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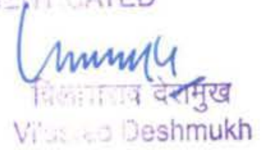

नई दिल्ली
New Delhi

विलासराव देशमुख
Vilasrao Deshmukh

मंत्री भारी उद्योग एवं लोक उद्यम मंत्रालय
Minister of Heavy Ind. & Public Enterprises
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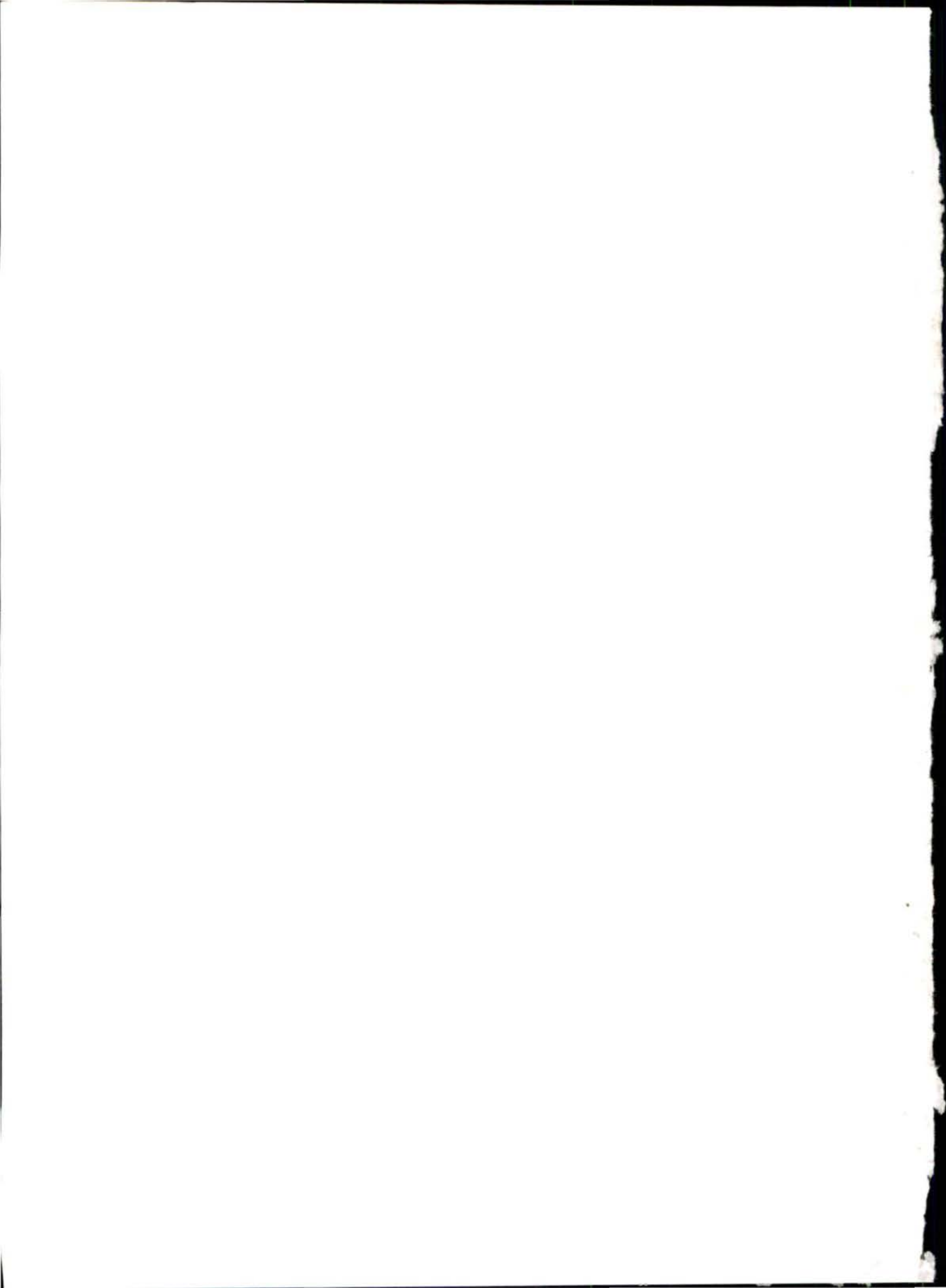
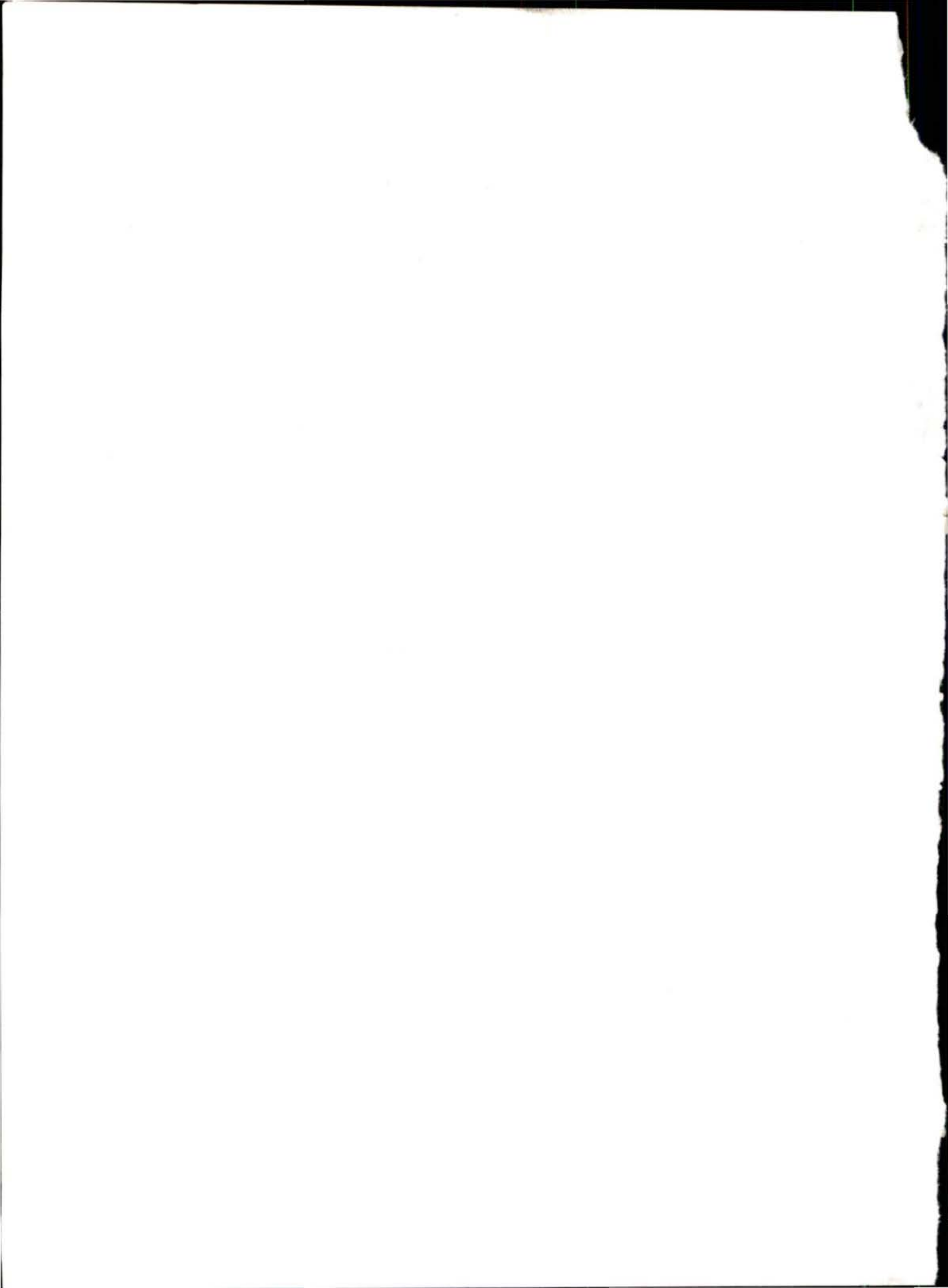


Report of the Comptroller and Auditor General of India

for the year ended March 2008

Union Government (Commercial)
No. CA 24 of 2009-10
(Compliance Audit Observations)



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PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 619 of the Companies Act, 1956. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the C&AG under the Companies Act are subject to supplementary audit by officers of the C&AG and the C&AG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 1956 empowers the C&AG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited.

2. The statutes governing some Corporations and Authorities require their accounts to be audited by the C&AG and reports to be given by him. 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 the C&AG as their sole auditor. In respect of one Corporation *viz.* Central Warehousing Corporation, the C&AG has the right to conduct a supplementary or test audit after audit has been conducted by the Chartered Accountants appointed under the statutes governing the Corporation.

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

4. The Audit Board mechanism was restructured during 2005-06 under the supervision and control of the C&AG. The Board, which is permanent in nature, is chaired by the Deputy Comptroller and Auditor General (Commercial) and consists of senior officers of the C&AG. Two technical experts are inducted as special invitees, if necessary. The Principal Director (Commercial) of the C&AG's Office is the Member, Secretary to the Board. The Board approves the topics recommended for performance audit. It also approves the guidelines, audit objectives, criteria and methodology for conducting major performance audits. The Board finalises the stand alone performance audit reports after discussions with the representatives of the Ministry and Management.

5. Annual reports on the accounts of the Central Government Companies and Corporations are issued by the C&AG to the Government. For the year 2009-10, these are:

Compliance Audit Reports

Report No. CA 22 - Financial Reporting by Public Sector Undertakings (PSUs): This gives an overall picture of the quality of financial reporting by PSUs and an appraisal of the performance of the Companies and Corporations as revealed by their accounts.

Report No. CA 23 - Information Technology Applications in PSUs: This gives an overall assessment of the use of information technology in selected areas of operations of selected PSUs.

Report No. CA 24 - Compliance Audit Observations: This contains observations on individual topics of interest noticed in the course of audit of the Companies and Corporations in all sectors other than the Companies in the Telecommunications Sector for which a separate report is prepared.

Report No. CA 25 - Compliance Audit Observations: This contains the observations on individual topics of interest noticed in the course of audit of the Companies in the Telecommunications Sector.

Performance Audit Reports

Report No. PA 27: This contains reviews of selected activities of the Companies and Corporations.

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 2006-07 and 2007-08 as well as those which came to notice in earlier years but could not be reported.

7. All references to 'Government Companies/ Corporations or PSUs' in this report may be construed to refer to 'Central Government Companies/ Corporations' unless the context suggests otherwise.

OVERVIEW

I Introduction

1. This Report includes important Audit findings noticed as a result of test check of transactions of Central Government Companies and Corporations conducted by the officers of the CAG of India under Section 619(3) (b) of the Companies Act, 1956 or the statute governing the particular Corporations. The results of Information Technology Audit are included in a separate volume.

2. The Report contains 85 paragraphs relating to 64 PSUs*. The draft paragraphs were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 34 paragraphs were not received even as this report was being finalised in November 2008. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of one paragraph, they did not respond despite being reminded.

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

Ministry/Department (Total number of PSUs/ **PSUs involved here)**	**No. of para-graphs**	**Financial implication in the paragraphs (Rs. in crore)**	**Number of paragraphs in respect of which Ministry reply was awaited**
1. Agriculture (4/**1**)	1	2.58	0
2. Civil Aviation (10/**3**)	8	74.06	5
3. Coal (10/**2**)	5	171.29	2
4. Commerce and Industry (12/**2**)	2	10.17	0
5. Consumer Affairs, Food and Public Distribution (3/**2**)	12	57.91	6
6. Defence (10/**3**)	9	109.67	3
7. Fertilizers (8/**2**)	3	6.87	0
8. Finance (15/**4**)	8	15.41	2
9. Heavy Industries (51/**3**)	8	67.98	5

* ***This includes 22 PSUs whose paras have been shown under the Department of Public Enterprises as consolidated paras.***

10. Mines (4/**1**)	1	24.49	0
11. Petroleum and Natural Gas (20/**7**)	10	563.62	5
12. Power (31/**2**)	2	48.17	2
13. Public Enterprises ([1]/[2])	3	648.84	0
14. Railways (14/**2**)	2	2.99	2
15. Shipping (9/**2**)	2	3.13	0
16. Steel (14/**6**)	9	39.40	2
Total (215/**42**)	**85**	**1846.58**	**34**

The audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- Irregular payment to employees on account of *ex-gratia*, incentives *etc.*, amounting to Rs.916.63 crore in six paras.
- Avoidable/excess expenditure of Rs.497.97 crore in 31 paras.
- Loss of revenue of Rs.237.41 crore due to non-compliance to law, rules, regulations and control weakness *etc.*, in 16 paras.
- Violation of contractual obligations, undue favour to contractors *etc.*, amounting to Rs.21.73 crore in four paras.
- Overpayments, wasteful, excess and avoidable expenditure *etc.*, amounting to Rs.66.48 crore in eight paras.
- Idle investment and blocking of funds *etc.*, amounting to Rs.92.85 crore in 19 paras.
- Rs.13.51 crore was recovered at the instance of Audit in one para.

[1] ***All the PSUs are under the Department of Public Enterprises.***
[2] ***PSUs covered in the para are not appearing in the respective Ministry/Department.***

II Highlights

Gist of some important paragraphs included in the Report is given below:

- **Eight Public Sector Undertakings** paid cash award amounting to **Rs.589.97 crore** to their employees for excellent performance and *ex-gratia* of **Rs.8.23 crore** in lieu of bonus to ineligible employees during the period from **2001-02 to 2007-08** in contravention of the guidelines issued by the Department of Public Enterprises.

  (Para 13.1.1)

- **Oil and Natural Gas Corporation Limited** incurred an extra expenditure of **Rs.193.97 crore** by ignoring the current crude oil price for evaluation of an offer that led to rejection of the offer in April 2004 and consequent re-tendering in **March 2005 and July 2005**.

  (Para 11.3.1)

- Decision of **Indian Oil Corporation Limited** in **March 2006 and September 2006** for revision of Productivity Linked Incentive scheme and to give retrospective effect to the scheme resulted in avoidable expenditure of **Rs.182.53 crore**.

  (Para 11.2.1)

- **Eastern Coalfields Limited** was supplying coal to NTPC Limited at price below the notified price. The Coal Supply Agreement provided for review of the price after every five years. The price has not been reviewed as a result of which Eastern Coalfields Limited was deprived of additional revenue of **Rs.136.63 crore** during **2005-06 to 2007-08.**

  (Para 3.1.1)

- Delay by **Oil and Natural Gas Corporation Limited** in implementing the directive of its Executive Purchase Committee during **July 2004 to June 2005** for procuring high flash high speed diesel as inter-state sale from Mangalore by hiring tankers/barges to save on local taxes resulted in extra expenditure of **Rs.63.90 crore**.

  (Para 11.3.2)

- Aircraft divisions of MiG Complex, Nashik of the **Hindustan Aeronautics Limited** introduced (October 2005) a new incentive scheme called 'SMH saved incentive scheme' for efficiency beyond the ceiling of 160 *per cent* as fixed by the Company by *suo-moto* raising the maximum ceiling to 225 *per cent* without approval of the Board of Directors as required. The incentive payment (**Rs 52.24 crore**) beyond 160 *per cent* was made during **2005-06 to 2007-08** by unauthorisedly diverting the Overtime (OT) hour sanctions received from the Corporate Office. Though OT was payable for work turned out beyond working hours, the OT hours sanctions were utilised for work turned out during normal working hours.

  (Para 6.3.1)

- Due to failure of **Satluj Jal Vidyut Nigam Limited** to avail exemptions from payment of duties notified under the Central Excise and Salt Act, 1944 and the Customs Act, 1962, it incurred avoidable expenditure of **Rs.46.93 crore** on construction of Nathpa-Jhakri Hydroelectric project during **October 1996 to July 2004**.

  (Para 12.2.1)

- Six central public sector undertakings *viz.*, **Oil and Natural Gas Corporation Limited, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, GAIL (India) Limited** and **ONGC Videsh Limited** paid lump-sum compensation aggregating **Rs.45.09 crore** for the period from **January 2002 to December 2006** as incentive/stagnation relief to their employees who were stagnating in their pay scales despite their getting maximum number of stagnation increments admissible.

  (Para 11.4.1)

- **Pawan Hans Helicopters Limited** had entered into an agreement with the Oil and Natural Gas Corporation Limited to make available AS-4 compliant helicopters. The Company could not complete the upgradation of helicopters to AS-4 standards within the time stipulated of 150 days from the date of award of contract as a result of which it could not claim higher charter hire charges resulting in loss of revenue of **Rs.42.51 crore** during the period from **August 2006 to December 2007**.

  (Para 2.3.1)

- In disregard to the directives of Department of Public Enterprises, **19 Companies** incurred excess expenditure of **Rs.37.13 crore** during **April 2004 to March 2008** due to adoption of 26 days as a month instead of 30 days for computing encashment of earned leave.

  (Para 13.2.1)

- **Bongaigaon Refinery & Petrochemicals Limited** suffered a loss of **Rs.29.68 crore** during **December 2003 to November 2005** on account of the decision to enter into an alliance with Reliance Industries Limited to operate the Polyster Staple Fibre Plant which had a poor record of performance.

  (Para 11.1.1)

- Due to inadequate planning in supply of the gun control system, **Bharat Heavy Electricals Limited** could not adhere to the delivery schedule and incurred an avoidable expenditure of **Rs.26.95 crore** from **January 2003 to February 2006**.

  (Para 9.2.1)

- **Neyveli Lignite Corporation Limited** procured Spreader and Tripper of 11000 Ton *per* Hour during **2007-08** to replace the existing Spreader and Tripper of 8000 Ton *per* Hour. The procurement of Spreader and Tripper of higher capacity than required along with spares resulted in avoidable additional expenditure of **Rs.26.20 crore.**

  (Para 3.2.1)

- Failure of the **National Aluminium Company Limited** to finalise a bid received during **July 2006** for sale of calcined aluminia resulted in Company realising a lower offer during the subsequent bid. The Company lost **Rs.24.49 crore** on account of such a decision.

  (Para 10.1.1)

- **BEML Limited** paid **(September 2005 and November 2006)** Transfer of Technology fee (TOT) of **Rs.22.23 crore** to ROTEM, without getting the confirmed order from Delhi Metro Rail Corporation for its RS2 project. However, as *per* clause 4.1 of the Memorandum of Agreement (MoA), the Company had to pay TOT within 28 days from the date of acceptance of first coming order. Thus, payment of TOT of Rs.22.23 crore was in contravention of clause 4.1 of the MoA and amounted to extending undue contractual benefit to ROTEM.

  (Para 6.1.2)

- Non-availing of concessional rate of customs duty under EPCG scheme by **Oil and Natural Gas Corporation Limited** in respect of nine supply orders placed during the period from **March 2003 to May 2007** for import of capital goods resulted in an avoidable expenditure of **Rs. 13.61 crore**.

  (Para 11.3.3)

- During test check, several cases relating to non-recovery, excess payment *etc.*, by Central Public Sector Undertakings were pointed out. In 31 such cases pertaining to eight PSUs, Audit pointed out that an amount of Rs.13.94 crore was due for recovery. Management of PSUs had recovered an amount of **Rs.13.51 crore** during the year **2007-08**.

  (Para 13.3.1)

- Failure to include the education *cess* in the refinery transfer price of motor spirit and high speed diesel by **Indian Oil Corporation Limited** resulted in under recovery of subsidy of **Rs.13.27 crore** during **2005-06.**

  (Para 11.2.2)

- **Indian Oil Corporation Limited** made an avoidable payment of **Rs.11.28 crore** under an agreement during **2005-06** due to failure to ensure proper synchronisation of additional facilities created at Mundra port with the expansion of Panipat refinery.

  (Para 11.2.3)

- **Steel Authority of India Limited** entered into Memorandum of Understanding with Bharat Coking Coal Limited and Central Coalfields Limited for procurement of coking coal. The penalty clause in the MOU was defective which resulted in under levy of penalty amounting to **Rs.10.87 crore** on coal with higher ash percentage during **2004-05 to 2006-07**.

  (Para 16.6.1)

- **Food Corporation of India** released wheat to the Roller Flour Mills and Atta Chakkies in contravention of Government of India instructions resulting in undue

benefit of **Rs.10.52 crore** to the Roller Flour Mills and Atta Chakkies during **February and March 2007**.

(Para 5.2.1)

CHAPTER I: MINISTRY OF AGRICULTURE

Agriculture Insurance Company of India Limited

1.1.1 Avoidable payment of interest

Non-payment of advance tax and non-filing of income tax return by the Company on due dates resulted in avoidable payment of interest of Rs.2.58 crore for year 2004-05.

As per the provisions of section 208 read with section 211 of the Income Tax Act, 1961 (Act), the Company was required to pay advance tax at the prescribed rates on the due dates in quarterly instalments in a financial year if the amount of income tax payable by it during that year exceeds Rs.5000. In case of short payment of advance tax, the Company was liable to pay interest under the provisions of section 234B[1] and 234C[2] of the Act. Further, the Company was also required to file a return of its income on or before the due date and failure to do so attracted interest under section 234A of the Act at the rate of one *per cent per* month or part thereof until the filing of return.

Audit observed that the Agriculture Insurance Company of India Limited (Company) deposited only Rs.35.50 crore as advance tax as against the tax of Rs.53.70 crore and thus defaulted in depositing 90 *per cent* of the assessed tax liability for the financial year 2004-05 by 15 March 2005 in requisite instalments. It also failed to file its income tax return on due date[3]. This resulted in avoidable payment of interest of Rs.2.58 crore[4] even if the notional interest of Rs.1.69 crore earned by the Company (based on the average yield on investments) on the advance tax short paid was considered.

The Management stated (June 2008) that due to nascent stage of Company's operation, lack of skilled manpower and technical complexities of the Company's income flow under National Agriculture Insurance Scheme, they were not able to realistically estimate the profit. Further, there was lack of clarity and interpretation of law about whether the profits derived from the implementation of National Agriculture Insurance Scheme would be taxable at the Company's hands. The Ministry endorsed (October 2008) the reply of the Management.

The reply was not tenable because at the time of transfer of crop insurance business to the Company, the General Insurance Corporation of India had informed that the advance tax for the financial year 2003-04 was to be paid by the Company. So there was no doubt

[1] *If advance tax paid was less than 90 per cent of the assessed tax, interest was payable at the rate of one per cent per month or part thereof on the amount by which the advance tax paid falls short of assessed tax.*

[2] *Interest at the rate of one per cent per month or part thereof on the short paid instalments of advance tax for the period of three months.*

[3] *Return was filed on 31 March 2006 as against the due date of 31 October 2005.*

[4] *Rs.2.53 crore under section 234C, Rs.1.02 crore under section 234B and Rs.72 lakh under section 234A less Rs.1.69 crore approximate interest earned on the advanced tax short deposited.*

about the taxability of the income in the Company's hands. The Company should have estimated probable tax liability and deposited the requisite amount of tax. Non-availability of in-house expertise and technical complexities were not acceptable reasons for non-compliance of law and the Company should have closely monitored the flow of income for payment of advance tax.

Thus, due to failure to pay advance tax and delay in filing return of income the Company had to pay avoidable interest of Rs.2.58 crore.

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1.1 Delay in finalising new contracts for duty free shops at four airports

The Authority could not avail of the benefit of higher contract rates by not initiating advance action as envisaged in the provisions of Commercial Manual for duty free shops at the airports which resulted in revenue loss of Rs.5.15 crore.

The Commercial Manual of the Airports Authority of India (Authority) stipulates that the tendering process for the new contract should be initiated at least 180 days prior to the expiry of the existing contract. Audit observed that the tender process for duty free shops at Ahmedabad, Goa, Bangalore and Hyderabad airports which should have begun during September 2004 to April 2005 for the contracts expiring between February 2005 and October 2005[1] was initiated in June 2006. The existing contracts were extended with old rates till the new contracts were awarded in September 2006 which resulted in revenue loss of Rs.5.15 crore, being the difference between the old and the new rates, for the period from the date of expiry of the respective contracts up to September 2006.

The Management stated (April 2008) that the delay was due to time taken on deliberating the request of the existing licencee for extension of contract and fixation/approval of the Minimum Reserve Licence Fee, the representations received from M/s Indian Duty Free Association for changing the Notice Inviting Tender (NIT) conditions for healthy competition and due to the reference received from Central Vigilance Commission for changing some of the tender conditions after floating the NIT. The Ministry endorsed (August 2008) the reply of the Management.

The reply was not tenable as except for the representation received from the Indian Tourism Development Corporation in February 2005 which was not accepted by the Authority, all the other cases pointed out by the Authority were received after the completion of 180 days laid down as per Commercial Manual. Thus, it cannot be construed that because of these representations, finalisation of the contracts were delayed.

2.1.2 Loss of revenue due to non-realisation of licence fee

The Authority's failure to incorporate the actual area occupied in the award letter and delay in rectifying the mistake resulted in loss of revenue of Rs.1.77 crore.

The Indian Tourism Development Corporation (Company) was running Duty Free Shops (DFS) at five airports[2] on space allotted by the Airports Authority of India (Authority).

[1] *Expiry dates of contracts on duty free shops at various airports: Goa–28 February 2005, Ahmedabad–27 July 2005, Bangalore–19 July 2005 (Arrival) and Hyderabad–17 October 2005.*

[2] *Mumbai, Delhi, Kolkata, Chennai and Thiruvananthapuram.*

The space allotted at Kolkata airport was 70.17 sqm. (59.46 sqm. in departure terminal building and 10.71 sqm. in arrival terminal building) and at Mumbai airport 850.61 sqm. On commissioning of the new arrival terminal building at Kolkata, the Authority allotted to the Company (February 2000) an additional area of 60 sqm. subject to actual measurement of space. The Kolkata airport on actual measurement in September 2000 found that the actual area occupied by the Company in the new arrival terminal building was 108.40 sqm. Thus, the total area under possession of the Company was 167.86 sqm. (59.46 sqm. in departure terminal building and 108.40 sqm. in arrival terminal buiding). In December 2000, the Authority awarded new licence to the Company to operate DFS for five years from January 2001 to December 2005 showing space of 70.17 sqm. at Kolkata airport and not the area of 167.86 sqm. actually occupied by the Company. Similarly at Mumbai airport the Company was in possession of an actual area of 999.36 sqm. in terminal building against 850.61 sqm. shown in the award letter issued in December 2000. The Authority was raising the bills on the Company according to the area specified in the award letter instead of actual area in its possession.

In August 2004, the Authority requested the Company to pay licence fee for excess area measuring 97.69 sqm. (167.86 sqm.-70.17 sqm.) at Kolkata airport and 148.75 sqm. (999.36 sqm.-850.61 sqm.) at Mumbai airport at the rate of USD 32 per sqm. per month with ten *per cent* annual compounded escalation for the period after 1 January 2001. Bills were accordingly raised in August 2004 and November 2004 for Kolkata and Mumbai airports respectively.

The Company requested the Authority in August 2005 to waive off the claim in respect of excess area at Mumbai and Kolkata airports as it was not mentioned in the award letter and was not tenable legally.

The matter was referred to arbitration (May 2006) and the arbitration award (October 2006) upheld the contention of the Company that at no point of time till August 2004, the Authority made any demand for the excess space under occupation of the Company, hence it would be unreasonable for the Authority to demand licence fee for the past period from the date of commencement of the licence. The Authority accepted the award (February 2007).

Audit observed (March 2006) that the actual area in possession of the Company at Kolkata and Mumbai airports was not considered while floating tender in September 2000 and issue of award letter in December 2000. Further the Authority did not raise any demand for excess area till August 2004 despite the fact that the matter was brought to the notice of Corporate Headquarters of the Authority by the concerned airport in January 2001 itself. It was also observed that the Authority failed to substantiate its contention before the arbitrator that the physical measurement of space was done at Kolkata airport in September 2000 and the Company was informed.

The Management stated (April 2008) that the Authority requested the Company to honour the payment of licence fee for the additional space at both the airports retrospectively. The dispute was raised by the Company which was subsequently referred to the Arbitrator and the award was passed.

The reply of the Management was not tenable because the Authority failed to incorporate the actual area under possession in the award letter and took three and half years for raising the arrear bills. Further the claim of the Authority was disallowed by the arbitrator on the ground that the Authority can legitimately claim dues from the date the Company was informed about occupation of the excess area.

Thus, due to failure to incorporate actual space in the award letter and also belated action to rectify the mistake resulted in loss of revenue of Rs.1.77 crore to the Authority during the period 1 January 2001 to 3 August 2004.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

2.1.3 Loss due to failure to insure assets based on current valuation

The Authority did not get insurance cover based on current valuation of its assets at Chatrapati Shivaji International Airport, Mumbai resulting in loss of Rs.1.07 crore.

The Airports Authority of India (Authority) took (July 2005) insurance policy for its premises[1] at Chatrapati Shivaji International Airport (CSIA), Mumbai for Rs.476.19 crore at a premium of Rs.68.97 lakh for the period from July 2005 to June 2006 on current replacement cost basis. Under the current replacement cost insurance policy, the settlement of loss was based on cost of replacement or reinstatement with the property of same kind or type with the value of the new property on date of the loss and therefore, proper valuation of assets at the time of taking insurance cover was crucial to protect the financial interests of the Authority.

The property of the Authority got damaged due to heavy rainfall in July 2005. The Authority lodged (June 2006) a claim of Rs.3.30 crore with the insurance company after assessing the loss but later on agreed to the reassessment of loss for Rs.2.95 crore based on survey done by the insurance surveyor and readmitted the claim henceforth. Subsequently, the Authority accepted settlement of claim (November 2006) for Rs.1.88 crore[2].

Audit observed (February 2008) that the insurance cover taken by the Authority was based on valuation of assets done in 2001 rather than 2005 despite the directions of its Board of Directors (Board) to reflect the current replacement cost of the assets in the insurance cover. Thus, due to not adhering to the directions of the Board the Authority incurred loss of Rs.1.07 crore due to application of under insurance clause of the policy by the insurer.

The Management stated (May 2008) that as per the policy and the existing practice, valuation of assets was done once in every 3-4 years and in case the valuation was considered on replacement cost basis in July 2005, the Authority would have paid additional premium of Rs.41.05 lakh annually. It was further stated that full facts of the case were brought to the notice of Commercial Advisory Board of the Authority and based on its approval, the matter was placed before its Board for writing off the loss. The

[1] ***Viz. terminal building, AAI colony, cargo terminal, plant and machinery, furniture and fixtures etc.***

[2] ***After adjusting Rs. 9.39 lakh on account of policy excess at the rate of five per cent.***

Ministry endorsed (September 2008) the reply of the Management.

The reply was not tenable as the purpose of insurance cover was to protect the assets/properties against the risk of loss irrespective of the amount of premium involved. When the assets were insured under the current replacement cost insurance policy, current valuation of assets should have been inevitably done to mitigate the risk. The Management did not inform the Board that the insurance cover was not taken on current valuation of the assets.

2.1.4 Loss in the purchase of spare parts for X-ray Baggage Inspection System machines due to poor planning

The Authority incurred loss of Rs.65.58 lakh in purchase and transfer of spare parts of X-ray Baggage Inspection System (X-BIS) machines to private operator at Delhi airport due to poor planning.

The Airports Authority of India (Authority) procured 220 X-ray Baggage Inspection System (X-BIS) machines in September 2002 from M/s Heimann Systems (Asia Pacific) Private Limited, Singapore for its airports in India. In January 2005, while considering the requirement of X-BIS machines, Mumbai and Delhi airports were not considered by the Authority as the proposal for their privatisation was in advanced stage. The Authority, however, approved (7 June 2005) the proposal for procurement of spares based on the requirement of spares of X-BIS machines deployed at various international and domestic airports and placed purchase order on the same firm (28 June 2005) at a total Free on Board (FOB) value of US $771718 (Rs.3.35 crore-including spares of Rs.65.58 lakh and Rs.85.50 lakh for Delhi and Mumbai airports respectively). The Ministry of Civil Aviation (MOCA) issued directions on 29 June 2005 that no contract be awarded or initiated by the Authority in respect of Delhi and Mumbai airports except emergent operational and safety related items.

It was noticed in Audit that the Authority in contravention of its own instructions (January 2005) as well as Ministry's instructions dated 29 June 2005 placed purchase order for spare parts including the requirement at Delhi and Mumbai airports. Audit further observed (January 2008) that the Authority did not take any action at the time of receipt of material at Delhi and Mumbai airports (second week of April 2006 and 5 May 2006 respectively) to divert the spares meant for Delhi and Mumbai airports to some other airports as these spares were to be utilised in the next six years.

The Management stated (June 2008) that when action was initiated, it was not clear with regard to the time frame by which the airports would be privatised and security of airports could not be compromised. The spares for X-ray machines were required for maintenance of the equipment which was under the category of emergent operational nature and security related item. Further, as the decision of handing over of Delhi and Mumbai airports to private operators was not clear till 3 May 2006, action for diverting the spares to other airports could not be taken. It was stated that action for reimbursement of cost of these spares had already been taken up with private operators.

The reply of the Management was not tenable because when the order for spares was placed in June 2005, the process of privatisation of these two airports was in advanced

stage. Even after knowing that the Government had selected the private operators for running these two airports (4 February 2006) and agreement was signed with these operators on 4 April 2006, the Authority did not divert the spares meant for these airports to some other airports. The contention of the Management that spares procured were items of emergent operational nature and security related was also not acceptable because requirement of spares assessed by the Authority was for six years and not for immediate use. Moreover these machines were maintained departmentally and in case of critical defects whenever there was requirement of spare parts, services of the supplier were sought on need basis till spares arrived.

The Ministry in their reply admitted (October 2008) that after finalisation of agreements with private operators on 4 April 2006, the Authority should have taken action to either divert the spares to other airport or reduced the quantity. It was further stated that Mumbai International Airport Pvt. Ltd. (MIAL) have since settled the payment (Rs.85.50 lakh) and for balance value advised the Authority to fix responsibility.

Pursuant to audit observation, the Authority recovered the value of spares from MIAL (September 2008). However, so far recovery for cost of spares of Rs.65.58 lakh from Delhi International Airport Pvt. Ltd. (DIAL) was concerned, the private operator DIAL had refused to pay.

The purchase of spares for X-BIS machines thus resulted in loss of Rs.65.58 lakh to the Authority and undue benefit to private operator of Delhi airport.

National Aviation Company of India Limited

2.2.1 Extra expenditure due to acceptance of higher rates for catering services

Acceptance of higher rates for catering services for its own flights than the rates for Air India Express flights finalized by the Company with the same caterers on the same dates resulted in extra expenditure of Rs.8.49 crore.

Air India Limited (now amalgamated into National Aviation Company of India Limited)[♣] had been availing of catering services from M/s. Saj Flight Services Private Limited (SFSL) and M/s. Muthoot Skychef (MS) for its flights at Kozhikode and Thiruvananthapuram respectively since May 2005 under a Memorandum of Understanding (MOU) signed between the parties. The Company entered into MOUs with M/s. SFSL and M/s. MS for a period of three years effective from 1 May 2005 on 13 May 2005 and 18 May 2005 respectively. As per the MOUs, the rates for catering for the first year (2005-06) were 10 *per cent* above the rates applicable for 2004-05 under the previous MOU, with a cumulative annual increase of 10 *per cent* for the rates for second and third year.

The flights of Air India Charters Limited (AICL), a subsidiary of the Company with a brand name 'Air India Express,' also started operations from Kozhikode and Thiruvananthapuram stations effective from 29 April 2005. As there was no separate In-flight Services Department with AICL, the Company also handled the matters relating to

[♣] *Hereinafter referred to as the Company*

In-flight Services of AICL. For AICL, the Company signed (13 May 2005 and 18 May 2005 respectively) separate MOUs with M/s. SFSL and M/s. MS for Kozhikode and Thiruvananthapuram stations respectively for a period of three years. In terms of MOU, the rates for the first year (2005-06) were arrived after allowing reduction of 34.5 *per cent* from the quoted rates, with a cumulative annual increase of 8 *per cent* for the second and third year.

Audit observed (February 2008 and April 2008) that the rates agreed for identical menus/ancillary items for catering services for the Company's own flights were higher and ranged between Rs.7.09 and Rs.38.96 *per* plate/item as compared to the rates agreed for the catering services for AICL flights in respect of 10 items test checked at Kozhikode station (M/s. SFSL). Similarly, the higher rates paid to M/s. MS ranged between Rs.4.25 and Rs.48.51 *per* plate/item in respect of 10 items test checked by Audit at Thiruvananthapuram station. Though the MOUs for both - the Company and the AICL were signed by the same Committee on the same date with the same contractors, the higher rates for the Company's flights were not negotiated with the caterers in order to bring uniform rates for identical menus/ancillary items in comparison with AICL. Thus, the Company availed of the catering services of M/s. SFSL and M/s. MS with unreasonably high rates as compared to the rates agreed for AICL, a new entrant in the business.

Failure to insist on reduction in rates for the catering services of Company's own flights equivalent to AICL flights resulted in extra expenditure of Rs.8.49 crore towards catering services at Kozhikode and Thiruvananthapuram during April 2005 to March 2008.

The Management stated (July 2008) that comparison between Air India and AICL would not be appropriate as the matter related to two separate companies. It contended that Air India was an established full service airline as compared to AICL which was a low-cost/low-frill airline having difference in menus. It added that quantum of hot meals required for AICL was much less compared to bulk requirement of Air India due to which prices of menus were different.

The reply of the Management was not tenable. Even though both the companies were separate entities, they were in the same industry and had availed of the catering service from the same caterer in the same period. Hence, rates paid by the two companies for the same menu items should be comparable. Even if the menu composition was different, the price paid by any airline for the same item without any change in quality was expected to be similar irrespective of the fact, whether it was full service airline or low frill airline.

Further, as quantum of meals required by the Company was much higher as compared to AICL, the former should have got benefit of lesser rates due to economy of scales for the bulk orders placed by the former on the caterers.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

2.2.2 Extra expenditure on excess electricity load

The Company got additional electricity load without proper assessment of present and future demand which resulted in extra payment of electricity charges of Rs.4.89 crore.

The National Aviation Company of India Limited, erstwhile Indian Airlines Limited (Company) was provided (September 1993) electricity load of 3125 KVA by the Airports Authority of India, the airport operator, to cater to the electricity needs of its Jet Engine Overhaul Complex (JEOC). The electrical load for Avionics complex and A-320 Hangars unit was initially energised from the available electrical load of JEOC. In view of the expansion plan[1] envisaged by the Company for JEOC, an additional electricity load of 3649.34 KVA[2] was demanded for Avionics complex and A-320 Hangars unit which was released by the airport operator in October 1998 at a surcharge of Rs.150 per KVA per month in addition to the normal unit charges. Subsequently, the Company surrendered (September 2006) excess 2000 KVA electricity load to the airport operator.

Audit observed (April 2008) that the peak electricity demand of the Company for all the units was 2865 KVA which could have easily been met out of the existing sanctioned electricity load of 3125 KVA. But, the Company demanded and got released (October 1998) additional electricity load of 3649.34 KVA based on incorrect assessment of present and future demand. This resulted in avoidable payment of Rs.4.89 crore (October 1998 to March 2006[3]) towards surcharge on unutilised additional electricity load.

The Management stated (May 2008) that the electricity load of its Avionics complex and A-320 Hangars unit was reviewed and keeping in view the future expansion plan, the electricity load of 1650 KVA was retained.

The reply was not tenable as the peak load requirement of JEOC was only 1500 KVA and the load requirement of 1365 KVA for Avionics complex and A-320 Hangars unit could have been met from the existing load sanctioned for JEOC. Sanctioning and retaining additional electricity load in the absence of any concrete expansion plan led to the additional expenditure.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

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[1] ***The seven projects planned with requirement of 1219 KVA were completed between August 1998 and March 2007.***

[2] ***Documents showing detailed working of electrical load requirement of 3649.34 KVA were not available with the Company at present.***

[3] ***The bills for electricity demand charges were received by the Company only up to March 2006 from the airport operator.***

Pawan Hans Helicopters Limited

2.3.1 Delay in mid life upgradation of helicopters leading to loss of revenue

The Company could not complete the mid life upgradation of helicopters within the time stipulated by the ONGC and thereby could not claim higher charter hire charges resulting in loss of revenue of Rs.42.51 crore.

Oil and Natural Gas Corporation Limited (ONGC) awarded a contract (March 2006) to Pawan Hans Helicopters Limited (Company) for hiring eight Dauphin N and four Dauphin N3 helicopters for a period of three years. Such helicopters were required to have upgraded safety standards (AS-4) and were to be provided within 150 days from the date of award of contract i.e., by 29 July 2006.

The Company awarded (August 2005 to July 2007) three piecemeal contracts to M/s Sofema, an authorised representative of M/s Eurocopter France, on nomination basis at total cost of Rs.73.81 crore for upgradation of its existing fleet of Dauphin helicopters to AS-4 specifications. As per the agreement, one Dauphin N helicopter was to be upgraded by Eurocopter in France and two helicopters were to be upgraded at Company's facility in Mumbai. Remaining helicopters were to be upgraded by the Company utilising the kits to be supplied by Eurocopter. First three helicopters were scheduled to be delivered by November 2006, April 2007 and July 2007. There was delay of 39 days, 102 days and 84 days in upgradation of the helicopters. There was also delay in supply of kits by Eurocopter, as a result of which upgradation of the remaining nine helicopters were delayed. The Company could upgrade them only by January 2008 (a delay of approximately one year).

It was seen that the Company failed to synchronise upgradation with requirements leading to wide gap in the delivery schedule due to which it continued to utilise non upgraded Dauphin helicopters for offshore services. As a result the Company could not derive the benefit of enhanced new contract rates which could have given an additional revenue of Rs.42.51 crore for the period from August 2006 to December 2007. It was also seen that the Company has not levied any liquidated damages (LD) on Eurocopter till date (June 2008) for delay in upgradation of helicopters, while it had paid Rs.15.76 crore to ONGC towards LD for delayed supply of AS-4 compliant helicopters.

The Management while accepting the loss of revenue of Rs.42.51 crore stated (June 2008) that the contract was awarded on nomination basis in piecemeal to Eurocopter as the proposal from Eurocopter was received in phases and the work was being done for the first time. Eurocopter had assured about the reasonableness of the rates charged. The thrust was on completion of eight Dauphin N helicopters first as against the four N3 helicopters. LD would be recovered on the delivery of completed retrofit kits.

We were unable to accept the Management's reply regarding the reasonableness of the value in the absence of a competitive open tender. The Company did not obtain rates for certain items directly from vendors for comparison as directed by the Board of Directors. The Company should have initiated action for levy of penalty and recovered the same while releasing the payments.

Thus, due to such adhoc decision making, the Company was deprived of additional revenue of Rs.42.51 crore from August 2006 to December 2007 and also had to pay Rs.15.76 crore as LD to ONGC for providing AS-4 compliant helicopters at a date beyond that was agreed to.

The matter was referred to the Ministry in June 2008; reply was awaited (November 2008).

2.3.2 Delay in overhaul of helicopters

Delay in overhauling of helicopters led to cancellation of agreement which resulted in loss of revenue of Rs.9.52 crore.

Pawan Hans Helicopters Limited (Company) regularly entered into agreement with Arunachal Pradesh Government (Lessee) to deploy one of its Mi-172 helicopters for ration sortie operations to far flung areas. The Company entered into such agreement for two years from 20 August 2004 to 19 August 2006. The Company was to be paid a fee of Rs.37.28 lakh *per* month and hourly flying charge of Rs.98,000. While entering into agreement, the Company had a fleet of three Mi-172 helicopters viz. VT-PHF, VT-PHG and VT-ASM. The third helicopter VT-ASM perished in fire accident at ONGC offshore platform in July 2005.

The Helicopters (VT-PHF and VT-PHG) were due for overhauling in July and November 2005 on completion of 4500 hours of flying. Although the process of selecting overhauling agency started in March 2004, the Company could invite tenders only during April 2005. The Company entered into agreement with M/s. Aviaexport, Russia (Avia) on 21 July 2005 for overhauling of helicopters at Kazan Helicopter Plant in Russia. Under the agreement the overhaul of each helicopter was to be completed within 120 days from the date of custom clearance of the helicopters in Russia.

The VT-PHF helicopter deployed with Arunachal Pradesh Government was withdrawn on 8 July 2005 but the same could be sent to Avia on 22 October 2005 after delay of three months. The delay in sending the helicopter to Avia was due to opting for transportation of helicopter to Russia by the Company on its own and belated invitation of tenders for transportation (7 July 2005). A substitute helicopter VT-PHG was provided to the lessee on 22 July 2005 which was also due for overhauling and thus was subsequently withdrawn from the services on 1 November 2005 and sent to Avia on 29 December 2005. While the overhaul was still in progress in Russia, the Company decided (December 2005) to procure certain avionics equipment by themselves and dispatched them to Avia in March 2006 to be fitted in the helicopters. As against the scheduled delivery time of February 2006 for VT- PHF and April 2006 for VT-PHG, helicopters were delivered on 21 July 2006 and 24 November 2006 respectively. Thus, there was further delay of five months for VT-PHF helicopter and seven months for VT-PHG helicopter. Due to failure of the Company in providing helicopter services to lessee as per lease agreement, the lessee cancelled the agreement in July 2006.

Audit observed that although the Company was aware that both Mi-172 helicopters were due for overhauling in July and November 2005 but it failed to take timely decision with regard to selection of overhauling agency, transportation of helicopters and supply of

avionics equipment, which led to delay in overhauling and cancellation of the lease agreement and consequent loss of revenue of Rs.9.52[1] crore for the period from December 2005[2] to August 2006.

The Management, stated (May 2007) that the delay was due to finalisation of transport contract, lack of coordination among various agencies involved and delayed supply of avionics equipment by the Company.

The reply of the Management was not tenable as indecisiveness on its part whether to have overhauling in Company's premises or manufacturer premises, led to delay in selection of overhauling agency. It took 15 months (March 2004 to July 2005) to finalise the agency for overhauling. The Company's decision to go for transportation on its own resulted in delay without any saving in the transportation cost as the Avia demanded Rs.1.87 crore and the Company paid to transport agency Rs.1.89 crore. The savings in procurement of avionics equipment was also far less compared to revenue foregone.

Thus, indecisiveness and lack of proper contingency plan coupled with belated action on planning and execution of overhaul programme of its helicopters led to revenue loss of Rs.9.52 crore.

The matter was referred to the Ministry in June 2008; reply was awaited (November 2008).

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[1] ***After excluding Rs.2.65 crore on account of saving of Aviation Turbine Fuel due to non operation of helicopters.***

[2] ***After taking into account four months for overhauling and one month for dismantling and dispatching of VT-PHF helicopter.***

CHAPTER III: MINISTRY OF COAL

Eastern Coalfields Limited

3.1.1 Loss due to sale of coal below notified price

The Eastern Coalfields Limited sold coal to the units of NTPC below the notified grade price under Coal Supply Agreement and sustained a loss of Rs.136.63 crore during last three years till March 2008. In addition, terms and conditions of the agreement were not reviewed after a period of five years as contemplated in the agreement to arrest the loss.

The Eastern Coalfields Limited (Company) entered into a Coal Supply Agreement (CSA) with the National Thermal Power Corporation Limited (NTPC) in August 1999 for sale of coal at its Rajmahal Project at a price notified by the Government of India. In the event of decontrol, price of the coal was to be revised annually in accordance with a Price Escalation Formula (PEF) provided in the agreement. CSA also provided for review of the terms and conditions of the agreement after the expiry of five years.

Audit scrutiny revealed (March 2008) that the Rajmahal Project had been selling coal to the designated thermal power stations of the NTPC below the grade price notified by the Coal India Limited (CIL) as the sale price of coal determined by the project as per PEF was lower. It was also noticed that the Company had been selling coal at the notified price from its Chitra Project to the same power stations of NTPC. Besides, Northern Coalfields Limited (NCL), another subsidiary company of the CIL, with similar pricing formula in the CSA had also been selling coal at the notified price from Jayant, Dudhichua, Nigahi and Amlohri Projects to the NTPC. Further coal price from a source was made uniform by CIL in August 2002 for all consumers, irrespective of sector or linkage which was not followed by Company in respect of Rajmahal Project. Even though Rajmahal Project Authority pointed out loss of revenue for selling coal below CIL's notified price in September 2002, the Management did not take any action in this regard. During 2005-2006 to 2007-2008, the Rajmahal Project sold 283.57 lakh MT coal to the NTPC below the notified price resulting in a loss of Rs.136.63 crore. Not only selling coal from the Rajmahal Project by the Company below the notified price was not justified, it had also not reviewed the terms and conditions of the agreement since August 2004 to arrest the loss.

The Management stated (June 2008) that the Rajmahal project was set up for supply of coal to the NTPC and had been selling F-grade coal at a price higher than the then notified price from April 1996 to recover the entire cost of production of the project. CSA was entered into with NTPC in August 1999 when the project had started making profit. It was also stated that price of coal was decontrolled from January 2000 and as a result, price of coal was to be fixed under PEF which was lower than notified price. Regarding non review of the agreement and modification thereto after five years, the Management stated that the matter had been taken up.

The argument of the Management was not tenable because the Company in another project and another subsidiary of CIL had been selling coal at the notified price. When the Company had been incurring losses over the years, the Company should not have sold below the notified price to the detriment of its financial interest. For the same reason, the Company should have reviewed the terms and conditions of the agreement immediately after August 2004 and should not have waited for so long.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

3.1.2 Loss due to discontinuation of dispatch of steam coal

ECL management stopped dispatch of steam coal from different collieries and sold the same as ROM coal and thereby sustained a loss of Rs.1.65 crore; though the instruction issued by the Ministry of Coal for dispatch of *cent per cent* crushed coal by 31 March 2005 to the consumers did not contain any direction to stop supply of steam coal.

Different coal companies under Coal India Limited (CIL) had been selling steam coal (of size between 25 mm and 250 mm) at significantly higher price, (between 8.73 and 27.38 *per cent*) higher than the ordinary Run of Mine Coal (ROM). Ministry of Coal & Mines, Department of Coal, Government of India issued instruction in October 2004 to ensure *cent per cent* marketing of crushed coal for consumers from all collieries by 31 March 2005. There was no direction from the Ministry to stop dispatch of steam coal. But the Management of Eastern Coalfields Limited (Company) took a decision in January 2005 to stop dispatch of steam coal with effect from 1 April 2005. (No other subsidiary of CIL had taken a decision for stoppage of dispatch of steam coal). Thus, sale of steam coal was stopped from five collieries from April 2005, seven collieries from May 2005, two collieries from June 2005 and one colliery from July 2005. Subsequently, in the Review Meeting of Secretary, Ministry of Coal held in April 2005, it was clarified that there was no direction to stop the supply of steam coal. Based on such clarification, the Company issued fresh instruction to resume dispatch of steam coal in July 2005. Thereafter, dispatch of steam coal started from two collieries from August 2005, nine collieries from September 2005, one colliery from October 2005, two collieries from November 2005 and one colliery from November 2006. (Different private parties who were taking steam coal at a higher price from these collieries prior to stoppage were given the same quality of coal as ROM coal at a lower price). Further, inspite of specific instruction to resume dispatch of steam coal, Narsamuda colliery did not take any action. On this being pointed out by Audit (September 2006), the colliery started dispatch of steam coal with effect from November 2006. As steam coal had a higher realisable value, the Company suffered a loss of Rs.1.65 crore towards sale of 97,925 tonne steam coal as ROM coal due to stoppage of sale of steam coal, as well as delay in resuming sale.

The Management while admitting the Audit observation in April 2007/February 2008 stated that they discontinued dispatch of steam coal as per the decision of the Board due to mis-interpretation of the Ministry's order and thereby sustained loss. The matter was discussed with the Management on 12 June 2008 and they reiterated (June 2008) that supply of crushed coal did not in any way preclude dispatch of steam coal and should

have been continued to avail the prevailing marketing opportunity of steam coal to the interested consumers.

Thus, the Company had to suffer a loss of Rs.1.65 crore due to stoppage of sale of steam coal.

The matter was reported to the Ministry in June 2008; reply was awaited (November *2008*).

Neyveli Lignite Corporation Limited

3.2.1 Extra expenditure in the purchase of higher capacity equipment

Procurement of spreader and tripper of higher capacity resulted in additional expenditure of Rs.26.20 crore.

The Board of Directors (Board) of the Neyveli Lignite Corporation Limited (Company) approved (July 2001) replacement of 8000 ton per hour (TPH) spreader and tripper (S&T) with 11000 TPH S&T at an estimated cost of Rs.34.68 crore and Rs.13.54 crore respectively to match the capacity of the rejuvenated bucket wheel excavators (BWE) in the bottom bench of Mine I. The Board directed the Company not to maintain separate inventory of spares as the Company had five such S&T. The Company issued (May 2004/June 2005) a letter of award (LOA) to M/s MANTAKRAF Fordertechnik GmbH, Germany and M/s Thyssenkrupp Industries (I) Private Limited, Pune for design, manufacture, supply, erection and commissioning of spreader for Rs.40.51 crore and tripper for Rs.30.52 crore including spares for Rs.5.35 crore and Rs.5.10 crore respectively. The spreader including its spares was taken over in August 2007 at the landed cost of Rs.45.83 crore. The erection of tripper was in progress (August 2007).

Audit observed (January 2008) that Thermal Power Station-I required only 6.50 million metric ton (MMT) lignite to generate electricity at 85 *per cent* power load factor. The output in Mine I consistently exceeded 6.90 MMT during 1997-98 to 2006-07. The feasibility report (July 1987) for Mine I expansion up to 10.5 MMT recommended 8000 TPH S&T for bottom bench. Hence, replacement of 8000 TPH by 11000 TPH S&T at an additional cost of Rs.15.75 crore was not justified. Besides, the Company ignored the Board's direction for exclusion of spares and released LOA on the suppliers for supply of S&T with spares for Rs.10.45 crore. The procurement of S&T of higher capacity than required along with spares resulted in avoidable additional expenditure of Rs.26.20 crore (differential cost, reckoned on weight difference, of Spreader Rs.11.31 crore and Tripper Rs.4.44 crore *plus* cost of spares Rs.10.45 crore).

The Management stated (May 2008) that the theoretical capacity of 700 litre BWE was around 2730 loose cubic metre per hour and hence for two 700 litre BWEs it would be 5460 loose cubic metre per hour which worked out to 10920 TPH. Hence, the S&T of 11000 TPH was required according to the design of the system and the same was procured for standardisation so as to facilitate interchange at the times of need in other benches. They added that the approved cost of S&T for replacement included cost of spares and the spares referred to by the Board were long term spares and not initial spares. Special maintenance tools were normally procured with all new machines. The

Ministry while endorsing (October 2008) the views of the Management stated that the spares for 11000 TPH S&T were not interchangeable on one to one basis and it was necessary to procure the spares along with the main equipment.

The reply was not tenable as the theoretical capacity calculated by Management was not in consonance with the capacity of 700 litre BWEs fixed by Hanumantha Rao Committee in 1983 which fixed the theoretical capacity at 3693 TPH (or 7386 TPH for two BWEs) and achievable capacity at 1478 TPH respectively. Also, the Company adopted achievable capacity of 700 litre BWE as 1500 TPH for determination of target for lignite production. Taking this into account, two BWEs could give maximum theoretical production of 7,386 TPH and maximum achievable production of 3,000 TPH. Therefore, the existing S&T system of 8000 TPH was more than sufficient and the procurement of higher capacity system was not warranted. The Company had not carried out any cost benefit analysis to establish the benefits expected out of standardisation. It could not use old spares as S&T of different design was purchased in deviation of Board's directive. Further, inclusion of value of spares in the estimates submitted to the Board for approval cannot be construed as approval for procurement especially in view of the Board's directions not to procure spares along with S&T and cost of special maintenance tools have not been included in the value of these spares.

3.2.2 Injudicious construction of quarters

Belated decision to outsource lignite extraction resulted in avoidable construction of 134 quarters valuing Rs.5.59 crore which were remained unoccupied since September 2007.

Neyveli Lignite Corporation Limited (Company) planned (August 2003) to outsource overburden (OB) removal and produce lignite departmentally from its lignite mines linked to 250 MW thermal power project at Barsingsar, Rajasthan. The Rajasthan Mines and Minerals Limited had been operating through outsourcing of both OB and lignite since 1994-95. The Company assessed the manpower required for its lignite mine and thermal power project as 260 and 200 respectively and also planned (August 2003) to construct quarters for them. The Government of India (GOI) approved (December 2004) the project at Barsingsar at a cost of Rs.1368.25 crore. Keeping in view the level of housing satisfaction and quarters already available, the Company issued (March 2006) work orders for construction of 302 quarters (124 for Mines and 178 for Thermal) which were completed and taken over in September 2007.

Audit observed (November 2007) that the Ministry of Coal had issued (June 2005) guidelines for including an option of total outsourcing in all the proposals and recommendations for new projects. However, while awarding (March 2006) the work of construction of quarters the Company did not take into account the prevailing practice of outsourcing both OB removal and lignite production. The Company also did not review its decision of production of lignite departmentally in the light of guidelines issued by the Ministry in June 2005. The Company reviewed (February 2007) the status of the project as of January 2007 and found a steep increase of 37 *per cent* in the project cost. It then decided (September 2007) to outsource the lignite production to contain the project cost. Thereafter the manpower requirement was re-assessed as 90 (against 260) which brought down the requirement of quarters to 21 for mines. Thus, the Company's belated decision

(September 2007) of outsourcing the lignite production resulted in avoidable construction of 134 quarters valuing Rs.5.59 crore, which have remained unoccupied since September 2007.

The Management stated (May 2008) that prior to the construction of quarters, accommodation had to be hired for executives at Bikaner which was 30 kilometres away from the project site resulting in incurring of expenditure on transportation. The quarters were constructed to accommodate the executives posted at site to oversee the construction activities of the project situated in the remote area where proper private accommodation was not available. It added that the excess quarters would be provided to other bodies like security (CISF), fire service, education, amenities *etc.* While endorsing Management's reply, the Ministry stated (October 2008) that 134 quarters were lying vacant as of September 2008.

The reply was not tenable as while preparing the feasibility report the Company neither planned total outsourcing in line with all the state owned lignite PSUs in Gujarat and Rajasthan nor did it review promptly the economics of operations after the GOI directive of June 2005. This had resulted in 134 extra quarters which were lying un-occupied as of October 2008. The 16 quarters allotted to contractors will also become vacant on completion of the project resulting in 150 vacant quarters costing Rs.7.43 crore.

3.2.3 Avoidable expenditure on removal of overburden through outsourcing

The Company incurred extra expenditure of Rs.1.22 crore due to omission to specify cheaper mode of purchase of diesel in the tender documents.

Neyveli Lignite Corporation Limited (Company) placed an order (June 2006) on M/s. Ranjit Construction Company, Ahmedabad (Contractor) for removal of 630 lakh cubic metre (cu. m.) overburden (OB), over a period of seven years from its lignite mines at Barsingsar at the rate of Rs.45.51 per cu. m. The total value of the contract was Rs.286.71 crore. In its offer the Contractor had worked out (January 2006) the requirement of diesel at 900 litre per day for operating one crawler mounted shovel for excavation and 350 litre per day for one tipper for the transportation of OB. The firm deployed six crawler mounted shovels for excavation and 29 tippers for transportation of OB and the requirement of diesel worked out to 15.55 kilolitre (KL) per day.

Audit scrutiny revealed (January 2007) that while determining (May 2006) the rate of Rs.45.51 per cu. m. for OB removal the Company had adopted the retail rate of diesel at Rs.33.30 per litre and had included Rs.24.79 towards cost of diesel (Rs.6.66 per cu. m. for excavation and Rs.18.13 per cu. m. for transportation). As the cost of diesel constituted more than fifty *per cent* of the rate allowed to the Contractor for OB removal, the Company should have invited bids by specifying direct procurement of diesel from the Oil Marketing Companies (OMCs) to achieve cost reduction. The rate of diesel would have decreased by Rs.0.70 to Rs.1.12 per litre if the direct procurement was resorted to. Thus, by not availing the option of cheaper mode of procurement of diesel, the Company incurred extra expenditure of Rs.1.22 crore till May 2008 on excavation of 192.11 lakh cu. m. of OB.

The Management stated (February 2007) that a customer could procure diesel directly from the OMCs only if they had storage facilities and valid explosive licence in their name. Therefore, this condition was not considered as it would restrict the number of bidders. It added (June 2007) that the Contractor had incurred extra cost for the use of mobile tanker for supply of diesel to the equipment. The Ministry endorsed (October 2008) the views of the Management.

The reply was not tenable as limited response to tender had the condition of direct procurement of diesel from the OMCs been included was only a presumption of the Company. It had failed even to attempt cost control on this major component of the cost of the OB removal. Direct procurement from the OMCs would also have obviated the necessity of deploying mobile tanker as the OMCs provide pump facilities to consumers with minimum anticipated combined motor spirit/diesel demand of 20 KL per month. Since the contract was for a period of seven years, the Company should consider remedial measures to cut the cost of removal of the balance 437.89 lakh cu. m. of OB.

CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

Export Credit Guarantee Corporation of India Limited

4.1.1 Loss due to delay in communicating cancellation of insurance coverage

The Export Credit Guarantee Corporation of India Limited cancelled an insurance cover on a foreign buyer in October 2005 and communicated it to the insured in March 2006. During the period between cancellation of the insurance cover and its communication, the insured made eight shipments to the foreign buyer leading to loss of Rs.3.67 crore.

The Export Credit Guarantee Corporation of India Limited (Company) extended an insurance cover of Rs. three crore to Gujarat Agrochem, Mumbai (GA) in March 2003 against its exports to Fersol Industria E Commercio, Brazil (foreign buyer). The foreign buyer defaulted settlement of the GA's invoices of January and February 2005 against which the Company paid (September and October 2005) claims of Rs.1.18 crore to GA. Therefore, Company withdrew (18 October 2005), insurance coverage on any future exports to the foreign buyer.

Company also extended an insurance cover of Rs.10 crore from June 2005 to Excel Crop Care Limited, Mumbai (ECC) against its exports to the foreign buyer. However, Company communicated the cancellation of the insurance coverage on the foreign buyer to the ECC only on 22 March 2006. During the period between cancellation of the insurance cover and its communication, ECC made (December 2005 to January 2006) eight export shipments of Rs.4.25 crore. The foreign buyer did not make payments for these invoices also. Consequently, ECC lodged the claims of Rs.3.83 crore which were settled by Company in March 2007.

Audit noted that the Company had enabled a new IT system from December 2004 whereby its branch offices were required to see the information relating to withdrawal of insurance coverage on a daily basis, identify the transactions relevant to a particular branch and to forthwith advise the concerned policyholder immediately. In this case, however, the communication regarding the cancellation of insurance coverage from the Head Office of the Company was delayed by five months by the Branch leading to loss of Rs.3.67 crore (claim of Rs.3.83 crore less recovery of Rs.0.16 crore).

In response, the Management stated (January 2008) that on primary enquiry from the concerned officers, it was noticed that the concerned email was not received due to technical reasons leading to the delay in sending the communication to the policyholder. It further stated (August 2008) that the IT system had been functioning effectively since its implementation, the officers by and large were familiar with the operations of the system and that necessary controls were already in place.

The reply of the Management was not tenable as effective IT system was in place and there was no incidence of non-delivery of emails reported from any of the 45 branches of the Company. Even in cases of failure of IT system, effective back up should have been in place or the Management should have resorted to alternate communication methods for delivery of such a critical decision.

The Ministry stated (August 2008) that Company had been asked to re-investigate the matter and fix responsibility on delinquent officials. Thereafter, Company also intimated that it had instituted a reinvestigation of the matter to fix responsibility. The outcome of the investigation was awaited (October 2008).

India Trade Promotion Organisation

4.2.1 Excess payment of water charges to Delhi Jal Board

Abnormal delay in replacement of defective water meters by the Company even after receiving directions from the Delhi Jal Board resulted in excess payment of Rs.6.50 crore.

India Trade Promotion Organisation (Company) meets its drinking water supply requirement through two water supply connections provided by Delhi Jal Board (DJB)[*]. The meters installed at both the water supply connections were dysfunctional since February 1988. The Company took up the matter with MCD/DJB (June 1988) but defective water meters could not be replaced and water charges were being paid on the basis of average consumption of 3672 kilolitres (KL) per day. The Civil Engineering wing of the Company which was pursuing the matter with MCD/DJB erroneously assumed that the Company was consuming much higher quantity of water than actually billed by the DJB. However, DJB asked the Company (16 July 2004) to replace the defective water meters at their own cost within one month from the date of receipt of the letter. The Company did not take prompt action to replace the defective meters and the new meters could be installed on 14 April 2006 after incurring an expenditure of Rs.25,000.

Audit observed that the actual average consumption of water during 5 May 2006 to 8 May 2007 (368 days) through two connections was 1780 KL per day whereas the Company was making payment for these two water connections on the basis of average consumption at the rate of 3672 KL per day as was being billed by the DJB since February 1988. Since the Company did not produce the relevant bills, the correctness of average water consumption for which Company was making payment with effect from February 1988 could not be checked in audit. Even after receipt of the DJB letter in July 2004 permitting the Company to replace the defective water meters at its own expenses, the Company delayed the installation of new water meters which resulted in excess payment of water charges of Rs.6.50 crore during the period from September 2004 to May 2006.

The Management stated (September 2008) that on receipt of instructions (16 July 2004) from DJB to replace the defective water meters on its own; the Company pursued the

[*] *Previously it was part of Municipal Corporation of Delhi (MCD).*

matter with DJB to replace the meters but DJB did not replace the same and again instructed (28 June 2005) to replace the same on its own, this time the Company acted on it and the meters were finally replaced on 14 April 2006. Further, the Company raised the demand to DJB to refund the excess payment made towards water charges, which had also been rejected by the DJB. The Ministry endorsed (October 2008) the reply of the Management.

The reply of the Management/Ministry was not tenable as the instructions given by the DJB in July 2004 to replace the defective meters by the Company itself were clear and there was no reason to delay the long awaited replacement of water meters by writing time and again to DJB in this regard. Had the meters been replaced within one and half month from the date of letter of DJB (16 July 2004) by the Company itself, the excess payment of the water charges amounting to Rs.6.50 crore could have been avoided. Further, the fact that the matter was taken up by the Company with the DJB for refund of excess payment made on account of lesser water drawn supports the audit contention.

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

Central Warehousing Corporation

5.1.1 *Waiver of storage charges*

Central Warehousing Corporation waived off 90 *per cent* storage charges of the imported stock kept in its Public Bonded Warehouse without proper justification. It resulted in loss of Rs.7.88 crore.

During July 1997 to February 1998, 21,747 drums of 200 litre each containing used black lubricant oil (used oil) belonging to seven importers was imported through Container Freight Station and stored at the Public Bonded Warehouse at Ludhiana of the Central Warehousing Corporation (CWC). While the consignments were in the process of clearance from Custom, the Punjab Pollution Control Board stopped its delivery during July 1998 and filed a suit in the court indicating that the material was hazardous and it would pollute the environment. The matter went up to the Supreme Court of India. The Punjab Pollution Control Board in December 2005 conveyed the decision of Hon'ble Supreme Court that the Department of Customs might release the used oil to the concerned consignee who had valid registration of the Central Pollution Control Board and the used oil of those consignees who did not have valid registration be auctioned to registered re-cyclers/re-refiners.

The storage charges of the used oil accumulated to Rs.9.75 crore up to 2006-07. The CWC was required to recover the storage charges before the used oil could be released. In case of non-payment of the storage charges, the CWC could auction the used oil according to the provisions of Section 63 and Section 150 of the Customs Act, 1962.

It was observed in Audit that the CWC instead of exploring the possibility of auction as per Section 63 and Section 150 of the Custom Act, 1962 decided to waive off 90 *per cent* of storage charges till the date of delivery and released the stock to the importers. The CWC did not make any attempt to dispose of the stock in the market for recovery of storage charges to the maximum extent. The CWC could have realised Rs.9.60 crore (calculated on the basis of present rate of used oil) by disposing of the stocks in the market but had recovered only Rs.1.72 crore[*] resulting into a loss of Rs.7.88 crore to the CWC.

In reply the Management stated (May 2008) that 90 *per cent* waiver was necessary as no party came forward to lift the stock when the 80 *per cent* waiver in storage charges was allowed by the Board of Directors in 2004. Further, Hon'ble Supreme Court had decided that in case the request for recycling was not received from the interested parties in the business/field, the consignment be destroyed. In case the CWC destroy the stock it would

[*] *Storage charges–Rs.97.57 lakh, Insurance–Rs.6.05 lakh, Service tax and education cess–Rs.14.35 lakh, towards Statutory Liabilities–Rs.53.88 lakh.*

have incurred huge expenditure instead the CWC had gained. The Ministry endorsed (October 2008) the reply of the Management.

The reply was not acceptable. In 2004, the matter was pending before Hon'ble Supreme Court and therefore the importer had not lifted the stock even when 80 *per cent* waiver was offered. Later, after the decision of Hon'ble Supreme Court the CWC should have safeguarded their financial interest by auctioning the stock to recover the storage charges to the maximum extent.

Thus, waiver of 90 *per cent* storage charges had resulted in loss of Rs.7.88 crore to the CWC.

5.1.2 Loss in operation of tractor trailers

The Central Warehousing Corporation decided to purchase and operate own tractor trailers without proper planning and suffered a loss of Rs.2.83 crore in their operation.

The Central Warehousing Corporation (CWC) had confined itself to the handling operations of containers at its Container Freight Stations (CFSs) and Inland Container Depots (ICDs) till the year 1999. The transportation of containers from/to gateway ports was through CONCOR by Rail or through Road transport contractor. The CWC in May 1999 decided to have its own fleet of tractor trailers for transportation of containers between gateway ports and its CFSs/ICDs. Consequently, the CWC decided (December 1999) to purchase 10 Volvo Tractor Trailers (VTTs) from M/s Volvo India Private Limited (VIPL) at a cost of Rs.2.70 crore.

As the CWC had no experience for operation of tractor trailers, it entered into an agreement (November 1999) with VIPL to operate these VTTs initially for a period of five years. As per the agreement, VIPL had to incur operating and maintenance expenses and the CWC agreed to compensate VIPL as per fixed rates varying between Rs.16.25[1] *per* km to Rs.22.32 *per* km (including maintenance cost) on year to year basis. It was also agreed that VIPL would ensure minimum 66 trips in a calendar year and pay damages at the rate of Rs.2000 *per* trip for any shortfall.

The CWC received VTTs during December 1999/January 2000 and started operating them in January 2000 till the termination of the agreement by VIPL in December 2003. Thereafter, the VTTs remained idle from January 2004 to September 2004. The CWC restarted operation of VTTs on its own with the services of drivers operating these VTTs from October 2004 to May 2006 till the drivers stopped working and filed a case in the High Court of Delhi for regularisation of their services.

It was observed in Audit (April 2007) that the CWC purchased VTTs without calling tenders as per the purchase procedure and decided to operate VTTs at Rs.16.25 *per* km, when it had the option of transporting containers through hired tractor trailers at the rate of Rs.15.50 *per* km. As there was no planning to develop in-house capabilities to operate the VTTs, they remained idle after May 2006. Finally nine VTTs[2] were transferred in

[1] ***Including Rs.0.75 towards maintenance.***
[2] ***One VTT was damaged in an accident in February 2003.***

May 2008 to the subsidiary company, Central Railside Warehousing Company Limited at a written down value of Rs.9.99 lakh. The CWC suffered total loss of Rs.2.83 crore in the operations of VTTs from January 2000 to May 2008.

The Management stated (July 2008) that the decision to purchase VTTs was taken to diversify the activities based on cost benefit analysis, trial runs and to compete with CONCOR.

The reply of the Management was not convincing in view of the operational loss suffered by the CWC.

Thus, the decision to operate own VTTs, without proper planning, resulted in loss of Rs.2.83 crore to the CWC during the period January 2000 to May 2008.

The matter was reported to the Ministry in May 2008; reply was awaited (November 2008).

5.1.3 Failure to recover warehousing charges

The Central Warehousing Corporation had not verified the business credentials of the party and delayed in taking legal action which resulted in non-recovery of warehousing charges amounting to Rs.1.81 crore.

The Central Warehousing Corporation (CWC) entered into a tripartite agreement (April 2004) with the India Household and Healthcare Limited, Chennai (IHHL) (an agent of LG Korea) and the State Trading Corporation of India Limited (STC). As per the agreement the STC was to import household and healthcare products[♣] and other raw material from the foreign supplier and sell the same on High Sea Sale basis to the IHHL. The CWC was to provide sufficient covered area for storage for operating a Bonded Warehouse on behalf of the STC at the Container Freight Station, Virugambakkam (Chennai). The storage charges payable by the IHHL were fixed at Rs.21 *per* sq.mt/*per* week after allowing a discount of 30 *per cent* on the normal charges of Rs.30 *per* sq.mt/*per* week.

The consignments of the IHHL were bonded in the CFS Virugambakkam from 26 March 2004 and there were regular transactions involving receipts, warehousing and delivery till February 2005. From March 2005 onwards, the IHHL, however, did not clear any goods from the bonded warehouse in view of reported dispute between them and their supplier and also failed to pay storage charges. In September 2006, the CWC issued notice to the IHHL for initiating action for disposal of stocks held in storage and realisation of warehousing charges under Customs Act, 1962 and also sought permission from Custom Departments for auction of time-barred bonded goods. Since no such permission was forthcoming, the CWC took up (December 2007) the matter for appointment of an arbitrator as per clause 14 of the agreement. The CWC also filed an application (January 2008) before the Madras High Court for recovery of storage charges and to pass appropriate orders under section 9 of the Arbitration and Conciliation Act 1996. The case was pending with the Hon'ble court (October 2008).

[♣] *Tooth paste, shampoo, soaps, detergents, thermometer, diapers etc.*

It was observed in Audit (November 2007) that;

(i) The CWC before signing the tripartite agreement had not verified the business credentials of the IHHL which should have been done as a part of normal business practice when they were dealing with a new entity and had also allowed a huge discount of 30 *per cent* on its storage charges.

(ii) The IHHL had obtained a loan of Rs.20 crore in February 2005 from the Union Bank of India, on hypothecation of the cargo in storage with the CWC and on non-repayment of the same by the IHHL, the Union Bank of India had taken the matter to the Debt Recovery Tribunal–I Chennai and had restrained the Commissioner of Customs and the CWC from taking action for disposal of stock. The matter with Debt Recovery Tribunal was pending (October 2008).

(iii) The LG, Korea had also directed IHHL to destroy all the LG stocks available with them. The matter was referred to arbitration.

(iv) The CWC had initiated action for arbitration proceedings only in December 2007 after a delay of more than two years for seeking appropriate orders for appointment of a sole arbitrator as provided in the agreement.

As such, the CWC was not able to recover storage charges from IHHL, which had accumulated to Rs.1.81 crore for the period March 2005 to April 2008 at normal rates.

The Management in reply stated (June 2008), that there was no instruction to verify the credentials of the party. Further, the CWC had filed a case before Hon'ble Madras High Court for seeking appropriate order for recovery of outstanding storage charges on normal rates.

The reply of the Management was not tenable. The CWC should have verified the credentials of the party as a part of normal business practice. Further, the possibility of realising outstanding dues was remote as the Union Bank of India had obtained a stay restraining the Customs authorities and the CWC from auctioning the goods. Besides the cargo had limited shelf life and was already held in storage for more than 3-4 years.

Thus, failure to verify the business credentials of the party and delay in taking legal action by the CWC had resulted in non-recovery of warehousing charges which have accumulated to Rs.1.81 crore for the period March 2005 to April 2008.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

Food Corporation of India

5.2.1 Undue benefit to Roller Flour Mills and Atta Chakkies

Release of food grain in contravention of Government of India instructions resulted in undue benefit of Rs.10.52 crore to the Roller Flour Mills and Atta Chakkies.

In February 2007, Government of India (GOI) decided to release 3,85,000 MT of wheat through the Food Corporation of India (FCI) to different States for sale under Open Market Sale Scheme (Domestic). As per instructions, the wheat was to be released by the FCI to the State Governments at the price of Rs.986.06 per quintal for distribution to consumers through the State Level Institution/Corporations or Agencies whose work could be directly supervised by the State Government so that the benefit of lower subsidised prices could be passed on to the consumers. The Institution/ Corporations/Agencies were to distribute the wheat to consumers on 'no profit no loss' basis.

A quantity of 50,000 MT was allocated to the Government of Delhi for release during February and March 2007 for distribution. The Government of Delhi, however, conveyed its inability to distribute the stock through the State nominated agency - Delhi State Civil Supplies Corporation Limited. It further mentioned that the wheat should be released to Delhi Roller Flour Mills Association (Association of Roller Flour Mills) and Wholemeal Atta Manufactures Association (Association of Atta Chakkies) in equal proportion. The quantity allotted to these Associations was further distributed equally amongst their members. Accordingly, the FCI released 46,069 MT of wheat to the Roller Flour Mills and Atta Chakkies.

It was observed in Audit that release of wheat by the FCI to the Roller Flour Mills and Atta Chakkies was not in accordance with the GOI instructions as the wheat was to be released to the State Government only for distribution to the consumers and not to any private miller/trader. Further, there was no control of the Government of Delhi on these Flour Mills and Atta Chakkies to ensure that the benefit of lower subsidised prices was passed on to the consumers. This had resulted in undue benefit of Rs.10.52 crore[1] to the Roller Flour Mills and Atta Chakkies due to receipt of wheat at lower subsidised price.

The Ministry in reply stated (September 2008) that the nomination of Roller Flour Mills and wholesale manufacturers/chakkiwalas was made by the Government of Delhi for lifting the earmarked stocks. Details of the quantity of wheat allocated/lifted by each of the agencies along with their addresses *etc*., were provided by the FCI to the Government of Delhi for supervision/coordination and monitoring the sale. Further, Government of Delhi had certified that the sale had actually resulted in bringing down and stabilising the open market price of wheat in the State.

The reply of the Ministry was not tenable. The wheat was to be released to the State Government only and not to any private miller/trader as per GOI instructions. Further, the release of wheat to Flour Mills and Atta Chakkies had defeated the purpose of GOI to pass on the benefit of subsidised foodgrain to consumers as there was no change in the retail prices of wheat and atta during that period as per the prices shown by the Price monitoring cell[2] of the Ministry.

Thus, release of food grain in contravention of GOI instructions resulted in undue benefit of Rs.10.52 crore to the Roller Flour Mills and Atta Chakkies.

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[1] ***Calculated on the basis on Economic Cost (Rs.1214.39 per quintal) of wheat for the year 2006-07. (Rs.1214.39–Rs.986.06 X 460690 quintal)***

[2] ***Of the Department of Consumer Affairs under the Ministry.***

5.2.2 Excess reimbursement of transportation charges

The transportation charges for delivery of rice beyond eight kilometers were paid at higher rates in Punjab and Haryana regions of the Food Corporation of India in violation of the Government of India instructions resulting in excess reimbursement of Rs.7.65 crore during 2004-05 and 2005-06.

The Food Corporation of India (FCI) along with the State Governments and their agencies (State agencies) procured paddy for the central pool which was shelled by the private rice millers and the resultant rice was delivered directly to the FCI. Rice was also procured for the central pool through statutory levy system whereby, the State Governments issued levy orders in consultation with the Government of India (GOI) directing the rice traders/millers to deliver a specified percentage of the rice to the FCI for the central pool out of the paddy procured by them.

The GOI in consultation with the FCI and the State Governments finalised the rates for various items of incidentals to be reimbursed to State agencies for the stocks delivered by them to the FCI. The rates for delivery of levy rice were also finalised by the GOI. Besides other items of incidentals, these rates provide for reimbursement of transportation charges on transportation of the paddy and the rice beyond eight kilometers based on the rates fixed by the District Collectors (DC) of the State or the FCI's rates[1] whichever was lower.

It was observed in Audit that in three districts[2] in the Haryana region and in two districts[3] in the Punjab region of the FCI, payment to the State agencies and the rice traders/millers, for transportation of the paddy and the rice beyond a distance of eight kilometres, was made at DC/HTC[4] rates during 2004-05 and 2005-06. These payments were not restricted to the FCI rates which were lower, as per GOI instructions. This had resulted in excess reimbursement of Rs.7.65 crore to the State agencies and the rice traders/millers in these five districts.

The Management while accepting the observation stated that the cases will not be reopened as already finalised.

Thus, reimbursement of transport charges in violation of the GOI instructions resulted in excess reimbursement of Rs.7.65 crore to the State agencies and the rice traders/millers in five districts of the FCI during 2004-05 and 2005-06.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

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[1] ***Mentioned in the milling agreements with various millers.***

[2] ***Karnal, Gurgaon and Kurukshetra***

[3] ***Sangrur and Gurdaspur***

[4] ***Handling and Transport Contractor.***

5.2.3 Unjustified payment of work based wages to labour

Non-deployment of 'Mandal' as handling labour resulted in unjustified payment of Rs.7.11 crore to the Direct Payment System labour during the years 2005-06 and 2006-07 in Punjab region.

In the Food Corporation of India (FCI) the handling operations[♣] at various depots and railheads were carried out by labour grouped into gangs. A standard gang had one Sardar, one Mandal and 12 handling labourers. As per the description of duties prescribed by the FCI, the Sardar had to function as the leader of handling labour and to supervise various operations for speedy working of the gang. The Mandal was responsible for weighment of bags of foodgrains and when there was no weighment, he had to work as a part of the gang and perform duties of a labour.

In Punjab region, the Direct Payment System (DPS) labour was in existence in 86 depots. As per the Memorandum of Settlement arrived at with the labour in 1994, the DPS labour was to be paid piece rate wages for carrying out various handling operations and on the days when there was no work or less work, minimum guaranteed wages at the rates prescribed by the FCI from time to time were paid. The Memorandum of Settlement further provided that the total earnings of a gang on a day were to be divided by the number of handling labour who actually worked in the gang on that day and the average amount so arrived at was to be paid to the Sardar and the Mandal by the FCI, over and above the total earnings worked out at piece rate for the quantum of work done by the gang.

With the introduction of weighment of bags through weighbridges in the depots, there was no need of a Mandal during weighment and as per the description of duties prescribed by the FCI he had to work as a handling labour. However, it was observed in Audit that during the years 2005-06 and 2006-07 in Punjab region, while working out the average earnings of the gang, the Mandal was not treated as a part of handling labour. This led to excess contribution of the FCI towards the wages of the Sardar and the Mandal due to unjustified apportionment of total earnings of a gang amongst the labourers only whereas the same were to be apportioned inclusive of the Mandal and only the equivalent earnings of the Sardar were to be contributed by the FCI over and above the total earnings. This had resulted in unjustified payment of Rs.7.11 crore to the DPS labour in Punjab region during the years 2005-06 and 2006-07.

The Ministry/Management in reply stated (July 2008) that in the absence of work of manual weighment, the Mandal shares the work with handling labour but the total earnings continued to be divided by 12 or actual handling labour as any change would result in deviation from the agreed terms of Memorandum of Settlement and also breach the provisions of the Industrial Dispute Act, 1947 over change of service conditions. Further, various worker unions had raised the matter of parity in wages and fringe benefits with the departmental labour before the National Industrial Tribunal (NIT), Mumbai and the whole issue of status of DPS labour was subjudice. Hence, inclusion of the Mandal for apportioning the earning could not be implemented.

[♣] *Loading, unloading, stacking, de-stacking etc.*

The reply of the Ministry/Management was not tenable as the Memorandum of Settlement provided that the total earnings of a gang on a day were to be divided by the handling labour who actually worked in the gang on that day. When the Mandal had worked as a handling labour, the total earnings should have been apportioned inclusive of the Mandal. Further, the dispute referred to NIT Mumbai had no bearing on the rational deployment of labour gang and calculation of wages.

Thus, by not considering the Mandal for apportionment of total earnings of a gang amongst the handling labour, unjustified payment of Rs.7.11 crore was made to the DPS labour during the years 2005-06 and 2006-07 in Punjab region.

5.2.4 Avoidable expenditure on transportation

Due to storage of foodgrain at Zira centre, Food Corporation of India had to incur avoidable expenditure of Rs.6.76 crore in transportation.

In Food Corporation of India (FCI), District Office Ferozepur (Punjab Region), Zira was one of the non-railhead centres for storage of foodgrain. The stocks stored at Zira centre were moved to other states through two railheads at Makhu (16.8 km) and Talwandi Bhai (13.5 km) and transport contractors were appointed for movement of foodgrain from Zira to these railheads by road.

It was observed in Audit that the transport contractors at Zira centre had formed a cartel in the form of Truck Operators Union and they quoted exorbitant rates for transportation of foodgrain. The wide difference in rates charged could be gauged from the fact that the expenditure for transportation of foodgrain from Zira to the railheads at Makhu/Talwandi Bhai ranged from Rs.4,55,045 to Rs.6,67,300 per foodgrain special rake* whereas, the average expenditure per foodgrain special rake of the district ranged from Rs.59,675 to Rs.1,18,528 only, during 2001-02 to 2005-06.

No efforts were made by the FCI to control the high expenditure involved in the transportation of foodgrain from Zira to the railheads. This expenditure could have been minimised by proper planning of procurement and storage of foodgrain at Zira. If only the minimum required foodgrain to meet the local Public Distribution System and other welfare schemes was stored at Zira; less mandis were linked with Zira centre for procurement of wheat and delivery of rice of resultant paddy stored at Zira centre was taken at the nearby railhead centres at Makhu/Talwandi Bhai where sufficient storage space was available throughout the period there would have been a saving of Rs.5.57 crore during the years 2001-02 to 2005-06. Further, FCI had issued 73,808 MT of wheat during 2001-02 to 2005-06 under Open Market Sales Scheme-Domestic (OMSS-D) from Makhu and Talwandi Bhai. This stock was transported by road from Makhu and Talwandi Bhai. The stock could have been issued from Zira centre which could have saved Rs.1.19 crore spent on the transportation of such quantity from Zira to Makhu and Talwandi Bhai centres at the time of issue of stock subsequently.

In reply the Management stated that Truck Operators Union had not allowed outsiders to carry on the business of foodgrain transportation and under forced circumstances the

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* *Of about 2500 MT*

Management had to store the foodgrain at Zira centre. Further, in OMSS-D the buyers could not be forced to lift foodgrain from Zira centres when their offer was from Makhu and Talwandi Bhai centres.

The reply of the Management was not convincing. By linking less mandis and taking delivery of resultant rice of Zira centre at Makhu and Talwandi Bhai the quantity of foodgrain stored at Zira could have been restricted. For issue of wheat under OMSS-D, wheat stored at Zira should have been given priority over the wheat lying at Makhu and Talwandi Bhai.

Thus, poor planning and lack of foresightedness led to avoidable expenditure of Rs.6.76 crore (Rs.5.57 crore + Rs.1.19 crore) on transportation.

The matter was reported to the Ministry in May 2008; reply was awaited (November 2008).

5.2.5 Failure to recover the value of short/damaged gunny bales

Due to non-maintenance of records for claims of short/damaged gunny bales Food Corporation of India could not recover Rs.5.54 crore towards the value of short/damaged gunny bales for the period September 1998 to June 2005.

The Food Corporation of India (FCI) through its Zonal Office (East) purchased gunny bags through the Director General Supply & Disposal (DGS&D) for catering to the needs of the various regions of the FCI. The gunny bales were transported by the Container Corporation of India Limited (CONCOR) from the Millers' premises to the destination station as per the dispatch instruction given by the FCI. The contract for transportation of gunny bales was awarded to CONCOR on the basis of their offer (January 1998) to the Zonal Manager (East) intimating their interest for such transportation. Neither any formal agreement was entered with CONCOR nor was any term for recovery for losses spelt out relating to short/damaged delivery of gunny bales while accepting the offer.

While approving the movement of gunny bales through CONCOR, the FCI had intimated (April 1998) that the container indent charges would be payable by the millers at the time of indenting the containers, similar to those charged by the Railways at the time of indenting wagons. CONCOR was to issue Inland Way Bill within 24 hours of taking delivery of stock from the mill premises for submission of bills by the Jute Mills for payment by the FCI. All other matters relating to booking of container and claims were to be as per the Indian Railways Act.

Instances of short receipt/ damaged bales/damaged pieces/water effected and poor quality of gunnies were reported by various consignee units. The gunny bales valuing Rs.5.54 crore were found short/damaged during the period September 1998 to June 2005[*]. For such cases claims were lodged by consignee units with the CONCOR/jute mills. The FCI furnished (August 2003) the region-wise position of claims submitted by the consignee units in August 2002 and July 2003 to CONCOR and requested for early settlement of such claims. In a meeting in October 2005 held between the representatives of the FCI,

[*] ***Records for the period July 2005 onwards were not available.***

CONCOR, DGS&D and the Jute Commissioner of India, the FCI insisted that CONCOR should release Rs. two crore on an adhoc basis out of the pending claims of the FCI. The CONCOR did not agree and expressed their inability to accept the claims for shortage/damage, as these were to be preferred within limitation period (six months) and with valid documents under Section 78 B of the Indian Railways Act.

It was observed in Audit that there was no system of maintaining consolidated records for claims of short/damaged gunny bales lodged with CONCOR. As such, the FCI could not produce any records to CONCOR to substantiate that the claims were preferred by consignee units within the time limit and with the valid documents. This had deprived the FCI of their legitimate claim and the FCI could not recover Rs.5.54 crore for the short/damaged gunny bales observed during the period September 1998 to June 2005.

The Management while accepting (December 2007) that there was no agreement between CONCOR and the FCI stated that the claims would be settled by CONCOR as per the Indian Railways Act.

The reply of the Management was not acceptable. In the absence of consolidated records of claims for short/damaged gunny bales lodged with CONCOR, the FCI could not substantiate that the claims were lodged as per the Indian Railways Act.

Thus, due to absence of any system of maintaining records for claims of short/damaged gunny bales lodged with CONCOR, the FCI could not recover Rs.5.54 crore for the short/damaged gunny bales observed during the period September 1998 to June 2005.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

5.2.6 Extra expenditure on advertisement

Release of advertisements through private advertisement agencies, instead of Directorate of Advertising & Visual Publicity, resulted in extra expenditure of Rs.3.02 crore by the Food Corporation of India.

According to the advertisement policy of the Government of India (GOI), the Directorate of Advertising & Visual Publicity (DAVP) under the Ministry of Information and Broadcasting was the nodal agency for releasing advertisements by various Ministries, organisations of the GOI including public sector undertakings and autonomous bodies.

The Food Corporation of India (FCI) in the normal course of business had released various advertisements viz., tender notices, legal notices, court notices, press notes, corrigendum *etc.*, in local and national dailies. It was observed in Audit that these advertisements were released through empanelled private advertisement agencies at commercial rates of the concerned newspapers instead of through the DAVP. As the rates of the DAVP were about 40 *per cent* of the commercial rates charged by these newspapers, this had resulted in extra expenditure of Rs.3.02 crore in Punjab and Haryana regions during the period 2000-01 to 2006-07.

The Management contended (June 2006) that the DAVP had centralised operations from Delhi and as it had no branch office to cater to the needs of the Zone/Region an advertisement had to be given to their office at Delhi at least 10 days in advance of the date of proposed publication. Also, an advance deposit of Rs. one crore was required to be made for the purpose of release of advertisements through the DAVP. Further, the newspapers in which advertisements were required to be got inserted had declined to extend the DAVP rates.

The contention of the Management was not acceptable as the advertisements released by the FCI were of such nature that could be planned in advance and given to the DAVP for timely release. Also, the Head office of the FCI was in Delhi, as such dealing with the DAVP could be easily made. As regards the advance deposit of Rs. one crore with the DAVP, the amount could be adjusted in the future payments. Further, the DAVP rates were extended only to those who advertise through the DAVP.

Thus, release of advertisements through private agencies at commercial rates instead of through the DAVP, resulted in extra expenditure of Rs.3.02 crore during the years 2000-01 to 2006-07 in Punjab and Haryana regions.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

5.2.7 Excess recovery of interest charges by State Bank of India

On the cash credit availed by the Food Corporation of India, the State Bank of India charged interest at higher rates than the prevailing rates during September 2005 to March 2006. Excess amount charged could not be recovered resulting in loss of Rs.2.03 crore to the Corporation.

The Food Corporation of India (FCI) entered into an agreement (June 1989) for cash credit arrangement with the State Bank of India (SBI) and its associate banks. As per the agreement, the SBI (Lead consortium) agreed to grant loans to the FCI by way of cash credit facility. The FCI had to repay such loans together with interest and other costs on the agreed terms and conditions.

The FCI (East Zone), Kolkata had cash credit arrangement with the SBI, Middleton Row Branch, Kolkata. The control of Zonal Cash Credit Account was with the Finance Branch of East Zone.

In was observed in Audit (August 2006) that on the cash credit availed by the FCI East Zone, the SBI Kolkata charged interest at the rate of 16.75 *per cent per* annum as against prevailing rate of 8.15 *per cent per* annum during September 2005 to March 2006. This could not be detected by the FCI due to absence of proper internal control system in the East Zone.

On being pointed out by Audit the FCI preferred a claim in August 2006 with the SBI for Rs.5.01 crore for the excess interest charged for the period September 2005 to February 2006. The Bank refunded Rs.4.85 crore in February 2007. The FCI in April 2007, further claimed Rs.1.05 crore for the excess interest charged during March 2006. However, the

SBI had not refunded Rs.1.21 crore (Rs.0.16 crore+Rs.1.05 crore) till March 2008. Besides this, the FCI had suffered loss of interest to the extent of Rs.82.35 lakh on the overcharged amount till March 2008 calculated on the basis of prevailing cash credit interest rate during the period.

The Management while accepting the facts stated (October 2008) that the matter was under active persuasion with the SBI and once they get the refund of the excess amount charged they will take up with the SBI for the interest on the delayed refund. The Ministry endorsed (November 2008) the reply of the Management.

Thus, absence of internal control system resulted in payment of excess interest charges of Rs.1.21 crore to the SBI and loss of interest of Rs.82.35 lakh thereon till March 2008.

5.2.8 Wasteful expenditure due to hiring of a private godown

Food Corporation of India incurred wasteful expenditure of Rs.1.66 crore due to hiring of private godown when sufficient space was available in their own godown.

The Food Storage Depot (FSD) Pune, of the Food Corporation of India (FCI) with total storage capacity of 29100 MT had 16 wagon rail siding facility. Till June 2004, foodgrains rakes (ex-north) with 40 wagons were received at FSD Pune in Split Wagon Placements (16+16+8) for unloading and storage of foodgrains. Due to unloading of foodgrains in spilt placement, the FCI was paying heavy demurrage and extra freight charges as Railways was charging 'Wagon load class rate' which was higher instead of 'Train load class rate'.

To save this extra expenditure, the FCI took up the matter with the Railways for making alternate arrangement. The Railways allowed (June 2004) the FCI to operate 'two point combination' placement for rakes i.e., the 16 wagons at the FSD, Pune railway siding and 24 wagons at Railways Goods Shed, Saswad Road (approximately 13 km from FSD Pune). Accordingly, the FCI appointed (July 2004) a contractor for handling the operations at Goods Shed, Saswad Road. The FCI also hired the contractor's 5000 MT capacity godown at Fursungi, Saswad (approximately 0.6 km from Goods Shed, Saswad Road) at an effective rate of Rs.387.29 *per* MT which included transportation charges from railway good shed to Fursungi godown, handling charges and rental charges for the godown. Total 127240.869 MT foodgrains was handled at Fursungi godown from July 2004 to October 2006[♣].

It was observed in Audit that during the above period sufficient vacant space was available in the FCI's own godown at FSD Pune. Instead of storing foodgrains in its own godown, Fursungi godown, Saswad was hired for storage of foodgrains. This resulted in wasteful expenditure of Rs.1.66 crore during the period July 2004 to October 2006 (even after considering the cost of transportation from Goods Shed Saswad Road to FSD, Pune and the cost of incentives, overtime wages for labour at FSD, Pune, for handling additional 127240.869 MT of foodgrains).

[♣] *The two point combination placement of wagons was discontinued by Railways w.e.f. October 2006.*

The Management stated (November 2008) that the godown at Fursungi, Saswad was hired to avoid demurrage payment to Railways due to labour problems at FSD, Pune. Further, there was saving in hiring of godown at Saswad considering the total payment of monthly wages of labours. The Ministry endorsed (December 2008) the reply of the Management.

The reply was not tenable as there was no possibility of demurrage payments to the Railways as the unloading would remain at Railway Goods Shed, Saswad Road even if stock was transported to FSD, Pune. Further, the additional payment for the departmental labour would be the overtime wages and incentive which has already been considered for calculating wasteful expenditure.

Thus, the decision to hire and operate a godown at Fursungi, Saswad instead of utilising own godown resulted in wasteful expenditure of Rs.1.66 crore during the period July 2004 to October 2006.

5.2.9 Irregular expenditure due to purchase of new vehicles

Purchase of new vehicles by the Food Corporation of India in violation of instructions of the Government of India resulted in irregular expenditure of Rs.1.10 crore.

The Government of India (GOI), Ministry of Finance issued (September 2004) guidelines on expenditure management to be implemented by the Public Sector Enterprises for bringing in fiscal prudence and austerity measures. These included a complete ban on purchase of new vehicles. It was also instructed that new vehicles should not be purchased even in replacement of condemned vehicles. Hiring of private vehicles from outside should be limited to the number of vehicles condemned. These instructions were made effective from 1 October 2004.

It was observed (July 2005) that in contravention of GOI guidelines and without taking the approval of the Board of Directors (BOD), the Food Corporation of India (FCI) purchased 26 new vehicles between the period October 2004 and March 2005 at the total cost of Rs.1.10 crore.

The Management while accepting the facts stated (May 2008) that only condemned vehicles at the field levels were replaced keeping in view the operational requirements, logistic constraints and security reasons. The placement of own vehicles at the field level was a must and should be reckoned as an exception which had been provided to some other departments. The Ministry endorsed (October 2008) the reply of the Management.

The reply was not tenable as the directions of GOI clearly specified that no new vehicles should be purchased even in replacement of condemned vehicles. Moreover, since the FCI had not been put under any exception category, the FCI was required to get exemption from GOI in this case if it was to be covered under the exception category. Incidentally, in a case on a later date (December 2007) the BOD of the FCI had not approved the proposal for purchase of four new vehicles in view of GOI's guidelines and had suggested to refer the matter to the Ministry. The Ministry had also advised to hire commercial vehicles on medium term basis in lieu of condemned cars.

Thus, purchase of new vehicles in contravention of GOI's instructions had led to irregular expenditure of Rs.1.10 crore by the FCI.

CHAPTER VI: MINISTRY OF DEFENCE

BEML Limited

6.1.1 Deliberate violation of internal procedures for recognition of sales

The Company has been recognising sales through deliberate violation of the various internal procedures prescribed in their quality manuals which was also in contravention of the principles enumerated in the Accounting Standard 9 prescribed under section 211(3 C) of the Companies Act 1956 read with the Expert Advisory Committee opinion of the Institute of Chartered Accountants of India.

BEML Limited (Company) has been recognising sales of equipment on the basis of Goods Consignment (GC) Notes obtained from Transporter and Custodian Certificate (CC) from buyers/dealers. Audit observed that this practice was in contravention of the principles enumerated in the Accounting Standard 9 prescribed under section 211(3C) of the Companies Act 1956 read with the Expert Advisory Committee opinion of the Institute of Chartered Accountants of India and the various internal procedures prescribed by the Company in their quality manuals.

Effective and efficient internal control measures ensure that the financial statements prepared give a true and fair view and the degree of reliance that an auditor can place on the financial statements for the purpose of reporting. Audit reviewed the Company's internal control checks and its accounting policy on revenue recognition through a test check of 272 cases of GC & CC sales (out of 831 cases) from November 2007 to July 2008. Audit scrutiny revealed that there were deliberate violations of internal control procedures in certain cases as discussed below:-

(i) ***Prescribed quality checks in preparation of dispatch advice and packing list:*** As per Para 18.4.8 of the Quality Manual, the Quality Engineering department was required to check for snags[♣] and give a list of snags to the production department for rectification and only after the snags were attended to, the equipment were to be sent to the marketing division for dispatch. It was, however, observed that the dates of snag-list, field test, AC installation, painting *etc*,. were subsequent to the date of final quality inspection and even subsequent to date of dispatch advice/packing list in 61 cases out of the 100 cases checked for 2006-07. Final inspection certificates were issued without completion of prescribed production/quality check tests ***(Annexure-I)***.

(ii) ***Sales recognised without inspection:*** As per the sale contracts Pre-Dispatch Inspection (PDI) of the equipment by the customer was mandatory before dispatch. However, in respect of 12 equipment valued Rs.13 crore the PDI notes were manipulated without entering the date on inspection column meant for joint inspection. GC notes were obtained from the transport contractor for recognising

[♣] Snag indicates problems/observations of Quality Engineering department which needs to be attended to by the production department.

sale as on 31 March 2007 while actual joint inspection was done much later in May 2007.

(iii) ***Equipment showed as ready for dispatch by manipulating shipment documents:*** As per para 19.3 of Quality Manual, the head of shipping department was responsible for ensuring receipt of finished equipment with proper documentation from Production/Inspection department. It was, however, observed that 279 equipment valued Rs.318 crore during 2005-06 and 2006-07 were shown as ready for dispatch and GC notes obtained from the transporters though the equipment were actually removed from the factory premises with a delay ranging from 6 to 411 days ***(Annexure-II).*** The lapses on part of the Company were further confirmed on cross verification with other PSUs in respect of sales recognised (Rs.150.02 crore) to 15 PSUs during 2007-08 based on GC notes. The PSUs *ibid* had categorically not accepted the risks in respect of the above equipment and had not treated them as purchases in their books of account as the equipment had not reached the destination even as late as June 2008.

(iv) ***Non obtaining of the Inspection Certificate from the nominated authority on completion of equipment:*** The Company accounted (2007-08) Rs.40.50 crore as sale and profit of Rs.1.02 crore on 45 AC Electrical Multiple Unit coaches kept in 'stabled' condition though the production process (including quality checks) were not complete and the Inspection Authority had not certified the production as per the terms of the contract.

(v) ***Failure to send invoices to the customers for sales recognised***: In respect of 96 equipment (2006-07) the Company obtained the CC notes mainly from private customers and recognised (Rs.81 crore) the sales though the invoices were not sent to the customers at the time of sales recognition as required under Accounting Standard 9 prescribed under section 211(3 C) of the Companies Act 1956 ***(Annexure III).***

(vi) ***Recognising sales of incomplete equipment: (a)*** Out of 21 cases where sales were recognised for Earth Moving equipment in Kolar Gold Fields complex, in 19 cases the engines to be fitted into those equipment were received from engine division Mysore subsequent to 31 March 2008 ***(b)*** In respect of 50 Tatra 4 x 4 vehicles though the production was not complete (31 March 2008) as evidenced from the job cards and information in the Company's ERP system, the Company accounted for sale of Rs.18.38 crore and profit of Rs.2.04 crore.

It was also noticed that fictitious sales amounting to Rs.292 crore had to be withdrawn (July 2008) by the Company from the un-audited sales of Rs.3005 crore as of March 2008 which comprised sales of Rs.117 crore not supported by any formal POs, Rs.57 crore not supported by "financial tie up", Rs.67 crore of export sale booked for "on ex-works basis", Rs.18 crore GC Note sales where GC notes were obtained after 31 March 2008 and Rs.33 crore for "other reasons".

Further, out of the reduced turnover of Rs.2713 crore, the statutory auditors had detected sales of Rs.425 crore shown as receivables from customers where even basic invoices were also not raised on the customers and Rs.118 crore of sale of iron ore shown as exported without evidencing any document in support of export such as a bill of lading.

This was clearly in contravention of the Accounting Standard 9 read with the Expert Advisory Committee opinion of the ICAI which indicated that the turnover was inflated by Rs.543 crore.

In addition CAG supplementary test check disclosed recognition of sales of Rs.58.88 crore which was in contravention of the Accounting Standard 9 read with the Expert opinion of the ICAI.

In all, sales were inflated by Rs.894 crore. To legitimise the sales, the Company paid excise duty and sales tax even while the equipment was not ready for dispatch as mentioned above. Rupees 87.36 crore was paid towards excise duty and Rs.16.58 crore for sales tax for the period 2006-07 to 2007-08.

Being a miniratna, the Company, should strictly adhere to the Accounting Standards and principles. Further, being a listed Company, inaccurate financial statements unless rectified can mislead and cause erosion of investor trust in PSUs.

The Ministry in its reply stated (January 2009) that in view of serious nature of observations, BEML has been directed to place the entire matter before the Audit Committee for detailed examination and directives.

6.1.2 Payment for transfer of technology fee

The Company paid Rs.22.23 crore as TOT fee to the foreign collaborator in contravention of the terms of MoA.

BEML Limited (Company) entered (June 2004) into a Memorandum of Agreement (MoA) with ROTEM–Korea (ROTEM), to get transfer of technology and technical assistance (TOT) for manufacture and supply of Electrical Multiple Unit (EMU) coaches for Metro rail projects in India.

As per clause 4.1 of the MoA, the Company had to pay TOT fee of US$4,000,000 for both broad gauge and standard gauge EMU Metro coaches. The payment was to be made in two instalments (i) 40 *per cent* within 28 days from the date of acceptance of first coming order and (ii) 60 *per cent* within 12 months from the date of payment of the first instalment.

The Company paid (September 2005) the first instalment of TOT fee of 1.6 million US$ (Rs.8.69 crore inclusive of taxes) to ROTEM, stated to be based on oral assurance by the Managing Director of Delhi Metro Rail Corporation (DMRC) for issue of letter of intent (LOI) to the Company for supply of 312 broad gauge metro cars for its RS2 project at a price of Rs.4.25 crore *per* car. Though DMRC issued a LOI in October 2005, it subsequently withdrew (August 2006) the same and went for a global tender. The Company participated in the global tender as a member of a MRMB* consortium but was not successful. The second instalment of Rs. 2.4 million US $ (Rs.13.54 crore inclusive of taxes) was also paid by the Company in November 2006 to ROTEM though the Company had not received any confirmed order by then. Thus, payment of TOT of Rs.22.23 crore was in contravention of clause 4.1 of the MoA and amounted to extending undue contractual benefit to ROTEM.

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* ***(Mitsubishi Corporation, Japan, ROTEM, Korea, Mitsubishi Electric Corporation, Japan and BEML)***

The Management stated (May 2008) that (i) the procedural requirement for securing the formal order specified by DMRC required active involvement and co-operation of ROTEM and that ROTEM, as a collaborator, could not be expected to part with technical information for the purpose of securing order without any payment and (ii) the Company succeeded (August 2007) in securing the order for manufacture and supply of 156 standard gauge EMUs for DMRC's-RS3 project with the pre-bid technical support from ROTEM.

The reply was not convincing since as per clause 1.4 of the MoA, ROTEM was equally responsible to participate/cooperate at the tender stage (including technical assistance) to BEML or the consortium to get the order which they had done for the RS2 project under Global tender of DMRC. As far as DMRC's RS3 order was concerned the TOT fee was yet to be finalised and was different from MoA on which the Company had paid TOT.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

6.1.3 Delay in placing order

Undue delay on the part of the Company to issue/finalise the terms of purchase order resulted in delayed supply of BFAT wagons and consequential loss of Rs.6.50 crore.

The Army Headquarters (AHQ) placed (February 2005) an order on BEML Limited (Company) for supply of 178 Bogie Flat Arjun Tank (BFAT) wagons at a total cost of Rs.59.63 crore to be supplied by February 2006. The Company while submitting its offer (April 2004) had quoted its price for the BFAT wagons on the assumption that the Rail Wheel Factory (RWF), Bangalore the sole indigenous manufacturer would supply wheel sets[1] at Rs.89,271 per set.

The Ministry of Railways (MOR) expressed (July 2004) its inability to provide 1068 wheel sets as RWF's capacity was fully booked and suggested the Company to import the same after taking necessary clearance from Research Designs & Standards Organisation (RDSO) of MOR. AHQ had also advised (July 2004) imports of wheel sets but clearly declined any additional time for delivery as the project was for fast track project of the Ministry of Defence.

Scrutiny in Audit revealed that though the Company had initiated action for import of wheel sets as early as in June 2004, the order on foreign supplier was issued in February 2005 after the expiry of validity of offer (January 2005) for only 300 wheel sets at a price of Euros 1569 (landed cost Rs.1.01 lakh) per wheel set against the actual requirement of 1068 wheel sets. It was also noticed that the finalisation of purchase order (PO) took more than a year (May 2006) due to various amendments regarding change in drawings, increase in order quantity, change in the payment terms, change in the scope of RDSO clearance etc. Meanwhile, MOR also agreed (November 2005) to supply 176 wheel sets from RWF. Accordingly, the Company amended the quantity ordered from 300 to 892 on the foreign supplier. The time lost in issue/finalisation of the PO resulted in revision of

[1] *Six wheel sets per wagon=6X178=1068 wheel sets*

rate to Euros 2050 (landed cost Rs.1.27 lakh) per wheel set which resulted in extra expenditure of Rs.2.32 crore.[1]

The Company also failed to ascertain the supply rate from MOR for the 176 wheel sets as it charged at the rate of Rs.1.95 lakh against the price of imported wheel set of Rs.1.27 lakh per wheel set. This resulted in extra expenditure of Rs.1.20 crore. Further, AHQ levied the liquidated damages of Rs.2.98 crore as the 178 BFAT Wagons were supplied by March 2007 against the scheduled delivery date of February 2006. In all, the Company lost Rs.6.50 crore[2] in the procurement of wheel sets and delayed supply of wagons.

The Management stated (May 2008) that the delayed confirmation by RDSO which came only in February 2006 was the reason for delay in PO finalisation.

The reply was not tenable as the Company kept on amending the clause relating to RDSO clearance though it was well aware of the requirement of RDSO clearance as early as July 2004. The Company should have pursued the matter with RDSO for expeditious clearance.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

Bharat Electronics Limited

6.2.1 Retention of equipment

Failure to obtain amendments to the contracts retained at the behest of the customer resulted in blockade of funds of Rs.48.61 crore and consequential loss of interest of Rs.4.81 crore besides extra contractual expenditure of Rs.3.41 crore towards repairs.

Ministry of Defence (Navy) placed purchase orders on the Bharat Electronics Limited (Company) for the supply of various equipment[3]. As per the terms of the order, progressive payments up to 85 *per cent* of the order value is paid based on a certificate from the Company and balance 15 *per cent* is released against inspection certificate and proof of despatch and receipt of the consignment in good condition by the Navy/Shipyard.

A review of the various orders executed by the Company during the period from 1 April 1996 to 31 March 2008 ***(as detailed in Annexure IV)*** revealed that the Company had retained some of the equipment valuing Rs.123.46 crore at the request of the customer in the form of a letter without amendments to the supply order/contract. Failure to obtain amendments to the contracts for payment of balance amount on retention of equipment

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[1] Rs.1.27 lakh-Rs.1.01 lakh x 892 sets=Rs.2.32 crore

[2] Rs.2.32 crore+Rs.1.20 crore+Rs.2.98 crore=Rs.6.50 crore

[3] Such as Radars, Sonar systems, Fire Control systems, Composite Communication systems etc. to be installed in various naval ships.

resulted in blockade of funds of Rs.48.61 crore with consequential loss of interest of Rs.4.81 crore[1].

It was also observed that the Company had to bear the carrying cost, insurance, repairs and replacements of the equipment as the equipment were retained in the Company. Consequently, the Company incurred an extra expenditure of Rs.3.41 crore towards repairs of equipment relating to a project (TRISHUL) retained for more than 10 years. The Company had not taken up the matter with the customer for reimbursement of the repair charges as the warranty begins only after the receipt and acceptance of the equipment by the customer.

The Ministry in reply stated (October 2008) that suitable clauses have been incorporated in the subsequent contracts. The reply of the Ministry was silent regarding the expenses on repair and maintenance on the retained equipment. Though suitable clauses have been incorporated in the subsequent contracts, the Company could not prefer any claim for Rs.48.61 crore in the absence of appropriate clauses in the old contracts.

6.2.2 Production even before the contract became effective led to blocking of funds

Production for a foreign customer without necessary financial commitment resulted in accumulation of unused finished goods worth Rs.7.38 crore for over 2 years and consequential loss of interest of Rs.1.91 crore.

Bharat Electronics Limited (Company) signed in January 2005 a contract with Zargaa Engineering Company Limited, Sudan (ZEC) for supply of various defence equipment[2], engineering support package and spares and Transfer of Technology for VHF Transreceivers at a firm price of US$1,68,26,412[3]. The supplies were to be completed within eighteen months from the effective date, defined as the date: (a) of signing of contracts by parties, (b) buyer confirming the receipt of Sudanese Government approval for implementation of the contract under the Government of India Line of credit and (c) receipt of advance payment by the seller, which ever was later.

Audit scrutiny revealed that the Company took up (October 2004) production of some of the equipment valued at Rs.10.56 crore ordered by the ZEC, even when the contract was not effective due to non furnishing of letter of credit (LC) from the Government of Sudan/not making advance payment by the ZEC. This led to holding of idle finished goods worth Rs.7.38 crore[4] from December 2005 to September 2008 with consequent loss of interest of Rs.1.91 crore up to September 2008[5].

The Management in its reply stated (May 2008) that the advance action for production was based on urgency shown by the customer and due to it's inability to open the LC, the goods remained idle. While approving the advance Equipment Supply Order, the

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[1] ***Calculated with reference to finance cost incurred up to 2001-02 and average yield earned on investment since 2001-02.***

[2] ***Such as Battle Field Surveillance Radar-Short Range (BFSR-SR), Night Vision Goggles, VHT Transreceivers & Field exchanges.***

[3] ***Rs.77 crore at the rate of Rs.45.73 per US$ in January 2005.***

[4] ***Finished goods worth Rs.3.18 crore were liquidated till September 2008.***

[5] ***Computed at the term deposit rate of 9 per cent per annum.***

Company considered alternate use of the material in case the project did not materialise. It was hopeful of liquidating the finished goods against future orders. The Ministry in its reply (August 2008) stated that a big opportunity was found for export of military equipment to Sudan and the Company was eager to avail of the opportunity.

The reply of the Management/Ministry was not tenable as the items were in Company's regular production range, the production of the equipment should have been initiated only after obtaining the necessary financial commitment from the customer and the contract became effective. The reply that the Company considered alternate use of the material in case the project did not materialise was an after thought and the fact remained that the Company was able to find customers only for a few equipment even after lapse of two years.

Hindustan Aeronautics Limited

6.3.1 Fraudulent payments on unauthorised incentive scheme

Fraudulent payment of Rs.52.24 crore made under the guise of a new incentive scheme without approval of the Board of Directors and in contravention to DPE guidelines.

Hindustan Aeronautics Limited (Company) revised (July 2005) the monthly incentive scheme, according to which both direct and indirect workmen are paid incentive for achieving efficiency in excess of 70 *per cent* with a maximum ceiling of 160 *per cent.*

Scrutiny in Audit revealed that though the Company had fixed a cap on the efficiency at 160 *per cent*, the General Managers of Aircraft divisions of MiG Complex, Nashik without the approval of the Managing Director or even the concurrence of the General Manager (Finance) had on their own introduced (October 2005) a new incentive scheme called 'SMH saved incentive scheme' (SMHSIS) for efficiency beyond the ceiling of 160 *per cent* by raising the maximum ceiling to 225 *per cent* without approval of the Board of Directors (Board)[♣]. Further this scheme has not been introduced in any other division of the Company including Engine Division Koraput under the same Managing Director of MiG complex Nashik. Strangely, payments were made for work turned out during normal working hours without supporting documents.

Department of Public Enterprises (DPE) guidelines stipulate that no payment towards *ex-gratia*, honorarium or reward should be paid unless the amount is authorised under a duly approved incentive scheme in accordance with the prescribed procedure.

No overtime (OT) was payable for work turned out during normal working hours. However, the incentive payments beyond 160 *per cent* were made by unauthorisedly diverting the OT hour sanctions received from the Corporate Office.

[♣] ***As per para 6 of the Delegation of Powers (DOP) of the Company "policy matters relating to the service conditions, wages and salary structures including allowances, perquisites, bonus, incentive schemes, performance linked payments, retirement benefits etc." vests with the powers of the Board.***

During 2005-06 to 2008-09 (up to September 2008) the division paid Rs.52.24 crore towards the SMHSIS in addition to the monthly, quarterly and annual incentives paid during 2005-06 to 2008-09 by debiting the same to salaries and wages budget.

The number of employees with efficiency percentage of 200 and above ranged between 43 to 47 *per cent* during 2005-06 to 2007-08. Test check of 100 cases of SMH output of 27 direct labour who had obtained maximum efficiency of 225 *per cent,* revealed that the SMH output was 799 hours, which was 4.26 times the normal working hours in a month. The data was unreliable and unrealistic since it was not corroborated with production details such as tagging, acceptance of finished components etc.

Though the matter was reported to the Chairman by the Vigilance Department of the Company in December 2005, the fraudulent payments continued. After the matter was brought to the notice of the Ministry by Audit in July 2008, the payments were stopped w.e.f. 20 September 2008.

The Management in their reply stated (November 2008) that the division had utilised the overtime hour sanctions to overcome the capacity shortage at Nashik Division and to meet the annual tasks. The Ministry endorsed (November 2008) the views of the Management. The Management further stated (February 2009) that SMHSIS was introduced since payment of OT did not guarantee output.

The reply was a clear admission of the management failure to ensure productivity even with OT payments. Since OT was paid for work done beyond normal working hours duly supported by punched in and punched out records, the payments aggregating Rs.52.24 crore made without any evidence of extra stay or evidence of extra production were thus fraudulent.

6.3.2 Avoidable expenditure in transporting defective helicopters for an air show

The Company transported five Dhruv helicopters for the exhibition when they were under investigation after the accident and bringing them back without participating in the air show resulted in an avoidable expenditure of Rs.4.94 crore.

Advance Light Helicopter (Dhruv) on its flight from Bangalore to Ranchi via Hyderabad on 12 November 2005, made a precautionary landing in an open field due to heavy tail rotor vibration. The pilot brought back the helicopter to Bangalore and delamination of the flex beam was suspected. In view of the early delamination, a rework scheme was evolved to enhance the flex beam capability by 'capping' using two layers of pre-preg glass cloths with hot cured. After rework the same Dhruv helicopter on its flight from Bangalore to Ranchi on 25 November 2005 force landed near Hyderabad. On the same day the Hindustan Aeronautics Limited (Company) grounded all the Dhruv helicopters pending investigation.

Audit scrutiny revealed that two days after grounding all Dhruv helicopters, the Company decided (27 November 2005) to transport five Dhruv helicopters to Malaysia and

Thailand to participate in the LIMA* Exhibition 2005. Helicopters were transported (1 December 2005), to Malaysia on the assumption that the exact cause of the accident would be established by 3 December 2005. However, it was decided (5 December 2005) to recall the display team since the reason for the defective TRB could not be established. All the five helicopters were brought back after incurring an expenditure of Rs.4.42 crore. Thus, transporting defective helicopters to Malaysia for the air show pending investigation and back resulted in avoidable expenditure of Rs.4.94 crore (including Rs.52 lakh on exhibition).

The Management stated (August 2008) that in order to offset the negative publicity due to force landing incident and to build confidence it was decided to participate in the aerospace exhibition in Malaysia and Thailand. However, in the interest of safety, this was dispensed with.

The reply of the Management was not convincing as the decision of the Company in transporting defective helicopters for an international air show exhibition when they were under investigation was imprudent, unsafe and might have eroded the confidence in the buyer instead of enhancing the image.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

6.3.3 Flaw in long term business agreement with ONGC

The agreement with ONGC had not been drafted with adequate care by including a specific clause for admission of taxes and duties prevailing on the date of sale, resulting in loss of Rs.4.82 crore due to non-reimbursement of service tax on repair/overhaul services by ONGC.

Hindustan Aeronautics Limited (Company) entered (June 2003) into a Long Term Business Agreement (LTBA) with the Oil and Natural Gas Corporation Limited (ONGC), Mumbai for repair/overhaul of Industrial Avon Gas Turbines for their offshore platform for the period from April 2002 to March 2007. The agreement was extended to September 2007. Article XXI of the agreement stipulated that initially the Company was to pay all taxes such as custom duty and the same would be fully reimbursed by ONGC during the currency of the contract. However, Octroi/Entry tax and other charges levied on the Company in connection with performance of this agreement shall be borne by the Company.

With effect from 1 July 2003 repair/overhaul service charges came under the ambit of Service Tax (ST). The Company took up the matter of reimbursement of ST with ONGC only in March 2004. ONGC refused in August 2004 on the ground that the agreement did not specifically provide for it. The Company requested (December 2005) the ONGC to amend the agreement suitably with retrospective effect. ONGC maintained (February 2008) that there was no liability on ONGC towards ST as per Article XXI of the

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* *Langkawi International Maritime and Aerospace (LIMA) from 6th December 2005 to 11th December 2005 at Langkawi (Malaysia) and 14th December to 15th December 2005 at Bangkok (Thailand)*

agreement. Accordingly the Company had to write off Rs.4.82 crore being the ST paid by it till September 2007, from its books in March 2008.

The Management while admitting the flaw in the agreement, stated (August 2008) that despite the technical weakness in the drafting of the agreement, ONGC was liable to reimburse the ST to the Company. The amount was, however, written off considering the business relationship that the Company had with ONGC. Further, the Company had rectified this flaw by modifying the taxes clause in the subsequent LTBA. The Ministry endorsed (September 2008) the views of the Management.

The reply was not tenable since there was an arbitration clause for redressal of such disputes which was not invoked by the Company. Had the agreement been drafted with adequate care by including a specific clause for admission of taxes and duties prevailing on the date of sale, the loss of Rs.4.82 crore could have been avoided.

6.3.4 Avoidable payment of custom duty

Failure to obtain specific exemption from the Government of India for payment of custom duty while obtaining the sanction for the project resulted in avoidable payment of custom duty of Rs.3.34 crore.

Hindustan Aeronautics Limited (Company) submitted (March 2002) a proposal to the Ministry of Defence (MOD) for establishment of facilities for repair and overhaul of Mirage-2000-undercarriages, at a cost of Rs.40.60 crore under deferred revenue expenditure (DRE) which inter alia included two equipment viz. Turn Mill Center and 3D co-ordination measuring equipment valued at Rs.9.50 crore. MOD approved (August 2003) the proposal and sanctioned an amount of Rs.45.50 crore including exchange variation. The Company procured (March 2002 and July 2004) the two equipment after payment of custom duty of Rs.3.34 crore.

Audit scrutiny revealed that the proposal (March 2002) for sanction of the project did not include the component of custom duty payable on procurement of two equipment under the project. The Company's request (Apri! 2006) for reimbursement of the custom duty was rejected by MOD (November 2006) stating that custom duty paid had to be borne by the Company as it was exempt under DRE as confirmed (February 2002) by the overhaul division of the Company. Since the Company was well aware that the Ministry's sanction for project was under DRE, it should have obtained specific exemption from the Government for payment of custom duty as was obtained for similar items imported for other projects such as Light Combat Aircraft, HAWK and Sukoi-30 MKI. This resulted in avoidable payment of custom duty of Rs.3.34 crore.

The Management/Ministry stated (March/September 2008) that custom duty was included in the project cost as the machines were covered under capital items and hence duty was paid. The reply was factually incorrect as the Company did not include the custom duty while sending (March 2002) the proposal. Accordingly MOD had sanctioned the funds considering the custom duty exemption.

CHAPTER VII: DEPARTMENT OF FERTILIZERS

National Fertilizers Limited

7.1.1 Loss due to non-compliance with the terms of insurance policy

The Company suffered a loss of Rs.1.45 crore due to deployment of a driver without valid driving licence to transport its crane in violation of the terms of the insurance policy.

National Fertilizers Limited (Company) took a transit insurance cover for shifting its crane from its Nangal unit to Bhatinda unit in April 2000. As per the terms of the insurance policy, a person holding valid driving licence could only drive the crane. The Company, however, did not ensure that the driver deployed by it to transfer the crane held a valid driving licence while driving the crane. On its way to Bhatinda on 23 April 2000, the crane met with an accident killing a person travelling unauthorisedly on it.

The Company incurred Rs.1.41 crore on repair of the crane. The insurance company rejected the claim of the Company as the driving licence of the crane driver was not endorsed for driving Heavy Transport Vehicle (HTV). For the same reasons Motor Accidents Claims Tribunal (MACT), Una, Himachal Pradesh also ordered (September 2003) the Company to pay compensation to the relatives of the deceased. The appeal filed by the Company against the award of MACT in the High Court of Himachal Pradesh was also rejected (20 August 2007) and the Company had to pay Rs.4.38 lakh to the relatives of the deceased.

Thus, due to non-compliance with the terms of insurance policy, the Company suffered a loss of Rs.1.45 crore.

The Management stated (May 2008) that the driving license originally had an endorsement of HTV but its renewal carried an endorsement for HMV. It was interpreted that both HTV and HMV were in the category of Heavy Transport Vehicle. This was also clarified by the District Transport Officer, Ropar (December 2003). The Court, however, had a different legal interpretation and rejected their contention.

The Ministry while endorsing the reply of the Company stated (August 2008) that the Company had assured to take extra care in such situation in future.

The reply was not tenable. When the crane was registered as HTV, the Management should have ensured that the driving licence of the driver was endorsed for HTV as was also held by the High Court. Further, the interpretation of the District Transport officer, Ropar was not accepted by the Court.

7.1.2 Irregular payment of house rent allowance and short recovery of rent

The Company irregularly paid additional house rent allowance and short recovered rent from the employees provided with leased accommodation in violation of the DPE guidelines, resulting in extra expenditure of Rs.1.44 crore.

As per the instructions of March 1992 of Department of Public Enterprises (DPE), wherever leased accommodation was provided by the public sector enterprises (PSEs) to their executives, rent at the rate of 10 *per cent* of the basic pay was to be recovered. In respect of township accommodation arranged by PSEs, the recovery was to be made at 10 *per cent* of the basic pay or the standard rent whichever was lower. After revision of pay scales of employees of PSEs with effect from 1 January 1997, DPE clarified (June 1999) that rent recovery on revised pay would be computed at the percentages in practice before 1 January 1997 or on the basis of standard rent to be fixed by the companies.

Audit observed (February 2005) that in respect of the leased accommodation provided to the employees, the National Fertilizers Limited (Company) had been recovering rent at the slab rates fixed by it and not at the rate of 10 *per cent* of the basic pay as required under the DPE instructions resulting in short recovery of rent of Rs.98.14 lakh from April 2001 to March 2008.

Audit also observed that as per DPE guidelines of June 1999, house rent allowance (HRA) was to be paid to the staff of the PSEs at the rates applicable to the central Government employees based on the reclassified list of cities notified by the Government of India (GOI). However, from January 2007 the Company started paying additional HRA to the marketing staff at field area offices at the rate of 10 *per cent* of the basic pay over and above the rates fixed by the GOI resulting in over payment of Rs.46.10 lakh during January 1997 to March 2008.

Thus, violation of DPE guidelines in respect of payment of HRA and recovery of rent for leased accommodation resulted in extra expenditure of Rs.1.44 crore.

The Management stated (May 2008) that as per the DPE guidelines (June 1999) rent recovery on the revised pay was to be computed at the percentages in practice before 1 January 1997 or on the basis of standard rent to be fixed by the companies. Accordingly, rent recovery was being made from the employees as per standard rent fixed by the Company with the approval of the Board of Directors. On persistent demand of the unions and in view of the hardship being faced by the employees, it was agreed to pay additional HRA at the rate of 10 *per cent* over and above their entitlement, as per past practice with the approval of the Board of Directors. The Ministry endorsed (September 2008) the reply of the Management.

The reply was not tenable because the Board of Directors of the Company had no powers to override the instructions of DPE and pay additional HRA at the rate of 10 *per cent* of the basic pay. The Management's interpretation of the DPE instructions that the recovery was to be made from the employees as per standard rent fixed by the Company was not tenable as DPE had subsequently clarified (January 2008) that in case accommodation was provided on lease basis, rent should be recovered at the rate of 10 *per cent* of the revised basic pay.

The Fertilisers And Chemicals Travancore Limited

7.2.1 Avoidable expenditure on procurement of sulphur

The Company's decision to defer procurement of sulphur resulted in additional expenditure of Rs.3.98 crore.

The Fertilisers And Chemicals Travancore Limited (Company) invites limited tenders for supply of sulphur from its pre-qualified vendors on quarterly basis and places orders with staggered monthly delivery schedules to meet the requirement for its periodical production and availability of stock. To facilitate decision making process, it subscribed to Fertiliser Marketing Bulletin (FMB) reports to monitor price movement of sulphur and other fertiliser inputs.

The Company received lowest offer of US$ 169.50 per MT against a tender enquiry floated (June 2007) for procurement of sulphur which was steeply higher than the previous procurement (February 2007) price of US$ 88.50 per MT. As the FMB report (January-February 2007) indicated rising market trend and shortage of vessels, the Committee on Raw Material Procurement recommended (June 2007) procurement and for placing the orders in anticipation of a positive marginal contribution and to avoid stoppage of plant. However, the Standing Committee of the Directors referred (June 2007) the issue to the Board of Directors (Board) on the ground that the marginal contribution could turn to be negative with variation in any one or more parameters assumed in working out the marginal contribution. The Board decided (June 2007) to defer procurement of sulphur until its prices came down to a reasonable level as its cost was neither compensated in the Price Concession Scheme of complex fertilisers nor covered in ammonium sulphate. Accordingly, the caprolactam, ammonium sulphate and ammonia plants including the three sulphuric acid plants were shut down in July 2007.

Audit observed (December 2007) that rising trend in price of sulphur continued as reflected in the FMB report (July 2007). The Company was aware that sulphuric acid plant being highly corrosive, prolonged shut down would make it difficult to restart without extensive repairs and replacements of catalyst at substantial cost. The Company procured (August 2007) 14000 MT sulphur valued at Rs.13.71 crore at the rate of US$ 238.80 per MT which resulted in additional expenditure of Rs.3.98[*] crore.

The Management stated (May 2008) that decision not to procure sulphur in June 2007 was taken based on the facts available at that point of time and the subsequent changes taking place in the market could not be predicted clearly. The Ministry endorsed (November 2008) the views of the Management.

The reply was not tenable as the decision to stop procurement of sulphur and the sulphuric acid plants was taken without any cost benefit analysis. The rising trend observed by the Company in January-February 2007 corroborated with the trend brought out in the FMB Reports for the subsequent periods.

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[*] ***(USD 238.80–169.50)=US$ 69.30 X 14000 MT X Rs.41=Rs.3.98 crore.***

CHAPTER VIII: MINISTRY OF FINANCE

Department of Financial Services-Insurance Division

National Insurance Company Limited

8.1.1 Loss due to imprudent underwriting of a known risk

Midnapore Divisional Office of National Insurance Company Limited accepted a risk ignoring the defects in the refrigeration system of a cold storage and subsequently settled the claim for the loss to the stock of potato even though the insured had not complied with the terms and conditions governing the policy. This resulted in loss of Rs.1.92 crore.

Midnapore Divisional Office of National Insurance Company Limited (Company) issued a policy to M/s Baba Bhutnath Cold Storage Private Limited, Midnapore (insured) covering the risk of deterioration of stock of potatoes for the period from 31 March 2004 to 30 March 2005. The warranty clause of the policy stipulated that the temperature inside the cold chambers should be brought down to 34^0F in all the chambers before the commencement of loading and the temperature in all the chambers should not exceed 40^0F during the period of storage. Further, as per clause 4(a) of the policy, immediate notice of the loss should be given to the Company and claim should be preferred within 14 days of the occurrence of the loss.

Audit scrutiny revealed (May 2006) that breakdown of compressors had been occurring frequently immediately before the commencement of the policy. Before commencement of loading, the temperature inside all the chambers was 39^oF and gradually increased to 54^0F. The insured could not maintain the requisite temperature as stipulated in the policy. In the risk inspection conducted by the Company prior to the commencement of the policy, it was mentioned that the temperatures in all the four chambers were higher. Thus, despite being fully aware of the defects in the cooling system and rise in temperature above the required level, the risk was underwritten. Even after completion of loading of potatoes the temperatures in all the chambers remained more than 40^0F up to 23 April 2004.

Due to frequent breakdown of compressors, stock of potato amounting to Rs.3.75 crore was damaged in May 2004. The insured intimated the loss in June 2004 after a lapse of 40 days and preferred (September 2004) a claim. The surveyor assessed (August 2004/January 2005) the loss at Rs.2.14 crore and attributed it to rise in temperature over 50^0F due to frequent breakdown of the cooling system. The Company, however, settled the claim for Rs.1.92 crore.

Thus, imprudent underwriting the risk in the first place and subsequent settlement of the claim despite the fact that the insured did not observe the terms and conditions governing the policy, led to the loss of Rs.1.92 crore.

The Management stated (June 2008) that a few machinery break-downs were reported before commencement of the risk and on the basis of the pre-inspection report the policy was accepted. The Ministry endorsed (November 2008) the reply of the Management.

The reply was not tenable in view of the fact that the main three compressors had broken down and the fact was known to the Company before acceptance of the policy. In addition, the claim was settled though the insured did not observe the terms and conditions governing the policy with regard to maintenance of the stipulated temperature in the chambers and reported the claim belatedly.

8.1.2 Excess settlement of claim due to tariff violation

National Insurance Company Limited settled claims relating to windmills by applying excess on the value of individual damaged parts as against stipulated single valuation of the sum insured resulting in excess settlement of Rs.29.52 lakh.

The engineering tariff (Tariff) for machinery breakdown stipulates that the rate for windmills had to be underwritten by adopting single valuation for windmills inclusive of tower, wind turbine generator, controller, yaw motor*, hydraulic motor, capacitor, lightening arrestor, windmill blades and power cables. The Tariff also provides for policy excess at scaled rates starting from one *per cent* of the sum insured if the total sum insured was below Rs.2.50 crore.

Audit scrutiny (March 2008) of the policies issued by the Divisional Office Tirupur and Gobichettipalayam branch office of National Insurance Company Limited (Company) during 2006-07 and 2007-08 revealed that these units were underwriting windmills indicating individual sum insured for each part. The Company settled claims (September 2006 to October 2007) pertaining to windmills by taking excess at the rate of one *per cent* of the value of affected/damaged part(s) instead of reckoning at one *per cent* of total sum insured as stipulated in the Tariff. Deviations from the stipulated Tariff provision resulted in excess settlement of claims to the extent of Rs.29.52 lakh (May 2006 to July 2007).

The Management stated (June 2008) that splitting of the sum insured was not against the principle of insurance as the individual units could function independently and that the policy was issued with different sum insured for the part(s) of the windmill so as to attract a specific policy excess for each sum insured. It was further stated that the engineering tariff had been detariffed and the rates for the different parts of the windmill were also available under the Tariff.

The reply was not acceptable as despite declaration of separate component wise value, the risk insured was windmill and as such the tariff rates and conditions applicable would prevail. Thus, splitting of the sum insured for the purpose of providing specific policy excess for each sum insured was against the Tariff provisions. The engineering tariff was

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* ***Motor deployed to keep the rotor always facing the wind for optimum generation of power.***

deregulated completely only with effect from 1 April 2008 whereas the excess settlement relates to the policies issued prior to 1 April 2008.

The matter was reported to the Ministry in July 2008; reply was awaited (November 2008).

The New India Assurance Company Limited

8.2.1 Avoidable expenditure due to delay in shifting to the Company owned accommodation

Due to delay in shifting a divisional office to its own building at Mumbai, the Company incurred avoidable expenditure of Rs.4.11 crore on rent and taxes during February 2003 to April 2008.

A Divisional Office[1] (DO) of The New India Assurance Company Limited (Company) was functioning from the leased premises admeasuring 3,430 square feet at Maker Chamber VI building, Mumbai. Considering the high rental outgo, the competent authority[2] decided (30 July 2002), to surrender the leases and shift the DO to the Company's owned building at Mumbai.

In November 2007, Audit observed that the DO was still functioning from the rented premises. On the matter being taken up in Audit, the DO shifted (9 May 2008) to the Company owned building. The Management stated (April 2008) that it had made continuous efforts for shifting although the furnishing work had been delayed.

In the light of the competent authority's considered decision, the delay of more than five years was not justified. Procrastination on this issue resulted in the avoidable expenditure of Rs.4.11 crore on rent and taxes of the leased premises from February 2003 to April 2008[3].

Furthermore, the fact that a decision taken at the highest levels of the Company took more than five years to fructify indicates weak internal controls within the organisation.

While accepting the lapses and assuring that such lapses shall not be repeated in future in its reply, the Ministry stated (November 2008) that the delay was due to some unforeseen circumstances like uninhabitable condition of owned accommodation, employees resistance to change, time taken from invitation of bids to renovation of Company owned accommodation.

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[1] *Divisional office no 111100 at Mumbai*

[2] *As per Board decision dated 23 February 1998, a Committee comprising of two General Managers, Financial Adviser and Chairman and Managing Director was the competent authority authorised to decide all proposals for shifting as well as surrender of office premises. Decisions of the Committee should subsequently be brought to the notice of the Board for its information. Accordingly, the decision of 30 July 2002 of the Committee was reported in the meeting of the Board of Directors held on 9 August 2002.*

[3] *After allowing reasonable period of six months from August 2002 to January 2003 for shifting*

8.2.2 Improper settlement of Motor Own Damage claim

In contravention of Section 39 of Motor Vehicles Act 1988 regarding registration of vehicle, own damage claim of Rs.49.10 lakh was paid on total loss basis in respect of seven unregistered vehicles which were working in a public place. Fitness certificates and registration were obtained for these vehicles from the Registering Authority after their total damage by fire due to miscreants' activities.

Seven trucks/trippers of M/s. Ajay Engicone Private Limited were provided comprehensive insurance cover by the Ranchi Divisional Office–II of The New India Assurance Company Limited (Company) during 2003-04. The policy insured the trucks/trippers against own damage as well as third party liability.

The insured vehicles were purportedly burnt by extremists on 2 June 2003. The insured filed a claim for Rs.91.23 lakh on 24 June 2003. The claim was settled by the Insurance Company for Rs.49.10 lakh on 22 September 2005.

It was seen from the survey report that the vehicles were registered between 5 and 12 June 2003 i.e., after they were reportedly burnt (2 June 2003). The permit to ply as a Public Carrier was also issued after the date of the accident.

The Supreme Court in a judgment in 2003 had held that plying a vehicle without a required permit violated condition of the insurance policy and the insurer had no liability in such cases. In the present case since the permit was issued after the date of loss the Company should not have settled the claim. Settlement of the insurance claim was therefore irregular.

The Ministry stated (September 2008) that to get a vehicle registered, the third party insurance was a legal pre-requisite and hence insurance cover was required to be obtained before the registration of vehicle. In its view, insurance policy was taken on proper evaluation of risk incorporating the engine and chassis number of the vehicles. The Company was not in a position to know the status of registration of the trippers until the time of claim and the claim so arisen could not be denied for non-registration. Further, the fitness certificates were not insisted upon during the settlement of the claim as the genuineness of the claim was never in doubt. The Company could not deny the claim as it was felt that the repudiation of the claim would have entailed avoidable litigation and additional liability towards interest payment.

The reply of the Ministry did not address the basic issue of how a public carrier could ply without a permit. We are unable to agree with the view of the Management regarding settlement of the claim. The Company incurred financial loss of Rs.49.10 lakh by entertaining a claim which was not admissible.

The Oriental Insurance Company Limited

8.3.1 Short collection of premium

The Hyderabad Divisional Office of The Oriental Insurance Company Limited violated the Company's guidelines regarding loading of premium which resulted in short collection of premium to the extent of Rs.1.26 crore.

The Hyderabad Divisional Office IV (DO) of The Oriental Insurance Company Limited (Company) issued Group Personal Accident policies covering 89,218 police personnel of various grades in Andhra Pradesh (insured) during 2001-02 to 2004-05. The Company did not get the request for renewal of the policy for 2005-06. The guidelines issued (October 1999) by the Company relating to group policies for personal line of insurances envisaged suitable loading of the premium chargeable on renewals of the policies where claim experience exceeded 80 *per cent*.

Audit scrutiny revealed (June 2006) that claim experience of the insured remained in excess of 100 *per cent* on renewals during 2001-02 to 2004-05 but the DO had not loaded the premium in compliance with the Company's guidelines. The non-adherence to the guidelines resulted in short collection of premium by Rs.1.26 crore during 2001-02 to 2004-05.

The Management while confirming the facts and figures stated (March 2008) that the insured was not under compulsion to renew the policy with additional premium and it could not retain the client as lower rates were quoted by other companies.

The Ministry admitted (August 2008) that the premium should have been hiked after issue of the circular but keeping in view that the policy was for state government employees and that too for the security personnel, full loading was not applied.

The reply was not tenable as the circular does not exclude loading for security personnel in view of adverse claim ratio. Hence the premium collected was in violation of the Company's own guidelines with consequential short collection of premium by Rs.1.26 crore.

United India Insurance Company Limited

8.4.1 Loss due to charging premium at incorrect rate

The Company lost premium (including service tax) of Rs.4.92 crore due to charging incorrect rate for insurance of compressors of GAIL (India) Limited.

As per the instructions of December 2001 of the Tariff Advisory Committee (TAC), compressor houses were divided into two categories for the purpose of tariff *viz.*, compressors handling air, inert gas and CO_2 chargeable at the rate of Rs.1.50 *per mille*[♣] and other compressors chargeable at the rate of Rs.4.50 *per mille*.

[♣] *Per thousand of sum insured*

It was brought out in para 11.5.1 of the Report No. 12 of 2006 of the Comptroller and Auditor General of India, Union Government (Commercial) that The New India Assurance Company Limited and The Oriental Insurance Company Limited issued standard fire and special perils policies to GAIL (India) Limited covering their compressor stations and terminals along Hazira Bijaipur Jagdishpur/Gas Rehabilitation and Expansion Project pipeline for the period April 2003 to March 2004 charging a rate of Rs.1.20 *per mille* and from April 2004 to March 2005 charging Rs.1.25 *per mille* respectively instead of Rs.4.50 *per mille* chargeable as per the instructions of TAC.

Subsequently the Oriental Insurance Company Limited renewed the above policy for April 2005 to March 2006 by charging rate of Rs.4.50 *per mille*. It was, however, again observed in Audit (November 2007) that United India Insurance Company Limited (Company) renewed this policy for the period 1 April 2006 to 31 March 2007 charging the rate of Rs.1.25 *per mille* instead of Rs.4.50 *per mille* resulting in loss of Rs.4.92 crore (including service tax).

The Management stated (May 2008) that the compressor stations/terminals covered under the policy were part and parcel of pipeline network and hence attracted the rate prescribed for pipelines only. The Ministry also furnished (June 2008) the same reply in respect of the rate charged by the Company and also in its Action Taken Notes on the audit observations for The New India Assurance Company and the Oriental Insurance Company Limited.

The reply was not tenable because the specified rate of Rs.4.50 *per mille* was chargeable in terms of instructions of TAC of December 2001 on such compressors without any exception. TAC had also confirmed in November 2004 that said compressors/terminals along with HBJ pipeline of GAIL (India) Limited were rateable as per their instructions of December 2001 depending on the type of material carried through the pipeline. The Company had itself charged the rate of Rs.4.50 *per mille* on the compressor stations at Vaghodia and Vijaipur along the same pipeline and the policy was renewed by the Oriental Insurance Company for April 2005 to March 2006 charging the rate of Rs.4.50 *per mille*. The policy covered the compressors and terminals and not the pipeline, hence the rate applicable to the pipeline was not relevant in this case.

Thus, incorrect application of rate resulted in short collection of premium and a loss of Rs.4.92 crore (including service tax) to the Company.

8.4.2 Excess settlement of claim

Adoption of incorrect basis for assessing under insurance resulted in excess settlement of claim by Rs.1.64 crore.

The Divisional Office of United India Insurance Company Limited (Company) at Chennai issued a mega policy[♣] to Chennai Petroleum Corporation Limited (CPCL), Chennai, covering their assets and stock of finished products for the period 2 May 2005 to 1 May 2006. The insurance cover granted included stock of 20,150 MT of Motor Spirit (MS) for a sum insured of Rs.85.15 crore including excise duty or Rs.43.66 crore

♣ ***For sum insured more than Rs.1500 crore***

excluding excise duty. The rains in October 2005 damaged a MS tank resulting in leakage and contamination of the stock. The Company lodged a claim for Rs.4.07 crore.

Audit observed (May 2008) that the surveyor had assessed (February 2007) the value of stock of MS held by the insured at the time of loss as Rs.63.69 crore (excluding excise duty) for a quantity of 22,093 MT. The surveyor had compared the stock held at the time of loss with the sum insured of Rs.85.15 crore and had concluded that there was no under insurance and recommended settlement of claim at Rs.2.82 crore. The claim was settled in March 2007. As the value of stock (Rs.63.69 crore) held at the time of loss did not include excise duty it should have been compared with the sum insured (Rs.43.66 crore) excluding excise duty. The under insurance with reference to the difference of Rs.20.04 crore between the value of stock held at the time of loss and the sum insured excluding excise duty works out to 45.88 *per cent* and accordingly the claim should have been settled with proportionate reduction. Thus, adoption of incorrect basis for assessing underinsurance resulted in excess settlement of claim by Rs.1.64 crore.

The Management stated (June 2008) that while calculating the adequacy of sum insured, audit included the component of excise duty in both the value of stock at risk and sum insured which was not correct. The Ministry stated (August 2008) that value of stock at risk at the time of loss (Rs.63.69 crore) was to be compared with the sum insured (Rs.85.15 crore) in order to ascertain under insurance, if any. This comparison would show that there was no excess settlement of claim.

The replies were not tenable as the value of stock at risk and the sum insured excluding excise duty should have been compared to arrive at the extent of underinsurance. The loss assessed was to be adjusted in the proportion of underinsurance before applying the policy excess and arrive at the admissible amount. Even though the Company admitted that there was no claim for excise duty, it failed to detect adoption of inaccurate basis by the surveyor for computing the underinsurance.

8.4.3 Irregular payment of the administrative and infrastructure charges to corporate agents

United India Insurance Company Limited incurred irregular expenditure of Rs.76.65 lakh on the administrative and infrastructure charges during August 2004 to March 2008 in violation of IRDA guidelines on licensing of corporate agents.

Insurance Regulatory Development Authority (IRDA) guidelines of July 2005 on licensing of corporate agents prohibit payment of the administration charge or reimbursement of expenses in any form other than the permissible agency commission to the corporate agent.

Audit observed (May 2008) that two branches[1] of United India Insurance Company Limited (Company) issued Pravasi Bharatiya Bima Yojana and Special Contingency Policies on which a total Rs.5.46 crore was paid as agency commission to two corporate

[1] ***Branch 10, Mumbai Regional Office I and Dahanu Branch, Mumbai Regional Office II***

agents[2]. In addition, these branches irregularly paid a total sum of Rs.76.65 lakh[3] on administrative and infrastructure charges to these agents during August 2004 to March 2008.

The Management stated (August 2008) that payment of commission was made to an individual agency and reimbursement of the actual expenses was made to the partnership firm for the services rendered by them.

The reply of the Management was not convincing as the Company had been making payment of administrative and infrastructure charges as well as the agency commission to the corporate agents after taking a 'No objection certificate' from the individual. Thus, administrative and infrastructure charges were paid to the agents in violation of IRDA guidelines.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

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[2] ***First Agent was paid Rs.3.48 crore as agency commission and Rs.38 lakh as Administration and Infrastructure charges; second agent was paid Rs.1.98 crore as agency commission and Rs.38.65 lakh as Administration and Infrastructure charges.***

[3] ***In addition to this, the Company had also accounted for Rs.70.04 lakh as agency commission payable as on 31 March 2008.***

CHAPTER IX: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Bhari Udyog Nigam Limited

9.1.1 Irregular refund of service charges

The Company irregularly refunded service charges of Rs.82.72 lakh to a private party.

Bharat Bhari Udyog Nigam Limited (Company) used to recover its fixed cost as service charges from its subsidiaries in accordance with the decision (August 1996) of the Board of Directors (BOD) of the Company. In March 2002, the Government of India decided to sell 72 *per cent* of the equity shares of Jessop and Company Limited (JCL), one of the subsidiaries of the Company, to a strategic partner. The Company's equity shareholding in the JCL was accordingly reduced to 27 *per cent* from 99 *per cent* with effect from 29 August 2003 and the JCL ceased to be a subsidiary of the Company as well as a Government Company within the meaning of Section 617 of the Companies Act 1956. The Company recovered (September 2003) service charges of Rs.1.99 crore from the JCL up to August 2003.

However, the JCL demanded (December 2004) refund of Rs.83.91 lakh on the ground that service charges were not leviable after 30 September 2001 in terms of the disinvestment process. The Company appointed (February 2005) three firms of legal advisers to resolve the issue. They opined (February 2005) that the cut off date of disinvestment process was 30 September 2001 and levying service charges after cut off date was contrary to the policy of disinvestment. Based on the legal opinion, the Company refunded (April 2005) the service charges of Rs.82.72 lakh for the period from October 2001 to August 2003.

It was observed in Audit (April 2007) that the legal opinion was given considering the cut off date of disinvestment process only, ignoring the date of actual sale and transfer of Management control of the JCL with effect from 29 August 2003, when the Shareholders' Agreement and the Share Purchase Agreement were concluded. Besides, the refund was made without referring the matter to the BOD and the administrative ministry. The refund of Rs.82.72 lakh was thus irregular.

The Management accepted (August 2007) the irregularity in refunding the service charges. It further informed (April 2008) that legal proceeding to recover the amount from the JCL was being contemplated and a show cause notice had been issued to the delinquent official besides blacklisting the firms of legal advisers.

The matter was reported to the Ministry in May 2008; reply was awaited (November 2008).

Bharat Heavy Electricals Limited

9.2.1 Avoidable expenditure due to inadequate planning in supply of the gun control system

Due to inadequate planning the Company could not adhere to the delivery schedule and incurred an avoidable expenditure of Rs.26.95 crore.

Bharat Heavy Electricals Limited (Company) received a supply order (April 2000) from the Ministry of Defence, Heavy Vehicles Factory, Avadi, (HVF) for the supply of 124 sets of gun control systems (GCS), between November 2001 and June 2004, at a total value of Rs.219.23 crore. For executing this contract, the Company placed a letter of intent on Mannesmann Rexroth, Germany[1] (supplier) in April 2000. Formal purchase orders (POs) were, however, placed in February 2001 and March 2003 for the supply of 121 and three sets of the GCS, respectively with the delivery schedule of August 2002 to September 2004.

Against the contracted delivery schedule of November 2001 to June 2004, the Company could complete the delivery of the GCS from January 2003 to February 2006 due to delays by the supplier. As a result, it incurred an avoidable expenditure of Rs.26.95 crore on account of payment of liquidated damages (LD) of Rs.12.05 crore and non-recovery of exchange rate variation (ERV) and price rate variation (PRV) of Rs.14.90 crore.

Analysis in audit indicated that there was inadequate planning in execution of this contract as is evident from the following:

(i) There was a delay of 10 months in placing formal POs on the supplier after receipt of the supply order from HVF. Further, the delivery schedule agreed to with the supplier did not match with that committed to HVF.

(ii) Even going by the delivery time of 25 months (August 2002 to September 2004) given to the supplier, the supply of the GCS having been commenced in January 2003 should have been completed by February 2005. However, it was completed after 37 months in February 2006. No LD had been recovered from the supplier for the delay of one year.

(iii) The Company was contractually required to release an advance of Rs.16.20 crore to the supplier within four weeks of the receipt of the proforma invoice and the bank guarantee. However, the advance was released after a delay of 87 days, which affected the delivery schedule of the supplier.

The Management stated (August 2007) that the delay in the placement of the POs was due to finding alternate gyros[2], as the customer specified gyros were not available owing to the USA sanctions and that the delay was expected to be covered under the *force majure* clause. While attributing the delay in release of the advance to the change in the

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[1] Name subsequently changed to Bosch Rexroth in May 2001.

[2] A gyro is one of the critical items in the GCS.

supplier's name, they added that the matter of waiver of the LD and recovery of the ERV/PRV was under consideration of HVF.

The reply was not tenable, as the Company should have taken advance action for resolving the issue of alternate gyros before accepting the supply order from HVF in view of the sanctions effective from 1998. As regards the *force majeure* clause, HVF has categorically stated that non-performance of the supplier could not be a basis to invoke this clause. Further, the change in the supplier's name took place only on 1 May 2001, whereas the advance payment should have been released to the firm by 13 March 2001.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2008).

9.2.2 Irregular award of contracts to a banned firm

The Company contravened its laid down guidelines and ethical practices by placing contracts worth Rs.26.61 crore on a banned firm during the period when the business ban was effective on it.

According to corporate guidelines of Bharat Heavy Electricals Limited (Company), information regarding banning of vendors should be shared amongst all the units. The Vigilance Department of the Company has also stipulated that:

(i) No contract of any kind should be placed with a banned vendor by any unit/division/region of the Company after the issue of the banning order;

(ii) All concerned contracts with the banned vendor should ordinarily be short closed and the balance of work may be retendered or awarded to party/parties, which had earlier quoted for this work.

The Heavy Power Equipment Plant, a unit of the Company, banned (March 2006) all business dealings with one firm for three years as the firm was found to have indulged in forming a cartel to bag an order quoting higher prices. Notwithstanding such a ban, the Project Engineering Management, another unit, awarded (June/October 2006) two works• on the banned firm at a total price of Rs.26.61 crore on the plea that these were 'on-going' contracts as the tenders had been invited before issue of the banning order.

It was observed that these works could not be considered as 'on-going', as the financial bids had not been opened at the time of issue of banning order and even the existing contracts with a banned vendor were required to be short closed in terms of the guidelines issued by the Vigilance Department. The Company, thus, irregularly awarded contracts worth Rs.26.61 crore to a banned firm in violation of its guidelines.

The Management stated (April 2008) that the ban order was not implemented to avoid delay in the procurement process and by accepting the bid of the banned firm, the Company gained Rs.5.16 crore as compared to the second lowest bid. The Ministry also furnished (November 2008) a similar reply.

• *Supply, Erecting and Commissioning, Installation of Cabling, Earthing and Lightning Protection System relating to Mejia (unit 5 & 6) and Chandarpura (unit 7 & 8) power stations.*

The reply was not tenable as the Company contravened its laid down guidelines and ethical practices by placing contracts worth Rs.26.61 crore on the banned firm during the period when the business ban was effective on it. Accordingly, the saving claimed by the Company was at the cost of its laid down policy and ethical practices.

9.2.3 Irregular sanction under Corporate Social Responsibility

The Company sanctioned and disbursed Rs. five crore for lighting arrangements of a sports stadium in contravention of its Corporate Social Responsibility scheme.

Bharat Heavy Electricals Limited (Company) approved (July 2007) a scheme for implementing its Corporate Social Responsibility (CSR). The CSR scheme identified eight thrust areas of self-employment generation, environment protection, community development, education, health management and medical aid, orphanages & old age homes, infrastructural development[1] and disaster/calamity management.

The activities under the thrust areas were to be implemented in areas located generally in and around the Company's manufacturing units, service divisions or project sites and would cover small-scale investments ranging from Rs. two to five lakh, depending on the type of scheme, its location and number of beneficiaries. In case the beneficiary group was larger, the amount could be increased beyond Rs. five lakh. As per the scheme, 0.1 *per cent* of the budgeted profit after tax of the Company was to be allocated every year for the CSR activities.

It was observed that the Board of Directors of the Company sanctioned (July and October 2007) Rs. five crore as a part of the CSR activities to the District Sports Association (DSA) for electrification and flood lighting of a sports stadium at Silchar. The Company released the funds to the DSA in November/December 2007.

Audit analysis indicated that the sanction and disbursement of financial aid to the DSA contravened the provisions of the CSR scheme as brought out below:

(i) The purpose for which the amount was sanctioned did not fall within any of the thrust areas to be implemented under the CSR scheme of the Company.

(ii) The Company has no presence, whatsoever, in or around Silchar.

(iii) The amount of Rs. five crore sanctioned/disbursed to this single activity has exceeded the ceiling of Rs.2.86 crore[2], to be allocated for the CSR activities in 2007-08.

(iv) The corporate office of the Company directly disbursed the amount to the DSA without involving its regional unit Power Sector Eastern Region, Kolkata.

The Ministry/Management stated (July 2008) that the purpose for which the amount was sanctioned could be perceived as not falling within the provisions of the scheme but was

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[1] *Assisting in construction of approach roads, street lighting, drainage system, community toilets, community halls, additional class rooms for village schools, repair & maintenance works, etc.*

[2] *Being 0.1 per cent of the profit after tax of Rs.2859.34 crore earned by the Company in 2007-08.*

in addition to the budget allocation for the CSR activities. They added that the Company granted special donations/financial assistance every year for projects/events which were generally away from the units of the Company.

The reply was not tenable as the amount of Rs. five crore sanctioned by the Board of Directors as a part of the CSR activities was not as per the criteria stipulated in the extant CSR scheme.

9.2.4 Accepting a purchase order at below the minimum price

Due to accepting a purchase order at below the minimum price without proper analysis of the end user's requirements, the Company incurred loss of Rs.4.60 crore.

Jhansi unit of Bharat Heavy Electricals Limited (Company) accepted (July 2003) a purchase order from a private customer for supply of 52 number of 'dry type transformers' at a firm price of Rs.6.99 crore. The Company had initially quoted a price of Rs.13.01 crore, which was reduced (January 2003) to a bare minimum price of Rs.7.28 crore keeping in view the low volume of the work available with it and in expectation of business development in the field of dry type transformers. The price was further reduced (July 2003) to Rs.6.99 crore after negotiations with the customer.

Audit analysis revealed that the estimated cost for working out the accepted price was not based on a realistic assessment of the cost elements and the factors affecting the cost of work. There was under-estimation of cost of raw material as well as cost and time involved in seismic analysis of transformers as required by Nuclear Power Corporation of India Limited (NPCIL), the end user.

As a result, the work scheduled to be completed by February 2005 could actually be completed in January 2007 at a total cost of Rs.11.59 crore against the realisation of Rs.6.99 crore. Accordingly, the Company incurred loss of Rs.4.60 crore in execution of this work due to accepting the purchase order at below the minimum price without proper analysis of requirements of the end user.

The Management stated (December 2006) that the design of the transformers was to be proved seismically and the delay occurred mainly due to carrying out seismic tests which were not anticipated at the time of tender. Adding that the project was a prestigious one and was to serve an emerging customer (NPCIL), they stated that the Company was supplying such transformers for the first time.

The reply was not tenable as greater care was needed in estimating the cost and in accepting the un-remunerative price, particularly when the Company was executing such work for the first time and that too for a private firm. As the purchase order was accepted without adequate analysis of the requirements of the end user, even the variable cost of the work (Rs.9.64 crore) could not be recovered.

The matter was reported to the Ministry in July 2008; reply was awaited (November 2008).

9.2.5 Extra expenditure due to not placing repeat order

By not exploring the possibility of placing a repeat order in terms of its purchase policy, the Company lost an opportunity to save an expenditure of Rs.1.68 crore.

The corporate purchase policy of Bharat Heavy Electricals Limited (Company) provided that:

(i) Repeat order, without calling for fresh tenders, may be placed after recording the reasons, provided there was no downward trend in prices.

(ii) Repeat order quantity should not exceed three times the originally ordered quantity and could be resorted to not more than three times. Repeat orders may be placed against previous orders within three years from the date of issue.

Analysis in audit (October 2007 and February 2008) indicated that though the work of lighting system for Bhilai thermal power station (TPS) fulfilled the conditions *ibid* for placing a repeat order against a previous order placed in September 2005 for Birsinghpur TPS, the Company did not explore (July 2006) the possibility of placing a repeat order for Bhilai TPS. Instead, the Company resorted to the fresh tenders and awarded (September 2006) the work of Bhilai TPS to the same vendor at a higher cost of Rs.1.68 crore. Thus, by not exploring the possibility of placing a repeat order in terms of its purchase policy, the Company lost an opportunity to save an expenditure of Rs.1.68 crore.

The Management stated (March 2008) that it was felt prudent to issue fresh enquiry for Bhilai TPS, as the requirements/features thereof were different from those of Birsinghpur TPS with a cost differential of 13 *per cent*. They added that the estimates for Bhilai TPS were based on Birsinghpur TPS with suitable escalation.

The Management's reply that the estimated cost of Bhilai TPS was based on Birsinghpur TPS with escalation validates that there was neither major change in the specification of items, nor downward trend in prices. Accordingly, the Company should have explored the possibility of placing a repeat order as per its laid down policy.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

9.2.6 Extra expenditure due to not placing repeat order

The Company did not adhere to its purchase policy despite having an option for placing repeat order. Resultantly, the Company incurred an extra expenditure of Rs.1.57 crore on procurement of the four outer casings.

The corporate purchase policy of Bharat Heavy Electricals Limited (Company) provided that:

(i) Repeat order, without calling for fresh tenders, may be placed after recording the reasons, provided there was no downward trend in prices.

(ii) Repeat order quantity should not exceed three times the originally ordered quantity and could be resorted to not more than three times. Repeat orders may be placed against previous orders within three years from the date of issue.

The Company placed (December 2003) purchase orders on a foreign vendor for procurement of HP outer casing (HPOC)[•] and IP outer casing (IPOC)[•], under which it had an option for placing repeat order till 31 December 2004 for delivery of material up to 31 December 2005.

Based on the prevailing order position of 500 MW turbines, Heavy Electrical Equipment Plant (HEEP) initiated advance action for procurement of outer casings to avail the benefit of the existing offer of the vendor. Though the Corporate Office approved (27 December 2004) the proposal, HEEP did not place repeat order on the existing vendor. Instead, HEEP invited fresh tenders in March 2005 and placed (May 2005) purchase orders on the existing vendor for two sets of HPOC and on another foreign vendor for two sets of IPOC at a higher cost of Rs.1.57 crore.

Thus, the Company did not adhere to its purchase policy despite having the option for placing repeat order. Resultantly, the Company incurred an extra expenditure of Rs.1.57 crore on procurement of the four outer casings.

The Management stated (May 2008) that the fresh enquiry was floated as the delivery requirement was not in line with the agreement with the vendor and time left for taking any clarification was short.

The reply was not tenable as the Company was aware of the delivery schedule, while approving the advance action for placing repeat order. Besides, the outer casings were standard components and could be utilised in any of the 500 MW turbines. So, the Company should have availed the opportunity of placing repeat order at lower cost.

The matter was reported to the Ministry in July 2008; reply was awaited (November 2008).

Tungabhadra Steel Products Limited

9.3.1 Payment under Voluntary Retirement Scheme

In contravention of the DPE guidelines, the Company paid notice pay in addition to salaries and included personal pay for computation of *ex-gratia* payment resulting in excess payment of Rs.73.59 lakh.

According to Department of Public Enterprises (DPE) guidelines (December 2000) basic pay plus dearness allowance (DA) was only to be considered for computation of *ex-gratia* payment under Voluntary Retirement Scheme (VRS). Notice period pay was applicable only if the application of an employee was accepted instantaneously and payment was arranged by the management on the same day. No notice period pay would

[•] ***HPOC and IPOC are the casings used in manufacturing of turbines.***

be admissible where the Management took time to relieve the employee and the individual concerned drew full salary during the notice period served by him.

VRS offered by the Tungabhadra Steel Products Limited (Company) to its employees also stipulated the above condition. The Company accepted the applications of 68 employees (March 2004) and 229 employees (June 2006) under VRS and relieved 68 employees in May 2004, 218 employees in November 2006 and 11 employees in December 2006.

Scrutiny in audit revealed that even though the employees who had opted for VRS were paid salary and allowances till the date of relief, they were also paid the notice period pay (Rs.41.46 lakh). Further, while computing the *ex-gratia* payment, personal pay was also considered resulting in extra payment of Rs.32.13 lakh. The total excess payment amounted to Rs.73.59 lakh.

The Ministry in its reply stated (October 2008) that (i) the Company decided to give salaries up to November 2006 besides the notice pay, as exact date of availability of funds was not known to the Company and (ii) personal pay sanctioned as stagnation increment was considered as basic pay for all purposes in light of the fact that the pay scales of the employees were not revised since 1997, due to which most of the employees got stagnated in their respective pay scales.

The reply of the Ministry was not tenable as the sanction order (December 2006) of Department of Heavy Industries releasing the funds clearly directed the Company to ensure that the payment of outstanding salary should be in accordance with DPE guidelines and the Company was responsible for the correctness of the amount. Thus release of funds cannot be construed as approval for the payment of notice period pay. Regarding non revision of pay scales from 1997, the guidelines provided for 50 *per cent* increase in *ex-gratia* amount computed on the existing pay scales and the Company had worked out the *ex-gratia* accordingly. Hence, the stagnation increment as personal pay should not have been considered for *ex-gratia*.

CHAPTER X: MINISTRY OF MINES

National Aluminium Company Limited

10.1.1 Loss due to non-acceptance of the highest bid

Company's decision to reject the valid offer of the highest bidder in a weakening market resulted in loss of Rs.24.49 crore.

National Aluminium Company Limited (Company) floated (5 July 2006) tender enquiries to the registered customers for sale of 2,70,000 Metric tonne (MT) calcined alumina on term contract basis for a contract period of one year from September 2006 to August 2007 on fixed percentage of London Metal Exchange (LME) price. It was stipulated in the tender that: (i) the minimum bid quantity was to be 1,20,000 MT for the above period, (ii) the bid was to remain valid up to 17.00 hrs of 9 August 2006 and (iii) any deviation from the tender terms would not be acceptable to the Company and such offer was liable to be rejected.

Out of the four bids received, the highest bidder GLENCORE AG offered for 1,20,000 MT at a fixed price of 13.52 *per cent* of LME and 1,50,000 MT with 'PUT'/'CALL' option (at 13 *per cent* and 15.50 *per cent* of LME price respectively) with a validity period till 17:00 hours of 27 July. While opening the tenders, the Management inadvertently did not notice that the year was not mentioned and the date of the validity of offer had also changed in the bid of GLENCORE. Therefore, the bid had deviated from the basic terms of the Notice inviting tender (NIT), rendering the offer liable to rejection at the outset and VISA COMTRADE AG, quoted for 1,50,000 MT at the rate of 13.05 *per cent* of LME price, was the highest of the three valid bidders.

The Company, however, considered the invalid offer of GLENCORE to be the highest bid and called (26 July 2006) GLENCORE for discussions on their bid for 1,20,000 MT at 13.52 *per cent* of LME price. GLENCORE informed (28 July 2006) that the deviation from the tender was clearly mentioned in their said offer and they were unable to extend its validity beyond 27 July 2006. In this context, the Company had decided to take legal opinion from the Solicitor General of India and legal adviser to examine the validity of bid of GLENCORE and it was opined (1 August 2006) that the bid submitted by GLENCORE's could not be considered to be in line with the terms of the tender because it did not contain a valid period, it deserved to be rejected and Company should have proceeded to deal with the rest of the bids.

The Company, however, considering GLENCORE's offer to be the highest started negotiations in July and August 2006 with the other three bidders for matching the offer of GLENCORE (13.52 *per cent* of LME price) for their bid quantity. All the three bidders expressed their inability to improve their bid prices. The highest valid bidder, VISA COMTRADE AG, stated (2 August 2006) that the global alumina market was rapidly weakening over the last three months and it was expected to remain weak for the

rest of the year and reiterated their commitment to secure 1,50,000 MT at their bid price of 13.05 *per cent* of LME price with validity as per tender terms. The Company also noted the downward trends in global alumina market.

Despite this the Company decided (7 August 2006) to re-tender. Against the tender enquiry (10 August 2006) only two bids were received. The highest offer was 11.33 *per cent* of LME price for the bid quantity of 1,20,000 MT. The Board of Directors approved (29 August 2006) the sale and the Company entered into a contract with the highest bidder on the same day.

The Company by failing to take up the offer of VISA COMTRADE AG, the highest valid bidder, thus lost the opportunity to sell the alumina at the rate of 13.05 *per cent* of LME price which resulted in a loss of Rs.24.49 crore♣.

The Management contended that GLENCORE's acceptance of the Company's invitation for negotiation vindicated its decision to negotiate considering their offer as the highest valid bid. They also stated that the cancellation of the tender was inevitable in line with the Central Vigilance Commission guidelines.

The contention of Management was not tenable. The Company did not notice that the bid submitted by GLENCORE had violated NIT conditions and negotiated with the firm, considering it as the highest bidder. The legal opinion obtained by the Company affirmed that the offer of GLENCORE was invalid. Therefore retendering was not warranted. The CVC guidelines quoted were not relevant to the case.

The Ministry while accepting the views of Audit stated (September 2008) that in accordance with the CVC's advice improvement in the tender process/coverage had been implemented by the Management through a Board decision in July 2008.

♣ ***Difference between the offer price of VISA COMTRADE and the price received in the next contract after re-tendering considering the exchange rate prevailing on the date of shipment in the next contract.***

CHAPTER XI: MINISTRY OF PETROLEUM AND NATURAL GAS

Bongaigaon Refinery & Petrochemicals Limited

11.1.1 Loss due to uneconomic operation of Polyester Staple Fibre Plant

The Company absorbed a contribution loss of Rs.29.68 crore due to its imprudent decision to revive the Polyester Staple Fibre plant despite being fully aware of its economic unviability.

Bongaigaon Refinery & Petrochemicals Limited (Company) had suspended (October 2001) the operation of its economically unviable Petrochemical and Polyester Staple Fibre (PSF) business. Techno-economic viability study was conducted by the Company in August 2002 to revive the PSF business by making strategic alliance with some major players in the field. The study indicated that the Company would continue to incur loss even after a strategic alliance. Despite this the Company decided (June 2003) to revive the PSF plant and selected Reliance Industries Limited (RIL) as the strategic partner. As per agreement (November 2003) with RIL, the positive contribution[1] would be equally shared. In case of negative contribution for more than seven days, both the parties would jointly decide on the closure of the plant and RIL would be liable to dispose the left over raw material after closure of the PSF plant. Any party insisting on continuing the operation even if negative contribution continued for more than seven days, the cost would be fully borne by that party.

The PSF plant, which restarted in December 2003, generated negative contribution since commencement of actual production (January 2004) till December 2004 except in June 2004 and from August to October 2004. The plant was thereafter shut down in December 2004. The total negative and positive contributions during January–December 2004 were Rs.6.41 crore and Rs.3.98 crore respectively. The plant was restarted in May 2005 based on the decision (March and May 2005) of the Company that the PSF plant should be operated only for conversion of the raw material available in stock[2] to finished products and if positive contribution was ensured after factoring in the financial gain in the refinery sector due to lower fuel consumption.

Audit observed (December 2006) that the plant was operated till November 2005 by procuring fresh raw material though the operation started accruing negative contribution from May 2005. The Company had absorbed the loss of Rs.25.26 crore due to its persistent uneconomic operations though it had an option to close the plant after seven days of negative contribution leaving the disposal of the left over material to RIL after closure of the plant (December 2004).

[1] *Differential of net sales realisation and net variable cost*
[2] *Valuing Rs. 51.01crore for operation of two months only*

Thus, due to their imprudent decision to enter into an alliance with RIL to operate the economically unviable PSF plant, the Company had to absorb a loss of Rs.29.68 crore[1].

The Management/Ministry stated (June 2008/August 2008) that the Company entered into a strategic alliance based on techno-economic study. The PSF plant was restarted after gap of more than two years and after overcoming the initial teething problems, the plant generated positive contribution of Rs.3.98 crore in June 2004 and from August 2004 to October 2004. However, due to external factors like increase in input cost without commensurate increase in PSF price, contribution losses occurred from May to November 2005 and plant was finally shutdown.

The reply was not tenable. Techno-economic viability study had indicated that the Company would continue to incur loss even after strategic alliance. Further, though the contract stipulated that the party responsible for running the plant even with negative contribution would bear the subsequent liability, the Company repeatedly persisted with uneconomic operations.

Indian Oil Corporation Limited

11.2.1 Avoidable expenditure due to introduction of an incentive scheme retrospectively

Decision of the Company to give retrospective effect to the Performance Linked Incentive Scheme resulted in avoidable expenditure of Rs.182.53 crore.

Indian Oil Corporation Limited (Company) operates two schemes viz. Productivity Incentive Scheme (PIS) which was based on team performance and Performance Linked Incentive (PLI) scheme for the employees who were being paid based on the overall performance of the Company. In order to reward different levels of individual performance, the Board approved (March 2006) a proposal to revise the PIS to give 80 *per cent* weightage for team performance and 20 *per cent* weightage for individual performance. Simultaneously, the Board also approved another proposal for revision of the PLI scheme, which was introduced in lieu of Bonus/*ex-gratia*. As per the existing scheme, employees were paid a lump sum amount depending upon the composite score achieved in relation to the Memorandum of Understanding (MOU) targets entered with the Government of India. As per the revised PLI scheme, incentive pay out was fixed as percentage of distributable profits linked to the achievement of MOU targets and the modified scheme was proposed to be effective only from 2004-05. While the modified PIS scheme was made effective from 2004-05, the Board was also assured that the over all quantum of perquisites and allowances including PIS and PLI would not exceed five *per cent* of the distributable profits of the Company in line with the guidelines of the Department of Public Enterprises (DPE).

The Company paid under PLI scheme the differential amount of Rs.47.62 crore (out of the total Rs.65.88 crore) for the year 2004-05 in May 2006. In September 2006, the Board approved a proposal to extend the revised PLI scheme, retrospectively for the

[1] ***Rs.6.41 crore+Rs.25.26 crore (negative contribution)-Rs.1.99 crore (50 per cent of Rs.3.98 crore of positive contribution.)***

years 2002-03 and 2003-04 also. The amounts paid on the revised PLI for the years 2002-03 and 2003-04 were Rs.61.48 crore and Rs.73.43 crore respectively.

The decision of the Board to give retrospective effect lacked justification since any incentive scheme should have a prospective effect as it is aimed at achieving better performance/targets in the future. Revision of the scheme retrospectively cannot be expected to motivate the employees for better performance than what had already been achieved and rewarded. Thus, implementation of the scheme retrospectively resulted in payment of unproductive incentive amounting to Rs.182.53 crore during 2002-03 to 2004-05.

The Management stated (June 2008) that the incentive earlier paid to the employees in 2002-03 and 2003-04 was much less than five *per cent* of the distributable profit of the Company for these years as well as allowable under DPE guidelines on pay revision. When for the same performance parameters in the subsequent years employees had been paid a higher incentive, there was no reason to deny them the benefit for the previous years considering that no dilution had been made in the performance parameters for these years. Therefore, it would not be correct to refer the incentive for a particular period as unproductive just because payment had been made in two parts. The Ministry in its reply (August 2008) endorsed the views of the Management.

The reply was not tenable as performance related payment up to five *per cent* was permissible under DPE guidelines since June 1999. When the Company paid the PLI from 2002 to 2005, the Company could have considered payments up to five *per cent* of its distributable profit. Revision of PLI in March 2006 retrospectively on the basis of performance assessed and awarded earlier defeated the very purpose of incentive scheme introduced for enhanced performance. There was no mention of giving retrospective effect at the time of revision of PLI scheme in March 2006.

Thus, the manner of implementation of the PLI scheme was not in the best financial and professional interest of the Company and appeared to be aimed at distributing the amount of profits available within the overall ceiling prescribed by the DPE. The decision of Management resulted in excess payment of Rs.182.53 crore.

11.2.2 Loss due to non-inclusion of education cess in the price of motor spirit and high speed diesel

Failure to include the education *cess* in the refinery transfer price of motor spirit and high speed diesel by the Company resulted in under recovery of subsidy of Rs.13.27 crore.

After dismantling of the Administered Pricing Mechanism (APM), the prices of Motor Spirit (MS) and High Speed Diesel (HSD), from April 2002, were to be based on market determined mechanism. The refinery transfer price (RTP) at refineries was to be based on import parity price (IPP). The IPP consisted of free on board cost of product, ocean freight, insurance, custom duty, ocean loss, letter of credit charges and wharfage. The RTP was the price, which the marketing companies paid to refineries. The RTP was updated every fortnight based on IPP concept. Besides changes in the rates of the duties,

introduction of the new components of taxes to be imposed, if any, in the budget announcements were also considered while working out the RTP.

Oil Marketing Companies (OMCs) sell MS and HSD at retail selling price (RSP), which was controlled by the Government. As the RSPs of MS and HSD were not revised in line with RTPs, the OMCs suffer under-recoveries. The under-recoveries were partially compensated by the Government by way of loss sharing mechanism after recognising the standard marketing margin.

The Government of India imposed (July 2004) education *cess* at the rate of two *per cent* of the aggregate duties of customs on all the imports. Indian Oil Corporation Limited (Company) did not include the education *cess* while working out the RTP. The Company viewed that by not including the education *cess* on customs duty, the under-recoveries would be reduced to the extent since PSU OMCs were major purchasers of petroleum products from private refiners. The Company included the education *cess* in the RTP from 1 April 2006 in view of demand from stand-alone refineries and private refiners.

Audit observed that the Company was net taker of MS (73 TKL[♣]) and HSD (4704 TKL) during 2005-06 and would have incurred an expenditure of Rs.18.41 crore by including the education *cess* in the RTP. It sold 4220 TKL of MS and 21043 TKL of HSD during 2005-06. Had the Company included the education *cess* in the RTP, it would have received Rs.31.68 crore under the loss-sharing mechanism. Failure to include the education *cess* in the RTP at the time of introduction on an incorrect assumption resulted in loss of Rs.13.27 crore (Rs.31.68 crore *minus* Rs.18.41 crore) to the Company.

In reply the Company stated (July 2008) that after dismantling of APM effective April 2002, OMCs were not in receipt of directive from any agency and the RTPs were based on broad understanding between OMCs and the domestic refineries. Further, there was no structured loss-sharing mechanism for MS/HSD during 2004-05 and 2005-06 which forced OMCs to seek additional measures for redressal of the under-realisation which was implemented in 2005-06. It also added that the loss suffered due to non inclusion of education *cess* was only notional in the absence of any clear-cut loss sharing mechanism.

The reply did not take into consideration that during 2006-07, the net outflow on inclusion of education *cess* to other oil companies was Rs.20.58 crore of which Rs.20.30 crore was recovered under loss-sharing mechanism. Similarly, the inclusion of the element of education *cess* in RTP in 2005-06 would have resulted in net gain of Rs.13.27 crore to the Company.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

[♣] *TKL- Thousand Kilolitre*

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11.2.3 Avoidable expenditure due to deficiencies in agreement

Non-synchronisation of the additional facilities created under an agreement with the expansion of the Panipat refinery for which they were required resulted in avoidable expenditure of Rs.11.28 crore.

In order to meet additional requirements of crude oil consequent to the expansion of their Panipat Refinery, Indian Oil Corporation Limited (Company) entered (October 2002) into an agreement with M/s Gujarat Adani Port Ltd (GAPL) for establishment of a crude oil terminal (COT) at Mundra. GAPL was to install a new Single Point Mooring (SPM) system at Mundra Port. As per the agreement, the Company was to pay fixed charges of Rs.35 crore *per annum* to GAPL from 1 March 2005 or the date on which GAPL got landing and shipping declaration from the Customs, whichever was later. The effective date could be extended by six months by mutual agreement between the parties. The agreement did not mention anything regarding the Panipat Refinery Expansion Project (PREP) for which the facility was being created.

The completion of PREP was delayed and it was completed only in August 2006. The Company requested (August 2004) to postpone the effective date which was rejected by GAPL stating that that there was no mention about delay in completion of PREP by the Company in any of its project review meetings held with them from time to time. The Company had to pay fixed charges of Rs.43.75 crore from 5 May 2005 (the date of getting landing and shipping declaration by GAPL) to July 2006 for the facility, which it did not use. It started using the facility only with effect from August 2006. The Company could have saved fixed charges of Rs.11.28 crore had they informed the GAPL about the status of the PREP.

The Management stated (July 2008) that the effective date under the agreement was fixed considering the scheduled completion of PREP in October 2004. PREP was delayed due to reasons beyond the control of the Company. The effective date could be extended by mutual agreement and was not automatic. The request of the Company was not agreed to by GAPL due to substantial cash flow by them on the project.

We are unable to agree with the Management's reply since the agreement did not mention the PREP project at all for which crude oil was mainly required. The agreement should have been drawn up in a manner wherein the progress of oil handling facilities should have been synchronised with the expansion of the Panipat Refinery.

Failure of the Company to ensure proper synchronisation of COT and SPM with PREP in the agreement resulted in avoidable expenditure of Rs.11.28 crore.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

Oil and Natural Gas Corporation Limited

11.3.1 Extra expenditure due to re-tendering

ONGC incurred an extra expenditure of Rs.193.97 crore by ignoring the current crude oil price for evaluation of an offer that led to rejection of the offer and consequent re-tendering.

In November 2003, Oil and Natural Gas Corporation Limited (Company) invited a global tender for development of the Bassein East Field (Vasai East Project) in Western Offshore involving creation of two well-head platforms, one process platform, laying of submarine pipelines, construction of bridges, modifications at platforms and installation of booster compressors. The Company opened (April 2004) the price bids of the qualified bidders and found the L1 bid at US$ 468 million. The in-house estimate (April 2003) for the project was US$ 195.99 million. After carrying out a viability analysis of the offer, the Company decided (April 2004) to close and re-invite the tender on the ground that considering oil price of US$ 18 *per* barrel, the Internal Rate of Return (IRR) would be 3.67 *per cent* as against desirable IRR of 12 *per cent* stipulated in the Company's guidelines of July 2002.

The Company re-invited two separate tenders, viz., for new Vasai East project and Four Well Platforms project-2 (4WPP-2) in March 2005 and July 2005 respectively by including the above scope of work. The contract for new Vasai East Project was awarded (January 2006) by the Company to a party 'S' at US $ 456 million (20.19 *per cent* higher than the cost estimates) for scheduled completion by April 2008. The Company awarded (November 2005) the contract for the 4WPP-2 Project to another party 'N' at a lump sum price of US$ 189.409 million for scheduled for completion by April 2007.

Audit observed (February 2007) that the low IRR (3.67 *per cent*) of the Vasai East Project and closure of the tender was based on the crude oil rate of US$ 18 *per* barrel whereas the rate at the time of working out the viability of the project in April 2004 was US$ 36.42 *per* barrel. Even by considering the crude oil rate of US$ 27.76, the Company itself had assessed the IRR as 14 *per cent*.

Audit also observed that the reservoir pressure of the Vasai East Field was declining at the rate of three to four Kg/cm^2 *per* annum. The continuous decline in the reservoir pressure was impacting recovery of the potentially significant volume of oil. Closure of the earlier tender and awarding the contract by re-tendering resulted in extra expenditure of Rs.193.97 crore. Besides, the delay in the scheduled completion of the project by two years also resulted in decrease in expected oil recovery as per new feasibility report and loss of revenue of Rs.3851.51 crore[*]. Had the Company taken into consideration the general trend of increasing prices of oil and gas, the IRR could have been worked out to 14 *per cent* based on an oil rate of US$ 27.76 *per* barrel, as pointed out by the Bassein and Satellite Asset.

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[*] ***Estimated loss over15 years life of the project based on the average crude oil price ruling in 2006-07 and 2007-08.***

Thus, due to evaluation of the offer by reckoning inappropriate crude oil price for calculating IRR, the Company rejected a viable proposition and resorted to re-tendering which resulted in extra expenditure of Rs.193.97 crore besides estimated loss of revenue of Rs.3851.51 crore due to deferment of production.

While intimating that the guidelines for determining the IRR have since been revised in March 2008 in view of substantial increase in international crude oil prices, the Management stated (June 2008) that the decision to close the previous tender was taken as per the then prevailing guidelines on minimum rate of return and after considering the product prices for projects.

The reply of the Management was not tenable as in another tender viz. 'G-1 and GS-15 Development Project', the Company had adopted higher prices of oil than those prescribed in its guidelines for determining the desired IRR. IRR of 10.60 *per cent* and a positive NPV of Rs.25.28 crore of that projects were determined by the Company only after considering a higher oil price of US$ 30/per barrel. Despite the fact that the said project did not meet the criteria for minimum revised IRR of 10 *per cent* as per its guidelines, the Company had awarded the contract to M/s. CE on the ground that the then scenario of market price of oil was over US$ 100/per barrel and, thus, the economic rate of return based on global price scenario would be much higher.

Thus, the Management had taken different stands in arriving at the financial viability of the Vasai East Project (2003 tender) and 'G-1 and GS-15 Development Project' (2004 tender). Further, the guidelines issued in July 2002 were revised only in May 2004. Considering that the viability of all the projects was dependant on the market driven crude oil prices and that the prices indicated an increasing trend in international crude oil market, the project appraisal guidelines should have been revised periodically for an appropriate decision.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

11.3.2 Extra expenditure due to delay in executing a management decision

Delay in implementing the directive of its Executive Purchase Committee for procuring high flash high speed diesel as inter-state sale from Mangalore to save on local taxes resulted in extra expenditure of Rs.63.90 crore.

Oil and Natural Gas Corporation Limited (Company) was procuring high flash high speed diesel (HFHSD) from public sector Oil Marketing Companies (OMCs) till 2003-04. In December 2003, the Company inducted its subsidiary viz. Mangalore Refinery and Petrochemicals Limited (MRPL) as another source for procurement of 6000 Kilolitre of HFHSD *per* month. By using its own means of transportation, MRPL was supplying HFHSD up to the storage tank at Nhava in Mumbai. In May 2004, the Executive Purchase Committee* (EPC) of the Company directed the Management to explore the possibility of transportation of HFHSD through tankers/barges directly from MRPL to rigs/platforms so as to save on sales tax. Billing at Mumbai was attracting sales tax at the

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* ***A committee of the Board of Directors of the Company.***

rate of 31 *per cent* while the billing at Mangalore, being an inter-state sale, would have attracted central sales tax of four *per cent* on production of form 'C' thereby resulting in saving of 27 *per cent*.

Audit observed (March 2007) that instead of making arrangement for tankers/barges immediately after the EPC direction of May 2004 for transporting HFHSD directly from Mangalore to Nhava, it made the arrangement from July 2005 when the EPC pointed out non-compliance of its earlier direction in April 2005. As per Company's own cost benefit analysis, the purchase of HFHSD from Mangalore was economical as it involved expenditure of about 2.3 *per cent* on handling and transportation whereas Indian Oil Corporation's ex-Nhava rate was 28 *per cent* higher than that of MRPL ex-Mangalore. Had the Company initiated action for hiring of barges/tankers in May 2004 itself in view of the economics of procuring the entire quantity directly from MRPL, it could have saved Rs.63.90 crore on the quantity of HFHSD procured by it from three OMCs during the period from July 2004* to June 2005.

Thus, due to delay in executing the direction of EPC even after being aware of substantial savings involved, the Company incurred an extra expenditure of Rs.63.90 crore.

The Management replied (June 2008) that simply arranging a tanker for transportation of HFHSD was not enough to ensure uninterrupted availability of HFHSD, being a vital input for offshore operations and that full sourcing of HFHSD from MRPL was implemented from July 2005. This was a result of the protracted deliberations/discussions initiated in 2003 with MRPL. Further, MRPL had suggested that till their supplies stabilised, some quantity should be obtained from HPCL/BPCL. Accordingly, 20 *per cent* was diverted from MRPL to BPCL. Thus, the Company contended that MRPL was not in a position to cater to even 50 *per cent* of their requirement.

Reply of the Management was not tenable since the EPC in May 2004 had directed the Company to explore the possibility of arranging tankers/barges for the purpose. The Company could have initiated action for arranging tankers immediately after May 2004 and simultaneously continued discussions with MRPL for long term measures. The Company, however, did not initiate any action till EPC reiterated (April 2005) its earlier direction. The constraint expressed by MRPL was not with reference to production but infrastructure facilities. However, despite the reported lack of sufficient infrastructural facilities for loading at MRPL and storage at Nhava base, the Company could subsequently manage the entire process of transportation and storing facilities within three months of EPC's direction of April 2005.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

***** *After allowing a reasonable allowance of two months period for making arrangement pursuant to EPC's decision of May 2004. The Company could make the arrangement within three months when, in April 2005, the EPC reiterated its earlier directions.*

11.3.3 Failure to avail EPCG benefits on import of capital goods

Non-availing of concessional rate of customs duty under EPCG scheme resulted in an avoidable expenditure of Rs.13.61 crore.

The Government of India issued a notification under the Export Promotion of Capital Goods (EPCG) scheme in April 2000 and amended it in September 2004 whereby the capital goods could be imported at concessional rate of custom duty i.e., at five *per cent* of the assessable value of the goods, subject to an export obligation equivalent to eight times of duty saved on imported capital goods. This obligation was to be fulfilled over a period of eight years from the date of issuance of EPCG authorisation. To avail of the benefit, the importer was to obtain a case to case authorisation i.e., licence from the Directorate General of Foreign Trade (DGFT).

Oil and Natural Gas Corporation Limited (Company) imported various capital goods for use in its exploration and production activities of oil and gas and in turn exported naphtha. Hence, the Company was qualified to avail of the benefit under the EPCG scheme. The Company had accordingly issued circulars from time to time to all concerned executives clarifying the formalities and procedure for availing of the benefit.

Audit observed (June 2007) that without laying down a policy for availing of the benefit under the EPCG scheme for such imports, the Company was obtaining licences for the cases of imports having import value of above rupees one crore each. On a review of 31 selected cases of such imports for which supply orders were placed during the period from March 2003 to May 2007, Audit observed that the Company had not availed of the benefit under the scheme in respect of nine cases and thereby forgone the benefit to the extent of Rs.13.61 crore. The lapse occurred because the indenting department of the Company had not taken necessary steps to obtain the EPCG licence in time. Though the scheme was notified by the Government of India in April 2000, the Company had not registered some of its regions viz. Jorhat, Tripura, Cauvery, Rajahmundary and Krishna Godavari Basin till September 2008 to avail of the benefit under the scheme.

The Management in reply (October 2008) admitted that EPCG benefit could not be availed of in nine cases due to lack of awareness and clarity in the Company on the issue of nexus between the items being imported and production of naphtha for the EPCG benefit and also due to lack of coordination among various work centres of the Company. The Management also stated that a separate group had been formed (July 2008) to deal especially with EPCG matters. As regards non-registration of some of the regions, the Management stated that necessary action had been initiated for obtaining registration cum membership certificate. The Ministry endorsed (November 2008) the reply of the Management.

The reply of the Management was not convincing as lack of awareness and clarity within the Company on matters relating to the scheme for availing of the benefit was an internal matter of Company and could have been sorted out by better governance. Even if a period of one year for streamlining the system is considered necessary since issuance of the notification, the Company should have avoided the extra expenditure by availing of the benefit in respect of all cases of import of capital goods having import value exceeding rupees one crore. Not obtaining of registration for some of the regions of the Company

till September 2008 to make them eligible for availing of the EPCG benefit indicated lack of immediate action for protecting the interest of the Company.

11.3.4 Avoidable payment of property tax

Non-obtaining of 'No Objection Certificate' by ONGC for utilising additional land belonging to the State Government and consequent delay in obtaining occupancy certificate from Mumbai Metropolitan Regional Development Authority resulted in extra payment of Rs.5.68 crore towards property tax to the municipal authority.

Oil and Natural Gas Corporation Limited (Company) acquired 10,425 square metres (sqm.) of land at Dharavi in Mumbai from the Mumbai Metropolitan Regional Development Authority (MMRDA) for construction of an office building. The construction activities were commenced in 2000. At the request (October 2001) of the Municipal Corporation of Greater Mumbai (MCGM), the Company handed over (December 2002) 320.76 sqm. of land to the former for their road widening programme. The building became functional with effect from 15 April 2005.

As partial compensation for reduction in the area of the plot, the Company requested (October 2002) MMRDA to hand over a piece of unused 114 sqm. of land at the southeast corner of the Company's plot which otherwise was not a part of the land allotted to the Company. However, MMRDA intimated (November 2002) that the said piece of land belonged to the Maharashtra State Government. While constructing the boundary wall of the building, the Company decided (January 2003) to include the said 114 sqm. of land and to approach the State Government later.

Audit noticed (October 2007) that though the building became functional from 15 April 2005, the Company approached MMRDA for Occupancy Certificate (OC) only in September 2006. Also it did not approach the State Government for 114 sqm. of land. MMRDA refused (October 2006) to issue OC as the Company had included an area of 114 sqm. belonging to the State Government and asked the Company to reconstruct the compound wall after excluding the excess area. The Company requested (March 2007) the State Government to issue 'No Objection Certificate' (NOC) which was received in September 2008.

Meanwhile, MCGM demanded property tax at the penal rate of 320.5 *per cent* instead of 112.5 *per cent* as the building did not have OC and water connection. The resultant extra payment was Rs.5.68 crore for the period from April 2005 to September 2008.

The Management stated (June 2008) that the Company had approached the State Government in April 2007 for obtaining the NOC and contended that the OC from MCGM was not held up for want of NOC. It added that in response to its request of August 2007 to MMRDA and MCGM for issue of OC, the MMRDA had permitted the MCGM for issue of OC subject to, inter-alia, obtaining of NOC by the Company for the increased area. The Management further contended that the Consulting Engineers appointed by it were responsible for obtaining OC from MCGM after getting necessary clearances from MMRDA and MCGM. The Ministry added (December 2008) that the Company had obtained OC from MCGM in September 2008 and that the property tax would now be regularised and henceforth no penalty would be paid on property tax.

The reply was not satisfactory since obtaining of NOC from the Maharashtra State Government was a prerequisite for obtaining OC from MCGM as intimated by MMRDA in November 2002. Hence, OC was indeed held up for want of NOC. Being the principal, the Company cannot disown its responsibility for obtaining the title for the additional land from the State Government even if it had appointed an agent, the Consulting Engineers, for the job. The Management did not offer any reasons for not approaching the State Government for almost five years from December 2002 to March 2007.

11.3.5 Avoidable expenditure due to improper assessment of vessels

Due to improper assessment and hiring of vessels with Anchor Handling and Towing System for towing operations and deploying them on non-towing operations, the Company incurred an avoidable expenditure of Rs.4.61 crore.

Oil and Natural Gas Corporation Limited (Company) deployed Offshore Supply Vessels (OSVs) to cater to the requirement of various offshore installations. Apart from supply of material, water, fuel etc. to rigs and platforms, the OSVs also performed other important functions like rig towing, anchor handling and fire fighting. The requirement of vessels for rig towing operations was met by the Company mostly by charter hiring the vessels having Anchor Handling and Towing System (AHTS). As per the requirement assessed by the Management, six sets of three AHTS vessels i.e., 18 AHTS were required for its entire offshore operations. The Company invited an open tender (August 2002) for charter hire of vessels, which included the requirement of vessels with AHTS for rig towing operations. The Company hired (May 2003) 21 AHTS for the period from May 2003 to May 2007. Of these, the Company hired four vessels with AHTS facilities from M/s. Garware Shipping Corporation Limited (GSC), at the daily charter hire rates of US$ 4,560 for a period of three years, with an extension provision of one year.

Audit observed (June 2007) that the vessels hired from operators other than M/s. GSC were used for rig towing operations for a period ranging from 218 days to 381 days during the four years contractual period. However, four vessels viz., Garware 1, Garware 2, Garware 3 and Garware 5 hired from M/s. GSC were utilized for rig towing operations only for 29, 42, 15 and 36 days respectively during the four years. The average utilization of vessels of Garware series for rig towing operations was only two *per cent* as against 15 to 26 *per cent* utilization in respect of non-Garware vessels. Further, during 2005-06, none of the Garware vessels was utilized for rig movement. As the Garware vessels were primarily used for supply or stand-by duties, which did not require AHTS facilities on the vessel, the Company could have hired supply vessels at a cheaper rate of US$ 3,500 per day. Deployment of Garware vessels for other duties defeated the objective of hiring AHTS vessels. As a result, the Company incurred an avoidable cost of Rs.4.61 crore on charter hiring of AHTS vessels from M/s. GSC instead of normal supply vessels.

The Management stated (June 2008) that Garware AHTS vessels were used less for rig tows compared to other vessels having AHTS, because the former had less bollard pull compared to the latter. The requirement of rig tow was generated suddenly based on drilling programme and it was quite possible that at that juncture, a particular handler may be out of operation due to either mandatory dry dock or an annual survey or naval clearance or any type of unscheduled repair leading to delay in rig tow or idling of drilling rig which was costlier. The Management also contended that it had not incurred a

loss on account of less deployment of Garware AHTS during the rig tow, but tried to manage its operation most efficiently from the available resources.

The reply of the Management was not tenable since it was aware of the fact that the Garware series of vessels were not fully capable of rendering AHTS/rig towing jobs due to lesser bollard pull power, there was no justification for hiring the said vessels from M/s. GSC under AHTS category at higher rates. Audit observed that during the period 2003-04 to 2006-07 though the average downtime of Garware (85 days) and non Garware vessels (109 days) was more or less identical, the Garware vessels were used sparingly for rig towing operations as compared to non Garware vessels. The Management had assessed the requirement of six sets of three AHTS vessels for its offshore operations. As against the requirement of 18 AHTS, the Company hired 21 AHTS. The four Garware vessels could not be used optimally for rig towing due to less bollard pull. Thus, improper assessment of AHTS and hiring of the OSVs that were not capable of rig towing operations resulted in extra expenditure of Rs.4.61 crore.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

Oil and Natural Gas Corporation Limited, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, GAIL (India) Limited and ONGC Videsh Limited

11.4.1 Irregular payment of stagnation relief

Six central public sector undertakings paid lump sum compensation aggregating Rs.45.09 crore as incentive/stagnation relief to their employees who were stagnating in their pay scales despite their getting maximum number of stagnation increments admissible.

As per the instructions issued by the Ministry of Industry, Department of Public Enterprises (DPE) in June 1999, the maximum of three annual stagnation increments could be granted to the officers/employees of the central public sector undertakings (PSUs) on reaching the maximum of their pay scales.

Audit observed that six PSUs, as per details given below, under the Ministry of Petroleum and Natural Gas deviated from the DPE's instructions and paid an amount of Rs.45.09 crore towards incentive/stagnation relief or synonymous nomenclatures in the form of lump sum compensation[♣] to its officers/employees for the period January 2002 to December 2006 during which no increment had been drawn by them after availing of the maximum of three stagnation increments admissible to them under the instructions of DPE:

Sl. No.	Name of the PSU	Amount paid (Rs. in crore)	Month/year of approval by the respective Board
1.	Oil and Natural Gas Corporation Limited (ONGC)	22.86	September 2006*

[♣] *Equivalent to increase in salary for a maximum of three annual increments over and above the stagnation increments.*

2.	Indian Oil Corporation Limited (IOCL)	11.63	September 2006
3.	Hindustan Petroleum Corporation Limited (HPCL)	5.00	October 2006
4.	Bharat Petroleum Corporation Limited (BPCL)	4.58	September 2006
5.	GAIL (India) Limited (GAIL)	0.88	March 2008
6.	ONGC Videsh Limited(OVL) – a subsidiary of ONGC	0.14	OVL followed the orders issued by ONGC
Total:		**45.09**	

** Approved by the Chairman and Managing Director*

As the grant of such lump sum compensation in the form of stagnation relief to the officers/employees was not permissible as per instructions of DPE, the amount of Rs.45.09 crore paid by these PSUs was irregular.

The Managements of all the PSUs stated between March 2007 and May 2008 that the compensation was granted in view of resentment among the officers and notice for indefinite strike served by the Officers' Associations of Oil PSUs on several issues including that relating to stagnation increments. They also contended that such lump sum compensation did not result in any additional increment in their pay scale and did not attract any consequential benefits. IOCL, HPCL, BPCL and GAIL also stated that the payment was approved by their respective Board of Directors (BODs). BPCL and GAIL further contended that the grant of the lump sum compensation was in accordance with the powers of the navratna companies. While in case of HPCL, the Ministry endorsed (August 2007) the views of the Management, in case of ONGC, the Ministry stated (October 2008) that the Presidential directive issued by Ministry of Petroleum and Natural Gas in October 1999 directed to implement pay scales, fitment formula, Dearness Allowance guidelines and ceiling on perquisites for the Board level executives with effect from January 1997 and that in the said directive, there was no mention of stagnation increments. Thus, the lump sum additional relief granted to executive did not violate DPE guidelines and was within the power of ONGC.

The replies tendered by the above PSUs/Ministry were not tenable as the Presidential directive was issued in terms of the DPE Memorandum of 25 June 1999. In case the Presidential directive did not provide for grant of stagnation increments, there was no justification for the three stagnation increments already granted by the Company. DPE's guidelines were applicable to all PSUs including the navratna companies. The BODs of navratna companies formulated schemes which allowed payment of compensation to the employees in lieu of stagnation increments that were inadmissible as per DPE's guidelines. The BODs of any PSU, including those of navratna companies, were not competent to override the instructions of the DPE in regard to pay structures. Formulation of such a scheme by the BODs circumvented the provisions of the DPE's guidelines for grant of not more than three stagnation increments. In case, the oil sector PSUs felt it necessary to compensate such employees over and above the benefit of stagnation increments, a specific clarification/approval from the DPE/Government of India should have been obtained before implementation of the decision of their BODs.

CHAPTER XII: MINISTRY OF POWER

Power Finance Corporation Limited

12.1.1 Irregular selection of a consultancy firm

Invitation of bids with inadequate publicity and selection of ineligible firm as consultant resulted in irregular payment of Rs.1.24 crore.

Power Finance Corporation Limited (Company) is engaged in the business of providing consultancy services in the power sector since October 1999 and had been appointing consultant firms as sub-consultants from time to time. In August 2004, the Company established a procedure for empanelment of consultancy firms and appointment of sub-consultants. It was envisaged that empanelment process would save a lot of time and eliminate chances of subjective decisions in awarding any consultancy work. Any deviations from the established procedure were to be solely based on exceptional circumstances and permitted only by the Chairman and Managing Director of the Company.

The Company constituted (September 2005) a panel of 99 consultancy firms with validity up to 31 July 2007. In addition to this, the Company approved (June 2007) a proposal and floated (August 2007) a fresh enquiry from Chartered Accountants firms by hosting on its website for work of assisting in analysis, scrutiny and evaluation of financial aspects in respect of tariff based competitive assignments.

Audit scrutiny revealed (June 2008) that invitation of bids were not published in any newspaper. Out of the three bids received, the Company short-listed two firms. Both the short-listed firms were ineligible *ab initio.* While one firm lacked working experience with the Company, one of the pre-requisites for selection; the other firm was not a Chartered Accountants firm. Nonetheless, the Company awarded (November 2007) the work to M/s. Pary & Company, an ineligible firm, which had never worked with the Company though one of the partners of the firm had worked (22 days) with a consultancy firm of the Company in the past.

According to clause 4.3 of the appointment letter, fee at the rate of Rs.25,000 *per* man day was payable for a partner with experience exceeding 18 years. However, the Company made payment at this rate in respect of the partners with less than 18 years of experience resulting in overpayment of Rs.7.80 lakh up to April 2008.

The Management stated (August 2008) that a fresh tender enquiry was floated as none of the empanelled firms had the desired experience in such assignments and that the fresh tender enquiry gave an opportunity to all the firms including empanelled firms. As regards selection of an ineligible firm, it was stated that one partner of the M/s Pary &

Company was associated with the assignment related to revision of standard bidding documents[1] issued by Ministry of Power and the Committee of the Company.

The reply was not tenable as;

(i) while earlier invitation of bids for empanelment were published in national daily as well as website of the Company, the Company gave inadequate publicity to the tender enquiry by publishing on its website only;

(ii) the firm and its partners were different entities and mere association of an individual can not be treated as association of the firm with the Company.

Thus, the Company made inadequate publicity of invitation of bids and awarded the work to one ineligible firm resulting in irregular payment of Rs.1.24 crore[2] up to April 2008.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

Satluj Jal Vidyut Nigam Limited

12.2.1 Avoidable expenditure on construction of Nathpa-Jhakri Hydroelectric project

Due to failure of the Company to avail exemptions from payment of duties notified under the Central Excise and Salt Act, 1944 and the Customs Act, 1962, the Company incurred avoidable expenditure of Rs.46.93 crore on construction of Nathpa-Jhakri Hydroelectric project.

Satluj Jal Vidyut Nigam Limited (Company), formerly known as Nathpa Jhakri Power Corporation Limited, awarded contracts for civil, electromechanical and hydro mechanical works for construction of its Nathpa-Jhakri Hydroelectric project. The World Bank was one of the agencies funding construction of Nathpa-Jhakri project.

Benefit of exemption from excise duty and custom duty were not available to the goods supplied to the World Bank financed projects up to July 1995 and June 1999, respectively. However, under heading 98.01 of the Custom Tariff Act, benefit of concessional rate of custom duty was available in respect of goods imported for power projects. Accordingly the Company availed the concessional rate of custom duty for import of material required for civil works as well as import of generating equipment.

Subsequently, Government of India exempted goods supplied to World Bank financed projects from payment of excise duty vide notification no. 108/95–CE dated 28 August 1995 and from payment of custom duty in respect of goods imported for use in execution of World Bank financed projects vide notification no. 85/99–cus dated 6 July 1999.

The Company sought (July 2001) an expert opinion which stated that the Company was eligible for exemption of excise duty and custom duty under the notification.

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[1] Request for Qualification and Request for proposal documents

[2] This included overpayment of Rs.7.80 lakh excluding service tax to the firm

Audit observed (March 2007) that the Company did not avail benefit of above exemptions on excise duty and custom duty in respect of supplies received after issue of these notifications, though it could have availed the same. The Company made avoidable payment of excise duty of Rs.20.18 crore between October 1996 and October 2004 and custom duty of Rs.26.75 crore (civil work Rs.3.09 crore and electro mechanical work Rs.23.66 crore) between October 1999 and July 2004.

The Management stated (June 2007) that the Company had received loan from the World Bank to meet partly the cost of civil works. Electromechanical equipment was not covered under the World Bank loan and as such, exemption from the excise and custom duty was not applicable to the electromechanical equipment.

The reply of the Management was not correct because as per the notification, goods intended to be used in a project financed by the World Bank and the said project if it had been approved by the Government of India, were eligible for these exemptions. This had been confirmed in the opinion of tax consultant.

Regarding custom duty of Rs.3.09 crore paid in respect of civil work, the Management stated that due to non availability of the exemption notification, duty was paid. It accepted the audit observation and proposed to attempt for claiming the refund of duty.

The chances of refund of duty are remote as these are time-barred. The Management further stated (September 2008) that they were in the process of engaging another legal expert in respect of civil works package and taking clarification from the Director General of Foreign Trade regarding admissibility of the exemption in respect of electromechanical packages.

Thus, failure of the Company to claim exemptions from payment of duties notified under the Central Excise and Salt Act, 1944 and the Customs Act, 1962 resulted in avoidable extra expenditure of Rs.46.93 crore on construction of Nathpa-Jhakri project.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2008).

CHAPTER XIII: DEPARTMENT OF PUBLIC ENTERPRISES

Andaman and Nicobar Islands Integrated Development Corporation Limited, Electronics Corporation of India Limited, Engineers India Limited, Garden Reach Shipbuilders and Engineers Limited, National Buildings Construction Corporation Limited, MECON Limited, Neelachal Ispat Nigam Limited and Steel Authority of India Limited

13.1.1 Irregular payment to employees

The Companies irregularly paid *ex-gratia* in lieu of bonus and reward/cash award to ineligible employees in contravention of DPE guidelines.

The Department of Public Enterprises (DPE) issued instructions on 20 November 1997 to all public sector undertakings (PSUs), *interalia*, directing that the employees of PSUs drawing wage/salary exceeding Rs.3500 *per mensem* (increased to Rs.10000 *per mensem* w.e.f. April 2006) would not be paid bonus, *ex-gratia*, honorarium, reward and special incentive etc., unless the amount was authorised under a duly approved incentive scheme.

The payment of *ex-gratia* by a large number of PSUs to their ineligible employees has been pointed out earlier in the various Audit Reports (Commercial)[*]. The matter was referred (February 2005) to DPE for seeking clarification as to whether such payment of *ex-gratia* was consistent with DPE's instructions. The DPE while clarifying (December 2005) that the payment of *ex-gratia* to the ineligible employees was not allowed as per its Office Memorandum dated 20 November 1997 and that there was no provision for DPE/administrative Ministry to approve the payment of *ex-gratia*/bonus to the ineligible employees in PSUs, advised (December 2005) the Ministry of Power to take suitable action. However, the PSUs continue to make payments of *ex-gratia*/cash award to their employees irregularly ignoring the instructions issued by DPE in November 1997 and December 2005. The Comptroller and Auditor General of India again highlighted the irregularity involving irregular payment of Rs.281.89 crore in the Reports in respect of the following Companies:

Sl. No.	Para	Audit Reports	Name of Company	Amount (Rs. in crore)
1.	4.4.1	11/2007	Indian Airlines Limited (IAL)	14.33
2.	4.4.1	11/2007	Pawan Hans Helicopters Limited (PHHL)	2.11
3.	14.2.1	11/2007	NTPC Limited (NTPC)	116.88
4.	1.1.1	11/2007	Electronics Corporation of India Limited (ECIL)	7.48
5.	14.4.1	11/2008	Hindustan Petroleum Corporation Limited (HPCL)	76.26
6.	20.3.1	11/2008	Steel Authority of India Limited (SAIL)	21.29

[*] ***Reports of the Comptroller and Auditor General of India (Commercial) No. 3 of 1994, 1995, 1999 to 2004 and Report No. 13 of 2006.***

7.	4.3.2	11/2008	Indian Airlines Limited (IAL)	43.54
			Total	**281.89**

No corrective action was taken by the administrative Ministries/Companies to control the irregular payment to the employees of PSUs except the ECIL. However, in the Action Taken Note, ECIL accepted the audit observation and showed partial recovery of Rs.45.00 lakh (March 2007) from the ex- employees against the payment of Rs.7.48 crore to the employees and stated that balance would be adjusted against anticipated pay revision of the employees.

It was further observed (April-June 2008) in Audit that in violation of the DPE guidelines the following eight Companies have paid reward/cash award of Rs.589.97 crore for overall excellent performance and *ex-gratia* of Rs.8.23 crore in lieu of bonus to ineligible employees without any approved incentive scheme:-

Sl. No.	Name of the Ministry	Name of the Company	Nature of payment	Period	Amount (Rs. in crore)
1.	Ministry of Defence	Garden Reach Shipbuilders and Engineers Limited (GRSE)	Reward/Cash award for overall excellent performance	2005-06	3.37
2.	Department of Atomic Energy	Electronics Corporation of India Limited (ECIL)	Reward/cash award for overall excellent performance	2007-08	3.74
3.	Ministry of Steel	Steel Authority of India (SAIL)	Reward for overall excellent performance	2004-05 to 2007-08	569.00
4.	Ministry of Steel	MECON Limited	*Ex-gratia* in lieu of bonus and Performance Linked Award	2005-06 to 2007-08	6.35
5.	Ministry of Commerce & Industry	Neelachal Ispat Nigam Limited (NINL)	*Ex-gratia* in lieu of bonus	2004-05	0.59
6.	Ministry of Home Affairs	Andaman and Nicobar Islands Integrated Development Corporation Limited (ANIDCO)	*Ex-gratia* in lieu of bonus	2001-02 to 2006-07	0.73
7.	Ministry of Urban Development	National Buildings Constructions Corporation Limited (NBCC)	*Ex-gratia* in lieu of bonus and Special Performance Linked Award	2006-07 to 2007-08	1.27
8.	Ministry of Petroleum and Natural Gas	Engineers India Limited (EIL)	Performance Linked Reward	2001-02 to 2007-08	13.15
		Total			**598.20**

The Management of ECIL, GRSE and the administrative Ministry of SAIL in their replies stated that payment of cash award/reward was granted as one time benefit and payments were made as per the guidelines issued by DPE. This contention was not

tenable as the Companies were not authorised to grant such cash award categorised as part of perquisite and allowances unless payments were made under duly approved incentive scheme.

The Management of MECON Limited stated (July 2008) that the payments made were performance related payments and hence were not irregular under the head *ex-gratia*. The reply was not tenable in view of the DPE guidelines which stated that the payment of *ex-gratia* to the ineligible employees was not allowed and there was no provision for DPE/administrative Ministry to approve the payment of *ex-gratia*/bonus to the ineligible employees in PSUs.

The Management of NINL stated (May 2008) that the amount of *ex-gratia* was disbursed as an incentive with the approval from the competent authority. The contention of Management was not tenable as no scheme for payment of *ex-gratia* had been approved by the Ministry which was the competent authority in such matter. The Ministry of NINL and GRSE had endorsed the reply of the Management.

The Management of ANIDCO accepted (May 2008) the fact of payment of *ex-gratia* in lieu of bonus to the ineligible employees and stated that an incentive scheme would be drafted in accordance with the DPE's guidelines.

The Management of NBCC (November 2008) and the administrative Ministry of EIL stated (July 2007) that the Government had delegated (January 1994 and October 1988) enhanced financial and administrative powers to Memorandum of Understanding (MoU) signing Companies with regard to incentive/reward schemes subject to the condition that the total bonus and incentives shall not exceed 35 *per cent* of the wages and these payments did not exceed limit. The reply was not tenable as DPE guidelines issued in October 1988 did not delegate any financial and administrative powers to the MOU signing Companies to evolve an incentive scheme for the employees not covered under the Payment of Bonus Act.

Thus, payment of *ex-gratia* and reward/cash award to ineligible employees by these Companies in contravention of DPE guidelines resulted in irregular payment of Rs.598.20 crore.

Bharat Dynamics Limited, Bharat Pumps and Compressors Limited, Electronics Corporation of India Limited, FCI Aravali Gypsum and Minerals India Limited, HMT Bearings Limited, HMT Limited, ITI Limited, Mishra Dhatu Nigam Limited, National Fertilizers Limited, National Mineral Development Corporation Limited and Rashtriya Chemicals and Fertilizers Limited

13.2.1 Excess expenditure due to incorrect regulation of leave encashment

In disregard of the Department of Public Enterprises directives, ninteen Companies incurred excess expenditure of Rs.37.13 crore during April 2004 to March 2008 due to adoption of 26 days as a month instead of 30 days for computing encashment of earned leave.

According to the Department of Public Enterprises (DPE) instructions of April 1987[1], an individual public enterprise may frame leave rules for its employees keeping the broad parameters of the policy guidelines laid down in this respect by the Government of India (GOI). Some of the Companies adopted 26 days as a month for the purpose of computing earned leave encashment instead of 30 days though no such provision existed in the Central Civil Service (Leave Rules), 1972.

Successive Reports[2] of the Comptroller and Auditor General of India (CAG) highlighted this irregularity involving excess expenditure of Rs.53.62 crore in respect of the following eight companies:

1. MMTC Limited (MMTC),
2. The State Trading Corporation of India Limited (STC),
3. PEC Limited (PEC),
4. Hindustan Aeronautics Limited (HAL),
5. Bharat Electronics Limited (BEL),
6. Bharat Earth Movers Limited (BEML),
7. Kudremukh Iron Ore Company Limited (KIOCL), and
8. Bharat Heavy Electricals Limited (BHEL).

In Action Taken Notes, the DPE intimated (August-September 2006) that BEML and KIOCL had modified their rules and brought them in conformity with the prescribed rules. MMTC, STC and PEC did not amend their leave encashment rules and incurred an expenditure of Rs.2.78 crore[3] from April 2004 to March 2008 on the ground that their leave rules were approved by the respective Board of Directors and they do not follow Fundamental and Supplementary rules of the GOI. On the basis of the draft para included in the CAG's reports, BEL and HAL changed their rules governing encashment of leave. However, the same could not be implemented as their employees union had obtained stay orders from courts and matter was still under litigation (October 2008). This resulted in further excess expenditure on leave encashment of Rs.17.81 crore (BEL-Rs.5.17 crore

[1] *Department of Public Enterprises O. M. No 2(27)/85-DPE(WC) dated 24 April 1987*

[2] *Para no 16.1.3 of Report No 3 of 2004, para no 16.1.1 of Report No 12 of 2006 and para no. 11.1.2 of Report No 11 of 2007 of Union Government (Commercial)*

[3] *MMTC-Rs.1.83 crore, STC-Rs.0.71 crore and PEC-Rs.0.24 crore*

and HAL-Rs.12.64 crore) till March 2008. Action Taken Note has not been received (October 2008) from BHEL. DPE did not direct these non-compliant Companies to amend their leave rules although it clarified in September 2005[1] and again in May 2006[2] that for the purpose of leave encashment in public enterprises, a month is to be taken as 30 days as was the practice in Central Government.

Audit further observed that 14 other companies continued to make payment of leave encashment based on 26 days as a month and incurred excess expenditure of Rs.16.54 crore during April 2004 to March 2008 as detailed below:

Sl. No.	Name of the Company	Excess payment (Rs. in crore)
1.	Bharat Dynamics Limited (BDL)	1.11
2.	Bharat Pumps and Compressors Limited (BPCL)	0.46
3.	Electronics Corporation of India Limited (ECIL)	1.70
4.	FCI Aravali Gypsum and Minerals India Limited (FCIAGMIL)	0.07
5	HMT Limited and its four subsidiaries[3]	2.06
6.	ITI Limited	2.72
7.	Mishra Dhatu Nigam Limited (MIDHANI)[4]	0.34
8.	National Fertilizers Limited (NFL)	4.91
9.	National Mineral Development Corporation Limited (NMDC)	1.51
10.	Rashtriya Chemicals and Fertilizers Limited (RCF)	1.66
	Total	**16.54**

RCF stated (December 2007) that adoption of 26 days as a month for encashment of leave was *"a long standing practice"*. It further stated (March 2008) that the method of computing earned leave encashment was followed by the entire fertilizer industry and any changes affecting monetary benefits might create problems.

NMDC, ECIL and BDL intimated that the leave rules had been framed in the light of a Supreme Court Judgment of 1980 in respect of Payment of Gratuity Act, 1972. MIDHANI intimated that the rule had since been amended in January 2007. BPCL, HMT Bearing Limited and ITI intimated that payment was being regulated in accordance with the rules approved by their Board of Directors. Response was awaited from two companies (NFL and FCIAGMIL).

The replies of the Companies were not tenable as the Board of Directors were delegated powers to frame leave rules within the broad parameters and guidelines given by the Government of India while the practice of treating 26 days as a month adopted by these Companies for leave encashment was not in line with the Government rules/guidelines.

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[1] ***Department of Public Enterprises O.M. No. 2(2)/05-DPE(WC) dated 20 September 2005***

[2] ***Department of Public Enterprises O.M. No. 2(2)/85-DPE(WC) dated 2 May 2006***

[3] ***HMT Limited – Rs.60.01 lakh, HMT Machine Tools Limited – Rs.128.56 lakh, HMT Chinar Watches Limited – Rs.0.98 lakh, HMT Bearing Limited – Rs.9.02 lakh and HMT International Limited – Rs.7.11 lakh.***

[4] ***Up to January 2007 only***

Further, the judgment of apex court was with reference to the Payment of the Gratuity Act, which had no relevance to the leave rules.

Thus, due to adoption of 26 days as a month instead of 30 days for computing encashment of earned leave, in disregard of the directions of Department of Public Enterprises, 19 Companies incurred excess expenditure of Rs.37.13 crore. Some of such Companies were continuing to incur excess expenditure on leave encashment. The additional benefit was not only irregular but also beyond the powers delegated to the Board of Directors of the public enterprises.

In response, the DPE again issued (December 2008) instructions to all PSUs that they should adopt 30 days month for the purpose of calculating leave encashment. The DPE also advised (December 2008) the administrative Ministries/Departments concerned with PSUs on case to case basis to adopt 30 days as month for the purpose of leave encashment.

Bharat Heavy Electricals Limited, Indian Oil Corporation Limited, National Insurance Company Limited, The New India Assurance Company Limited, Oil and Natural Gas Corporation Limited, The Oriental Insurance Company Limited, Steel Authority of India Limited and United India Insurance Company Limited

13.3.1 Recoveries at the instance of Audit

During test check, several cases relating to non-recovery, short recovery, excess payment *etc*., by central public sector undertakings (PSUs) were pointed out. In 31 such cases pertaining to eight PSUs, Audit pointed out that an amount of Rs.13.94 crore was due for recovery. The Management of PSUs had recovered an amount of Rs.13.51 crore during the year 2007-08 as detailed in **Appendix-II**.

CHAPTER XIV: MINISTRY OF RAILWAYS

Fresh and Healthy Enterprises Limited

14.1.1 Undue benefit to a contractor in violation of CVC guidelines

The Company provided undue benefit of Rs.95.97 lakh to a private contractor by releasing interest free mobilization advance in violation of Central Vigilance Commission's guidelines

In order to address the problem of misuse of mobilisation advance provision in civil and other works, the Central Vigilance Commission (CVC) issued office memorandum on 8 October 1997 and 8 June 2004, which stipulated that if an advance was to be given to a contractor, it should be expressly stated in the notice inviting tender (NIT)/bid documents indicating the amount and rate of interest.

The Container Corporation of India Limited (CONCOR) invited (November 2005) bids for setting up an integrated cold chain project. CONCOR awarded (March 2006) a contract to M/s Infra Cool, Gurgaon at a price of Rs.62.38 crore. In October 2006, CONCOR transferred the work to its wholly owned subsidiary company viz. Fresh and Healthy Enterprises Limited for managing the contract.

Audit observed (February 2008) that despite CVC guidelines, CONCOR did not specify anything about rate of interest in NIT and the contract. Although the contract did not provide the payment of interest free advance, it extended (16 June 2006) an interest free advance of Rs.12.17 crore to the contractor. This led to undue benefit on account of interest to the contractor amounting to Rs.95.97 lakh[*].

The Management stated (May 2008) that the contract had been finalised through a competitive bidding process. In case the provision of interest free advance was not made, the cost of the project quoted by the bidder would have been higher as the cost of advance would be built by the bidder in the quoted price.

The reply of the Management was not tenable as the bid documents envisaged payment of advance but not 'interest free' advance; CONCOR left ambiguity in the contract terms in violation of CVC guidelines leading to interpretation favourable to the Contractor.

The matter was reported to the Ministry in July 2008; reply was awaited (November 2008).

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[*] *Computed at prime lending rate of 10.75 per cent of State Bank of India as of June 2006.*

Konkan Railway Corporation Limited

14.2.1 Avoidable payment on hire charges

Konkan Railway Corporation Limited incurred an avoidable expenditure of Rs.2.03 crore due to payment of hire charges of coaches not utilized.

In terms of the Railway Board's decision (June 1996), Indian Railways provided coaches to Konkan Railway Corporation Limited (Company) on payment of hire charges. The hire charges to be levied was to take into account the fact that while primary maintenance for the coaches would be carried out by the Company, the periodical overhauling (POH) would be carried out by one of the zonal railways of Indian Railways since no facility for POH existed in the Company. South Central Railways (SCR) designated as the owning railways for the coaches manufactured for the Company was to undertake POH of the coaches. As per the working agreement (July 2002) between the Company and the Ministry of Railways, the zonal railways owning the rolling stock and receiving hire charges for the rolling stock utilised by the Company was also to accept debit for POH and other special repairs carried out on the rolling stock.

In March 2004, the Ministry of Railways transferred the coaches plying on Konkan Railway from SCR to South Western Railways (SWR). Accordingly, the Company was sending the coaches for POH to Hubli workshop of SWR and was paying hire charges on half yearly basis on receipt of the bills from SWR.

Audit observed that during April 2005 to March 2007, the Company had sent coaches to Hubli workshop for POH and the POH work for these coaches was carried out taking 12723 days including transit days. The Company paid Rs.2.03 crore towards hire charges for the entire 12723 days. This was not in line with the agreement which stipulated payment of hire charges for the coaches utilised by the Company. As the Company had not utilised the coaches during the period of POH, payment of hire charges of Rs.2.03 crore was not correct.

The Management stated (August 2008) that actual POH days were only 20 days for ordinary coaches and 25 days for AC coaches. Transit days had to be deducted which was more due to the fact that the coaches were handed over to SWR for POH at Vasco and these coaches were attached with passenger trains running between Vasco-Hubli depending on the availability of room. Also, due to a ghat section between Madgaon-Hubli very few passenger trains were plying between Vasco-Hubli. It further stated that hire charges of coaches for utilisation include running, idling or POH time.

The reply did not take into consideration the fact that the owning railways would receive hire charges for the rolling stock utilised by the Company and accept debit for POH. The working agreement also did not stipulate the period of POH and the transit period. Since both the owning railways and the railways carrying out POH was the same i.e., SWR, the date from which the Company handed over the coaches to SWR for POH till their receipt back was to be on SWR's account. The Company was required to pay hire charges to SWR only for the number of days the coaches were effectively utilised. However, the Company paid for the entire period (April 2005 to March 2007) resulting in excess

avoidable payment of Rs.2.03 crore towards hire charges for the period the coaches were not utilised by the Company.

The matter was reported to the Ministry in July 2008; reply was awaited (November 2008).

CHAPTER XV: DEPARTMENT OF SHIPPING

Hindustan Shipyard Limited

15.1.1 Non implementation of decision to roll back of the superannuation age before introduction of Voluntary Retirement Scheme

The failure of the Company to implement its decision to roll back the superannuation age before introduction of Voluntary Retirement Scheme resulted in avoidable expenditure of Rs.1.62 crore.

Following the Government of India's (GOI) decision dated 19 May 1998, the Hindustan Shipyard Limited (Company) raised the retirement age of employees (below Board level) from 58 to 60 years. Shortly thereafter, the GOI clarified (21 August 1998) that while increase in retirement age was binding on all, a PSU could obtain exemption in case it did not want to increase the retirement age. The GOI further stated (9 May 2000) that in case of sick/unviable public sector undertakings (PSUs) where rehabilitation/revival packages were under consideration, the Board should review its decision on raising the retirement age and make suitable recommendations to the administrative Ministry concerned for obtaining approval of the Cabinet.

The Board of Directors (BOD) of the Company approved (June 2003) rollback of the retirement age to 58 years for all categories of employees (below Board level) and authorised the Chairman and Managing Director to decide the effective date for its implementation.

It was observed that instead of implementing the decision to rollback the superannuation age, the BOD decided (December 2004) to give the employees another opportunity to avail Voluntary Retirement Scheme (VRS) and then to roll back the superannuation age to 58 years. The Company during the period from July 2006 to October 2006 relieved 630 employees under the VRS, but took no action to roll back the superannuation age to 58 years. Failure to implement the decision of roll back in June 2003 resulted in avoidable expenditure of Rs.1.62 crore towards compensation in respect of 53 employees who would have retired according to the roll back proposals of June 2003.

The Ministry replied (July 2008) that the roll back decision was of the BOD and not approved by the GOI. Further, the roll back of superannuation age was not considered advantageous due to stringent delivery schedules of the vessels under construction. It further stated that large scale retirement of skilled/experienced work force would have resulted in a very embarrassing situation arising out of non-fulfilment of repair/delivery schedules/commitments.

The reply was not tenable as the Ministry itself had directed (March 2003) the Company to consider the roll back for all categories of employees. Further, the decision for the deferment of roll back of superannuation age to 58 years was to give one more chance to the employees to avail of VRS. The core committee constituted by the Ministry for

restructuring also recommended roll back of the superannuation age from 60 to 58 years. In addition, the order book position of the Company was tighter at the time of implementing the VRS in June 2006 as compared to the order book position in June 2003, when the BOD decided to roll back the superannuation age.

Thus, failure to implement the roll back decision resulted in an avoidable expenditure of Rs.1.62 crore towards compensation in respect of 53 employees.

The Shipping Corporation of India Limited

15.2.1 Payment before the contracted date resulting in loss of interest and currency exchange variations

Payment before the contracted date resulted in a loss of Rs.46.86 lakh as interest income and Rs.1.04 crore on account of currency exchange difference.

The Shipping Corporation of India Limited (Company) entered into (December 2006) two identical contracts with Jinling Shipyard, China (JSC) to purchase one Product Tanker at a contract price of US$ 45.20 million per vessel. Article III (3) (a) of the contracts provided that the first instalment of US$ 13.56 million was to be paid within twelve business days[1] of receipt of the Refund Guarantee from the JSC.

It was seen (May 2007) that the Company received the Refund Guarantees on 23 March 2007. The first instalment of US$ 27.12 million (Rs.117.30 crore[2]) for the two vessels was thus due on 11 April 2007. It was, however, seen that the first instalment was paid on 30 March 2007 i.e., 12 days ahead of schedule. Early payment deprived the Company's interest income of Rs.46.86 lakh[3] for these 12 days.

The decision to pay the first instalment in advance was also flawed against the backdrop of the steady depreciation of the US dollar *vis-à-vis* the Rupee in the months preceding April 2007. Calculated at actual payment and the Reserve Bank of India notified US dollar/Rupee rate on 11 April 2007[4], on a US$ 27.12 million transaction the difference worked out to Rs.1.04 crore[5]. The Company would have saved somewhere around this figure, had it prudently exercised its option to pay on the contracted date.

The Management replied (March 2008) that:-

(i) The first stage payment of 30 *per cent* of the contract price was to be made within 12 business days of receipt of the Refund Guarantees by the Company. This was done to leave some amount of flexibility for checking of documents submitted by the JSC and the same in no way means that the Company will have to necessarily release the payment on the last date;

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[1] ***Business days as defined in the contracts meant the working days, which shall exclude Saturday, Sunday and bank holidays in Mumbai, China, New York and London.***

[2] ***US$1 = Rs.43.2525 (rate quoted by State Bank of India to the Company on 31 March 2007).***

[3] ***Rs.117.30 crore x 12.15 per cent x 12/365***

[4] ***US$ = Rs.42.87***

[5] ***Actual payment Rs.117.30 crore (US $27.12 million X Rs.43.2525) - Rs.116.26 crore (US$ 27.12 million X Rs.42.87) = Rs.1.04 crore.***

(ii) The payment was released before 31 March 2007 to meet the Annual Plan targets which were set in both physical and financial terms.

The reply was not acceptable as it was seen that:-

(i) During the period 30 November 2005 to 14 July 2008, of the 58 payments due to shipbuilders for 28 vessels on order by the Company, 50 payments were made on the due dates and six, a day before the due dates-the exceptions were the two payments of US $ 13.56 million under consideration;

(ii) Annual plan target should not be adhered to at a financial loss to the Company.

The payment of Rs.117.30 crore to the JSC 12 days before the contracted date, therefore, apart from indicating weak treasury management, resulted in a loss of Rs.46.86 lakh as interest income and around Rs.1.04 crore on account of currency exchange difference to the Company.

While accepting a notional loss of interest income and currency exchange variations, Ministry stated (February 2009) that the loss of interest income should be only Rs.14.62 lakh instead of Rs.46.86 lakh.

The Ministry reply does not address the basic issue of why payments were released earlier than the date stipulated in the contract.

CHAPTER XVI: MINISTRY OF STEEL

Bharat Refractories Limited

16.1.1 Under/non recovery of electricity charges supplied for domestic consumption

Under/non recovery of charges for electricity supplied by the Company to its employees for domestic consumption resulted in Rs.6.30 crore not recovered during the period from 2002-03 to 2007-08.

Bharat Refractories Limited (Company) had provided (1974-1978) residences to its employees at its townships at Bhandaridah Refractories Plant, Ranchi Road Refractories Plant and IFICO Refractories Plant. The employees posted at the corporate office and at the Bhilai Refractories Plant have been provided with residences by the Company at the townships of Bokaro Steel Plant and Bhilai Steel Plant of Steel Authority of India Limited. The Company procures electricity from the Damodar Valley Corporation, Jharkhand State Electricity Board and from the steel plants. It recovered electricity charges from its employees residing in its townships for the electricity supplied to their residence.

Scrutiny of records relating to the period from 2002-03 to 2007-08 revealed that while the rates of procurement of electricity ranged between Rs.1.60 per unit to Rs.4.89 per unit[1], electricity charges were not recovered from the employees of Ranchi Road Refractories Plant. The rate of recovery from the employees residing at other townships ranged between Rs.0.15 per unit to Rs.1.31 per unit[2]. The Company supplied 19.74 million units of electricity costing Rs.7.36 crore to its employees for domestic consumption during 2002-03 to 2007-08 against which it recovered Rs.1.06 crore only from them. The under/non recovery of electricity charges from employees amounted to Rs.6.30 crore during 2002-03 to 2007-08. The total under/non recovery was much higher as the practice of under/non-recovery of electricity charges from employees had been continuing since 1974 when the Company first allotted residences to its employees.

The Management while accepting (June 2008) the facts attributed the reason for under/non recovery to non-revision of wages since 1992 and memorandum of settlement arrived at between the Management and workers in 1985, which stipulated that any amenity or privilege that the workers had been enjoying by way of practice or usage could not be curtailed. The Management also stated that the Company intends to recover/revise the recovery rate towards electricity charges once revision of wages/salary takes place which was under finalisation.

The reply was not tenable as the subsidy was being extended even before 1992. Further, the practice also varied from non-recovery to under-recovery which means that this was

[1] *Depending on the location of the plant and period.*
[2] *Depending on the location of the plant.*

not an amenity extended by the Company on the basis of a policy decision. Subsidising electricity charges consumed by the employees in their residences was not justified and the Company should take appropriate steps to stop this practice.

The matter was reported to the Ministry in June 2008, reply was awaited (November 2008).

Hindustan Steelworks Construction Limited

16.2.1 Loss due to delayed and inappropriate action to recover advance

The Company failed in securing its financial interest and taking prompt and appropriate action for recovery of the advance from the sub-contractors which resulted in loss of Rs.3.26 crore.

Hindustan Steelworks Construction Limited (Company) entered (August 2003) into an agreement with The New Okhla Industrial Development Authority (Authority) for construction of 1152 LIG flats in Sector 93, Noida at a contract price of Rs.41.03 crore. The Company, in turn, awarded (August 2003) the work to two sub-contractors with whom it had pre-tender association on back to back basis. As per the terms of agreement the Company received (August 2003) interest free advance of Rs. four crore from the Authority on submission of Bank Guarantee (BG) directly by the sub-contractors on its behalf. The Company paid (September 2003) advance of Rs.3.76 crore to the sub–contractors.

The Authority cancelled (February 2004) the work of construction of flats and asked the Company to refund the advance of Rs. four crore. The Company asked (June 2005) the sub-contractors to refund the advance and in response to this the sub-contractor-I refused (July 2005) to refund the advance of Rs.1.48 crore. Sub contractor-II who was paid an advance of Rs.2.28 crore, submitted (July 2005) five post dated cheques towards refund of the entire amount against which payment of one cheque of Rs.50 lakh could be realised (August 2005). The contractor stopped (14 September 2005) the payment of remaining four cheques valuing Rs.1.78 crore. The Company approached (1 September 2005), the BG issuing bank directly for encashment of the BG. The same was not acceded to by the bank since the Company was not a beneficiary.

It was observed in Audit that the Company refunded (up to March 2008) Rs.3.14 crore to Authority but it could not recover the advance of Rs.3.26[♣] crore from the sub-contractors due to following lapses:-

(i) The Company without securing its financial interest asked the sub-contractors to submit the BG directly in favour of the Authority instead of obtaining it in its own favour.

(ii) The Company took 15 months to ask (June 2005) the sub-contractors to refund the advances.

[♣] *Rs.3.76 crore – Rs.0.50 crore*

(iii) It accepted the post dated cheques bearing dates (15 September 2005 to 30 November 2005) post validity (4 September 2005) from the sub-contractor–II without having any security.

(iv) The Company approached (1 September 2005) the BG issuing bank directly instead of approaching through Authority, the beneficiary of the BG.

Thus, the failure of the Company in safeguarding its financial interest and taking prompt and appropriate action for recovery of the advances from the contractors resulted in a loss of Rs.3.26 crore.

The Management stated (August 2008) that since they were exploring all possible ways to get the order restored, there was delay in asking the sub-contractors to refund the advance. Further, the Company wrote on 1 September 2005 i.e., just before the expiry period (4 September 2005) to the issuing bank to extend/invoke the BG which was not honoured by the bank. The Company had filed (July 2008) recovery suit against the sub-contractors in Delhi High Court. The Ministry in its reply (December 2008) endorsed the views of the Management.

The reply did not address the basic issue as to how an advance was passed on to the sub-contractors without adequate security.

MSTC Limited

16.3.1 Loss due to payment of advance without securing financial interest

Payment of advance to an associate supplier without securing the financial interest of the Company resulted in loss of Rs.4.17 crore.

MSTC Limited (Company) started iron ore exports in 2005-06. For securing and executing export contracts, the Company entered into an agreement with Jena Enterprise (JE) and released Rs. five crore in April 2006 on the strength of (i) an allotment letter of one lakh MT iron ore lumps from the supplier Salgaocar Mining Industries Private Limited (SMIPL), (ii) a letter indicating payment of an advance of Rs.one crore to SMPIL and (iii) a foreign letter of credit from the buyer.

The Company, however, did not verify the authenticity of the allotment letter. Subsequently, it was revealed that it was forged[♣] and the amount paid was shown as Rs.one crore though JE had paid Rs.1.50 crore to SMIPL. The Company lodged (May 2006) first information report with the police against JE for overt acts of forgery, fraudulent misrepresentation and cheating. The Company entered (May 2006) into a contract with SMIPL for execution of the export and exported 70,653 MT of iron ore on 24 May 2006.

Audit observed (January 2007) that the Company had paid (April 2006) advance to JE without obtaining any Bank Guarantee (BG) for securing its financial interest. Further,

[♣] ***The signature of Director of SIMPL was forged by the JE in allotment letter and advance receipt. The original allotment letter was for 67,000 MT of 57/56 per cent Iron ore (Fe) instead of one lakh MT of 58 per cent Fe.***

the Company accepted JE as associate supplier though it did not have requisite experience and financial strength. This led to a loss of Rs.4.17[1] crore.

The Management stated (May/June 2008) that the situation arose as the proprietor of JE was arrested in some other case. He had accepted the liability of Rs.4.20 crore and had agreed to clear dues in instalments.

The reply was not tenable as the Company did not secure its financial interest at the time of payment of advance to JE. The credentials of the JE were not properly verified before accepting the proposal. Further, the assurances of the JE have not yielded any results so far.

While accepting the audit observations the Ministry stated (October 2008) that the case was under arbitration and the Company had shifted from pre-shipment to post shipment payment to the associate supplier as a preventive measure. A decision had been taken to initiate disciplinary action against an officer of the Company.

16.3.2 Loss due to wrong selection of associate suppliers

Selection of associate suppliers without assessing their ability and competency resulted to a loss of Rs.2.48 crore.

MSTC Limited (Company) started exporting iron ore from 2005-06 through Associate suppliers[2] (AS).

The Company received (December 2005) a proposal for export of iron ore fines and lumps from GTS Industries Private Limited (GTS). GTS was required to obtain export contracts, Foreign Letter of Credit (FLC) in favour of the Company, source iron ore and arrange for its transportation. GTS did not provide information about the sources from which it would obtain iron ore, detail of foreign buyer and logistics, as required under the Company's check list. Despite this, the Company accepted (January 2006) the proposal. In the absence of such information the ability of the GTS to execute iron ore export could not be assessed properly.

GTS industries turned out to be unreliable on two occasions. The first contract secured was unworkable as no FLC had been furnished by the AS.

The second contract required shipment of 60,000 wet metric tonne (WMT) of iron ore within 31 March 2006. The Company chartered a vessel on 16 March 2006 at the request of the AS without a valid export order, FLC and arrangements for transhipment. The Company thus became liable for payment of compensation to the owner of the chartered vessel in case export did not take place. The Company had paid (20 March 2006) an

[1] ***Rs.5.00 crore – Rs.1.50 crore advances to SMIPL – Rs.0.10 crore security deposit by JE + Rs.0.77 crore dues of JE.= Rs.4.17 crore.***

[2] ***An associate supplier is engaged to arrange iron ore from mines owners and also to arrange logistics. It is expected that the associate supplier is experienced in the field of iron ore export but they do not have proper financial arrangement by which they can export on their own hence they approach trading houses for financial support and all related activities are performed by them on behalf of the trading house.***

advance of Rs.1.50 crore to the AS against BG. However, the buyer failed to open the FLC and the contract fell through. In the meantime, the chartered vessel arrived on 31 March 2006.

The Company at the request of GTS assigned (3 April 2006) to them an unserviced export contract for 50,000 WMT of iron ore fine secured by another AS at the request of GTS. The Company persuaded the buyer to divert the contract and FLC to GTS for servicing with the shipment schedule of not later than 15 April 2006. The buyer refused to extend the original stipulated FLC beyond 15 April 2006. The loading was completed on 3 May 2006. As demurrage was mounting, the Company allowed the Vessel to sail on 6 May 2006 with a total cargo of 57,426 WMT without FLC coverage. The Company finally got an amended contract (18 May 2006) for 60,000 WMT of iron ore at a reduced price of US$ 48 *per dry metric tonne* (PDMT) against originally agreed price of US$ 50 PDMT. In the process, the Company had to suffer a loss of Rs.2.48 crore on account of demurrage, dead freight, quality compensation and price reduction on the entire transaction.

The Management/Ministry stated (May-June 2008 and September 2008) that GTS Industries were selected on the basis of their experience and the loss was due to reduction of export price and demurrage due to delayed shipment and logistic problems. The Ministry stated (September 2008) that the case was under arbitration and the Company had shifted from pre-shipment payment to post-shipment payment to the AS as a preventive measure.

We are unable to accept Management's reply since GTS Industries was incorporated only six months before the submission of their proposal to the Company. The Company had selected the AS without any information regarding their experience of foreign trade. The Management contention regarding payment of demurrage due to logistic problem was not tenable as the transporters strike started only from 12 April 2006 while the vessel arrived on 31 March 2006. The vessel could have sailed long before the transport strike if the AS had arranged supply of material as scheduled.

National Mineral Development Corporation Limited

16.4.1 Loss due to non stipulation of date of payment in the contract

Due to non stipulation of clause in the agreements with the customers regarding due date for payment and levy of interest thereon, the Company suffered loss of Rs.5.18 crore.

The National Mineral Development Corporation (Company) entered into long term agreements with various domestic customers for supply of iron ore. As per the terms and conditions of the agreement(s), the iron ore was to be supplied on receipt of advance payment, at the price fixed on 1 April of every year. The agreement(s) *inter alia* permitted the Company for mid term review of the prices whenever there was variation in price of 25 *per cent* and above in the market scenario. The agreement(s), however, did not specify any time limit for making the payment for such revised amounts.

The Company after reviewing the market scenario revised (December 2007) the prices of iron ore with retrospective effect from October 2007. In the absence of time limit for making payment, there were delays in receipt of revised payments from the customers. The Company agreed to the customers request for liquidating the arrears in a phased manner. As a result, it suffered loss of interest of Rs.5.18 crore[1] (up to March 2008) due to delay in receipt of payments.

The Management stated (June 2008) that the retrospective revision of prices was an international practice and no interest was levied on delayed payments due to price revision. Further, the major customers had not accepted the revision and were paying under protest.

The reply was not tenable as the prices were firm in respect of international export contracts of the Company; as such the question of retrospective revision of prices arose only in the case of domestic customers. Further the inclusion of a clause prescribing time frame for payments would be prudent practice to safeguard the Company's financial interests in the case of retrospective revision of prices.

The Ministry in reply (September 2008) accepted that the Company would prevail on its customers for including the interest clause on delayed payment while negotiating the future contracts after expiry of present contracts by March 2010.

16.4.2 Injudicious procurement of dumpers

The Company procured dumpers in excess of requirement resulting in loss of interest and incurring of maintenance charges amounting to Rs.3.07 crore.

The National Mineral Development Corporation Limited (Company) approved in principle (May 2005) the proposal to procure seven dumpers of 85 tonne capacity each and a corresponding Maintenance and Repair Contract (MARC), for its project[2] at Bailadilla. The Company accordingly procured and commissioned all the seven dumpers during March to May 2006 at a cost of Rs.17.69 crore and also entered (August 2006) into separate MARC with the supplier to maintain the dumpers for eight years from the date of commissioning at cost of Rs.43.32 crore.

The requirement of dumpers was determined by taking the production capacity of the project as 5.91 million tonnes (MT) *per* year as envisaged in Detailed Project Report (DPR), which was prepared in 1994. The project was commissioned in July 2003 and the production for 2003-04 and 2004-05 were 1.3 MT and 2.81 MT, significantly lower than the capacity projected in DPR. Further the planned production for 2005-06 was only 3.9 MT. So, the Company should have assessed the requirement of dumpers based on the actual/planned production. As a result, the Company procured two excess dumpers for the year 2006-07 and one excess dumper for the year 2007-08. The excess procurement of dumpers led to avoidable expenditure of Rs.2.40 crore towards MARC for the years 2006-07 and 2007-08. Besides there was blocking up of funds amounting to Rs.5 crore

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[1] ***Computed on the basis of average rate of interest earned on surplus funds during the period from October 2007 to March 2008 i.e., at the rate of 9.76 per cent, after allowing a credit period of 14 days.***

[2] ***Deposit 10/11A***

and Rs.2.50 crore for periods ranging from 12 to 24 months leading to consequential loss of interest of Rs.67.08 lakh.

The Ministry in its reply stated (August 2008) that the requirement was assessed based on the DPR capacity. The projects were geographically separated by a distance of 3 kms. To facilitate the smooth functioning of the project, proper blending of material from both the deposits viz., 10 & 11A and to avoid idling of shovels, the requirement of dumpers was calculated on a logical basis at a percentage availability of 85 *per cent*. It added that the piecemeal procurement of dumpers would not yield competitive offers.

The reply was not tenable as the Company did not match the procurement with its past production and the planned production. Further, the requirement of seven dumpers was arrived after taking into account geographical separation of two separate mines and allowing lead time to the extent of seven hours *per* dumper *per* day. The actual utilization of dumpers during the period 2006-2007 and 2007-2008 ranged between 20.89 *per cent* and 30.50 *per cent* of the scheduled working hours. In addition, the Company had subsequently placed (May 2008) order for procurement of dumpers for another unit at a purchase price which was lesser than the procurement cost incurred during May 2006 and with the lead time of six months to eight months.

Thus, assessment of requirement of dumpers based on the designed capacity instead of production plans resulted in excess procurement of dumpers, leading to avoidable expenditure of Rs.3.07 crore.

Rashtriya Ispat Nigam Limited

16.5.1 Non-implementation of contractual provision

Failure to implement the contractual provisions resulted in non-realisation of ground rent of Rs.2.17 crore from private parties.

Rashtriya Ispat Nigam Limited (Company) exports iron and steel products besides sale in the domestic market. As per clause 6.8 of the terms and conditions of export contract the materials could be kept in the Company's stockyard at the load port, without payment of any ground rent, for 15 days from the date of payment. However, the ground rent was chargeable at the rate of US$ 1.00 *per* MT *per* week or part thereof for storage of materials beyond 15 days till shipment of materials. During review of export contracts it was observed (December 2007) in respect of 10 contracts executed during 2006-07 that materials were not lifted by the buyers within the stipulated period of 15 days. These materials were kept in the stockyard for a period ranging from 12 days to 147 days beyond the stipulated period. However, the Company did not recover the ground rent amounting to Rs.2.17 crore.

The Management stated (April 2008) that no additional cost was incurred by the Company for the storage of the material in the stockyard in case of delayed shipments. It was also mentioned that ground rent clause was put as a deterrent clause only to keep pressure on the customers to lift the material at the earliest.

The reply was not tenable as the non-realisation of ground rent was in contravention of explicit contractual provisions. Further, the contract did not stipulate any waiver of ground rent even if the extended storage did not involve additional cost to the Company.

The Company has started enforcing recovery of ground rent from the year 2008-09.

Thus, failure to implement the contractual provisions resulted in non-realisation of ground rent of Rs.2.17 crore from private parties. As the said clause was not being enforced during the period 2001-08 and as only 10 cases of 2006-07 were examined during audit, the overall incidence of under recovery would be much higher.

The matter was reported to the Ministry in June 2008; reply was awaited (November 2008).

Steel Authority of India Limited

16.6.1 Defective penalty clause in procurement of coking coal

Defective penalty clause in MOU entered with BCCL and CCL for procurement of coal resulted in under levy of penalty amounting to Rs.10.87 crore on coal with higher ash percentage during 2004-05 to 2006-07.

Steel Authority of India Limited (Company) enters into Memorandum of Understanding (MOU) with Bharat Coking Coal Limited (BCCL) and Central Coalfields Limited (CCL) for procurement of coking coal. The MOU stipulates quantity to be supplied, source of supply, guaranteed ash percentage in coking coal, cut off limit for ash percentage, penalty clauses for accepting coking coal having ash percentage between guaranteed limit and cut off limit.

While examining these MOUs for the years 2004-05 to 2006-07 it was observed that price adjustment clause (on account of quality) was defective. The penalty was imposed at a lesser rate if the ash content in coking coal was higher. For example, for the years 2005-06 and 2006-07, when ash content in coal exceeded guaranteed limit up to 0.5 *per cent*, penalty was recovered at the rate of Rs.17.14 (BCCL) and Rs.13.90 (CCL) for every 0.1 *per cent* increase in ash content. However, when ash content exceeded guaranteed limit plus 0.5 *per cent* penalty was recovered at lower rate i.e., at the rate of Rs.14.00 (BCCL) and Rs.11.36 (CCL) for every 0.1 *per cent* increase in ash content. Imposing lesser penalty for coal with higher ash percentage was imprudent and illogical. The defective penalty clause in MOU entered with BCCL and CCL for procurement of coal resulted in under levy of penalty amounting to Rs.10.87 crore during 2004-05 to 2006-07.

The Ministry while accepting the fact stated (July 2008) that the issue of suitable modifications in the penalty clause was taken up with BCCL and CCL during negotiations every year, which was not agreed by them. The issue was taken up again during finalisation of MOU for the year 2007-08 and the Company successfully corrected the same in the MOU for the year 2007-08. The penalty at higher rate is now applicable uniformly above guaranteed ash up to the cut off limit.

Thus, the defective penalty clause resulted in under levy of penalty amounting to Rs.10.87 crore during 2004-05 to 2006-07.

16.6.2 Loss due to delay in sale of idle units

Delay in taking decision to finalise the forward auction bid for sale of idle units of Fertilizer Plant at Rourkela resulted in loss of Rs.1.90 crore.

Rourkela Steel Plant (RSP) of the Steel Authority of India Limited (Company) decided (June 2004) to dispose off two idle units of the fertilizer plant viz., Naphtha Reforming Plant-I and Gas Fractionation Plant through forward auction[1]. The auction was held in July 2004 and the highest bid received was Rs.9.62 crore. The bid was valid up to November 2004 which was further extended up to January 2005.

It was observed in Audit that though the auction for sale of idle units was conducted in July 2004, the apex committee of the Company cleared the proposal in December 2004, after delay of five months. The proposal for disposal of idle units was finally approved by the Company in March 2005 i.e., after expiry (January 2005) of the offer. The reasons for delay of more than seven months could not be found on records. The Company did not take up the matter with the highest bidder for extending the validity of the offer. The re-auction process for sale of idle units was started in March 2005. The Ministry received (April 2005) a complaint against the re-auction process of the idle units and instructed (April 2005) the Company to keep the re-auction process in abeyance. The Ministry took eight months in giving clearance (December 2005) for re-auction of the units. The Company conducted (February 2006) the re-auction after delay of two months and took further three months in finalisation (May 2006) of the bid. The units were sold (May 2006) at a price of Rs.8.50 crore. Though, the Company resorted to forward auction for transparency, quicker decision and finalisation of bids with better participation of bidders, it took 23 months to dispose off the idle units which resulted in RSP realising Rs.1.90 crore[2] less than the original offer.

It was also noticed that the Company did not have any laid down policy/guidelines regarding time frame for finalisation of the tender.

The Management, while accepting (June 2008) the delay stated that there was no intentional delay in decision making. The Ministry while endorsing (August 2008) the reply of the Management stated that the delay in finalisation of the order was due to the events, which were beyond the control of the Management.

The Audit is not in a position to appreciate the delay of more than seven months at first instance and time lag of five months in finalisation of re-auction. Such indecisiveness was not in consonance with business like approach expected from a commercial organisation of repute.

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[1] *Forward auction are electronic auctions, which can be used by sellers to sell their items to many potential buyers through a special site for auction.*

[2] *Rs.1.12 crore on account of less realisation + loss of interest of Rs.0.78 crore.*

CHAPTER XVII

Follow-up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Audit Reports (Commercial) of the Comptroller and Auditor General of India 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-Twelth 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 C&AG presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the C&AG.

A review in Audit revealed that despite reminders, the remedial/corrective ATNs on the transaction audit/compliance audit paragraphs/reviews contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in **Appendix-I**, were not received by Audit for vetting. No ATN has been received in respect of 8, 23, 25, 34 and 43 transaction audit/compliance audit paragraphs /reviews contained in Audit Reports (Commercial) of 2003, 2004, 2005, 2006 and 2007, respectively.

For Audit Reports (Commercial) of 2008, which were presented to Parliament in March/April 2008, ATNs on 121 compliance audit paras out of 184 were awaited from various Ministries till 21 November 2008. Out of 254 transaction audit/compliance audit paragraphs/reviews on which ATNs were awaited, 86 paragraphs related to PSUs under the Department of Telecommunications, 44 paragraphs related to PSUs under the Ministry of Finance (Insurance Division) and 26 paragraphs related to PSUs under the Ministry of Petroleum and Natural Gas.

(PRAVIN TRIPATHI)
Deputy Comptroller and Auditor General
and Chairperson, Audit Board

New Delhi
Dated: 19th May 2009

Countersigned

(VINOD RAI)
Comptroller and Auditor General of India

New Delhi
Dated: 21 MAY 2009

APPENDIX -I

(Referred to in Chapter XVII)

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes were pending (as on 21 November 2008)

No. and Year of Report		Name of the Report	Para No., if any
Department of Atomic Energy			
1.	No. 11 of 2008	Compliance Audit Observations	Para 1.1.1
Department of Bio-Technology			
1.	No. 12 of 2006	Transaction Audit Observations	Para 19.1.1
2.	No. 11 of 2007	Transaction Audit Observations	Para 3.1.1
Department of Chemicals & Petrochemicals			
1.	No. 11 of 2008	Compliance Audit Observations	Paras 3.1.1 and 3.2.1
Department of Fertilizers			
1.	No. 11 of 2008	Compliance Audit Observations	Paras 9.1.1 and 9.2.1
Ministry of Civil Aviation			
1.	No. 3 of 2005	Transaction Audit Observations	Para 3.2.3
2.	No. 12 of 2006	Transaction Audit Observations	Para 4.1.1
3.	No. 11 of 2007	Transaction Audit Observations	Paras 4.1.1, 4.2.2, and 4.2.5
4.	No. 11 of 2008	Compliance Audit Observations	Paras 4.1.1, 4.1.2, 4.1.3, 4.2.4, 4.3.1, 4.3.2, 4.3.3 and 4.3.5
Ministry of Coal			
1.	No. 3 of 2005	Transaction Audit observations	Paras 4.2.1 and 4.5.1
2.	No. 8 of 2006	Review on Project Implementation, performance of HEMM, Manpower analysis, Fund Management and Environmental planning – MCL	Paras 3.6.1.5(i), 3.6.1.6 (i), (ii),(iii), 3.8.1, 3.8.2 and 3.8.3.
		Performance Review on "Bucket Wheel Excavators" of Nevyeli Lignite	Paras 4.8.1 and 4.8.2
3.	No. 12 of 2006	Transaction Audit Observations	Para 5.1.1
4.	No. 11 of 2007	Transaction Audit Observations	Para 5.1.2
5.	No. 11 of 2008	Compliance Audit Observations	Paras 5.2.1 and 5.3.1

No. and Year of Report		Name of the Report	Para No., if any
Ministry of Communications Department of Telecommunications			
1.	No. 5 of 2004	BSNL	
		Chapter-I	Para 1.5
		Chapter-II	Para 2.10
2.	No. 5 of 2005	Communication Sector	Paras 1.3, 1.4, 4.20, 6.1, 6.2, 6.3, 6.4, 6.13 and 6.14
3.	No. 9 of 2006	Chapter-II (Performance Audit of Human Resource Management in BSNL)	Paras 2.10, 2.10.6, 2.13, 2.13.1 (except 2.13.1.3) and 2.16.2
4.	No. 13 of 2006	Chapter-II	Paras 2.5, 2.6 and 2.11
		Chapter-IV	Paras 4.8 and 4.19
		Chapter-V Introductory Para of MTNL	Para 5.5
		Chapter-VI	Para 6.2
		Chapter-XI Introductory Para of MTNL	Para 11.5
5.	No. 10 of 2007	Information Technology Applications in PSU (Material Management and Inventory Accounting in ITI Limited)	Paras 2.1 and 2.7 Paras 2.7.1, 2.7.1.1 (i), (ii), (iii), (iv), 2.7.1.2, 2.7.1.3, 2.7.2, (i), (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix), (x), (xi), 2.8, 2.9, 2.10, 2.11 and 2.12
6.	No. 10 of 2007	Cellular Mobile Telephone Services in BSNL	Paras 1.9.2, 1.11.4, 1.11.6, 1.11.7, 1.12.4.1, 1.12.4.3, 1.12.5, 1.12.7, 1.13.1 and 1.13.4
		Billing and Customer care in MTNL	Paras 3.1 to 3.10, 3.11.1, 3.11.2, 3.12.1, 3.12.2, 3.12.3, 3.13.1, 3.13.2, 3.13.3, 3.14.1, 3.14.2, 3.15.1, 3.15.2, 3.15.3 and 3.16
7.	No. 12 of 2007	Telecommunications Sector Transaction Audit Observations	Paras 2.4, 2.6, 2.9, 2.16, 3.6, 4.1 and 4.7
8.	No. 12 of 2008	Compliance Audit Observations	Paras 1.1, 1.2, 1.3, 1.4, 1.4.1, 1.5, 1.5.2, 1.6 and 1.7

No. and Year of Report		Name of the Report	Para No., if any
		Chapter-I	
		Chapter-II	Paras 2.1, 2.1.4, 2.2, 2.4, 2.8 and 2.9
		Chapter-III	Paras 3.1, 3.1.1, 3.1.2, 3.1.3, 3.1.4, 3.3, 3.4, 3.6, 3.10, 3.12, 3.13, 3.14 and 3.15
		Chapter-IV	Paras 4.1, 4.2, 4.3, 4.4, 4.4.1, 4.4.2, 4.4.3, 4.5, 4.6 and 4.7
		Chapter-V	Paras 5.2, 5.4, 5.6, 5.7 and 5.8
		Chapter-VI	Paras 6.1, 6.2, 6.3, 6.4, 6.5, 6.6 and 6.7
		Chapter-VII	Paras 7.1, 7.2 and 7.3
		Chapter-VIII	Paras 8.1, 8.2, 8.3, 8.4 and 8.5
		Chapter-IX	Paras 9.1, 9.2, 9.3, 9.4, 9.5 and 9.6
Ministry of Consumer Affairs Food & Public Distribution			
1.	No. 3 of 2003	Transaction Audit Observations	Para 7.1.3
2.	No. 4 of 2003	Fraud Control in FCI	Para 2.1
3.	No. 3 of 2004	Transaction Audit Observations	Para 5.2.2
4.	No. 3 of 2005	Transaction Audit Observations	Paras 6.1.2, 6.1.7 and 6.1.12
5.	No. 12 of 2006	Transaction Audit Observations	Paras 7.1.1 and 7.1.2
6.	No. 11 of 2007	Transaction Audit Observations	Paras 7.2.5 and 7.2.6
7.	No. 11 of 2008	Compliance Audit Observations	Paras 7.1.2, 7.1.3, 7.1.4, 7.1.5. 7.1.6, 7.1.7 and 7.1.8
Department of Defence Production and Supplies			
1.	No. 3 of 2005	Transaction Audit Observations	Paras 7.4.1, 7.4.2, 7.4.3 and 7.4.4
2.	No. 4 of 2005	Review on BEL	Paras 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7 and 6.8
		Garden Reach Shipbuilders & Engineers Limited	Paras 8.1, 8.2 and 8.3

No. and Year of Report		Name of the Report	Para No., if any
Ministry of Finance (Department of Financial Services - Banking Division)			
1.	No. 3 of 2004	Transaction Audit Observations	Paras 9.1.1, 9.2.1, and 9.2.2
2.	No. 3 of 2005	Transaction Audit Observations	Paras 1.1.1, 1.2.1 and 1.2.2
3.	No. 12 of 2006	Transaction Audit Observations	Para 2.1.1
4.	No.11 of 2007	Transaction Audit Observations	Para 2.1.1
5.	No. 11 of 2008	Compliance Audit Observations	Paras 2.1.1 and 2.2.1
Ministry of Finance (Department of Financial Services – Insurance Division)			
1.	No. 3 of 2004	Transaction Audit Observations	Paras 8.2.1, 8.2.2, 8.2.6, 8.5.1, 8.5.3 and 8.5.4
2.	No. 3 of 2005	Transaction Audit Observations	Paras 9.2.1, 9.2.2 and 9.6.1
3.	No. 4 of 2005	Review of Insurance Division	Para 10.1, 10.2, 10.11
4.	No. 12 of 2006	Transaction Audit Observations Section II (IT Audit)	Paras 11.2.1, 11.2.2, 11.2.3, 11.3.1, 11.4.2, 11.7.1, 11.7.2, 11.7.4 and 11.7.5 Para 25.1
5.	No. 10 of 2007	Information Technology Applications in Public Sector Undertakings	Paras 3.1.1, 3.1.2, 3.5.1.1, 3.5.1.2, 3.5.1.3, 3.5.2, 3.5.2.1, 3.5.2.2, 3.5.2.3, 3.5.3.1, 3.5.3.2, 3.5.3.3, 3.5.4, 3.5.4.1, 3.5.4.2, 3.5.4.3, (i), (ii), (iii), 3.5.4.4, (i), (ii), (iii), (iv), (v), 3.6 and 3.7
6.	No. 11 of 2007	Transaction Audit Observations	Paras 10.1.1, 10.1.2, 10.2.1, 10.2.2, 10.3.1, 10.3.2, 10.3.3, 10.3.4, 10.4.1, 10.4.2, 10.4.3, 10.4.4 and 10.5.1
7.	No. 11 of 2008	Compliance Audit Observations	Paras 10.1.1, 10.1.2, 10.1.3, 10.2.1, 10.3.1, 10.4.1, 10.4.2, 10.5.1, 10.5.2 and 10.5.3
Ministry of Health & Family Welfare			
1.	No. 3 of 2003	Transaction Audit Observations	Para 12.1.1
2.	No. 3 of 2004	Transaction Audit Observations	Para 10.1.1
Ministry of Human Resource Development			
1.	No. 3 of 2004	Transaction Audit Observations	Para 12.1.1

	No. and Year of Report	Name of the Report	Para No., if any
Department of Heavy Industries			
1.	No. 12 of 2006	Transaction Audit Observations	Para 12.4.1
2.	No. 11 of 2007	Transaction Audit Observations	Paras 11.1.1 and 11.1.2
3.	No. 11 of 2008	Compliance Audit Observations	Paras 11.1.1, 11.1.2, 11.1.3 and 11.2.1
Ministry of New and Renewable Energy			
1.	No. 11 of 2008	Compliance Audit Observations	Para 13.1.1
Ministry of Non-Conventional Energy Sources			
1.	No. 3 of 2003	Transaction Audit Observations	Para 16.1.1
2.	No. 3 of 2005	Transaction Audit Observations	Para 15.1.1
Ministry of Petroleum and Natural Gas			
1.	No. 3 of 2003	Transaction Audit Observations	Paras 17.6.1, 17.6.6 and 17.7.4
2.	No. 3 of 2004	Transaction Audit Observations	Paras 14.4.3, 14.6.6, 14.6.8 and 14.7.2
3.	No. 4 of 2004	Review on GAIL	Paras 8.1 and 8.2,
4.	No. 4 of 2004	Review on Oil India Limited	Paras 9.1, 9.2, 9.3, 9.4, 9.5, 9. 6 and 9.7
5.	No. 6 of 2005	Petroleum Sector Profile Chapter –2 Chapter – 4	 Para 2.5 Para 4.5.4
6.	No. 12 of 2006	Transaction Audit Observation Chapter-XIV	Paras 14.7.6, 14.7.8 and 14.8.1
7.	No. 11 of 2007	Transaction Audit Observation	Paras 13.3.1 and 13.4.1
8.	No. 11 of 2008	Compliance Audit Observations	Paras 14.1.1, 14.2.1, 14.3.1, 14.4.3, 14.5.2, 14.5.6, 14.5.7, 14.6.1, 14.7.3, and 14.7.4
Ministry of Power			
1.	No. 3 of 2005	Transaction Audit Observations	Paras 16.1.1 and 16.2.1

No. and Year of Report		Name of the Report	Para No., if any
2.	No. 12 of 2006	Transaction Audit Observations	Para 15.2.1
3.	No. 11 of 2007	Transaction Audit Observations	Paras 14.1.1, 14.2.1, 14.2.2, 14.3.1 and 14.3.2
4.	No. 11 of 2008	Compliance Audit Observations	Paras 15.1.1 and 15.3.1
Department of Public Enterprises			
1.	No. 12 of 2006	Transaction Audit Observations	Para 16.2.1
2.	No. 11 of 2007	Transaction Audit Observations	Para 15.1.1
3.	No. 11 of 2008	Compliance Audit Observations	Para 16.1.1
Department of Road Transport & Highways			
1.	No. 11 of 2008	Compliance Audit Observations	Paras 18.1.1 and 18.1.2
Ministry of Steel			
1.	No.6 of 2004	Steel Sector-Chapter 2 (SAIL)	Review on Captive Mines of SAIL
		Section-III HSCL Limited (Review)	Paras 6.1 and 6.2
2.	No. 8 of 2006	Chapter-X-Review on the working of Bharat Refractories Limited	Paras 10.2, 10.4.6, 10.5.1, 10.6.1, 10.6.2, 10.6.3, 10.9.1, 10.9.2 and 10.11
3.	No. 11 of 2007	Transaction Audit Observations	Para 18.3.1
4.	No. 11 of 2008	Compliance Audit Observations	Paras 20.1.1 and 20.3.2
Department of Shipping			
1.	No. 4 of 2003	Working of River Service Division of Central Inland Water Transport Corporation Limited	Para 4.1
Ministry of Urban Development and Poverty Alleviation			
1.	No.3 of 2004	Transaction Audit Observations	Para 20.1.1

APPENDIX -II

(Referred to in para 13.3.1)

Amount (Rs. in lakh)

Name of PSU	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Ministry of Finance (Department of Financial Services - Insurance Division)			
National Insurance Company Limited	(i) Undercharge of the premium due to non imposition of claim experience	5.48	5.48
	(ii) Short realization of premium due to non application of loading for adverse claim experience	2.63	1.14
	(iii) Short charge of premium due to non charging of loading of premium in respect of Group Mediclaim policies	1.34	0.18
	(iv) Undercharge of premium due to non application of claim experience loading in a standard fire and allied perils policy	1.02	1.02
The New India Assurance Company Limited	(i) Non recovery of agency commission from the agents	19.14	19.14
	(ii) Under charge of premium	1.92	1.92
	(iii) Non recovery of loading on scup	190.00	190.00
	(iv) Excess payment of fire claim on account of non reversal of Cenvat Credit	24.69	4.43
	(v) Non recovery of excess paid commission from agents	2.08	0.59
The Oriental Insurance Company Limited	Excess payment of transportation charges	7.63	7.63
United India Insurance Company Limited	(i) Short charging of premium due to inappropriate classification	22.03	15.00

	(ii) Short collection of premium due to extension of FEA discount in excess of tariff rates	41.45	41.45
	(iii) Retention of Company's Housing at old station after transfer and non vacation of staff quarters	2.03	0.52
	(iv) Short collection of premium due to wrong classification	45.18	45.18
	(v) Under charge of premium in respect of a standard fire and specials perils	3.57	0.16
	(vi) Under charge of premium due to incorrect application of premium rate in respect of standard fire and specials perils	4.42	1.34
	(vii) Undercharge of premium due to non-loading of premium on account of adverse claim experience	12.15	12.15
	(viii) Undercharge of premium due to non-imposition of claim experience loading in respect of standard fire and special perils	5.56	2.96
	(ix) Inadmissible claim experience discounts granted to Insured	5.64	5.64
	(x) Short levy of IAR business interrupters premium	6.28	6.28
	(xi) Loss due to insufficient loading of mediclaim premium	2.84	2.84
Department of Heavy Industries			
Bharat Heavy Electricals Limited	(i) Under invoicing of supplies due to misapplication of the price adjustment clause	209.00	209.00

	(ii) Short recovery of price variation claim on the supply of Traction Electrics due to incorrect adoption of Base Indices	634.00	634.00
	(iii) Non recovery of hire charges for generators	1.32	0.34
	(iv) Non recovery of service tax on freight payment made to transporters	16.60	16.60
	(v) Short billing of excise duty on the invoice raised for covering contract price	50.05	50.05
	(vi) Non availing of MODVAT benefit	13.42	13.42
	(vii) Non recovery of liquidated damages	3.70	3.70
Ministry of Petroleum and Natural Gas			
Indian Oil Corporation Limited	Under billing in respect of Aviation Fuel Supply	2.44	2.44
Oil and Natural Gas Corporation Limited	Excess payment of license fees	54.44	54.44
Ministry of Steel			
Steel Authority of India Limited	Excess rebate allowed to the customer	1.96	1.96
Total		**1394.01**	**1351.00**

Annexure-I

(Referred to in Para 6.1.1)

Statement showing deliberate violation of prescribed quality checks *etc*., (61 cases)

Sl. No.	Details of Quality tests, etc., violated	No. of equipment (Model / Equipment Nos.)
1.	Snag list date/Field test date/AC installation date etc., succeeds final quality inspection certificate date and despatch advice date & packing list date.	BH100/1012, BH100/1013, BH35/10116, BH35/10119, BH35-2/670, BH35-2/671, BH35-2/683, BH35-2/692, BH35-2/693, BH 50M/2988, BH 50M/2989, BH 50M/2990, BH 50M/2991, BH 50M/3017, BH 50M/3018, BH 50M/3019, BH 50M/3021, BH 50M/3022, BH 50M/3029, BH 50M/3036, BH 50M/3039, BH 85-1/8324, BH 85-1/8330, BH 85-1/8340, BH 85-1/8381, BG 605/6483, BG 605/6484, BG 605/6485, BG 825/3137, BG 825/3138, WS 28-2/271, WS 28-2/272, BH 40/212 , BH 35-2/679, BH 35-2/678, **Total 35 equipment**
2.	Customer pre-despatch inspection/joint inspection date succeeded final quality inspection certificate date/despatch advice date & packing list date	BH 85-1/8350, BE 220/B 16196, BD 155/G 12644, BD 155/G 12643, BD 155/G 12640, BD 155/G 12638, BD 155/G 12637, BD 155/G 12649, BD 155/G 12650, BD 155/G12653, BD 155/G 12655, BD 155/G 12656, BD 155/G 12657, BD 155/G 12659, BD 155/G 12660, BD 155/G12661, BD 155/G 12652, BD 155/G 12654, BD 155/G 12658, **Total 19 equipment**
3.	Engine receipt date succeeded despatch advice & packing list date	BE 1000/ G 10044 **Total 1 equipment**
4.	Actual GC date was different compared to GC date recorded for sales recognition.	BE 220/ B 16197 **Total 1 equipment**
5.	Customer order date succeeded despatch advice & packing list date	BD 355/ G 11225, BD 355/ G 11224, BD 155/ G 12668 **Total 3 equipment**
6.	Equipment received at shipment subsequent to despatch advice date and packing list date	BD 50/G 13583, BD 50/G 13585 **Total 2 equipment**
		Total 61 equipment

Annexure-II

(Referred to in para 6.1.1)

Statement of GC notes obtained from the transporters but equipment removed from the factory premises with a delay ranging from 6 to 411 days

Sl.No.	Delay range in days (from date of Invoice to Actual despatch)	No. of cases/equipment	Sale Value in Rs.
1.	0 to 6	1	6522880
2.	7 to 15	26	260924745
3.	16 to 30	57	615426499
4.	31 to 60	118	1309456402
5.	61 to 90	48	624582683
6.	91 to 110	5	52366000
7.	111 to 180	14	170616862
8.	181 to 365	5	120846549
9.	365 to 411	5	20712035
10.	**Total**	**279**	**3181454655 or Rs.318 crore**

Annexure-III

(Referred to in para 6.1.1)

Statement showing the CC sales recognised by the Company without sending invoices to the customers

Value Rs. in crore

Unit	**CC cases**	**Basic Value**	**Excise Duty**	**Total value of Sales**
Kolar Gold Fields	60	24.09	3.74	27.83
Mysore	36	46.80	6.66	53.46
Total	**96**	**70.89**	**10.40**	**81.29**

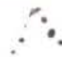
Annexure-IV

(Referred to in para 6.2.1)

(Rs. in crore)

	Value of the sold equipment retained at customers request					
Year	**As on 31.3.2005**	**As on 31.3.2006**	**As on 31.3.2007**	**As on 31.3.2008**	**As on 30.9.2008**	**Amount not claimed from the customers as on 30.9.2008**
1995-96	3.30	3.30	3.30	--	-	-
1996-97	15.38	15.38	13.28	13.28	13.28	0.66
1997-98	10.72	10.72	10.72	10.72	10.72	1.87
1998-99	3.52	3.52	3.52	3.10	3.10	0.59
1999-00	0.03	0.03	0.03	--	-	-
2002-03	1.02	--	--	--	-	-
2003-04	37.11	37.11	14.03	13.15	13.15	0.66
2004-05	64.16	62.20	22.73	1.82	1.82	0.10
2005-06	-	58.74	7.10	-	-	-
2006-07	-	-	74.60	42.47	32.12	9.35
2007-08	-	-	-	49.27	49.27	35.38
Total	**135.24**	**191.00**	**149.31**	**133.81**	**123.46**	**48.61**

GLOSSARY



AHTS	Anchor Handling and Towing System
AICL	Air India Charters Limited
ATNs	Action Taken Notes
BCCL	Bharat Coking Coal Limited
BG	Bank Guarantee
BOD	Board of Directors
BPCL	Bharat Petroleum Corporation Limited
BWE	Bucket Wheel Excavators
CCL	Central Coalfields Limited
CIL	Coal India Limited
CONCOR	Container Corporation of India Limited
CSR	Corporate Social Responsibility
CVC	Central Vigilance Commission
CWC	Central Warehousing Corporation
DA	Dearness Allowance
DAVP	Directorate of Advertising & Visual Publicity
DHI	Department of Heavy Industries
DJB	Delhi Jal Board
DO	Divisional Office
DPE	Department of Public Enterprises
DPS	Direct Payment System
ECGC	Export Credit Guarantee Corporation of India
ECIL	Electronics Corporation of India Limited
EPC	Executive Purchase Committee
EPCG	Export Promotion of Capital Goods
FCI	Food Corporation of India
FLC	Foreign Letter of Credit
FSD	Food Storage Depot
GAPL	Gujarat Adani Port Limited
GC	Goods Consignment
GOI	Government of India
GSC	Garware Shipping Corporation Limited
GTS	GTS Industries Private Limited
HFHSD	High Flash High Speed Diesel
HPCL	Hindustan Petroleum Corporation Limited
HRA	House Rent Allowance
HSD	High Speed Diesel
HTV	Heavy Transport Vehicle
HVF	Heavy Vehicles Factory
IHHL	Indian Household and Healthcare Limited
IRR	Internal Rate of Return
JCL	Jessop and Company Limited
JE	Jena Enterprise
JEOC	Jet Engine Overhaul Complex

KL	Kilolitres
LD	Liquidated Damages
LME	London Metal Exchange
MCGM	Municipal Corporation of Greater Mumbai
MMRDA	Mumbai Metropolitan Regional Development Authority
MOU	Memorandum of Understanding
MRPL	Mangalore Refinery and Petrochemicals Limited
MS	Muthoot Skychef
MS	Motor Spirit
MT	Metric Tonne
NIT	Notice Inviting Tender
NOC	No Objection Certificate
OB	Overburden
OMCs	Oil Marketing Companies
ONGC	Oil and Natural Gas Corporation Limited
PLI	Performance Linked Incentive
POH	Periodical Overhauling
PREP	Panipat Refinery Expansion project
PSF	Petrochemical and Polyester Staple Fibre
PSUs	Public Sector Undertakings
RIL	Reliance Industries Limited
RTP	Refinery Transfer Price
S&T	Spreader and Tripper
SBI	State Bank of India
SFSL	Saj Flight Services Private Limited
ST	Service Tax
SWR	South Western Railways
TPH	Ton *per* hour
VIPL	Volvo India Private Limited
VRS	Voluntary Retirement Scheme
VTTs	Volvo Tractor Trailers
X-BIS	X-ray Baggage Inspection System