, imposition date and percentage of which

[4] ***First delivery of 10 MW commencing from four weeks from the date of Manufacture Quality Plan (MQP) approval by GIPCL and thereafter 10 MW every month.***

were not known at the time of tendering. Moreover, with short delivery period of most likely two months or one month for foreign vendor (expected purchase order placement by 10 June 2018 – i.e., 44 days from the date of tender, covering tender opening time, technical/ commercial clarifications, reverse auction, negotiation, etc., as per the policies and guidelines), the rates offered by PV module manufacturers would have been exorbitantly higher or, in worst case, manufacturers would not have quoted for the tender, resulting in further delays.

iii) As a savings initiative practiced by BHEL, reverse auction is attempted for all high value procurements. Attempts were made to increase participation of PV module manufacturers who were likely to be qualified by BHEL and GIPCL for the new tender. BHEL was successful in its attempts by getting 10 PV module manufacturers approved by GIPCL as against only three PV module manufacturers in the first tender. Savings of ₹7.70 crore was achieved through reverse auction due to these attempts. Also BHEL had indirect saving by way of supplying BHEL manufactured modules for balance 21.5 MW and reduced foreign exchange outflow as GIPCL agreed to relax the terms of BNEF vendor for this portion meant for achieving generation guarantee.

iv) The benefit of safeguard duty payment accrued only to the GoI and no vendor benefitted. BHEL and GIPCL being PSUs, the payment made to GoI is amongst the arms of GoI only and not getting reimbursement from GIPCL may not be considered as a loss.

The reply needs to be viewed in the light of the facts given below:

(i) Though Management acted proactively and issued first tender before receipt of LoI from GIPCL, it failed to incorporate requirement of Bloomberg Tier I listed vendors under 'Pre-Qualification Criteria' in the first tender as was done in the re-floated tenders dated 30 March and 28 April 2018. As a result, out of 12 bidders, only five met the criteria.

(ii) The tender conditions stipulated that that the quantity could be split in the ratio of 50:30:20. In case, no subsequent vendor accepted to supply at L1 price, balance quantity could be ordered on L1 only. In view of this, BHEL should have insisted for delivery terms as 'DDP Project Site – Charanka', for indigenous procurement as well as import, to mitigate the additional liability of safeguard duty, if levied.

(iii) Saving of ₹7.70 crore has been worked out by Management by taking difference of amount quoted by the lowest bidder as per the sealed bid and amount arrived at after reverse auction. However, reverse auction was part of all the three tenders floated by BHEL. Similarly, saving on account of supplying BHEL manufactured modules pertains to GIPCL agreeing to relax the terms for additional 21.5 MW meant to ensure generation guarantee and to avoid liquidated damages/ compensation on account of Net Electrical Energy Generation guaranteed as per Clause 10 and Clause 8 of the LoI dated 19 March 2018. Hence, both these savings have no relevance to the audit observation made.

(iv) Had the entire order of 75 MW been placed on delivery terms as DDP, the entire burden of payment of safeguard duty would have been borne by the vendor with no burden on BHEL. Hence, the contention that the payment of safeguard duty is amongst the arms of the GoI is not acceptable.

Hence, while GIPCL was vigilant and safeguarded its financial interests, BHEL, on the other hand ignored the tender terms and amendments by GIPCL while floating its tenders for procurement which costed it an additional liability of ₹11.58 crore towards payment of safeguard duty for clearing of imports.

The Audit paragraph was issued to the Ministry in November 2020; their response was awaited (July 2021).

Heavy Engineering Corporation Limited

5.3 Loss due to failure of Heavy Engineering Corporation Limited to ensure guaranteed availability of draglines

Heavy Engineering Corporation Limited suffered loss of ₹32.74 crore due to its inability to ensure the guaranteed availability of two draglines supplied to Northern Coalfields Limited and consequent encashment of performance bank guarantee by Northern Coalfields Limited.

Heavy Engineering Corporation Limited, Ranchi (HEC) received (30 September 2009) order for supply, erection and commissioning of an electric walking dragline[5] at a price of ₹153.10 crore from Northern Coalfields Limited (NCL), Singrauli. NCL amended (December 2010) the supply order by adding two sets of draglines at the same rate. The price of draglines was inclusive of consumable spares and consumables for warranty period of one year and backup spares and consumables required for two years beyond warranty period.

As per clause 22 of the supply order, HEC had to furnish performance bank guarantee equivalent to 10 *per cent* of the total equipment value[6]. NCL had full right to invoke/ encash the performance bank guarantee in the event of unsatisfactory performance and/ or contractual failure. Further, as per clause 23 of the supply order, availability of the dragline was stipulated to be not less than 90 *per cent* during the warranty period and, thereafter, for 24 months from the date of commissioning.

HEC supplied three draglines to NCL which were commissioned in May 2014 (HMB-13), January 2016 (HMB-14) and May 2019 (HMB-15). HEC was unable to ensure the guaranteed availability of two draglines HMB-13 and HMB-14 and consequently, NCL encashed (25 September 2019) four bank guarantees valuing ₹32.74 crore.

In this regard, Audit observed the following:

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5 *Large excavator with a bucket pulled in by a wire cable*

6 *Including value of accessories, consumable spares and consumables for the warranty period of the equipment and erection and commissioning charges etc. on landed basis.*

i) The availability of HMB-13, was consistently below the guaranteed level of 90 *per cent* since its commissioning. The monthly availability ranged between 43 *per cent* and 71 *per cent* during the first year (May 2014 to April 2015), remained zero for five months during the second year (May 2015 to April 2016) with an average of 27 *per cent* and averaged 68 *per cent* in the third year (May 2016 to April 2017).

The availability of HMB-14 also remained consistently below the guaranteed level during the first three years (January 2016 to January 2019) averaging 50, 63 and 71 *per cent* respectively, with the exception of one month of January 2019 when the availability was above 90 *per cent*.

ii) The availability of the draglines remained poor as there were premature failure/ repeated breakdown of major components and recurring problems of looseness and misalignment due to improper tooth profile and hole mismatch. Further, HEC was unable to maintain and supply inventory of essential spares for quick manufacture and replacement of the defective parts in the machines.

iii) The Audit Committee in HEC also had prima facie noted (December 2019) that delay on the part of HEC to supply spares to the site caused prolonged non-availability of the draglines.

iv) NCL continuously raised the issue of non-availability and breakdown of the draglines and blamed HEC for poor quality of erection, supply of spurious and faulty materials. HEC supplied spares of ₹1.36 crore under warranty and spent ₹0.35 crore towards repair and maintenance of the draglines but could not achieve the guaranteed availability of the draglines HMB-13 and HMB-14 during the warranty period and thereafter for 24 months.

v) As the performance of the draglines was considerably below the guaranteed levels, NCL encashed the performance bank guarantee.

Thus, HEC suffered a loss of ₹32.74 crore due to its inability to ensure the guaranteed availability of two draglines supplied to NCL and consequent encashment of performance bank guarantee by NCL.

Management stated (July and December 2020/ February 2021) the following:

- The constraints in ensuring guaranteed availability of two draglines was failure of major and critical components (Motor Pinion Shaft, Intermediate Pinion Shaft, Slew Rack Segment, Upper and Roller Rail segment, Swing Shaft, Purchase items etc.). The inventory of spares could not be kept due to long manufacturing cycles, lengthy procurement process, high value of items and unhealthy financial condition of HEC.

- There were various other problems affecting the availability of the draglines like teeth profile problem in gearing items, foundation hole and connecting hole mounting problem in Slew Rack Segment and fatigue problem in Roller Rail Segment. All these problems occurred due to machineries (Gear cutting machines, drill machines etc.,) that were old and needed rectification/ modernization.

- To ensure smooth running of the third dragline (HMB-15), it had carried out changes in erection as per the latest technology, started maintaining stock of critical items, close monitoring and initiated steps towards engaging a service provider for preventive maintenance to maintain 90 *per cent* availability.

- The daily routine maintenance of machines (2 hours per day or 8 *per cent* of 24 hours) was included in breakdown and therefore only 92 *per cent* availability was achievable for a month with zero hours break down, which was difficult. This issue was raised with NCL during pre-tender meetings, however, it was not accepted and therefore to bag this order for draglines, the NIT condition was accepted.

- They had approached (15 July 2020) NCL to refund the performance bank guarantee amount.

The reply of the Management is to be viewed in light of the following:

- The fact that availability of draglines was constrained due to premature failure of critical components, older machines and its inability to supply spares to the site has been accepted by the management.

- Reasons for not taking corrective measures as per the latest technology during erection, maintaining the stock of critical items, closely monitoring and taking up preventive maintenance to achieve better availability of draglines HMB-13 and 14, as in the case of HMB-15 subsequently has not been explained.

- The contention of Management that achieving the guaranteed availability was very difficult in view of inclusion of routine maintenance hours under breakdown is not acceptable as the performance of draglines 13 and 14 was considerably lower than the threshold of 90 *per cent* and even the exclusion of the maintenance hours would not have led to achieving the desired performance.

Moreover, the Management was aware of the NIT condition regarding guaranteed 90 *per cent* availability and hence should have taken necessary steps to ensure its achievement, as was subsequently done for HMB-15, after the performance bank guarantee was encashed by NCL due to unsatisfactory performance with respect to HMB-13 and 14.

- Further, the reply of Management, that it had requested NCL to refund the performance bank guarantee amount, does not hold merit as it has not questioned the encashment of performance bank guarantee but has only requested NCL to consider the return of performance bank guarantees on the ground of worsened financial situation of HEC in the wake of the Covid-19 pandemic. Also, this request was raised after a lapse of nine months since the performance bank guarantees were encashed by NCL, and no response or assurance was received (February 2021) from NCL in this regard.

Thus, failure on the part of HEC to ensure guaranteed availability of two draglines supplied to NCL led to a loss of ₹32.74 crore due to encashment of performance bank guarantee by NCL.

The Audit paragraph was issued to the Ministry in January 2021; their response was awaited (July 2021).

5.4 Infructuous expenditure on technical audit

Heavy Engineering Corporation Limited entered into two technology transfer contracts including technical audit, without assurance of funds/ in anticipation of getting manufacturing orders. Non-availability of funds and orders resulted in infructuous expenditure of ₹12.47 crore (₹6.74 crore to CNIITMASH, Russia and ₹5.73 crore to OKBM, Russia) on technical audit.

Heavy Engineering Corporation Limited (HEC or Company) entered into two technology transfer contracts with CNIITMASH, Russia and OKBM Afrikantov, Russia in May 2017 and June 2017 at a cost of 7.25 million USD and 10 million USD respectively.

5.4.1 HEC entered (30 May 2017) into a Technology Development Agreement with CNIITMASH, Russia for transfer of technology with respect to manufacture of components for nuclear and thermal power plants, ship shafts, hollow ingots at a cost of 7.25 million USD. As per the agreement, development of technology was to be completed in five stages, wherein stage 1 involved technical audit and review of basic information and stages 2 to 5 involved the development of end-to-end technology, manuals, on-site trainings and corrections and updates of technology transfers. The agreement was effective for 36 months from October 2017. Technical audit under stage-1 was completed in December 2017 and HEC paid ₹6.74 crore. In this regard, Audit observed the following:

i) HEC had entered into this agreement for transfer of technology in anticipation of approval of its modernisation plan but without specific provision of requisite funds.

ii) The modernisation plan of HEC was conceived in June 2014 and a revised proposal (₹1,252 crore) sent to the Department of Heavy Industries in October 2017 was yet to be approved (February 2021). Nevertheless, payment of ₹6.74 crore for the stage 1 of agreement with CNIITMASH was released with a remark that on receipt of modernisation fund, the same would be shown as utilised.

iii) HEC had incurred continuous losses since 2014-15 (except profit during the year 2017-18 on account of receipt of consideration in lieu of land handed over to Government of Jharkhand) and therefore, did not have any surplus resources available to fund the project.

iv) After the conduct of technical audit and review of basic information (stage 1), which was completed in December 2017, there was no further progress of work and the other stages (Stage 2 to 5) of the agreement with CNIITMASH could not be started before the contract's expiry.

Thus, the Company incurred infructuous expenditure of ₹6.74 crore on the stage 1 of the contract with CNIITMASH and the remaining stages could not be executed.

Management replied (December 2020) that CNIITMASH was entrusted with the task of technical audit as a preparatory step for modernisation. It further stated that Saraswat Committee, set up by Government of India (GoI) to examine the modernisation plan of HEC, in its report had recommended to nurture and revive the Company and based on the recommendations, Department of Heavy Industries had sent the modernisation proposal to the competent authority. However, the Core Group of Secretaries had recommended (May 2018) that no separate fund would be provided by GoI for revival and modernisation of HEC and the same had to be mobilized internally.

Management's reply is not tenable on account of the following:

- Technical audit would be necessary only if Company had necessary funds to follow it up with procurement of technology. In the absence of procurement of technology, the expenditure on technical audit was infructuous.

- The Saraswat Committee had recommended that upgradation must be done in a comprehensive manner with prior provision of complete funding. It had noted that the Capex fund allocation should relate to the total requirement at one go and part investment would not yield the desired outcome. Therefore, entering into agreement for technology transfer, without assurance of funds thereof, was not in line with the recommendations of the Committee.

5.4.2 GoI accorded (June 2017) approval for 10 indigenous Pressurised Heavy Water Reactors (PHWRs) of 700 MW each to be set up by Nuclear Power Corporation of India Limited (NPCIL). HEC in anticipation of getting the order from NPCIL invited (July 2017) an Expression of Interest from Companies having technologies in PHWR. HEC entered into (May 2018) a contract with OKBM Afrikantov, Russia (OKBM) at a total cost of 10 million USD[7]. Stage 1 of the contract involved technical audit and stages 2 to 5 included development and transfer of technological process documentation including design documentation, consultation of technical re-equipment of its manufacturing facilities, technological preparation of manufacturing facilities for fabrication of equipment for Nuclear Power Plant (NPP) etc. Technical audit was conducted in June 2018 and HEC paid ₹5.73 crore to OKBM in May 2019 and October 2020.

In this regard Audit observed the following:

i) The contract with OKBM was entered into without securing assured orders for manufacturing NPP equipment.

[7] ***Comprised of Technical Audit (8 lakh USD), Development of Technology (47.50 lakh USD), Implementation (31 lakh USD) and Documentation and training (13.50 lakh USD).***

ii) The Board of Directors of HEC had expressed (May 2018) concern with regard to the huge funds required to execute the project considering the Company's financial health, and directed the Management to explore possibility of funding the OKBM project through 'Technology Acquisition Fund Programme (TAFP) under Enhancement of competitiveness in the Indian Capital Goods Sector' of Department of Heavy Industries or to approach NPCIL/ Department of Atomic Energy for funds.

iii) The Board of Directors of HEC decided (March 2019) not to go further with the agreement with OKBM without the arrangement of funds and noted (June 2019) that no sincere efforts were made to obtain required funding and expressed its concern over the serious lapse to be further investigated for fixing of responsibility. Meanwhile, HEC could not participate in the major tenders floated by NPCIL because of non-availability of required facilities and also as it did not meet the qualifying criteria.

Thus, the Company entered into agreement with OKBM in anticipation of manufacturing orders from NPCIL and incurred infructuous expenditure of ₹5.73 crore and only stage 1 of the contract could be implemented and the stages 2 to 5 could not be implemented.

Management replied (December 2020) that NPCIL had shown support to work closely to set-up power plants in India and that technical audit was a pre-requisite to assess the equipment for capacity building in order to initiate manufacturing of equipment and components for Nuclear Power Plant. OKBM was entrusted with the task of technical audit as a preparatory step for modernisation. It further stated that Saraswat Committee, set up by the GoI to examine the modernisation plan of HEC, in its report had recommended to nurture and revive the Company. It also stated that HEC could not participate in the tenders in the absence of approved expenditure for modernisation. However, the Core Group of Secretaries had recommended (May 2018) that no separate fund would be provided by GoI for revival and modernisation of HEC and same had to be mobilized internally.

Management's reply is not tenable on account of the following:

- The Company had entered into an agreement and incurred expenditure based on its anticipation of receiving orders from NPCIL, without any provision for funds.

- Though NPCIL had shown interest (October 2016) in working closely with HEC, in the absence of modernisation, HEC failed to qualify for tenders floated by NPCIL.

- As cited in 5.4.1 above, Saraswat Committee had recommended that the Capex fund allocation should be available at one go and part investment would not yield the desired outcome. Therefore, entering into agreements for technology transfers, without assurance of funds thereof, was not in line with the recommendation of the Committee.

The above instances highlight the fact that, the decision of HEC to enter into these agreements with foreign companies was without provision for requisite funds or in anticipation of manufacturing orders. HEC failed to obtain approval for its modernisation plan and the absence of funds resulted in infructuous expenditure of ₹12.47 crore

(₹6.74 crore to CNIITMASH, Russia and ₹5.73 crore to OKBM, Russia) on technical audits.

The Audit paragraph was issued to the Ministry in February 2021; their response was awaited (July 2021).

CHAPTER VI: MINISTRY OF MINES

Hindustan Copper Limited

6.1 Unfruitful expenditure towards construction of Copper Ore Tailings Beneficiation Plant

Imprudent decision of Hindustan Copper Limited to construct full scale Copper Ore Tailings beneficiation plant without adequately operating the pilot plant and verifying its feasibility/ success thereof, resulted in unfruitful expenditure of ₹158.05 crore.

Hindustan Copper Limited (HCL/ Company) decided to process by-product i.e., copper ore tailings through ore beneficiation process to recover economic material viz., gold, silver etc. Accordingly, the Company awarded (January 2016) a contract for design, supply, civil work, installation, commissioning and operation of a pilot plant at Khetri Copper Complex (KCC) with a capacity to treat 200 tonnes copper ore tailings per day at a total value of ₹6.98 crore as a Research and Development project to M/s Star Trace Private Limited (STPL) after competitive bidding process, to be completed within 12 months from the date of commissioning or earlier as decided by HCL. This pilot project was established to evaluate its techno-commercial feasibility so that a decision regarding setting up of a commercial installation could be taken on the basis of the results achieved.

The Company, even before the commissioning of the pilot project in June 2016, decided (May 2016) to install a full scale plant at Malanjkhand Copper Project (MCP) with a capacity to process 10,000 MT of copper ore tailings per day based on the preliminary findings of KCC pilot plant at trial run stage only to save time. On the basis of the Company's techno-commercial evaluation and SBICAP's financial appraisal (January 2017) of full scale Copper Ore Tailings Beneficiation Plant, the Company awarded (March 2017) the contract of ₹280 crore (including ₹85 crore towards operation and maintenance of the above plant for two years) on single tender basis for setting up of 3.29 million tonne per annum Copper Ore Tailings Beneficiation Plant at MCP to STPL. The above plant was to be completed by November 2017.

In this regard, Audit observed following:

- The Company's techno-commercial evaluation of full scale Copper Ore Tailings Beneficiation Plant and SBICAP's financial appraisal of the same as feasible and viable was based on just three days performance of the KCC pilot project. Therefore, the decision (May 2016) of the Management to install a full scale plant at MCP even before the commissioning of the pilot plant at KCC (June 2016), based on trial stage performance of the pilot plant was imprudent and injudicious. Further, at no stage before taking the decision for up-scaling, was the pilot project's latest performance considered.

- Despite two times extensions with an additional expenditure of ₹2.06 crore, the pilot project failed to achieve its envisaged parameters even after 33 months' operation and was also found unviable on commercial as well as technical aspects by the committee set up (November 2018) for the performance evaluation.

- Trial runs for MCP Plant (August 2018/ October 2018) and reliability test run (December 2018) failed to produce the desired output. Three shift trial run for 30 days conducted (April 2019), without considering failed pilot project closed in February 2019, was also unsuccessful, but the Company accepted fresh commitment given by STPL (June 2019), which was not justifiable. The full scale plant at MCP was not completed even after a delay of 35 months (from November 2017 to October 2020).

By adopting technology which was yet to be proven, the Company not only wasted its resources but also made unjustified and imprudent investment decision of ₹158.05 crore (after adjusting security deposit of ₹8.49 crore) by up-scaling it without waiting for outcome of the pilot plant, which proved to be a failure.

Management while accepting the audit observation stated (November 2020) that the decision of the Company to construct full scale Copper Ore Tailings Beneficiation Plant at MCP with a capacity of 3.29 MTPA without adequately operating the pilot plant and observing the success thereof was not prudent resulting in unfruitful expenditure of ₹158.05 crore.

Therefore, disregard of the results/ findings of an ongoing pilot project and hastening into construction of commercial Copper Ore Tailings Beneficiation Plant at MCP with unproven technology, rendered ₹158.05 crore unfruitful.

The Audit paragraph was issued to the Ministry in Janary 2021; their response was awaited (July 2021).

Recommendation No. 8

The Company should analyse the lapses in decision taken for construction of commercial plant without considering the results/ findings of a related ongoing pilot project and take necessary action.

National Aluminium Company Limited

6.2 Avoidable expenditure towards stamp duty and registration fee for Mining Lease

National Aluminium Company Limited incurred avoidable expenditure towards stamp duty and registration fee of ₹8.56 crore for extension of mining lease for 20 years by executing two separate supplementary lease deeds instead of one.

National Aluminium Company Limited (Company) has Panchpatmali[1] Mines in Koraput district of Odisha, which is the main captive source of bauxite ore for the Company. The

[1] *Central and North Block*

mining lease for the above was granted in November 1982 for a period of 30 years by the Government of Odisha in line with the provisions of the Mines and Minerals (Development and Regulation) Act (MMDR Act), 1957 as amended from time to time. As the same was going to expire on 16 November 2012, the Company applied (October 2010) for the renewal of the mining lease for a period of 20 years (upto November 2032) as per the provisions of the MMDR Act.

The MMDR Act, 1957 was amended in January 2015. As there was no provision in the amended Act[2] for renewal of mining lease in respect of Government Companies or Corporations, Ministry of Mines, Government of India (GoI) ordered (February 2015) that the renewal of mining lease of all the Government Companies or Corporations where mining lease had expired and renewal applications were made within due time would be extended till 31 March 2020. Accordingly, Government of Odisha granted (October 2015) the renewal of mining lease for Panchpatmali Mines for a period of 7 years 4 months and 15 days (upto 31 March 2020). The Company executed (March 2016) the first supplementary lease deed for the above renewal of mining lease by paying ₹8.56 crore[3] for the period up to 31 March 2020.

Ministry of Mines, GoI notified (03 December 2015) the Mineral (Mining by Government Company) Rules, 2015 (Rules) which, *inter alia,* stated that the State Government would extend the period of mining lease for a period of 20 years at a time on the basis of application made by the Government Companies or Corporations at least 12 months before the expiry of the mining lease (Sub-rule 2 of Rule 3). Accordingly, on request of the Company (June 2016), the Government of Odisha granted extension of mining lease up to 16 November 2032, and the Company executed (September 2017) the second supplementary lease deed on payment of ₹17.12 crore[4] as stamp duty and registration fee for the period from 1 April 2020 to 16 November 2032.

Audit observed that the Company did not consider the provisions of the new rules notified on 03 December 2015 and paid ₹8.56 crore as stamp duty and registration fee while executing the first supplementary lease deed in March 2016 for the period upto 31 March 2020. Thereafter, the Company again applied (June 2016) for renewal of lease for the same mining reserve as per the new rules and paid (September 2017) ₹17.12 crore for stamp duty and registration fee for executing the second supplementary lease deed for the period from 1 April 2020 to 16 November 2032.

As per the Indian Stamp (Orissa Amendment) Act, 1986, stamp duty and registration fee for lease term between 5 and 10 years was equal to the amount of the average annual rent reserved and the same for a lease period between 10 and 20 years, was equal to twice the amount of the average annual rent reserved. Thus, the Company executed the extension of

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[2] ***The Mines and Minerals (Development and Regulation) Amendment Act, 2015 (10 of 2015) effective from 12 January 2015***

[3] ***Stamp Duty of ₹6.11 crore and Registration Fee ₹2.45 crore paid in March and April 2016 respectively***

[4] ***Stamp Duty of ₹12.23 crore and Registration Fee ₹4.89 crore***

mining lease for 20 years in two parts instead of one and consequently incurred avoidable expenditure of ₹8.56 crore. This also indicated lack of due diligence on the part of the Company.

Management/ Ministry replied (February 2021/ June 2021) that due to non-receipt of extension order notified on 03 December 2015, the Company requested (June 2016) the Government of Odisha to extend the mining lease for the remaining period 1 April 2020 to 16 November 2032. The Management further stated that the consent to operate renewal would not have been possible without the deposit of ₹8.56 crore as non-payment might have led to stoppage of mining operations. Ministry further added (June 2021) that the Company had already applied (March 2020) to Government of Odisha for examination and refund of additional amount paid on execution of second supplementary lease deed.

The reply of Management/ Ministry is not tenable as the notification for the Mineral (Mining by Government Company) Rules, 2015 dated 03 December 2015 was published on 08 December 2015 by the Ministry of Mines i.e., 3 months and 22 days before execution of first supplementary lease and same was available in public domain. Further, renewal of consent to operate was not dependent upon the payment of stamp duty and registration fee as consent to operate was renewed (February 2016) by State Pollution Control Board, Odisha prior to payment of the registration fee and stamp duty (March 2016). The Company applying to Government of Odisha for refund of additional amount paid on execution of second supplementary lease deed validated the view of the Audit that there had been lapse on the part of the management which led to avoidable expenditure of ₹8.56 crore.

Thus, inaction on the part of Management in processing the extension of mining lease in accordance with the Mineral (Mining by Government Company) Rules, 2015 notified on 3 December 2015 resulted in avoidable expenditure of ₹8.56 crore due to extension of mining lease in two parts instead of one.

CHAPTER VII: MINISTRY OF STEEL

MSTC Limited

7.1 Imprudent financing resulting in non-recovery of dues

Financing of procurements by MSTC Limited on behalf of a party having poor credit rating as well as unfavorable financial parameters resulted in non-recovery of dues amounting to ₹220.84 crore.

MSTC Limited (MSTC) entered (April 2013) into an agreement w.e.f., 12 December 2012 with M/s Concast Steel & Power Limited (CSPL), a private party, for financing import/ procurement of Low Ash Metallurgical (LAM) coke, coal and melting scrap under the facilitator mode. As per the agreement, the Company, at the request from CSPL, would open a Letter of Credit on the seller. Further, the material was to be pledged in the name of MSTC and stored at a designated warehouse located within the plant of CSPL under the custody of a custodian. The custodian would deliver the material to CSPL on cash and carry basis after receiving authorization from MSTC. As per the agreement, MSTC would secure from CSPL corporate guarantee, personal guarantee, security deposit and insurance for pledged material against theft, burglary etc., in which the beneficiary will be MSTC for safeguarding its financial interests. A tripartite agreement was also entered (July 2013) into among MSTC, CSPL and the custodian[1]. As per such agreement, CSPL was solely responsible for any shortage of the pledged materials and the value of such shortages, if any, would be payable by CSPL.

In this regard, Audit observed the following:

- The financing of CSPL[2] was in violation of the new Risk Management Policy (January 2013) of MSTC which stated that potential customer securing less than 25 points would not be selected. Further, Credit Analysis & Research Limited (CARE) in its rating (Feburary 2013) degraded CSPL from BBB to BB in long term facilities and A3 (moderate risk) to A4 (high risk) in short term facilities.

- The credit limit exposure of CSPL was increased from ₹40 crore to ₹245 crore in four tranches within a short span from April 2013 to May 2014 despite high/ moderate credit rating calculated by MSTC itself coupled with irregular lifting pattern of pledged materials and piling up of outstanding dues. Furthermore, on enquiry from a leading bank regarding credit worthiness, MSTC was informed (January 2014) that CSPL was irregular in payment of its dues. The above facts indicate that the investment decision of MSTC was not prudent.

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1 *Ferro Scrap Nigam Limited (a subsidiary of MSTC)*

2 *CSPL had 20 points*

- The total outstanding dues of CSPL to MSTC till February 2021 was ₹220.84 crore (excluding interest of ₹104 crore and after adjusting security deposit) and no recovery could be made there against.
- All the volumetric assessments (from March 2016 to February 2020) revealed repeated shortages of pledged materials to which MSTC did not take any cognisance. MSTC not only continued financing CSPL but also did not take effective steps for safeguarding such pledged stock for securing its own financial interests.
- No penal provision for deficiency in service in the tripartite agreement precluded MSTC from compelling the custodian to make good such losses of pledged material. MSTC did not take any action for breach of agreement by the custodian and since shortages were due to unauthorised lifting by CSPL as stated by MSTC, it was also unable to avail benefit of insurance coverage.
- Since the National Company Law Tribunal (NCLT) recognised the Company as unsecured operational creditor, the chances of recovery are doubtful and the Company also made a provision for the entire outstanding dues of CSPL in the books of accounts for the year 2018-19.
- Though the Company had taken personal guarantees valuing ₹210.73 crore from the promoters of CSPL during the period from July 2017 to October 2017, it failed to invoke the same within 15 days in the event of any default of payment by CSPL. MSTC, ultimately, invoked the same only in July 2018, i.e., after eight months of CSPL being referred (November 2017) to NCLT. As personal guarantees were not paid, MSTC filed (March 2020) a civil suit.
- The Company could not also take the benefit of invoking corporate guarantee as CSPL was referred to NCLT.

Thus, the imprudent decision of the Company towards extending financial assistance to CSPL under facilitator mode resulted in non recovery of dues amounting to ₹220.84 crore.

Management/ Ministry in their replies stated (September 2019/ March 2020) that the Company continued financing CSPL from time to time by increasing the credit limit exposures with a view to liquidate the pledged materials and realise its outstanding dues and further stated that the irregular payment pattern of CSPL was mainly due to poor market conditions. They also stated that NCLT had ruled (October 2019) MSTC as secured creditor.

Replies of the Management/ Ministry were not tenable because the poor financial health of CSPL was well known to the Company as reflected in the poor financial parameters and credit rating given not only by CARE but also according to the Company's own Risk Management Policy even before entering into the contract. Further, irregular lifting of pledged materials and piling up of outstanding dues as also adverse report given by a leading bank in January 2014, were persistent red flags but those indicators were also ignored and undue benefits were extended to CSPL by way of continuous increase in credit limit exposure. Regarding the reason cited by the Ministry/ Management for increasing the credit limit exposure to liquidate the pledged materials for releasing its outstanding dues, it was observed that no such reason or concern about poor market conditions were found documented in the records at the time of increasing credit exposure. Further, the ruling of NCLT for MSTC as secured creditor was challenged by the Liquidator and the same is sub-judice with the present position of MSTC being in the NCLT list of unsecured operational creditors (December 2019).

Thus, imprudent decision of the Company towards extending financial assistance to CSPL under facilitator mode resulted in non-recovery of dues amounting to ₹220.84 crore (excluding interest of ₹104 crore and after adjusting security deposit).

Recommendation No. 9

The Company should analyse lapses in decision making in the business proposition with Concast Steel & Power Limited to fix responsibility and take appropriate steps to prevent its recurrence.

NMDC Limited

7.2 Avoidable extra expenditure towards Operation and Maintenance of the Beneficiation and Pelletisation plants

Extension of Operation and Maintenance contract of the Beneficiation and Pelletisation plants at Donimalai on nomination basis by NMDC Limited, without considering condition of the plants and actual scale of operations, resulted in avoidable extra expenditure of ₹36.65 crore.

NMDC Limited (NMDC/ Company) awarded (January 2015) a contract to M/s KIOCL Limited[3] (KIOCL) on nomination basis for providing operations and maintenance (O&M) services for its 1.89 million tonne per annum Beneficiation[4] and 1.2 million tonne per annum Pelletisation[5] Plant at Donimalai, Karnataka. As per terms of the O&M contract, besides providing O&M services for three years, KIOCL was also required to assist in pre-commissioning (trial run/ provisional acceptance tests) and integrated commissioning of both the plants. Load trial runs of both Beneficiation plant as well as Pelletisation plant were conducted in June/ July 2015 and it was mutually agreed between NMDC and KIOCL to consider 1 August 2015 as date of start for O&M services. This contract was awarded at

[3] ***Formerly known as Kudremukh Iron Ore Company Limited***

[4] ***The process of conversion of slimes into high grade ore is called beneficiation.***

[5] ***The process of converting the beneficiated ore into balls/ pellets is called pelletisation.***

a value of ₹81.93 crore[6] *plus* taxes. Integrated commissioning of both the plants was done in June 2017.

On expiry of the O&M contract in July 2018, the Company extended this O&M contract for 1 year and 3 months in two spells. The first extension was given in December 2018 for one year i.e., from 1 August 2018 to 31 July 2019 (for ₹45.38 crore *plus* GST). The contract was further extended the second time in August 2019 for three months i.e., from 1 August 2019 to 31 October 2019 (for ₹11.34 crore *plus* GST). Thereafter, O&M works were awarded (October 2019) through Open Tender Enquiry for a period of one year from 1 November 2019 to 31 October 2020 for ₹5.75 crore and ₹7.53 crore *plus* GST in respect of Beneficiation Plant and Pelletisation Plant respectively to the lowest bidder. These contracts were extended for two months (November and December 2020) on the same terms. Subsequently, after Open Tender Enquiry, contract for one year was awarded to same contractors at ₹6.36 crore and ₹8.31 crore *plus* GST respectively.

Scrutiny of the records revealed the following:

i) Contract for O&M services was awarded to KIOCL initially on nomination basis in 2015. The Beneficiation Plant constantly encountered problems like failure of pressure filter and non-availability of slimes for producing the concentrate. The integrated Pellet Plant had not produced any pellets during 29 of the 36 months of the O&M contract period (August 2015 to July 2018) and during the remaining seven months, the production of pellets ranged between 0.56 and 29.70 *per cent* of the rated capacity (1 lakh tonne per month). However, despite actual scale of operations being minimal due to machinery breakdown and unavailability of raw material, the Company extended O&M contract with KIOCL on nomination basis twice for a total period of 15 months (in December 2018 for one year from 1 August 2018 to 31 July 2019 and in August 2019 for a period of three months from 1 August 2019 to 31 October 2019). Audit observed that both these extensions were given on the same terms as contained in contract of January 2015 at a cost of ₹56.72 crore[7] *plus* GST, which shows award of contract without having regard to actual scale of operations.

ii) The contract signed in January 2015 envisaged deployment of 53 executives and 124 non-executives by KIOCL for the services being rendered under the first year of the O&M contract. Contract also envisaged imparting training and induction of NMDC employees progressively so that after acquiring necessary expertise complete operation and maintenance activities may be taken over. However, as training could not be imparted as envisaged due to non-induction of manpower by the Company, KIOCL deployed manpower

[6] ***Value of award included charges for Pre-commissioning Services (₹0.30 crore); Commissioning Services (₹1.62 crore); Services during 1st year of O&M (₹29.50 crore), Services during 2nd year of O&M (₹26.94 crore); Services during 3rd year of O&M (₹23.57 crore). Actual expenditure incurred was ₹72.95 crore excluding taxes.***

[7] ***₹45.38 crore for the period from 1 August 2018 to 31 July 2019 and ₹11.34 crore for the period from 1 August 2019 to 31 October 2019.***

as per the contract terms even during second and third year of the O&M contract. This necessitated extension of contract and reliance on outsourcing of works.

iii) Subsequently, the Company analysed the current production levels and outsourced the O&M works through Open Tender Enquiry and awarded (October 2019) the same for a total value of only ₹13.28 crore *plus* GST to M/s Sri Saipriya Enterprises, Hospet (₹5.75 crore – O&M contract for Beneficiation Plant) and M/s Vishal Enterprises, Hospet (₹7.53 crore – O&M contract for Pelletisation Plant) for a period of one year from 1 November 2019.

Had the Company exhibited this due diligence on time and outsourced the works after competitive bidding from 1 August 2018 onwards i.e., immediately after end of three years period of O&M contract with KIOCL, the Company could have saved ₹36.65 crore[8] during 1 August 2018 to 31 October 2019.

The Management (August 2020) and Ministry (December 2020), while accepting the fact that manpower deployment by KIOCL remained constant due to non-induction of manpower by NMDC, stated that:

i) O&M contract was awarded to KIOCL as they were pioneers in Pellet Plant operation in India and had the expertise to carry out O&M in such Beneficiation and Pellet plants. Skilled and experienced manpower are generally not available on "On and Off" basis/ temporary need basis and hence, to operate any process plant like Pellet Plant, especially skilled manpower is required and hence they are to be deputed on continuous basis which were provided by KIOCL.

ii) As O&M contract for operating the plant by outsourcing was unique and was being done for the first time in NMDC, multiple reviews/ opinions were carried out and all due care and precautions were taken prior to floating the tender, so that the tender floating becomes successful. The process of floating tender and inviting competitive bids, seeking clarifications, etc., took around three months' time, and accordingly, contract period with KIOCL had been extended for only three months i.e., from 1 August 2019 to 31 October 2019, so that the separate O&M contract of Pelletisation and Beneficiation Plant could be finalised. Hence, the Company could save ₹40.16 crore (₹4.46 crore[9] x 9) by not extending the KIOCL contract for another nine months.

Reply of the Management/ Ministry needs to be seen in light of the following facts:

i) While awarding the contract to KIOCL on nomination basis in 2015, only due-diligence exercised by NMDC was to compare option of carrying out the work in-house by NMDC *vis-à-vis* outsourcing to KIOCL. No other alternatives were explored. Further,

[8] ***Difference between actual payment for 15 months made to KIOCL (₹53.41 crore) and rates at which contract was awarded to M/s Sri Saipriya Enterprises and M/s Vishal Enterprises for next 15 months (₹16.76 crore).***

[9] ***This figure has been taken by the Ministry on the basis of price, inclusive of GST, for extended contract for the period of 3 months viz., 1 August 2019 to 31 October 2019. This amount was ₹13.39 crore.***

KIOCL had deployed the same contractors, M/s Sri Saipriya Enterprises and M/s Vishal Enterprises, for the supply of skilled, semi-skilled and unskilled workers, for mechanical, electrical, instrumentation and maintenance works at Pellet Plant, Donimalai during July 2017 to October 2019, who were awarded works directly through Open Tender Enquiry by the Company subsequently from 1 November 2019. Hence, the contention regarding non-availability of skilled and experienced manpower does not hold good.

ii) As per Clause 15.3 of the O&M contract with KIOCL, the Company was to induct 34 personnel annually and get them trained by KIOCL. For this, NMDC was to pay ₹4.69 crore to KIOCL as training and capacity building fee and in return it could get a discount of ₹12.73 crore from the O&M charges payable. As per this provision, by the end of three years, 102 personnel of the Company could have been trained. However, no manpower of NMDC was inducted during the second and third year. This led to award of O&M contract of the plant for extended period to KIOCL on the grounds of lack of skilled manpower to operate and supervise the plant and subsequently the contract was outsourced to other contractors as mentioned above.

iii) As the contract with KIOCL was concluding by 31 July 2018, the Company should have taken note of the capacity utilisation and constraints in operation of the plants and taken pro-active measures by the end of third year of O&M contract to bring economy in the O&M expenses. The Company in its note (November 2018) seeking extension of the O&M contract for fourth year, stated that an Open Tender Enquiry will be floated for fifth year for availing competitive rates linked to the scale of operations. The Company initiated the proposal for issue of Open Tender Enquiry in May 2019 stating that even recovery of O&M contract cost placed on KIOCL was not feasible at that point of time. Thereafter, Open Tender Enquiry was issued on 8 July 2019 and contracts for outsourcing of O&M services were awarded only in October 2019. Hence, the Company could not even award contract from start of the fifth year (1 August 2019) on competitive terms and O&M contract with KIOCL had to be extended by another three months (1 August to 31 October 2019) at ₹11.34 crore excluding GST. Regarding savings of ₹40.16 crore mentioned in the reply of Ministry/ Management, this has been worked out from November 2019 to July 2020 for not extending the KIOCL contract for another nine months, whereas the Company could have saved ₹36.65 crore for the period August 2018 to October 2019, had it acted timely and outsourced the works on competitive terms.

Thus, lack of due diligence on the part of the Company in extending O&M contract without reference to the actual scale of operations resulted in avoidable extra expenditure of ₹36.65 crore.

7.3 Payment of registration charges and stamp duty twice for Mining Lease

Avoidable expenditure of ₹48.36 crore on account of failure of NMDC Limited in obtaining specific assurance from the Government of Chhattisgarh regarding waiver from payment of registration charges and stamp duty twice within a year, once by NMDC Limited and subsequently by its Joint Venture Company NMDC-CMDC Limited.

NMDC Limited (NMDC) was sanctioned in 1991, prospecting license in respect of 631.34 hectares of land for Deposit 13 at Bailadila, Chhattisgarh. After conduct of prospecting activities (December 1991 to December 1993), NMDC applied for mining lease in 1994 and became the first applicant for 631.34 hectares. The mining lease area was later (June 2005) revised to 413.745 hectares. NMDC signed (July 2006) a Memorandum of Understanding (MoU) with Chhattisgarh Mineral Development Corporation Limited (CMDC), a State Public Sector Undertaking of Government of Chhattisgarh, to develop the Deposit 13 mines. The MoU provided for creation of a joint venture company (NMDC-CMDC Limited) by NMDC and Chhattisgarh Mineral Development Corporation Limited (equity holding in the ratio of 51 *per cent* and 49 *per cent* respectively). It also envisaged the transfer of the mining lease granted to NMDC to the joint venture company and that further required steps would be undertaken by the joint venture company. The Mineral Resources Department, Government of Chhattisgarh approached (10 November 2006) the Ministry of Mines, Government of India for prior approval for grant of mining lease in favour of NMDC in Deposit 13 mines. The proposal also cited the additional condition that the mining lease awarded to NMDC would be transferred to the joint venture between NMDC and Chhattisgarh Mineral Development Corporation Limited. The joint venture company NMDC-CMDC Limited was formed in June 2008.

NMDC meanwhile, applied (January 2003) for statutory clearances and permissions which got delayed[10]. The Stage II Forest Clearance was finally granted by Ministry of Environment, Forest and Climate Change (MOEF&CC) on 9 January 2017 and thereafter NMDC got the mining lease registered in its favour by payment of ₹44.26 crore towards registration charges (₹18.44 crore) and stamp duty (₹25.82 crore) in January 2017. After a period of only 10 months in December 2017, this mining lease was transferred in the name of the joint venture company NMDC-CMDC Limited, as per the terms of the MoU, and payment of ₹52.30 crore was made, towards registration charges (₹21.79 crore) and stamp duty (₹30.51 crore).

In this regard, Audit noted the following:

i) NMDC incurred avoidable expenditure on account of payment made twice for registering the same mining area first in its own name and then subsequently transferring it to the joint venture company after a gap of only 10 months (January 2017 and December 2017).

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[10] ***Highlighted in Para 3.3 of C&AG Report No. 5 of 2019***

ii) NMDC failed to protect its financial interest while agreeing to incur expenditure twice for a mining lease that was finally meant to be transferred to its joint venture company. The State Government of Chhattisgarh, collected the charges of registration and stamp duty on two occasions for the same mining area although Chhattisgarh Mineral Development Corporation Limited was a public sector undertaking of Government of Chhattisgarh, and held 49 *per cent* shareholding in the joint venture company.

iii) NMDC, before agreeing to such a transaction, could have obtained specific assurance from the Government of Chhattisgarh, through CMDC, regarding waiver from payment of registration charges and stamp duty twice, once by NMDC Limited and subsequently by its joint venture company NMDC-CMDC Limited.

iv) It could have ensured inclusion of a specific clause granting protection from payment of Registration and Stamp Duty twice, in the Shareholders cum Joint Venture Agreement which included the obligations of both the parties to the Joint Venture.

The failure of NMDC to obtain such assurance, resulted in the payment of registration charges and stamp duty twice for registering the same mine (Deposit 13), first by NMDC and then for the second time by the joint venture company NMDC-CMDC Limited. NMDC incurred avoidable expenditure to the extent of ₹48.36 crore (49 *per cent* of ₹44.26 crore *plus* 51 *per cent* of ₹52.30 crore), assuming that the joint venture company would have borne the registration charges and stamp duty in the first instance itself.

Management stated (August 2021 and September 2021) that the Shareholders Agreement is between NMDC and CMDC and the State Government was not a party to the Agreement. Therefore, neither NMDC nor CMDC were in a position to make any such commitment on behalf of the State Government. It was also stated that NMDC-CMDC was pursuing with the Government of Chhattisgarh for adjustment/ refund of the amount.

Reply of the Management is to be viewed in light of the fact that CMDC is a public sector undertaking of the Government of Chhattisgarh and has Secretaries of the Finance Department, the Mineral Resources Department and other senior State Government officers of the Government of Chhattisgarh as members of its Board. Further, the Government of Chattisgarh in a specific clarification obtained by Audit in this regard, stated (June 2021) that the stamp duty paid in the second instance was not refundable.

Thus, failure of NMDC to include a specific assurance from Government of Chhattisgarh, through CMDC, regarding waiver of registration charges and stamp duty in the Shareholders cum Joint Venture Agreement resulted in avoidable expenditure of ₹48.36 crore.

The Audit paragraph was issued to the Ministry in August 2021; their response was awaited.

Rashtriya Ispat Nigam Limited

7.4 Avoidable expenditure due to delay in decision making

Inordinate delay in finalisation and signing of Long Term Agreement for procurement of Benga Thermal Coal by Rashtriya Ispat Nigam Limited resulted in avoidable expenditure of ₹12.39 crore.

Rashtriya Ispat Nigam Limited (RINL) consumes boiler coal in its captive power plant for generation of power. RINL has a Fuel Supply Agreement (FSA) with Mahanadi Coalfields Limited (MCL) for supply of boiler coal. As the boiler coal supplies received from MCL were of inferior quality with low calorific value, RINL has to blend the same with boiler coal of higher calorific value to generate power at optimum levels.

RINL procured (August 2017) Benga thermal coal from M/s Minas De Benga Limitada, Mozambique (MBL), a subsidiary of International Coal Ventures Private Limited (ICVL)[11], and consumed (September 2017) in its captive power plant on trial basis. As the trial was successful, RINL proposed (September 2017) to purchase three shipments of Benga thermal coal and to have a Long Term Agreement (LTA) with M/s MBL. M/s MBL agreed (October 2017) to supply three shipments of Benga thermal coal and offered a discount of USD 27.35 Per Metric Tonne (PMT).

RINL requested (16 November 2017) M/s MBL to supply the shipments in December 2017 and January 2018. Upon negotiation by RINL, pricing mechanism was revised (22 November 2017) by M/s MBL with discount offered being revised to USD 24.73 PMT from USD 27.35 PMT on base price[12] and an additional discount of USD 6 PMT was offered on FOB price[13]. Downward revision of discount was as per another competitive bid received by M/s MBL in their global tender of October 2017. RINL placed (14 December 2017) an order on M/s MBL for supply of two shipments of Benga thermal coal of 33,000 MT each with a discount of USD 24.73 PMT on the base price and additional discount of USD 6 PMT on FOB price. First shipment was received in the laycan[14] of 01-06 December 2017. For the second shipment, M/s MBL informed (12 December 2017) RINL that pricing mechanism will not remain the same as additional freight discount of USD 6 PMT would not be possible. RINL requested to continue the freight discount of USD 6 PMT for January shipment also. M/s MBL responded (23 December 2017) that discount of USD 6 PMT together with a lower cap of USD 60 per tonne could be accepted if RINL agreed for LTA at one shipment per month for a period of one year.

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11 ICVL was set up as a Joint Venture company with Steel Authority of India Limited, Coal India Limited, Rashtriya Ispat Nigam Limited, NMDC Limited and NTPC Limited as the promoter companies with one of the objective being to ensure supply of imported met coal.

12 The Base Price is the API#4 price (as per Argus/ McCloskey's Coal Price Index Report) which shall be the average of two weeks' price immediate prior to the week in which Bill of Lading is issued.

13 FOB Price = (Base Price PMT less USD 24.73 PMT) x (Actual Calorific Value on Net as Received (NAR) basis/ 5500).

14 Laycan is the period of specified days during which owners must present the vessel for loading.

On seeking further confirmation, M/s MBL agreed (26 December 2017) to the RINL proposal of continuing additional discount of USD 6 PMT and also to remove the lower cap of USD 60 PMT provided the shipments were treated as a part of LTA and proposed pricing terms were treated as provisional which would be finally settled as per LTA terms and conditions. This was agreed to in-principle by RINL and M/s MBL was intimated (27 December 2017) that draft terms would be forwarded after taking internal approvals. Accordingly, RINL placed (13 January 2018) an order on M/s MBL for supply of Benga thermal coal from January 2018 as part of LTA pending finalisation of terms and conditions.

RINL constituted (2 March 2018) a committee to negotiate with M/s MBL and to recommend detailed terms and conditions for LTA. The committee prepared the draft terms and conditions of LTA in June 2018. Meanwhile, M/s MBL reduced (14 May 2018) the discount from USD 24.73 PMT to USD 22.74 PMT and also reduced (31 May 2018) the additional discount from USD 6 to USD 3 PMT on FOB price citing that cargoes were priced provisionally with the understanding that RINL would enter into an LTA which did not happen so far. Subsequently, RINL concluded (31 January 2020) an LTA with M/s MBL, after holding negotiations on 25 September 2018, 14 November 2018 and 13 August 2019, for a period from January 2018 to March 2021 with an option to extend the duration of agreement by two more years up to 31 March 2023 at the sole discretion of RINL. As per pricing mechanism agreed upon under this LTA, for shipments up to 12 August 2019, the provisional price was considered as final price and for subsequent shipments, M/s MBL offered a discount of 23 *per cent* on Published Market Price (PMP)[15] and an additional discount of USD 6 PMT on FOB Price for shipments up to 31 March 2020. RINL imported 7,22,048 MT of Benga thermal coal during January 2018 to December 2019.

Audit scrutiny of records revealed that RINL envisaged the necessity for continued and ensured supply of imported boiler coal and to have a long term tie-up with M/s ICVL as early as September 2017. M/s MBL proposed (26 December 2017) to continue the discount of USD 24.73 PMT on the base price and additional discount of USD 6 PMT on FOB price, for second shipment, provided the shipments were treated as part of LTA (one shipment per month for a period of one year). This was agreed in-principle by RINL and communicated to M/s MBL vide mail dated 27 December 2017.

However, though the Committee of Management (COM)[16] accorded (13 January 2018) in-principle approval for entering into LTA with M/s MBL, the Committee to negotiate and recommend terms of the LTA was constituted only on 2 March 2018. Further, the Committee constituted could not conclude the terms within a reasonable time, and the LTA

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[15] ***Published Market Price (PMP) means the average of the two weeks API#4 Index Price, in US$ per metric ton, immediate prior to the week in which the Bill of Lading is issued. Monday will be counted as the first day of the week. The API#4 Index means the Argus/ McCloskey's Coal Price Index Report.***

[16] ***Committee of Management is an empowered committee constituted by Board of Directors. This committee consists of all the functional directors as its members and is headed by Chairman-cum-Managing Director.***

was concluded on 31 January 2020 i.e., more than two years after according in-principle approval for the same. This resulted in M/s MBL reducing the discounts in May 2018. As a result, subsequent to May 2018, RINL incurred avoidable expenditure of ₹12.39 crore towards the discount forgone for the nine shipments procured at a cost of ₹186.04 crore.

Management in November 2020 and Ministry in March 2021 stated that a cross-functional Committee comprising members from different departments was constituted for finalisation of the terms and conditions of the LTA and terms of LTA were finalised after several discussions and reaching mutual agreement on some of the terms and conditions especially the final pricing mechanism, payment terms, rebate/ diminution clauses took some time. The provisional price was envisaged only for operational convenience to operate the agreement and take delivery of the material and it may not be appropriate to treat the difference in the provisional price as avoidable additional expenditure due to time taken in finalisation of terms and conditions of the LTA. The reply also stated that whereas M/s MBL was referring to LTA as one shipment per month for a period of one year, requirement of RINL was to have an agreement on long term basis for a period of five years and for further renewal with mutual consent.

The reply of Management/ Ministry needs to be seen in light of following facts:

- The need for long term agreement of Benga thermal coal for operation of captive power plant was being discussed in RINL since September 2017. The fact that prices offered by M/s MBL would keep fluctuating depending on their global tenders was also clear to RINL since November 2017. M/s MBL had also made it clear in its correspondences of December 2017 that they would be able to continue with freight discount of USD 6 PMT only if these shipments are made a part of LTA. Despite this, RINL failed to conclude the terms of LTA within a reasonable time and took 748 days to finalise and sign the LTA.

- While reducing the discount, M/s MBL categorically mentioned (14 May 2018) that the earlier cargos were based on a provisional price with the understanding that RINL would enter into an LTA which did not materialise and hence, they cannot extend additional discount of USD 6 PMT any further.

- As per the terms of the Global Tender issued by M/s MBL for a similar sale of thermal coal in November 2018, the discount quoted was to remain firm during the performance of the Agreement. Accordingly, RINL could have considered the option of finalising LTA initially for a period of one year and in the intermittent period negotiated for a long term LTA.

- Even if intention of RINL was to enter into LTA for five years or more, taking time of more than two years in finalising the terms is not justified.

Thus, inordinate delay in concluding the terms of LTA with M/s MBL resulted in RINL incurring an additional expenditure to the tune of ₹12.39 crore (6.65 *per cent* of procurement cost) towards the discount foregone.

Steel Authority of India Limited

7.5 Loss on account of rejection of medical claims

Loss of ₹22.30 crore due to rejection of claims under SAIL Mediclaim Scheme by the insurance companies during 2017-18 to 2019-20 on account of non-submission of requisite documents/ information.

Steel Authority of India Limited (SAIL/ Company) has been operating a Mediclaim scheme which extends medical benefits to the families of the retired employees of the Company. The scheme covers reimbursement of hospitalization (IPD) and Outpatient Department (OPD) expenses within the prescribed limits[17]. The scheme is operated by an insurance company and as determined by SAIL, the premium is shared between the Company and the Mediclaim member. Third Party Administrator is appointed by the insurance company to extend help for submission of claims to members seeking treatment at seven hospitals[18] of SAIL and private hospitals.

Table 7.1: Details of Mediclaim Insurance scheme from 2017-18 to 2019-20

Year	Insurance Company	Third Party Administrator	Number of mediclaim members	Premium amount (₹ in crore)	Premium share of member (₹ in crore)	Premium share of SAIL (₹ in crore)
2017-18	United India	MD India Health Insurance TPA Private Limited	1,19,436	155.90	39.19	116.71
2018-19	United India		1,24,300	158.60	39.85	118.75
2019-20	The New India Assurance		1,17,049	206.62	50.71	155.91

Analysis of data in respect of seven hospitals of SAIL for the period from 2017-18 to 2019-20 revealed that out of 3,01,080 claims (₹118.35 crore), 21,726 claims (₹22.30 crore) were rejected by the insurance companies due to non-submission of requisite documents/ information by the SAIL hospitals. The proportion of rejected claims amount-wise was approximately 19 *per cent* of the asserted claims, which is significant.

Table 7.2: Details of claims rejected for the period 2017-18 to 2019-20

Sl. No.	No. of claims rejected	Amount of claims rejected (₹ in crore)	Reason for rejection
1.	13,419	20.06	Requested claim documents were not submitted
2.	1,251	0.77	Documents did not show that active line of treatment was provided
3.	1,836	0.43	Prescription of medicine bill was not available

[17] *IPD (Hospitalization) benefits: ₹2 lakh per member per policy period with clubbing facility under hospitalization with his/her spouse (maximum clubbed limit is ₹4 lakh per policy period). OutPatient Department Benefit: ₹4,000 per member (for members below 70 years) and ₹8,000 per member (for members 70 years and above).*

[18] *IGH, Rourkela; BGH, Bokaro; DSP Hospital, Durgapur; ISP Hospital, Burnpur; JLN Hospital, Bhilai; Steel Plant Hospital, VISL, Bhadravati and SSP Hospital, Salem*

Sl. No.	No. of claims rejected	Amount of claims rejected (₹ in crore)	Reason for rejection
4.	5,078	1.01	Date/ MIN no./ Name of patient not mentioned on bill/ prescription
5.	126	0.03	Investigation report not available
6.	16	0.004	Authentic bill not available
Total	**21,726**	**22.30**	

In this regard, Audit observed the following:

SAIL formulated (May 2017), a procedure for smooth implementation of Mediclaim scheme, in view of increase in the number of members and claims being lodged and to ensure satisfactory performance of insurance company/ Third Party Administrator. The procedure defined the roles and responsibilities of officials from Personnel Department and Hospitals/ units/ Corporate Office clearly. However, the prescribed procedures like appointment of nodal officer, non-submission of prescribed reports to concerned officials etc., were not strictly adhered to as cited below:

- As per the stipulated procedure, Head of Medical of SAIL hospitals was required to designate a Nodal Officer-Medical from the concerned SAIL hospital. Such Nodal Officer-Medical was responsible to ensure that the doctors complied with the documentation requirement so that the claims were settled by the insurance company without delay. Nodal Officer-Medical was not appointed at Bokaro Steel Plant; at Rourkela Steel Plant was appointed after a delay of 20 months in January 2019 and was not appointed at IISCO Steel Plant during 2017-18.

- Nodal Officers-Medical also had to ensure that all documents required by the insurance company/ Third Party Administrator pertaining to IPD cases were submitted weekly to the Third Party Administrator. They also had to prepare report on the claims submitted and settled pertaining to SAIL hospitals for perusal of the Head of Medical. Besides the above, Nodal Officer-Medical had to forward a quarterly report on the above to the Corporate Nodal Officer. It was seen that neither did the Nodal Officer-Medical ensure timely submission of required claim documents to Third Party Administrator, nor did he prepare the requisite reports regularly for perusal of Head of Medical of SAIL. The quarterly report as prescribed was also not submitted to Corporate Nodal Officer on a regular basis.

Thus, 19 *per cent* of the asserted claims (21,726 claims) valuing ₹22.30 crore were rejected by the insurance companies due to non-submission of requisite documents/ information by the SAIL hospitals.

Management replied (January 2021) that amount of documentation and sequencing required for proper submission of claims was difficult for SAIL hospitals due to lack of infrastructure and manpower. SAIL Plant Hospitals were initially not equipped to undertake processes to lodge claims with the insurance agencies. System is being revamped and the changes which have been brought about, have started to yield positive results.

Reply of the Management is not acceptable as SAIL Mediclaim scheme has been in operation for last 30 years and specific roles and responsibilities of officials involved in implementation of the scheme were defined, but Management was unable to create sufficient infrastructure and deploy adequate manpower for successful implementation of the scheme. Also, despite revamping of the system by Management, rejection of claims continued in 2019-20.

If requisite documents/ information had been ensured by SAIL, rejection of 19 *per cent* of amount claimed (₹22.30 crore) from the insurance companies during 2017-18 to 2019-20 could have been avoided. The lapses in implementation of SAIL Mediclaim Scheme resulted in loss to SAIL and unless concrete measures are taken the Company would continue to incur significant losses even in the future.

The Audit paragraph was issued to the Ministry in February 2021; their response was awaited (July 2021).

Recommendation No. 10

SAIL may ensure availability and submission of requisite documents/ information in respect of insurance claims under the SAIL Mediclaim Scheme to avoid incurring such losses in future.

The Bisra Stone Lime Company Limited

7.6 Avoidable expenditure towards payment of stamp duty and registration charges

Unrealistic projection of production in Mining Plan led to avoidable expenditure of ₹6.97 crore towards payment of stamp duty and registration charges by the Bisra Stone Lime Company Limited.

The Bisra Stone Lime Company Limited (BSLC or Company) operates one limestone and one dolomite mine in Odisha and had a mining lease area of 793.96 hectare. The mining lease was extended[19] (May 2015) by the Government of Odisha for the period from March 2000 to March 2020. Supplementary lease deed was executed by BSLC in December 2015 over an area of 793.04 hectare excluding forest land of 0.92 hectare. Subsequently, the validity of the mining lease was extended (March 2020) upto March 2040.

As per gazette notification issued (January 2012) by the Government of Odisha, highest annual production planned in the Mining Plan should form the basis for assessment of stamp duty. The Government of Odisha's notification also provided that in case, the production level is enhanced through the modification of Mining Plan in future, the stamp duty would be reassessed on the differential production and the lessee should deposit the differential stamp duty before such enhancement is actually carried out.

[19] ***Company had filed for renewal of the mining lease in a timely manner in 1999, but renewal was granted in 2015. During this period the Company was operating under deemed extension as per provisions of Rule 24A-(6) of Mineral Concession Rule 1994.***

BSLC modified (September 2010) its Mining Plan for 2008-13 to increase its annual production projection of limestone and dolomite to 52.61 lakh tonne per annum during 2010-11 to 2012-13, which was a six-fold increase from existing 8.66 lakh tonne per annum. The enhanced production estimate was continued in its Mining Plan for the period 2013-14 to 2017-18 (approved in August 2014), subsequently extended (April 2018) upto March 2020, projecting production of 28.31 lakh tonne per annum limestone and 24.30 lakh tonne per annum dolomite. Based on the highest annual production projections in the Mining Plan of 2013-18 which was in force at the time of extension (May 2015) of the mining lease by Government of Odisha, the Company paid (March 2016) stamp duty and registration fee of ₹8.60 crore for the period 2000-01 to 2019-20.

Audit analysis of six-fold increase in annual production projected by the Company (from 8.66 lakh tonne per annum to 52.61 lakh tonne per annum) revealed that it was not justified for the reasons cited below:

i) The Company could produce 8.30 lakh tonne of limestone and dolomite annually during preceding five years from 2008-09 to 2012-13. Annual production target for limestone and dolomite fixed by the Board of Directors for the years 2013-14 to 2017-18 was between 7.20 lakh tonne and 9.60 lakh tonne only. Notably, even when the payment of stamp duty and registration charges was made in May 2015, the actual production during previous year (2014-15) was 1.05 lakh tonnes and the annual production target for the year 2015-16, was fixed at 9.60 lakh tonnes.

ii) SAIL and RINL were the main customers of limestone and dolomite. There were no orders from the customers beyond 9.60 lakh tonne. BSLC expected increase in market demand of dolomite in view of enhanced production/ requirement of SAIL after modernisation of SAIL plants. Expectation of enhanced demand was, however, not backed by commitment from the customer. Further, SAIL in the past had lifted even lesser quantity of dolomite than committed in the MoU due to quality issues. The Company was also not able to find any customer having long-term requirement for limestone.

iii) The Company had problems like low profit margin, high labour cost, non-availability of mining equipment, lack of skilled operators and inability to install departmental crushers for want of fund. All three crusher plants owned by the Company were old and worn out and could annually generate only about 3.60 lakh tonne of dolomite.

iv) BSLC had not enhanced its infrastructural capacity in line with the enhancement in production estimates considering the debt burden and huge investment required for mining machinery, workshops, buildings, inventory etc.

Thus, the estimation for six-fold increase in production in the Mining Plan was not based on facts as it was not based on its ability to produce as well as demand for its products in market. This resulted in avoidable payment of ₹6.97 crore[20] on stamp duty and registration charges.

Management replied (January 2021) that:

- BSLC modified the Mining Plan for production of 52.61 lakh tonne per annum after receipt of Terms of Reference for compliance of environmental clearance from Ministry of Environment, Forest and Climate Change. As the environmental clearance was under process, BSLC continued to show the same production capacity i.e., 52.61 lakh tonne per annum in the subsequent Mining Plan to match the environmental clearance quantity and expecting increase in market demand of dolomite and limestone also.

The projected level of production could not materialise since BSLC had no lease beyond 31 March 2020. Demand for dolomite was so high that environmental clearance quantity may have to be enhanced in near future. If the demand went up, Company would address the infrastructure required through outsourcing agencies,

- Keeping in view the long term progressive goals of the Company, the decision of 52.61 lakh tonne per annum was right and stamp duty and registration fees had to be paid to keep the prospects of the Company in hand.

Ministry reiterated (March 2021) the reply of the Management and added that initially applying for a smaller quantity and later extending it by paying the differential stamp duty would not have proved to be practicable as it took long time to get the statutory clearances.

Reply of Management/ Ministry is not acceptable in view of the following:

- There was no requirement in the Terms of Reference to revise the highest production level in the Mining Plan to match it with the projected production level indicated in the application for environmental clearance. It only required the documents to be compatible with each other without conflict. Thus, production level in Mining Plan could be less than that of environmental clearance but not more. Other mining companies like Odisha Mining Company and Tata Steel also had higher quantity prescribed in their environmental clearance as compared to their Mining Plans.

- Moreover, at the time of submission of application (November 2013) for Mining Plan for 2013-18, the Company had environment clearance to produce 9.60 lakh tonne per annum for both limestone and dolomite[21].

- During 2013-14 to 2019-20, average annual production of limestone and dolomite was 4.49 lakh tonne per annum and the Company incurred continuous losses. Therefore, enhancing of annual production projection was not based on actual production or realistic estimation.

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[20] ***Calculated considering total 9.60 lakh tonne per annum production of limestone and dolomite at higher rate of royalty applicable for limestone.***

[21] ***Environmental Clearance for 52.61 lakh tonne was granted in March 2016.***

- The contention of Management that in view of the long term progressive goals, the decision of enhancing annual production projection to 52.61 lakh tonne per annum was correct may be seen in the light of the fact that enhanced demand of 52.61 lakh tonne per annum projected by the Management was not justified by the annual production of 7.20 lakh tonne to 9.60 lakh tonne per annum planned during the period (2013-14 to 2017-18). Besides, Management had the option to enhance the production level in the Mining Plan subsequently with payment of differential stamp duty according to the Government of Odisha's notification issued in January, 2012.

- The contention of Ministry that it took long time to obtain statutory clearance in respect of Mining Plan may be seen in light of the fact that Indian Bureau of Mines stipulated a maximum time of 90 days for approval/ rejection of Mining Plan submitted by a lessee.

Thus, unrealistic projection of production of 52.61 lakh tonne per annum of limestone and dolomite in the Mining Plans for 2008-13 and 2013-20 resulted in avoidable expenditure of ₹6.97 crore towards stamp duty and registration fees.

The Orissa Mineral Development Company Limited

7.7 Avoidable expenditure on account of penal interest

The Orissa Minerals Development Company Limited incurred avoidable expenditure of ₹174.04 crore on account of penal interest on delayed payment of compensation to the Government of Odisha towards illegal mining.

The Orissa Minerals Development Company Limited (OMDC or Company) operates six[22] iron ore and manganese ore mining leases located in Odisha.

Hon'ble Supreme Court of India ruled (August 2017) that penalty be levied on lessees for illegal mining activities like production without/ in excess of environment clearance and forest clearance. Accordingly, Government of Odisha demanded (September/ October 2017) penalty of ₹643.27 crore from OMDC[23] for violation of environment clearance and ₹58.91 crore towards penalty for production of excess minerals beyond the approved limits prescribed in the Mining Plan and Consent to Operate. The penalty was to be paid before 31 December 2017. OMDC paid only ₹14.80 crore (28 December 2017).

Hon'ble Supreme Court of India further directed (30 January 2018) Government of Odisha to take coercive action to recover the unpaid dues from the defaulting mining leaseholders. Government of Odisha initiated (June 2018) action against OMDC under Odisha Public Debt Recovery Act, 1962 for recovery of balance amount with interest. OMDC paid

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22 *Three leases (Bagiaburu, Bhadrashahi and Belkundi) were in the name of OMDC and three (Kolha-Roida, Dalki and Thakurani) were operated by OMDC through a power of attorney from Bharat Process and Mechanical Engineers Limited.*

23 *The fact of non-adherence to mining statutes leading to penalty was brought out in the CAG Audit Report-Union Government (Commercial) No. 13 of 2019.*

₹876.22 crore in phases (upto 3 October 2019) as full and final payment of penalty including penal interest of ₹174.04 crore.

Audit analysis of the payment of penal interest of ₹174.04 crore by OMDC revealed the following:

i) Central Empowered Committee constitued by Hon'ble Supreme Court of India (Empowered Committee) had conveyed (4 December 2017) that compensation recoverable against its order had no scope for deduction of rent, royalty, taxes. OMDC however, deducted such expenditure while calculating the penalty payable.

ii) Besides, OMDC could claim deduction for undisposed stock, only if steps had been taken for handing over of the same to Government of Odisha before 28 February 2018. Without handing over the undisposed stock, OMDC deducted the cost of production of raised minerals and paid an amount of ₹14.80 crore only till the stipulated deadline of 31 December 2017.

iii) Company also overlooked the legal opinion obtained (December 2017) which had also advised payment of the admitted amount to establish its bona fide intention. Instead it filed (December 2017) a revision petition against demand of Government of Odisha, which was dismissed (January 2018) by the Revisional Authority, Government of India on the ground that the issue was already dealt by the Empowered Committee.

Thus, despite clear directions for payment by Empowered Committee, Government of Odisha, Hon'ble Supreme Court of India, Government of India and legal advices obtained by the Company (December 2017/ May 2018/ December 2018), the Company did not make full payment of compensation within the stipulated timeline and the delay in payment resulted in avoidable penal interest of ₹174.04 crore.

Management in its reply (March 2021) stated that

- Adequate funds were not available and for taking decision about such a huge amount, there was considered process for intimation/ approval of higher management and OMDC Board which led to payment of interest for delay,

- Insolvency Resolution Professional was appointed by National Company Law Tribunal in February 2018 and OMDC was released from the proceedings and allowed to function independently through its Board of Directors since 7 August 2018.

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

- The Company had unencumbered bank balance of ₹807.84 crore as on 31 December 2017 whereas balance penalty payable was only ₹687.39 crore.

- The Insolvency Resolution Professional was appointed in February 2018, whereas the payment of penalty was to be made before December 2017. Besides, even after release from the insolvency proceedings (7 August 2018), the Company took 14 months (3 October 2019) for payment of dues which attracted penal interest.

Thus, delay by the Management in payment of compensation, ignoring the directions of Empowered Committee, Government of Odisha, Hon'ble Supreme Court of India, Government of India and legal advices obtained in this regard resulted in avoidable payment of penal interest amounting to ₹174.04 crore.

The Audit paragraph was issued to the Ministry in April 2021; their response was awaited (July 2021).

CHAPTER VIII: MINISTRY OF TEXTILES

India United Textile Mill Limited

8.1 Loss on account of extending undue benefit in fabric trading business to the group companies of strategic partner

India United Textile Mill Limited made irregular payment of advances to the group companies of strategic partner and did not levy interest for delayed receipt of sale proceeds from them, during the course of fabric trading business, resulting in loss of interest of ₹29.70 crore and blocking of funds of ₹109.34 crore.

India United Textile Mill Limited (IUTML) was incorporated on 13 November 2007 as a subsidiary company of National Textile Corporation (NTC), for revival of India United Mill Number 1, a sick unit, through private participation. 51 *per cent* of shareholding of IUTML was held by NTC and the remaining 49 *per cent* shareholding was held by the strategic partner through two entities viz. Bhaskar Industries Limited (BIL) with 29.40 *per cent* shareholding and Bhaskar Denim Limited (BDL) with 19.60 *per cent* shareholding. Day-to-day functioning, operation and management of IUTML was carried out by the Chief Executive Officer (CEO) nominated by the strategic partner and appointed by the Board of Directors of IUTML (BoD).

BoD decided (September 2008) to commence trading in textile/ textile related goods and authorised the CEO to enter into written contracts with accredited parties, including related parties and at such terms and conditions as the CEO may deem fit in the best interests of the Company i.e., with proper security preferably post-dated cheques and appropriate transaction documents. The trading business of IUTML was mostly confined to the group companies of the Strategic Partner[1].

Audit observed the following inadequacies in the trading business of IUTML with the Group Companies of strategic partner:

i) BoD was not the competent authority to take decision regarding the line of business of IUTML. As per clause 6.4 (b) of the Share Subscription and Shareholders agreement[2] IUTML should only engage in the mill's existing business and approval of NTC was required for carrying out textile related activities such as trading, marketing, R&D, exhibition etc. IUTML, however, did not take approval from NTC for entering into fabric trading activities.

[1] *The purchases from related parties/group companies of strategic partner accounted for 94 per cent of total purchases while the sales to related parties/group companies of strategic partner accounted for 84 per cent of total sales, on an average, during April 2016 to March 2020.*

[2] *Executed (20 November 2007) between NTC, BIL and IUTML*

ii) IUTML purchased fabric worth ₹854.98 crore from M/s Bhaskar Exim Limited, one of the group companies of the strategic partner, during April 2016 to September 2018 and did not issue any purchase orders to Bhaskar Exim Limited thereafter. However, during February to April 2019, IUTML paid advances totalling ₹109.34 crore (30 individual payments) to Bhaskar Exim Limited without written contract, security and terms regarding interest on the advances. IUTML has neither received material from Bhaskar Exim Limited nor recovered the advance and interest thereon, till date (March 2021). Further, as per Shareholders' Agreement, 'Special consent'[3] was required for giving advances to related parties of strategic partner. However, no such special consent was obtained by IUTML for releasing the advances.

iii) Credit period of 90 to 120 days was allowed in the fabric trading business of IUTML and no interest was levied for any delay in payment. During April 2016 to December 2019, there were delays ranging from 3 to 362 days in the receipt of sale proceeds from group companies. The delays in payments by IUTML to one of the suppliers ranged from 1 to 148 days. Nevertheless, the delayed receipts in trading with group companies of strategic partner resulted in net interest loss to the extent of ₹15.30 crore during the period April 2016-December 2019.

Thus, IUTML made irregular payment of advances to the group companies of strategic partner and did not levy interest for delayed receipt of sale proceeds from them, during the course of fabric trading business, resulting in loss of ₹29.70 crore (interest on advance ₹14.40 crore + net interest on delayed receipt of sale proceeds ₹15.30 crore) apart from blocking of advance amount of ₹109.34 crore.

IUTML replied (January 2021) that:

- The advance was made with the intention of buying fabric material and to earn reasonable profit on future supplies. When the supply could not happen, the Company demanded loss of profit on account of non-performance by Bhaskar Exim Limited and Bhaskar Exim Limited agreed to compensate the same by way of interest during 2019-20 and as such there was no loss.

- With regard to lack of security for the advance, IUTML replied that the transactions with the group companies were done after taking the permission of BoD and under the guidance of strategic partners and any loss would be met by the strategic partners only.

- Regarding interest on delayed receipt of sale proceeds, IUTML replied that the Company was doing trading business with group companies on benchmark profit of 12.50 *per cent* per annum, as mandated by BoD and hence interest was not levied for delayed receipts/ payments.

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[3] ***Approval (i) in the Company's Shareholders meeting by the affirmative vote of NTC and Strategic Partner and (ii) in the meeting of the Board by the affirmative vote of at least one nominee Director of NTC and one nominee Director of Strategic Partner.***

The above reply is to be viewed against the following:

- Though Bhaskar Exim Limited intimated (March 2020) that it would compensate IUTML for loss of profit and the matter was deliberated by BoD, the payment has not been received (March 2021). IUTML clarified (while replying to an audit query) that they have verbally demanded the advance back, which indicates that formal claim for return of advance has not yet been lodged.
- As per BoD approval (September 2008), trading business including those with related parties, should be backed by proper security and appropriate transaction documents. However, these were not complied with in this case. In the absence of written contract and security, IUTML did not have legal recourse to recover the amount from Bhaskar Exim Limited. Also, there was no provision in the Shareholders' agreement that loss would be entirely borne by the strategic partner.
- Benchmark profit on business and interest on delayed receipts were two different aspects. Further the rationale for stipulating a credit period would be defeated if interest was not charged for over stepping the credit period.

Thus, the Company extended undue advantage to the group companies of strategic partner against its own best interests, leading to loss of interest of ₹29.70 crore and blocking of funds of ₹109.34 crore.

The Audit paragraph was issued to the Ministry in April 2021; their response was awaited (July 2021).

National Textile Corporation Limited

8.2 Non-realisation of Transferable Development Rights

National Textile Corporation Limited got Transferable Development Rights from Government of Maharashtra as consideration for handing over 12 acres of land belonging to a closed textile mill but failed to take affirmative action to sell the Transferable Development Rights and realise the amount, leading to blockade of funds of ₹1,413 crore and consequent interest loss.

India United Mill No. 6 was a closed textile mill of National Textile Corporation Limited (NTC) situated in Mumbai having approximately 12 acres of land. Government of Maharashtra (GoM) made requests to Government of India (GoI) for transfer of the land for construction of a memorial for Dr. B.R Ambedkar. Terms and conditions for the transfer of land including due compensation to NTC were deliberated and GoM's stand was that it would be difficult to compensate in terms of money. GoM offered (March 2016) to compensate NTC in the form of transferable development right[4] for value of land which

[4] ***Transferable Development Right (TDR) is a compensatory developmental right given by GoM to owner of land for construction of built-up area in lieu of land handed over to GoM. In the instant case, NTC surrendered their land and TDR was received as consideration. The TDR can be sold by NTC in the open market to any prospective builder/buyer who in turn can use this for constructing built up area in Mumbai City area (island city) and Mumbai Suburban/Extended Suburban Area.***

was worked out as ₹1,413 crore. GoM also offered to facilitate sale of transferable development right in the open market and added that the money received beyond the assessed value of land i.e., ₹1,413 crore shall be given to GoM and if the money received was below the value, the difference shall be paid to NTC by GoM. GoI accepted (August 2016) the offer and the land was handed over (March 2017) to Mumbai Metropolitan Region Development Authority (MMRDA) by NTC after receiving the transferable development right [5]. The transferable development right granted NTC the development rights for a built-up area of 1,30,720.04 sq. meter[6] for handing over 48,414.83 sq.m (around 12 acres) land to GoM.

Board of Directors of NTC (BoD) constituted (January 2018) a committee for the efficient, effective, and transparent sale of transferable development right with a mandate to complete the sale process within 29 weeks i.e., by August 2018. After issuing the tender (May 2018) for appointment of Marketing Consultant, BoD decided (August 2018) that since the amount of consideration to be received i.e., ₹1,413 crore by NTC was fixed and GoM had agreed to facilitate sale of transferable development right, it was prudent to request GoM, through the Administrative Ministry (Ministry of Textiles) to sell the transferable development right and remit the fixed consideration to NTC. Ministry agreed with the proposal of NTC and wrote a letter to GoM (July 2019) stating that since NTC was not having any expertise in the sale of transferable development rights and would get only a fixed amount, GoM may facilitate sale of transferable development rights held by NTC and expeditiously transfer the agreed amount to NTC. While the sale of transferable development rights was yet to materialise (June 2021), MMRDA started construction activities in the transferred land.

In this regard, Audit observed that:

i) Though GoM offered to facilitate sale of transferable development right in the open market, what is meant by 'facilitate' was not elaborated and agreed upon between the parties concerned i.e., GoI, GoM and NTC. Specific agreements were required to be executed between GoM and NTC as per the recommendation of the Committee of officials which finalised the terms and conditions of transfer of land and also as per the MoU signed between GOI, GoM and NTC for the transfer of land. But no such specific agreements were executed.

ii) The basis for the change in BoD decision i.e., to scrap the tender and entrust the sale of transferable development right to GoM, was cited as 'in-house discussions', which brought out that the amount of consideration to be received by NTC was a fixed amount and hence it was not worthwhile to undertake the sale. This was not tenable since NTC would get only a fixed amount was already known when the Transferable Development Rights Sale Committee was appointed by BoD in January 2018. Also, from the beginning GoM did not agree for payment of compensation in cash and offered only facilitation of sale of

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[5] ***The TDR was given in the form of a "Development Right Certificate" (DRC) which was a transferrable negotiable instrument and legally enforceable within the validity period of five years (extendable by another five years on payment of revalidation fees).***

[6] ***(48414.83 x 2.5) + (20 per cent incentive of 48414.83) = 130720.04***

transferable development rights. Hence the revised stand of BoD in the meeting held in August 2018 to entrust the sale of transferable development rights to GoM was not backed by consent from GoM's side.

iii) Holding of transferable development rights for four years was of no benefit to NTC which was cash strapped and was in urgent need of funds to carry out day-to-day activities as well as to revive its other sick mills.

Thus, non-realisation of transferable development rights resulted in huge blockage of funds and consequent interest loss of ₹268 crore[7] to NTC and also defeated the objective of utilisation of sale proceeds for speedy and efficient implementation of modernization and revival of sick units.

Management in its reply (February 2021) stated that these were decisions of the Board. Management added that they were following up with GoM for sale of transferable development rights and realisation of ₹1,413 crore at the earliest.

Ministry in its reply (June 2021) stated that NTC Board in August 2018 decided to stall the transferable development rights sale process and instead request GoM to take up the entire exercise. Ministry added that NTC was facing dire working capital shortage and was therefore making sincere efforts to realise the transferable development rights amount.

The reply is to be viewed against the fact that there was no prior agreement or consent from GoM's side that they would sell the transferable development rights on NTC's behalf and hand over the agreed amount to NTC.

Audit also examined GoM records and sought (April 2021) clarifications regarding GoM's role in the process of sale of transferable development rights. GoM (Urban Development Department) replied (May 2021) that as requested by NTC in June 2017, MMRDA nominated two officials to the Committee formed by NTC for sale of transferable development rights. GoM further clarified that there were no precedents where GoM sold transferable development rights in open market and paid the proceeds to the beneficiary.

Hence it is clear that NTC failed to obtain concurrence from GoM before assigning the task of sale of transferable development rights to them. The lack of affirmative action to sell the transferable development rights by NTC for four years resulted in non-realisation of ₹1,413 crore and consequent loss of interest of ₹268 crore. Delay in realisation of transferable development rights amount also defeated the objective of intended utilisation of sale proceeds by NTC for speedy and efficient implementation of modernization and revival of sick units.

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[7] ***Interest on ₹1,413 crore for 38 months (April 2018 to May 2021) considering RoI @ 6 per cent and after giving an allowance of one year (April 2017 to March 2018) for completing the process for the sale, on conservative basis.***

INFRASTRUCTURE CLUSTER

CHAPTER IX: MINISTRY OF CIVIL AVIATION

Airports Authority of India

9.1 Loss of revenue due to inadequate assessment of electricity load

Inadequate assessment and delay in arrangement of required electricity load at Goa Airport resulted in loss of revenue of ₹15.66 crore.

Airports Authority of India (AAI/ Authority) entered (24 September 2018) into a concession agreement with M/s Travel Food Services Private Limited (M/s TFS) for concession to develop, market, setup, operate, maintain and manage the Food & Beverage (F&B) outlets at Goa Airport. As per the Letter of Intent to Award (LOIA) issued (25 July 2018) to the concessionaire, the license fees to be paid by the concessionaire was ₹3.89 crore (excluding taxes) per month for an assigned area. Further, Clause 5 of LOIA stipulated that gestation period or development period means the period in respect of each site commencing on the date of handing/ taking over of the location (which is 61st day or maximum 60 days from the date of issue of LOIA) and expiring on the 120th day from issue of award of LOIA or the commencement of business whichever is earlier, unless extended by AAI.

Clause 4.1.2 (b) of the agreement stipulated that the Authority shall assist the concessionaire in obtaining access to all necessary infrastructure facilities and utilities, including water and electricity. Further, as per Clause 11.7 of the agreement, "the concessionaire shall obtain requisite utility connections from nearest available sources provided by the Authority and shall install its own metering devices. All metering devices shall be tested and calibrated to the satisfaction of the Authority".

In terms of the agreement, AAI handed over the entire assigned area of 1,144 square metres to M/s TFS on 24 September 2018 for developing 26 outlets. Accordingly, AAI raised bills for the entire assigned area from 23 November 2018. M/s TFS made payment of license fee, out of which the payment for an area measuring 594.50 square metres was made under protest as AAI failed to provide the electrical load for the complete assigned area as per the contract. Resultantly, M/s TFS could not operate nine outlets.

In this regard, Audit observed that:

- AAI without assessing the actual requirement of existing electricity load as well as additional load for commercial purpose for Goa Airport invited bid for F&B outlets and entered into concession agreement with M/s TFS. As per the proposed layout plan submitted (30 August 2018) by M/s TFS, the electrical load requirement was estimated at 1,740 KW (26 outlets), which was subsequently revised to 1,545 KW (1 October 2018). In the meantime, on the request of AAI, M/s TFS submitted a revised requirement of 1,459

KW (27 October 2018), which was based on the consultant's (M/s Mindflow Partners)[1] survey report. Against the required electricity load, an electricity load of only 632 KW was made available to M/s TFS, which was short by 827 KW. Due to insufficient availability of electrical load, M/s TFS requested (20 December 2018) AAI to not to charge concession fee and other charges for an area of 594.50 square metres along with a request to extend the gestation period. AAI accepted (12 June 2019) the proposal of M/s TFS and against 594.50 square metres, AAI granted (06 September 2019) the extension in gestation period for an area of nine outlets measuring 128.5 square metres till 21 June 2019 and for an area measuring 327 square metres till 30 November 2019. Besides, AAI also waived the license fee amounting to ₹15.66 crore (up to August 2019).

- Initially, Goa Airport had sanctioned electricity load of 4,000 KW, against the actual consumption of around 2,600 KW, hence an unutilised load of about 1,000 KW was surrendered (June 2015) to avoid penal charges as operation from old Terminal Building was stopped. Hence, it is evident that AAI was aware that present sanctioned load was only for operational need and that for starting commercial operations, additional sanctioned load (about 827 KW) was required. However, AAI failed to restore the surrendered sanctioned load for commercial activities before inviting the bids for renting F&B outlets at Goa Airport.

- AAI applied (12 November 2018) for additional sanctioned load of 1,500 KW, which was sanctioned by Goa Electricity Department on 3 January 2019 while stating that enhancement of contract demand would be supplied at 33 KV HT line and AAI would bear the entire cost, which was estimated at ₹5.67 crore. However, till date electrical work has not been completed and AAI is supplying electricity to M/s TFS from available load at airport through Diesel Generator set. Due to non-availability of full load, M/s TFS claimed a further rebate of ₹17.30 crore against the demand raised by AAI in November 2019. M/s TFS went into arbitration on 13 May 2020 and final outcome of the case is awaited.

Thus, inadequate assessment and delay in arrangement of required electricity load at Goa Airport resulted in loss of revenue of ₹15.66 crore.

The Management in its reply (January 2021) stated that as the concept of master concessionaire was introduced for the first time, it was difficult for AAI to foresee the quantum of electrical load requirement in the absence of historical data, and electricity load requirement at F&B outlets could be ascertained only after selected bidder submitted its load requirement based on equipment required to operationalise the outlets. The Management further stated that consultant (M/s Mindflow Partners) also did not quantify the electrical load requirement and that there was limited requirement/ availability of electrical load at Goa Airport by virtue of being a civil enclave.

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[1] ***Appointed for "Redesigning the layout of existing General Retail and F&B outlets for optimum utilisation of the Airport space for enhanced passenger facilitation and maximising the commercial revenue potential"***

The Management's reply is not acceptable as assessment of utilities before awarding such significant work should have been a pre-requisite. AAI neither included the assessment of electric load in the scope of work of the consultant (M/s Mindflow Partners) nor managed to get the load requirements ascertained by its own team. Scope of work of the consultant was only to review and redesign for optimum utilisation of airport space. Further, even after award of work to M/s TFS in July 2018, AAI decided to take the services to assess the load requirement from consultant in a joint meeting held with M/s TFS only in October 2018.

Hence, non-assessment of electricity load requirements during planning for award of concession for F&B outlets and delays in arrangement of required electricity load even after submission of electricity requirements by M/s TFS resulted in revenue loss of ₹15.66 crore. Besides revenue loss, ₹17.30 crore is a contingent liability, as the matter is sub-judice and final outcome of the arbitration case is awaited.

The Audit paragraph was issued to the Ministry in March 2021; their response was awaited (July 2021).

9.2 Non-reimbursement of electricity charges due to lack of proper follow-up and pursuance

Non-pursuance for reimbursement of electricity charges by Airports Authority of India, Rajahmundry, led to ₹6.36 crore being pending with Government of Andhra Pradesh (GoAP), despite there being a provision for such reimbursement in the MoU signed between Airports Authority of India and GoAP to facilitate minimisation of losses to AAI in the initial five years of operationalisation of the Rajahmundry Airport.

Airports Authority of India (AAI) signed (February 2007) a Memorandum of Understanding (MoU) with the GoAP for development of Rajahmundry Airport. As per the terms of the MoU, AAI was to execute the entire project at their cost[2] which, *inter-alia*, would include development of the airport, modifications required in the existing facilities to strengthen and upgrade them for existing operation of ATR-42/ 72 type aircrafts and future operation of bigger type of aircrafts such as B737-800/ A320, etc.

The MoU *inter-alia* provided that GoAP shall provide free electricity initially for a period of five years commencing from the date of operationalisation of the airport to minimise operational losses to AAI. Need for further extension of this concession was to be jointly reviewed by GoAP and AAI at the end of five year period.

For supply of electricity to the existing Airport, AAI, Rajahmundry was having an agreement with Eastern Power Distribution Company of Andhra Pradesh Limited for a contracted demand of 800 KVA since November 2009. This agreement was extended (July 2014) for a further period of five years for a contracted demand of 700 KVA. The upgraded Rajahmundry Airport became operational on 16 May 2012 and during the first

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[2] ***With provision for GoAP handing over required additional land free of cost and free from all encumbrances, on ownership basis subject to some terms and conditions.***

five years of operationalisation of the airport, AAI, Rajahmundry paid ₹6.36 crore towards electricity charges during May 2012 to April 2017. However, the same was not reimbursed till February 2021 by GoAP in compliance with the MoU terms.

Audit scrutiny of records of AAI, Rajahmundry revealed the following:

i) Subsequent to operationalisation of the Rajahmundry Airport on 16 May 2012, AAI, Rajahmundry took up the matter of providing free electricity for a period of five years with the Principal Secretary to GoAP, Infrastructure and Investment[3] Department on 25 May 2012. The matter was referred to the Collector & District Magistrate, East Godavari by the GoAP in June 2012. Various correspondences with the GoAP and District Magistrate, East Godavari District were done on this issue till October 2013. Subsequently, there was no follow-up or pursuance until November 2016 followed by a written correspondence in February 2017, only after the matter being pointed out by Audit in January 2016.

ii) Though AAI, Rajahmundry, which was operationalised in May 2012, failed to get sanction for re-imbursement of electricity charges, AAI, Kadapa Airport, where the airport was operationalised on 7 June 2015, could get the sanction of the Secretary to GoAP, Energy, Infrastructure and Investment (Airports) Department in January 2016 for reimbursement of electricity charges[4] incurred during June 2015 to March 2016. It was only after this that the AAI, Rajahmundry took up the matter with GoAP in February 2017 for issuance of a similar order as issued to Kadapa Airport. GoAP then sought remarks from Bhogapuram International Airport Corporation Limited (BIACL)[5] in March 2017. After protracted correspondence with the GoAP and AAI, Rajahmundry, BIACL recommended (July 2017) to the Principal Secretary, Energy, Infrastructure and Investment (Airports) Department, GoAP for reimbursement of electricity charges to the tune of ₹6.36 crore incurred by the airport for a period of five years. However, there was no record of any further correspondence subsequent to July 2017 by the AAI, Rajahmundry with either Andhra Pradesh Airports Development Corporation Limited (APADCL)[6] or GoAP on the issue, even after being pointed out again by Audit in March 2019.

iii) Audit observed that inspite of the request (23 July 2013) of Airport Director, AAI, Rajahmundry to the Regional Executive Director, Southern Region, Chennai to intervene for pursuing reimbursement of electricity charges, neither was there any record evidencing any intervention/ pursuance by the Regional Executive Director, Southern Region, Chennai nor was there any record to show that the matter was escalated to the Corporate Headquarters.

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[3] ***Subsequent to bifurcation of the State of Andhra Pradesh, the Department was renamed as Energy, Infrastructure and Investment (Airports) Department.***

[4] ***GoAP vide its subsequent orders sanctioned the reimbursement of electricity charges incurred by AAI, Kadapa till October 2018.***

[5] ***A special purpose vehicle created by GoAP for speedy implementation of Airports in Andhra Pradesh.***

[6] ***BIACL was renamed as Andhra Pradesh Airports Development Corporation Limited in November 2017.***

iv) Though the MoU provided that the concessions and exemptions would be jointly reviewed by the AAI and GoAP at the end of five-year period, apart from a mention of discussion with the GoAP in one of the correspondence made (11 July 2017) with BIACL, no written communication/ minutes of discussion with the concerned Department of the GoAP was found on record in this matter.

Thus, non-pursuance for reimbursement of electricity charges by AAI, Rajahmundry, led to ₹6.36 crore being pending with GoAP.

The Regional Headquarters (Southern Region), AAI replied (December 2020) that subsequent to bifurcation of the State of Telangana from the State of Andhra Pradesh, it appears that Government machinery was involved in the bifurcation of works and hence the issue did not get enough attention. Reply also stated that the issue was once again taken up with Special Chief Secretary, Department of Infrastructure and Investment, GoAP and Chief Secretary, GoAP in October 2020/ November 2020. Corporate Headquarters, AAI, New Delhi reiterated the same facts (February 2021).

The reply needs to be viewed in light of the fact that the Kadapa Airport, which was operationalised in June 2015, got the sanction from GoAP in January 2016 for reimbursement of electricity charges. Also, the fact remains that pursuance by AAI, Rajahmundry was not effective and continuous as there was no correspondence with GoAP between October 2013 to November 2016 and again from July 2017 to September 2020, despite being pointed out by Audit in January 2016 and March 2019.

Thus, lack of proper pursuance resulted in non-realisation of electricity charges of ₹6.36 crore from the State GoAP till February 2021 i.e., more than eight years after operationalisation of the airport.

The Audit paragraph was issued to the Ministry in January 2021; their response was awaited (July 2021).

9.3 Avoidable extra expenditure due to unilateral increase of royalty

Unilateral increase of royalty by AAI from 2 to 13 *per cent* in violation of the terms of the agreement resulted in avoidable extra expenditure of ₹6.88 crore.

Airports Authority of India (AAI) entered into an agreement (October 1996) with M/s The Indian Hotels Company Limited (IHCL) for allotment of land measuring 6,750 square metres on lease for a period of 30 years upto June 2025 for construction and operation of flight kitchen services at Netaji Subhas Chandra Bose International (NSCBI) Airport, Kolkata. The above lease was subsequently endorsed (March 2007) in favour of M/s Taj Sats Air Catering Limited (TajSats), a subsidiary of IHCL, on the same terms and conditions. As per the terms of the above agreement IHCL/ TajSats was required to pay royalty at a fixed rate of two *per cent* on the Gross Turnover (GTO) from the flight kitchen operations. However, based on feedback received and prevailing scenario at various airports, the AAI unilaterally revised the rate of royalty to 13 *per cent* from April 2008 and same was invoiced till March 2017.

In this regard, Audit observed that:

- The upward revision of royalty was not accepted by TajSats as the same was not in accordance with the terms of the agreement.
- AAI's Law Department examined the case (April 2010) and took legal opinion from a legal consultant appointed by AAI (August 2010), both of whom opined that non-payment of enhanced royalty by M/s TajSats was not a breach of lease agreement.
- Despite the above, AAI continued raising invoices incorporating royalty at the rate of 13 *per cent* of GTO and applicable service taxes thereon from April 2008 till March 2017. The amount of service tax as invoiced was also deposited with the Service Tax Authority. Further, AAI considered the total amount of royalty of 13 *per cent* as part of its total income for the purpose of assessment and payment of corporate tax.
- AAI decided (September 2019) to withdraw the invoices raised on TajSats for differential royalty of 11 *per cent* (13 *per cent* – 2 *per cent*) and write off the differential dues of royalty along with service tax deposited thereon.
- The unilateral action of AAI resulted in avoidable extra expenditure of ₹6.88 crore (***Annexure-V)*** towards payment of service tax (₹4.07 crore) and corporate tax (₹2.81 crore, i.e., difference of the then corporate tax rate–current corporate tax rate) which could have been avoided had the invoices with unilaterally increased royalty not been raised on TajSats.

While accepting (March 2020) the fact of unilateral increase of royalty and corresponding withdrawal of the same, the Management stated that though the period of limitation for claiming refund of service tax had expired, a Writ Petition was maintainable in the Court of Law. It was, further, stated that the reversal of revenue would have the effect of lowering corporate tax liability on the current year profit which would ultimately result in no financial loss to AAI.

The reply of the Management is not tenable because the chance of refund of service tax from the concerned department seems to be remote as AAI failed to claim such refund within the prescribed time limit i.e., one year. No court case was filed for refund of service tax and AAI had only approached the Assistant Commissioner, GST for refund in January 2021. Further, their response that refund claim is maintainable in the court of law is also not tenable as court judgements have upheld the statutory time limit prescribed for claiming refund which in the instant case has lapsed. Further, Management reply with regards to corporate tax is not acceptable because the benefit of the lower corporate tax liability on account of reversal of revenue would not recover full amount of corporate tax paid at higher rate as the rate of corporate tax has been subsequently lowered. As such, there was lesser payment of corporate tax only to the tune of ₹8.23 crore and the balance amount of ₹2.81 crore (₹11.04 crore – ₹8.23 crore) was loss to AAI on account of excess payment of corporate tax.

Thus, unilateral increase of royalty by AAI in violation of the terms of the agreement led to avoidable extra expenditure of ₹6.88 crore on account of excess payment of service tax (₹4.07 crore) and corporate tax (₹2.81 crore) on perceived royalty which was never receivable.

The Audit paragraph was issued to the Ministry in November 2020; their response was awaited (July 2021).

Air India Limited

9.4 Avoidable payment of penalty due to delay in return of removed components by Air India Limited

Air India Limited entered into an agreement with M/s Boeing for Rotable Exchange Program. As per the agreement, Air India Limited was required to return the removed component along with the component information to M/s Boeing within 10 calendar days after Boeing delivered the serviceable exchange component, failing which delayed return fee is payable. Persistent delays in return of removed component to M/s Boeing resulted in payment of penalty of ₹43.85 crore by Air India Limited.

Air India Limited entered into an agreement (December 2015) with M/s Boeing for Rotable Exchange Program (787 aircraft component service program) and the agreement became effective from 6 July 2016.

As per the agreement, the customer (Air India Limited) may exchange a removed component (unserviceable exchange component removed from a qualified aircraft) for an exchange component in Boeing's exchange component inventory (serviceable exchange component). M/s Boeing is to provide related repair, overhaul and modification services for exchange components. As per exchange procedure in the Agreement, Air India Limited may submit an order (Article 3.1) to exchange a removed component for an exchange component from Boeing's exchange component inventory. M/s Boeing is to deliver exchange component (Article 3.2.2.1) by making them available to a carrier arranged by M/s Boeing at the primary center (London) or at another center, which M/s Boeing would identify and inform to Air India Limited in advance.

As per Article 2.6.1 regarding return time, Air India Limited is to deliver each removed component to the primary center (London) along with component information within 10 calendar days after Boeing delivered the serviceable exchange component. Further, Article 3.3.5 regarding delayed return fees stipulated Air India Limited to pay a late return charge equal to one *per cent* of the applicable program part number's then-current price per day after the time limit of 10 calendar days until M/s Boeing received both the removed component and the component information. If M/s Boeing did not receive the removed component and the information within 20 calendar days after the exchange component is delivered, Air India Limited is to pay M/s Boeing the foregoing late return charges plus 110 *per cent* of the then-current price of a replacement component.

In this regard, Audit observed that:

i) During the period July 2016 to December 2019, there were several instances of delayed return of removed component by Air India Limited over and above the stipulated time limit of 10 days. Audit analysis showed that during the initial period (July 2016 to December 2017), there were 170 instances of delayed return and in 88 instances, the delay was more than 30 days with a maximum of 214 days. The contractual obligation towards penalty due to delayed returns of removed components, the concessions offered by M/s Boeing and balance dues after concessions are given below:

Table 9.1: Details of penalty

(In Million US$)

Details	2016 & 2017	2018	2019	Total
Actual obligations	10.50	5.92	3.72	20.14
Concessions by M/s Boeing	(6.70)	(4.69)	(2.88)	(14.27)
Balance dues after concessions	3.80	1.23	0.84	5.87

ii) Air India Limited defaulted the concessional late return fees/ penalty for the period from July 2016 to December 2019. Hence M/s Boeing served (14 July 2020) a letter intimating suspension of Rotable Exchange Program, if payment is not received by 31 July 2020. Consequently, as per Article 8.4.2 of the agreement, Boeing served (1 August 2020) six months' notice of termination on Air India Limited. As per the notice, M/s Boeing withdrew the discounts offered earlier with effect from 16 August 2020. Finally, Air India Limited paid the pending concessional late return fees/ penalty of US$ 5.87 Million for the period July 2016 to December 2019 in August 2020. Thus, due to non-adherence to the timeline for return of removed parts as stipulated in the Agreement, Air India Limited paid penalty of US$ 5.87 Million (₹43.85 crore) to M/s Boeing.

Air India Limited in its reply (March 2021) accepted that a discounted total late return penalty of US$ 5.87 Million was to be paid and attributed the delay to the difficult activities involved in returning the removed parts within 10 days, viz., non-availability of aircraft for replacement, custom clearance and delay in getting the required documents from users. Air India Limited further stated that with close monitoring of tasks at every step, components' return time period has improved as dues paid for later two years (2018 and 2019) had gone down to US$ 2.07 Million as compared to dues paid of US$ 3.80 Million for the initial period (July 2016 to December 2017). It was also stated that the Rotable Exchange Program continued with minimal late returns in 2020.

The reply is not tenable, as Air India Limited could not adhere to the timelines prescribed in the agreement. Air India Limited was aware of the articles of the Agreement; 10 days' time limit was mutually negotiated and accepted by Air India Limited and thus, was required to take appropriate steps, including putting in place a mechanism to ensure that removed components were returned timely in order to avoid payment of penalty. Thus, Air India Limited had to pay penalty of US$ 5.87 Million (₹43.85 crore) due to its inability to adhere to the contractually stipulated timelines for return of parts.

The Audit paragraph was issued to the Ministry in May 2021; their response was awaited (July 2021).

CHAPTER X: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

10.1 Retention of extraneous clause in Concession Agreements of four laning BOT (Toll) projects

NHAI failed to levy damages of ₹12.36 crore on the concessionaires in two contracts for delays in fulfillment of conditions precedent, as NHAI had also delayed issue of fee notification which was one of the conditions precedent of the Concession Agreement. The issue of fee notification was an extraneous condition precedant clause in the concession agreements relating to four laning projects as toll operations were to be started on achieving the Commercial Operation Date.

National Highways Authority of India (NHAI) entered into two concession agreements for four laning of Shivpuri-Guna Section from km 236.00 to km 332.100 and four laning of Biaora to Dewas section from km 426.100 to km 566.450 of NH-3 in the State of Madhya Pradesh on 15 June 2015 and 27 August 2015, respectively. The Appointed Date[1] of the projects was declared as 25 January 2016 and 9 July 2016 and the scheduled completion date was 24 July 2018 and 6 January 2019, respectively.

For the purpose of developing National Highways, Planning Commission published a Model Concession Agreement with the approval of a Committee on Infrastructure for application to Public Private Partnership Projects for construction of highways in April 2009 (second edition) for use by Ministry of Road Transport and Highways (MoRTH) and also NHAI. As per the Model Concession Agreement, Article 4 related to 'Condition Precedent', rights and obligations of NHAI and the Concessionaire, under the Concession Agreement, shall be subject to the satisfaction in full of the conditions precedent specified in this Article. One of the condition precedent to be fulfilled by NHAI is 'issue of the fee notification'. Further, Article 4.2 and 4.3 of Model Concession Agreement states that in the event, NHAI or Concessionaire, failed to satisfy any condition precedent of Concession Agreement, they will be liable to pay damages.

With regard to above said two projects, it was noted that NHAI did not levy damages of ₹12.36 crore[2] on account of delays in fulfilling the conditions precedent (Article 4.1.3 of Concession Agreement) by the concessionaires as NHAI also delayed issue of fee notification due to procedural lapses which was one of the condition precedent (Article 4.1.2 of Concession Agreement).

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1 *Appointed date is the date of commencement of concession period as well as concessionaire getting the right to commence construction work of the National Highway.*

2 *₹10.62 crore for 67 days delay in Biaora to Dewas section and ₹1.74 crore for 21 days delay in Shivpuri-Guna Section.*

The scrutiny of records revealed the following:

(i) As per Article 15.1 of Model Concession Agreement regarding Commercial Operation Date, four laning shall be deemed to be complete when the Completion Certificate or the Provisional Certificate[3], as the case may be, is issued under the provisions of Article 14 and accordingly Commercial Operation Date of the project shall be the date on which such Completion Certificate or the Provisional Certificate is issued. The Project Highway shall enter into commercial service on Commercial Operation Date whereupon the Concessionaire shall be entitled to demand and collect fee in accordance with the provisions of Article 27. Thus, it can be noted that the Concessionaire would be entitled to start the toll operation on completion of at least 75 *per cent* of construction of the project or after completion of the entire construction work of the project. Further, the need for issue of fee notification for collection of user fee in both the above stated cases would have arisen on completion of 75 *per cent* of the project i.e., on or after the Commercial Operation Date of the project and not before the date of start of construction. Hence, issue of fee notification was an extraneous condition precedent clause in the concession agreements relating to four laning projects on which toll operations were to be started on achieving Commercial Operation Date.

(ii) With regard to above, during test check, Audit noticed that in six concession agreements[4] entered with other concessionaires, the MoRTH/ NHAI had modified the concession agreements as per the project specific requirement by deleting the condition precedent of issue of fee notification in consonance with the views of Planning Commission which stated in the forwarding to Model Concession Agreements that MoRTH and NHAI may adopt this Model Concession Agreement with or without modification, in their sole discretion. However, in the above two said projects, this clause was not deleted.

Hence, inconsistent approach of the MoRTH/ NHAI in deleting the clause related to issue of fee notification as condition precedent in concession agreements resulted in non-levy of penalty of ₹12.36 crore on the concessionaires.

The Management in its reply stated (August 2020) that damages payable by NHAI were more than the damages due to delay in achievement of condition precedent by concessionaire in both the cases. Further, deletion of condition precedent of issue of fee notification was not provided under the square parenthesis, therefore, it was not modified. As per the Model Concession Agreements, any revision/ omission of this condition precedent was not considered appropriate and may not be acceptable to the Concessionaire. The delay in publication of fee notification was procedural.

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[3] ***Provisional Certificate may, upon the request of the Concessionaire be issued for operating part of the Project Highway, if at least 75 per cent of the total length of the Project Highway has been completed.***

[4] ***Badarpur Elevated Highways, Jammu to Udhampur, Chenani to Nashri , Quazigund to Banihal, Agra to Aligarh & Panipat to Jalandhar***

MoRTH while accepting the Audit observation stated (March 2021) that the Audit point is valid that this condition precedent was not required for declaring appointed date as tolling would start only after Commercial Operation Date. But as this provision is the part of Model Concession Agreement, rectification, if required, can be done only at the time of revision of Model Concession Agreement in due course of time. Condition precedent of issue of fee notification was not provided under the square parenthesis, therefore it was not modifiable. Now concession agreements are mostly awarded on Hybrid Annuity basis and this condition precedent is not prescribed for the projects awarded on Hybrid Annuity basis. Thus, it can be stated that remedial measures have already been taken in this regard. Delay in publication of Fee Notification was procedural and happened in order to comply with the prescribed procedure prevailing at that time.

However, the fact remains that despite knowing that this condition precedent of issue of fee notification was extraneous, no action has been taken by NHAI for its amendment in Model Concession Agreement. Resultantly, NHAI could not impose and recover damages from the concessionaire despite delay on the part of concessionaire. Further, Audit noticed on test check basis in six cases that NHAI had deleted this condition precedent, as mentioned above but failed to delete it in both the concession agreements of Shivpuri - Guna and Biaora - Dewas projects. Also Planning Commission in the forwarding to Model Concession Agreements had stated that MoRTH and NHAI may adopt this Model Concession Agreements with or without modification, in their sole discretion.

Thus, due to non-deletion as well as delay in fulfillment of extraneous condition precedent, having penal implications, NHAI could not impose penal provision of the Concession Agreement on the concessionaires and was forced to mutually waive off damages to the tune of ₹12.36 crore.

Recommendation No. 11

In order to not extend undue benefit to the concessionaires, NHAI may review the Model Concession Agreement for rectification of extraneous provisions such as issue of fee notification as condition precedent in all BOT (Toll) projects.

10.2 Undue benefit to concessionaire by resorting to post contract modification of damage computation clause in the agreement in violation of CVC guidelines

NHAI extended undue benefit of ₹10.94 crore to concessionaire by levying damages at a rate lesser than that specified in concession agreement by modifying the calculation method of damages which was in violation of CVC guidelines.

Central Vigilance Commission (CVC) published a document on common irregularities and lapses in award and execution of contracts and guidelines for improvement thereof in November 2002. CVC observed that after award of the contract, amendments/ modifications having financial implications are subsequently authorised in the contract conditions giving financial benefit to the contractors. CVC further observed that after conclusion of the contract, any relaxation in the contract terms/ specifications should be severely discouraged (Clause 22 – Post Contract Management).

National Highways Authority of India (NHAI) entered (March 2005) into a Concession Agreement with West Gujarat Expressway Limited (WGEL), a company promoted by Industrial Leasing and Financial Services Limited. The scope of work included widening (from two to four lane) of the existing 26 km. Jetpur-Gondal Section C-1 (km.117 to km.143), making improvements in the existing 32 km. Gondal-Rajkot 4 lane Section C-2 (km.143 to km.175) and widening (from two to four lane) of the existing 10 km. Rajkot Bypass Section C-3 (km.175 to km.185) on National Highway-8B in Gujarat on Build, Operate and Transfer (BOT) basis. The Commercial Operations Date (COD) for Section C-2 was 26 October 2006 and that for Sections C-1 and C-3 was 17 March 2008. According to the agreement, WGEL was allowed a concession period of 20 years for collecting toll from the users.

Chapter IV of the Concession Agreement dealt with 'Project Development and Operations' and Clause XVIII of the chapter stipulated the terms and conditions of 'Operation and Maintenance'. Sub-clause 18.3 provided that the Concessionaire shall, before the beginning of each year, provide to NHAI its proposed programme of preventive and other scheduled maintenance of the project highway subject to minimum maintenance requirements set forth in Maintenance Manual and Schedule 'L' of the Concession Agreeement for keeping the Project Highway at all times in conformity with the Specifications and Standards.

Clauses 3.3.7 and 4.3.2.3 of Schedule 'L' required the Concessionaire to carryout periodic maintenances of the carriageway as required and at least once in every five years from COD. In case, the Concessionaire fails to maintain the project highway according to the Standards and Specifications, clause 18.12 of the Concession Agreement allowed NHAI to undertake such repair and maintenance at the risk and cost of Concessionaire. If NHAI chose not to exercise the option provided in clause 18.12, as per clause 18.13 of the agreement NHAI could recover damages for default in operating and maintaining the project highway, calculated at the higher of ₹10,000 or 0.1 *per cent* of the cost of such repairs as estimated by the Independent Consultant for each day of default, after a cure-period of 30 days till the default was cured. Damages payable by either party to the other were defined in clause 1.2(p) of the Concession Agreement as the mutually agreed genuine pre-estimated loss and damage likely to be suffered and incurred by the party entitled to receive the same and are not by way of penalty or liquidated damages.

WGEL delayed completing the first fifth year periodic maintenance and the Independent consultant estimated the damages to be recovered from WGEL as detailed below:

Table 10.1: Estimated damages to be recovered from WGEL

Section	COD	Due date for the fifth-year maintenance	Delay in first five-year maintenance	
		First due date	Completed on	Estimated damages
C2	26.10.2006	26.10.2011	31.03.2013	₹13.41 crore*
C1 and C3	17.03.2008	17.03.2013	06.01.2014	₹7.64 crore#
Total				**₹21.05 crore**

* by Independent Consultant, M/s Sai Consulting Engineering Private Limited; does not include routine maintenance cost.

\# by Consulting Engineers, M/s Frishmann Prabhu; excluding the penalty of ₹4 lakh recommended by Independent Consultant for WGEL's delayed response to Independent Consultant's remarks.

WGEL did not pay the damages as recommended by the Consultants and requested (August 2017) for a meeting with the Chairman of NHAI. In the meeting held in September 2018, NHAI offered the option of calculating the damages as per NHAI's 'Policy Guidelines/ calculation for periodic maintenance and damages' of February 2018. These guidelines stated that damages should be applicable on cost of repair work which was getting reduced on a day-to-day basis when work was being done at site. NHAI applied the same and reduced the damages to be paid from ₹21.05 crore to ₹10.11 crore; WGEL remitted the amount in July 2019.

Audit observed that NHAI extended undue benefit of ₹10.94 crore (₹21.05 crore - ₹10.11 crore) to the Concessionaire by levying damages lesser than that specified in the Concession Agreement. Application of NHAI guidelines of February 2018 brought down the claim of damages to ₹10.11 crore from ₹21.05 crore. Audit is also of the view that revision of methodology in calculating the damages based on the guidelines of February 2018 for a contract entered in March 2005 was in violation of CVC guidelines published in November 2002.

NHAI/ Ministry of Road Transport and Highways stated (July 2020/ January 2021) that the policy guidelines did not modify any clause of the agreement; it only clarified how the delay period should be calculated and that the damages should be applicable on cost of repair work which was getting reduced on day-to-day basis when renewal work was being done at site.

The reply of NHAI/ Ministry is not tenable as there was no lack of clarity in the Concession Agreement regarding damages to be imposed. On the other hand, the change in method of calculation of damages tantamounts to revision/ relaxation in the contractual terms which ultimately resulted in extending financial benefit of ₹10.94 crore to the Concessionaire.

Thus, NHAI extended undue benefit of ₹10.94 crore to the Concessionaire by levying damages lesser than that specified in Concession Agreement by resorting to post contract relaxation in the terms and conditions which was in violation of the CVC guidelines.

Recommendation No. 12

NHAI should ensure adherence to the contractual terms while executing the contracts in the best financial interest of the Organisation and retrospective application of NHAI guidelines with reference to computation of damages should be avoided.

CHAPTER XI: RECOVERIES AND CORRECTIONS/ RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

Airports Authority of India, Air India Limited, Central Mine Planning and Design Institute Limited, Damodar Valley Corporation, Eastern Coalfields Limited, Heavy Engineering Corporation Limited, Indian Oil Corporation Limited, National Highways Authority of India, NLC India Limited, Northern Coalfields Limited, Oil and Natural Gas Corporation Limited, Power Grid Corporation of India Limited, SAIL Refractory Company Limited, The New India Assurance Company Limited, United India Insurance Company Limited

11.1 Recoveries at the instance of audit

In 23 cases pertaining to 15 CPSEs, audit pointed out that an amount of ₹2,787.44 crore was due for recovery. The Management of CPSEs had recovered an amount of ₹2,771.14 crore as detailed in ***Annexure-VI***.

Air India Limited and its subsidiaries, Cochin Shipyard Limited, Ferro Scrap Nigam Limited, Oil and Natural Gas Corporation Limited

11.2 Corrections/ rectifications at the instance of audit

a) Based on audit observations raised during IT Audit of 'SAP-ERP system implemented in Air India Limited and its subsidiaries with emphasis on Financial Accounting and Controlling, Human Capital Management and Material Management Modules', the management carried out a number of corrective actions. Some of the significant observations on the SAP-ERP system on which management took corrective actions were (i) Non-mapping of date of next increment of employees, (ii) Duplication of Master codes pertaining to religious denominations, (iii) MICR codes of Banks being incorrectly captured, (iv) Discrepancies in the customised table ZF1074 created to capture ECS bank details, (v) Non-capturing of Educational details, (vi) Generation of incomplete report of educational qualification, (vii) Incomplete/ incorrect information in Purchase Requisitions List Report generated.

b) During test check, cases relating to violation of laid down rules and deficiencies in the system were observed and brought to the notice of the Management. Details of the cases where corrective action was taken by the Management at the instance of audit are given in ***Annexure-VII***.

CHAPTER XII

Follow-up on Audit Reports (Commercial)

Audit Reports of the CAG represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of PSUs. It is, therefore, necessary that appropriate and timely response is elicited from the executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/ corrective action taken by them on various paragraphs/ appraisals contained in the Audit Reports (Commercial) of the CAG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/ appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99: Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- Setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);

- Setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and

- Submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the CAG presented to Parliament.

While reviewing the follow up by the Government on the above recommendations, the COPU in its First Report (1999-2000: Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/ Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/ Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the CAG.

A review in Audit revealed that despite reminders, the remedial/ corrective ATNs on 54 transaction audit/ compliance audit paragraphs contained in the last five years' Audit Reports (Commercial) and three Performance Audit Reports relating to the PSUs under the administrative control of various Ministries, as detailed in ***Annexure-VIII***, were not received by Audit for vetting.

New Delhi
Dated: 29 November 2021

(R G Viswanathan)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

Countersigned

New Delhi
Dated: 29 November 2021

(Girish Chandra Murmu)
Comptroller and Auditor General of India

ANNEXURES

Annexure-I
(Referred to in Para 2.4)
Statement showing standard hours for overhauling and actual running hours of Power Turbines and Compressors of Process Gas Compressors (PGCs)

Sr. No.	PGC	Sub-equipment	Standard hours for Overhaul	Running hours
1	SHG PGC A	Power Turbine	100,000	175,663
2	SHG PGC B	Power Turbine	100,000	175,594
		Compressor	50,000	180,425
3	SHG PGC C	Power Turbine	100,000	188,810
		Compressor	50,000	61,784
4	SHG PGC D	Power Turbine	100,000	124,734
		Compressor	50,000	100,853
5	SHG PGC E	Power Turbine	100,000	170,270
		Compressor	50,000	66,517
6	SHG PGC F	Power Turbine	100000	111,237
7	NQP PGC A	Power Turbine	100,000	169,087
8	ICP PGC B	Power Turbine	100,000	105,587
9	NQG PGC A	Power Turbine	100,000	157,842
		Compressor	50,000	69,129
10	NQP PGC B	Power Turbine	100,000	175,818
		Compressor	50,000	107,075
11	NQP PGC C	Power turbine	100,000	182,372
12	ICP PGC C	Compressor	50,000	71,448
13	NQG PGC D	Compressor	50,000	84,995
14	BHS PGC A	Compressor	50,000	64,036
15	MSP PGC A	Compressor	50,000	116,275
16	SHP PGC C	Compressor	50,000	62,218

Calculations for valuation of gas flaring

(Amount in ₹)

Year	Value of gas flared	Less due to process upsets	Net loss due to flaring of gas
2012-13	180,26,38,670	49,35,62,468	130,90,76,202
2013-14	130,78,88,911	23,65,97,104	107,12,91,807
2014-15	160,85,81,853	39,94,10,874	120,91,70,979
2015-16	97,32,50,160	12,66,19,846	84,66,30,314
2016-17	54,60,94,337	15,76,57,435	38,84,36,902
2017-18	77,97,91,516	14,72,24,638	63,25,66,878
2018-19	123,11,07,065	22,80,01,029	100,31,06,036
2019-20	196,14,41,525	26,08,71,723	170,05,69,802
Total	**1021,07,94,036**	**204,99,45,116**	**816,08,48,920**

₹1021.08 crore minus ₹205.00 crore = ₹816.08 crore

Annexure-II
(Referred to in Para 2.6)

List of wells where costlier premium casing pipes was used in Bombay High (BH) platform and Vasai East of Bassein & Satellite Asset

Well Name	Cost of L-80 premium casing (₹ per meter)	Cost of 13 cr L-80 Premium casing used in place (₹ per meter)	Qty used (in meter)	Cost of L-80 Premium Casing (in ₹)	Cost of casing used in place (in ₹)	Difference (in ₹)
(1)	(2)	(3)	(4)	(5 = 2X4)	(6 = 3X4)	(7 = 6-5)
BH#3H	4,263.53	13,979.18	394	16,79,831	55,07,797	38,27,966
BH#4H	4,263.53	13,941.28	2,365	1,00,83,248	3,29,71,127	2,28,87,879
BH#5H	4,263.53	13,941.28	2,380	1,01,47,201	3,31,80,246	2,30,33,045
BH#5Z	4,263.53	13,979.18	1,701	72,52,265	2,37,78,585	1,65,26,321
BH#6	4,263.53	13,979.18	442	18,84,480	61,78,798	42,94,318
	4,263.53	13,941.28	320	13,64,330	44,61,210	30,96,880
Total BH Platform wells (a)						**7,36,66,609**
VSEB#3H	4,263.53	13,979.18	2,578	1,09,91,380	3,60,38,326	2,50,46,946
VSEC#2H	4,263.53	13,979.18	2,700	1,15,11,531	3,77,43,786	2,62,32,255
VSEC#3H	4,263.53	13,979.18	2,856	1,21,76,642	3,99,24,538	2,77,47,896
VSEC#5H	4,263.53	13,979.18	2,340	99,76,660	3,27,11,281	2,27,34,621
VSEC#11H	4,263.53	13,941.28	1,365	58,19,718	1,90,29,847	1,32,10,129
VSEC#16	4,263.53	12,826.25	3,153	1,34,42,910	4,04,41,166	2,69,98,256
Total Vasai East wells (b)						**14,19,70,103**
Grand Total (a) + (b)						**21,56,36,712**

Say ₹ 21.56 crore

Annexure-III
(Referred to in Para 4.6)
Short collection of premium on the proposals received on or before IRDAI notification

Product Code	Vehicle Class Code	No. of policies	Premium Actually Charged (based on the rate prevailing on the date of proposal) (in ₹)	Premium to be charged (based on revised rate of premium) (in ₹)	Short collection of Premium (in ₹)
2016-17					
MOT-PRD-001	Private cars	7,786	1,65,75,791	2,22,07,637	56,31,846
MOT-PRD-003	A1	1,534	3,02,57,400	3,68,80,570	66,23,170
MOT-PRD-003	A2	144	14,53,477	16,32,919	1,79,442
MOT-PRD-003	A3&A4	92	4,30,802	5,12,200	81,398
MOT-PRD-004	4B	68	84,184	88,876	4,692
MOT-PRD-005	4C	1,143	1,98,75,182	2,51,17,887	52,42,705
MOT-PRD-006	Class D	581	15,86,130	22,20,582	6,34,452
MOT-PRD-002	Two wheelers	12,563	67,50,756	77,96,948	10,46,192
Total		**23,911**	**7,70,13,722**	**9,64,57,619**	**1,94,43,897**
2017-18					
MOT-PRD-001	Private cars	14,611	3,64,04,603	4,65,96,889	1,01,92,286
MOT-PRD-003	A1	1,367	3,21,10,835	4,11,10,523	89,99,688
MOT-PRD-003	A2	104	11,19,922	12,76,726	1,56,804
MOT-PRD-004	4B	30	34,428	44,070	9,642
MOT-PRD-005	4C	786	1,74,79,450	2,24,23,355	49,43,905
MOT-PRD-006	Class D	530	20,19,810	25,85,272	5,65,462
MOT-PRD-002	Two wheelers	8,673	54,25,823	63,69,509	9,43,686
Total		**26,101**	**9,45,94,871**	**12,04,06,344**	**2,58,11,473**
2018-19					
MOT-PRD-003	A1	1,479	4,37,65,554	5,30,84,796	93,19,242
MOT-PRD-003	A2	36	5,23,955	5,58,529	34,574
MOT-PRD-004	4B	80	1,28,740	1,60,905	32,165
MOT-PRD-005	4C	253	14,09,788	16,49,143	2,39,355
MOT-PRD-006	Class D	743	36,12,292	45,15,365	9,03,073
MOT-PRD-002	Two wheelers	1,268	11,24,716	12,50,318	1,25,602
Total		**3,859**	**5,05,65,045**	**6,12,19,056**	**1,06,54,011**
Total for 2016-17 to 2018-19		**53,871**	**22,21,73,638**	**27,80,83,019**	**5,59,09,381**
2019-20					
MOT-PRD-001	Private cars	20,747	5,01,45,919	5,63,32,270	61,86,351
MOT-PRD-003	A1	2,321	6,84,66,640	7,36,42,250	51,75,610
MOT-PRD-003	A2	240	25,72,080	29,59,119	3,87,039
MOT-PRD-003	A3&A4	21	66,150	82,194	16,044

Product Code	Vehicle Class Code	No. of policies	Premium Actually Charged (based on the rate prevailing on the date of proposal) (in ₹)	Premium to be charged (based on revised rate of premium) (in ₹)	Short collection of Premium (in ₹)
MOT-PRD-004	4B	43	80,988	90,275	9,287
MOT-PRD-005	4C	1,113	3,53,12,677	3,72,94,656	19,81,979
MOT-PRD-006	Class D	971	59,09,585	66,16,655	7,07,070
MOT-PRD-002	Two wheelers	21,734	1,59,41,306	1,69,77,885	10,36,579
Total		**47,190**	**17,84,95,345**	**19,39,95,304**	**1,54,99,959**
Grand Total for 2016-17 to 2019-20		**1,01,061**	**40,06,68,983**	**47,20,78,323**	**7,14,09,340**

Say ₹ 7.14 crore

Annexure-IV

(Referred to in Para 4.6)

Short collection of premium on the proposals received after IRDAI notification

Product Code	Vehicle Class Code	No. of policies	Premium Actually Charged (based on pre-revised rate) (in ₹)	Premium to be charged (based on revised rate) (in ₹)	Short collection of Premium (in ₹)
2016-17					
MOT-PRD-003	A1	320	47,88,793	78,78,910	30,90,117
MOT-PRD-005	4C	14	3,24,918	4,06,255	81,337
Total		**334**	**51,13,711**	**82,85,165**	**31,71,454**
2017-18					
MOT-PRD-003	A1	31	7,18,027	9,19,073	2,01,046
MOT-PRD-003	A2	2	33,310	42,636	9,326
MOT-PRD-004	4B	2	2,612	3,346	734
MOT-PRD-005	4C	2	79,714	1,02,022	22,308
Total		**37**	**8,33,663**	**10,67,077**	**2,33,414**
2018-19					
MOT-PRD-003	A1	41	12,48,759	15,16,189	2,67,430
MOT-PRD-002	Two wheelers	2	1,774	1,970	196
Total		**43**	**12,50,533**	**15,18,159**	**2,67,626**
2019-20					
MOT-PRD-001	Private cars	3,779	89,21,928	1,00,20,082	10,98,154
MOT-PRD-003	A1	42	14,72,956	15,95,050	1,22,094
MOT-PRD-003	A2	4	45,528	51,284	5,756
MOT-PRD-005	4C	6	2,20,736	2,32,492	11,756
MOT-PRD-006	Class D	4	24,460	27,388	2,928
MOT-PRD-002	Two wheelers	15	11,065	11,721	656
Total		**3,850**	**1,06,96,673**	**1,19,38,017**	**12,41,344**
Grand Total for 2016-17 to 2019-20		**4,264**	**1,78,94,580**	**2,28,08,418**	**49,13,838**

Say ₹ 0.49 crore

Annexure-V
(Referred to in Para 9.3)
Statement showing avoidable payment of service tax and corporate tax

Billing period	Differential Royalty (@ 11 *percent* of Gross Turnover) (in ₹)	Rate of Corporate Tax during the period	Corporate tax paid (in ₹)	Current corporate tax rate	Excess Corporate tax adjusted (in ₹)	Avoidable Corporate Tax paid (Loss) (in ₹)	Service Tax paid (Loss) (in ₹)	Total loss on account of Service Tax and Corporate Tax (in ₹)
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii) = (iv-vi)	(viii)	(ix) = (vii+viii)
Prior to 2009-10	321,02,572.00	0.34	109,11,664.22	0.25	80,79,575.32	28,32,088.90	39,13,979.00	67,46,067.90
2009-10	284,77,891.00	0.34	96,79,635.15	0.25	71,67,315.61	25,12,319.54	29,33,221.00	54,45,540.54
2010-11	297,40,973.00	0.33	98,79,207.71	0.25	74,85,208.08	23,93,999.62	30,63,320.00	54,57,319.62
2011-12	351,03,098.00	0.32	113,89,200.15	0.25	88,34,747.70	25,54,452.44	37,12,096.00	62,66,548.44
2012-13	341,36,141.00	0.32	110,75,470.95	0.25	85,91,383.97	24,84,086.98	42,19,227.00	67,03,313.98
2013-14	354,29,916.00	0.34	120,42,628.45	0.25	89,17,001.26	31,25,627.19	43,79,136.00	75,04,763.19
2014-15	405,53,444.00	0.34	137,84,115.62	0.25	102,06,490.79	35,77,624.83	50,12,406.00	85,90,030.83
2015-16	426,57,754.00	0.35	147,62,995.50	0.25	107,36,103.53	40,26,891.98	60,14,060.00	100,40,951.98
2016-17	486,44,576.00	0.35	168,34,914.86	0.25	122,42,866.89	45,92,047.97	74,17,665.00	120,09,712.97
Total	**32,68,46,365.00**		**11,03,59,832.60**		**8,22,60,693.14**	**2,80,99,139.46**	**4,06,65,110.00**	**6,87,64,249.46**
Total loss = ₹6.88 crore [on account of excess payment of Service Tax (₹4.07 crore) and Corporate Tax (₹2.81 crore)]								

Annexure-VI
(Referred to in para 11.1)
Recoveries at the instance of Audit

(Amount ₹ in lakh)

Name of Ministry/ Department	Name of the CPSE	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Civil Aviation	Airports Authority of India	Non-compliance of DPE guidelines regarding payment of performance related pay	1083.00	801.00
Civil Aviation	Air India Limited	Non-recovery of penalty from M/s. Air India SATS Airport Services Private Limited for baggage mishandling	152.13	152.13
Civil Aviation	Air India Limited	Non deduction of collection charges despite making advance payment to DIAL towards Passenger Service Fee	514.00	836.13
Coal	Central Mine Planning and Design Institute Limited	Non recovery towards Engineering Days utilised for coal characterization and washability test	92.45	92.45
Coal	Eastern Coalfields Limited	Non recovery of loss from contractor on account of slippage of grade of coal	216.31	194.00
Coal	NLC India limited	Non levy of GST on Blasting charges	154.00	102.00
Coal	Northern Coalfield Limited	Excess payment on account of transit fee to Forest Department	1874.29	705.11
Coal	Northern Coalfields Limited	Non recovery of excise duty on royalty and stowing excise duty from the customers	478.00	211.00

Name of Ministry/ Department	Name of the CPSE	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Department of Financial Services	The New India Assurance Company Limited	Undercharging of Motor Own damage premium	1.17	8.11
Department of Financial Services	United India Insurance Company Limited	Excess payment of commission to the agent	56.21	23.78
Heavy Industries and Public Enterprises	Heavy Engineering Corporation Limited	Irregularities in passing of foreign tour bills resulted in overpayment to the executives of HEC Limited	1.55	1.48
Heavy Industries and Public Enterprises	Heavy Engineering Corporation Limited	Non-recovery of Liquidated damage	405.71	402.44
Petroleum and Natural Gas	Oil and Natural Gas Corporation Limited	Non-recovery of abandonment liability in respect of Tapti and Panna Mukta field	269740.00	269740.00
Petroleum and Natural Gas	Indian Oil Corporation Limited	Short recovery of cost of water from outside agencies	105.00	105.00
Power	Damodar Valley Corporation	Non-realisation of rent/ licence fee	29.00	12.76
Power	Damodar Valley Corporation	Non-recovery of licence fee and electricity charges	19.00	34.00
Power	Power Grid Corporation of India Limited	Non-recovery of Field Compensatory Allowance/ Special Allowance paid to executives beyond DPE norms	672.00	657.00
Power	Power Grid Corporation of India Limited	Non-recovery of interest on account of direct payment to sub vendor	148.00	193.00

Name of Ministry/ Department	Name of the CPSE	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Power	Power Grid Corporation of India Limited	Non-recovery from contractor on account of loss of inventory	244.00	244.00
Road Transport & Highways	National Highways Authority of India	Non-recovery of damage amount from Reliance Infrastructure Limited for delay in submitting performance security	357.00	407.00
Road Transport & Highways	National Highways Authority of India	Non-recovery of penalty for delay in overlay works of Highway AP-5	2359.00	1497.64
Road Transport & Highways	National Highways Authority of India	Adoption of incorrect average for working out land compensation resulted in overpayment of land compensation to land losers	0	677.32
Steel	SAIL Refractory Company Limited	Non-recovery of Liquidated damage from the supplier	41.95	17.13
		Total	**278744.00**	**277114.00**
		Say	**₹2787.44 crore**	**₹2771.14 crore**

Annexure-VII
(Referred to in para 11.2)
Corrections/ Rectifications at the instance of Audit

Name of Ministry/ Department	Name of the CPSE	Audit observations/ suggestions in brief	Action taken by the Management
Petroleum and Natural Gas	Oil and Natural Gas Corporation Limited	The liability booked under the block CY-OSN-2000/2 for MWP needs to be reviewed and corrective action may be taken.	The management has reversed the excess liability amounting to USD 2,19,492.
Shipping	Cochin Shipyard Limited	Lack of policy on treatment of medical insurance claim	The company in its Annual Report for the year 2018-19 has disclosed the accounting policy on accounting of medical insurance claims.
Steel	Ferro Scrap Nigam Limited	The company did not follow the guidelines of DPE in determining the Profit before Tax (PBT) as well as for computing the incremental profit for arriving at the amount distributable as Performance Related Pay.	The management accepted the audit observation and has taken corrective action while calculating the Performance Related Pay for 2018-19.

Annexure-VIII
(Referred to in Chapter XII)
Statement showing the details of Audit Reports (Commercial) upto 2020 for which Action Taken Notes were pending

Report number and year of Report	Name of Report	Para No.
Ministry of Civil Aviation		
15 of 2016	Compliance Audit	Para 2.3
13 of 2019	Compliance Audit	Para 1.1 to 1.6
18 of 2020	Compliance Audit	Para 2.1 to 2.4
Ministry of Coal		
12 of 2019	Performance Audit	
13 of 2019	Compliance Audit	Para 2.1 to 2.3
18 of 2020	Compliance Audit	Para 3.1 to 3.3
Ministry of Commerce and Industry		
18 of 2020	Compliance Audit	Para 4.1
Ministry of Finance (Department of Financial Services)		
15 of 2016	Compliance Audit	Para 7.3
9 of 2017	Compliance Audit	Para 7.1
16 of 2017	Performance Audit	
11 of 2018	Compliance Audit	Para 5.1
13 of 2019	Compliance Audit	Para 3.1 and 3.3
18 of 2020	Compliance Audit	Para 5.1 to 5.10
Ministry of Heavy Industries		
29 of 2017	Performance Audit	
18 of 2020	Compliance Audit	Para 6.1, 6.3 and 6.4
Ministry of Housing & Urban Affairs		
18 of 2020	Compliance Audit	Para 7.1
Ministry of Mines		
18 of 2020	Compliance Audit	Para 8.1
Ministry of Petroleum and Natural Gas		
13 of 2019	Compliance Audit	Para 6.7
18 of 2020	Compliance Audit	Para 9.1 to 9.5
Ministry of Power		
13 of 2019	Compliance Audit	Para 7.9
18 of 2020	Compliance Audit	Para 10.2
Ministry of Ports, Shipping and Waterways		
18 of 2020	Compliance Audit	Para 12.1
Ministry of Road Transport and Highways		
11 of 2018	Compliance Audit	Para 11.6
13 of 2019	Compliance Audit	Para 8.1 and 8.3
18 of 2020	Compliance Audit	Para 11.1 and 11.4
Ministry of Steel		
13 of 2019	Compliance Audit	Para 10.5 and 10.6