SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

Report of the Comptroller and Auditor General of India for the period ended March 2022

Union Government (Commercial)

Report No. 12 of 2024

(Compliance Audit Observations)

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CONTENTS

PREFACE

1. This report deals with the results of audit of Government Companies, Government controlled other Companies and Statutory Corporations for the year ended March 2022.

2. The accounts of Government Companies and Government controlled other Companies, set up under the provisions of the Companies Act, are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 143 of the Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to supplementary audit by officers of the CAG and the CAG gives his comments or supplements the reports of the Statutory Auditors under section 143(6) of the Act. In addition, these Companies are also subject to test audit by CAG under the provisions of Section 143(7) of the Act.

3. 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, auditor is appointed by the Government, on the advice of the CAG, for audit of the accounts of the Central Warehousing Corporation. CAG has the right to conduct the audit as he may consider necessary.

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

5. The Audit Report for the year ended 31 March 2022 contains 30 individual audit observations relating to 16 CPSEs under control of eight Ministries/Departments. These Ministries/Departments have been further grouped in the Audit Report under three Clusters namely, Energy, Industry and Infrastructure. There are 10 audit observations under Energy Cluster, 11 under Industry Cluster and nine under Infrastructure Cluster. The instances mentioned in this Report are those which came to notice in the course of test audit for the period 2021-22 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports: matters relating to the period subsequent to 2021-22 have also been included, wherever necessary.

6. 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.

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

8. Audit wishes to acknowledge the cooperation received from the Managements of CPSEs and their respective Administrative Ministries/Departments at each stage of audit process.

Executive Summary

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 30 individual audit paragraphs relating to 16 Central Public Sector Enterprises (CPSEs) under eight Ministries/Departments. These Ministries/Departments have been further grouped in the Audit Report under three clusters namely, Energy, Industry and Infrastructure. There are 10 audit paragraphs under Energy Cluster, 11 under Industry Cluster and 9 under Infrastructure Cluster. The draft paragraphs were sent to the Managements of the CPSEs concerned. The draft paragraphs were also 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. The responses of the concerned Ministries/Departments/ Managements have been received for all the audit paragraphs and are 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
Energy Cluster		
1.	Coal (Central Coalfields Limited and Eastern Coalfields Limited)	2
2.	Petroleum and Natural Gas (Chennai Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited & Oil and Natural Gas Corporation Limited)	5
3.	Power (Damodar Valley Corporation)	3
Industry Cluster		
4.	Finance - Department of Financial Services (India Infrastructure Finance Company Limited, National Credit Guarantee Trustee Company Limited, The Oriental Insurance Company Limited, SBI Cards and Payment Services Limited and UTI Infrastructure Technology and Services Limited)	7

Sl. No.	Ministry/ Department (CPSEs involved)	Number of paragraphs
5	Heavy Industries (Cement Corporation of India Limited)	1
6	Steel (NMDC Limited and Rashtriya Ispat Nigam Limited)	3
Infrastructure Cluster		
7.	Housing and Urban Affairs (Delhi Metro Rail Corporation)	1
8.	Road Transport and Highways (National Highways Authority of India)	8
Total		**30**

4. Total financial implication of individual audit paragraphs is ₹3,437.30 crore.

5. Individual audit paragraphs in this Report are broadly of the following nature:

- Non-compliance with rules, directives, procedure, terms and conditions of the contract etc., involving ₹484.01 crore in six Audit paragraphs[1].
- Non-safeguarding of financial interest of organisations involving ₹435.09 crore in five Audit paragraphs[2].
- Defective/deficient planning involving ₹1,894.96 crore in eight Audit paragraphs[3].
- Inadequate/deficient monitoring involving ₹623.24 crore in 11 Audit paragraphs[4].

6. The Report also contains a Chapter on "Recoveries & corrections/rectifications" by CPSEs at the instance of Audit. The Chapter contains two paragraphs *viz.*, (a) In the last ten years from 2012-13 to 2021-22, Management of various CPSEs have recovered an amount of ₹3,435.12 crore at the instance of Audit, which included recovery of ₹3.82 crore made during 2021-22, and (b) corrections/rectifications carried out by two CPSEs at the instance of Audit.

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

Bhurkunda Colliery of Central Coalfields Limited violated the production limit as stipulated by Jharkhand State Pollution Control Board. It also carried out mining operations without necessary Environmental Clearance. Carrying out production beyond the production limit, resulted in a liability for avoidable expenditure of ₹12.32 crore towards

[1] ***Para no. 1.1, 2.1, 4.1, 4.5, 6.2 and 6.3***
[2] ***Para no. 1.2, 3.2, 3.3, 4.4, and 8.2***
[3] ***Para no. 2.2, 2.3, 2.4, 2.5, 4.6, 6.1, 8.1 and 8.8***
[4] ***Para no. 3.1, 4.2, 4.3, 4.7, 5.1, 7.1, 8.3, 8.4, 8.5, 8.6, and 8.7***

additional restoration work due to damage to the environment. **In this regard, it is recommended that the Company should strictly adhere to the environmental regulations regarding expansion and modernisation of the mining projects not only to avoid any extra damage to the environment which may also entail additional expenditure by way of damage remediation but also to avoid unplanned disruption to production.**

(Para 1.1)

Despite specific provisions in Contract Agreement for recovery from the contractor, for coal shortage that occur during transportation of coal from mine to railway siding, Eastern Coalfields Limited (ECL) failed to enforce the terms of the contract. ECL, thereby extended undue favour to the contractor and suffered an avoidable loss of ₹17.39 crore.

(Para 1.2)

Chennai Petroleum Corporation Limited allowed encashment of accumulated Sick Leave at the time of retirement in violation of Department of Public Enterprises guidelines which resulted in irregular payment of ₹22.62 crore to its employees.

(Para 2.1)

Hindustan Petroleum Corporation Limited approved (January 2010) the project for installation of storage facilities for both white oil and black oil at Bihta, Bihar with total project cost of ₹142.50 crore out of which ₹19.88 crore was for development of infrastructure for only black oil facilities and the same was completed in June 2014. The proposal for installation of black oil petroleum products was considered at a later stage, without assessing the market demand for those products. However, the facilities created for storage and distribution of black oil petroleum products remained idle since their commissioning in June 2014. Thus, development of infrastructure for storage and marketing of black oil petroleum products in Bihar by the Company without assessing its market demand and not supported by cost benefit analysis resulted in blockage of funds to the tune of ₹19.88 crore.

(Para 2.2)

Oil and Natural Gas Corporation Limited (ONGC) acquired the block with 70 *per cent* Participating Interest despite the fact that the Technical Committee had assessed (June 2013) the probability of success in the block as only 11.20 *per cent*. ONGC surrendered the block to Directorate General of Hydrocarbons in November 2021 citing low gas volumes after incurring an expenditure of ₹557.59 crore, besides failing to recover the proportionate share of ₹132.90 crore from partner contractor. **In this regard, it is recommended that ONGC should ensure carrying out rigorous economic evaluation of the block before acquisition in future and consider fixing responsibility on the concerned officials for failing to obtain bank guarantee from Party-A towards its share of cost of Minimum Work Programme.**

(Para 2.3)

Non-synchronisation of the supply of the material for revamping of three old Gas Turbine Generators at Water Injection platform with service contract by ONGC resulted in delay in commissioning of one Gas Turbine Generator costing ₹35.02 crore by two years and idling of two Gas Turbine Generators costing ₹98.12 crore, which are yet to be commissioned despite lapse of seven years. **In this regard, it is recommended that ONGC, in future, may ensure synchronisation of the supply of material required and the service contract necessary for revamping to reduce the delay in commissioning and to enhance the safety and operational reliability of a plant.**

(Para 2.4)

There was delay in clearance of imported consignments on part of ONGC due to delay in receipt of Essentiality Certificate and other operational reasons like late filling of Bill of Entry, wrong delivery order issued by shipping line, delay in obtaining delivery order from supplier and lack of co-ordination between the departments. This led to absorption of demurrage charges to the extent of ₹58.74 crore by ONGC out of total demurrage payment of ₹110.61 crore during the period 2016-17 to 2021-22. **ONGC needs to streamline the process of clearance of consignments within the timelines prescribed in their Material Management Manual by ensuring coordination among the concerned departments. The cases of non-compliance of Material Management Manual provisions may be monitored at higher levels of company to ensure better controls.**

(Para 2.5)

During the period from April 2019 to September 2022, Damodar Valley Corporation (Corporation) failed to restrict drawal of power from grid for 1,193 days (93.64 *per cent*) when average frequency was below 49.85 Hertz and this resulted in payment of ₹61.28 crore towards additional deviation charges. Further, the Corporation failed to make sign change after six blocks for 874 days during the above period in contravention of Deviation Settlement Mechanism Regulations and paid ₹51.35 crore towards penalty for such violation of sign change. This indicated lack of proper planning in declaring its schedule on day ahead basis and also lapses in monitoring mechanism to restrict over drawal to the extent possible which led to avoidable expenditure of ₹112.63 crore towards additional deviation and sign change penalty. **Thus, it is recommended that the Management should improve demand and supply management of power and manage their generation properly to adhere to their declared schedule to avoid grid indiscipline. Responsibility should be fixed for payment of additional deviation charges along with sign change penalty in order to ensure that such instances do not recur again.**

(Para 3.1)

Damodar Valley Corporation (Corporation) entered (June 2012) into a power purchase agreement with a private party for five years. The Bank Guarantee submitted by the private party as Security Deposit expired in June 2014 and the same was not renewed. Despite having sufficient provisions in the agreement to safeguard its commercial and financial interest, the Corporation failed to recover ₹12.95 crore towards electricity dues from the private party as there was no valid Bank Guarantee. **In this regard, it is recommended that DVC may fix responsibility for non-renewal of Bank Guarantee of the private party as per agreement and lay down proper mechanism for monitoring defaulting parties to closely watch the progress of payment of electricity dues and renewal of Bank Guarantee in order to protect its financial interest.**

(Para 3.2)

Damodar Valley Corporation (Corporation) introduced (October 2012) a scheme of incentive for Zero Liquid Discharge (ZLD) for its consumers. The Corporation, however, allowed incentive to three consumers who were irregular in payment of their water charges bills and also did not produce requisite certificates of Zero Liquid/Effluent Discharge from concerned State Pollution Control Board. Thus, the Corporation extended undue benefit in the form of incentive towards ZLD of ₹7.60 crore for the period August 2015 to January 2022 to three ineligible consumers. **It is recommended that DVC may fix responsibility for extending incentive under Zero Liquid/Effluent Discharge scheme to ineligible consumers and also recover the incentive extended to such ineligible consumers.**

(Para 3.3)

India Infrastructure Finance Company Limited (IIFCL) disbursed loan of ₹248 crore to a borrower without analysis of all aspects of financial statements and critical areas of risk. Further, IIFCL did not comply with the provisions of Credit Policy and sanction letter related to risk mitigation measures, proper analysis of financial statements, appointment of Lenders' Independent Engineer, maintenance of Debt Service Reserve Account, assignment of Telecom License and Joint Documentation with lead lender. Thus, non-compliance as stated above, coupled with poor monitoring led to non-recovery of dues and net loss of ₹393.37 crore. **It is recommended that the Management may strive to reduce its complete dependence on the lead bank for appraisal and monitoring of the loan projects and may strengthen its internal controls to enhance its appraisal and monitoring mechanism. Responsibility may be fixed for non-adherence to the provisions of credit policy/ sanction letter for ensuring proper implementation of credit policy and enforcement of important terms of sanction in future.**

(Para 4.1)

IIFCL did not consider the services provided by the Government on account of giving guarantee on behalf of IIFCL for availing unsecured term loans from bilateral or multilateral financing institutions as taxable service for applicability of Service Tax and GST for the period 1 April 2016 to 26 July 2018. Therefore, IIFCL neither deducted nor deposited Service Tax and GST amounting to ₹19.63 crore which led to imposition and avoidable payment of interest of ₹8.02 crore on the tax liability.

(Para 4.2)

National Credit Guarantee Trustee Company Limited set up a scheme titled "Credit Guarantee Fund for Micro Units (CGFMU)" with the purpose of guaranteeing payment up to the specified limit against default in Micro Loans ranging from ₹50,000 to ₹10 lakh to eligible borrowers by Banks/NBFCs/Micro Finance Institutions/Other Financial Intermediaries. The Ministry of Finance, Department of Financial Services, vide Notifications (18 April 2016 and 16 April 2020), laid down provisions for operation of CGFMU Scheme. Scrutiny of the default/claims filed amounting to ₹3,830.18 crore, by 27 Member Lending Institutions (MLI) with 65 portfolios, settled during the period 2019-20 to 2021-22, revealed that the MLIs included interest of at least ₹85.77 crore and the Company settled the claims up to the extent ₹42.89 crore as interest component being maximum of 50 *per cent* of the Amount in Default. This was in contravention of the notifications of Ministry of Finance (read with RBI master circular) for not including interest and considering only the principal component of micro loans, thus the Company suffered an extra liability of at least ₹42.89 crore towards settlement of interest component. **In this regard, it is recommended that the Company may conduct a comprehensive review of all the cases and claims to identify any excess payments made over the eligible principal amount. This review should aim to accurately identify the ineligible interest payments made to Member Lending Institutions and ensure recovery of these amounts. Furthermore, the company may take proactive steps to address and rectify inherent weaknesses in the claims payment process, ensuring the implementation of robust controls and procedures to prevent similar issues in the future.**

(Para 4.3)

The Oriental Insurance Company Limited did not determine the bidding rates for Pradhan Mantri Fasal Bima Yojna in 2019-20 as per terms and conditions of the Agriculture Quota Share Reinsurance treaty with General Insurance Corporation of India, the Re-insurer. This led to imposition of loss corridor clause of the treaty by GIC and consequent loss of ₹194.08 crore.

(Para 4.4)

Imprudent underwriting of Group Janta Personal Accident Policy of the Maharashtra State Government by The Oriental Insurance Company Limited without reinsurance cover and in violation of guidelines of Insurance Regulatory and Development Authority of India in 2018-19 led to a loss of ₹14.92 crore.

(Para 4.5)

SBI Cards and Payment Services Limited (SBCPSL) approved the renewal of the credit card facility of a client raising the credit limit from ₹70 crore to ₹90 crore. The credit limit was increased despite downward movement of internal ratings of the client, in violation of its Credit Policy. Despite indicators like Negative operating cash flow for the year 2017-18, increase in Recoverable and payable time of outstanding dues and major inflow of cash from encashment of liquid assets, SBCPSL approved the enhancement of credit limit without proper due diligence which led to avoidable loss of ₹19.65 crore. **Thus, it is**

recommended that the Management may sanction the credit limit strictly in line with its credit policy and may insist on security in case of high credit limit. The management may also strengthen its internal control system regarding scrutiny of the card usage and payment history of the cardholder company.

(Para 4.6)

UTI Infrastructure Technology and Services Limited floated a tender for inviting financial/ commercial bids for printing of PAN Cards for a period of three years. The Company scrapped the tender altogether citing that the lowest bidder (L1) was technically disqualified and the next lowest bid (L2) of a vendor from Jaipur at ₹4.35 per set was not pursued further. A new tender was floated with two packet bidding system and by introducing an additional eligibility criterion viz., the bidding agency should have the printing facility within 150 kms from the Company offices located at Navi Mumbai/Kolkata/Chennai/New Delhi. The work was awarded to the lowest (L1) technically qualified bidder at ₹4.95 per set for a period of three years. The L2 bidder, from Jaipur, in the first tender was technically disqualified, in second tender, for not meeting the newly inserted condition of having printing facility within 150 kilometres of the Company's offices. Thus, scrapping of the first tender without considering the bids of other eligible and valid bidders and floating fresh tender with restrictive condition resulted in avoidable expenditure of ₹5.71 crore.

(Para 4.7)

Cement Corporation of India Limited (Rajban unit) was granted (August 1973) mining lease over 172.30 hectares of forest land in Sirmaur district, Himachal Pradesh. In accordance with the directions (October 2002) of the Supreme Court and the guidelines issued (April 2015) by the Ministry of Environment, Forest and Climate Change, the Company was liable to pay Net Present Value of the forest land covered under the mining lease to the Forest authorities. However, the Company delayed the payment of Net Present Value (₹14.56 crore), due to which it had to make avoidable payment of penal interest amounting to ₹8.49 crore.

(Para 5.1)

NMDC Limited procured 1,61,963 tonnes of coking coal worth ₹372.58 crore between November 2018 and May 2019 without ensuring the completion of Coke Oven Plant and the associated upstream and downstream plants of Nagarnar Integrated Steel Plant which resulted in quality degradation of coking coal as well as blocking up of funds of ₹372.58 crore for more than three years.

(Para 6.1)

NMDC Limited made an irregular payment of ₹13.49 crore to its executives during 2018-19 to 2021-22 as incentive/reward for achieving higher production/productivity which was over and above the payment of Performance Related Pay as well as Perks and Allowances at the prescribed ceiling.

(Para 6.2)

Distribution of gold coins and silver coins under 'Farewell Scheme' and 'Long Service Award Scheme' to the retired/eligible employees in contravention to the guidelines of Department of Public Enterprises by Rashtriya Ispat Nigam Limited resulted in irregular expenditure of ₹27.29 crore during the years from 2006-07 to 2021-22.

(Para 6.3)

Due to poor construction quality by the contractor and reluctance of the contractor to rectify the defects within Defect Liability Period, Delhi Metro Rail Corporation (DMRC) carried out the repair work (including consultancy work) through other contractor at ₹11.85 crore. In addition to repairing cost, DMRC also incurred incidental expenses of ₹7.81 crore on account of shifting allottees to alternative accommodation and payment of lease charge, brokerage etc. However, DMRC could recover only ₹4.12 crore against ₹19.66 crore incurred due to poor quality of work from the contractor through conciliation process as against arbitration process provided in the contract. **In this regard, it is recommended that haste on the part of DMRC in accepting the award of conciliation settlement with contractor, even before awarding of repair work, in disregard to the contractual provision of settlement of dispute by way of arbitration and release of performance security without attending construction defects, needs to be investigated and the responsibility fixed on erring officials.**

(Para 7.1)

National Highways Authority of India Limited (NHAI or Authority) entered into a Concession Agreement in 2012 and again in 2015 for four laning of Patna-Buxar stretch of NH-30 in Bihar. Acquisition of land was started in June 2012. However, in the stretch between Shivala to Bihta section, landowners opposed the land acquisition and demanded change in the alignment. Meanwhile, the Right to Fair Compensation and Transparency in Land Acquisition Rehabilitation and Resettlement Act 2013 came into existence and the compensation amount for 196.145 hectares of land increased from ₹1,213.18 crore to ₹3,294 crore. On both occasions, the project could not take off due to high cost and uncertainty of availability of land. Failure of NHAI to pursue with the State Government of Bihar for the refund/adjustment of the amount of land compensation and establishment and contingency charges, led to blocking of funds amounting to ₹533.96 crore since last six years.

(Para 8.1)

National Highways Authority of India issued Letter of Award to the Consortium of selected bidders in March 2018 for four different National Highways widening projects in Maharashtra on Hybrid Annuity Mode. The Concessionaires, however, did not make any material progress as reported by the Independent Engineers appointed by NHAI. NHAI imposed damages on Concessionaires based on its circular dated 29 January 2014, which limited damages to one *per cent* of the project cost. The damages actually imposed by NHAI were significantly lesser than the damages recoverable as per the contractual provisions of the Concession Agreements. Thus, failure of NHAI to recover damages from

Concessionaires as per the contractual provisions of the Concession Agreements resulted in extension of undue benefit of ₹203.07 crore to the Concessionaires.

(Para 8.2)

The contractor delayed the work of upgradation of Raebareli-Banda [including two bypasses and Railway Over Bridges (ROBs) at Lalganj and Fatehpur] section; timely completion could have ensured toll revenue amounting to ₹43.64 crore. Further, within five months of commercial operation, both ROBs got prematurely distressed, leading to stoppage of traffic and delinking of bypasses from the tollable length. This resulted in lower user fee collection of ₹179.26 crore upto March 2024 and payment of force majeure claim to the toll collecting agency for ₹11.01 crore by NHAI as well as inconvenience to users.

(Para 8.3)

Ministry of Road Transport and Highways (MoRTH) made it compulsory for all National Highway users to pay toll through digital mode called FASTAG, with effect from 16 February 2021. MoRTH also required that National Highway users not having valid/functional FASTAG system, would have to pay toll at double the normal rate. MoRTH directed NHAI to remit 50 *per cent* of the toll collected to the Central Government (Consolidated Fund of India). Due to failure of NHAI to recover Double Toll dues from Concessionaires before expiry of concession periods there was loss of ₹21.12 crore to the Consolidated Fund of India. Further, ₹63.03 crore of Double Toll dues were pending for recovery from other Concessionaires/Toll Collection Contractors.

(Para 8.4)

Failure of the NHAI to maintain Poonamalle to Walajahpet stretch of National Highway-4 (New NH 48), resulted in a *suo-moto* Public Interest Litigation and subsequent order of Hon'ble High Court of Madras for reducing the toll rates by half. Thus, improper maintenance of road resulted in undue hardship to the road users and 50 *per cent* collection of revenue of ₹57.61 crore to the NHAI.

(Para 8.5)

Faults in design of the bridge, use of poor quality of concrete and plying of overloaded vehicles over the bridge led to damage to the bridge and extra expenditure of ₹41.52 crore. Adequate supervision and prompt action by NHAI could have avoided construction of bridge based on faulty design and use of poor quality of concrete during the construction of the bridge. The Defect Liability Period in respect of four laning contract expired in December 2013 and the Construction Contractor and Concessionaire had disputed the claim of NHAI to recover the damages. **Thus, it is recommended that NHAI may put in efforts to recover the penalties/damages from its erring contractors and put stringent mechanism in place to prevent recurrence of such incidents of damage to structures due to faults in design, poor quality of concrete, improper supervision, poor maintenance and movement of overloaded vehicles in future.**

(Para 8.6)

An amendment made (October 2015) by MoRTH allowed NHAI to release interest free mobilisation advance to a contractor without restricting the time limit for its repayment upto one year. This was in violation of the Manual on Policies and Procedure for Procurement of Works, 2006, which stipulates that mobilisation advance may be allowed to contractor at a specified rate of interest and was also in violation of the CVC guidelines, which stipulate that recovery of interest free mobilisation advance should be time-based with interest to be charged on delayed recoveries. The recovery of interest free mobilisation advance started after over one year and nine months since its release and went up to almost three years and ten months as against the one-year stipulation of model contract document before its amendment in October 2015. NHAI suffered loss of interest of ₹12.78 crore due to delay in recovery of interest free mobilisation advance on account of amendment of the Model EPC contract documents by MoRTH. **It is recommended that the Ministry may review the basis of the decision to provide interest free mobilisation advance, linked to the progress of work, violating the Manual on Policies and Procedure for Procurement of Works and CVC guidelines and take action against the erring officials.**

(Para 8.7)

NHAI entered into (September 2015) an agreement with the contractor for two laning of Chhapra-Rewaghat-Muzaffarpur Section of National Highway-102 consisting of two fee plazas viz., Sonho fee Plaza and Pokhraira fee Plaza. There was delay in commencement of collection of user fees by the NHAI, on account of delays in toll notification, its scrutiny and engagement of toll plaza agency. Resultantly, NHAI could not collect revenue of ₹8.81 crore due to non-collection of user fees. Delays on the part of Ministry of Road Transport and Highways in ensuring timely issue of Completion Certificate coupled with delays on the part of NHAI for processing the proposal of draft Fee Notification resulted in delayed commencement of toll operations by 182 days at Gollaprolu Toll Plaza under Regional Office, Vijayawada led to non-collection of toll revenues of ₹5.84 crore. **In this regard, it is recommended that NHAI may ensure timely completion of procedures related to toll collection and align it with the issuance of Completion Certificate/Provisional Completion Certificate to prevent delay in commencement of user fee/toll collection. Responsibility may also be fixed in cases where user fee/toll collection is delayed.**

(Para 8.8.1 and Para 8.8.2)

Chapter I
Ministry of Coal

CHAPTER I: MINISTRY OF COAL

Central Coalfields Limited

1.1 Violation of Environmental Regulations resulting in liability for avoidable expenditure of ₹12.32 crore

Bhurkunda Colliery of Central Coalfields Limited violated the production limit as stipulated in 'Consent to Operate' of Jharkhand State Pollution Control Board and the Colliery was also operating without Environmental Clearance, which resulted in a liability for avoidable expenditure of ₹12.32 crore towards additional restoration work due to damage to the environment in addition to avoidable discontinuance of coal production for two years.

Central Coalfields Limited (CCL), a subsidiary of Coal India Limited, is engaged in coal mining activities. Mining of coal is to be carried out in conformity with stipulated environmental standards as prescribed under the relevant Acts and Statutes. The Ministry of Environment, Forest and Climate Change (MoEF&CC) is the nodal agency for granting the Environmental Clearance (EC) as well as for publication of the Environmental Impact Assessment (EIA) notifications from time to time, in compliance with the applicable guidelines of the Government of India. Apart from EC, mining projects are also required to obtain 'Consent to Operate' from the jurisdictional State Pollution Control Board (SPCB).

Environment Impact Assessment (EIA) Notification (January 1994) issued by the MoEF&CC stated that any new project in any part of India or the expansion or modernisation of existing mining projects with lease of more than five hectares would require Environmental Clearance (EC) by the MoEF&CC. MoEF&CC again instructed (October 2004) that all the mining projects of more than five hectare (ha) lease area, which have so far not obtained EC under notification of 1994, shall do so at the time of renewal of their lease. It also stated that with regard to expansion in production, if the annual production of any year from 1994-95 onwards exceeded the annual production of 1993-94, it would be treated as an expansion of the project and would require an EC. Besides, the MoEF&CC stipulated (September 2006) that all projects or activities including expansion and modernisation of existing projects or activities would require prior EC from the MoEF&CC on the recommendations of an Expert Appraisal Committee[1]. On submission of the EC, 'Consent to Operate' is granted by SPCB, prescribing the limit of coal production and any coal production made beyond the limit prescribed under 'Consent to Operate' would require a fresh EC.

[1] *The Expert Appraisal Committee of MoEF&CC is responsible for screening or scoping or appraisal of the project and on the recommendation of EAC, the EC was issued by MOEF&CC.*

The Bhurkunda Colliery of CCL, having more than 910 ha project area, is located at Ramgarh district of Jharkhand. In this regard, Audit observed that:

a) The Bhurkunda Colliery was operating based on the 'Consent to Operate' granted by SPCB from time to time. SPCB fixed the production limit as 0.65 Million Tonne/Year (MTY) considering the production of 1993-94. During 1994-95 to 2015-16, Bhurkunda Colliery produced coal within the limit prescribed under 'Consent to Operate'.

b) Mining operations, during the period 2016-17 to 2019-20, violated the production limits as prescribed under 'Consent to Operate' and excess production ranged between 0.07 MTY and 0.47 MTY. Year-wise details of excess production is shown in Table 1.1. Further, in violations of the stipulation of MoEF&CC, mining operations were carried out without obtaining necessary EC.

Table 1.1: Year-wise details of excess production

Year	Limit prescribed in Consent to Operate (in MT)	Actual Production (in MT)	Excess production of coal against limit of Consent to Operate (in MT)
2016-17	0.65	0.79	0.14
2017-18	0.65	1.12	0.47
2018-19	0.65	0.72	0.07
2019-20	0.65	0.72	0.07

c) Subsequently, due to violation of coal production limit, mining operations were discontinued from October 2020 as per the instructions of SPCB, Jharkhand.

d) MoEF&CC notified (March 2017) that the projects or activities which were in violation of EC would be eligible to apply for EC within six months from the date of notification. The project proponent had to prepare the 'Damage Remediation Plan' and 'Natural and Community Resource Augmentation Plan' to assess the ecological damage and economic benefit derived due to violation as a condition of EC. Further, the project proponent was required to submit a bank guarantee equivalent to the amount of 'Natural and Community Resource Augmentation Plan' and 'Damage Remediation Plan' with the SPCB. The amount of bank guarantee would be recommended by the Expert Appraisal Committee and shall be deposited prior to the grant of EC.

e) Accordingly, CCL submitted (April 2018) the application for obtaining EC. MoEF&CC instructed CCL to assess the damage to environment due to excess production of coal over and above the threshold limit (i.e., 0.65 MT) before granting the EC. Accordingly, CCL prepared 'Natural and Community Resource Augmentation Plan' through CMPDIL[2] (April 2022) which estimated

[2] ***Central Mine Planning and Design Institute Limited, a subsidiary of Coal India Limited, providing consultancy service in coal mining to CIL as well as its subsidiaries.***

environmental damage cost as ₹12.32 crore due to excess production carried out during the period 2016-17 to 2019-20 in violation of the statutory requirement.

f) The Expert Appraisal Committee of MoEF&CC, considering the above 'Damage Remediation Plan/Natural and Community Resource Augmentation Plan', recommended (May/June 2022) for issuance of EC and directed CCL to incur an amount of ₹11.56 crore towards 'Damage Remediation Plan' and ₹0.76 crore towards 'Natural and Community Resource Augmentation Plan', within a period of three years from the date of issue of the EC. CCL was directed to submit a bank guarantee of ₹12.32 crore for the above purpose to SPCB, Jharkhand prior to the grant of EC, which would be released after five years on successful implementation of 'Damage Remediation Plan' and 'Natural and Community Resource Augmentation Plan'. In compliance, bank guarantee of ₹12.32 crore was submitted to SPCB of Jharkhand and the EC was granted by MoEF&CC in July 2022. After receiving EC (July 2022), Bhurkunda Colliery restarted its mining operation in October 2022.

Thus, colliery of CCL produced coal in violation of the threshold limit prescribed under 'Consent to Operate' during 2016-17 to 2019-20 and continued production without obtaining necessary EC, which was in violation of MoEF&CC stipulations. By complying with the necessary statutory requirements, CCL could have avoided the liability of ₹12.32 crore for implementation of 'Damage Remediation Plan' and 'Natural and Community Resource Augmentation Plan'. Also, due to discontinuance of the mining operation, Colliery suffered loss of coal production during the period from October 2020 to September 2022, which could have been avoided by advance planning.

In reply, the Management/Ministry stated (March 2023/June 2023) that:

a) As per the judgement of Hon'ble Supreme Court of India pronounced in August 2017, the mines were to obtain EC, if the mines had crossed the production level of the financial year 1993-94 and this judgement was primarily related to minerals namely iron ore and manganese ore and not coal. Whether the said decision would be applicable in the case of coal mining, was a subject matter of deliberations.

b) Coal mining, because of its inherent nature, is different from other mining operations. The possibility of excess mining in exception to the initial plan for one or two years is inherent to coal mining.

c) Because of the inherent nature of business, CCL is already incurring substantial expenditure on the activities proposed under 'Damage Remediation Plan /Natural and Community Resource Augmentation Plan' being business sustainability expenditure in the surrounding areas. Thus, the expenditure on the activities amounting to ₹12.32 crore was not an additional burden on CCL.

The contentions of the Ministry/Management are not tenable in view of the following facts:

a) The judgement pronounced by the Hon'ble Supreme Court (August 2017) inter alia includes that if the annual Production after 27 January 1994 exceeds the annual production of 1993-94, it would be treated as an expansion requiring an EC. Further, the above judgement is part of EC issued by MoEEF&CC to the coal mines.

b) The colliery continued coal production beyond the prescribed threshold limit during the period 2016-17 to 2019-20. As such, the mining operations beyond the threshold limit would be treated as expansion of the project and would require prior EC. Further, as per stipulations issued by MoEF&CC, from time to time, any expansion and modernisation of existing projects or activities would require prior EC from the MoEF&CC. However, due to non-adherence of stipulations, colliery was liable to pay the compensation of ₹12.32 crore for the excess mining as mentioned in the EC issued by MoEF&CC for the colliery in July 2022.

   Thus, the contention of the Management that requirement of prior EC if the mines had crossed the production level of the financial year 1993-94 was not related to coal mining, was not justified.

c) Compliances to the stipulations of MoEF&CC Notifications and adherence to the environmental rules and regulations during mining operations by the colliery management are mandatory to protect the environment for national interest and sustainable development. The Management replied that the excess production for one or two years was due to the inherent nature of coal mining. However, when the production quantities from 1994-95 were observed[3], there was not a single year (till 2015-16) when the production had exceeded the limit stipulated in the 'Consent to Operate'. Thus, the views of the Management that carrying out of excess production is common in the coal sector was not borne out by facts.

d) Further, every coal project plans its sustainability and environment related expenditure in compliance with the stipulations/conditions prescribed by the relevant authorities. The colliery incurred an expenditure ranging between ₹1.95 lakh and ₹78.18 lakh during the period 2016-17 to 2022-23 (up to December 2022) on environmental activities. As the colliery did not obtain the EC before enhancing its production, it had to prepare the 'Damage Remediation Plan' and 'Natural and Community Resource Augmentation Plan' and was thus, liable for an additional expenditure of ₹12.32 crore, which was 15 times more than the maximum amount spent on environmental activities during the said period to replenish the environmental damage done by the project itself.

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[3] ***The coal production had ranged between 0.51 MTY and 0.16 MTY during the period from 1994-95 to 2015-16.***

Thus, due to excess production made beyond the threshold limit as prescribed in 'Consent to Operate' as well as carrying out mining operations without obtaining necessary EC, CCL was liable to incur an additional expenditure of ₹12.32 crore as compensation for damaging the environment.

Recommendation no. 1: The Company should strictly adhere to the environmental regulations regarding expansion and modernisation of the mining projects not only to avoid any extra damage to the environment which may also entail additional expenditure by way of damage remediation but also to avoid unplanned disruption to production.

Eastern Coalfields Limited

1.2 Undue favour to contractor due to non-recovery for coal shortage during transportation resulted in avoidable loss of ₹17.39 crore

Despite specific provisions in contract agreement for recovery for coal shortage, occurring during transportation of coal from mine to railway siding, from the contractor, Eastern Coalfields Limited failed to enforce the terms of the contract and recover the value of coal shortage, thereby extending undue favour to the contractor and suffering an avoidable loss of ₹17.39 crore.

Eastern Coalfields Limited (ECL), a subsidiary of Coal India Limited (CIL), is engaged in mining and distribution of coal extracted from its open cast and underground mines. Chitra opencast mines of ECL produces coal which was supplied mainly to Thermal Power Stations of NTPC Limited and other consumers, through railway siding at Jamtara, Jharkhand. While the extraction of coal was carried out departmentally by ECL, all other subsequent and allied activities *viz*., picking of stone, shale or any extraneous material from mined coal, transportation of coal from the Chitra mines to railway siding (26-27 km) and loading of coal into railway wagons were outsourced. ECL issued (May 2017) Work Order for the above outsourced work to the Contractor, for a period of three years with effect from April 2017, which was further extended for two years.

As per terms of the contract (Clause 18.00), "in case of coal/trucks being weighed both at loading end as well as at unloading end, the figures of weighment, at both the ends, shall be reconciled every month, in respect of each contractor and if there is any shortage of coal received at unloading end, the value of coal found short, will be deducted/recovered at double the prevailing rate including all royalty, cess etc., from the security deposit of the transporting contractor(s) concerned".

In this regard, Audit observed the following:

a) During the period from April 2017 to March 2022, 56,45,019.93 Metric Tonne (MT) of coal was weighed at Chitra mine (loading end) and dispatched to Jamtara railway siding by contractor's trucks/tippers. However, against this, only 55,95,382.58 Metric Tonne of coal was received at Jamtara siding as per the weighment made at the unloading end. Thus, there was a shortage of 49,637.35 Metric Tonne coal during the transportation.

b) As per terms of the contract, shortage of coal was to be deducted/recovered from the contractor at double the prevailing rate (including all royalty, cess). Thus, an amount of ₹17.39 crore on this account, as detailed in the ***Annexure-I***, was recoverable from the contractor which ECL did not recover.

The Management, in its reply, stated (April 2023) that:

a) Payment to contractor was regulated according to Clause 14.1, as per which monthly reconciliation of coal transported i.e., coal loaded at mine end with opening stock of coal at siding end adjusted with dispatch quantity as per railway receipt (RR) including extraneous material and closing stock at siding, revealed negligible differential quantity of 0.82 tonne as shortage during the period from April 2017 to March 2022. Applicable deduction on such differential quantity worked out to ₹4,642.28 only.

b) Extraneous material of 77,590 tonne was identified at siding brought by the trucks/tippers during the period 2017-18 to 2021-22 for which ECL had retained an amount of ₹7.00 crore (approx.) from the contractor bill.

c) Different level of accuracy between the two weighbridges based on their class of equipment added to the weighment difference, although calibration thereof was done on periodical basis by Legal Metrology Department, Jharkhand (a State Authority) and maintenance had been carried out through AMC by a third party.

d) External factors contribute to the weighment difference *viz.*, seepage of fine coal particles due to water spraying necessitated to prevent sprinkling of air borne dust into the atmosphere, slippage of coal during transportation for a distance of 26-27 kms with some bad road conditions, velocity of wind and seasonal changes and fuel consumption by the trucks/tippers during transport.

e) Surprise inspections were carried out on 11 May 2017 by a committee formed by Director (Operations), ECL, which revealed negligible variations of weight in the range of zero to 40 kg per truck.

The contentions of the Management are not tenable in view of the following:

a) Clause 18 of the contract specifically deals with coal shortage occurred during transportation of coal from mine to railway siding, which was to be recovered from the contractor, whereas, clause 14.1 quoted by Management was meant to regulate loss/shortage of coal during loading/stocking at railway siding, based on RR weight (railway loading weight) of coal dispatched.

b) Picking/segregation of stones was the first activity, which is followed by crushing of such segregated coal, to be carried out by the contractor at mine end before loading for transportation to railway siding. Thus, plea of the Management regarding extraneous material identified at railway siding is not tenable and indicates lack of monitoring on part of ECL Management on the performance of contractor at mines.

c) In respect of weighment accuracy, margin of error as per calibration report of weigh bridges is 10 kg only, which is negligible as compared to the quantity of coal each truck/tipper carries (around 15 tonne).

d) As per contract, no external factors as stated by the management are allowed to contribute to the enroute shortage of coal and any shortfall quantity during transit was to be recovered at double the rate from the contractor.

e) Though surprise inspection is a deterrent factor, it cannot be a substitute for actual recovery of amounts from the contractor for coal lost in transport, which was not done as per the contract terms.

The Ministry, while accepting (July 2023) the observations made by Audit, stated that issue was examined in consultation with ECL and explanation given by ECL Management had not been found satisfactory. It also stated that Coal India Limited, holding company, had been requested to constitute a committee of senior officers to conduct detailed enquiry in the matter, fix responsibility and take appropriate action against the officers found responsible.

Thus, due to non-enforcing of the terms of the contract regulating recovery for the shortage of coal during transportation of coal from mine to railway siding, ECL failed to recover ₹17.39 crore from the contractor, thereby causing an avoidable loss to the company and extending undue favour to the contractor.

Chapter II
Ministry of Petroleum and Natural Gas

CHAPTER II: MINISTRY OF PETROLEUM AND NATURAL GAS

Chennai Petroleum Corporation Limited

2.1 Irregular payment on Sick Leave encashment

Encashment of Sick Leave to the employees in violation of Department of Public Enterprises Guidelines resulted in irregular payment of ₹22.62 crore by Chennai Petroleum Corporation Limited.

As per the Department of Public Enterprises (DPE) instructions of April 1987, CPSEs were required to follow the overall ceiling of 300 days for encashment of Earned Leave and Half Pay Leave for their employees on retirement. DPE further clarified (July 2012) that Sick Leave cannot be encashed and Earned Leave/Half Pay Leave could be considered for encashment of leave on retirement subject to the overall limit of 300 days. Further, DPE clarified (December 2012) that it has not issued any guidelines permitting CPSEs for encashment of Sick Leave in respect of their employees and encashment of Sick leave is void ab initio. Later also, in response to references made by some CPSEs seeking clarifications on encashment of Sick Leave/Half Pay Leave at the time of retirement, DPE reiterated (February 2014) its clarification issued in July 2012.

Employees of Chennai Petroleum Corporation Limited (CPCL) were entitled for five days Sick Leave on full pay at the end of every six months i.e., as on 1 January and 1 July of every year. Audit observed (October 2020) that CPCL allowed encashment of accumulated Sick Leave at the time of retirement in violation of DPE guidelines. This resulted in irregular payment of ₹22.62 crore[1] during the period from 2014-15 to 2022-23 (upto September 2022).

The Management replied (October 2023) that the 3rd Pay Revision Committee (PRC) allowed (November 2016) to frame their own leave management policies and DPE while conveying (August 2017) the guidelines on Leave Management has not made any modifications on the recommendations of 3rd PRC in this regard. In view of this, CPCL stated that the leave rules framed by the Corporation are in compliance with the provisions of the DPE guidelines (April 1987 and August 2017).

The reply of the Management is not tenable since Sick leave encashment was not permitted as per the DPE policy guidelines (1987). DPE had specifically clarified (July 2012, December 2012 and February 2014) that since GoI guidelines do not permit encashment of Sick leave; the same cannot be encashed by CPSEs. Further, DPE, while conveying (August 2017) the decisions of the GoI on Pay Revision due from 1 January 2017,

[1] ***₹22.62 crore [₹1.17 crore (2014-15), ₹0.97 crore (2015-16), ₹1.42 crore (2016-17), ₹2.26 crore (2017-18), ₹1.97 crore (2018-19), ₹2.94 crore (2019-20), ₹4.41 crore (2020-21), ₹4.61 crore (2021-22) and ₹2.87 crore (2022-23, upto September 2022)]***

mentioned about the encashment of Earned Leave only under leave regulations/ management by CPSEs. In view of this, the DPE clarifications issued during December 2012 and February 2014 stand good and accordingly encashment of Sick Leave was a violation of DPE guidelines. The Sick leave encashment rules framed by CPCL were not in conformity with the provisions of the DPE guidelines/instructions and further clarifications issued from time to time.

Further, the Ministry, in its reply, stated (November 2023) that directives were issued on 12 September 2023 to CPCL to immediately stop the encashment scheme of Sick Leave /Half Pay Leave along with earned leaves beyond permissible limit of 300 days and to recover the amount already paid. The Ministry also directed CPCL to submit the action taken within one month of issuance of the directives.

The Ministry needs to ensure that encashment paid in respect of Sick Leave is recovered fully since encashment for Sick Leave is not permissible as per the DPE guidelines.

Thus, encashment of Sick Leave in violation of DPE guidelines/instructions resulted in irregular payment of ₹22.62 crore for the period from 2014-15 to 2022-23 (upto September 2022).

Hindustan Petroleum Corporation Limited

2.2 Idle investment in installation of facilities for storage of black oil petroleum products

Setting up installation of facilities for storage of black oil petroleum products in Bihar by Hindustan Petroleum Corporation Limited without due diligence resulted in idle investment of ₹19.88 crore.

Hindustan Petroleum Corporation Limited (Company) did not have any storage depots in Bihar to receive white oil petroleum products (motor spirit, high speed diesel, superior kerosene oil, ethanol etc.) through railway tank wagons to meet the customers' demand. The Company was fully dependent on oil depots and refinery of Indian Oil Corporation Limited for its business in Bihar. In order to reduce the dependency on Indian Oil Corporation Limited and increase its market share of white oil petroleum products in the region, the Company proposed (February 2009) to set up its own oil installation facilities for white oil in Bihar, Patna. At that point of time, there was no proposal for installation facilities for black oil petroleum products (furnace oil, light diesel oil and bitumen) in Bihar as the Company had no business for black oil in that State. Despite this, Direct Sales Business Unit of the Company gave proposal (August 2009) for setting up installations of facilities (i.e., loading, unloading, storage and distribution facilities) for black oil petroleum products without exercising proper due diligence and cost benefit analysis of its requirement in Bihar.

The Board of Directors of the Company approved (January 2010) the project for installation of facilities for both white oil and black oil at Bihta, Bihar with total project cost of

₹142.50 crore. The project cost included ₹19.88 crore towards development of infrastructure for only black oil facilities. The project was completed in June 2014.

Audit scrutiny revealed that the above infrastructure developed for storage and distribution of black oil petroleum products remained idle since their commissioning in June 2014.

In this regard, Audit observed the following:

a) The Company initially planned to create facilities for storage and distribution of white oil petroleum products only. The proposal for installation of black oil petroleum products was considered at a later stage, without assessing the market demand for those products.

b) Prior to initiation of the proposal, the Company did not have any business for black oil petroleum products in Bihar although it was dependent on Indian Oil Corporation Limited for storage of white oil petroleum products.

c) However, later during 2017-18 to 2021-22, the Company did a business of 17,094 kilo litre of furnace oil (black oil) in Bihar by executing direct agreement with the industrial customers at Corporate Office level where in the supplies were directly delivered to the customers from different locations like Haldia, Bokaro and Visakhapatnam. There were no firm orders for black oil petroleum products requiring storage facilities in Bihar.

Thus, development of infrastructure for storage and marketing of black oil petroleum products in Bihar by the Company without assessing its market demand and not supported by cost benefit analysis resulted in blockage of funds to the tune of ₹19.88 crore.

The Management/Ministry, in its reply, stated (March 2023/September 2023) the following:

a) The black oil facilities at Bihta was setup to overcome the financial burden arising from applicability of Bihar entry tax while sourcing the black oil petroleum products from other than its own refineries or locations.

b) Such black oil facilities remained unutilised due to delay in commissioning of NTPC projects.

c) The facilities may be utilised alternatively through conversion of the existing furnace oil tanks for storage and marketing of ethanol and light diesel oil.

The above reply of the Management/Ministry is not tenable due to following reasons:

a) The Management's/Ministry's contention of setting of storage facilities to avoid burden of entry tax on the products was incorrect as the Company neither sold black oil petroleum products in Bihar at the time when proposal was initiated nor had market for black oil products in the State till December 2016. Further, the Management/Ministry accepted (March 2023/September 2023) that after introduction of Goods and Services Tax, there was no benefit in getting the black oil petroleum products from other States for selling in Bihar due to logistic cost especially in view of availability of same products from Indian Oil Corporation Limited at lower price. Therefore, chances of utilisation of facilities for storage of black oil petroleum products in future are bleak.

b) Nothing was found on record that the Management considered the scheduled commissioning of NTPC projects while taking decision for setting up of the black oil facilities. Also, there was no agreement with NTPC that the Company would supply black oil petroleum products to its upcoming Project. Further, even after commissioning of NTPC plants at Barh (February 2016) and Nabinagar (September 2019), the Company failed to utilise the idle black oil facilities at Bihta which indicates that there was no requirement of these facilities.

c) The alternate usage of black oil facilities through conversion of the existing furnace oil tanks was an afterthought and cannot justify its injudicious project planning activities. Further, the conversion of two existing furnace oil tanks for storage of ethanol and light diesel oil would also entail additional cost to the Company. In the meantime, the facilities created have been lying idle for the past more than eight years.

Thus, installation of facilities for storage of black oil petroleum products in Bihar without due diligence resulted in idle investment of ₹19.88 crore.

Oil and Natural Gas Corporation Limited

2.3 Imprudent decision to invest in a block and infructuous expenditure due to subsequent relinquishment of the block

Oil and Natural Gas Corporation Limited (ONGC) acquired the block with 70 per cent participating interest despite the fact that the Technical Committee had assessed (June 2013) the probability of success in the block as only 11.20 per cent. ONGC surrendered the block to Director General of Hydrocarbons in November 2021 citing low gas volumes after incurring an expenditure of ₹557.59 crore, besides failing to recover the proportionate share of ₹132.90 crore from partner contractor.

The block MB-OSN-2005/3, located in Mumbai Offshore, was awarded (November 2008) by Government of India (GoI) to the consortium of two private entities under New Exploration Licensing Policy[2] (NELP) round VII with participating interest of 50 *per cent*

[2] ***NELP was formulated by GOI in 1997-98 to provide a level playing field to both public and private sector companies in exploration and production of hydrocarbons with DGH as the nodal agency for its implementation. The blocks (an area of sedimentary basin in an oil and exploration area) were awarded to Indian, private and foreign companies through International Competitive Bidding where the National Oil Companies (ONGC and OIL) were competing on equal footing.***

each. The Production Sharing Contract of the block signed on 22 December 2008 was effective from 4 February 2009.

As per Article 4 of the Production Sharing Contract, if at the end of exploration phase (after completing Minimum Work Programme), the contractor elects to continue exploration operations in the contract area, the contractor shall retain upto 60 *per cent* of the original contract area including any development and discovery areas and relinquish the balance areas prior to commencement of second phase[3]. Accordingly, out of total area of 2,810 sq. km., Party-A had already relinquished 1,125 sq. km. and retained 1,685 sq. km. (60 *per cent*). ONGC had also not bid for this block in the earlier round.

Subsequently, Party-B intended to exit from the block and hence Party-A approached (May 2013) ONGC with a request to acquire 60 *per cent* participating interest in the block on 'farm in'[4] basis. Board of Directors of ONGC approved (December 2013) the proposal to acquire the block on 'farm in' basis with 70 *per cent* participating interest[5]. Thereafter, in January 2014, Party-B exited from the block and assigned its 50 *per cent* participating interest to Party-A. ONGC signed (December 2014) the 'farm out' agreement with Party-A on 24 December 2014 with 70 *per cent* participating interest. Party-A retained 30 *per cent* participating interest and ONGC was nominated as operator of the block. The same was approved (April 2015) by Government of India vide Amendment to the Production Sharing Contract.

As per the Production Sharing Contract, an estimated cost of USD 15 million (₹72.96 crore approx. @ ₹48.64 per USD) was submitted by Party-A during bidding for the Phase-II[6] Minimum Work Programme for exploration of well. As per the terms of 'farm out' agreement, ONGC was to bear the cost of party-A's share of 30 *per cent* in USD 15 million i.e., USD 4.5 million (₹29.25 crore approx. @₹65 per USD). The cost over and above USD 15 million was to be shared between ONGC and Party-A according to the participating interest. As per the revised budget estimates (April 2016) for the year 2015-16, the estimates had increased beyond USD 15 million to USD 26.58 million (₹172.77 crore @₹65 per USD). Party-A's share was to the extent of USD 3.58 million (₹23.27 crore

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3 As per the PSC of the block MB-OSN-2005/3, the exploration phase comprised of two phases i.e., Phase I and Phase II. In Phase I comprising four years period, the work commitment included acquisition, processing and interpretation of 600 sq. mtr of 3D seismic data, reprocessing of 1,000 line km of 2D data and acquisition of high-resolution 3D data for 100 sq km area. In Phase II, the work commitment included drilling of one exploratory well.

4 'Farm in' and 'Farm out' are two sides of the same negotiation process working in opposite direction. While the first is the entry of companies into the oil & gas exploration, 'Farm out' takes place when a business with current concession is willing to give up part or all of its available area. In the 'Farm in' agreement, both the parties desire to share costs and risks of drilling to increase capital expenditure in expecting higher gain in return.

5 As per then existing Joint Operation Agreement, for an affirmative vote, parties were to have at least 65 per cent of the participating interest for Operating Committee (OC) decisions. ONGC, therefore, counter offered for 70 per cent participating interest to have a major say in the OC decision.

6 The exploration phase comprised of two phases. Phase I include acquisition, interpretation and processing of seismic data and Phase II include drilling of well.

including service tax). However, it did not pay its share despite several reminders[7] and therefore ONGC issued (June 2017) Notice of default under Article 7.6 of Joint Operating Agreement. Party-A stopped attending the meetings and from February 2019, ONGC carried out the activities as sole member of the block. ONGC incurred total expenditure of ₹557.59 crore. The pending cash calls from Party-A was to the extent of ₹132.90 crore. Party-A had, however, not paid any of its dues. The interest accrued calculated at the applicable base rate plus five *per cent* points of State Bank of India was ₹56.01 crore (till September 2021).

During Phase-II, ONGC discovered gas in the exploratory well MBS053NAA-1. ONGC intimated the gas discovery to Directorate General of Hydrocarbon (DGH) in February 2016 and entered three years appraisal[8] phase valid upto March 2019. ONGC planned (November 2016) to drill five wells in the appraisal phase. The first appraisal well (NAB-1) turned out to be dry. To mitigate the risk, ONGC acquired new 3D[9] broadband seismic data of 1,400 sq. km. and identified a new prospect MBS053NAG (February 2019) which was gas bearing. ONGC submitted Declaration of Commerciality (DOC) to DGH in May 2019. ONGC drilled (January 2020) two additional appraisal wells (MBS053NAC-1 and MBS053NAD-1) to improve the economic value of the block after gas discoveries. These wells had produced gas from the shallow formation. However, after techno economic analysis of the project, ONGC relinquished the block in November 2021 citing low gas volumes.

In this regard, Audit observed the following:

I) While reviewing the play[10] (prospect) types in the block at the time of acquisition (2013), the Technical Committee of ONGC comprising four Deputy General Managers and two Chief Geologists, had brought out (June 2013) that: type 1 was not tested in any well in nearby areas and represented a new play opportunity; type 2 was tested in one of the nearby block and was found to be devoid of hydrocarbons; type 3 was not tested in any of the drilled wells as the reservoir content was thought to be uncertain. In two wells drilled in the block, there were no significant hydrocarbons.

II) Technical Committee had assessed the Probability of Success/discovery of the block as only 11.20 *per cent*. As compared to the Probability of Success of 41.40-50 *per cent* in respect of the block MB-OSN-2005/2, the Probability of Success of 11.20 *per cent*

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[7] (April 2016, May 2016, June 2016, August2016, September 2016, January 2017 and March 2017)

[8] Phase of petroleum operations that follows successful exploratory drilling. During appraisal phase,delineation wells might be drilled to determine the size of oil and gas field.

[9] 3 Dimensional (3D) seismic survey is one in which the seismic data is acquired so densely that the data are processed and interpreted as a volume of data. 3D data provides a much greater lateral resolution and thereby provides better insights into the geology.

[10] A particular stratigraphic or structural geological setting, a group of oil fields or prospects in the same region that are controlled by same set of geological circumstances (i.e., the geological time period) where the hydrocarbons are likely to occur. The main geological time period were Pliocene, Miocene, Oligocene etc. The type 1 pertained to late Miocene and Pliocene. Type 2 pertained to early – Mid Miocene period and Type 3 pertained to Oligocene time period

in this block was very low. Initial draft report of the Technical Committee had assessed the block as ‘high risk-medium return’ and suggested acquiring 36 *per cent* participating interest as an optimum investment level to balance the risk and prospectivity perception *vis-à-vis* ensuring a decisive say in conduct of petroleum operations. The final report had, however, categorised the block as ‘medium risk-medium return’. With regard to norms/basis of categorising the probability of success as high/medium/low, Management stated that there were no standard guidelines for categorising the Probability of Success as high/medium/low risk. Contrary to the initial recommendation for acquiring minimum participating interest of 36 *per cent*, ONGC had acquired 70 *per cent* participating interest.

III) Party-A, in January 2017, had carried out technical evaluation of the block and had observed that *‘considering the low productivity and small resource numbers in the well, the appraisal and development looks quite challenging. Additional deeper sands have many associated uncertainties with respect to reservoir quality and hydrocarbon charging as none of them showed any positive indication in drilled well. Exploitation of gas from the block will require high number of wells to be drilled owing to gas accumulation pattern which is spread over several small to very small linear pods. Block will require 80 km. of offshore pipeline to evacuate the gas to nearest available facilities. All the cost multipliers have a negative impact on commerciality of gas find at near/midterm gas price envisaged*.’ ONGC had ultimately surrendered the block (November 2021) considering the low gas volume in the block, present gas price and economic indicators.

IV) ONGC had constituted (September 2014) a Committee for signing of the Joint Operating Agreement with the Party-A. The Committee had recommended obtaining Bank Guarantee for an amount equivalent to Party-A’s share of Minimum Work Programme cost to address the issue of delay in cash call payment by the non-operator as faced in various other blocks. Accordingly, clause to this effect was included under article 6.2.1 in the Joint Operating Agreement signed with Party-A in June 2015. The estimated cost of Minimum Work Programme had increased to USD 26.58 million out of which Party-A’s share was USD 3.58 million (₹23.27 crore@ USD 65). ONGC had, however, failed to obtain the Bank Guarantee. The cash calls[11] due from Party-A which were ₹24.03 crore in 2015-16 had increased gradually to ₹27.02 crore in 2016-17, ₹62.95 crore in 2017-18 and to ₹132.90 crore as on 30 September 2021. Thus, failure to obtain Bank Guarantee resulted in piling up of the dues. ONGC, in March 2020, filed for arbitration in the Supreme Court of India. The arbitration case is in progress (December 2023).

V) As per ONGC/DGH requirement, Party-A, along with the application for assignment of participating interest in the block, had submitted (January 2015) the audited financial statements for the preceding three financial years ending March 2012, 2013 and 2014. Audit observed that in all the three years, the accumulated losses of Party-A were

[11] ***Cash Call means any request for payment of cash made by operator in accordance with the approved work program and approved budget to the parties in connection with joint operations.***

more than ₹400 crore. ONGC, however, did not to take cognisance of the same and thus failed to safeguard its financial interest.

The Management/Ministry, in reply (January/September 2023), stated that: -

i) Based on the available Geological and Geophysical data and vintage 2D data, the block was envisaged to be less prospective and hence ONGC did not bid for the block. It is not only the technical prospectivity of block which is considered for bidding but a combination of several other factors like fiscal regime, prevailing market condition, strategic requirement etc., play an important role. With regard to acquiring the block during 2013, ONGC had the advantage of having new 3D seismic data volume, acquired by private contractors in Phase-I of exploration.

Due diligence was by way of constitution of Multi-Disciplinary Team to evaluate prospectivity. Multi-Disciplinary Team submitted its report recommending participation in the block to test the 'medium risk-medium reward' play in Pliocene considering the low Production Sharing Contract commitment in Phase-II.

ii) Probability of Success value of 11.20 *per cent* cannot be considered a low value as these values are relative percentage. Categorising Probability of Success as high/medium/low is a subjective judgment in exploration and is based on basin and other petroleum system element. The same cannot be quantified.

Draft reports are prepared to have a quick look analysis and undergo changes prior to finalisation. The final report takes into cognisance all the studies undertaken with enriched value to it. 70 *per cent* participating interest acquisition was proposed to overcome the hurdle of '65 *per cent* participating interest for Operating Committee decision'. This was done in the interest of the organisation.

iii) The technical evaluation by Party-A seems to be based on the technical evaluation of the well MBOS053NAA-1. Whereas, ONGC subsequently did detailed exploratory efforts which led to discovery of gas. No evaluation may be considered conclusive unless and until it is corroborated by hard data/facts and same is available only after drilling of wells.

iv) The requirement of Bank Guarantee did not arise in the initial stage as the budget (BE 2015-16) was within the limit of USD 15 million and Party-A was not required to share the expenditure. Subsequent to the exceeding of actual cost above USD 15 million, ONGC raised the cash calls, which were not honoured by Party-A. ONGC invoked the arbitration and appointed the Arbitrator on 14 March 2019. As Party-A did not respond to the arbitration proceedings ONGC filed petition in Supreme Court on 21 March 2020. The arbitration case is in progress (December 2023).

v) Party-A has posted Net Profit/(loss) of USD (390,229), USD 2,364,807 and USD (887,158) for the financial year ending 2012, 2013 and 2014 respectively which translates into Net profit of around USD 1,087,420 for the preceding three financial years ending March 2012, 2013 and 2014.

The reply may be seen in light of the following: -

a) As per ONGC circular of January 2013, the hurdle rate/Target IRR for oil and gas exploration and production project was 14 *per cent* (post tax). ONGC, however, did not carry out economic evaluation of the block. The technical evaluation of the block was done after considering the new 3D data acquired by private contractors.

b) The significance of Probability of Success in evaluation of a block can be assessed from the ONGC circular of July 2018 wherein it is brought out that for bidding and acquisition of blocks, economic evaluation of a block is to be carried out based on expected monetary value which, in turn, is to be calculated based on the effective pay off considering Probability of Success. The probability of failure (i.e., 1- Probability of Success) was also to be factored to arrive at the effective pay off/loss. Thus, Probability of Success is a critical and quantifiable element in evaluation of a block. Audit had observed that in respect of another offer (October 2013) for 'farm in' (block MB-OSN-2005/2), the Probability of Success was assessed at 41-50 *per cent*. ONGC had categorised the block as medium risk medium reward and also carried out financial evaluation of the block. As the proposal was not viable, the Project Appraisal Committee did not recommend the same to the Board. ONGC, however, failed to carry out economic evaluation in the block MB-OSN-2005/3.

c) While the Technical Committee of ONGC submitted the draft report on 17 June 2013, the final report was submitted by the Technical Committee the very next day i.e., on 18 June 2013. ONGC did not conduct any additional study before submission of final report. The technical findings of draft report and final report were the same. Only change was regarding categorisation of the block from high risk to medium risk (for which no reasons were recorded) and recommendation on quantum of participating interest to be acquired.

d) The Party-A, in its evaluation report, had considered the data of the drilled well as well as the data in respect of all the proposed five drilling locations. Thus, the evaluation was done in entirety. The findings brought out in January 2017 were same as that brought out by ONGC in its communication to DGH in February 2021. This establishes the inherent risk cautioned by the Technical Committee in its initial report. ONGC had, however, failed to carry out the economic evaluation in the block MB-OSN-2005/3 as was done in block MB-OSN-2005/2.

e) The intent of inclusion of clause 6.2.1 in the Joint Operating Agreement for obtaining Bank Guarantee was to ensure timely remittance of cash calls by partner. The Committee observed that by not paying cash call, the risk of exploration phase passed on to ONGC. While ONGC, as operator, is under obligation to attain the work commitments during exploration phase, JV partner intending to exit from block often manoeuvre approvals in exploration phase to delay their obligation to pay cash call. Since the cost of Minimum Work Programme had subsequently increased to USD 26.58 million out of which Party-A's share was USD 3.58 million (₹23.27 crore) and in view of Party-A's financial status, ONGC should have obtained the Bank Guarantee for an amount of ₹23.27 crore in 2015-16.

f) Net losses of Party-A had increased from USD 390,229 in 2012 to USD 887,158 in 2014 i.e., more than double. Accumulated losses were USD 82,469,971 (2012), USD 80,105,164 (2013) and USD 80,992,322 (2014) i.e., more than ₹400 crore in all three years. As per available records, financial status of Party-A was nowhere discussed on file.

Thus, ONGC did not carry out rigorous economic evaluation of the block before acquisition as required in ONGC circular of January 2013. ONGC also did not record the reasons for changing the risk assessment of the block from 'high risk medium return' to 'medium risk medium return' resulting in acquisition of a not very prospective block and subsequent relinquishment of the block and infructuous expenditure of ₹557.59 crore in the block. ONGC also failed to reassess the cost of Minimum Work Programme for the well and obtain the Bank Guarantee from Party-A within 15 days of signing of Joint Operating Agreement resulting in non-recovery of dues from Party-A to the extent of ₹188.91 crore (including interest of ₹56.01 crore).

Recommendation No. 2: ONGC should ensure carrying out rigorous economic evaluation of the block before acquisition in future and consider fixing responsibility on the concerned officials for failing to obtain bank guarantee from Party-A towards its share of cost of Minimum Work Programme.

2.4 Imprudent decision of accepting the Turbine Generator materials amounting to ₹133.14 crore without service contract led to idling of materials and delay in its commissioning

Non-synchronisation of the supply of the material for revamping of three old Gas Turbine Generators at Water Injection platform with service contract resulted in delay in commissioning of one Gas Turbine Generator costing ₹35.02 crore by two years and idling of two Gas Turbine Generators costing ₹98.12 crore, which were yet to be commissioned (April 2023) despite lapse of seven years.

Water injection platform[12] of Oil & Natural Gas Corporation Limited (ONGC) was commissioned in 1984 and is the main water injection hub in Mumbai High field with injection capacity of 3,40,000-barrel water per day (BWPD). Due to ageing and harsh saline environment, the condition of several systems and main equipment including three Turbine

[12] ***Water injection platform processes sea water to make it suitable for injecting into the reservoir. The cleaned and treated seawater is pumped at high pressure for injecting into reservoir through a number of injector wells.***

Generators[13] (TG) of the major platform deteriorated and water injection capacity reduced to 2,90,000 BWPD (March 2008).

The revamping of Turbine Generator Units and auxiliaries was approved (January 2011) by the Board of Directors of ONGC. Thereafter, under single bid system, tender was invited (November 2011) for hiring of services for complete revamp of the three Turbine Generator units of Water Injection platform from Original Equipment Manufacturer (OEM). The scope of tender was hiring of services for complete revamp of the Turbine Generator units of Water Injection platform. The scope also included replacement of combustion air intake system, exhaust system, starter motor, gas generation skid, gas separator skid, valves etc.

Subsequently, only Notice of Award (NoA) was issued (February 2013) for services for all three TGs at total cost of ₹30.23 crore with the completion period (installation and Commissioning) of 102, 160 and 160 days for TG1, TG2 and TG3 respectively from the date of site clearance excluding monsoon period and three separate purchase orders (one for each unit) were issued (December 2013/January 2014) to the OEM for supply of materials required for three Turbine Generators costing ₹133.14 crore. The detailed contracts for service in respect of TG3 and TG2 were signed on 22 April 2015 and 7 November 2019 respectively whereas contract for service of TG1 is yet to be signed. The details of Purchase Orders (POs) for material and for service, receipt of materials and commissioning are given in ***Annexure-II.*** The material for all three turbine Generator sets were received and mobilised between August 2014 to April 2016 and material of two TGs remained non-functional from April 2016 till date (April 2023). The TG3 unit was commissioned in June 2017. Field work for TG2 started from November 2019, which was yet to be commissioned (April 2023). The warranty of the equipment was 12 months after the goods have been delivered or 18 months after the date of shipment whichever periods conclude earlier. The warranty of all the equipment got lapsed prior to the installation of the equipment.

In this regard, Audit observed that there were following deviations in the tender terms by the bidder which were approved by the Executive Purchase Committee in accordance with clause F3(a) of the Book of Delegated Powers:

a) The bid was invited from OEM on single tender basis for complete revamp of three Turbine Generator units of Water Injection platform, including material and services. However, separate bid was submitted by the OEM for materials (for all three Turbine Generator units) and a separate bid for complete installation and commissioning (i.e., for service) with financial implication of ₹163.37 crore (for material and service). This was accepted by ONGC in variance of tender conditions.

b) ONGC accepted the delivery period as proposed by the OEM for mobilisation of the materials for TG3, TG2 and TG1 respectively and onsite revamp of each unit as 102 days for TG3 and 160 days for TG2 and TG1 from the date of site clearance.

[13] ***The role of the turbine is to transform the energy of water, steam or wind into mechanical energy that will make the generator spin. The generator transforms the mechanical energy into electricity.***

This was also in variance with original tender condition which stated that contract shall remain valid for a period of 21 months + 2 months from date of Notice of Award.

c) As per tender condition, payment for services were to be made, unit wise (Turbine Generator) after completion of each unit. However, on request of vendor, payment for services in three stages[14] was accepted by ONGC.

The materials for all three Turbine Generator sets were received and mobilised from August 2014 to April 2016. The TG3 unit was commissioned in June 2017. Field work for TG2 (material cost ₹49.35 crore) started from November 2019, which was yet to be commissioned (April 2023) resulting in idling of material. Audit further observed that in the absence of service contract (for TG1), equipment of TG1 amounting to ₹48.77 crore were lying idle (April 2023) for more than seven years without any service contract and warranty.

ONGC, in its reply (December 2022), stated that:

a) Minimum two Turbine Generators are required to meet the power requirement of Platform, hence it was proposed to carry out the Revamp of TGs one unit at a time. Though ONGC requested bids for revamping of TGs, including material and service, bidder submitted two separate offers i.e., one for material and other for service. Being the case of OEM, ONGC has no other option than to accept the services offered by the contractor. The OEMs, particularly foreign ones, insist on separate orders for material and service, citing taxation issues.

b) Bidders submitted their offer with several deviations to tender conditions but with the approval of Competent Authority and after protracted discussions with OEM, Tender Committee recommended for award of three separate orders for supply of material and three separate orders for service part (installation & commissioning).

c) ONGC had already issued Notification of Award for materials for all three units and services for all three units together and Notification of Award is binding till signing of formal contract so accepting of material without service contract will have no impact on installation and commissioning of Turbine Generator.

d) The delays in finalising tender/award of contracts was also due to change in the name of entity, difference of opinion with regard to pricing agreed to in Notification of Award and Covid 19 situation that led to restrictions etc. OEM has now remobilised and work is in progress.

Ministry (October 2023), in addition to the above, further stated that ONGC was advised to examine the specific reasons/circumstances for long delay in award of Service contract,

[14] ***30 per cent on mobilisation, 40 per cent on 115 days from mobilisation and 30 per cent on commissioning for TG1 & TG2 and for TG3 30 per cent on mobilisation, 40 per cent on 70 days from mobilisation and 30 per cent on commissioning.***

internally review the matter and devise internal control mechanism for timely completion of award of service contracts and ensure that the occurrence of such events/incidents are avoided and not repeated in future.

Reply of ONGC/Ministry may be viewed considering the following facts:

a) While it may be true that only one Turbine Generator could be revamped at a time, this could not have come in the way of contracting for material and services simultaneously for one Turbine Generator at a time. Thus, material for each of the Turbine Generator needed to have been contracted for along with contract for its servicing too. This was not done, and resultantly materials for all three Turbine Generators were received, while their successful revamp was limited to only one Turbine Generator. After nearly seven years of mobilisation of materials from August 2014 to April 2016, only one unit (TG3) has been commissioned (June 2017) with a delay of two years and field work for TG2 unit commenced in November 2019 and is still in progress. Moreover, materials for TG1 set costing ₹48.77 crore are lying idle for more than seven years with the company without any service contract.

b) While OEMs insisted on separate orders for material and service, ONGC should have synchronised and secured the components of contract by ensuring that both the components (material and service) of planned revamping were contractually secured.

c) These Turbine Generators had completed more than 25 years of operational life and based on their health survey, it was decided to revamp these three Turbine Generators. Health evaluation also revealed that TG3 had suffered severe failure leading to its non-availability. However, two units (TG2 & TG1) could not be revamped till date (April 2023) even after lapse of more than 10 years since approval of the Board.

d) As per Integrated Material Management Manual para 15.3.3, in order to make a contract legally enforceable, all concerned must ensure that the contract is properly signed & stamped by the contractor before it is signed by ONGC's representative. However, no such service contract was signed between ONGC and the OEM. Further, contractor also stated (November 2017) that Notification of Award received by them is not binding contract.

Non-synchronisation of the supply of the material and valid service contract has resulted in the following:

a) TG3 (material cost ₹35.02 crore) was commissioned with a delay of two years,

b) TG2 (material cost ₹49.35 crore) and TG1 (material cost ₹48.77 crore) are yet to be commissioned despite delay of seven years, and

c) Equipment of TG1 valuing ₹48.77 crore are lying idle without service contract and warranty.

Further, it has also defeated the objective of complete revamping of Water Injection platform to enhance the safety and operational reliability of the plant and to achieve better availability[15] of plants and equipment.

Recommendation No. 3: ONGC, in future, may ensure synchronisation of the supply of material required and the service contract necessary for revamping to reduce the delay in commissioning and to enhance the safety and operational reliability of a plant.

2.5 Persistent delays in clearance of imported consignments led to absorption of demurrage charges

Persistent delays in clearance of imported consignments led to payment of demurrage charges amounting to ₹110.61 crore during the period 2016-17 to 2021-22 and, out of this, the expenditure towards demurrage to an extent of ₹58.74 crore was absorbed by ONGC.

Oil and Natural Gas Corporation Limited (ONGC) imports materials for oil and gas exploration and production activities. Company has four Transportation and Shipping (T&S) offices located at Mumbai, Chennai, Kolkata and Delhi which are responsible for clearance of import consignment and its delivery to the ultimate consignee (i.e., various work centres) in the shortest possible time, with least cost while ensuring compliance to the statutory provisions. Company engages Custom House Agents (CHA) on contract to assist this process. Any delay in clearance of imported consignment leads to payment of demurrage[16].

As per Integrated Material Management Manual (IMMM) of ONGC (Para 20.4.4 and 20.5.1), the concerned Indenting Section is responsible for provision of all sets of clear and undisputed documents required for clearance of consignment at least three days before the arrival of consignment at port/airport to the T&S section.

Non-Negotiable Shipping Documents (NNSD), Essentiality Certificate (EC), Undertaking of EC[17], Steel Importing Monitoring System (SIMS)[18] and Original Bill of Lading (OBL) are the primary documents required for clearance of the imported consignment. Accountability for delayed clearance is determined as under:

a) Demurrage for delay on part of clearing agents is recovered by the T&S office from the payment due to them.

b) Demurrage paid on account of supplier is recovered from the payment due to them.

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[15] ***During the period from 2015-16 to 2022-23, as against the water injection capacity of 3,20,000 BWPD, the actual water injection ranged between 2,27,078 BWPD to 2,92,999 BWPD.***

[16] ***Demurrage is an expense in the nature of penalty levied for failure to clear the goods from the port within the prescribed number of days.***

[17] ***Director General of Hydrocarbons is the specified independent authority empowered to certify that the goods would be used for the intended purpose, based on which the benefit is allowed.***

[18] ***Steel Importing Monitoring System has been instituted by the Ministry of Commerce and Industry, Government of India to provide advance information about steel imports to both, the Government as well as relevant stakeholders.***

c) Demurrage paid on account of ONGC (delay in providing EC, clearance of OBL/documents from Bank, etc.) and Operational reasons[19] are absorbed by ONGC after taking necessary approvals by the concerned Indenting Section.

During examination of clearance of import consignments for the period 2016-17 to 2021-22, Audit observed that the T&S offices located in Mumbai, Kolkata and Chennai had paid demurrages in case of 74 *per cent*, 69 *per cent*[20] and 95 *per cent* of the total consignments cleared respectively. The total amount of demurrage paid aggregated to ₹110.61 crore in 4,161 out of 5,379 consignments[21] (77 *per cent*) cleared by them **(Annexure-III & IV).** Out of this, in the three T&S offices (Mumbai, Kolkata and Chennai), 56 *per cent*[22], 57 *per cent*[23] and 43 *per cent*[24] respectively were those cases where the demurrages were incurred and absorbed by ONGC on account of delay in EC and operational reasons mentioned under the category (c) above **(Annexure-V).**

The delay in clearance of consignments (on part of ONGC) was due to delay in receipt of EC (41.37 *per cent*) by the T&S offices from the Indenting departments and other operational reasons (58.63 *per cent*) like late filling of Bill of Entry, wrong delivery order issued by shipping line, delay in obtaining delivery order from supplier and lack of co-ordination between the departments. The reasons for late receipt of EC after arrival of vessel/craft were late application by ONGC, delay in providing clarification to DGH, discrepancy in EC with reference to contents and value, single shipment requiring multiple ECs from various indenters, delay in forwarding of EC by Indenter to T&S offices even after its receipt from DGH etc. It was noticed that ONGC had absorbed an amount of ₹58.74 crore (**Annexure-VI**) out of total demurrage payment of ₹110.61 crore (53 *per cent)*. Absorption of demurrages by ONGC in large number of cases, as mentioned above, indicates lack of prior planning and co-ordination among various agencies involved in clearance of consignment.

ONGC, in its reply, stated (January 2023) that:

In case of T&S-Mumbai and Kolkata, total demurrage charges incurred since 2018-19 to 2022-23 have a decreasing trend, with exception of the period when COVID-19 pandemic restrictions were imposed by Government of India, and demurrage charges paid per consignment was also having decreasing trend. The higher demurrage in the year 2016-17 was mainly due to Customs having stopped/holding the clearance of ONGC's

[19] Demurrage attributable to operational reasons are mainly due to late filling of Bill of Entry, wrong delivery order issued by shipping line, delay in obtaining delivery order from supplier and lack of co-ordination between the departments.

[20] In T&S Kolkata office, no physical register is being maintained and number of consignments on which demurrage paid was also not made available for FY 2019-20 to 2021-22.

[21] No. of consignments on which demurrage paid was not available for FY 2019-20 to 2021-22 in case of T&S Kolkata office, so total consignment cleared for these years have been excluded from the analysis.

[22] 21 per cent due to delay in receipt of EC and 35 per cent demurrage on account of operational reasons.

[23] 36 per cent due to delay in EC and 21 per cent due to operational reasons.

[24] Demurrage register provided by T&S Chennai did not mention reasons for delay in 82 per cent cases in 2020-21 and in 87 per cent cases in 2021-22.

consignments (around 34 consignments: 6,518 MT of pipes) on account of Anti-Dumping Duty (ADD) and Safeguard Duty (SGD).

Ministry, while reiterating Management's reply, stated (October 2023) that Company has initiated various measures for systemic improvement to minimise the demurrage charges.

The Management/Ministry's replies may be viewed in light of the following facts:

a) The IMMM of the Company stipulates for timely clearance of consignments to avoid payment of demurrage charges. Special audit on demurrage charges conducted (July 2018) by the Internal Audit of ONGC also commented that in large number of cases there were delays in clearance of consignments due to delay in receipt of EC and OBL by T&S sections.

b) Audit observation is based on number of cases in which ONGC has absorbed demurrage payment against total consignment cleared, which was more than 50 *per cent* during the period 2018-19 to 2022-23.

c) As regards payment of demurrage due to Customs having stopped/holding the clearance of ONGC's consignments on account of Anti-Dumping Duty (ADD) and Safeguard Duty (SGD), demurrage paid on this account comprised only ₹6.63 crore against total demurrage of ₹30.33 crore paid during 2016-17 (21.86 *per cent*).

d) Further, as verified from the details obtained from Directorate General of Hydrocarbons (DGH) for the period 2018-21, there were no delays on part of DGH in the issue of Essentiality Certificate. The operational delay was mainly due to late filing of Bill of Entry, delay in obtaining delivery order from shipper, lack of coordination among the departments of the Company etc.

Thus, there were persistent delays in clearance of imported consignments which led to payment of demurrage charges amounting to ₹110.61 crore during the period 2016-17 to 2021-22 of which, ONGC had absorbed ₹58.74 crore[25].

Recommendation No. 4: ONGC needs to streamline the process of clearance of consignments within the timelines prescribed in their Material Management Manual by ensuring coordination among the concerned departments. The cases of non-compliance of Material Management Manual provisions may be monitored at higher levels of company to ensure better controls.

25 ***Remaining ₹51.87 crore has been absorbed by the suppliers/pending recovery from the suppliers.***

Chapter III

Ministry of Power

CHAPTER III: MINISTRY OF POWER

Damodar Valley Corporation

3.1 Avoidable expenditure of ₹112.63 crore towards payment of additional deviation charges and penalties for non-maintenance of Grid discipline

Damodar Valley Corporation incurred an avoidable expenditure of ₹112.63 crore towards additional deviation charges for over drawal of power when the Grid frequency was below 49.85 Hertz and penalties for sustained violation of committed schedule for injection of power in the grid.

Central Electricity Regulatory Commission notified (January 2014) the Deviation Settlement Mechanism and related matters Regulations, 2014 (Deviation Settlement Mechanism Regulations) to be applicable with effect from 17 February 2014 to maintain grid discipline. As per the Deviation Settlement Mechanism Regulations, a seller shall receive deviation charges from its Regional Load Dispatch Centre[1] at stipulated rates for generation of power (in a time block[2]) in excess of schedule (over-injection) and in the reverse case (under injection), the seller shall have to pay the deviation charges when average grid frequencies are 49.85 Hertz[3] and above and below 50.05 Hertz subject to maximum 12 *per cent* of schedule or 150 Mega Watt, whichever is less. The Regulations further provide that besides deviation charges, additional deviation charges shall be applicable for over injection/under drawal of electricity by seller/buyer, as the case may be, when the grid frequency is 50.05 Hertz and above as per prescribed rates. Similarly, additional deviation charge shall also be applicable for overdrawal/under injection of electricity when grid frequency is below 49.85 Hertz. In the event of sustained deviation from committed schedule for injection of power in the grid in one direction (positive or negative), the seller/buyer shall have to make 'sign change' regarding the deviation from schedule at least once after six blocks, failing which, they will have to pay penalty due to violation of 'sign change' on daily basis.

Scrutiny of day-wise data of the Damodar Valley Corporation (DVC) regarding average injection of power to and drawal from the grid during the period from April 2019 to September 2022 revealed the following:

a) During the above period (1,274 days), DVC failed to restrict drawal of power from grid for 1,193 days (93.64 *per cent*) when average frequency was below 49.85 Hertz and this resulted in payment of ₹61.28 crore towards additional deviation charges.

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[1] ***Power System Operators, also known as Load Despatch Centres, are responsible for balancing power generation and load (energy consumption) on real time basis.***

[2] ***15 minutes constitute a time block.***

[3] ***Unit of Frequency***

b) Further, DVC failed to make ‘sign change’ after six blocks for 874 days during the above period in contravention of Deviation Settlement Mechanism Regulations and paid ₹51.35 crore towards penalty for such violation of ‘sign change’ .

c) DVC failed to restrict drawal of power from grid due to the failure to maintain its committed schedule for injection of power in the grid.

d) DVC did not consider constraints like evacuation of ash from ash ponds, shortage of coal, inferior quality of coal etc., while declaring its day ahead schedule of power as well as load management of consumers of DVC. The shortage of coal as well as ash evacuation related issues contributed 2.75 *per cent* to 10.71 *per cent* shortfall from declared capacity during the period from 2019-20 to 2021-22.

e) Though the Area Load Dispatch Centre of DVC monitored the frequency through its Supervisory Control and Data Acquisition system, DVC failed to regulate the drawal and injection of power in accordance with the Deviation Settlement Mechanism Regulations. This indicated lack of proper planning in declaring its schedule a day ahead basis and also lack of monitoring mechanism to restrict over drawal to the extent possible.

Thus, failure of DVC to restrict drawal of power from grid as also making requisite ‘sign change’ after six blocks in accordance with the Deviation Settlement Mechanism Regulations resulted in avoidable expenditure of ₹112.63 crore towards additional deviation charges and ‘sign change’ penalty.

In reply, the Management stated (March 2023) that:

a) Constraints such as insufficient generation due to shortage of coal, sudden tripping/outage of specially 500 Mega Watt generating units and inadequate power availability from Power Exchange had contributed towards the deviation/violation of volume (including additional deviation) and sign reversal.

b) Low power demand during the COVID-19 lockdown period had obliged DVC to incur ‘sign change’ violations on many occasions as generations could not be brought down further below Minimum Technical Limit due to technical constraints.

The above contention of the Management needs to be viewed in the light of the following:

a) Maintenance of adequate coal stock for optimum generation by the power plants is an integral part of fuel management of DVC. Therefore, the plea of shortage of coal which ultimately led to payment of additional deviation charges cannot be considered as uncontrollable factor for insufficient generation of electricity by DVC. Further, the issue of shortage of coal should have been considered while assessing power plant wise declared capacity on a day ahead basis. Further, availability of power at Open Exchange is market driven and therefore, DVC should have considered this constraint while assessing the schedule on a day ahead basis.

b) As per Deviation Settlement Mechanism, in case of sustained deviation in one direction by generator from its committed schedule for injection of power in the grid, it has to reverse deviation (from negative to positive or positive to negative) at least once after sixth block to avoid penalty for 'sign change' violation. DVC had such sustained deviations multiple times but did not effect 'sign change' leading to penalties for 'sign change' violation. Further, the contention of the Management that DVC had to incur 'sign change' violations on many occasions as generations could not be brought down further below Minimum Technical Limit due to technical constraints is not factually correct as 'sign change' penalty during the COVID-19 lockdown period in March 2020 occurred mainly due to under injection of power.

Thus, the constraints as referred by the Management were not addressed while assessing the schedule in the interest of security and stability of the grid. Further, under injection of power when the grid frequency was 49.85 Hertz constituted a serious act of indiscipline as per Deviation Settlement Mechanism Regulation as it could lead to crash of grid.

In reply, the Ministry stated (September 2023) that as a result of steps taken by the Corporation in maintaining grid discipline, the net deviation charges were reduced during the period from 01 April 2023 to 17 July 2023 in comparison to similar period of 2021-22.

The reply of the Ministry needs to be viewed in the light of the fact that while levy of net deviation charges is a common phenomenon in the power sector whereas the additional deviation charges is a penalty for non-maintenance of grid discipline. The reply of the Ministry is silent on the issues like – additional deviation charges and 'sign change' penalty, as pointed out by Audit.

Thus, due to poor load management system of power, DVC incurred avoidable expenditure of ₹112.63 crore towards additional deviation charges as well as 'sign change' penalty.

Recommendation No. 5: The Management should improve demand and supply management of power and manage their generation properly to adhere to their declared schedule to avoid grid indiscipline. Responsibility should be fixed for payment of additional deviation charges along with sign change penalty in order to ensure that such instances do not recur again.

3.2 Loss due to non-recovery of electricity charges from a private party

Damodar Valley Corporation failed to recover its outstanding electricity charges of ₹12.95 crore from a private party due to non-adherence to the terms of the agreement.

Damodar Valley Corporation (DVC), as Distribution licensee, entered (June 2012) into a Power Purchase Agreement (agreement) with a private party for five years. The terms of the agreement, *inter alia*, stipulated the following:

a) Security Deposit covering three months of estimated electricity bills in cash or irrevocable Bank Guarantee with a validity of two years and provision for renewal.

b) In the event of non-payment of any bill within its due date, DVC may disconnect the supply of electricity after serving a 15 days specific and separate written notice of disconnection.

c) The Bank Guarantee shall be renewed from time to time well before its expiry, at least 3 months before the last date of validity.

Scrutiny of records revealed that the Bank Guarantee submitted by the private party as Security Deposit expired in June 2014 which was not extended further. The private party paid only ₹7.98 crore against the total electricity bill raised for ₹18.94 crore for the years 2015-16 and 2016-17 (up to September 2016). Due to non-payment of monthly electricity bills, DVC disconnected the power supply of the private party six times during the period from November 2014 to May 2016. DVC resumed power supply from time to time without renewing the Bank Guarantee on the basis of assurance given by the private party regarding liquidation of dues towards electricity charges. DVC finally disconnected the power supply to the private party in September 2016 due to accumulation of outstanding dues of ₹12.95 crore which included ₹4.26 crore on account of tariff revision pertaining to the years 2013-14, 2014-15 and 2016-17. Since, the Bank Guarantee was not renewed by the private party, DVC did not have any security to recover the outstanding dues from the private party.

In the meantime, High Court of Calcutta ordered (August 2016) for winding up of the private party considering appeal of a petitioning creditor. The Official Liquidator issued (June 2017) a public notice requesting all the creditors of the private party to submit their claims by 15 July 2017. DVC failed to act in response to the public notice. After completion (August 2018) of winding up process, DVC filed (3 April 2019) its claim of ₹21.84 crore before the Official Liquidator. Though the same was accepted by the Official Liquidator, the High Court of Calcutta rejected (19 June 2019) the claim of DVC. DVC preferred an appeal before the Supreme Court of India. The appeal of the Corporation was, however, dismissed (May 2023) by the Supreme Court of India.

In this connection, Audit observed that:

a) DVC did not compel the private party to adhere to the conditions of renewal of Bank Guarantee on the plea that private party could maintain their cash flow to liquidate outstanding electricity charges. This indicated undue benefit to the private party which resulted in failure on the part of DVC to safeguard its own financial interest.

b) Instead of initiating legal action against the private party to recover the outstanding electricity charges, DVC unnecessarily allowed the process of realisation and settlement of outstanding electricity charges to be continued for considerable period which ultimately resulted in accumulation of outstanding electricity dues over the years.

c) DVC also failed to present its claim before the Official Liquidator on time and therefore, lost the opportunity to recover the outstanding dues. This indicated lack of adequate monitoring on the part of DVC.

Thus, despite having sufficient provisions in the agreement to safeguard its commercial and financial interest, DVC failed to recover ₹12.95 crore towards electricity dues from the private party when the Official Liquidator requested all creditors to file their claim.

The Management accepted that Damodar Valley Corporation could not lodge its claim timely before the Official Liquidator because they were unaware about the winding up process of the private party. As DVC has not got a monitoring system to track the newspapers on a daily basis, the paper publication taken out by the Official Liquidator could not be tracked. The Management further stated (November 2021) that private party could not be forced to renew the Bank Guarantee since the power supply to the private party was lying in disconnected condition from December 2014 to May 2015.

The above contention of the Management is not acceptable as DVC was required to take pro-active action for renewal of Bank Guarantee in March 2014 itself as per agreement, which was not taken by DVC. Further, the plea of DVC that the Bank Guarantee could not be renewed since the electricity connection to the party was in disconnected condition from December 2014 to May 2015 is not acceptable as the supply of electricity to the private party was intermittently disconnected six times and resumed again on the request of the private party. Therefore, DVC should have obtained the renewed Bank Guarantee to safeguard its financial interest before resumption of power supply to the private party.

Ministry, in its reply, stated (September 2023) that DVC has taken necessary steps to monitor the status of Bank Guarantees and is on the way to ensure 100 *per cent* security deposit compliance. It was also stated that DVC is taking necessary corrective measures through formulation of a policy/mechanism to ensure that such issues are not observed in future.

The reply of the Ministry needs to be viewed in light of the fact that DVC lost the opportunity to safeguard its financial interest and therefore, failed to recover ₹12.95 crore towards electricity dues from the private party.

Hence, due to non-renewal of Bank Guarantee and non-tracking of public notice issued by Official Liquidator regarding liquidation of the private party, DVC incurred loss of ₹12.95 crore on account of electricity dues recoverable from the private party, as chances of recovery are remote.

Recommendation No. 6: DVC may fix responsibility for non-renewal of Bank Guarantee of the private party as per agreement and lay down proper mechanism for monitoring defaulting parties to closely watch progress of payment of electricity dues and renewal of Bank Guarantee in order to protect its financial interest.

3.3 Undue benefit of ₹7.60 crore to ineligible consumers by extending incentives on water charges

Damodar Valley Corporation extended incentives of ₹7.60 crore towards Zero Liquid/Effluent Discharge on water charges bills to ineligible consumers.

As per the provisions of the Damodar Valley Corporation Act 1948, the Damodar Valley Corporation (Corporation) supplies water from Damodar River and its reservoirs for irrigation, industrial and domestic purposes. The rates for supply of water for industrial and domestic purposes are determined by the Corporation from time to time.

With an objective to preserve and optimise the use of water and prevent water pollution, the Corporation introduced (October 2012) a Scheme of incentive for Zero Liquid/Effluent Discharge[4] for its consumers. As per the Scheme, an incentive of 20 *per cent*[5] on monthly water bills would be allowed to those industries which would produce requisite certificates of Zero Liquid/Effluent Discharge from concerned State Pollution Control Board and paid their water bills to the Corporation within the due date. However, there was no provision in the Scheme for recovery of wrongly paid incentive or no penalty provision for wrongly claimed incentive.

Audit noticed that the Corporation allowed incentive for achieving Zero Liquid/Effluent Discharge to four of its consumers, out of which only one consumer produced necessary certificate from the concerned State Pollution Control Board.

Three consumers who did not produce certificates for Zero Liquid/Effluent Discharge were also not regular in payment of their water bills within the due dates as stipulated in the Scheme.

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[4] ***Zero Liquid/Effluent Discharge means reuse of the entire industrial and domestic waste water after treatment/recycling without discharging water outside the project boundary in the natural water bodies.***

[5] ***The rate of incentive was revised to 10 per cent with effect from 1 April 2019.***

Despite above non-compliances, the Corporation continued to extend the undue benefits to these ineligible consumers amounting to ₹7.60 crore for the period August 2015 to January 2022. On being pointed out by Audit, the Corporation stopped payment of incentives to these consumers from February 2022 onwards. However, the Corporation neither initiated any action for recovery of the amount nor fixed any responsibility on the official(s) concerned for such serious lapse.

While accepting the audit observation, the Management stated (February 2023) that a committee was constituted (17 February 2023) to identify the ineligible consumers and also ascertain the amount of undue incentive extended to such consumers since introduction of the Zero Liquid/Effluent Discharge Scheme. Apart from the above, the committee was also entrusted to fix responsibility for taking decision in extending such incentive to ineligible consumers.

The Management's reply may be seen in the light of the fact that the issue was pointed out in February 2022 but till date (March 2023) no recovery has been made. Only a committee was belatedly formed after a lapse of one year since the issue was pointed out. The committee did not submit its report within the stipulated period of one month i.e., 17 March 2023.

The Ministry, in its reply, stated (October 2023) that the process of reconciliation with one such ineligible consumer was under process and future course of action would be taken after completion of such reconciliation. It was also stated that on the basis of report (April 2023) of the committee, departmental proceedings had been initiated against the officer responsible for such lapses.

Though corrective measures were being initiated by the Corporation at the instance of Audit, the fact remains that recovery of incentive towards Zero Liquid/Effluent Discharge from the ineligible consumers was still pending (September 2023). Moreover, the reply of the Ministry was silent about the actions taken by the Corporation on the other two ineligible consumers.

Thus, due to extending of incentive of Zero Liquid/Effluent Discharge to consumers without proper verification by the Corporation, incentive of ₹7.60 crore allowed to ineligible consumers remained unrecovered till March 2023.

Recommendation No. 7: DVC may fix responsibility for extending incentive under Zero Liquid/Effluent Discharge scheme to ineligible consumers and also recover the incentive extended to such ineligible consumers.

Chapter IV

Ministry of Finance

(Department of Financial Services)

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

India Infrastructure Finance Company Limited

4.1 Non-adherence to the Credit Policy while sanctioning and monitoring of loan led to non-recovery of dues

IIFCL disbursed loan to a Borrower without proper analysis of financial statements and critical areas of risk. Further, IIFCL did not comply with the provisions relating to security creation and monitoring of credit policy/sanction letter which led to loss of ₹393.37 crore till 31 August 2022.

India Infrastructure Finance Company Limited (IIFCL) sanctioned (March 2016) a term loan of ₹250 crore to a Borrower towards part Capex Funding for its ongoing Phase II Project[1] relating to up-gradation of communication technology, involving a total Capex of ₹3,750 crore. IIFCL disbursed (March 2016) ₹248 crore to the Borrower. As the Borrower did not service its dues on time, loan account was categorised (31 December 2017) as Non-Performing Asset (NPA).

The Borrower was referred to Corporate Insolvency Resolution Process on the basis of petition filed by an Operational Creditor against the Borrower and its two subsidiaries. IIFCL also submitted (21 May 2019) its claim of ₹328.59 crore (Principal – ₹248.00 crore and Interest – ₹80.59 crore) against the Borrower and its three subsidiaries. While the Resolution Plans for two subsidiaries were approved in December 2020 and December 2023, the resolution plans for the Borrower and third subsidiary were yet to be approved (December 2023). As per the approved Resolution Plans of two subsidiaries, IIFCL's share was estimated to be ₹29 crore and ₹3.81 crore respectively. However, as per the proposal, share of IIFCL in Resolution Plans of all the four companies was estimated to be ₹98.10 crore. IIFCL declared (March 2021) the loan account of the Borrower and two of its subsidiaries as fraud, based on Forensic Audit Report (July 2020) which pointed out that the Borrower misappropriated the borrowed funds deviating from the terms of sanction letters which was considered as diversion of funds. Of the loan amount of ₹248 crore given by IIFCL, ₹224 crore was diverted[2] by the Borrower.

Audit observed the following: -

a) Risk Department of IIFCL had pointed out (February 2016) the following with respect to the Borrower- (i) poor growth of 0.25 *per cent* over past five years and low Return on Equity of 2.35 *per cent* for last three years, (ii) Low Debt Service

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[1] ***A term loan of ₹1,000 crore had already been sanctioned by Bank of Baroda for Phase – II of the Project.***

[2] ***₹25 crore to repay other bank loans and ₹199 crore to connected parties in the form of Inter-Corporate Deposit.***

Coverage ratio of 1.08 in FY 2014-15, (iii) Contingent Liability of ₹6,263 crore, (iv) High Debt to Earning Before Interest, Tax and Amortisation ratio and (v) High outstanding foreign currency loans etc. Credit Policy of the company requires risk assessment to be carried out by the Risk Department and incorporation of comments of Risk Department in the detailed Appraisal Memorandum along with the proposed risk mitigation measures. However, it was seen in this case that though Risk Department brought out above adverse factors in the assessment, but while proposing risk mitigation measures, they simply relied on future growth prospects projected by the borrower himself.

b) Credit Policy of IIFCL also stipulates that careful analysis should be done of the financial statements for the past three or five years of the concern and its group concerns. Profit before Exceptional items, Tax and Adjustments of the Borrower for the year ended March 2013 was ₹624 crore which drastically reduced to loss of ₹758 crore, ₹1,629 crore and ₹1,624 crore for the years ended March 2014, March 2015 and March 2016 respectively. However, these year-on-year losses were ignored by IIFCL and it considered the revenue for the said years only.

c) As per Credit Policy of IIFCL, Lenders' Independent Engineer was to be appointed from panel maintained with IIFCL or IIFCL Projects Limited or any Public Sector Bank/Public Financial Institutions. Policy further stated that Lenders' Independent Engineer (wherever appointed) need to visit the site at periodical intervals and furnish project – technical & financial information, project progress, status of approvals besides other vital information, if any. But IIFCL did not appoint Lenders' Independent Engineer.

d) The Borrower was required to submit licenses[3] of the Borrower and one of its subsidiary as security for which a tripartite agreement between lender (IIFCL), the Borrower and Department of Telecommunications was to be executed. However, transfer of telecom licenses of its subsidiary could not be executed as the Borrower was not authorised to assign the licenses of its subsidiary. Therefore, the condition to assign the Telecom Licenses of its subsidiary in favor of the IIFCL was waived off (September 2016) after disbursement. Telecom Licenses of the Borrower were also not assigned in favor of IIFCL. Thus, the company disbursed the loan amount to the borrower without obtaining the collateral security.

e) As per the Sanction letter, the borrower had to maintain a Debt Service Reserve Account for ensuing three months principal and interest payment due to the Lender. The Debt Service Reserve Account was to be built up at the end of six months from the date of disbursement. However, the Borrower did not comply with the condition of maintaining Debt Service Reserve Account.

[3] ***Value of these telecom licenses was ₹16,768 crore as on 31 March 2016***

f) As per Credit Policy of IIFCL, Lead Bank was responsible for regular monitoring and recovery of loans and also for providing periodic evaluation of compliances of the project. Lead Bank was also required to send periodic progress reports to IIFCL. However, IIFCL did not obtain progress/inspection reports from Bank of Baroda (Lead Bank) post disbursement. Further, as per terms of sanction letter, the Borrower was to ensure Joint Documentation with Bank of Baroda within six months from the date of disbursement. However, the Borrower did not submit the No Objection Certificates from other consortium lenders and consequently IIFCL could not enter into Joint Documentation to enforce responsibility of Lead Bank.

g) As per directions of Reserve Bank of India (July 2015), Banks/Financial Institutions should not entirely depend upon certificates of Chartered Accountants and need to strengthen their own internal controls and the credit risk management system to enhance the quality of their loan portfolio. However, IIFCL relied on the certificates of Chartered Accountants and failed to ensure from its internal mechanism that the funds were utilised for the intended purpose which allowed the Borrower to commit fraud by diversion of funds. IIFCL came to know about the fraud in October 2020 through the Forensic Audit Report only.

Management (December 2022)/Ministry (June 2023) stated that:

a) IIFCL had sanctioned the loan in line with the appraisal of Lead Bank viz., Bank of Baroda as per Scheme for Financing Viable Infrastructure Projects. The observations of Risk Department were placed before the Board. The financials of the Borrower were relied from the audited Balance Sheets and captured in the Board Memorandum approved by the Board of IIFCL.

b) Financial indicators such as profitability, PAT, income, turnover etc., were duly analysed in the sanction memorandum and were based on the appraisal of Lead Bank and audited financials as on 31 March 2014 and 31 March 2015. The Company had earned a total revenue of ₹11,136 crore for the financial year ending 31 March 2015 as compared to ₹12,445 crore for the year ended March 2014 on standalone basis and ₹22,098 crore for the year ended 2015 as compared to ₹22,321 crore for the year ended 2014 on consolidated basis and Loss after tax was ₹154 crore as on 31 March 2015.

c) As an industry practice to enable lenders to disburse their share in tranches proportionate to the progress of construction in a project, lenders may appoint a Lenders' Independent Engineer, if required. The proposed lead bank, Bank of Baroda, had stipulated the pre-disbursement condition that, prior to disbursement, Chartered Accountant certificate was to be obtained indicating the sources and utilisation of funds as on date and disbursement was to be made on pro-rata basis. Accordingly, in line with proposed lead bank the pre-disbursement condition for obtaining the Chartered Accountant certificate before disbursement was stipulated and approved by IIFCL.

d) The license of subsidiary could not be assigned, as the license held by the borrower only can be assigned as security. Accordingly, Bank of Baroda had waived the condition on the request made by the borrower. License of Borrower also could not be assigned due to non-compliance with certain pre-requisite conditions by the Borrower.

e) IIFCL imposed additional interest at one *per cent* each for non-assignment of telecom license of the Borrower as security and non-maintenance of Debt Service Reserve Account.

f) Joint Documentation could not be done with Bank of Baroda due to delay in issue of No-Objection Certificate by other consortium lenders. IIFCL entered (June 2017) into a Master Joint Lender Agreement with all the lenders of the Borrower. Monitoring of the project is the primary responsibility of the Lead lender and all transactions from the bank account of the Borrower were to be monitored by the Lead Bank, Bank of Baroda. Certificate of Chartered Accountant was obtained for utilisation of fund by IIFCL.

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

a) Scheme for Financing Viable Infrastructure Projects does not compel IIFCL to accept the project as per the appraisal of the Lead Bank and IIFCL may consider the proposal or reject the same considering its commercial interest. Further, IIFCL solely relied on the replies of the Borrower to the observations of the Risk Department and reproduced the same before the Board instead of analysing the replies of the Borrower and offering its own comments on the same. Keeping in view the weak financials of the Borrower, reliance on the future profitability only based on projections from the Borrower was not correct.

b) As can be seen from reply of the Ministry/Management, revenue as well as profit had decreased for the year ended March 2015 as compared to previous year. Further, loss of ₹154 crore quoted by Management as on March 2015 was due to consideration of exceptional items whereas Audit has commented on loss before exceptional items which was loss of ₹758 crore, ₹1,629 crore and ₹1,624 crore for the years ended March 2014, 2015 and 2016.

c) Credit policy stipulates that disbursements would be processed taking into account the information submitted by the Lenders' Independent Engineer, the Company and the auditor besides the information/papers furnished by the Lead Bank/other lenders. In this case, neither Lenders Independent Engineer was appointed nor Joint

Documentation was done with the Lead Bank which further weakened the internal control.

d) The imposition of additional interest cannot be a replacement for the security of loan as well as maintenance of Debt Service Reserve Account. Moreover, disbursement of loan without creating charge on the offered security was not only against the Credit Policy of IIFCL but also led to undue favor to the Borrower.

e) In the absence of joint documentation with Bank of Baroda, the responsibility of Bank of Baroda as the lead lender could not be enforced. Further, no periodic progress reports were received from Bank of Baroda. Moreover, Scheme for Financing Viable Infrastructure Projects clearly stated that IIFCL may also carry out the regular monitoring of projects on its own.

f) IIFCL relied only on the certificate of the Chartered Accountant and failed to ensure from its internal mechanism whether the funds were utilised for the purpose for which these were approved. Thus, due to weak internal control system, IIFCL could not detect diversion of funds by the borrower.

Thus, disbursement of loan of ₹248 crore to the Borrower without complying with the Credit Policy/sanction letter/risk mitigation measures, proper analysis of financial statements, maintenance of Debt Service Reserve Account, assignment of Telecom License and Joint Documentation with lead lender coupled with poor monitoring led to non-recovery of dues and net loss of ₹393.37 crore (₹491.47 crore[4] *minus* ₹98.10 crore[5]) to IIFCL.

Recommendation No. 8: The Management may strive to reduce its complete dependence on the lead bank for appraisal and monitoring of the loan projects and may strengthen its internal controls to enhance its appraisal and monitoring mechanism. Responsibility may be fixed for non-adherence to the provisions of credit policy/ sanction letter. Further, the company may ensure proper implementation of credit policy and enforcement of important terms of sanction in future.

4.2 Avoidable payment of interest on Service Tax & Goods and Service Tax liability

Failure of India Infrastructure Finance Company Limited to timely deposit the Service Tax/Goods and Service Tax on guarantee fee payable to Government of India led to avoidable payment of interest of ₹8.02 crore.

India Infrastructure Finance Company Limited (IIFCL) avails unsecured term loans from bilateral or multilateral institutions such as the Asian Development Bank, International Bank for Reconstruction and Development (World Bank), European Investment Bank etc.

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[4] ***₹238.62 crore principal and ₹252.85 crore interest as on 31 August 2022.***

[5] ***Expected recovery from Resolution Plan.***

These loans are guaranteed by the Government of India for which IIFCL pays guarantee fees to the Government of India.

Services provided by Government were included in the negative list of services[6] in the Finance Act 1994 and hence, were not covered under the ambit of Service Tax till 31 March 2016. Consequent upon amendment vide notification[7] dated 1 March 2015 and 1 March 2016, services (guarantee in this case) provided by the Government were considered as taxable services under reverse charge mechanism[8]. However, the services provided by the Government got exempted from payment of tax with effect from 27 July 2018 vide notification[9] dated 26 July 2018. Accordingly, IIFCL was required to pay Service Tax/Goods and Service Tax (GST) for the period 1 April 2016 to 26 July 2018.

Audit observed (January 2021) that IIFCL had neither deducted nor deposited Service Tax/GST from the payment of guarantee fee to the Government of India for the period from 1 April 2016 to 26 July 2018 amounting to ₹19.63 crore (Service Tax ₹11.85 crore[10] and GST ₹7.78 crore[11]).

Directorate General of Goods and Service Tax Intelligence (Chennai Zone Unit) issued (24 December 2019) a summon to IIFCL and sought the details of guarantee fee paid to the Government of India along with details of Service Tax and GST paid on the guarantee fee for the aforesaid period. IIFCL furnished (7 January 2020) the requisite details and during summon proceedings (9 January 2020), GST officials informed that IIFCL was liable to pay Service Tax/GST on the guarantee fee paid to the Government of India.

IIFCL sought opinion of its Tax Consultant who also opined that Service Tax/GST was applicable on the guarantee fee paid to the Government of India. Therefore, IIFCL paid (January 2020) ₹10.18 crore[12] towards GST liability including interest. It also filed (January 2020) an application under Sabka Vishwas (Legacy Dispute Resolution) Scheme 2019 (Scheme[13]) for waiver of interest portion on Service Tax liability for making voluntary disclosure. The scheme provided tax relief to following entities:

(i) who had a show cause notice pending where hearing on appeal had not taken place as on 30 June 2019;

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[6] ***Vide amendment made through Finance Act 2012***

[7] ***Notification no. 7/2015-ST dated 1 March 2015 and 16/2016-Service Tax dated 1 March 2016***

[8] ***Under reverse charge mechanism, liability to pay service tax/GST lies with the person in receipt of goods or services.***

[9] ***Notification no. 14/2018 – Central Tax (Rate)***

[10] ***Service Tax (for the period 1 April 2016 to 30 June 2017) of ₹11.85 crore including Swachh Bharat Cess –₹0.40 crore and Krishi Kalyan Cess- ₹0.20 crore.***

[11] ***GST (for the period 1 July 2017 to 26 July 2018) ₹7.78 crore including Central GST-₹3.89 crore and State GST –₹3.89 crore.***

[12] ***GST- ₹7.78 crore plus interest of ₹2.40 crore***

[13] ***The Sabka Vishwas Scheme, 2019 was a scheme introduced under Union Budget 2019 to resolve all disputes relating to the erstwhile Service Tax and Central Excise Acts, which were subsequently subsumed under GST, as well as certain other Indirect Tax enactments.***

(ii) who had been issued a show cause notice for penalty and late fee only and final hearing had not taken place as on 30 June 2019;

(iii) who had recoverable arrears pending;

(iv) who had case under investigation and audit and where the duty/tax has been communicated and accepted on or before 30 June 2019, and

(v) who wanted to make a voluntary disclosure.

As the case of IIFCL did not fall under any of the above categories, it was rejected (4 February 2020) by Central Board of Indirect Taxes and Customs on the grounds that an investigation/enquiry has been started by the Department on such liability of IIFCL and this case was, therefore, not covered under the Scheme. Accordingly, IIFCL paid (February 2020) ₹17.47 crore[14] towards the Service Tax liability along with interest.

Thus, due to not being aware about amendment in taxation laws, IIFCL had to pay an amount of ₹8.02 crore towards interest on its tax liability.

Management (November 2022)/Department of Financial Services (January 2023) stated that taxability of guarantee fee is an interpretational inference and it was not explicitly included in the notification dated 1 March 2015. Further, Management also asserted that IIFCL was not extended the benefit under Sabka Vishwas (Legacy Dispute Resolution) Scheme even though no enquiry, investigation and audit were pending against IIFCL as on 30 June 2019. Consequently, it was compelled to pay interest on Service Tax liability.

The reply of DFS/Management needs to be viewed in light of the fact that being a commercial entity and having the services of Tax Consultants at its disposal, IIFCL should have been aware of tax laws and amendments made therein from time to time so as to safeguard its interests. Further, summon issued by Directorate General of Goods and Services Tax Intelligence (Chennai Zone Unit) under Section 14 of Central Excise Act 1944 read with Section 83 of Finance Act 1994 and Section 174(2) of GST Act, indicated that an enquiry had been initiated by the GST Department. Hence, application filed by IIFCL was not a voluntary disclosure but an afterthought as an investigation/enquiry had already been started by Central Board of Indirect Taxes and Customs. This was, therefore, not covered under the Sabka Vishwas (Legacy Dispute Resolution) Scheme 2019.

Thus, due to not being aware of changes in taxation laws and resultant non-payment of tax dues in time, IIFCL incurred avoidable loss on account of interest payment amounting to ₹8.02 crore (₹5.62 crore on Service Tax liability and ₹2.40 crore on GST liability).

[14] ***₹11.85 crore plus interest of ₹5.62 crore***

National Credit Guarantee Trustee Company Limited

4.3 Settlement of claims in excess of the eligible principal amount leading to excess financial outgo for 'Amount in Default'

Payment of ineligible claim amount over and above the principal as 'Amount in Default' to Member Lending Institutions in "Credit Guarantee Fund for Micro Units" Scheme led to excess financial outgo of at least ₹42.89 crore. On being pointed out by Audit, the excess paid was recovered by the company. The company may conduct comprehensive review of all the claims paid to calculate actual excess financial outgo and to ensure recovery of the same.

National Credit Guarantee Trustee Company Limited (NCGTC) was set up (March 2014) by the Department of Financial Services, Ministry of Finance, Government of India, *inter alia*, to act as a common trustee company to manage and operate various Credit Guarantee Trust Funds. Of the said Guarantee Funds, "Credit Guarantee Fund for Micro Units (CGFMU)" was set up with the purpose of guaranteeing payment against default in Micro Loans[15], up to the specified limit, extended to eligible borrowers by Banks/NBFCs/Micro Finance Institutions/Other Financial Intermediaries.

Ministry of Finance, Department of Financial Services, vide Notifications (18 April 2016 and 16 April 2020), laid down provisions for operation of CGFMU Scheme, *inter alia*, defining 'Amount in Default' and 'Extent of Guarantee' as under:

a) Amount in Default (AID) is the amount of Non-Performing Asset (NPA), as per Reserve Bank of India (RBI) guidelines, which has remained NPA for a continuous period of 'more than six months' from the date of account turning NPA, within the crystallised portfolio[16] of micro loans.

b) The 'Extent of Guarantee' would be a maximum extent of 50 *per cent* of the 'Amount in Default' in the portfolio, after excluding the first loss to the extent of five *per cent* of the crystallised portfolio borne by Member Lending Institution[17] and on the basis of Statutory Auditor/Management Certificate.

Reserve Bank of India's master circular[18] (1 July 2015) defined Non-Performing Asset as a loan or advance where interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan. It further stipulates that the banks should

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[15] ***Termed as Shishu, Kishor and Tarun for loans upto ₹50,000, ₹50,000 & upto ₹5 lakh and above ₹5 lakh & upto ₹10 lakh respectively.***

[16] ***The cumulative built up of the outstanding balance of eligible micro loans sanctioned during the entire Financial Year (FY), which have not been classified as a non-performing asset in the books of the MLI, is bundled into a single portfolio and will be referred to as crystallised portfolio.***

[17] ***A Bank or a Micro Finance Institution/Non-Banking Finance Company/other Financial Intermediary conforming to the eligibility criteria duly approved by the Fund, from time to time, engaged in the business of extending credit to micro units and who have entered into an agreement with the Fund for availing the guarantee.***

[18] ***titled Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.***

not charge and take to income account, interest on any NPA including Government guaranteed accounts.

The Company, during the period 2015-16 to 2021-22, had issued 1,12,31,088 guarantee covers amounting to ₹1,54,382.95 crore to 55 Member Lending Institutions containing 234 portfolios[19] under CGFMU Scheme.

The Member Lending Institutions file eligible Amount in Default/claims with the company. On scrutiny of records/final claims, Audit observed that inspite of express provision in the notifications of Ministry of Finance (read with RBI master circular) for not including interest and considering only the principal component of micro loans, Member Lending Institutions included interest while lodging the claims with the company. The data/information provided by the company to Audit, regarding claims lodged by the Member Lending Institutions, consisted of composite amount i.e., without a specific breakup of principal amount and interest amount. The details of bifurcation of principal amount and interest amount were sought from the company, however, the same were not provided. Since no breakup was available, during the audit, the excess claim was determined by considering only those cases/claims where the eligible Non-Performing Asset outstanding was greater than the principal amount and interest amount was then calculated as the difference between eligible Non-Performing Assets outstanding and the principal amount in these cases/claims.

Audit scrutinised (February/March 2022 and September 2022) the eligible Amount in Default/claims filed amounting to ₹3,830.18 crore pertaining to 27 Member Lending Institutions with 65 portfolios[20], settled during the years 2019-20 to 2021-22, where the Non-Performing Assets were more than the first loss[21] i.e., five *per cent*.

It was observed that Member Lending Institutions included interest of atleast ₹85.77 crore while lodging/filing the Amount in Default/claims of ₹3,830.18 crore and the company, upto the extent of guarantee being maximum of 50 *per cent* of the Amount in Default, has settled the claims and suffered an extra liability of atleast ₹42.89 crore as interest, being ineligible amount over and above the admissible principal amount (***Annexure-VII***). Thus, the company failed to conduct proper due diligence in verifying eligible claims which has resulted in undue favour being granted to the MLIs.

Management, in its reply (28 April 2023), furnished the details of recovery/adjustment of ₹42.98 crore towards excess claim settlement of the eligible principal amount from the respective Member Lending Institutions. In its earlier reply (November 2022), the

[19] The currency period of a portfolio is three complete financial years from the end of the crystallisation of the portfolio. The total period of currency of portfolio will be base year plus three complete financial years. Generally, one more year taken for settlement of final claims.

[20] with base years ranging from 2015-16 to 2017-18

[21] the nature of 'First Loss Portfolio Guarantee' wherein first loss to the extent of 5 per cent of the crystallised portfolio of the MLI, will be borne by the MLI and therefore, will be excluded from the claim.

Management also stated that changes have been implemented in the software which shall disallow claims on interest portion. Similar exercise was conducted for the other financial years also, necessary rectifications done and recovery effected where required.

Ministry, in its reply (February 2023), has also accepted the audit observation and regretted the excess settlement of claims under CGFMU and also stated that efforts have been initiated by National Credit Guarantee Trustee Company Limited now to recover the excess payment from the Member Lending Institutions. It was also stated that an amount of ₹4.04 crore has been recovered.

Ministry, in its further reply (October 2023), has confirmed recovery of ₹42.98 crore by NCGTC. Ministry also informed that all 63 portfolios were reviewed out of which there was no recovery in 53 portfolios as the claim lodged was lower than the eligible amount and recovery of ₹28.82 lakh had been made in remaining 10 portfolios. NCGTC had accordingly made necessary changes in the system to avoid such mistakes in future.

The reply of the Ministry may be viewed in light of the fact that the recovery of ₹42.98 crore of excess interest from MLIs has been made by adjusting it (in some cases) from the subsequent claims payable to them, as pointed out by Audit, and no review/calculation by the company has been made in this regard. Further, the Ministry has stated that there was no recovery in 53 portfolios, as the claim lodged was lower than the eligible amount. In this regard, there are ample chances that interest was included in all the claims, whether claims lodged were lower or higher than the eligible amount. Thus, instead of considering only those cases where lodged claims were more than eligible amount, the company should scrutinise all individual cases with bifurcation to find out actual interest included in the claims lodged and to take appropriate measure to recover the same.

Recommendation No. 9: The Company may conduct a comprehensive review of all the cases and claims to identify any excess payments made over the eligible principal amount. This review should aim to accurately identify the ineligible interest payments made to Member Lending Institutions and ensure recovery of these amounts. Furthermore, the company may take proactive steps to address and rectify inherent weaknesses in the claims payment process, ensuring the implementation of robust controls and procedures to prevent similar issues in the future.

The Oriental Insurance Company Limited

4.4 Loss due to quoting of inadequate bidding rates without determining the pricing components

The Oriental Insurance Company Limited determined the bidding rates for Pradhan Mantri Fasal Bima Yojna in 2019-20 by applying pricing components uniformly without specific determination as per the terms and conditions of the Agriculture Quota Share Reinsurance treaty with General Insurance Corporation of India, being Re-insurer. This led to imposition of Loss Corridor clause of the treaty by GIC and consequent loss of ₹194.08 crore.

As per Reinsurance Programme of The Oriental Insurance Company Limited (the Company) for the year 2019-20, 25 *per cent* of total risk under crop segment was to be retained at the net capacity of the Company. This was after the cession of 5 *per cent* of premium as obligatory cession and balance 70 *per cent* of the risk had to be placed in Quota Share treaty. Further, risk retained at net capacity of the company was also to be protected through a Stop Loss Cover[22].

Accordingly, a specific treaty was agreed upon (April 2019) between the General Insurance Corporation of India (GIC), being the Reinsurer, and the Company being the Reinsured, for Kharif and Rabi Season of 2019-20, which, *inter alia*, included the risk coverage of Pradhan Mantri Fasal Bima Yojna. Further, risk retained at net capacity of the Company was also protected through a Stop Loss Reinsurance Agreement signed with GIC.

As per Pricing Loss Ratio guidelines forming part of Agriculture Quota Share Reinsurance treaty signed with GIC, following were to be considered for determining premium rates to be quoted in the bid for underwriting of risk:

a) The State Government was to provide historical yield data, of which, data of latest 10 years was to be used for pricing. Based on historical data, threshold yield[23], detrending[24], average burning cost/annual expected loss, heterogeneity[25] and risk premium were to be calculated by the Company as per the guidelines.

b) Heterogeneity was to be calculated for each year of data per district per crop separately.

c) Target Pricing Loss Ratio viz., ratio of the risk premium[26] and actual[27] quoted premium should be maximum at 75 *per cent* for each cluster.

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[22] A stop loss cover refers to non-proportional reinsurance arrangement providing reinsurance coverage to primary insurer/ceding party when the total amount of claims incurred during a specific period (usually one year), exceeds either a loss ratio, or in excess of a specified amount limit.

[23] Threshold yield represents the level of yield below which an indemnity/claim payment is triggered for the insured.

[24] Detrending is a statistical process used to remove long-term trends or patterns from historical time-series data.

[25] Heterogeneity refers to the variation of risk intensity in a group. It is opposite of homogeneity which signifies the similarity of the risk intensity in a group. It recognises that different regions face diverse risk profiles due to different agro-climatic features like soil quality, irrigation facilities, farming practices etc.

[26] Premium calculated after adding additional amount for any contingency considering the factors such as seasonality, yield variation and future prospect of rainfall to the original burning cost derived from the actual data and the methodology prescribed for calculation.

[27] Actual quoted premium = Risk Premium/Pricing Loss Ratio.

Audit observed that:

a) The Company arrived at the bidding rates by applying the major pricing constituents[28] uniformly across all the crops, districts, clusters of all the three States i.e., Tamil Nadu, Uttar Pradesh and Odisha without specific determination of pricing components as per the terms and conditions of the treaty, which resulted into inadequate bidding rates while underwriting risk of Pradhan Mantri Fasal BimaYojna-2019-20.

b) Special Condition of the Agriculture Quota Share Reinsurance treaty stipulated that in case the pricing methodology used for quoting Pradhan Mantri Fasal Bima Yojna tenders was not concurrent with the Pricing Loss Ratio guidelines, the Reinsurer reserves the right to impose corrective measures which will be endorsed to this agreement. Accordingly, the Reinsurer GIC, applied (July 2019) Loss Participation Clause (Loss Corridor[29]) and reduced its liability for certain districts[30] falling under Clusters 4 and 6 of Tamil Nadu, Cluster 3 of Odisha and Cluster 2 of Uttar Pradesh.

c) Though the Company contested (2 August 2019) imposition of Loss Corridor Clause, the Reinsurer-GIC reiterated their decision of applying Loss Corridor Clause for specified clusters. The matter was again taken up by the Company with GIC on 25 September 2019 and 18 October 2019 followed by a meeting between GIC and the Company officials and subsequent field visits were made by the GIC's team on 11 December 2019 and January 2020 in selected districts of Odisha and Tamil Nadu. However, GIC was not convinced with the justifications furnished by the Company and finally denied (12 March 2020) to relax/remove the imposition of Loss Corridor Clause.

d) Due to imposition of Loss Corridor Clause, crop claim liability of ₹194.08 crore for Pradhan Mantri Fasal Bima Yojna-2019-20 in the aforesaid clusters got excluded from the ambit of Agriculture Quota Share Reinsurance treaty and it could not be covered even under Stop Loss Reinsurance Agreement as Article 5 of the Stop Loss Reinsurance Agreement, *inter-alia*, stipulated that this agreement shall not apply to any liability arising from imposition of loss corridor or loss participation by the Reinsurer. The Company wrote off the recovery of ₹194.08 crore and booked it as a loss in the financial year 2020-21.

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[28] ***Targeted Price Loss Ratio, Heterogeneity, Year on year loading for Multiyear Contract and Cat Loading (Term Cat loading, refers to the inclusion of a specific premium load in the pricing exercise of a crop insurance tender to cover variation in potential losses arising from future catastrophic events such as cyclones, droughts, floods, large scale pest infections or other natural disasters that can cause widespread and significant crop damage and thereby yield losses.)***

[29] ***A mechanism contained in a proportional or an excess of loss agreement that requires the ceding insurer to be responsible for a certain amount of ultimate net loss above the company's designated retention and below the designated reinsurance limit and which would otherwise be reimbursed under the Reinsurance agreement.***

[30] ***A State is first divided into clusters and then each cluster covers many districts.***

While confirming facts and figures of the para and admitting the application of Target Pricing Loss Ratio at uniform rate of 75 *per cent*, Management/Ministry stated (January/August 2023) that pricing guidelines mandate Target Loss Ratio to be maximum of 75 *per cent* which means considering Target Pricing Loss Ratio greater than 75 *per cent* threshold would amount to breach of guidelines. Since, Target Pricing Loss Ratio considered by Company in the pricing had not exceeded mandated 75 *per cent*, the Company had not breached the guidelines. Further, heterogeneity loading is based on level/granularity of available historical yield data (e.g., District/Tehsil/Block/Gram Panchayat) and contract period. The Company has applied heterogeneity loading as per guidelines.

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

a) Target Pricing Loss Ratio at 75 *per cent* is the maximum prescribed ceiling in pricing guidelines which would have been different had crop-wise and area-wise pricing been done by the Company.

b) Heterogeneity loading was found applied uniformly at the rate of 15 *per cent* instead of case to case determination crop-wise unit-wise.

c) Justification for not calculating the crop-wise and area-wise specific Target Pricing Loss Ratio, Heterogeneity, Year on Year loading for multiyear contracts and 'Cat loading'[31] was not provided.

d) GIC justified (8 August 2019) its decision of applying Loss Corridor Clause by furnishing specific rate calculation district-wise, cluster-wise and crop-wise indicating the gap between the rates quoted by the Company and rates determined by GIC against which the Company could not substantiate its stand in the absence of detailed crop-wise, district-wise and cluster-wise calculations of the quoted rates.

Thus, determination of bidding rates on the basis of applying pricing components uniformly during underwriting of risk for Pradhan Mantri Fasal Bima Yojna-2019-20 without specific determination of pricing components as required by terms and conditions of treaty with GIC, led to imposition of Loss Corridor Clause of the treaty by GIC and consequent loss of ₹194.08 crore.

[31] Term Cat loading, refers to the inclusion of a specific premium load in the pricing exercise of a crop insurance tender to cover variation in potential losses arising from future catastrophic events such as cyclones, droughts, floods, large scale pest infections or other natural disasters that can cause widespread and significant crop damage and thereby yield losses.

4.5 Loss due to imprudent underwriting in violation of guidelines of Insurance Regulatory and Development Authority of India

Imprudent underwriting of Group Janta Personal Accident Policy of the Maharashtra State Government by The Oriental Insurance Company Limited without reinsurance cover and in violation of guidelines of Insurance Regulatory and Development Authority of India in 2018-19 led to a loss of ₹14.92 crore.

The Oriental Insurance Company Limited (OICL) participated in tender for a Group Janta Personal Accident Policy namely the Gopinath Munde Shetkari Apghat Vima Yojna[32] (the Scheme) and was awarded the same at a premium[33] of ₹31.04 crore, ₹43.49 crore and ₹47.33 crore for 1,36,98,965 farmers to be covered under the policy for the period from December 2016 to November 2017, December 2017 to November 2018 and December 2018 to November 2019 respectively.

Guidelines[34] of Insurance Regulatory and Development Authority of India (IRDAI) on reinsurance arrangements stipulate that an insurer shall not go on risk without the required reinsurance having been placed. Accordingly, OICL prepared its Reinsurance Programme. As per Reinsurance Programme for the years 2016-17 and 2017-18, OICL was required to keep the risk to the extent of ₹10 crore of Probable Maximum Loss on its net capacity and arrange reinsurance support for the remaining portion of the risk. As per Reinsurance Programme, total Probable Maximum Loss was ₹20 crore. Hence, retention of ₹10 crore shows net retention of 50 *per cent*. Accordingly, reinsurance support in the form of Miscellaneous Accident Surplus Treaty was finalised (March 2016 and March 2017) with the General Insurance Corporation of India (GIC) for 2016-17 and 2017-18 for 45 *per cent* of the risks (in addition to obligatory cession of five *per cent* to GIC).

For the year 2016-17, the incurred claims stood at ₹67.87 crore (claim ratio of 218.65 *per cent*) and for 2017-18 it was ₹84.83 crore (claim ratio of 195.06 *per cent*) against the risks underwritten for the years with premium of ₹31.04 crore and ₹43.49 crore respectively.

GIC withdrew (March 2018) its reinsurance support under Miscellaneous Accident Surplus Treaty in respect of such Government Schemes considering the losses suffered in the years 2016-17 and 2017-18. OICL, however, again participated (November 2018) in the tender for the Scheme during 2018-19 with quoted rate of ₹34.50 per person and underwrote the risk (7 December 2018) covering the period from 8 December 2018 to 7 December 2019 for a premium of ₹47.33 crore.

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[32] ***The Scheme launched (2016) by the Government of Maharashtra (Commissioner-Agriculture) provides for compensation to all farmers (with age of 10 to 75 years whose name is in the Land Record Register on the date of issue of the policy) who sustain any bodily injury resulting solely and directly from accident caused by external violent and visible means resulting in specified contingencies such as death, permanent disablement or loss of limb. The sum insured in the scheme was ₹2 lakh per farmer.***

[33] ***Premium calculated at quoted rates of ₹22.50, ₹31.75 and ₹34.50 per person for total 1,36,98,965 farmers to be covered under the policy for 2016-17, 2017-18 and 2018-19 respectively.***

[34] ***Issued vide circular dated 3 November 2004 regarding Reinsurance arrangements- Guidelines for Good Corporate Governance.***

The incurred claims for the year 2018-19 stood at ₹63.04 crore (incurred claim ratio being 133.19 *per cent*) out of which ₹59.89 crore (being 95 *per cent* of claims after five *per cent* obligatory cession) was borne by OICL.

Audit observed that:

- Despite being aware of the fact that no reinsurance cover was available from GIC for this Group Janta Personal Accident Policy and suffering significant adverse losses with incurred claim ratio ranging from 195.06 *per cent* to 218.65 *per cent* during 2016-17 and 2017-18, OICL imprudently underwrote the policy again in 2018-19 which led to a loss of ₹14.92 crore[35].

- As per IRDAI guidelines, prior approval of Board of Directors is required to increase the net retention of the insurer which was not obtained. However, the Chairman cum Managing Director accorded ex-post facto approval in August 2019 and intimation thereof was given to Audit Committee of the Board in November 2019, for accepting 95 *per cent* of the risk on the net capacity of OICL.

While confirming the facts and figures, Management stated (February 2023) that a deviation note dated 02 August 2019 was approved by Chairman cum Managing Director in respect of enhancement of net retention under above mentioned Group Janta Personal Accident policy. Further, in the year 2018-19, Government business was excluded from Miscellaneous Accident Surplus Treaty arrangement. As the concerned policy was sponsored scheme of a State Government; claim recovery from above Treaty was not possible as was being done in previous year.

Reply needs to be viewed in light of the fact that underwriting of risk without prior reinsurance arrangement and approval of additional net retention by Chairman cum Managing Director and Board of Directors after commencement of risk was not in line with guidelines of IRDAI (November 2004). Further, reply is silent regarding imprudent underwriting in 2018-19 despite adverse loss experience in previous years (2016-17 and 2017-18).

The Ministry endorsed (July 2023) submission of OICL that due to adverse loss experience, all personal accident insurance of Central/State Government was excluded from the Miscellaneous Accident Surplus Treaty arrangement and it was difficult to get reinsurance support from local/international reinsurers as the quotes rates were on lower side in view of the fact that scheme was launched by Government for supporting families of the farmers in difficult times. It was further stated that in such type of schemes, it is difficult to predict losses unless the scheme is run for 5-6 years and when the premium involved is high, it is difficult for any commercial organisation to withdraw from it. Further, since the business was already underwritten and reinsurance support was not available, approval for deviation

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[35] ***Share of OICL in incurred claims (95 per cent of ₹63.04 crore) less its share in premium (95 per cent of ₹47.33 crore).***

from Reinsurance Programme was obtained (August 2019) from the competent authority i.e., Chairman cum Managing Director. OICL regretted delay in obtaining approval for increasing the net retention and stated that timely approval from the competent authority would be ensured in future.

The reply of Ministry/OICL needs to be viewed in light of the fact that despite adverse loss ratio during the period 2016-17 to 2017-18 and non-availability of reinsurance cover, OICL went for underwriting for the year 2018-19.

Thus, imprudent underwriting of the risk by OICL in aforesaid Group Janta Personal Accident Policy for the year 2018-19 despite witnessing significant adverse loss ratio during previous years (2016-17 and 2017-18) and without required reinsurance support led to a loss of ₹14.92 crore.

SBI Cards and Payment Services Limited

4.6 Lack of due diligence at the time of enhancement of credit limit on the credit card facility resulted in non-recovery of dues

SBI Cards and Payment Services Limited renewed the credit card facility of a Corporate with enhanced credit limit without due diligence resulting in avoidable loss of ₹19.65 crore.

SBI Cards and Payment Services Limited (the Company) provides SBI Credit Cards to individuals and corporates. As per the Credit Risk Policy, the Company issues secured and unsecured corporate credit cards to the corporates for travel and entertainment expenses of their employees.

The Company extended (April 2013) unsecured Corporate Credit Card Facility[36] to a Corporate for travel and entertainment expenses of the Corporate with an exposure of ₹2 crore. The exposure limit was enhanced several times[37] and was finally raised to ₹90 crore in March 2019. Reasons recorded by the Company while enhancing the credit limit of the Corporate were leading position of the Corporate in the tours & travels industry with 79 years of vintage, satisfactory rating & CIBIL report and satisfactory track record with both SBI and SBI Cards. However, the Corporate delayed the payments for the credit cards' bills generated from June 2018 and failed to make the payment of ₹89.65 crore due towards the bill generated on 2 June 2019, due date of payment for which was 22 June 2019.

In view of the default towards various financial institutions including State Bank of India, forensic review of the Corporate was carried out and report was submitted in August 2020.

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[36] ***It refers to credit card facility given to corporates where no collateral or security is pledged.***

[37] ***The exposure was enhanced from ₹2 crore to ₹10 crore in February 2014; from ₹10 crore to ₹20 crore during March 2015 and from ₹20 crore to ₹70 crore in February 2018.***

The report highlighted dubious transactions made by the company with its related parties[38], evergreening[39] of loans, fictitious sale and receivables etc. Meanwhile, the Company wrote off (September 2019) the entire outstanding dues of ₹105.93 crore. Matter was also reported (November 2020) as suspected fraud to Reserve Bank of India on the basis of alleged falsification of books of accounts of the Corporate. A complaint was also filed (October 2020) in Central Bureau of Investigation. The recovery proceeding is pending with the National Company Law Tribunal.

Audit observed that:

- Para 11.7 of the Credit Risk Policy of the Company stipulates that in case of downward movement of ratings, the credit line may be suspended or reduced. The rating of the Corporate was downgraded by SBI by two notches (SB 7 from SB 5) during 2018-19, on account of deterioration in few financial ratios majorly - Total Outside Liabilities/Net worth. Even then, the Company enhanced (March 2019) the credit facility instead of suspending/reducing the credit line.

- At the time of enhancement of credit limit (₹70 crore to ₹90 crore), Board of Directors of the Company were apprised that the Corporate was delinquent at 0-30 dpd[40] on two instances only (July 2018 and January 2019) which pertains to the payment not cleared till the next statement date. However, during the months of September, October, November, December 2018 and March 2019 payments were not made on due date by the Corporate but made before the next statement date. These were not apprised to the Board.

- The Company noticed the following while proposing to enhance the credit limit:

  (a) Negative operating cash flow after working capital changes for the year 2017-18, on account of significant increase in receivables and advances.

  (b) Recoverable and payable time of outstanding dues of the Corporate also increased from 36 and 18 days respectively in 2016-17 to 46 and 25 days respectively in 2017-18.

  (c) Major inflow of cash during FY 2017-18 was from encashment of fixed deposits, loans and advances and proceeds from short-term borrowings.

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[38] ***The transactions made with one party were not commensurate with the size and scale of their operations. Several transactions made with this party were not recorded in the books of the Company and there was no evidence available or any satisfactory response from the Company to explain the rationale for these transactions during the course of forensic review.***

[39] ***The forensic review pointed out that the Company was utilising the loan proceeds of fresh loan to repay the old loans and for payment to related or connected parties.***

[40] ***Dpd stands for Days past due.***

Despite this, the Company enhanced the credit limit by ₹20 crore[41] which was not prudent.

- The Corporate made multiple transactions valuing ₹357 crore with a related company using the credit cards of the Company during May 2015 to May 2019 of which transactions valuing ₹268.25 crore were made during 2018 and 2019. As the facility was unsecured, the transactions with the related party should have been meticulously monitored to safeguard the interest of the Company. But the Company did not monitor the transactions with related party.

Management (March 2023)/Ministry (November 2023) stated that:

- Suspension of the facility in case of downward rating was not mandatory as per the Credit Risk Policy. Further, the downgrade in the SB rating of the Company was discussed by the Company with the SBI RM (AGM), who expressed that the Bank had a satisfactory relationship with the Corporate with no delinquencies.

- Previously, in the Corporate Assessment Documents (CADs) of the Company, instances where payment was received before the next statement date were not highlighted as at times, due to some minor operational issues, few corporates missed the due date but generally completed the payment before the next statement date. However, post Covid, the Company has amended the format of the CAD and now, any delay is highlighted in the CADs. The proposal made to the Company Board for seeking its approval highlights the two instances where payment was received after the next statement date. In all the months mentioned above (except in July 2018 and January 2019) the payment was received from the Company before the next statement date.

- The net operating cashflow of the Corporate after working capital changes was negative for FY18 due to change in International Air Transport Association (IATA) guidelines (payments were to be made within 7 days instead of 15 days). Overall, the working capital cycle of the Corporate deteriorated by only 2 days from 19 days to 21 days. The audited financials of the Corporate did not show any liquidity crunch and the Company's corporate card dues had always been paid in full. As per the audited financials, despite this increase in working capital requirements, the Company's liquidity was comfortable with current ratio & interest coverage ratio of 2.32 and 2.83 respectively as of March 2018.

- At the time of assessment, the Corporate had not declared the said related party as its subsidiary in any of its filings or reports. It was only after the receipt of Forensic Audit Report that the Company was informed about the same. Further, the Company did not have access to the data that was unearthed during the forensic investigation and thus,

[41] ***From ₹70 crore to ₹90 crore.***

had not classified the related party as a subsidiary of the Corporate. The Company had no knowledge of the total transactions being done between the two entities, as the disclosure in the audited financials were not accurate. The Company only had details of usage on its cards, which appeared as Ticketing purchases and in line with the approved usage.

- The payment on the cards was always cleared by the Corporate in full till June 2019. On June 27, 2019, there was news of default by the Corporate on a different facility, but the external rating was not downgraded to D. When the news of the Corporate's rating being downgraded to D was received on July 01, 2019, the cards of the Corporate were blocked. In fact, the cards were blocked even before the Care ratings downgraded the Corporate's rating to D. The Company created a specific reserve for the Corporate and the Corporate was written off from the books in the month of September 2019.

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

- Though it is not mandatory to suspend the facility, the Company should have either reduced the credit line or maintained the existing limit considering the downward movement of internal ratings.

- It is evident from the reply that the Corporate delayed the payment of dues on several occasions.

- Though Corporate's liquidity was comfortable with favorable Current ratio and Interest Coverage ratio, company's decision of enhancing the credit limit of the corporate despite being aware of negative cash flows and liquidity crunch (evident from the fact that Corporate was using its short- term debt and cash balances), was not prudent.

- The Corporate in its Annual Reports for the year 2017-18 classified the stated party as Related Party which is easily accessible to the Company. Further, the reply that audited financials were not accurate regarding transactions carried out between the Corporate and its related company needs to be seen in light of the fact that for assessing the liquidity of the Corporate, the Company relied on the audited financials. This shows the inconsistent stand of the Company.

- Company's receipt (27 June 2019) of the news of default and subsequent blocking of the card has little bearing as the Corporate had already defaulted in payment of the credit card dues (due date 22 June 2019) of the Company.

- Renewal of credit line with enhanced facility led to non-recovery of dues of ₹146.47 crore (Principal ₹89.65 crore and interest and late payment charges amounting to ₹56.82 crore).

- Had the Company maintained the existing Credit Limit, a loss of principal to the extent of ₹19.65 crore (₹89.65 crore *minus* previous limit of ₹70 crore) could have been avoided.

Thus, due to lack of due diligence while enhancing the credit limit, the Company incurred an avoidable loss of ₹19.65 crore.

***Recommendation No. 10: The management may sanction the credit limit strictly in line with its credit policy and may insist on security in case of high credit limit. The management may also strengthen its internal control system regarding scrutiny of the card usage and payment history of the cardholder company*.**

UTI Infrastructure Technology and Services Limited

4.7 Irregularities in awarding of contract for printing of PAN Cards

Scrapping of initial tender for printing of PAN cards and floating of fresh tender with restrictive condition resulted in avoidable expenditure of ₹5.71 crore.

UTI Infrastructure Technology and Services Limited (UTIITSL) has been engaged by the Income Tax Department, Government of India as a service provider for receipt of PAN applications and issuance of PAN cards. The Company had awarded and extended contracts for printing of PAN cards from time to time from the year 2010.

As per Manual for Procurement of Consultancy and other Services (2017), in procurement of other (non-consultancy) Services, normally system of selection used is lowest price (L-1) basis among the technically responsive offers, as in procurement of goods/works.

In order to reduce the cost of printing and to meet revised specifications set by the Income Tax Department, the Company floated (May 2019) a tender for inviting financial/commercial bids for printing of PAN Cards for a period of three years. The tender specified the minimum eligibility criteria and essential conditions required to be fulfilled by an agency/vendor to become eligible for bidding and issue of the work order. Though 17 bids were received (18 June 2019), the Company scrapped the tender altogether on the grounds that the Lowest Bidder (L1) was technically disqualified. The next lowest bid (L2) of a vendor from Jaipur at ₹4.35 per set[42] was not pursued further.

Subsequently, a new tender was floated in July 2019. In the tender, two packet bidding system was followed i.e., technical bid and financial/commercial bid. The bidding process involved opening of the technical bids first, for technical evaluation of the bids, and then opening of financial/commercial bid of only those bidders who were technically qualified. Compared to the bid floated in May 2019, the Company introduced an additional eligibility criterion for bidders in the tender document issued in July 2019 viz., the bidding agency

[42] ***Set denotes one plastic card inserted in the supplied envelope including one forwarding letter with pre-printed and variable text as per the terms/conditions and scope of work laid out in the tender.***

should have the printing facility within 150 kms from the Company offices located at Navi Mumbai/Kolkata/Chennai/New Delhi.

Out of 12 vendors who submitted their bids, eight bidders were found to be technically qualified (August 2019) and their price bids were opened. The work was awarded (5 September 2019) to the lowest (L1) technically qualified bidder at ₹4.95 per set for a period of three years from September 2019 to September 2022. Subsequently, part works were also awarded (November 2019 and September 2021) to the second (L2) and third lowest (L3) technically qualified bidders, at the same rate of ₹4.95 per set, invoking relevant clauses of the tender, to maintain timely despatch of PAN cards. The Jaipur-based party, who had bid ₹4.35 per set in the first tender was technically disqualified for not meeting the condition of having printing facility within 150 kilometres of the Company's offices.

As the lowest technically qualified bidder in the second tender commenced printing of PAN cards from October 2019 after award of work in September 2019, PAN cards were continued to be printed by the existing seven vendors (August 2019 to October 2019) of the Company at an agreed (July 2019) rate of ₹6.50 per PAN card.

Audit observed that the action of the Company of scrapping the first tender without considering the bids of other eligible and valid bidders and floating fresh tender with restrictive condition resulted in avoidable expenditure of ₹5.71 crore[43] for printing of PAN cards during the period from August 2019 to August 2022.

The Management stated (January 2023) that:

1. The Tender Evaluation and Awards Committee (TE&AC) recommended (July 2019) that:

    (a) the tender be scrapped as the lowest bidder was not technically qualified.

    (b) Fresh tenders may be called for wherein technical and commercial bids may be called for separately since the original tender was invalid as per Para 3.3.3 of the Manual for Procurement of Works (2019) issued by Ministry of Finance.

2. The criterion regarding distance was introduced to prevent delay in despatch of cards beyond stringent turnaround time prescribed and Instant PAN introduced recently by the Income Tax Department, which would result in penalties being

[43] ***7,45,65,679 number of PAN cards printed under new contract upto August 2022 @ ₹4.95 per set and 57,32,284 number of PAN cards printed in the interim period between August 2019 to October 2019 @₹6.50 per set***

Thus, Avoidable expenditure: (₹4.95-₹4.35) x 7,45,65,679 =₹4,47,39,407

(₹6.50-₹4.35) x 57,32,284 = ₹1,23,24,411

Grand Total: = ₹5,70,63,818

levied by the Income Tax Department and to reduce time of inspections at printers' premises.

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

- The Company decided to scrap the first tender citing that the L1 bidder was not technically qualified. However, as per the terms of eligibility criteria (Part II – Special Conditions) in the first tender, it was specified that minimum eligibility criteria were required to be fulfilled by the bidders and that these criteria were essential conditions and required to be fulfilled for issue of work order. Therefore, the Company ought to have considered the offers of other eligible bidders as per the eligibility criteria prescribed in tender and the next lowest (L2) bidder, would be the L1 bidder as they had satisfied the conditions of the tender and their bid was also valid. Thus, cancellation of the first tender was not warranted and justified, as other bids received were not evaluated in accordance with the tender conditions and rejected by merely stating that the lowest bidder was not technically qualified.

- While scrapping the first tender, the justification recorded by TE&AC for the same was that the L1 vendor was not technically qualified and accordingly it was decided to call for fresh tenders wherein technical and commercial bids may be called separately. The Company also stated that the original tender was invalid as per the Manual for Procurement of Works, 2019 issued by Ministry of Finance. The reply may be viewed in light of the fact that when the first tender was floated on 22 May 2019, Manual for Procurement of Works 2019 was not in existence. Further, even the Manual for Procurement of Works (2019) permitted floating of tender by single stage single envelope system.

- As regards the Management justification for addition of condition of having printing facility within 150 kms of the Companies Offices in the second tender, the same may be seen in the following context:

  (i) The first tender was not scrapped due to non-inclusion of the condition of 150 kms as is evident from the minutes of TE&AC. Hence, there was no compelling reasons for inserting the condition of distance in the second tender.

  (ii) Adequate clauses[44] existed in the old contract and in the new contract to ensure that any losses to the Company due to delay on the part of the printer are recovered from the printer.

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[44] ***As per clause of the contract, the printer indemnifies UTIITSL and undertakes to compensate UTIITSL in case of any prejudice, claim or any loss arising or accruing to UTIITSL on account of any act, commission or omission attributable to the improper handling of the UTIITSL's documents/data or to the negligence or delay on the part of the Printer.***

(iii) From the instances of the penalties levied by the Income Tax Department for delay in despatch of PAN cards during the 2017-18 to 2019-20, it was observed that the delays were not due to reasons attributable to the printer and the penalty imposed was only ₹2.87 lakh (i.e., 0.0041 *per cent* of the total revenue from processing/issuing of PAN cards during these years).

(iv) The contention of the Management that having the printing facility at a short distance from its offices would facilitate inspections of the printers is also not justified as during the period 2009-10 to 2022-23 only 2 to 27 inspections were conducted annually. The number of visits were also minimal *vis-a-vis* number of printers (3 to 7) and the data on penalties and inspections do not support the necessity of such a criterion of distance.

The Ministry, in their first reply (February 2023), accepted the contention of Audit and stated that an inadvertent error of judgement made by Management has led to the loss. Ministry further stated that CEO of the Company has been directed to conduct an enquiry through Board to find out the lapses in the tender process and fix the accountability by initiating necessary action as a corrective measure and to enquire about the prevailing market rate and, accordingly, consider cancellation of the present agreement for printing of Cards and float a fresh tender.

The Ministry, in their second response (November 2023) submitted that UTIITSL initiated a bid for plastic card printing (2019) and received 17 bids. As L1 failed to submit requisite documents, it was decided to scrap the whole process as CVC guidelines do not permit going to L2 bidder after opening of financial bidding. Grant of tender to L2 bidder, as suggested by the Audit, would not have been a prudent practice to follow. In the re-tendering process, tender was floated with an additional criteria of vendor facility being within a distance of 150 km from any of UTIITSL's four regional offices, along with the two other criteria which were issued as a corrigendum to the 1st tender, therefore, both the tender inquiries were different in scope. The work order was issued to L1 bidder and L2 and L3 were later engaged at L1 prices due to a large volume of work. The introduction of distance criterion did not seem to limit participation in the second tender inquiry and is difficult to conclude that participation of eight technically qualified bidders is not competitive enough. Thus, the second tender inquiry was more beneficial to the company as compared to the previous rate of ₹6.50 per card, as the rate was brought down to ₹4.95 per card. Generally, as inflation rises, fresh tender inquiries result in higher prices.

UTITSL issued a two-bid system tender, separating Technical and Commercial bids for the "Bid for printing of Plastic Cards" in June 2023, following directives from DIPAM and decisions from the UTITSL Board in which 150 km distance criterion from the previous tender was excluded. In response nine bids were received and five bids were eligible for Commercial bids, which were opened in August 2023. The rates quoted by the top five bidders ranged from ₹5.85 per card to ₹9.40 per card. Despite the removal of the 150 km clause, the current tender received nine bids which was less than the 12 bids received in the

2019 re-tender. Notably, the L2 bidder from the initial tender, did not participate, even with the removal of the alleged restrictive clause. Overall, the company saved money compared to the previous agreed price after implementing the new contract.

The second reply of the Ministry may be viewed in light of the fact that as per the tender conditions in the first tender, it was specified that minimum eligibility criteria were required to be fulfilled by the bidders as essential criteria for issue of the work order. Thus, for a bidder to be declared as L1, the bidder ought to have fulfilled the minimum prescribed eligibility criteria and also to be the lowest price bidder among the bidders fulfilling minimum prescribed eligibility criteria. CVC circular (03 March 2007) states that, in case L-1 backs-out there should be a re-tender. However, in the instant case the L1 bidder had not backed out but was disqualified due to not meeting the prescribed tender conditions, hence the issue of retender as per CVC guidelines does not arise, as the L1 bidder had not qualified with the tender conditions itself. Further, the conditions prescribed in Rule 173 (xix) of General Financial Rules 2017, for rejection of all bids, was not satisfied in the first/original tender, therefore, the cancellation of first tender was not warranted and justified as responsive bid was available against the tender. In the first tender, as per GFR Rule 203 read with Rule 173 (xvi), the responsive bid would be that of the next lowest bidder as they had fulfilled the minimum eligibility criteria required as per the tender conditions, therefore the work should have been awarded to L2 (next lowest bidder) as their bid was responsive. The contention of the Ministry as regard to change in scope of work in re-tender may be viewed in light of the fact that the scope of work, i.e. printing of PAN Cards, did not undergo change merely by adding additional eligibility criteria. The fact remains that in the first tender, the Company had received 17 bids as against 12 bids in the re-tender. Further, in the second tender, Company did not receive lower rates similar to the rates received from L1 & L2 bidders in the first tender, whereas, the bid of the bidder, who was L2 in first tender, was not opened in the second tender as it was disqualified due to the restrictive condition. Therefore, the contention of inflation resulting in higher prices in fresh tenders also does not hold good as the card was being printed at the rate of ₹6.50 per card as admitted by Ministry prior to tendering of work in 2019. Audit has also not commented on the frequency of tender to be followed or renewing the existing agreements etc. The audit comment is restricted to the tendering process followed in the two tenders floated by the Company for printing of PAN Cards in 2019.

The present tender (June 2023) cited by the Ministry is a new tender floated after a gap of four years from the last tender and the tenders cannot be compared. Further, participation or non-participation of a particular bidder, i.e., the L2 bidder in the present tender floated in 2023 does not negate the audit observations pertaining to the tendering process which was adopted in the year 2019 for printing of PAN Cards.

Thus, scrapping of initial tender for printing of PAN cards and floating of fresh tender with restrictive condition by UTI Infrastructure Technology and Services Limited resulted in avoidable expenditure of ₹5.71 crore.

Chapter V

Ministry of Heavy Industries

CHAPTER V: MINISTRY OF HEAVY INDUSTRIES

Cement Corporation of India Limited

5.1 Avoidable payment of penal interest

Cement Corporation of India Limited delayed the payment of Net Present Value payable for diversion of forest land for non-forest purposes. Consequently, it had to make avoidable payment of penal interest of ₹8.49 crore.

Government of Himachal Pradesh granted (August 1973) mining lease over 172.30 hectares of forest land[1] in Sirmaur district to Rajban unit of Cement Corporation of India Limited (Company), out of which mining rights were allowed over 55 hectares of land. The mining lease was subsequently extended up to August 2023.

The Supreme Court directed[2] (October 2002) that user agencies shall pay the Net Present Value of forest land diverted for non-forest purposes, for undertaking forest protection, other conservation measures and related activities. Further, in pursuance of a judgment dated 26 September 2005 of the Supreme Court, an Expert Committee was constituted to work out the methodology for estimating the Net Present Value of forest land diverted for non-forest use and to determine the projects which deserve to be exempted from payment of Net Present Value. The Report of the Expert Committee was examined by a Central Empowered Committee whose recommendations were accepted by the Supreme Court. Accordingly, the Court, vide its judgments of March/May 2008, issued orders regarding rates of Net Present Value payable by the user agencies and also listed the categories of projects which were exempted from payment of Net Present Value. The mining activities undertaken by the Company were not covered in the exempted categories and as such the Company was liable to pay Net Present Value of the forest land covered under the mining lease to the Forest authorities.

Besides, as per the guidelines issued (April 2015) by the Ministry of Environment, Forest and Climate Change, the State Government shall, within a period of one year from the date of issue of the guidelines, realise from the user agency, Net Present Value of the entire forest land falling in the mining lease, in case the same had not already been realised, which was later extended up to 31 March 2017.

Accordingly, the Divisional Forest Officer raised (June 2017 and January 2018) demand of ₹14.56 crore on the Company towards Net Present Value of the entire forest area i.e., 172.30 hectares diverted for non-forest purposes. The Company requested (January 2018,

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[1] ***Section 2(ii) of Forest Conservation Act, 1980 stipulates that no State Government shall make, except with prior approval of the Central Government, any order directing that any forest land or any portion thereof may be used for any non-forest purpose.***

[2] ***In reference to Writ Petition (Civil) No. 202/95***

December 2019 and January 2020) to pay the Net Present Value in respect of the area of 16.9927 hectares on which it was carrying out mining activities or the area of 55 hectares for which mining permission had been granted to it, instead of the total diverted area of 172.30 hectares. The aforesaid request was made by the Company on the plea that the Expert Committee had recommended that in case of open cast mining, the Net Present Value may be charged only for the proportion of land broken in accordance with pre-submitted mine plan.

The State Forest Department rejected (January 2020) the request of the Company stating that no such exemption was available as per Supreme Court judgment of May 2008. However, at the insistence of the Company, the State Forest Department forwarded (August 2020) their request to Forest Conservation Division, Ministry of Environment, Forest and Climate Change for consideration of the Forest Advisory Committee. Based on the recommendations of the Forest Advisory Committee, the Ministry stated (March 2021) that the Company should make full payment of Net Present Value for the entire forest area of 172.30 hectares along with penal interest for delay in deposition beyond 31 March 2017. Accordingly, the Company paid (June 2021) an amount of ₹23.05 crore on account of Net Present Value (₹14.56 crore) and penal interest thereon (₹8.49 crore).

Audit observed that the Company delayed the payment of Net Present Value despite being aware of the fact that no exemption from such payment was available as per the Supreme Court judgment of May 2008, and as such it was required to pay Net Present Value for the entire forest area used for non-forest purposes. Further, the Company did not act in accordance with the guidelines issued (April 2015) by the Ministry of Environment, Forest and Climate Change reiterating the payment of Net Present Value for the entire forest land falling in the mining lease. As a result, the Company had to make avoidable payment of penal interest of ₹8.49 crore in addition to the principal amount of Net Present Value amounting to ₹14.56 crore.

The Management stated (December 2022) that as there was a vast difference between the total forest area and the area on which mining was actually being done, it requested the Forest authorities to consider the calculation of Net Present Value on the area under mining or on the 55 hectares approved for mining. The request of the Company was considered by the State Forest authorities in the year 2019 and in August 2020. Finally, the matter was placed before the Forest Advisory Committee constituted by the Central Government and the Forest Advisory Committee did not accede to (March 2021) the request of the Company. Thus, the Company, being a sick company, explored all possible efforts to reduce the liability of Net Present Value and interest.

The reply of the Management is not tenable in light of the Supreme Court judgment of May 2008 as per which there was no scope for restricting the payment of Net Present Value to the area actually under mining or the area approved for mining as requested by the Company.

The Ministry of Heavy Industries, while accepting the audit observation, stated (March 2023) that the Company clearly violated the directions of Supreme Court of India and the provisions of Forest Conservation Act, 1980. The Ministry further added that the Company had been advised to refrain from making avoidable payments of penal interest in future, in response to which, the Company had committed to take appropriate measures to prevent such occurrences in future.

Thus, the Company's injudicious decision to pursue with the Forest authorities for reduction of its liability towards Net Present Value despite clear guidelines of the Ministry of Environment, Forest and Climate Change to pay the Net Present Value of the entire forest land falling under the mining lease, led to delay in payment and consequential avoidable payment of penal interest amounting to ₹8.49 crore.

Chapter VI

Ministry of Steel

CHAPTER VI: MINISTRY OF STEEL

NMDC Limited

6.1 Injudicious decision to procure coking coal

NMDC Limited procured 1,61,963 tonnes of coking coal worth ₹372.58 crore without ensuring the completion of Coke Oven Plant and the associated upstream and downstream plants of Nagarnar Integrated Steel Plant resulting in quality degradation of coking coal over time making it unviable for standalone use in Coke Oven Plant. This also resulted in blocking up of funds of ₹372.58 crore for more than three years.

NMDC Limited (NMDC) was setting up 3.0 million tonne per annum capacity Steel Plant at Nagarnar, Chhattisgarh known as Nagarnar Integrated Steel Plant (the Plant). The project, *inter-alia,* included establishment of Coke Oven Complex comprising of two units of Coke Oven Batteries[1]. Contract for Coke Oven Complex was placed in September 2011 with scheduled completion within 33 months i.e., by June 2014.

Fig 1: Coking Coal lying at yard of the Plant

The Plant proposed (June 2017) to procure two lakh tonnes of coking coal to meet three months' production as the Coke Oven Battery was planned for light up[2] in September 2017. A Global Tender Enquiry was floated in January 2018 which had to be cancelled as bidders were not meeting certain technical as well as commercial requirements. Subsequently, another Global Tender Enquiry was issued in June 2018 and order was placed in August 2018 for supply of two lakh tonnes of coking coal with landed price of ₹23,004/- per tonne. As per delivery period, supplies were to start within two months and required to be completed within five months from the date of placement of order. Citing urgent requirement, NMDC requested the supplier to deliver one lakh tonnes by October 2018 and remaining one lakh tonnes by November 2018. The Plant received 1,61,963 tonnes of coking coal worth ₹372.58 crore between November 2018 and May 2019. Quantity of 38,016 tonnes was cancelled by NMDC in March 2020 citing reduction in coking coal prices.

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[1] ***Coke Oven Plant converts coal in to coke in the coke oven batteries which is used as fuel and reducing agent in the Blast Furnace. A coke oven battery comprises of a large number of ovens, typically a set from 60 to 90 per battery, grouped in sections of 15 to 20. Its secondary function is to recover volatile matter and coke oven gas from coal and extract chemicals known as Coal Chemicals (Ammonia, Napthalene etc.). Coke Oven gas produced is used for heating purposes in Plant.***

[2] ***The start up activity to charge the coke ovens in the Battery is called lighting up.***

Despite the receipt of raw material by May 2019, the heating-up and coke push for enabling commissioning of Coke Oven Batteries could be conducted only in October/ November[3] 2022 as the downstream facility (By-Product Plant) became operational on 27 October 2022. Consequently, the stock of coking coal which was lying in the open in the Raw Material Handling Station had started oxidising and there was degradation of quality with typical drop in fluidity, moisture etc., and increase in value of mineral matters making it unviable for use as a standalone raw material.

In this regard, Audit scrutiny revealed that :

(i) Coking coal is the raw material that is processed in Coke Oven Plant and processed coke is fed into Blast Furnace. While making the coke in Coke Oven Plant, large quantity of toxic gases such as benzene, hydrogen sulphide, carbon monoxide, ammonia, etc., are generated which are recovered and cleaned in the By-Product Plant (downstream plant) and are used subsequently as fuel gas in the process. Thus, completion of By-Product Plant was essential to start production from Coke Oven Complex. Similarly, Raw Material Handling Station (upstream plant) works consists of structural and equipment erection for feeding of raw material to different units of the Coke Oven Plant. Hence, Coke Oven Plant could not have been commissioned without completion of these upstream and downstream units.

(ii) NMDC did not take cognizance of the status of ongoing works of Coke Oven Complex along with its upstream and downstream plants while placing the order for coking coal required for three months' operation of Coke Oven Batteries. This is clear from the fact that at the time of issuing first Global Tender Enquiry in January 2018, structural erection of Raw Material Handling Station was only around 70 *per cent* completed. For Coke Oven Plant, erection of Battery 2 was only 51 *per cent* complete and extension of time had been sought till December 2018 for By-Product Plant. Similarly, at the time of issuing second Global Tender Enquiry in June 2018, extension of time had been sought for completion of Raw Material Handling Station till June 2019.

Hence, injudicious decision of NMDC to procure 1,61,963 tonnes of coking coal worth ₹372.58 crore without ensuring the completion of Coke Oven Plant along with associated upstream and downstream plants resulted in quality degradation of coking coal over time making it unviable for standalone use in Coke Oven Plant. This also resulted in blocking up of funds of ₹372.58 crore for more than three years.

The Management/Ministry accepted (March/August 2023/February 2024) that during the period when the Nagarnar Integrated Steel Plant received above mentioned supply of coking coal, i.e., till May 2019, Coke Oven Battery-1 was in advanced stage of readiness

[3] ***Coke Oven Battery-1 on 27 October 2022 and Coke Oven Battery-2 on 19 November 2022***

but due to delay in readiness of upstream/downstream facilities, which was a pre-requisite for commissioning of the Plant, pre-heating of Coke Oven Battery - 1 had to be deferred. It further stated that though there is quality degradation of coking coal received in May 2019 at site, the same is being blended with fresh coking coal and used in Coke Oven Batteries. It was also informed that as of March 2023, around 10,000 tonnes[4] of coking coal has already been consumed by blending and the entire available stock was expected to be consumed progressively at both the units of Coke Oven Plant. It was also stated that the Plant had been closely monitored from the beginning and the Management had taken all possible steps to ensure completion of the By-Product Plant to synchronise with start of Coke Oven Plant. It was further stated that in any Greenfield Steel Plant, action of procurement of major raw materials like coking coal having long lead time is taken in advance to meet the project requirements as it cannot be timed perfectly. The Ministry also added that upon stabilisation of Coke Oven Battery-1, blending of coal has increased upto 20 *per cent* and balance quantity will be consumed faster as Coke Oven Battery-2 has also commenced operations.

The reply of the Management/Ministry confirms the Audit observation that the quality of the coking coal procured in May 2019 has degraded and cannot be used as a standalone raw material. Further, the Plant is blending 10 *per cent* of the coking coal procured in May 2019 with new coking coal for producing Coke from Coke Oven Battery-1 since December 2022 and has consumed only around 33,044 tonnes till 16 May 2023.

The tender for the coking coal was floated in June 2018 and material started to arrive from November 2018 implying a lead time of less than six months for procurement. As such, NMDC should have initiated procurement action after ensuring readiness of the upstream/downstream plants of Coke Oven Complex before placing the order for coking coal. Further, instead of procuring three months' requirement, procuring Coking Coal required for only the trial run could have been considered as it was known that stabilisation of all Plants take time.

Thus, advance procurement of coking coal without considering the actual pace of work at site and completion status of upstream and downstream units of Coke Oven Complex resulted in reduction in coal properties of the coking coal making it unusable as a standalone raw material. This action has further resulted in blocking up of huge funds of ₹372.58 crore for more than three years and interest loss of at least ₹51.51 crore[5] as well as possibility of further degradation of coking coal.

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4 ***33,044 tonnes of coking coal used till 16 May 2023.***

5 ***Interest loss worked out for three and a half years from May 2019 to December 2022 at the rate of 3.95 per cent per annum which was minimum interest rate applicable for availing overdraft during 2018-19 to 2021-22 by NMDC.***

6.2 Irregular payment of incentives/rewards to Executives in deviation to guidelines of Department of Public Enterprises

NMDC Limited made an irregular payment of ₹13.49 crore to its Executives during 2018-19 to 2021-22 as incentive/reward for achieving higher production/productivity which was over and above the payment of Performance Related Pay as well as Perks and Allowances at the prescribed ceiling.

Department of Public Enterprises, during revision (November 2008) of the pay scales of Board Level and below Board Level Executives and non-unionised Supervisors of Central Public Sector Enterprises with effect from 1 January 2007, introduced a new concept of 'Cafeteria Approach' allowing the Executives to choose from a set of perks and allowances instead of having a fixed set of allowances. The Board of Directors was to decide the perks and allowances admissible to the different categories of the Executives subject to a maximum ceiling prescribed[6]. Certain allowances[7] were kept outside this ceiling. Department of Public Enterprises also introduced a new system of Variable Pay/Performance Related Pay vide this revision. Performance Related Pay was directly linked to the profits of the Central Public Sector Enterprises/Units and performance of the Executives.

As some Central Public Sector Enterprises were paying allowances to their Executives in some form or the other over and above the ceiling prescribed for perks and allowances, Department of Public Enterprises construed them as serious violations of its guidelines and instructed (June 2013) all Central Public Sector Enterprises to strictly adhere to the guidelines in letter and spirit.

Accordingly, NMDC implemented the revised pay scales from 1 January 2017 with perks and allowances to its Executives at 35 *per cent* of the Basic Pay and also paid Performance Related Pay as per guidelines of the Department of Public Enterprises. However, in addition to above, NMDC paid incentives/reward to its Executives every year from 2018-19 to 2021-22 aggregating to ₹13.49 crore under "Production Profit Index Memento Scheme" under the names such as special production Memento, gift under Annual Reward Scheme, Productivity Week/Month, special Memento for crossing milestone iron ore production etc., with approval of Chairman and Managing Director.

In this regard, Audit observed that:

(i) As per guidelines of Department of Public Enterprises (20 November 1997), no payment of *ex-gratia*, honorarium or reward was to be made by the Public

[6] ***This ceiling was 50 per cent as per guidelines of 2008 and was subsequently reduced to 35 per cent vide guidelines revised in August 2017 with effect from 1 January 2017.***

[7] ***In the guidelines of 2008, these were North-East allowance, allowance for Underground Mines, special allowance for serving in difficult and far-flung areas and Non-Practicing allowance for Medical Officers. As per revised guidelines in 2017, these were work based Hardship Duty Allowances, location based Compensatory Allowance and Non-Practicing Allowance.***

Enterprises to their employees over and above the entitlement under Payment of Bonus Act or the Executive Instructions issued by Department of Public Enterprises in respect of *ex-gratia* unless the amount was authorised under a duly approved incentive scheme in accordance with the prescribed procedure.

As NMDC is making payment of perks and allowances to its Executives as per prescribed ceiling, payment of rewards over and above this ceiling is a deviation from guidelines of the Department of Public Enterprises.

(ii) The justification recorded for payment of incentive/reward under Production Profit Index Memento Scheme to Executives was increase in production, high productivity during a particular month/year, Special Production Memento and Annual Reward Scheme. However, Executives were already paid Performance Related Pay based on their performance and profit earned during a particular year, which is arrived at on the basis of production/sales of the Company. Hence, payment of additional incentive/reward under Production Profit Index Memento Scheme on the ground of higher production/dispatch and annual reward tantamount to payment of incentive/reward to the Executive twice for the same reason.

Management replied (February 2023) that:

(i) Gifts have been announced as a goodwill gesture since the last 30 years and a scheme for this was also framed in 2014 which was revised as Production Profit Index Memento Scheme in 2017. This has been a motivating factor for encouraging employees for working untiringly in far flung areas, to achieve milestones every year despite adverse conditions like Left Wing Extremism, remoteness, vagaries of climate, etc.

(ii) Further, the Performance Related Pay and Production Profit Index Memento Scheme are distinct, different and operate contextually on different occasions and are supplementary to each other. Production Profit Index Memento Scheme is being given in kind as a goodwill gesture to all employees recognising their loyalty and untiring efforts while Performance Related Pay is paid to Executives based on profits and Memorandum of Understanding rating as per Department of Public Enterprises guidelines.

The reply of the Management is not acceptable in view of the facts that:

(i) The perks and allowances should not exceed the ceiling as prescribed by Department of Public Enterprises. So far as the Scheme framed by the Company is concerned, it was noticed that the Scheme brought in 2017 did not have approval from the Ministry of Steel/Board of Directors.

(ii) The payments made under Performance Related Pay and Production Profit Index Memento Scheme cannot be regarded as distinct or contextually different as the incentive/reward paid under the latter Scheme is also with reference to the Production/Productivity achieved which determines the performance and profit of the Company which, in turn, forms the basis for payment of Performance Related Pay too.

The Ministry stated (October 2023/February 2024) that since the above submission of NMDC was not accepted by Audit, the matter was reviewed by NMDC again and NMDC has proposed to discontinue payment of incentive/rewards to Executives under Production Profit Index Memento Scheme from the ensuing year 2023-24.

Thus, the expenditure of ₹13.49 crore incurred by NMDC, Hyderabad towards payment of incentives/rewards to its Executives during the period from 2018-19 to 2021-22 was irregular and in contravention of Department of Public Enterprises guidelines.

Rashtriya Ispat Nigam Limited

6.3 Irregular expenditure on employees under Farewell Scheme and Long Service Award Scheme

Rashtriya Ispat Nigam Limited implemented policies for distribution of gold coins and silver coins under 'Farewell Scheme' and 'Long Service Award Scheme' to the retired/eligible employees in contravention to the guidelines of Department of Public Enterprises resulting in irregular expenditure of ₹27.29 crore.

Rashtriya Ispat Nigam Limited (RINL), Visakhapatnam implemented (30 December 2006/20 December 2006) Farewell Scheme and Long Service Award Scheme for its employees with effect from December 2006. Under the Farewell Scheme, the employees were eligible to get a 10 grams gold coin at the time of superannuation if they had completed eligible[8] period of service for payment of gratuity under Payment of Gratuity Act. Similarly, under Long Service Award Scheme, the employees who had rendered 25 years of continuous service were to be awarded with a 150 grams silver coin.

In line with the above schemes, RINL incurred an expenditure of ₹17.04 crore and ₹10.25 crore towards purchase and distribution of gold coins and silver coins under Farewell Scheme and Long Service Award Scheme respectively during the period from 2006-07 to 2021-22.

Audit observed that guidelines of the Department of Public Enterprises (20 November 1997), *inter-alia*, stipulated that no payment of *ex-gratia*, honorarium or reward could be made by the Public Enterprises to their employees over and above their entitlement under Bonus Act or the executive instructions issued by Department of Public Enterprises in respect of *ex-gratia* unless the amount is authorised under duly approved incentive scheme by the Administrative Ministry/Department. However, neither of the

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[8] ***Gratuity is payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years.***

schemes had the approval of the Ministry of Steel, the Administrative Ministry of RINL. Thus, expenditure of ₹27.29 crore incurred by RINL towards the 'rewards' given in the form of gold coins and silver coins under Farewell Scheme and Long Service Award Scheme was in contravention to the guidelines of Department of Public Enterprises and was, therefore, irregular.

Management stated (February 2023) that there was no violation of Department of Public Enterprises' guidelines since these were in respect of *ex-gratia* payments for establishments not covered under the Payment of Bonus Act, 1965 and hence do not apply to giving of gold coin under Farewell Scheme at the time of superannuation. It was also stated that silver medallion given under Long Service Award Scheme was an award and not an *ex-gratia* payment as referred to in the Department of Public Enterprises guidelines mentioned above. The Ministry reiterated (January 2024/April 2024) the views expressed by the Management and stated that the Long Service Award Scheme and Farewell Scheme were independent schemes duly approved by the RINL's Board of Directors and the aforementioned Gold Coin and Silver Medallion given under these schemes were awards and not ex-gratia/reward and do not attract the attention of Department of Public Enterprises OM dated 20 November 1997.

Reply of the Management and Ministry is not acceptable in view of the fact that:

(i) Department of Public Enterprises' guidelines issued on 20 November 1997 clarified that all Public Sector Enterprises, whether within or outside the purview of Payment of Bonus Act, need to regulate the payment of bonus/*ex-gratia* strictly in accordance with the Payment of Bonus Act for each financial year commencing from the financial year 1996-97.

(ii) Though the guidelines were issued in relation to bonus/*ex-gratia*, the guidelines further clarify that no *ex-gratia*, honorarium, reward etc., could be paid by the Public Sector Enterprises to their employees over and above the entitlement under the provisions of the Bonus Act or the executive instructions issued by the Department of Public Enterprises unless it was authorised under duly approved incentive scheme. As such, the policies framed by the Company for the Farewell Scheme and the Long Service Award Scheme for granting of gold coins and silver coins at the time of superannuation and after rendering 25 years of continuous service respectively fall under the ambit of the above guidelines and hence, the expenditure incurred on the gold coins and silver coins would tantamount to violation of guidelines of the Department of Public Enterprises. Further, the schemes were approved by the Board of Directors of the Company and did not bear the approval of the Ministry of Steel.

(iii) Similar para was issued in respect of companies under Ministry of Petroleum and Natural Gas (Para 6.1 of Audit Report No.13 of 2019) and based on inputs received from concerned companies as well as Department of Public Enterprises, Ministry of Petroleum and Natural Gas had directed the companies to make recovery of unauthorised payment made to their employees.

Thus, award of gold coins and silver coins to the employees of RINL under Farewell Scheme and Long Service Award Scheme respectively, in contravention to the Department of Public Enterprises guidelines, resulted in irregular expenditure of ₹27.29 crore.

Chapter VII
Ministry of Housing and Urban Affairs

CHAPTER VII: MINISTRY OF HOUSING AND URBAN AFFAIRS

Delhi Metro Rail Corporation

7.1 Short recovery of repairing cost and other incidental expenses

Delhi Metro Rail Corporation incurred loss of ₹15.54 crore due to short recovery of repairing cost and other charges for newly constructed Mundka staff quarters from the contractor.

Delhi Metro Rail Corporation (DMRC) awarded (28 August 2009) the construction work of staff quarters at Mundka to a contractor at a cost of ₹19.87 crore with scheduled completion date of 26 August 2010. The contractor completed the work on 15 February 2013 at a cost of ₹25.03 crore and handed over[1] the quarters to DMRC between October 2012 to March 2013. The staff quarters were allotted and occupied by the employees of DMRC upto the period till May 2013.

Immediately after occupation of flats by employees (May 2013) when the water supply/drainage and toilet system became operational, large-scale seepage and other defects were noticed by residents. During Defect Liability Period (February 2014), due to reluctance by the contractor, initially DMRC got (February 2014) the repair works amounting to ₹0.25 crore done from other agencies at risk and cost of the contractor. Further, DMRC observed (April 2014/20 June 2014) serious structural defects related to construction e.g., cracks on beam-column junctions, slabs, external finishing of walls etc. Accordingly, DMRC appointed (July 2015) a consultant for carrying out detailed structural assessment of the building and to suggest further course of action.

In the meantime, keeping in mind safety considerations and to carry out repair work, the staff quarters were vacated in August 2015. The Consultant gave its report (November 2015) and stated that buildings were severely affected due to reinforcement corrosion due to the presence of excessive chlorides in the vicinity of reinforcement. DMRC also appointed a three member Committee[2] to examine the matter and to decide on further course of action against the contractor, which recommended (February 2016) to (i) obtain expert legal opinion to invoke provisions as per law and take legal action against the contractor, (ii) file a suit against the contractor to recover the amount of ₹13.69 crore[3] for defective work and (iii) blacklist the contractor for future works in DMRC permanently. DMRC also sought opinion of legal expert. The legal expert and the legal department of DMRC also recommended (December 2015) for arbitration proceeding. However, DMRC

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1 ***A block- 5 October 2012, B block- 10 November 2012 and C block -15 March 2013.***

2 ***Three member committee of DMRC comprising of ED/Technical, Chief Engineer/General and CGM/Civil.***

3 ***Estimated cost of repairs/strengthening work of ₹9.68 crore and miscellaneous charges amounting to ₹4.01 crore.***

did not initiate any action on the recommendations given by the Committee. Instead, DMRC appointed (March 2016) an Advisor (Consultancy Service), who was working in DMRC on re-employment basis, as the conciliator for settlement of dispute. After mutual discussion between DMRC and the contractor, a deed of settlement was signed on 4 July 2016, according to which the contractor agreed to pay only ₹4.12 crore[4]. It was also agreed in the settlement deed that both the parties would not raise any claim whatsoever in future so far as this agreement was concerned.

Thereafter, DMRC awarded (September 2016) the repair work at a cost of ₹5.94 crore to another contractor and the work was completed (June 2018) at a cost of ₹10.95 crore. Renovated staff quarters at Mundka were ready for re-allotment by November 2018.

In this regard, Audit observed that:

- As per clause 18.2 of the contract, '*if by reason of any accident/failure/other event occurring to/in connection with the works either during the execution of the work or during Defect Liability Period, any remedial/other work of repair shall, in the opinion of the engineer, be urgently necessary and the contractor is unable or unwilling to do such work or repair/other work at once, the engineer may authorise carrying out of such repair by a person other than the contractor. In this case, all expenses incurred by the DMRC in carrying out the same shall be recovered from the contractor*'. As per the contract, the Defect Liability Period was one year from the actual date of completion. Clause 17.3.2 of contract agreement provides that *'the contract shall not be considered as completed, until a maintenance certificate shall have been signed by the Engineer at the end of Defect Liability Period stating that the works have been completed and maintained to his satisfaction'*. Further clause 17.5 of contract also provides that *'notwithstanding the issue of maintenance certificate, the contractor and the Employer, shall remain liable for the fulfillment of obligation incurred under the provisions of the contract, prior to the issue of the Maintenance Certificate, which remains unperformed at the time such certificate is issued, and for the purpose of determination of the nature and extent of such obligation, the contract shall be deemed to remain in force between the parties'*. Since, the maintenance certificate as per clause 17.3.2 of contract was not issued to the contractor till date, therefore for the work originally completed on 15 February 2013, Defect Liability Period cannot be considered as complete.

- Clause 4.6.2.2 of contract provides that *'the whole of the performance security amount shall be liable to be forfeited by the employer at the discretion of the employer, in the event of any breach of contract on the part of the contractor. On completion of the entire work, one half of the performance security shall be refunded to the contractor, on issue of completion certificate by the engineer. This shall not relieve the contractor*

[4] ***₹3.39 crore (on account of structural repairs) and ₹0.73 crore (cost of lease charges and incidental expenses).***

from his obligations and liabilities, to make good that may be detected during Defect Liability Period. The balance amount shall become due and shall be paid to the contractor, after the expiry of the final Defect Liability Period'. DMRC officials/allottee noticed (May 2013) large-scale seepage and other defects. DMRC raised this issue with the contractor. But, due to reluctance by the contractor, initially DMRC got (February 2014) the repair works amounting to ₹0.25 crore done from other agencies at risk and cost of the contractor. Further, DMRC observed (April 2014/20 June 2014) serious structural defects related to construction e.g., cracks on beam-column junctions, slabs, external finishing of walls etc. Despite this, DMRC released (30 April 2014) performance security of ₹1.98 crore and issued completion certificate (18 June 2014) w.e.f 15 February 2013 to the contractor stating good quality of work in contravention of clause 4.6.2.2 of contract. However, the maintenance certificate as per clause 17.3.2 of contract was not issued to the contractor. DMRC served (20 June 2015) a show cause notice to the contractor stating that the contract is still not complete and the obligation of the contractor is yet to be discharged. It was also stated in Show cause notice as to why action not be taken against the contractor to recover the losses likely to be incurred by DMRC. DMRC initially assessed ₹13.69 crore for defective work etc., and a legal notice was also served in September 2015 to the contractor in this regard.

- As per clause 20.4 of the contract, except where otherwise provided in the contract all disputes, whatsoever arising between the parties, relating to construction, operation or effect of the Contract or the breach thereof, shall be settled by arbitration. Clause 20.5 also stipulated that where the total value of claims exceeds ₹15 lakh, there shall be a panel of three arbitrators. Further, both the legal expert and the legal department of DMRC also recommended (December 2015) for arbitration proceeding as per clause 20 of contract agreement as the proposed course of action. Managing Director, DMRC approved (8 February 2016) the following course of action:

(a) Initiate reconciliation/arbitration in terms of clause 20 of GCC of the contract as advised by legal cell.
(b) File civil suit for recovery of ₹13.69 crore.
(c) The final suit will be revised once the work is completed.

But, before commencement of repairing work, DMRC appointed (17 February 2016) Advisor, DMRC as the sole conciliator for settlement of dispute. After mutual discussion, DMRC accepted (July 2016) ₹4.12 crore as full and final claims in the conciliation deed. However, actual expenditure on repairing of structural defects and incidental expense on lease charges etc., was of ₹19.66 crore.[5]

[5] ***The breakup of actual expenditure of ₹19.66 crore incurred by DMRC is bifurcated into two parts (i) ₹11.85 crore (₹10.95 crore on account of repairing of structural defects + ₹0.18 crore for minor repairing before awarding the work to consultant + ₹0.72 crore on payment of consultancy fee to assess structural assessment and remedial measures) incurred on repairing of structural defects on behalf of contractor and (ii) incidental expenses of ₹7.81 crore incurred by DMRC on account of payment of lease rent/HRA, shifting etc., to the employees/allottee.***

- DMRC incurred a loss of ₹15.54 crore[6] due to poor construction by the contractor which was 62 *per cent* of the initial cost of construction i.e., ₹25.03 crore. Despite incurring huge expenditure, the life of construction/Buildings which was stipulated as minimum 75 years has been reduced to 15 to 20 years, but extendable to 30-50 years depending on regular maintenance and periodic durability repair.

- Further, DMRC utilised the project funds, which was sanctioned by the Cabinet for Phase-III projects instead of utilising its O&M funds for repair work of staff quarters at Mundka which were constructed during Phase-II.

- As per the Minutes of 13th Board meeting dated 12 January 1998, *'Managing Director (MD) was delegated all powers as exercisable by the Board subject to the approval of the Board if any item of expenditure where more than ₹10 crore is involved and the same is not contemplated in the Detailed Project Report. The Board further decided that important decisions taken by the MD in exercise of the powers delegated to him should be reported by him to the Board at the next meeting of the Board'*. In this regard, though an expenditure of ₹19.66 crore has been incurred by DMRC on repairing of staff quarters and other incidental expenses and only ₹4.12 crore could be recovered from the contractor, however, the Board was not apprised about the same by the Management.

Ministry replied (February 2022/February 2024) that

- There were certain quality issues at construction phase due to negligence of contractor & supervision by DMRC staffs, against which action had been taken.

- Clause 18.2 is applicable for the contract period and DLP, whereas the present case is after that period.

- Conciliation is a mode of dispute resolution as per Arbitration & Conciliation Act 1996 as a precursor of Arbitration, legal wing has also recommended conciliation/Arbitration as per the provisions of the Contract and Act. The amicable settlement was appropriate as the other option i.e., filing civil suit and arbitration were a long run process and it was not certain that the decision would be in favour of DMRC.

- The actual expenditure of ₹19.66 crore includes ₹7.81 crore disbursed to employees towards lease rent/HRA, which was a part of salary package.

- While accepting the settlement at ₹4.12 crore, it was not known that the expenditure will be more at future date.

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[6] ***₹19.66 crore (-) ₹4.12 crore.***

- Since, the repairing cost was significant, the same was initially charged to project funds earmarked for Phase III, now it has been charged to O&M funds by transferring ₹8.01 crore from O&M funds to phase III project funds in December 2023.

- In delegation of powers to MD, there is no clear stipulation to tackle such situation.

- DMRC engaged (October 2021/December 2021) Ex Spl DG, CPWD and CSIR-CBRI, Roorkee to assess building structure, both opined (Sep. 2022) that the structure is not repairable, the only permanent remedy is to dismantle the structure and reconstruct. Accordingly DMRC has filed (May 2022) a suit in Delhi High court for recovery of ₹ 45.51 crore from the contractor. The matter is sub-judice (February 2024).

The reply of ministry may be viewed in the following context:

- Ministry accepted the facts relating to negligence of contractor and the negligence in supervision by DMRC at construction stage.

- DLP cannot be considered as complete unless a maintenance certificate as per clause 17.3.2 at the end of DLP has been issued by DMRC. Maintenance certificate was not issued to the contractor as on date (February 2024).

- As per clause 20.4 of contract, arbitration procedure was the method mentioned for settlement of disputes and the same was also recommended (December 2015) by the legal expert and legal department of DMRC. However, DMRC against the interest of the organisation accepted ₹4.12 crore as full and final claims in the conciliation process against the actual expenditure of ₹19.66. Further, citing the time taking process of exploring other legal options cannot justify the additional burden and non-recovery of actual expenditure.

- The expenditure of ₹7.81 crore on lease rent/HRA had occurred (from August 2015 to November 2018) on account of forced vacation of allottees due to consideration of staff quarters unsafe for human habitation. The renovated staff quarters were allotted in May 2019, but after observing several construction defects, the staff quarters were again vacated in July 2021.

- DMRC signed (July 2016) a deed of conciliation settlement, even before awarding (September 2016) of repair work and also agreed that both the parties would not raise any claim whatsoever in future. DMRC released (30 April 2014) performance security of ₹1.98 crore before attending major defects noticed during DLP in contravention of clause 4.6.2.2 of contract. Now, DMRC has filed a civil suit of ₹45.51 crore against the contractor after signing of settlement deed six years ago. However, filing a recovery suit would not absolve DMRC for the lapse in monitoring and taking appropriate action against the contractor.

- Though DMRC returned/transferred the diverted earmarked funds of Phase-III projects to O&M funds after 7 years of its utilisation, but the same cannot absolve DMRC from its wrongful action i.e., diversion of project funds earmarked for Phase-III work without the approval of the competent authority i.e., Cabinet.

- In delegation of powers (1998), there is provision of reporting of important decisions taken by the MD to the Board at the next meeting of the Board. However, the company/Managing Director failed to report the decision of acceptance of settlement of case for only ₹4.12 crore, while bearing the additional cost of ₹15.54 crore, to the Board in the next meeting.

Thus, DMRC failed to safeguard its financial interest by accepting ₹4.12 crore as full and final claims in the conciliation deed against the actual expenditure of ₹19.66 incurred on repairing of structural defects and incidental expenses, which has resulted into loss of ₹15.54 crore. The extent of loss may further go up given the fact that the structural defects have occurred again and as per the expert opinion, the building is not repairable; the only permanent remedy is dismantling the structure and reconstruction. Thus, after incurring of ₹40.56 crore (₹25.02 crore + ₹15.54 crore) on construction and repairing of Mundka staff quarter, DMRC has to again incur expenditure on re-construction of new building. A legal suit has been filed (May 2022) by DMRC in High Court claiming ₹45.50 crore from the contractor.

Recommendation No. 11: Haste on the part of DMRC in accepting the award of conciliation settlement with contractor, even before awarding of repair work, in disregard to the contractual provision of settlement of dispute by way of arbitration and release of performance security without attending construction defects, needs to be investigated and the responsibility fixed on erring officials.

Chapter VIII
Ministry of Road Transport and Highways

CHAPTER VIII: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

8.1 Blocking of funds on land compensation

Failure of NHAI to pursue the refund/adjustment of the land compensation with landowners and establishment and contingency charges paid to the State Government of Bihar, led to blocking of funds amounting to ₹533.96 crore since last six years.

National Highways Authority of India Limited (NHAI or Authority) entered into a Concession Agreement on 2 February 2012 for four laning of Patna-Buxar stretch of NH-30 from Km 0.00 to Km 124.850 in Bihar under National Highways Development Project Phase-III on Build Operate and Transfer basis. Total project cost was ₹1,129.11 crore. Acquisition of land was started in June 2012. However, in the stretch between Shivala to Bihta section, landowners opposed the land acquisition and demanded change in the alignment. Consequently, land could not be acquired and the Concessionaire proposed mutual closure of the project and the project was finally foreclosed on 29 August 2014. Subsequently, the project was divided (June 2015) into three packages[1] in view of the complexities of the project corridor. All the three packages were awarded on Engineering Procurement and Construction mode in 2015 with total cost of ₹2,104.80 crore.

The contract for construction of Package-I was awarded to Contractor on 17 August 2015 for ₹597.96 crore. As per the agreement, 90 *per cent* of the Right of Way was to be provided by NHAI to the Contractor. NHAI, however, could not provide the required Right of Way to the Contractor in view of persistent demand of the landowners for change in alignment and therefore the work could not be started. Out of 196.145 hectares of land required for Package-I, ₹494.61 crore was paid to the landowners as land compensation through Competent Authority for Land Acquisition for 62.376 hectares up to December 2017. In addition, establishment and contingency charges of ₹202.01 crore were also paid to the State Government of Bihar for land acquisition. Meanwhile, the Right to Fair Compensation and Transparency in Land Acquisition Rehabilitation and Resettlement Act 2013 came into existence on 26 September 2013 and the compensation amount for 196.145 hectares of land increased from ₹1,213.18 crore to ₹3,294 crore. The contract was also ultimately terminated on 26 December 2018 on recommendation of the Project Director/Regional Officer, NHAI Patna considering high cost and uncertainty of availability of land.

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[1] ***Package-I (Patna-Koilwar section, which also included Shivala to Bihta section, with design chainage of 0.00 to 33.250 Km), Package-II (Koilwar-Bhojpur with design chainage 33.250 to 77.100 km) and Package-III (Bhojpur-Buxar with design chainage from Km 77.100 to 125.00 Km).***

In this regard, Audit noted the following:

- State Government of Bihar conveyed (5 October 2017) to NHAI about the construction of 4-lane elevated road on the existing road section from Shivala to Bihta for a stretch of 14 km. Cost of land acquisition for the elevated corridor was to be borne by the State Government. With the project for Package-I having been terminated, and the new elevated road being built over the existing road, the amount of land compensation and establishment and contingency charges paid by NHAI remained blocked. Subsequently, out of 62.376 hectares of land for which ₹494.61 crore was paid as land compensation, only 27.597 hectares of land for which compensation of ₹162.66 crore was paid was being utilised[2] by NHAI. Thus, an amount of ₹533.96 crore consisting of ₹331.95 crore on account of land compensation for 34.779 hectares and ₹202.01 crore on account of establishment and contingency charges, remained blocked with the land owners and the State Government of Bihar (since December 2017) respectively as shown in table below:

Table 8.1: Details of the land compensation

Total amount paid as land compensation for 62.376 hectares	₹494.61 crore
Establishment and Contingency charges paid to State Government of Bihar	₹202.01 crore
Less: Cost of 11.407 hectares out of the 62.376 hectares being utilised for Saristabad-Nathupur section	₹132.84 crore
Less: Cost of 16.19 hectares being utilised in the realignment of the elevated road	₹29.82 crore
Amount remaining blocked	₹533.96 crore

- NHAI took up (May 2019) the refund/adjustment of the amount disbursed for land compensation and establishment and contingency charges paid with the State Government of Bihar. The matter, however, was not vigorously pursued with the State Government of Bihar. Even after a lapse of 10 years since the disbursement of land compensation, the amount was neither refunded by the State Government, nor was there any assurance regarding the refund of the amount of land compensation or the establishment and contingency charges paid.

Thus, failure of NHAI to pursue with the State Government of Bihar for the refund/adjustment of the amount of land compensation and establishment and contingency charges, led to blocking of funds amounting to ₹533.96 crore since last six years.

Ministry/Management replied (June 2023/April 2023) that some portion of the land falling in Shivala-Bihta-Parev Section was also getting utilised in Danapur Bihta Project, however, the estimation of its exact extent was time-taking exercise. The disbursed amount of land compensation and the establishment and contingency charges for the unutilised land may

[2] ***16.19 hectares for 13.45 km of elevated road and 11.407 hectares for Saristabad-Nathupur section of Patna-Koilwar stretch***

be reimbursed or adjusted in future payable establishment charges for land acquisition in other projects of NHAI.

Ministry/Management reply may be seen in view of the fact that Management is unable to estimate the utilisation of some portion of the acquired land as mentioned in the reply. The fact remains that land compensation was disbursed six years back. Though the matter for refund of disbursed amount for land compensation and adjustment of ₹202.01 crore towards establishment charges was taken up with the State Government of Bihar in May 2019, neither the above amount was refunded by the State Government, nor there was any assurance or confirmation about their refund or adjustment in future projects even after lapse of four years of taking up the matter with the State Government. Further, there was no active pursuance from NHAI for getting refund/adjustment of above amount with Government of Bihar.

Thus, though 62.376 hectares of land out of 196.145 hectares was acquired by NHAI and establishment and contingency charges paid to the State Government of Bihar for providing connectivity in the region, the project ultimately did not take off due to problems in acquiring the remaining land required for the project and almost threefold increase in land compensation. Further, State Government did not respond about the refund or adjustment of the amount already paid by NHAI. NHAI also failed to protect its financial interest by not closely pursuing the refund/adjustment of the amount of ₹533.96 crore resulting in the amount remaining blocked since last six years.

8.2 Extension of undue benefit to Concessionaires

National Highways Authority of India extended undue benefit of ₹203.07 crore to the Concessionaires awarded with construction of roads under Project Implementation Units Nanded and Thane by imposing lesser damages than recoverable as per the Concession Agreements.

NHAI issued Letter of Award to the Consortium of selected bidders in March 2018 for four different National Highways widening projects in Maharashtra on Hybrid Annuity Mode[3]. Of these, three projects are monitored by NHAI's Project Implementation Unit (PIU) Nanded and the other by Project Implementation Unit, Thane. The selected bidders incorporated four different companies (hereinafter called Concessionaires) for executing these projects at a total project cost of ₹4,104.70 crore (**Annexure-VIII**) and they entered into (4 July 2018) four separate Concession Agreements with NHAI.

The Concessionaires, however, did not make any material progress and as reported by the Independent Engineers appointed by NHAI, the physical progress was zero *per cent* up to

[3] ***Ministry of Road Transport and Highways introduced Hybrid Annuity Mode in February 2016. In Hybrid Annuity Mode, cost of project is funded in the ratio 40:60 through public money and private money and user fee is collected by Central Government. The concessionaire receives, after Commercial Operation Date, pre-determined semi-annuities over the concession period.***

the first project milestone[4] date, when at least 20 *per cent* progress should have been achieved. As the Concessionaires did not commence construction, the Project Directors of respective Project Implementation Unit submitted (July 2020) proposals to their Regional Offices to terminate the Concession Agreement for Concessionaires' default under clause[5] 31.1.2.

The Lead Member of the Consortium which incorporated these Concessionaires, had requested (June 2020) NHAI for change in ownership as per clause[6] 5.3.1 of the Concession Agreements which was agreed by the lenders representative in August 2020.

NHAI accorded *'in-principle'* approval (September 2020/January 2021)[7] for the substitution of Concessionaires. While according the *'in-principle'* approvals, NHAI directed that the Old Concessionaires should deposit penalty, calculated at the rate of one *per cent* of bid project cost, before final approval for the substitution. NHAI, however, changed this later on at the final approval stage in December 2020 and January/June 2021[8] and signed Endorsement Agreements (March/June 2021) with the new Concessionaires which included the clause (clause 13 of Endorsement Agreement) that the damages were to be recovered from future milestone payments to be made to the new Concessionaire in the form of recoveries from the construction bill payments. The new Concessionaires agreed to construct the projects thereafter.

In this regard, Audit observed that the damages actually imposed (₹49.24 crore)[9] by NHAI were significantly lesser than the damages recoverable as per the contractual provisions of the Concession Agreements. Damages according to the Concession Agreements were ₹252.31 crore till NHAI's '*in-principle*' approval for the substitution in September 2020/January 2021.

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[4] ***1st project milestone date for the three projects in Project Implementation Unit Nanded was 180th day from the appointed date and for the project in Project Implementation Unit Thane, it was the 290th day (Schedule G & clause 12.1 of CA).***

[5] ***Clause 31.1.2 provides that upon occurrence of a Concessionaire default, the Authority shall be entitled to terminate the agreement.***

[6] ***Clause 5.3.1 provides that changes in ownership of the Concessionaire required NHAI's prior approval.***

[7] ***NHAI gave in-principle approval for substitution with respect to three projects in Project Implementation Unit Nanded on 24 September 2020 and for the Project in Project Implementation Unit Thane, on 15 January 2021.***

[8] ***NHAI gave final approval for the three projects in PIU Nanded in December 2020/January 2021 and for project in Project Implementation Unit, Thane in June 2021.***

[9] ***Damages were approved by NHAI during December 2020 (₹25.91 crore), January 2021 (₹10.61 crore) and June 2021 (₹12.72 crore)***

Table: 8.2: Damages imposable as per Concession Agreements

(₹ in crore)

Sl. No.	Damages imposable by NHAI as per provisions of Concession Agreements	PIU- Nanded	PIU- Thane	Remarks
1.	Delay in achieving Conditions Precedent[10] (clause[11] 4.3)	--	5.32	Applicable only in the Vadape-Thane project. Delay was of 30 days.
2.	Delay in achieving milestone (clause[12] 12.3.2)	53.87	25.73	Applicable to all the four projects. Delay ranged between 369 and 435 days.
3.	Failure to maintain existing roads (clause[13] 12.4.2)	107.74	51.46	Applicable to all the four projects.
4.	Delay in financial close (clause[14] 22.1.1)	7.30	0.89	Delay in financial close was for 30 days in Vadape-Thane project and 100 days for the remaining three projects (relating to clause 22.1.1).
Total		**168.91**	**83.40**	

As against the above, total damages of only ₹49.24 crore were imposed by NHAI which included ₹8.19 crore for delay in financial close as per clause 22.1.1 and ₹41.05 crore which was worked out at the rate of one *per cent* of bid project cost in accordance with NHAI's circular dated 29 January 2014 vide which Government had decided to permit the substitution of existing Concessionaire in a harmonious manner. As per the circular, Authority's Board may levy an appropriate penalty keeping in view the extent of default subject to cap of one *per cent* of project cost. The said circular was not applicable in this case as NHAI did not include the clause related to limiting penalty as per NHAI's circular of 29 January 2014, though the Concession Agreements for these projects were entered into subsequently in July 2018, affording NHAI with ample opportunity to do so.

Thus, NHAI should have imposed the damages according to the provisions of the Concession Agreements.

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[10] ***Delay in achieving Conditions Precedent inter alia included execution of escrow agreement and financial agreements.***

[11] ***Clause 4.3 provided that Concessionaire shall pay the Authority damages in an amount calculated at the rate of 0.3 per cent of the performance security for each day's delay until the fulfilment of the Condition Precedent. Damages paid shall be limited to bid security amount.***

[12] ***Clause 12.3.2 provided that Concessionaire shall pay the Authority damages in an amount calculated at the rate of 0.1 per cent of the performance security for delay of each day until project milestone is achieved.***

[13] ***Clause 12.4.2 provided that Concessionaire shall pay the Authority damages in an amount calculated at the rate of 0.2 per cent of the performance security for each day of default in maintenance of road.***

[14] ***Clause 22.1.1 provided that Concessionaire shall pay the Authority damages in an amount calculated at the rate of 0.05 per cent of the performance security for each day of default in achieving financial close***

When there was delay on the part of the Concessionaires in achieving the Conditions Precedent in Vadape-Thane project, NHAI should have imposed damages as given in clause 4.3 of the Concession Agreement. The Concessionaires did not commence construction of the projects and thereby failed to achieve any of the project milestones, for which NHAI should have imposed damages for delay in achieving milestone according to clause 12.3.2 of the Concession Agreements. Also, the Concessionaires were bound to maintain the existing roads in a traffic-worthy condition till completion of the road-widening projects. Though the Concessionaires failed to maintain the existing roads, NHAI did not impose damages according to clause 12.4.2 of the Concession Agreements.

Failure of NHAI to impose these damages given in the Concession Agreements resulted in undue benefit of ₹203.07 crore (₹252.31 crore *less* ₹49.24 crore) to the Concessionaires and equivalent loss to NHAI.

Ministry, in its response (December 2021/February 2022), stated that NHAI imposed damages based on its circular dated 29 January 2014, which limited damages to one *per cent* of project cost. NHAI gave its approval (September 2020) for harmonious substitution in three projects in Project Implementation Unit Nanded and also delegated Member (Finance) with the power for applying NHAI's Circular dated 29 January 2014 to specific Hybrid Annuity Mode projects in future. Accordingly, Member (Finance) approved harmonious substitution with damages limited to one *per cent* of bid project cost in the project in Project Implementation Unit Thane. NHAI would recover the damages it imposed and interest thereon, from the milestone payments to be paid to the New Concessionaires in future.

The response of MoRTH may be viewed in light of the following facts:

(i) NHAI did not include the clause related to limiting the penalty as per NHAI's circular of 29 January 2014, though the Concession Agreements for these projects were entered into subsequently in July 2018, affording NHAI with ample opportunity[15] to do so. Further, internal circulars cannot be a basis for deviating from contractual terms mutually agreed.

    In fact, deviation from contractual terms was irregular and also violated CVC Guidelines (2002) concerning award of contracts and guidelines for improvement thereof, which discouraged (clause 22.1) post-contract amendments/modifications having financial implications. To maintain transparency and fairness, the contractual terms agreed at the time of signing the contract should not be subsequently diluted to benefit the Concessionaire if financial implication is involved. The action of NHAI was also violative of these guidelines.

[15] If NHAI had the intention to limit the damages to one per cent as given in the Circular of January 2014, NHAI could have made changes in the Concession Agreements entered into subsequently. NHAI, however, did not include any clause to limit the damages to one per cent in the Concession Agreements entered into after January 2014.

(ii) According to NHAI's '*in-principle*' approvals, the old Concessionaires were to deposit the damages before final approval of the substitution, which was subsequently relaxed by NHAI, thereby, extending yet another undue favour to the Concessionaires. NHAI signed an agreement (clause 13 of Endorsement Agreements) that it would recover the damages imposed on the existing Concessionaires from future milestone payments to be made to the new Concessionaires. This was wholly unnecessary as NHAI was holding Performance Bank Guarantees of ₹205.25 crore (valid till May/August 2022)[16] from the old Concessionaires, which could have been encashed.

Thus, as against ₹252.31 crore to be imposed as damages as per the provisions of the Concession Agreements, NHAI imposed damages of only ₹49.24 crore, resulting in undue favour to the Concessionaires and equivalent loss to NHAI of ₹203.07 crore.

8.3 Shortfall in execution and monitoring of project

There was delay in construction of two bypasses including two Railway Over Bridges (ROBs). The timely completion of the construction by NHAI could have ensured revenue amounting to ₹43.64 crore. Further, the ROBs got prematurely distressed, leading to stoppage of traffic and delinking of bypasses from the tollable length. This resulted in lower user fee collection of ₹179.26 crore and payment of force majeure claim to the toll collecting agency of ₹11.01 crore as well as inconvenience to users.

National Highways Authority of India (NHAI) entered (26 February 2014) into a Contract Agreement for the work of upgradation of Raebareli-Banda section (from Km 152.533 to Km 285.818), including construction of two bypasses having one Railway Over Bridge (ROB) each, of NH-232 in Uttar Pradesh on Engineering, Procurement and Construction (EPC) mode with the Contractor at a contract price of ₹424.29 crore. NHAI also appointed (30 May 2014) an Authority Engineer[17] (AE) for supervision of work. The date of start of work was 21 April 2014 and the scheduled date of completion of the project was 16 October 2016. The work was completed (January 2019) at the cost of ₹554.11 crore.

However, the work was delayed due to non-completion of two bypasses, having one ROB each at Lalganj and Fatehpur. The Provisional Completion Certificate (PCC) was issued (11 January 2019) after delay of 15 months from the expected date (September 2017) of PCC as envisaged by NHAI. NHAI commenced toll operations w.e.f. 22 December 2018, but the ROBs underwent premature distress[18] in May 2019 i.e., within five months of

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[16] *₹205.25 crore = Guarantee for ₹59.15 crore valid till May 2022 relating to the project in Project Implementation Unit Thane and ₹146.10 crore valid till August 2022 relating to the three projects in Project Implementation Unit Nanded.*

[17] *In NHAI, the Authority Engineers (comprising a team of experts) are engaged for quality assurance and corresponding monitoring of progress during both construction and operation period. They also review and approve the drawings, Quality Assurance Plan and monthly progress report furnished by the Contractor.*

[18] *ROB has an average life of 60 years as per Ministry of Railways Codal Life of Assets. In this case, the ROB was distressed within five months of commencement of traffic.*

commercial operation. NHAI instructed (July 2019) the contractor to dismantle and reconstruct the ROBs at its own risk and cost. However, the construction of ROBs has still not been completed, even after a lapse of more than 63 months from distress of ROBs leading to de-linking of bypasses and reduction in toll collection till August 2024. As per the latest reply of NHAI (August 2024), ROBs are expected to be completed and opened for highway users by October 2024.

In this regard, Audit observed that:

(i) There was delay of 15 months (September 2017 to December 2018) in construction of ROBs as well as delay in commencement of toll collection from the expected date of Provisional Completion Certificate. Had the project being completed in time and toll collection commenced timely, NHAI could have earned a revenue of ₹43.64 crore[19]. NHAI stated (December 2017) that the designs and drawings submitted by the contractor were not prepared by duly qualified personnel with knowledge of working of Railways which resulted in wastage of a lot of time in correspondence and ultimately resulted in delay in construction of ROBs within scheduled/expected date of completion.

(ii) Due to distress in the ROBs (May 2019), traffic movement was stopped on the bypasses. As the by-passes were de-linked, the lower toll collection on account of reduced weekly remittance from toll collecting agency was ₹179.26 crore (from 22 October 2019 to 31 March 2024) and the same continued till date (August 2024), as the work of re-construction of ROBs was going on.

(iii) Due to distress in ROBs, NHAI also paid/adjusted (December 2019) ₹11.01 crore as Force Majeure payment[20] on account of closure of Lalganj and Fatehpur ROBs to the toll collecting agency.

(iv) A Technical Committee was constituted (30 July 2019) by NHAI to investigate the cause/reason of the damages in the two ROBs (Fatehpur and Lalganj) and suggest remedial measures. As per the report (20 September 2019) of the Technical Committee, the reasons for distress were apparent design deficiencies and limitations in welding at site. The Committee recommended a thorough check by a third party conversant with codal provisions of Indian Road Congress (IRC) to find out other deficiencies. As per the contractual provisions, the primary responsibility of design and construction/workmanship lies on the contractor. Similarly, as per the Term of Reference of Authority Engineer (AE) mentioned in the consultancy agreement, AE was responsible for supervising the designs, construction and maintenance of the facility as per the contract agreement. However, after 56 month

[19] ***The amount is calculated on the basis of daily toll remittance (i.e., ₹ 9,15,000) quoted by the toll collecting agency in May 2017 multiplied by the number of days (i.e., 477 days) from September 2017 to 21 December 2018.***

[20] ***As per Clause 25 {b (vii) & (viii)} of user fee collection contract agreement.***

from the incident of premature distress of ROBs, NHAI appointed (January 2024) M/s Central Road Research Institute (CRRI) for third-party check to ascertain the causes of the distress and deficiencies. The findings of the CRRI are awaited.

MoRTH, in its reply (February 2024), stated that:

a. There was delay in completion of entire stretch mainly due to delay in ROB construction. Provisional Completion Certificate (PCC) was issued only upon completion of all the works forming part of the project highway. There was no loss of toll revenue as toll revenue was to be levied only after issuance of PCC.

b. The contractor has dismantled both the ROBs and has taken up the work of reconstruction. The same is under progress.

c. Due to distress in ROBs, length of bypasses was excluded from the tolling length, which has resulted in lesser toll collection. The loss of toll revenue due to distress in ROBs is a matter of fact.

d. Further follow-up action will be taken on receipt of Report/Recommendations of the CRRI.

e. The Process of Disciplinary Action has been initiated and Show Cause notices have been issued to the concerned officials for delay in issuance of PCC and failure in monitoring the project execution.

f. NHAI has withheld, final bill payment, retention money and performance security; the liquidated damages of ₹43.64 crore will be recovered, if the Contractor's default is established in CRRI Report.

Reply of Ministry may be viewed in the light of the following facts:

(i) Audit has nowhere stated that PCC should have been issued without completing the work related to ROBs. Instead, Audit has pointed out the delay of 15 months from the expected date of PCC in completion of work related to ROBs. Further, at the time of sanctioning (27 April 2020) interim Extension of Time upto 11 January 2019, NHAI had intimated the contractor that the work was delayed due to the fault of the contractor also and damages shall be imposed accordingly. However, no liquidated damages have been imposed against the contractor so far and only an assurance has been given that liquidated damages will be recovered, if the contractor's default is established in CRRI report, which contradicts its earlier stand.

(ii) Though Ministry has accepted the loss of toll revenue due to distress in ROB, however Ministry has not specified the measures that it would take to recoup the loss of toll revenue of ₹179.26 crore.

(iii) NHAI has appointed (January 2024) M/s CRRI for third-party check after inordinate delay of 56 months from observing the incident of premature distress. Since the ROBs have already been dismantled, it raises apprehensions over the accuracy of findings of third party check at this stage.

Despite NHAI being a specialised organisation for construction of National Highways, the work related to reconstruction of ROBs could not be completed even after lapse of more than 63 months from date of distress of ROBs, indicating poor execution and monitoring of the project. Further, despite incurring an expenditure of ₹554.11 crore as against the awarded cost of ₹424.29 crore, NHAI could not reap the benefit of tolling and could not provide the road users with the intended benefits of National Highway. Though as per the latest reply of NHAI (August 2024), ROBs are expected to be completed and opened for highway users by October 2024.

8.4 Non recovery of Double Toll collections from Concessionaires

There was loss of ₹21.12 crore to the Consolidated Fund of India due to failure to recover Double Toll from Concessionaires before expiry of concession periods. Further, ₹63.03 crore of Double Toll was pending for recovery from other Concessionaires/Toll Collection Contractors.

In the roads entrusted to NHAI, tolls are collected (i) by NHAI, through Toll Collection Contractors engaged for it; or (ii) by Built Operate Transfer (BOT) (Toll) Concessionaire, who has the contractual right to collect tolls during the concession period. Ministry of Road Transport and Highways (MoRTH) made it compulsory for all National Highway users to pay toll through digital mode called FASTAG, with effect from 16 February 2021. MoRTH also required that National Highway users not having valid/functional FASTAG system, would have to pay toll at double the normal rate[21] in cash. MoRTH directed NHAI to remit 50 *per cent* of the toll collected in the form of cash to the Central Government (Consolidated Fund of India). Thus, NHAI or the BOT (Toll) Concessionaire could retain only their share of the normal toll rate and the penal charge (double toll) collected was to be deposited into the Consolidated Fund of India.

With a view to implement the MoRTH directions, NHAI HQ issued (2021) various directions[22] to its Project Implementation Units (PIUs)/Regional Offices (ROs) to ensure that the double toll was remitted immediately to the Consolidated Fund of India. The double tolls collected were to be remitted to NHAI HQ on weekly basis for onward remittance to the Consolidated Fund of India; in case of short-term toll collection contracts (up to three months), the double toll was to be remitted to NHAI HQ on daily basis. Non-compliance of these directions was to be treated as financial irregularity.

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[21] ***Collection of Double Toll introduced through the amended NH Fee (Determination of Rates and Collection) Rules, 2008.***

[22] ***NHAI HQ issued directions to all PDs/ROs on 20 February, 3 March, 8 March, 31 March, 30 April, 4 May (on VC with ROs), 24 May and 29 July, 2021.***

NHAI HQ observed (29 July 2021), that despite NHAI having given clear directions to all Project Directors (PDs)/Regional Offices for collecting and remitting double tolls, these were not seen to be complied with. Further, Project Directors/Regional Offices were directed to share the details of BOT (Toll) Concessionaires who were not depositing double toll for enabling NHAI HQ's timely intervention.

Based on the data of collection and remittance of double tolls from NHAI's Regional Offices of Gandhinagar, Mumbai and Nagpur made available (as of October/November 2022), Audit observed that the total amount of double toll dues to be collected by NHAI from BOT (Toll) concessionaires and Toll Collection Contractors was ₹84.15 crore. Of the ₹84.15 crore (penal charges due to not having FASTAG), ₹21.12 crore was due from BOT (Toll) concessionaires whose concession periods had already expired and ₹63.03 crore of Double Toll was remaining to be collected (October/November 2022) from Toll Collection Contractors/other Concessionaires (with active concessions period).

The RO-wise position of dues from BOT (Toll) concessionaires/Toll Collection Contractors including those where concession period had expired is given below:

Table 8.3: Details of RO wise dues as of October/November 2022

(₹ in crore)

Regional Office	Total dues (76 projects)	Due from BOT (Toll) Concessionaires whose concession period expired (four projects)
Gandhinagar	30.91	16.18
Mumbai	36.85	4.94
Nagpur	16.39	0.00
Total	**84.15**	**21.12**

In the four expired contracts, the Project Implementing Units were left with no option but to demand the dues (₹21.12 crore) through written communication to the concessionaires as the concession period had already expired resulting in undue benefit to the concessionaires[23] as the concessionaires were allowed to retain the double toll which in fact should have gone to the Consolidated Fund of India.

NHAI, in its reply (April 2023), stated the following:

i. With respect to the dues under RO Mumbai, the updated position (January 2023) for three projects[24] was given. NHAI further replied that recoveries were being pursued and updated position would be intimated to Audit in due course of time.

[23] ***₹21.12 crore due from expired BOT Projects were- (i) ₹4.94 crore in Kagal–Satara project, concession period expired in June 2022 (ii) ₹0.62 crore in Vadodara- Bharuch project, concession period expired in March 2022 (iii) ₹2.19 crore in Bharuch-Surat project, concession period expired in March 2022, (iv) ₹13.37 crore in Surat-Dahisar project, concession period expired in May 2022.***

[24] ***The position on 31 January 2023 in the Pune-Solapur Section of NH-65 project was, of total double toll collection of ₹5.82 crore, ₹5.31 crore was remitted and ₹50.66 lakh was pending as on 31 January 2023. In the Solapur-Yedeshi Section of NH-211 the concessionaire remitted the whole of the double toll collection of ₹2.05 crore and collection/dues thereafter were not mentioned as on 31 December 2022. In the Maharashtra-Karnataka border Section of NH-65 project, of total double toll collection of ₹1.89 crore, ₹1.65 crore was remitted and ₹24.10 lakh was dues as on 31 January 2023.***

ii. With respect to the dues under RO Nagpur, Project Directors concerned had taken up the matter with the concessionaires concerned and final recovery position would be intimated to Audit in due course of time.

iii. With respect to the dues under RO Gandhinagar , NHAI replied:

- In six laning of Ahmedabad-Vadodara Section of NH-8 and Improvement of Ahmedabad Vadodara Expressway, PIU Ahmedabad requested (14 November 2022) the concessionaire to deposit dues of ₹10.72 crore, which the concessionaire refuted. The concessionaire was still remitting 25 *per cent* (instead of 50 *per cent*) of the double toll rates collected. NHAI would recover the pending amount from Escrow Account and recovery position be intimated to Audit in due course of time.

- In four/six laning of Gujarat/Maharashtra Border–Surat– Hazira Port Section of NH-6, PIU sent a letter (8 February 2023) to Escrow Banker to recover ₹3.81 crore. The concessionaire stated (20 March 2023) that it would remit under protest ₹3.52 crore in April/May 2023. Final recovery position would be intimated to Audit in due course of time.

- NHAI was pursuing with the concessionaires for recovery of dues in the Vadodara-Bharuch project, Bharuch-Surat project and Surat Dahisar projects (the expired BOT projects), the recovery position would be intimated to Audit in due course of time.

MoRTH, in its reply (July 2023), stated the following:

i. With respect to the pending recovery of ₹21.12 crore from the Concessionaires whose concession periods expired, the project-wise positions were-

- In the Kagal-Satara four-lane project, the Concessionaire did not deposit double toll dues of ₹4.94 crore despite rigorous follow up by the Project Implementation Unit/Regional Office. NHAI would be raising the claim of double toll dues while settling the other claims and counter claims between the parties through reconciliation or Arbitration.

- In the Surat-Dahisar six-laning project on NH-8, the Concessionaire disputed (31 March 2022) its liability for payment of double toll of ₹13.37 crore by stating that the amount already remitted to NHAI included double penalty. The matter was under consideration of NHAI HQ for taking remedial action for recovery. Further action taken would be intimated to Audit.

- In the Vadodara-Bharuch (Package-l) six-laning project in NH-48, the dues of ₹0.62 crore would not be recoverable as NHAI and the Concessionaire signed

(March 2022) a Settlement Agreement and agreed that that there was no residual, pending or any other claim, dispute or differences against each other.

- In the Bharuch-Surat four/six-laning project on NH-48, the dues of ₹2.19 crore would not be recoverable as NHAI and the Concessionaire signed (March 2022) a Settlement Agreement and agreed that that there was no residual, pending or any other claims, disputes or differences against each other.

ii. For recovering ₹63.03 crore from Toll Collection Contractors/other Concessionaires (with active concessions period), the Project Directors/Regional Officers concerned were already recovering the dues as a continuous process. Of these, ₹44.11 crore was pending for long period in respect of five projects, as the Concessionaires did not remit the dues in-spite of NHAI's continuous demand letters.

iii. NHAI was continuously pursuing and would continue to pursue till full recovery of dues with interest were made.

The reply of MoRTH may be viewed in light of the following facts:

a. MoRTH’s reply confirmed the fact that NHAI failed to recover the dues of ₹21.12 crore plus interest before expiry of the concession periods in respect of the four BOT projects. This occurred due to the failure of the Officials concerned of NHAI despite clear directions from MoRTH/NHAI for taking action in time for recovering the dues from BOT Concessionaire for ensuring that the same would be remitted to the Consolidated Fund of India.

b. Moreover, the statement that recovery of ₹2.81 crore (₹0.62 crore and ₹2.19 crore) would not be possible from two Concessionaires as Settlement Agreements were entered into, is not an acceptable reply as the double toll dues was never a part of issues considered in the Settlement Agreement, nor NHAI had any authority for settling the dues to be deposited to the Consolidated Fund of India.

c. Though it was replied that Officers concerned were recovering the dues as a continuous process, the updated position of the double toll dues was not provided. Also, the fact that of the dues of ₹63.03 crore (as in October/November 2022), ₹44.11 crore were the dues from only five BOT Concessionaires, indicate that NHAI was ineffective in enforcing MoRTH’s directions on the matter of recovery of Government dues. MoRTH has not submitted any supporting documents for the recovery of ₹19.92 crore, as highlighted in its reply.

Thus, NHAI’s failure to recover double toll collections from concessionaires before expiry of concession periods resulted in loss of ₹21.12 crore to the Consolidated Fund of India. Further, ₹63.03 crore of Double Toll was remaining to be collected from other Concessionaires/Toll Collection Contractors.

8.5 Collection of 50 per cent of toll fee due to improper maintenance of road

Proper maintenance of the Poonamalle-Walajahpet section of NH-4 in Tamil Nadu by National Highways Authority of India could have ensured revenue of ₹57.61 crore to NHAI and also saved the road users from undue hardships.

Section 16(1) of National Highways Authority of India (NHAI) Act, 1988 provided that it shall be function of the NHAI to develop, maintain and manage the national highways entrusted to it by the Government. The Ministry of Road Transport and Highways issued (September 2002) guidelines for identifying National Highways stretches for improvement of riding quality and periodical renewal. These guidelines, *inter alia*, envisage improvement of riding quality and periodic renewal of stretches strengthened more than five years ago but have not received renewal treatment and showing signs of distress due to growing traffic.

NHAI completed (May 2007) the four laning of Poonamalle to Walajahpet section (Km 13.800 to 106.800) of NH4 (New NH48) and collected toll at two toll plazas namely Nemili-Sriperumpudur[25] and Chennasamudram[26] in Tamil Nadu. NHAI awarded (June 2012) a contract on Design, Build, Finance, Operate and Transfer mode to a Concessionaire for six laning[27] of the existing four lane NH stretch by 30 November 2015. However, due to the delay in project completion and non-achievement of progress milestones by the Concessionaire, the contract was terminated (July 2016). Subsequently, the six laning work was divided into three stretches (Km 13.800 to Km 37.000, Km 37.000 to Km 71.015 and from Km 71.015 to Km 107.091) and awarded (November 2021, January 2021 and October 2018) to three contractors. However, since completion of the four laning of the NH stretch, periodic renewal of the entire stretch was never undertaken by NHAI resulting in a bad condition and quality of the road.

Audit observed (December 2022) that NHAI failed to identify the stretch for improvement of riding quality and periodical renewal. It did not carry out any overlay/periodic renewal work since 2012 on the stretch except overlay of NH stretch from Km 13.800 to Km 37.000 from Poonamalle to Sriperumpudur during September 2020 to December 2021 for ₹34.65 crore though the road users were being charged user fee . Thus, the road users faced undue hardship despite paying user fee for the improperly maintained NH stretch. Only routine maintenance (repair and rectification works) was carried out between August 2016 to March 2023 through various contractors for ₹71.42 crore.

Considering the bad riding quality and improper maintenance of the stretch, the High Court of Madras (the Court) took a *suo-moto* Public Interest Litigation (November 2019) and directed NHAI (9 December 2020) to collect only 50 *per cent* of toll amount till the road

[25] *at Km 37.800 w.e.f. 1 July 2007*
[26] *at Km 104.900 w.e.f. 16 November 2005*
[27] *Scheduled completion date was 30 November 2015*

was in a riding condition. Later, the Court permitted charging of normal toll rates on 5 October 2021after filing (July 2021) of status report by NHAI.

Thus, lack of overlaying/periodic renewal of the complete stretch and improper monitoring of road quality led to deterioration in the road quality. The proper maintenance of road quality could have ensured collection of 100 *per cent* toll fee instead of 50 *per cent* toll fee of ₹57.61 crore (**Annexure-IX)** for 297 days[28] as per Court orders**.**

NHAI replied (January 2023) that:

- NHAI had maintained the stretch through O&M contracts (item rate) and repairs of pavement were done on need basis. The entire overlay of the stretch (which became due in 2013) could have been infructuous to the tune of additional amount of about ₹50 crore (as it had to be removed/re-laid during construction). Had there been no six laning work, two overlays of the existing four lane road during 2013-14 and 2018-19 were supposed to be done which would have costed about ₹90 crore to NHAI which had clearly been saved. The revenue loss due to execution of infructuous overlays would have been much more than the loss pointed out by Audit due to reduction of toll by the High Court.

- The basic deterioration of the road had occurred due to the failure of BOT Concessionaire, for which the Arbitration Award for ₹635.29 crore had been awarded in favour of NHAI.

- Further, there have been delays in the completion of the ongoing projects due to COVID and related factors which are beyond the control of stakeholders.

Ministry, while endorsing the view of NHAI, added (November 2023) that

- overlay along the entire stretch was not taken up to avoid duplication in anticipation of appointment of the Concessionaire for six laning of the stretch.

- the expenditure incurred on maintenance i.e., overlaying of 23.2 km, renewal of 34 km, regular/routine maintenance works, Road Property Maintenance works, Incident Management Services, safety items and other works cannot be treated as a minor maintenance. It could not be avoided as it is a toll road and mandatory obligation of NHAI. The roughness survey was not carried out, however, overlaying of 23.2 km and renewal of 34 km was carried out.

- There have been savings due to non-execution of two overlays. The hardship during construction was inevitable. The user fee was reduced at 50 *per cent* for the period from December 2020 to October 2021 as per orders of the High Court of Madras to somewhat compensate the hardship of the road users. Hence, the

[28] ***From 15 December 2020 to 7 October 2021***

revenue reduction on account of reduction of toll by the High Court, may not be construed as a loss to the Government in real terms.

The reply of Ministry/NHAI may be viewed in the light of the following:

- NHAI is the premier agency in-charge of laying quality and all-weather roads throughout the country. However, NHAI did not carry out roughness survey to ascertain the road quality while the six-laning work was delayed due to termination of the contract with the BOT Concessionaire. NHAI cannot justify its inaction to maintain and keep the stretch in good condition on the plea that six-laning of the stretch was contemplated.

- Moreover, after termination of six-laning contract in 2016, it was NHAI's obligation to carry out the overlay and maintenance of the NH stretch. However, NHAI did not carry out overlays/renewals of the entire stretch which were due in 2013 and 2018. This caused severe deterioration of the road quality resulting in hardships for the road users. The expenditure incurred by NHAI on maintenance could not substitute the NHAI's obligation for overlays/renewals of the entire stretch.

- Further, failure of BOT Concessionaire and subsequent Arbitration Tribunal Award in favour of NHAI cannot absolve NHAI from the fact that road quality was deteriorated due to non-overlaying/non-renewal of the entire stretch. Arbitration Tribunal had awarded only ₹10.61 crore in favour of NHAI for damages due to non-compliance of maintenance obligation by the Concessionaire.

- It is irrelevant to compare the hardships faced by the toll paying road users with favourable Arbitration award and savings due to non-overlaying/non-renewal of the stretch in view of NHAI's obligation to completely maintain the entire stretch of the tolled road. Reduction in toll fee was primarily a penalty on NHAI for not maintaining the quality of the tolled road rather a compensation for the road users.

- NHAI cannot be absolved of its responsibility to maintain a tolled road for good quality road ride since development, maintenance and management of the national highways entrusted by the Government to NHAI are the primary functions of NHAI as per the NHAI Act.

Hence, had NHAI undertaken proper maintenance and periodic renewals/overlays of the NH road stretch, it could have saved road users from the hardships and also earned a revenue of ₹57.61 crore.

8.6 Extra expenditure of ₹41.52 crore

Use of poor quality of concrete, overloading and faults in design led to damage to Karmanasa bridge and extra expenditure of ₹41.52 crore by NHAI, Project Implementation Unit, Sasaram.

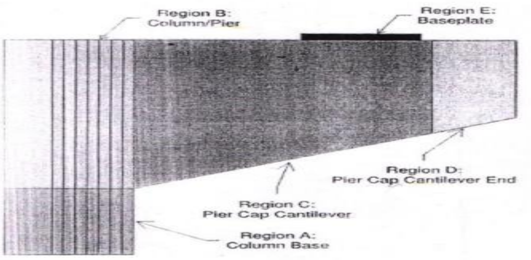

Fig. 2: Indicating the elements of the bridge like cantilever, pier cap etc.

A Contract Agreement was entered (March 2002) by National Highways Authority of India for four laning and strengthening of the existing two-lane section between Kilometre 317 and Kilometre 65 on National Highway-2 in Uttar Pradesh and Bihar. Four-lane bridge over the Karmanasa river on National Highway-2 with divided carriageway was constructed in 2003 as a part of the above agreement. The project was completed on 20 December 2010. The Defect Liability Period for the project was for 36 months i.e., up to 19 December 2013. Subsequently, the six laning of the Varanasi-Aurangabad section of National Highway-2 was taken up by NHAI vide concession agreement in July 2010. Karmanasa bridge was part of the Varanasi-Aurangabad section.

The bridge on river Karmanasa got damaged on 28 December 2019. The cantilever[29] portion of Pier 3 collapsed on either side of the Pier cap. The bridge superstructure came down around 550 millimetres from its original level due to high thrust[30] and rested at the damaged Pier cap P3, as a result of which cracks developed in Piers P1, P2 and P4. NHAI spent ₹41.52 crore comprising of ₹10.81 crore for rehabilitation of the main bridge, ₹6.16 crore for construction of temporary steel bridge and ₹24.55 crore for construction of temporary diversions.

An Expert Committee constituted (30 December 2019) by NHAI for inspection/investigation of the damages found (January 2020) that wrong design and inadequate reinforcement in Pier cap was the primary cause for the above incident. The Committee also found that plying of overloaded trucks with axle load much higher than the legal limits over the bridge might have resulted in higher loads on bearings than they were designed for. Also long period cracks were found and no corrective measures were taken till damage of bridge.

Project Implementation Unit, Sasaram engaged Indian Institute of Technology, BHU, Varanasi as Specialist Consultant to study the impact of failure of Pier cap in compliance of the recommendation of Expert Committee. The core extracted from all the piers during the time of rehabilitation was sent to the Consultant to evaluate equivalent cube

[29] ***A rigid structural element that extends horizontally and is supported at one end.***

[30] ***This means high pressure. The word has been taken from the interim report on damage of Karmanasa bridge submitted by the Project Director, NHAI, Sasaram to the Regional Officer, NHAI, Patna.***

compressive strength[31] and to assess its conformance with the stipulated grade. Indian Institute of Technology, BHU, Varanasi stated (June 2021) that the cause of damage of Pier caps was the failure to use requisite grade of concrete. Just 7 out of the 32 tested samples met the requisite grade of M35 concrete. Thus, cause of damage of Pier caps P1, P2, P3 and P4 was usage of poor quality concrete by the contractor while executing the bridge work.

In this regard, Audit observed that:

- Project Implementation Unit/NHAI did not exercise due diligence in finalising the design of the bridge which was found to be faulty by the Expert Committee constituted by the NHAI for inspection/investigation of the damages. The Project Director stated (March 2010) that bridge experts and members representing the stakeholders (viz., NHAI Regional office, Project Director, the Supervision Consultant, construction contractor etc.) were convinced that there was a fault in the original design itself. Thus, Management was aware of the faults in design of the bridge since March 2010. Though some remedial measures were taken by NHAI in respect of another bridge (Durgawati bridge), in view of similar fault in its original design, no remedial measures were taken to strengthen the Karmanasa bridge. Finally, the bridge got damaged in 2019.

- The construction contractor was responsible for the use of standard/good quality of materials for construction of the bridge. However, he did not use specified quality of materials. Third Schedule of Contract Agreement between NHAI and construction contractor states that "Implementation and control of the procedures for quality assurance, environmental control and safety is the duty of the Project Director". NHAI failed to check and ensure quality during construction of bridge.

- As per the National Highways Fee (Determination of Rates and Collection) Amendment Rules, 2013, a mechanical vehicle which is loaded in excess of permissible load specified for its category shall not be permitted to use the National Highway or cross the toll plaza until the excess load has been removed. NHAI Headquarters instructed all Project Directors to ensure that "the overloaded vehicle be towed away, taken into possession and parked at the designated place at the risk and cost of the driver/owner and excess load be removed before permitting the vehicle to use the National Highway. As per Article 27 of the Concession Agreement, toll/user fee collection right was vested in concessionaire and he was also responsible for prevention of overloaded vehicles from crossing the bridge. NHAI, however, despite repeated requests, failed to provide the concessionaire with the additional land required at toll plaza to park the excess loaded vehicles and to store excess loaded materials removed from such vehicles.

[31] ***Compressive strength is the capacity of concrete to withstand loads before failure. Cube compressive strength is the compressive strength of concrete given in terms of 150 mm size cubes.***

District Administration authorities of Varanasi informed (January 2018, May 2018) NHAI about non-compliance to the notification issued by Ministry of Road Transport and Highways regarding overloaded vehicles not to be permitted to use the National Highway or cross the toll plaza until the excess load was removed from such vehicle. NHAI, however, failed to ensure compliance.

Thus, use of poor quality of concrete, overloading and faults in design led to damage to bridge and avoidable expenditure of ₹41.52 crore by the NHAI.

NHAI/Ministry replied (February 2023/September 2023) that:

(i) Design Consultant had failed to provide effective designs which ultimately led to the failure of the Karmanasa Bridge within nine years of its construction. The construction contractor also did not give prompt notice of any error, omission, fault or other defects in the design. Thus, liability of the construction contractor could not be limited to the general Defect Liability Period. Supervision Consultant was required to monitor the quality of construction and other project related activities. As the Supervision Consultant had not delivered his duty properly, NHAI recovered (January 2023) ₹0.20 crore from the Supervision Consultant.

(ii) The Concessionaire did not share the fact that huge number of overloaded vehicles were passing the toll plazas. Therefore, the Concessionaire was asked (January 2023) to deposit ₹1.11 crore as penalty. Ministry subsequently stated that the amount was recovered from the Concessionaire.

(iii) NHAI has taken remedial measures for repair of the damaged bridge for which ₹41.52 crore was incurred. Punitive action against the defaulting contractors/consultants has already been initiated by imposing penalties and debarment from NHAI work etc., as per the provisions of the Contract Agreement.

The Ministry further replied (December 2023) that notice for invoking the Arbitration process to recover ₹64.39 crore has been issued (October 2023) to the Construction Contractor and Arbitrator on behalf of NHAI has been appointed/nominated. Similarly, notice for invoking the Arbitration process has been issued (October 2023) to the Design Consultant for recovery of ₹0.20 crore and Arbitrator on behalf of NHAI has been appointed/nominated. Punitive/Disciplinary action has been taken against various defaulting officials based on the advice of CVC.

Reply of the Management/Ministry may be viewed in the light of the following:

(i) Fault in design of the bridge came to the notice of NHAI in March 2010 and the bridge got damaged almost nine years later in 2019. Therefore, despite the contractor not giving notice, Management was aware of the fault in design and should have taken action. Also, though NHAI tried to recover ₹0.20 crore from the Design Consultant (January 2023), the amount was yet to be recovered.

Further, in response to show cause notice issued by NHAI, the construction contractor stated (January 2022) that the construction of the bridge was executed under the strict supervision of the Supervision Consultant and entire work had been supervised to the satisfaction of NHAI. The contractor disputed the intention of NHAI to impose penalties illegitimately as they did not have any liability as per the contract after several years of completion of the work.

Further, the Concessionaire, also denied (February 2022) the responsibility for damage of the bridge.

(ii) The Concessionaire had repeatedly intimated NHAI about the fact that it was not provided with the required land and therefore could not provide the facilities required to accommodate the overloaded vehicles and the storage of the excess load removed. Thus, contention of Management that Concessionaire did not intimate about overloaded vehicles is incorrect. Moreover, the District Administration authorities of Varanasi had also informed NHAI about passing of overloaded vehicle from toll plaza. Moreover, recovery of ₹1.11 crore from the Concessionaire was not against the expenditure incurred by NHAI on Rehabilitation of main Bridge, Temporary Steel Pile Bridge and Temporary diversion, rather the same was done as penalty for inadequate maintenance of the Project Highway.

(iii) Overall responsibility of construction of the bridge was on NHAI and it had failed to put in place proper check for quality assurance during construction of bridge. Though NHAI raised claims on the Design Consultant, Construction Contractor, Supervision Consultant and the Concessionaire, it recovered only a meagre amount of ₹1.31 crore. The arbitration process as referred in the reply is yet to start.

Adequate supervision and prompt action by NHAI could have avoided construction of bridge based on faulty design and use of poor quality of concrete during the construction of the bridge.

Thus, faults in design of the bridge, use of poor quality of concrete and plying of overloaded vehicles over the bridge led to damage to the bridge and extra expenditure of ₹41.52 crore by NHAI on account of rehabilitation of the main bridge (₹10.81 crore), construction of temporary steel bridge (₹6.16 crore) and construction of temporary diversions (₹24.55 crore). As against the extra expenditure of ₹41.52 crore, only an amount of ₹1.31 crore could be recovered. Despite the fact that there were various faults on the part of NHAI since the beginning as the design defects were known to NHAI since March 2010, the Project Director who was responsible for implementation and control of procedures for quality assurance and safety failed to ensure quality during construction. NHAI also failed to take action on plying of overloaded vehicles.

Recommendation No. 12: NHAI may put in efforts to recover the penalties/damages from its erring contractors and put stringent mechanism in place to prevent recurrence of such incidents of damage to structures due to faults in design, poor quality of concrete, improper supervision, poor maintenance and movement of overloaded vehicles in future.

8.7 Loss of interest of ₹12.78 crore to NHAI

NHAI suffered loss of interest of ₹12.78 crore due to delay in recovery of interest free mobilisation advance on account of amendment of the Model Engineering Procurement and Construction Contract documents by Ministry of Road Transport and Highways, allowing extension of interest free mobilisation advance to contractor without restricting the time limit of recovery by one year, in contravention of Manual on Policies and Procedure for Procurement of Works and CVC guidelines.

Para 4.10.2 of Manual on Policies and Procedure for Procurement of Works issued (August 2006) by Ministry of Finance, stipulates that in respect of certain specialised and capital intensive works, maximum of 10 *per cent* of estimated cost of work may be allowed to contractor as mobilisation advance at the specified rate of interest. Central Vigilance Commission Guidelines (April 2007) stipulate that provision of mobilisation advance should be need based and recovery of interest free mobilisation advance should be time based and not linked with the progress of work so that even if the contractor does not execute the work or executes the same at a slow pace, recovery of advance could commence and scope for misuse of such advance could be reduced. The above guidelines also provided that there should be clear stipulation of interest to be charged on delayed recovery of advances either due to the late submission of bills by the contractor or for any other reason.

Ministry of Road Transport and Highways (MoRTH/Ministry), vide its letter dated 5 October 2015, issued amendments to the Model Engineering Procurement and Construction Contract documents. The clause 19.2.6 which restricted the time limit for repayment of advance payment to no later than 365 days from the respective date of advance payment was deleted. Clause 19.2.7 relating to repayment was also amended to delete the interest payable by contractor at the rate of 18 *per cent* per annum on delay in repayment. The amended clause 19.2.7 stated that the advance payment would be repaid through percentage deductions from stage payments commencing from the next stage payment following that in which the total of all certified stage payments exceeded 20 *per cent* of the contract price. The deduction was to be made at the rate of 15 *per cent* of each stage payment provided that advance payment shall be completely repaid prior to the time when 80 *per cent* of the contract price had been certified for payment.

However, on 4 January 2016, MoRTH again amended the Model Engineering Procurement and Construction Contract documents and the clause 19.2.1 relating to the advance payment bearing interest at the rate of 10 *per cent* was brought in.

National Highways Authority of India (NHAI), in order to rehabilitate and augment the existing road from Km 206.050 to Km 266.282 (Design chainage) and existing chainage Km 209.945 to Km 270.00 (approximately 60.232 km) on the Simaria-Khagaria Section of NH-31 in Bihar by four laning on Engineering Procurement Construction basis, invited (30 June 2015) Request for Proposal for short listing of bidders. In line with the amendments made by MoRTH in October 2015, the Request for Proposal clause was modified by NHAI on 6 November 2015. NHAI issued Letter of Acceptance to the contractor on 31 December 2015 at a contract price of ₹567 crore. Appointed date and Scheduled date of completion was 5 October 2016 and 3 April 2019 respectively. Interest free advance of ₹56.70 crore was paid to the contractor in two installments of ₹28.35 crore each on 27 October 2016 and 6 April 2017 respectively.

In this regard, Audit noted the following:

- The amendment to the Model Engineering Procurement and Construction Contract documents made by MoRTH in October 2015 vide which, the clause restricting the repayment period of advance to 365 days was deleted, was in violation of CVC guidelines. Also, as per the amendment, there was no provision for imposition of interest on advance payment outstanding after one year. This was also in violation of the CVC guidelines.

- In agreement with the contractor, the recovery of mobilisation advance (at the rate of 15 *per cent* of Interim Payment Certificate value) was done between 27 August 2018 to 12 March 2021 without levy of any interest by NHAI. This resulted in loss of interest of ₹12.78 crore[32] due to delay in recovery of mobilisation advance after lapse of one year from the date of respective advances.

Thus, the amendment made (October 2015) by MoRTH allowed NHAI to release interest free mobilisation advance to the contractor without restricting the time limit for its repayment upto one year, which violated the CVC guidelines and the stipulation of the Manual on Policies and Procedure for Procurement of Works. Consequently, NHAI suffered loss of interest of ₹12.78 crore on the amount of advance that remained outstanding for more than one year from the date of respective advances.

The Management replied (December 2022) that bids were invited based on provisions of interest free mobilisation advances without any stipulation of recovery within 365 days. Thus, there was no clause in the agreement for imposition of interest on advance payment outstanding after one year. Ministry replied (July 2023) that the amendment was not specific only to the above referred project of NHAI but all projects of NHAI. As a remedial measure, Ministry has amended (4 January 2016) the Model Engineering Procurement and Construction Contract documents prescribing the advances as interest bearing at the rate of

[32] ***Calculated @ 10 per cent simple interest on the outstanding balances after lapse of one year on respective advance to the NHAI.***

10 *per cent* per annum. All mobilisation/equipment advances released by NHAI since then were interest bearing advances and interest was being recovered with the advances in conformity with the CVC guidelines.

Reply of the Management/Ministry may be seen in the light of the fact that the amendment in the Model Engineering Procurement and Construction Contract documents was in contravention of CVC Guidelines (April 2007), which stipulated that payment of mobilisation advance should be need based and its recovery should be time based and not linked with the progress of work. The amendment was also in violation of the Manual on Policies and Procedure for Procurement of Works issued by Ministry of Finance in 2006, which stipulated the charging of interest at a specified rate on the mobilisation advance. Further, just after three months, Ministry again amended (4 January 2016, i.e., within four days of issuance of Letter of Acceptance to the Contractor) the clause related to grant of interest free mobilisation advance. In its revised guidelines, mobilisation advances were made interest bearing and interest at the rate of 10 *per cent* was charged. Ministry, in its reply, has also accepted the fact that the subsequent amendment was a remedial measure which indicates that the earlier amendment (5 October 2015) was made in violation of CVC guidelines.This may also be seen in the light of the fact that this amendment remained valid for a brief period of 3 months only from 5 October 2015 to 3 January 2016. NHAI availed of this amendment to extend such interest free advance to the contractor, the recovery of which started after over one year and nine months since its release and went upto almost three years and ten months as against the one year stipulation of model contract document before its revision in October 2015. As stated by the Ministry, this amendment was not specific to the referred project and therefore could have affected other projects of NHAI as well.

Thus, MoRTH amended the Model Engineering Procurement and Construction Contract documents allowing extension of interest free mobilisation advance without restricting the time limit of recovery by one year, during a brief period of three months between 5 October 2015 and 3 January 2016, in contravention of CVC guidelines and the Manual on Policies and Procedure for Procurement of Works issued by Ministry of Finance. Consequently, NHAI suffered loss of interest of ₹12.78 crore on account of delay in recovery of interest free mobilisation advance after lapse of one year from the date of respective advances in one contract awarded by NHAI during December 2015.

Recommendation No. 13: Ministry may review the basis of the decision to provide interest free mobilisation advance, linked to the progress of work, violating the Manual on Policies and Procedure for Procurement of Works and CVC guidelines and take action against the erring officials.

8.8 Delay in commencement of collection of user fee/toll

There was delay in commencement of user fee/toll collection on account of reasons like delays in toll notification, its scrutiny, engagement of Toll Plaza agency, delay on part of Ministry of Road Transport and Highways in ensuring timely issue of Completion Certificate etc. Resultantly revenue of ₹14.65 crore (₹8.81 crore at Sonho and Pokhraira Toll Plaza and ₹5.84 crore at Gollaprolu Toll Plaza could not be collected by NHAI.

8.8.1 National Highways Authority of India (NHAI) entered into (9 September 2015) an agreement with a contractor for two laning of Chhapra-Rewaghat-Muzaffarpur Section of National Highway-102 with paved shoulder[33] from Km 1.300 to Km 74.349 (approximate design length 73.079 Km) in the state of Bihar. The work was a public funded project and executed in Engineering, Procurement and Construction mode[34]. Total cost of project was ₹397.27 crore and Scheduled Date of completion was 5 April 2018. The project consisted of two fee plazas viz., Sonho fee Plaza at Km 25.900 and Pokhraira fee Plaza at Km 54.350.

The project was completed on 31 January 2018 prior to the Scheduled Date of completion (5 April 2018). On the request of the contractor (February 2018), NHAI issued (4 January 2019) Provisional Completion Certificate (or Commercial Operation Date) with effect from 31 January 2018. The delay in issue of Provisional Completion Certificate was due to certain additional tests over and above the contract provisions conducted by NHAI for additional comfort. However, to avoid contractual disputes/complications, the Provisional Completion Certificate was issued with retrospective effect.

The National Highways Fee (Determination of Rates and Collection) Rules, 2008, stipulated that collection of user fee should commence within 45 days from the date of completion of the section of the Highway in case of a public funded project. Therefore, collection of user fee for the above project should have commenced by 17 March 2018 (i.e., 31 January 2018 + 45 days). The fee notification of both the fee plazas was published on 25 September 2018 and the user fee collection at both plazas started from 17 January 2019.

In this regard, Audit noted the following:

- Delay in commencement of user fee collection was on account of delay in approval of fee notification by Ministry of Road Transport and Highways and on account of delay in engagement of fee Plaza agency by NHAI.

- Project Implementation Unit, Chhapra of NHAI submitted draft fee notification to the Regional Office, Patna on 21 December 2017. However, the Regional Office

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33 ***Part of highway adjacent to the regularly travelled portion of the highway. It is on the same level as the highway.***

34 ***Engineering, Procurement and Construction model denotes a process of infrastructure construction in which the Government pays private parties to build roads. The responsibility of road developer ends thereafter and Government remains responsible for road maintenance, toll collection and road ownership.***

took 33 days for forwarding the draft notification in respect of Sonho fee Plaza and Pokhraira fee Plaza to NHAI Headquarters. Ministry of Road Transport and Highways approved the notification after 218 days.

- Even after publication of fee notification in September 2018 and entering into Contract Agreement for user fee collection in October 2018, it was only in January 2019, after the issuance of Provisional Completion Certificate, that the handing over of toll plazas for user fee collection could take place.

- Finally, the user fee collection at Sonho fee Plaza and Pokhraira fee Plaza was started from 17 January 2019 after a delay of over 306 days from the scheduled date of 17 March 2018.

Table 8.4: Details of time taken at various stages of approval

Particulars	Date-Sonho fee Plaza/Pokhraira fee Plaza	Time taken in days
Project Implementation Unit, Chhapra, NHAI sent draft fee notification to Regional Office, NHAI	21.12.2017	--
Regional Office, NHAI forwarded draft fee notification to NHAI Headquarters	23.01.2018	33 days (from 21.12.2017)
Approval of fee notification by Ministry of Road Transport and Highways	29.08.2018	218 days (from 23.01.2018)
Publication of fee notification of both the toll plazas	25.09.2018	27 days (from 29.08.2018)
Contract/Agreement for user fee collection	12.10.2018	17 days (from 25.09.2018)
Handing over fee Plazas for User Fee Collection	17.01.2019	97 days (from 12.10.2018)
Commencement of user fee collection at Sonho fee Plaza and Pokhraira fee Plaza (From Commercial Operation Date 31 January 2018)	17.01.2019	306 days (from 17.03.2018)

Above delays contributed to the delay in commencement of user fee collection by 306 days each in both the toll plazas. Resultantly, NHAI could not collect revenue of ₹8.81 crore[35] from the beneficiaries during the period 17 March 2018 to 16 January 2019.

Management, while furnishing the chronology of events, stated (February 2023) that toll notification was delayed due to official procedure including its scrutiny at various stages and was finally approved by Ministry of Road Transport and Highways. The Contract Agreement for the toll plazas could be signed only on 12 October 2018, and this was required before the start of user fee collection. Subsequently, after issuance of Provisional Completion Certificate on 4 January 2019, user fee collection at both toll plazas (Sonho and Pokhraira) was started from 17 January 2019.

[35] ***Calculated on the basis of bid amount quoted by the successful bidder for toll collection ₹1.42 lakh/day * 306 days (Sonho Toll Plaza) + ₹1.46 lakh/day *306 days (Pokhraira Toll Plaza)***

Ministry replied (July 2023) that NHAI has already completed the requisite formalities in advance i.e., toll notification and engagement of agencies etc., for toll commencement at both the toll plazas but the delay occurred in issuance of PCC. The delay was unavoidable procedural delay and the remarks are noted for future compliance to avoid such delays.

Reply of the Ministry/Management may be seen in the light of the fact that Provisional Completion Certificate was issued on 4 January 2019 effective from 31 January 2018. The Provisional Completion Certificate was issued with effect from back date as the contractor had fulfilled all the pre-conditions for the issuance of Provisional Completion Certificate. Delay in issuance of Provisional Completion Certificate was due to certain additional tests over and above the contract provisions that were conducted by NHAI for additional comfort. As the contractor had requested for issuance of Provisional Completion Certificate in February 2018, NHAI should have ensured timely completion of all tests and procedures to begin the collection of user fees within the stipulated period of 45 days from the issuance of such certificate. The procedural delays in toll notification, its scrutiny and engagement of toll plaza agency also were avoidable and within the control of Management.

Thus, due to delay in commencement of collection of user fees, NHAI could not collect revenue of ₹8.81 crore during 17 March 2018 to 16 January 2019.

8.8.2: Ministry of Road Transport and Highways (MoRTH/Ministry), Government of India and National Highways Authority of India (NHAI) entered (9 December 2015) into agreement with a contractor for rehabilitation and upgradation of a stretch[36] under Gollaprolu Toll Plaza. The date of completion and details of award and collection of toll in respect of toll plaza on this stretch are as follows:

Table 8.5: Details of date of completion, award and collection of toll in respect of toll plaza

Name of Toll Plaza	Date from which stretch was found fit for starting operation	Due Date for start of Toll Collection#	Date of Actual Start of Toll Collection	Delay in Start of Toll Collection	Amount of Daily Remittance	Revenue not collected due to delay in toll collection
		'A'	'B'	'B'- 'A'		
Gollaprolu Toll Plaza	10 April 2019	25 May 2019	23 November 2019	182 days	₹3,21,111	₹5.84 crore

 # - As per Rule 3 (2) of the National Highways Fee (Determination of Rates and Collection) Rules, 2008, the collection of fee levied under sub-rule (1) of Rule 3 shall be commenced within forty-five days from the date of completion of the section of the highway.

The subject stretch was part of National Highway Development Project-IV wherein MoRTH was developing the stretch through its Regional Office, Vijayawada. As part of

[36] ***Rehabilitation and Upgradation of Kathipudi to start of Kakinada Bypass from Km 0.000 to Km 27.500 of NH-214 (New NH-216) to 4 Lane under National Highways Development Project – IV.***

the arrangement, this stretch was to be transferred to NHAI upon issue of Completion Certificate for collection of toll fee by signing a tripartite agreement between MoRTH, NHAI and the Executing Agency.

MoRTH directed (29 June 2016) that the concerned Regional Office of the Ministry should take advance action and inform the concerned Regional Office of NHAI to take necessary action for publication of fee notification for projects wherever physical progress of the work is about 60 *per cent*. Accordingly, the Regional Office, MoRTH, Vijayawada informed (14 March 2018) the Regional Office, NHAI, Vijayawada that the project stretch had crossed physical progress of 60 *per cent* and requested to take necessary action for publication of fee notification and take advance action by appointing toll agency for the stretch. The stretch was physically verified by the Project Director, Project Implementation Unit, NHAI, Rajamahendravaram on 16 March 2018 and it was confirmed that the progress achieved was not less than 60 *per cent*. Audit observed following delays/deficiencies in the process of issuing Toll notification and issuance of Completion Certificate:

A. Issuance of Toll Notification:

(a) Project Implementation Unit submitted the draft fee notification to its Regional Office, NHAI, Vijayawada on 24 August 2018 with a delay of 161 days from 16 March 2018.

(b) Regional Office, NHAI, Vijayawada forwarded the proposal to NHAI Headquarters on 24 October 2018 after 61 days.

(c) NHAI Headquarters examined the proposal and returned the proposal with observations on 14 January 2019 i.e., after 82 days. These observations were complied with and replied by Regional Office, NHAI, Vijayawada on 18 February 2019.

(d) NHAI Headquarters took another 78 days and again requested Regional Office, NHAI, Vijayawada on 7 May 2019 to report compliance to new set of its observations and simultaneously submitted (16 May 2019) the draft fee notification to MoRTH for issue of Gazette Notification.

B. Issuance of Completion Certificate:

(a) On completion of the stretch, Regional Office, MoRTH, Vijayawada requested (10 December 2018) the Ministry to approve the issue of Provisional Completion Certificate from 20 October 2018. Simultaneously, list of items where certain compliances were to be made was forwarded to the contractor also.

(b) Compliances were made by the contractor by 10 April 2019 and these were physically checked through joint inspection by Authority Engineer and Regional Office, MoRTH, Vijayawada on 17 April 2019.

(c) Ministry granted approval on 17 May 2019 for issuing Provisional Completion Certificate with effect from 28 March 2019. Authority Engineer issued the Provisional Completion Certificate on 3 June 2019 declaring the stretch provisionally fit for entry from 28 March 2019. Audit observed that though the Authority Engineer had inspected the site on 17 April 2019 and was satisfied that there were no pending issues, instead of issuing Completion Certificate, Authority Engineer issued only Provisional Completion Certificate on 3 June 2019.

(d) The contractor requested for issue of Completion Certificate vide letter dated 1 July 2019 but the same was belatedly recommended by Authority Engineer on 13 August 2019 and the stretch was declared fit to commence operations retrospectively from 10 April 2019 by the Authority Engineer on 26 August 2019.

(e) The Tripartite Agreement between MoRTH, NHAI and the contractor was signed on 30 August 2019 and the stretch was handed over to NHAI by MoRTH on 9 September 2019.

(f) After exchange of clarifications and correspondence on user fee notification and allied facilities, MoRTH issued the Gazette Notification on 15 November 2019 and the toll fee collection commenced from 23 November 2019.

Thus, due to delay in initiation of process of publication of toll fee notification, prolonged correspondence coupled with delays on the part of MoRTH in ensuring timely issue of Completion Certificate, there has been a delay in commencement of toll collection by 182 days i.e., the toll collection which should have commenced[37] from 25 May 2019 actually commenced from 23 November 2019 resultantly toll revenue of ₹5.84 crore[38] during the period 25 May 2019 to 22 November 2019 could not be collected by NHAI.

The Ministry endorsed (June 2023) the Management's reply (May 2023) stating that the final Completion Certificate was issued to the contractor on 26 August 2019 and the same was effective from 10 April 2019. After issuance of Completion Certificate, Tripartite Agreement was signed between MoRTH, NHAI and the contractor on 30 August 2019 and the entire stretch was handed over to NHAI on 9 September 2019. The delay in issue of toll notification was due to incomplete data provided by MoRTH and the delay was only due to administrative procedure because of which Completion Certificate was formally issued in August 2019.

Reply of the Ministry/Management needs to be viewed in light of the fact that the contractor had completed the works on 10 April 2019 and the same was jointly inspected by the Regional Office, MoRTH, Vijayawada along with Authority Engineer on 17 April 2019.

[37] ***45 days from 10 April 2019 (the date of declaration of the stretch as fit for entry into commercial operations).***

[38] ***Amount of revenue loss = (No. of days of delay: 182 days) x (Daily Collection: ₹ 3,21,111) = ₹5,84,42,202/-***

However, the Provisional Completion Certificate was issued subsequently on 3 June 2019 and the Completion Certificate was issued on 26 August 2019.

Thus, inordinate delay in commencement of toll operations at Gollaprolu Toll Plaza due to delay in initiation of the process of publication of toll fee notification and prolonged correspondence and inadequate synchronisation in ensuring timely issue of Completion Certificate on the part of MoRTH as a result of which toll revenue of ₹5.84 crore could not be collected by NHAI.

Recommendation No.14: NHAI may ensure timely completion of procedures related to toll collection and align it with the issuance of Completion Certificate/Provisional Completion Certificate to prevent delay in commencement of user fee/toll collection. Responsibility may also be fixed in cases where user fee/toll collection is delayed.

Chapter IX

Recoveries and Corrections/Rectifications by CPSEs at the Instance of Audit

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

9.1 Recoveries at the instance of Audit

In the last ten years from 2012-13 to 2021-22, Management of various CPSEs have recovered an amount of ₹3,435.12 crore at the instance of Audit, which included recovery of ₹3.82 crore made during 2021-22 (**Annexure-X)**.

9.2 Corrections/rectifications at the instance of Audit

During test check, cases relating to violation of rules/regulations and deficiencies in the system were observed and brought to the notice of Management. Details of two cases where corrective action was taken or changes were made by the Management of CPSEs at the instance of Audit during 2021-22 are given in **Annexure-XI.**

Chapter X

Follow-up on Audit Reports (Commercial)

CHAPTER X

10.1 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 20 compliance audit paragraphs contained in the last five years' Audit Reports (Commercial), two Standalone Compliance Audit Report and three Performance Audit Report relating to the PSUs under the administrative control of various Ministries, as detailed in **Annexure-XII**, were not received by Audit for vetting.

New Delhi
Dated: 28 October 2024

(Anand Mohan Bajaj)
Deputy Comptroller and Auditor General
(Commercial) and Chairman, Audit Board

Countersigned

New Delhi
Dated: 29 October 2024

(Girish Chandra Murmu)
Comptroller and Auditor General of India

Annexures

Annexure-I

(*Referred to in Para 1.2*)

Statement showing amount recoverable from the contractor from 2017-18 to 2021-22

Year	Difference in weighment of coal despatch to Jamtara Siding (in MT)	Rate of G8 grade Coal (₹ Per MT)	Basic Value of Coal (in ₹)	Recoverable Value of Coal (Basic Value *2 (in ₹)	Royalty (@ 14% of Basic value of Coal) (in ₹)	Dues payable to National Mineral Exploration Trust (2% of Royalty) (in ₹)	Dues payable to District Mineral Foundation Trust (@ 30 % of Royalty) (in ₹)	Total Recoverable Amount (in ₹)
A	**B**	**C**	**D=B*C**	**E=D*2**	**F=D*14%**	**G=F*2%**	**H=F*30%**	**I=E+F+G+H**
2017-18	8,297.03	1,562.00	1,29,59,960.86	2,59,19,921.72	18,14,394.52	36,287.89	5,44,318.36	2,83,14,922.49
2018-19	8,876.26	1,611.50	1,43,04,092.99	2,86,08,185.98	20,02,573.02	40,051.46	6,00,771.91	3,12,51,582.36
2019-20	19,997.56	1,611.50	3,22,26,067.94	6,44,52,135.88	45,11,649.51	90,232.99	13,53,494.85	7,04,07,513.24
2020-21	4,420.83	1,611.50	71,24,167.55	1,42,48,335.09	9,97,383.46	19,947.67	2,99,215.04	1,55,64,881.25
2021-22	8,045.67	1,611.50	1,29,65,597.21	2,59,31,194.41	18,15,183.61	36,303.67	5,44,555.08	2,83,27,236.77
Total	**49,637.35**		7,95,79,886.54	15,91,59,773.08	1,11,41,184.12	2,22,823.68	33,42,355.23	17,38,66,136.11

Note: During 2017-18 to 2021-22, G-6 TO G-8, grade of coal was dispatched from Chitra Mine to Jamtara Railway Siding. However, for the purpose of calculation, Audit has conservatively considered the rate of G-8 grade of coal being the inferior one.

Annexure-II

(*Referred to in Para 2.4*)

Details of Purchase orders

<table>
<tr><th>Equipment</th><th>Date of PO for material</th><th>Date of PO for service</th><th>Date of commissioning</th><th>Warrantee period</th></tr>
<tr><td>TG3</td><td>16.01.2014</td><td>signed on 22.04.2015[1]</td><td>15.06.2017</td><td>PBG valid upto 31.08.2018</td></tr>
<tr><td>TG2</td><td>17.01.2014</td><td>signed on 07.11.2019</td><td>Yet to commission (April 2023)</td><td rowspan="2">12 months after the goods have been delivered or 18 months after the date of shipment whichever conclude earlier[2].</td></tr>
<tr><td>TG1</td><td>27.12.2013</td><td>Yet to sign (April 2023)</td><td>Work yet to start (April 2023)</td></tr>
</table>

[1] *Contract was signed on 22 April 2015 with original completion date 11 August 2015, amended 12 times for extension, finally commissioned on 15 June 2017.*

[2] *12 months after the goods have been delivered or 18 months after the date of shipment whichever periods conclude earlier unless specified otherwise in the special conditions of contract. In case the installation & commissioning is delayed on account of the Supplier, the warranty period shall automatically get extended.*

Annexure-III

(*Referred to in Para 2.5*)

Demurrage incurred by ONGC during 2016-17 to 2021-22 (₹ in crore)

FY	T&S Mumbai	T&S Kolkata	T&S Chennai	Total
2016-17	11.26	2.19	30.33	**43.78**
2017-18	2.91	3.45	4.41	**10.77**
2018-19	10.39	1.67	1.05	**13.11**
2019-20	10.79	5.87	3.10	**19.76**
2020-21	13.00	3.40	1.18	**17.58**
2021-22	2.71	2.76	0.14	**5.61**
Total	**51.06**	**19.34**	**40.21**	**110.61**

Source: SAP data

Annexure-IV

(*Referred to in Para 2.5*)

Number of consignments on which demurrage incurred by T&S offices against the total consignments cleared

Year	T&S Mumbai			T&S Kolkata			T&S Chennai		
	No. of consignments cleared	No. of consignments in which demurrage paid	% of consignments where demurrage paid	No. of consignments cleared	No. of consignments in which demurrage paid	% of consignments where demurrage paid	No. of consignments cleared	No. of consignments in which demurrage paid	% of consignments where demurrage paid
2016-17	748	483	65	247	150	61	238	232	97
2017-18	615	349	57	154	118	77	151	150	99
2018-19	637	566	89	205	142	69	192	161	84
2019-20	682	550	81	283	NA	NA	243	239	98
2020-21	592	443	75	230	NA	NA	202	195	97
2021-22	373	289	77	166	NA	NA	100	94	94
Total	**3,647**	**2,680**	**74 (Avg.)**	**1,285**	**410**	**69 (Avg.)**	**1,126**	**1,071**	**95(Avg.)**

Source: Data provided by the Company. NA-Details awaited from the Company.

Annexure-V
(*Referred to in Para 2.5*)

Percentage of consignments where demurrage paid on ONGC Account by T&S Mumbai

Year	Consignments on which demurrage paid (Nos.)	Demurrage on account of ONGC			% of consignments where demurrage paid on ONGC account		
		Operational	Delay in EC	Total (Nos.)	Operational	Delay in EC	Total
2016-17	483	93	181	274	19.25	37.47	56.73
2017-18	349	102	95	197	29.23	27.22	56.45
2018-19	566	207	138	345	36.57	24.38	60.95
2019-20	550	228	100	328	41.45	18.18	59.64
2020-21	443	177	28	205	39.95	6.32	46.28
2021-22	289	118	25	143	40.83	8.65	49.48
Total	**2,680**	**925**	**567**	**1,492**	**34.51**	**21.16**	**55.67**

Source: Demurrage register provided by T&S Mumbai

Percentage of consignments where demurrage paid on ONGC Account by T&S Kolkata

Year	Consignments on which demurrage paid (Nos.)	Demurrage on account of ONGC			% of consignments where demurrage paid on ONGC account		
		Operational	Delay in EC	Total (Nos.)	Operational	Delay in EC	Total
2016-17	150	34	67	101	22.67	44.67	67.33
2017-18	118	18	42	60	15.25	35.59	50.85
2018-19	142	35	38	73	24.65	26.76	51.41
Total	**410**	**87**	**147**	**234**	**21.22**	**35.85**	**57.07**

Source: Demurrage details provided by T&S Kolkata

Percentage of consignments where demurrage paid on ONGC Account by T&S Chennai

Year	Consignments on which demurrage paid (Nos.)	Consignments where demurrage paid on account of ONGC*		Reason not available on record#	
		Nos.	**%**	**Nos.**	**%**
2016-17	232	122	52.59	-	-
2017-18	150	102	68.00	-	-
2018-19	161	89	55.28	-	-
2019-20	239	129	53.97	8	3.35
2020-21	195	14	7.18	160	82.05
2021-22	94	3	3.19	83	87.37
Total	**1,071**	**459**	**42.86**	**255**	**23.70**

* Demurrage register maintained by T&S Chennai did not separately mention demurrage on account of ONGC due to EC and Operational delays.

Details provided by T&S Chennai did not mention reasons for demurrage payment in 82 *per cent* and 88 *per cent* cases during 2020-21 and 2021-22 respectively.

Source: demurrage details provided by T&S Chennai

Annexure-VI

(*Referred to in Para 2.5*)

Region wise demurrage absorbed on account of ONGC

(Amount in ₹)

Year	T& S Mumbai	T&S Kolkata	T&S Chennai	Total
2016-17	2,32,49,712	1,44,24,999	5,74,15,418	9,50,90,129
2017-18	2,63,09,855	75,04,168	6,88,44,499	10,26,58,522
2018-19	8,63,002	19,40,465	6,86,56,062	7,14,59,529
2019-20	2,97,75,749	19,00,917	41,02,982	3,57,79,648
2020-21	3,61,86,109	70,17,417	17,61,74,008	21,93,77,534
2021-22	2,81,00,950	57,82,865	2,91,51,436	6,30,35,251
Total	**14,44,85,377**	**3,85,70,831**	**40,43,44,405**	**58,74,00,613**

Source: Demurrage Absorption Account-201457 in ONGC's SAP system

Annexure-VII
(*Referred to in Para 4.3*)

Statement Showing the Details of Ineligible amount paid over and above the Principal amount

(Amount ₹ in lakh)

Sr. No.	Name of MLI	Portfolio ID	No. of accounts identified to whom interest is paid	Eligible AID for accounts identified to whom interest is paid	Principal amount for accounts identified to whom interest is paid	Interest amount for accounts identified to whom interest is paid	Ineligible amount paid over and above the Principal Amount
a	**b**	**c**	**D**	**e**	**f**	**g = e-f**	**h = g*50%**
1	**Allahabad Bank**	MUDALLA20152016R	5,050	4,892.64	4,782.33	110.31	55.16
		MUDALLA20162017C	5,560	7,556.77	7,377.13	179.64	89.82
		MUDALLA20172018R	2,586	8,146.97	7,957.26	189.71	94.86
2	**Andhra Bank**	MUDANDB20152016R	724	1,670.56	1,640.05	30.51	15.26
		MUDANDB20162017C	438	2,071.93	2,035.57	36.36	18.18
		MUDANDB20172018C	667	3,581.91	3,521.83	60.08	30.04
3	**Bank of Baroda**	MUDBARB20152016R	3,533	5,537.38	5,459.49	77.89	38.95
		MUDBARB20162017R	2,234	4,078.05	4,023.38	54.67	27.34
4	**Bank of India**	MUDBKID20152016R	11,524	9,251.33	9,043.21	208.12	104.06
		MUDBKID20162017C	6,379	8,366.85	8,211.72	155.13	77.56
		MUDBKID20172018C	11,580	19,672.55	19,306.05	366.50	183.25
5	**Bank of Maharashtra**	MUDMAHB20152016R	1,757	1,426.83	1,402.79	24.04	12.02
		MUDMAHB20162017C	364	639.28	631.12	8.16	4.08
		MUDMAHB20172018R	3,404	5,696.64	5,569.79	126.85	63.42
6	**Baroda U.P Bank (Kashi Gomti Samyut Gramin)**	MUDKGSG20172018R	208	187.26	182.99	4.27	2.14
7	**Canara Bank**	MUDCNRB20172018C	18,717	24,097.80	23,544.34	553.46	276.73

Sr. No.	Name of MLI	Portfolio ID	No. of accounts identified to whom interest is paid	Eligible AID for accounts identified to whom interest is paid	Principal amount for accounts identified to whom interest is paid	Interest amount for accounts identified to whom interest is paid	Ineligible amount paid over and above the Principal Amount
8	**Central Bank of India**	MUDCBIN20152016R	137	95.01	93.29	1.72	0.86
		MUDCBIN20162017R	1,301	1,438.93	1,413.41	25.52	12.76
		MUDCBIN20172018C	480	1,385.96	1,363.49	22.47	11.23
9	**Corporation Bank**	MUDCORP20152016R	1,853	2,633.10	2,577.45	55.65	27.83
		MUDCORP20162017C	1,284	2,464.69	2,425.65	39.04	19.52
		MUDCORP20172018C	901	2,597.11	2,560.29	36.82	18.41
10	**Dakshin Bihar Gramin Bank**	MUDDBGB20152016R	2,867	2,420.61	2,359.46	61.15	30.57
		MUDDBGB20162017R	4,569	4,574.51	4,462.17	112.34	56.17
11	**Dena Bank**	MUDBKDN20152016R	352	226.58	221.76	4.82	2.41
12	**Vijaya Bank**	MUDVIJB20162017C	146	275.03	271.96	3.07	1.53
		MUDVIJB20172018C	129	335.03	330.03	5.00	2.50
13	**IDBI Bank**	MUDIBKL20152016R	4,474	8,912.68	8,720.03	192.65	96.32
		MUDIBKL20162017C	1,682	4,125.78	4,043.19	82.59	41.29
		MUDIBKL20172018C	1,668	4,048.40	3,964.51	83.89	41.94
14	**Indian Bank**	MUDIDIB20162017R	1,357	1,472.32	1,434.69	37.63	18.82
		MUDIDIB20172018C	188	1,116.26	1,094.06	22.20	11.10
15	**Indian Overseas Bank**	MUDIOBA20152016R	253	157.34	153.81	3.53	1.77
		MUDIOBA20162017R	1,437	1,558.69	1,523.63	35.06	17.53
16	**Karnataka Gramin Bank**	MUDPKGB20152016R	2,691	921.13	898.03	23.10	11.55
		MUDPKGB20162017C	3,141	1,912.73	1,856.88	55.85	27.92
		MUDPKGB20172018R	4,473	2,724.58	2,646.25	78.33	39.16
17	**Kerala Gramin Bank**	MUDKLGB20152016R	28	10.77	10.46	0.31	0.16
		MUDKLGB20162017C	3	19.34	18.98	0.36	0.18

Sr. No.	Name of MLI	Portfolio ID	No. of accounts identified to whom interest is paid	Eligible AID for accounts identified to whom interest is paid	Principal amount for accounts identified to whom interest is paid	Interest amount for accounts identified to whom interest is paid	Ineligible amount paid over and above the Principal Amount
		MUDKLGB20172018C	15	83.13	81.05	2.08	1.04
18	**Oriental Bank of Commerce**	MUDORBC20152016R	2,614	1,555.59	1,517.67	37.92	18.96
		MUDORBC20172018C	3,902	5,225.63	5,129.18	96.45	48.23
19	**Punjab and Sindh Bank**	MUDPSIB20152016R	1,027	424.92	414.65	10.27	5.13
		MUDPSIB20162017R	471	900.79	883.96	16.83	8.41
		MUDPSIB20172018C	223	577.43	572.60	4.83	2.41
20	**Punjab Gramin Bank**	MUDPBGB20162017C	867	647.91	633.88	14.03	7.01
		MUDPBGB20172018R	1,035	961.38	939.79	21.59	10.80
21	**Punjab National Bank**	MUDPUNB20152016R	16,978	14,242.52	13,906.68	335.84	167.92
		MUDPUNB20162017C	12,850	16,717.27	16,370.26	347.01	173.51
		MUDPUNB20172018C	18,186	29,526.06	28,946.84	579.22	289.61
22	**Sarva Haryana Gramin Bank**	MUDSHGB20162017R	149	61.47	59.70	1.77	0.89
		MUDSHGB20172018C	106	76.69	74.69	2.00	1.00
23	**State Bank of India**	MUDSBIN20152016R	58,552	34,845.39	33,957.77	887.62	443.81
		MUDSBIN20162017R	33,635	39,016.13	37,988.89	1,027.24	513.62
		MUDSBIN20172018C	41,964	56,881.17	55,423.72	1,457.45	728.72
24	**UCO Bank**	MUDUCBA20152016R	1,773	1,101.62	1,074.43	27.19	13.59
		MUDUCBA20162017R	1,069	1,000.53	981.40	19.13	9.57
		MUDUCBA20172018C	8,577	7,994.48	7,835.36	159.12	79.56
25	**Union Bank of India**	MUDUBIN20152016R	721	1,094.79	1,071.04	23.75	11.88
		MUDUBIN20162017C	540	1,373.58	1,350.38	23.20	11.60
		MUDUBIN20172018C	1,309	3,335.38	3,285.46	49.92	24.96

Sr. No.	Name of MLI	Portfolio ID	No. of accounts identified to whom interest is paid	Eligible AID for accounts identified to whom interest is paid	Principal amount for accounts identified to whom interest is paid	Interest amount for accounts identified to whom interest is paid	Ineligible amount paid over and above the Principal Amount
26	**United Bank of India**	MUDUTBI20152016R	1,336	1,449.32	1,411.78	37.54	18.77
		MUDUTBI20172018C	5,293	10,754.98	10,552.32	202.66	101.33
27	**Uttar Bihar Gramin Bank**	MUDUBGB20162017R	853	472.38	459.15	13.23	6.62
		MUDUBGB20172018C	647	395.98	385.31	10.67	5.33
	Total	**65**	**3,24,831**	**3,83,017.85**	**3,74,440.49**	**8,577.36**	**4,288.68**

Annexure-VIII
(*Referred to in Para 8.2*)

Details of four National Highway widening projects

Sl. No	Name of project	Bid project cost (₹ in crore)	Mobilisation advance paid (₹ in crore)	Appointed date	Monitored by
1	Ausa-Chakur in NH No. 361 (58.51 kms)	848.63	42.43	25.03.2019	PIU Nanded
2	Chakur-Loha in NH No. 361 (73.35 kms.).	1,000.10	50.01	25.03.2019	PIU Nanded
3	Loha-Waranga in NH No. 361 (56.57 kms.).	1,073.10	53.66	25.03.2019	PIU Nanded
4	Vadape-Thane in NH No. 3, New NH No.848 (23.47 kms.).	1,182.87	59.14	21.01.2019	PIU Thane
	Total	**4,104.70**	**205.24**		

Annexure-IX
(*Referred to in Para 8.5*)

Collection of revenue due to reduction in toll fee as per Court orders

Name of User Fee Plaza	Reduction in daily remittance (Amount in ₹)	Period during which toll was reduced to 50 *per cent*	No. of Days	Revenue collected (Amount in ₹)
(a)	**(c)**	**(d)**	**(e)**	**(f) = (c) x (e)**
Nemili (Sriperumpudur)	8,53,434	15 December 2020 to 30 January 2021	47	4,01,11,398
	10,59,495	31 January 2021 to 7 October 2021	250	26,48,73,750
Chennasamudram	7,75,855	15 December 2020 to 3 January 2021	20	1,55,17,100
	9,22,652	4 January 2021 to 7 October 2021	277	25,55,74,604
Total			**57,60,76,852**	

Annexure-X

(*Referred to in Para 9.1*)

Recoveries at the instance of Audit

(₹ in lakh)

Name of the Ministry/ Department	Name of the CPSE	Audit Observation in brief	Amount recovered by the Management in F.Y. 2021-22
Department of Financial Services	SBI Cards and Payment Services Limited	Non-compliance to the CVC and DPE guidelines in award of contract for Security Services providers	47.83
Department of Financial Services	The Oriental Insurance Company Limited	Excess payment of electricity charges to the lessor due to non-adherence of the lease agreement	1.30
Department of Financial Services	The New India Assurance Company Limited	Excess payment of claim under Contractors Plant and Machinery Policy	1.75
Petroleum and Natural Gas	Oil and Natural Gas Corporation Limited	Recovery of HRA paid to non-entitled employees	11.00
Road Transport and Highways	National Highways Authority of India	Non-recovery of penalty under fee collection contracts of public funded Plazas	12.72
Steel	Steel Authority of India Limited	Non-recovery from the agency against converter refractory	304.16
Steel	Steel Authority of India Limited	Double payment made to Hospital in respect of medical bill	3.61
		Total	**382.37 lakh**
		Say	**3.82 crore**

Annexure-XI

(*Referred to in Para 9.2*)

Corrections/rectifications at the instance of Audit

Name of Ministry	Name of the CPSE	Audit Observation in brief	Action taken by the Management
Power	Power Grid Corporation of India Limited	In its Works and Procurement Policy, company restricted the amount of liquidated damages, to be levied on delayed supplies/execution of works by the contractors, by stating that liquidated damages were to be recovered only if there was demonstrable loss to company due to delays attributable to the contractors otherwise only token liquidated damages, to cover the incidental expenses that the company might have incurred due to delays, were to be levied and recovered. It resulted in undue financial benefit to the contractors.	Management revised (January 2022) its Works and Procurement Policy in line with the terms of contracts to levy liquidated damages as per the agreed rates and have deleted the words pertaining to levy of token liquidated damages.
Road Transport and Highways	National Highways Authority of India	While fixating of toll fee for Kalaparru Toll Plaza, the wholesale price index of December 2018 was adopted instead of December 2017.	Management revised the toll fee based on correct wholesale price index and made the revised rates effective from February 2022.

Annexure-XII
(Referred to in Chapter X)
Statement showing the details of Audit Reports (Commercial) for last five years for which first Action Taken Notes were pending as on July 2023

Audit Report number and year of the Audit Report		Para No.
Ministry of Civil Aviation		
13 of 2019	Compliance Audit	Para 1.1
14 of 2021	Compliance Audit	Para 9.2
Ministry of Finance (Department of Financial Services)		
33 of 2022	Compliance Audit	Para 4.1
33 of 2022	Compliance Audit	Para 4.4
1 of 2022	Standalone Compliance Audit	Entire Report
Ministry of Housing & Urban Affairs		
11 of 2021	Performance Audit	Entire Report
33 of 2022	Compliance Audit	Para 6.1
34 of 2022	Performance Audit	Entire Report
Ministry of Mines		
18 of 2020	Compliance Audit	Para 8.1
Ministry of Petroleum and Natural Gas		
14 of 2021	Compliance Audit	Para 2.9
13 of 2022	Performance Audit	Entire Report
33 of 2022	Compliance Audit	Para 2.1
33 of 2022	Compliance Audit	Para 2.2
33 of 2022	Compliance Audit	Para 2.3
33 of 2022	Compliance Audit	Para 2.4
33 of 2022	Compliance Audit	Para 2.5
33 of 2022	Compliance Audit	Para 2.6
33 of 2022	Compliance Audit	Para 2.7
33 of 2022	Compliance Audit	Para 2.8
Ministry of Power		
33 of 2022	Compliance Audit	Para 3.2
33 of 2022	Compliance Audit	Para 3.4
Ministry of Road Transport and Highways		
33 of 2022	Compliance Audit	Para 7.1
33 of 2022	Compliance Audit	Para 7.2
33 of 2022	Compliance Audit	Para 7.3
11 of 2022	Standalone Compliance Audit	Entire Report