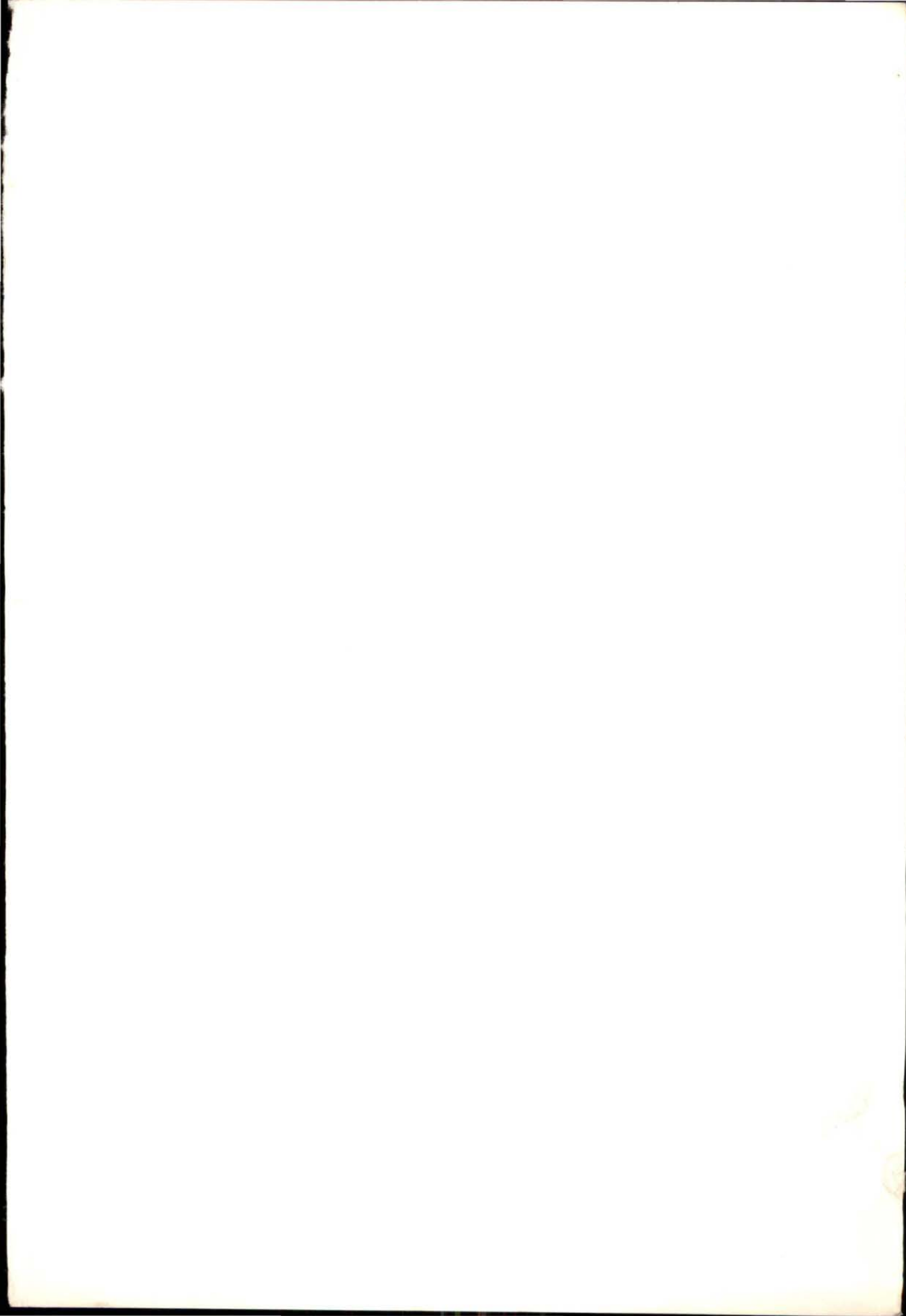

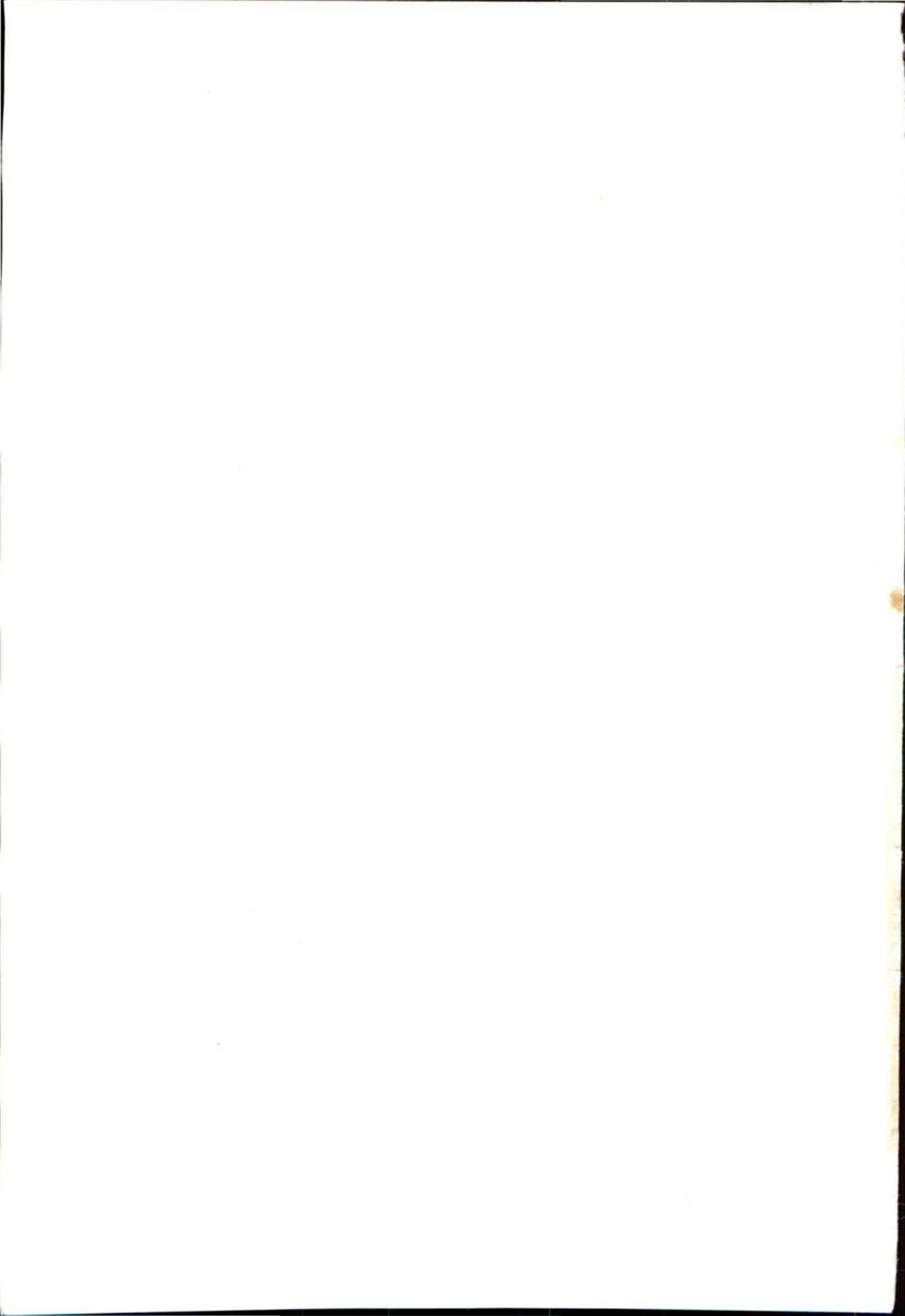

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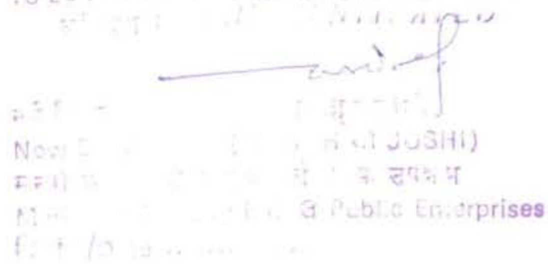

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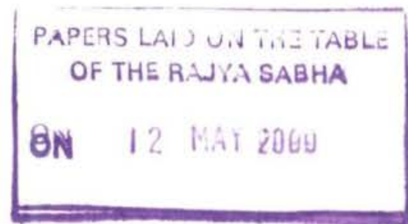

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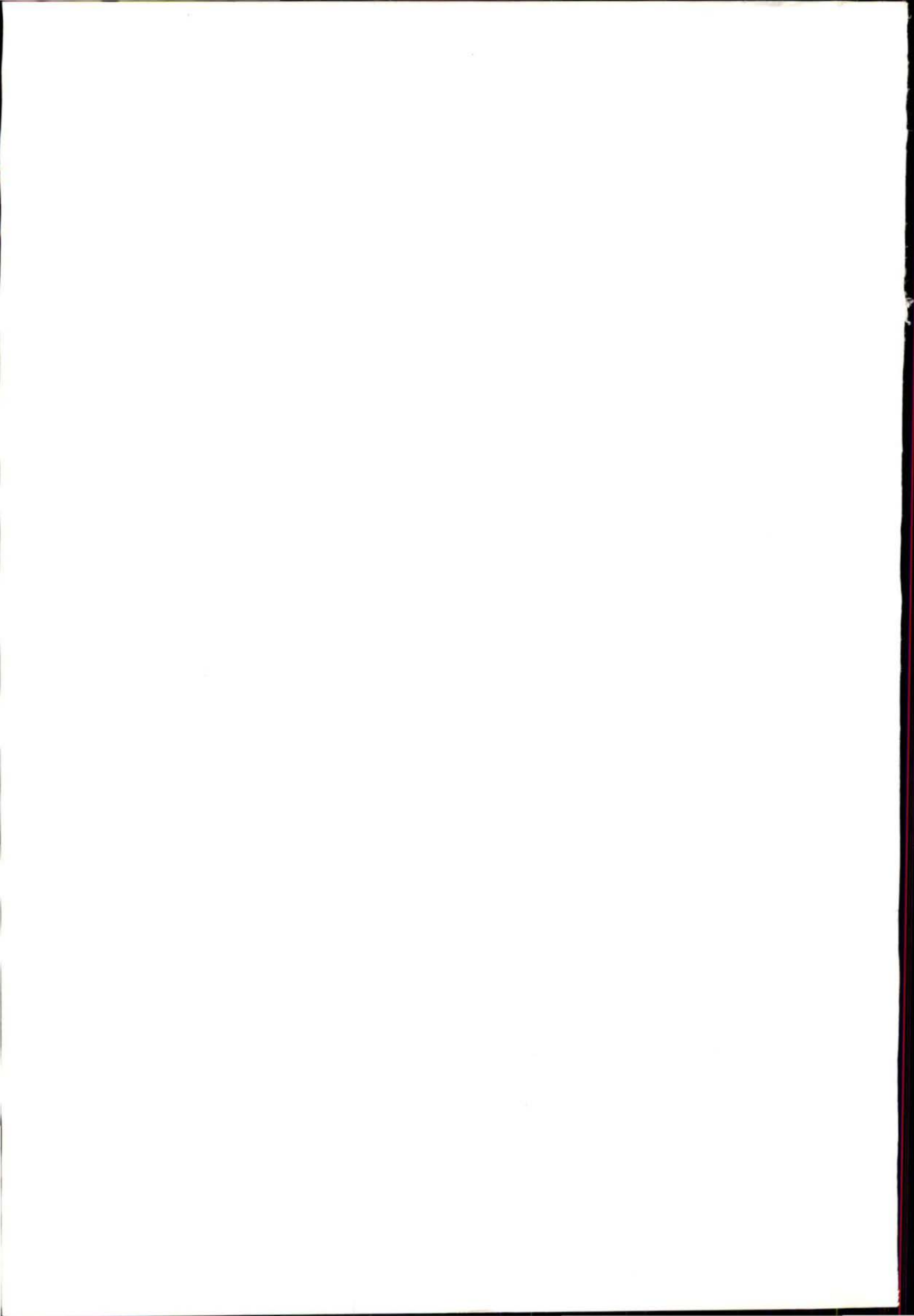

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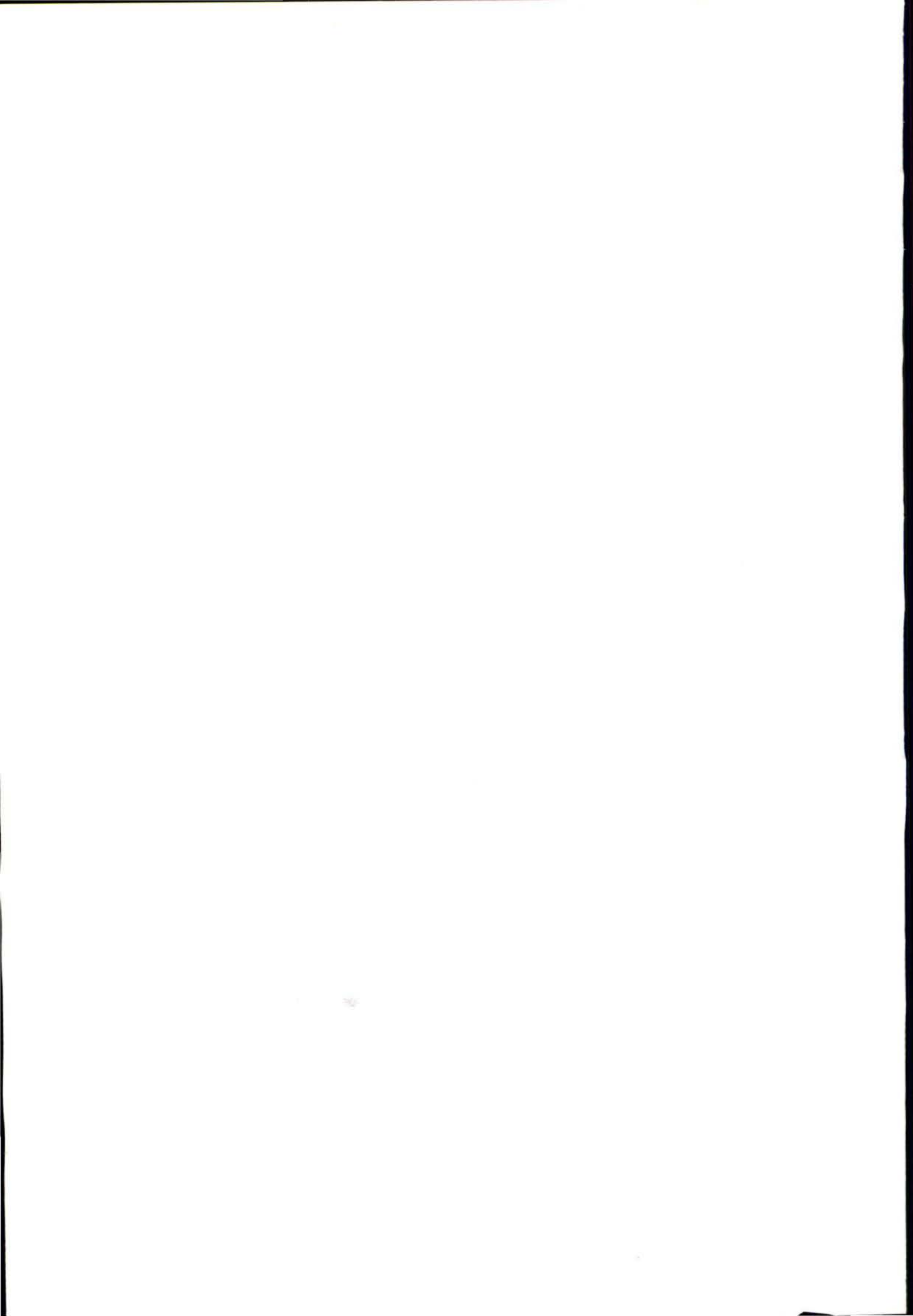


PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Government Insurance Companies and Companies deemed to be Government Companies as per provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of CAG under the Companies Act, 1956 are subjected to supplementary or test audit by officers of CAG and CAG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 1956 empowers CAG 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 CAG and reports to be given by him. In respect of such Corporation viz Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India and Damodar Valley Corporation, relevant statutes designate CAG as their sole auditor. In respect of 2 Corporation viz. Central Warehousing Corporation and Food Corporation of India, CAG 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 two Corporations.

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

4. Three annual reports on the accounts of the Central Government Companies and Corporations are issued by CAG to the Government. These are:

'Report No. 1 - Review of Accounts' gives an overall appreciation of the performance of the Companies and Corporations as revealed by their accounts and information obtained in audit.

'Report No.2 -Comments on Accounts' contains extracts from the important comments of CAG on the accounts of the Companies and Corporations and a resume of the reports submitted by the Statutory Auditors (Chartered Accountants) on the audit of the Companies in pursuance of the directions issued by CAG.

'Report No.3 - Transactions Audit Observations' contains the observations on individual topics of interest noticed in the course of audit of the Companies and Corporations and short reviews on aspects of their working. This report also contains results of audit of transactions of Indian Farmers Fertilizer Co-Operative Limited (IFFCO) and Krishak Bharati Co-Operative Limited (KRIBHCO) (Co-Operative Society) under Section 20(1) and Tariff Advisory Committee under Section 19(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 amended in 1984.

5. Audit Boards are set up under the supervision and control of CAG to undertake comprehensive appraisals of the performance of the Companies and Corporations subject to audit by CAG. Each Audit Board consists of the Chairman (Deputy Comptroller and Auditor General-Commercial), two or three whole-time members of the rank of Principal Director of Audit under CAG and two technical or other experts in the area of performance of the Company or Corporation who are part-time members. The part-time members are appointed by the Government of India (in the respective Ministry or Department controlling the Company or Corporation) with the concurrence of CAG. CAG also reviews certain specific aspects of functioning of some PSUs outside the mechanism of the Audit Board. The reports of CAG based on such performance appraisals by the Audit Board and other reviews are issued to the Government as separate reports in addition to the annual reports mentioned in para 4.

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

7. The cases mentioned in this Report are among those which came to notice in the course of audit during 1997-98 and 1998-99 as well as those which came to notice in earlier years but could not be covered in previous years.

OVERVIEW

I. Introduction

1. Important audit findings noticed as a result of test check of transactions entered into by the Central Government Companies / Corporations conducted by the officers of the C&AG of India under section 619(3)(b) of the Companies Act, 1956 or the statue governing the particular Corporations are included in this Report.

2. This Report includes 167 paragraphs in respect of 79 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 6 weeks. Replies to 56 paragraphs were not received even as this report was being finalised in November 1999. In respect of 4 paragraphs, even the Management of the concerned PSU failed to respond despite being repeatedly reminded.

3. 167 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 under the Paragraphs (Rs. in crore)**	**Number of Paragraphs in respect of which Ministry reply awaited**
1. Atomic Energy (4/**3**)	3	21.41	-
2. Chemicals and Petrochemicals (18/**2**)	5	15.67	2
3. Civil Aviation (7/**2**)	7	16.43	7
4. Coal (10/**3**)	8	31.57	2
5. Commerce and Industry (8/**3**)	13	66.19	4
6. Communications (6/**3**)	5	21.11	-
7. Defence (9/**4**)	9	11.96	1
8. Fertilisers (9/**6**)	9	14.14	1
9. Finance (6/**5**)	13	1626.93	3
10. Banking (3/**1**)	3	55.47	3
11. Consumer Affairs and Public Distribution (2/**2**)	15	89.93	4
12. Heavy Industry and Public Enterprises (50/**9**)	13	23.11	4

13. Mines and Minerals (6/**1**)	1	207.43	-
14. Petroleum and Natural Gas (19/**7**)	18	68.02	9
15. Power (8/**6**)	6	16.13	3
16. Railways (6/**3**)	5	39.71	2
17. Steel (15/**7**)	20	77.69	6
18. Surface Transport (9/**2**)	3	34.94	1
19. Textiles (23/**4**)	5	41.49	2
20. Five other Ministries/ Departments (15/**6**)	6	13.76	2
Total	**167**	**2493.09**	**56**

The audit observations included in this report bring to light many lacunae in the functioning of PSUs which have serious financial implications. The irregularities pointed out are broadly of the following nature:

- Delay in realisation/non-realisation of debts, injudicious investment of funds, storage losses etc., leading to a loss of **Rs. 152.67 crore** in **25 cases**.
- Unproductive expenditure amounting to **Rs. 122.72 crore** in **31 cases** on avoidable purchase of machinery, equipment, material, shares etc. not required by the PSUs and resulting in blockade of funds or rendering the expenditure infructuous.
- Revenue loss of **Rs.102.72 crore** in **28 cases** due to improper planning and execution of contracts, non-availment of MODVAT credit, defective installation of equipment, improper imports, renewal of loss making agreements, non-collection of sales tax, levy of lower sales price, delay in finalisation of contracts, non-levy of service charges, injudicious agreements etc.
- Loss of **Rs.102.28 crore** suffered in **17 cases** on account of undue favours granted to parties like undue financial assistance, unfavourable terms of contract, non-enforcement of terms and conditions of contracts etc.
- Extra expenditure of **Rs.74.43 crore** incurred in **15 cases** due to improper handling of import, delay in finalisation of tenders, excess settlement of claims, splitting up of contracts, injudicious award of contract, lack of supervision etc.
- Avoidable payments of **Rs.67.29 crore** in **34 cases** on account of power charges, penal interest, custom duty, commission, turnover tax, price variation, interest on income tax/sales tax, commitment charges on loans, transportation charges, foreign travel etc.
- Excess payments of **Rs. 6.55 crore** in **4 cases** made to staff of PSUs on account of salary and wages, conveyance allowance and ex-gratia. Further, in **2 cases** there was extra financial burden of **Rs.237.50 crore** towards salary & wages and voluntary retirement benefits due to injudicious decision to increase the age of retirement and retention of employees beyond the date of retirement.

- **Insurance Companies** lost **Rs.1568 crore** on account of adverse claim experience in motor insurance business due to delay in revision of premium rates over the years. Further, **5 insurance companies** suffered loss of **Rs.58.93 crore** in **12 cases** due to application of faulty tariff provisions, levy of lower tariff rates, acceptance of risks beyond the terms of agreements etc.

II. Highlights

Gist of some of the important paragraphs included in the Report is as follows:

Indian Rare Earths Limited lost **Rs 4.91 crore** by selling imported Rutile sand at a loss continuously for 4 years without any justification.

(Para 1.2)

Due to injudicious investment at Turamdih project, **Uranium Corporation of India Limited** had to suffer a loss of **Rs.16.06 crore.**

(Para 1.3)

Hindustan Insecticides Limited imported short shelf life insecticides worth **Rs.1.84 crore** which could not be sold before expiry date.

(Para 2.1.1)

Indian Petrochemicals Corporation Limited (IPCL) lost **Rs.7.77 crore** due to non-availment of MODVAT credit on the capital goods used for production of excisable final products at its Baroda Complex during the period April 1994 to June 1998.

(Para 2.2.1)

Sales on credit to a new customer without adequate precautions led to blockade of sales proceeds amounting to **Rs.3.90 crore** by **IPCL.**

(Para 2.2.2)

Delay in cancellation of unutilised foreign exchange loan resulted in an avoidable payment of **Rs.1.66 crore** on account of commitment charges and guarantee fee by **IPCL.**

(Para 2.2.3)

Undue favour given to private parties led to loss of **Rs. 8.14 crore to** the **Airports Authority of India (Authority).**

(Para 3.1.1)

Due to non-payment of advance income tax, the **Authority** had to pay avoidable interest of **Rs. 2.10 crore.**

(Para 3.1.2)

Non-adherence to proper procedure and delay in award of contract by the **Authority** resulted in a loss of **Rs.1.99 crore.**

(Para 3.1.3)

Due to delay in finalisation of a contract to sell admission tickets at the Hyderabad airport, the **Authority** sustained a loss of **Rs.1.38 crore.**

(Para 3.1.4)

As a result of a defective agreement with Air Maldives, **Indian Airlines Limited** lost **Rs.1.76 crore.**

(Para 3.2.1)

Bharat Coking Coal Limited (BCCL) was saddled with a fruitless investment of **Rs.12.30 crore** due to signing of a defective contract with the supplier, non-provision of matching equipment in time, failure to rectify the clause relating to installation of equipment in the Bank Guarantee and failure to execute performance guarantee clause of contract.

(Para 4.1.1)

Despite an investment of **Rs.7.72 crore** on installation of Ash Analysers and modernisation of its laboratories by **BCCL**, the Company had to depend on an outside agency for certification of ash content and continued to face deduction on quality ground.

(Para 4.1.2)

BCCL resorted to selective manual loading of coal, although the extant law clearly prohibited it, and incurred additional expenditure of **Rs.2.57 crore**.

(Para 4.1.3)

BCCL paid **Rs 49.58 crore** as advance tax against future sales tax liabilities although it was not a statutory requirement. As the payment was made by resorting to overdraft and loan funds, the Company suffered a loss of interest of **Rs.2.52 crore.**

(Para 4.1.4)

Undertaking of the Pipradih Reorganisation Open Cast Project by **Central Coalfields Limited (CCL)** without proper ascertainment of availability of land for external dumping of overburden resulted in wasteful expenditure of **Rs.2.45 crore.**

(Para 4.2.1)

Two wrong debits of **Rs.10 lakh** each in the current account of **CCL** with the State Bank of India remained unrectified over the last 17 years resulting in loss of interest of **Rs.1.10 crore.**

(Para 4.2.2)

While the construction of the integrated Workshop Complex at Kathara by **CCL** for the proposed Kathara Re-organization Project was in progress, the Re-organisation Project was dropped being unviable. The construction of Workshop was thus, abandoned resulting in an infructuous expenditure of **Rs.1.05 crore.**

(Para 4.2.3)

Unplanned procurement of communication equipment by the **Coal India Limited** without assessing the actual requirement led to an infructuous expenditure of **Rs.1.86 crore.**

(Para 4.3)

Export Credit Guarantee Corporation of India Limited (ECGC) enhanced the value of guarantee to include the elements of unpaid interest and foreign exchange fluctuations although it was aware that payments due from the party under the original contract were not forthcoming. This led to settlement of an avoidable claim of **Rs.1.44 crore.**

(Para 5.1.1)

ECGC suffered a loss of **Rs. 1.14 crore** due to adoption of higher exchange rate than that prescribed in the policy while settling the claim.

(Para 5.1.2)

ECGC lost **Rs.1 crore** by settling a claim which was inadmissible due to delayed receipt of premium.

(Para 5.1.3)

Inappropriate handling by **MMTC Limited** in the trading of basmati rice resulted in the blockage of funds amounting to **Rs.2.95 crore.** Besides, the Company lost interest of **Rs.4.53 crore** in the process.

(Para 5.2.1)

Injudicious import of CC rods on behalf of a customer and failure of the **MMTC Limited** in safeguarding its financial interest resulted in loss of **Rs. 2.22 crore.**

(Para 5.2.2)

Inept handling of wheat imports by **The State Trading Corporation of India Limited (STC)** resulted in an avoidable extra expenditure of **Rs.44.48 crore**.

(Para 5.3.1)

Wrong estimation of income and consequent short deposit of advance tax by **STC** resulted in levy of penal interest amounting to **Rs.2.15 crore.**

(Para 5.3.2)

Laxity on the part of Management of **STC** to recover outstanding dues from a co-operative society resulted in a loss of **Rs.1.72 crore.**

(Para 5.3.3)

Submission of defective documents by **STC** resulted in loss of interest amounting to **Rs.1.17 crore** besides non-realisation of sales proceeds amounting to **Rs.79.10 lakh.**

(Para 5.3.4)

ITI Limited took up a project for providing Mobile Radio Trunked Service, a technology nearing obsolescence, resulting in infructuous investment of **Rs.6.41 crore.**

(Para 6.2.1)

ITI Limited incurred a loss of **Rs.3.21 crore** during the period from December 1997 to July 1999 by retaining low yield bonds and availing cash credit simultaneously.

(Para 6.2.2)

Mahanagar Telephone Nigam Limited (MTNL) failed to maintain the minimum power factor of 0.85 prescribed by the Delhi Vidyut Board and had to pay avoidable penal charges of **Rs.7.16 crore.**

(Para 6.3.1)

Non-observance of rules by **MTNL** led to non-recovery of Service tax of **Rs.3.84 crore.**

(Para 6.3.2)

Bharat Dynamics Limited took up manufacture of self loading Rifles (SLRS) without assessing the available spare capacity which they intended to utilise. The SLRs project became unviable and the Company suffered a loss of **Rs. 4.72 crore.**

(Para 7.1)

Lack of foresight in planning for indigenisation of 15 modification kits by **Bharat Electronics Limited (BEL)** resulted in avoidable extra expenditure of **Rs.2.04 crore.**

(Para 7.2.1)

Due to supply of equipment to a private party without obtaining any security, **BEL** could not recover sales proceeds of **Rs.1.35 crore** for over four years.

(Para 7.2.2)

The delay by **Hindustan Aeronautics Limited** in transferring an order from one division to another division in the Company resulted in avoidable payment of **Rs.1.18 crore** as liquidated damages.

(Para 7.4.1)

The **Fertilizers and Chemicals Travancore Limited** sold goods in violation of DPE guidelines to a party without any security against post dated cheques which resulted in non-recovery of dues to the extent of **Rs.2.20 crore.**

(Para 8.1)

Owing to the defects in the release orders **Indian Farmers Fertilizer Co-operative Limited** failed to charge from its customers revised price of fertilizer which was higher and suffered loss of **Rs.3.73 crore.**

(Para 8.3)

Supply of fertilizer to Jammu and Kashmir Co-operative Supply and Marketing Federation Limited by **Krishak Bharti Co-operative Limited (KRIBHCO)** continued inspite of the previous dues remaining unpaid as a result of which **KRIBHCO** failed to recover **Rs.2.84 crore.**

(Para 8.4.1)

Owing to lack of adequate forethought by **KRIBHCO** in acquisition of three plots of land and unwarranted retention of two out of three plots resulted in a sum of **Rs.1.23 crore** remaining blocked from February 1990 to February 1997 and loss of interest of **Rs.1.21 crore.**

(Para 8.4.2)

Paradeep Phosphates Limited's failure to open Letters of Credit within the stipulated period and delay in payments while handling imported urea led to an avoidable expenditure of **Rs.1.63 crore** towards liquidated damages and penal interest.

(Para 8.6)

Failure of the **Tariff Advisory Committee (TAC)** to hike the premium over the years to meet the adverse claim experience resulted in cumulative loss under motor insurance

business to the extent of **Rs. 1568 crore** to the insurance industry during the last six years upto 1997-98.

(Para 9.1.1)

General Insurance Company Limited and its subsidiaries lost premium income of **Rs.49.76 crore** due to tariff violation that was ratified by TAC as a 'fait accompli'.

(Para 9.1.2)

National Insurance Company Limited (NIC) suffered a loss of **Rs.1.12 crore** due to incorrect application of premium rates on jute stock under floating declaration fire policy.

(Para 9.2.1)

New India Assurance Company Limited suffered a loss of premium of **Rs.2.20 crore** due to non-adherence of tariff provisions.

(Para 9.3.1)

Oriental Insurance Company Limited incurred a loss of **Rs.1.51 crore** because of its failure to follow the guidelines for underwriting issued after marine business was de-tarrified.

(Para 9.4)

Oriental Insurance Company Limited and **National Insurance Company Limited** suffered a loss of **Rs.1.49 crore** due to undercutting of premium rates for insurance cover of High Value Direct Current Dadri Poles I and II of Power Grid Corporation of India Limited.

(Para 9.6)

Indbank Merchant Banking Services Limited had to write off Inter-Corporate Deposits (ICDs) to the extent of **Rs.13.15 crore** due to violation of norms prescribed in the guidelines, ineffective pre-sanction evaluation and irregular sanctions. Also the Company could not recover **Rs.42.32 crore** which had become overdue as on 31 March 1999 on account of ICDs, lease finance and hire purchases due to the same reasons.

(Para 10.1.1 to 10.1.3)

Injudicious investment of surplus funds by **Central Warehousing Corporation** resulted in blockage of **Rs.5 crore** and loss of interest amounting to **Rs.4.66 crore.**

(Para 11.1.1)

Due to indecision on the part of Government of India in regard to treatment of moisture gained by wheat stock during storage, **Food Corporation of India (FCI)** had to make

excess payment of **Rs.38.59 crore** to various State Agencies on Wheat stocks taken over from these Agencies.

(Para 11.2.1)

Non-compliance with the prescribed procedure for liquidating stocks of foodgrains by Field Manager of **FCI** resulted in undue accumulation and deterioration of stocks. Consequential loss on disposal of such stock was **Rs.20.78 crore.**

(Para 11.2.2)

Supply of wheat to Food Corporation of Bhutan between July 1993 and March 1995 by **FCI** at less than the economic cost contravened directions of Government of India on the subject and also resulted in additional financial burden of **Rs.3.98 crore** on Government of India.

(Para 11.2.3)

FCI adopted incorrect rates for making payment to the labourers employed under 'Direct Payment System' in respect of work falling under 'Other Operations'. This resulted in excess payment of **Rs.3.66 crore**.

(Para 11.2.4)

Failure of **FCI** to segregate levy rice procured from registered dealers in West Bengal resulted in avoidable payment of turnover tax amounting to **Rs.3.02 crore.**

(Para 11.2.5)

FCI is likely to incur a loss of **Rs.1.91 crore** on account of deterioration of stock besides avoidable payment of **Rs.41.09 lakh** towards storage on stock kept in CWC godown without handling and transportation facilities.

(Para 11.2.6)

Payment of conveyance allowance retrospectively and subsequent enhancement of the same beyond the ceiling prescribed by the Department of Public Enterprises resulted in avoidable payment of **Rs.1.86 crore** to the executives/employees by **FCI.**

(Para 11.2.7)

6367.165 MT of good quality wheat at Food Storage Depot Adra of **FCI** got damaged due to improper storage and lack of supervision and had to be sold at a loss of **Rs.1.63 crore** to the Corporation.

(Para 11.2.8)

FCI incurred an extra expenditure of **Rs.1.51 crore** in Orissa Region due to engagement of departmental labour for work which was required to be done by miller's labour at no extra cost to the Corporation.

(Para 11.2.9)

Procurement of watch components of foreign origin through indigenous sources of uncertain antecedents by the **HMT Limited** resulted in confiscation of components/wrist watches worth **Rs.5.07 crore** by the Customs authorities on the ground that these components/wrist watches were improperly brought into the country in contravention of Custom Regulations.

(Para 12.5.1)

HMT Limited failed to sell the machine which was developed without assessing customer requirements resulting in an infructuous investment of **Rs. 1.38 crore.**

(Para 12.5.2)

Heavy Engineering Corporation Limited appointed a private consultant in January 1994 for obtaining orders from Government sectors/PSUs in contravention of the orders of Bureau of Public Enterprises and made a total payment of **Rs.1.11 crore** as commission to the consultant.

(Para 12.6)

Hindustan Cables Limited incurred an infructuous expenditure of **Rs.8.52 crore** on an abandoned Jointing Kits project due to improper selection of collaborator.

(Para 12.7)

National Film Development Corporation Limited incurred a loss of **Rs.7.77 crore** due to renewal of a loss making telecast agreement for an entertainment programme with Doordarshan.

(Para 14.1)

As a consequence of enhancement of retirement age of employees **Hindustan Copper Limited,** despite dwindling financial position, had to bear an extra expenditure of **Rs.43.05 lakh** towards voluntary retirement benefits besides extra financial burden of **Rs.207 crore** (approximately) for additional two years of service of the continuing employees.

(Para 15.1)

Bharat Petroleum Corporation Limited (BPCL) did not levy penalty on Reliance Industries Limited for delay in evacuation of naphtha from their pipeline. Loss to the Company on account of this undue exemption was **Rs.3.48 crore.**

(Para 16.1.1)

BPCL sustained a loss of **Rs.1.43** crore towards excess payment of transportation cost due to non-verification of actual distance covered in transportation for out of zone stock transfers.

(Para 16.1.2)

Due to weakness in internal control system, **BPCL** could not make recoveries for the transit losses from transport contractor resulting in outstanding dues amounting to **Rs.1.18 crore.**

(Para 16.1.3)

Bongaigaon Refinery & Petrochemicals Limited sustained an avoidable loss of **Rs.3.19 crore** as a consequence of an unrealistic supply commitment of Calcinated Petroleum Coke.

(Para16.2)

Failure of **Indian Oil Corporation Limited (IOC)** to observe a system prescribed by Oil Coordination Committee (OCC) for sale of products in Out-of-zone area led to an excess payment of **Rs.2.77 crore** towards transportation cost and blocking up of fund of **Rs.6.49 crore.**

(Para 16.3.1)

Due to collection of excess specific entry sales tax from its customers **IOC** could not realise **Rs 2.87 crore** as the customer has deducted the amount from the pending bills of the Company resulting in an interest loss of **Rs. 1.22 crore**.

(Para 16.3.2)

Injudicious decision of IOC to defend a case before the Arbitrator and to prefer an appeal before the High Court of London resulted in infructuous expenditure of **Rs.1.12 crore** (UK Pounds 157,202) on litigation/arbitration. Besides, the Company also lost an opportunity to receive **Rs.57.99 lakh** (US $ 152,601) offered by the supplier as a part of settlement package.

(Para 16.3.3)

Due to acquisition of a piece of land, which was ultimately not accepted, **IOC** blocked **Rs.81.87 lakh** with consequential loss of interest of **Rs.1.01 crore** and lost **Rs.8.05 lakh** outright by way of penal deduction made by the seller.

(Para 16.3.4)

Madras Refineries Limited, without firming up the supply for raw materials, invested **Rs. 15 crore** on a project which became unproductive.

(Para 16.4)

Due to lack of planning and mismanagement, the expenditure of **Rs.6.06 crore** incurred by **Oil and Natural Gas Corporation Limited (ONGC)** on Gas Metering Station at Hazira remained idle for over six years.

(Para 16.5.1)

ONGC incurred an avoidable loss of revenue of **Rs.5.51 crore** due to delay in making arrangements for gas compressors at its Mehsana project under Western Regional Business Centre.

(Para 16.5.2)

ONGC incurred an expenditure of **Rs.5.16 crore** on building Effluent Treatment Plant which had never been gainfully utilised since its commissioning in August 1994.

(Para 16.5.3)

ONGC had to pay **Rs.3.65 crore** as penalty for delay in payment of petroleum exploration license fee to the Government. The Government was yet to take a view on waiving further penalty of Rs.5.32 crore on delayed payment of penalty.

(Para 16.5.4)

Due to non-collection of enhanced rate of sales tax on motor spirit and diesel from their respective dealers, **Bharat Petroleum Corporation Limited** and **IBP Co Limited** suffered loss of **Rs.2.71 crore** and **Indian Oil Corporation Limited** and **Hindustan Petroleum Corporation Limited** incurred a liability to pay **Rs.5 crore**.

(Para 16.7)

National Hydroelectric Power Corporation Limited paid commission of **Rs.6.84 crore** on issue of bonds in violation of the provision of the Companies Act, 1956.

(Para 17.1)

Power Grid Corporation of India Limited incurred an avoidable expenditure of **Rs.5.97 crore** due to wrong interpretation of the provisions of Income Tax Act and consequent delay in payment of advance tax.

(Para 17.3)

Injudicious decision of **National Thermal Power Corporation Limited** to go in for re-tendering despite the fact that the lowest offer was technically and commercially suitable resulted in avoidable expenditure of **Rs.1.98 crore.**

(Para 17.4)

Container Corporation of India Limited waived terminal service charges amounting to **Rs.11.13 crore** which was not justified.

(Para 18.1.1)

Indian Railway Finance Corporation Limited ignored an offer of cash incentive by Government of Tamil Nadu on investment of **Rs.125 crore** in Kisan Vikas Patras within the State and lost cash incentive of **Rs.2.5 crore.**

(Para 18.2)

The Konkan Railway Corporation Limited (KRCL) incurred a loss of **Rs.21.77 crore** due to entering into a sale and lease back arrangement which was in essence contrary to the spirit of the agreement forming the Corporation.

(Para 18.3.1)

KRCL made an avoidable payment of **Rs.3.89 crore** to contractors on account of inclusion of price variation clause in the contract which was in contravention of instructions issued by the Railway Board.

(Para 18.3.2)

The work of clearing Ash ponds was not executed departmentally by the **Hindustan Steelworks Construction Limited** although it had the capacity to do so. This led to avoidable expenditure of **Rs.15.70 crore.**

(Para 20.1)

Decision to reline Blast Furnace (BF) No.1 by **Indian Iron and Steel Company Limited** without assessing the market condition resulted in unfruitful expenditure of **Rs.8.50 crore** as **BF** was lying inoperative from April 1998.

(Para 20.2)

Injudicious investment in inter-corporate deposits by **National Mineral Development Corporation (NMDC)** resulted in loss of interest of **Rs.20.15 crore** and interest on interest to the tune of Rs.4.24 crore. The realisation of principal amount of **Rs.16 crore** is also doubtful.

(Para 20.6.1)

The screening plant established by **NMDC** at a cost of **Rs.10.66 crore** could not screen Calborated Lump Ore (CLO) as envisaged due to poor planning and monitoring. The Company suffered cumulative loss of **Rs.3.30 crore** on the plant.

(Para 20.6.2)

NMDC released four work orders on deposit 10 & 11 A, involving Forest as well as non-forest land, without obtaining clearance from the Government of India in respect of forest land under Forest (Conservation) Act, 1980. This resulted in blocking of **Rs.3.58 crore** paid towards mobilisation advance with consequential interest loss of **Rs.1.12 crore.**

(Para 20.6.3)

NMDC suffered an avoidable loss of interest of **Rs.2.83 crore** due to adoption of weight only system instead of credit note-cum-cheque system for transportation of iron ore by Rail.

(Para 20.6.4)

NMDC's investment of **Rs.2.71 crore** on a Joint Venture with Jammu and Kashmir Minerals Limited for setting up a Dead Burned Magnesite plant proved to be infructuous as the project had to be closed prematurely.

(Para 20.6.5)

Failure of **NMDC** to follow the procedure prescribed in 'Exim' policy for obtaining advance license led to payment of customs duty of **Rs.2.61 crore**, which was avoidable.

(Para 20.6.6)

Steel Authority of India Limited (SAIL) made an infructuous investment of **Rs.8.20 crore** on setting up an Alkali Scrubbing System with the objective of controlling pollution and generating value added products as it failed to meet either the statutory requirement of Pollution Control Board or to find suitable buyers for the products.

(Para 20.7.1)

Due to deficiencies in the purchase order, **SAIL** had to accept a hydro blasting machine costing **Rs.1.68 crore** though it never worked satisfactorily making the entire expenditure infructuous.

(Para 20.7.2)

Failure of **SAIL** to correctly assess the requirement of Frame Assembly for Blooming and Billet Mill resulted in blocking of capital amounting to **Rs.1.02 crore.**

(Para 20.7.3)

Dredging Corporation of India Limited (DCIL) suffered loss/revenue loss of **Rs.29.62 crore** on execution of 9 Dredging contracts due to lack of proper planning, inadequate ground work and poor negotiation of terms of contract.

(Para 21.1.1)

DCIL imported spare parts for dredgers without availing exemption available from the payment of custom duty which resulted in avoidable expenditure of **Rs.2 crore.**

(Para 21.1.2)

Failure on the part of the **Shipping Corporation of India Limited** to follow proper system of inviting tenders and to assess the capability of the ship repair yard before

entrusting major repair work resulted in cost overrun of **Rs.3.32 crore** and time overrun of 118 days.

(Para 21.2)

Failure of **Cotton Corporation of India Limited (CCI)** to pay advance tax as per the provisions of the Income Tax Act in four years, resulted in avoidable payment of **Rs.6.68 crore** towards interest under sections 234B and 234C of the Income Tax Act.

(Para 22.1.1)

Failure of **CCI** to apply in time for exporter status and special import license to which it was entitled led to loss of premium of **Rs.3.78 crore.**

(Para 22.1.2)

Despite a Voluntary Retirement Scheme in operation to reduce surplus employees, **National Jute Manufactures Corporation Limited** had to incur an additional expenditure of **Rs.30.07 crore** for retention of employees in service beyond the age of superannuation due to its failure to arrange fund to pay their retirement benefits in time.

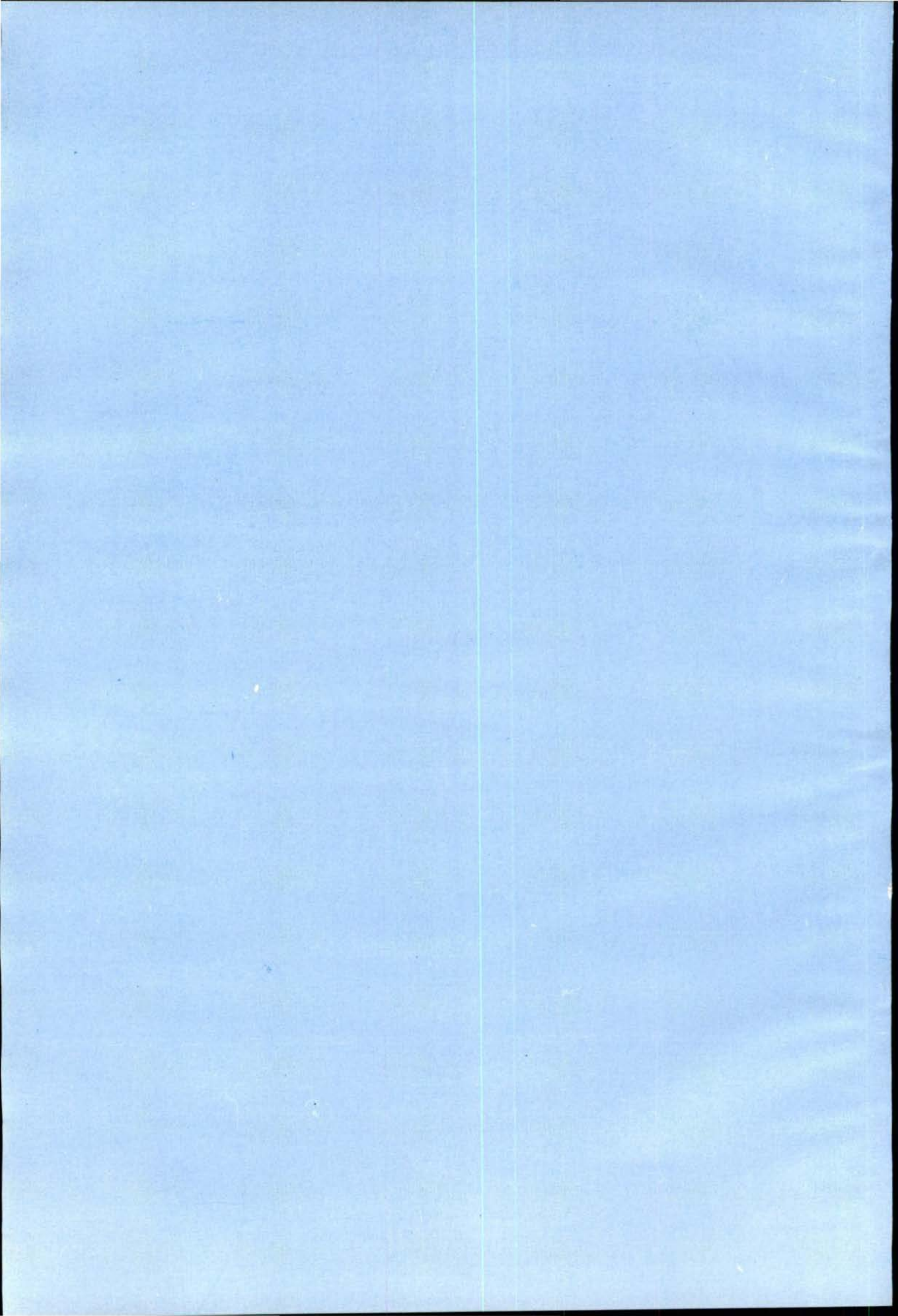
(Para 22.3)

Housing & Urban Development Corporation Limited estimated taxable income incorrectly, which led to short payment of advance tax, consequently it had to pay interest of **Rs.1.24 crore** under the provisions of Income Tax Act 1961.

(Para 23.1)

National Backward Classes Finance and Development Corporation Limited made an unauthorised investment which resulted in the blockage of funds and loss of interest of **Rs.3.14 crore.**

(Para 24.2)



CHAPTER 1: DEPARTMENT OF ATOMIC ENERGY

Electronics Corporation of India Limited

1.1 Irregular payment to employees

The Company paid a lumpsum amount of Rs.44.16 lakh to employees for turnaround effort made by them during 1992-93 and 1993-94. This was in contravention of Department of Public Enterprises (DPE) Guidelines.

The Company had been paying bonus to eligible employees as per provisions of payment of Bonus Act 1965 as amended from time to time. This apart, the Company had also been paying productivity linked incentives to its employees as per the scheme introduced from the year 1973-74 as modified from time to time. In addition, the Board of Directors approved (September 1994) a lumpsum payment of Rs. 600 to each employee for turnaround efforts made by them during 1992-93 and 1993-94 as a token of appreciation and incurred an expenditure of Rs. 44.16 lakh during 1994-95.

In terms of Government of India, Department of Public Enterprises (DPE) instructions issued in March 1984, Public Sector Enterprises could not make any payment in excess of the entitlement to their employees unless the amount was payable to them under an incentive scheme duly approved by the Government. The payment of Rs.44.16 lakh to the employees for turnaround efforts put forth by them during 1992-93 and 1993-94 was not in order, as it was not covered by any incentive scheme approved by the Government.

The Ministry stated (August 1999) that Electronics Corporation of India was one of the MOU signing companies from the year 1992-93 and the DPE guidelines of October 1988 empower the Board of Directors of such companies not only to formulate their own incentive schemes but also to introduce any scheme for incentives which do not exceed 35 per cent of the wages including bonus.

The contention of the Ministry was not tenable since the lumpsum payment made towards turnaround efforts did not fall under any group of incentive scheme/ bonus and required specific prior approval of Government of India as per DPE instructions issued in March 1984. Hence payment of Rs. 44.16 lakh to employees was irregular and in contravention of instructions issued by DPE.

Indian Rare Earths Limited

1.2 Loss on Sale of Imported Mineral Sand by Manavalakkurichi Unit

The Company lost Rs.4.91 crore by selling, without any justification, an imported product at a loss continuously for 4 years.

Rutile* sand was one of the profitable products of the Company for which the demand in domestic welding industry was increasing year after year. To meet the demand-supply gap, the Company imported a total quantity of 6267 MTs of the sand during the 4 year period from 1993-94 to 1996-97. The imported sand was, however, sold at a price which was much lower than the price at which these were imported, the difference ranged from Rs. 3408 to as much as Rs. 15927 per MT during the period. The total loss incurred by the Company on this account amounted to Rs.4.91 crore.

The Company while confirming the loss (August 1998) sought to justify its action by stating that such losses were compensated by gains arising out of its indigenous production and sale. The reply is not tenable because selling a product at a loss cannot be justified merely on the ground that the Company was making gains elsewhere. The Company further stated (May 1999) that in the transactions, it had achieved the twin objectives of increasing income for the Company while at the same time earning the goodwill of buyers association. The reply is again not tenable because the Company was not obliged to supply the material at a loss; in any case, Rutile sand being an item under the OGL could have been imported directly by the buyers themselves. As regards the goodwill, the Company had to earn it at an exorbitant cost of Rs 4.91 crore of public money which cannot be justified.

The Department of Atomic Energy (DAE) stated (August 1999) that the users of mineral (Rutile) were licensed by the Department and that IRE adopted pooled price with the approval of DAE. It was, however, observed that in May 1996, the DAE was of the view that IRE had not increased the price in proportion to the prices at international market on the ground of safeguarding the interest of small manufacturers. The Ministry of Finance was also of the view that it was high time to modify the then prevailing system of Administered Prices. Accordingly, in May 1996, the DAE dissolved the Standing Committee constituted for determination of prices and the Board of IRE was delegated with powers to determine the prices purely on market forces, keeping the DPE guidelines in mind. According to the DPE guidelines, the domestic selling prices should be comparable to the landed cost of such products. Nevertheless, even after abolition of the Administered Pricing Scheme, IRE imported during 1996-97 a quantity of 2087 MTs and sold it at a loss of Rs.1.47 crore.

Thus, the Company's action in unjustifiably subsiding the buyers by selling the product at unremunerative prices had resulted in an avoidable loss of Rs.4.91 crore.

A mineral used for manufacturing of welding electrode

Uranium Corporation of India Limited - UCIL

1.3 Loss due to abandonment of Turamdih project

Due to injudicious investment at Turamdih project the Company suffered a loss of Rs.16.06 crore.

In order to augment the production capacity of Uranium Concentrates to support projected nuclear programme, the mining project at Narwapahar and the mining and processing project at Turamdih were approved by Department of Atomic Energy in April 1989 at a total cost of Rs.495.54 crore. The projects of ore mining and processing plant at Turamdih were to be completed by 31 December 1993. Work on the project commenced in 1986.

After some progress in milling and mining work and establishment of ancillary facilities at Turamdih, the Company decided (March 1992) to review the project and kept any further commitment in abeyance till the report of the review due to following reasons:

(i) Reduced allocation of plan outlay by way of equity support to the Nuclear Power Corporation of india Limited.

(ii) The downward revision in the target for nuclear power generating capacity leading to reduction in the requirement of uranium production.

(iii) Reduction in the plan outlay during the VIII plan period for the nuclear power programme also resulted in reduced allocation for projects of UCIL including that for the Narwapahar/Turamdih project.

(iv) There was delay in the execution of the projects because of serious law and order problems at site and resultant low performance of various contractors. This in turn, resulted in a substantial increase in the project cost.

Accordingly, a committee was constituted. On the basis of the committee's report a meeting was held on 14 May 1992 at the Department of Atomic Energy, Bombay to determine the course of action required to be taken for the future of these projects in the context of resource crunch and curtailment of eighth plan allocation for these projects. It was decided in the meeting that there would be no milling and mining facility developed at Turamdih and all work pertaining to Turamdih project would be stopped forthwith.

Following this decision to close down the Turamdih project including mill and mines, slowing down of work was started from 18 May 1992 and cancellation letters were issued to all the contractors between 26 May 1992 and 2 June 1992 thus bringing the project to a closure. In the meantime the Company had incurred expenditure to the tune of Rs.45.13 crore as on 31 March 1997 (worked out by the Company).

The Company decided (October 1996) to sell the assets of Turamdih project to Central Reserve Police Force. Out of the total expenditure of Rs.45.13 crore the Company could only realise Rs.29.07 crore.

The Management stated (May 1997/August 1998) that one of the reasons for stopping the Turamdih project was curtailment in the nuclear power programme and resultant reduction of the requirement of uranium and the resource crunch. On the other hand it stated that because of poor progress of nuclear power plant, the requirement of uranium was assessed again and it was felt that it would be better to take the project at Domiasiat which had richer ore and richer yield even though production from the project may get delayed. The reply of the Management was thus self contradictory.

The Ministry in their reply in March 1999 also endorsed the views of the Management.

From the above it transpired that the decision of investment at Turamdih project was not prudent due to lack of proper assessment of the milling and mining facilities and grade of uranium to be exploited. Thus, due to an injudicious investment decision the Company suffered a loss of Rs.16.06 crore. The loss had been adjusted in the accounts of 1996-97.

CHAPTER 2: DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Hindustan Insecticides Limited

2.1.1 Loss due to injudicious import of insecticides by Udyogamandal Unit

Hindustan Insecticides Limited, Udyogamandal unit, had rushed into import of insecticides having short shelf life most of which could not be disposed of, resulting in avoidable loss of Rs.1.84 crore.

Without proper market assessment, the Company imported two types of eco-friendly Bio-larvicides (Btk and Bti) during the year 1997-98 for sale in domestic market. Two consignments of Btk for a total quantity of 14.5 MT having expiry in January 1999 and August 1999 respectively and valuing Rs.1.40 crore were received during May/September1997. One consignment of Bti for a total quantity of 14.4 KL with expiry in May 1999 valuing Rs.82.39 lakh was also received in August 1997.

As against the above shelf-life of the materials indicated by the manufacturers, the Central Insecticides Board (CIB), while granting permission (January 1997) for import to the Company, provisionally fixed the shelf-life of the products as two years and *inter-alia* directed the Company to carry out storage stability tests at least five times within 18 months in 3 different locations representing diverse climatic and temperature conditions of the country. These tests were however not conducted by HIL on the grounds that (i) the above tests were extremely expensive and (ii) the movement of the material was sluggish in the domestic market and hence did not leave scope for additional expenditure on these materials.

The Company had been able to dispose of a meager quantity of 1.10 KL of Bti and 3.31 Mt of Btk till the date of expiry of the materials as indicated by the manufacturers. As a result, the Company was burdened with life-expired materials (September 1999) costing Rs.1.84 crore (Rs.1.08 crore for Btk and Rs.76 lakh for Bti) resulting in wasteful expenditure to that extent.

The Ministry stated (January 1999) that the main reason for the sluggish market for Btk was 'immediate non-acceptance of this product by Indian farmers who are not very well educated and not eco-conscious and are used to applying chemical pesticides which are instant killers' and that there was 'lack of monetary incentive for the usage of expensive but safe bio-pesticide like Btk'. The reply is not tenable, as these pre-existing facts should have been taken into account before import. Ministry further stated (January 1999) that vigorous efforts were being made to provide the Bti material to Public Health Institutions including National Malaria Eradication Programme of the Ministry of Health and Municipal Corporations by offering attractive price reduction throughout the country. Even this had not materialised (September 1999). The shelf life of both the materials had expired in September 1999.

2.1.2 Avoidable payment towards demand charges to MSEB by Rasayani Unit

Rasayani Unit of the Company made avoidable payment of Rs.50.10 lakh to MSEB towards Contract Demand charges as the established demand of the unit was far less than 75 per cent of the contract demand.

The Rasayani Unit of the Company entered (June 1979) into an agreement with Maharashtra State Electricity Board (MSEB) for supply of 4500 KVA electricity, and subsequently in view of the established demand as assessed by the unit, the contract demand was reduced to 4000 KVA in February 1992 and further reduced to 3200 KVA in November 1992. As per terms of the contract, the Company was required to pay demand charges to MSEB on the basis of maximum established demand or 75 per cent (2400 KVA) of contract demand whichever was higher.

A scrutiny of electricity bills for the period from April 1996 to January 1999 revealed that the maximum established demand of the Company during any month ranged between 1200 KVA to 2000 KVA i.e. less than 75 per cent of the contract demand, whereas the Company paid for 2400 KVA per month being 75 per cent of contract demand (3200 KVA) as per the contract resulting in avoidable payment of Rs. 50.10 lakh.

The Management/Ministry stated (June 1999/August 1999) that the established contract demand was less due to temporary stoppage of production of Chloral, MCB and lower production of DDT (Formulation) and that the unit was likely to consume full load once all the processes of production were resumed. It was further stated that the demand for higher load was very difficult to restore if it was surrendered.

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

(a) The production did not pick up in last 2 years i.e. during 1996-97 and 1997-98 when the plant utilisation was only 42.54 per cent and 60.15 per cent.

(b) The actual demand was less than 75 per cent of the contracted demand during the last 39 months ending June 1999 which showed that the reduction in consumption was of a long term nature.

(c) The restoration of higher load, if required, would not be difficult because as per the agreement, the Company may from time to time request the MSEB in writing for additional supply in excess of contract demand and MSEB would make such additional supply available within 180 days from the date of such request.

(d) The Company itself had admitted that it was considering reduction of contract demand to 2400 KVA keeping in view all other factors and aspects.

The Company should have reviewed the electricity consumption in time and reduced the contract demand to 2000 KVA. Failure to do so resulted in avoidable payment of Rs.50.10 lakh to MSEB towards contract demand charges during April 1996 to June 1999.

Indian Petrochemicals Corporation Limited

2.2.1 Loss on account of non-availment of MODVAT credit

IPCL lost Rs.7.77 crore due to non-availment of MODVAT credit on the capital goods used for production of excisable final products at its Baroda Complex.

The Union Budget 1994 extended the scheme of MODVAT credit to capital goods used by a manufacturer in his factory for the production of excisable final products w.e.f. 01.03.1994. Under this arrangement the manufacturer was eligible to avail the credit of specified duties paid on the capital goods used in his factory towards the payment of excise duty on his final products. No credit was, however, allowed after the expiry of six months from the date of issue of specified documents evidencing the payment of duty on such capital goods.

Although the excise wing of the Company had circulated (March 1994) the provisions of this scheme and the Materials Department of the Company also identified (August 1994) the engineering items/spares for making the claims under the scheme, adequate systems could not be evolved by the Company to avail the benefit under the scheme at its Baroda Complex. It was only during June 1998 that the Company began preferring claims under the Scheme and by that time the Company had already lost the MODVAT credit amounting to Rs.7.77 crore on the capital goods valuing Rs.53.55 crore purchased by it.

The Management replied (January and March 1998) that:

(a) due to large volume of purchase orders it was difficult to keep check on the identification of stores eligible for MODVAT.

(b) to identify items group-wise on which MODVAT was available was very difficult manually and required computerisation and development of appropriate systems.

The reply is not tenable and does not justify the delay of over four years in implementing the system, particularly when the Company could avail the benefit of the scheme at its other unit (Nagathone) w.e.f. 1 April 1994.

The matter was referred to the Ministry in June 1998; their reply was awaited (December 1999).

2.2.2 Loss on credit sales to a new customer without adequate precautions

Credit sales to a new customer without adequate precautions led to blockade of dues amounting to Rs.3.90 crore.

In terms of the credit policy of Indian Petrochemicals Corporation Limited (IPCL) all sales were to be made on 'payment in advance' basis. Sales on credit against the security of a valid bank guarantee/ letter of credit or without any security required the approval of Chairman- cum- Managing Director (CMD) of the Company.

In March 1996, IPCL identified a new customer viz., M/s JBF Industries Limited, Mumbai, and sales of Polyester chips on 60 days credit against security of shares of this firm was approved by CMD of the Company. In contravention of the approval of CMD for credit sales to this customer against the security of its own shares, the marketing division of the Company accepted 26 lakh shares with a total face value of Rs.2.60 crore of another group of financial companies (CRB Capital Markets Limited and CRB Corporation Limited) from the customer as collateral security for the credit sales. The shares were also in jumbo lots, the liquidity of which was more difficult.

Against the security of these shares, the Company supplied 610 tonne of polyster chips valued at Rs.3.90 crore to the customer between April 1996 and July 1996. The customer defaulted in payment despite negotiations and legal notice issued by the Company. IPCL initiated action for selling shares received as collateral security in the market only in March 1997. The recovery of outstanding dues by disposal of shares proved difficult because of (a) poor market response (b) shares being in jumbo lots and (c) suspension of trading in CRB Group's shares by Mumbai Stock Exchange w.e.f. 19 May 1997. After a lapse of around one and a half years, the Company filed (February 1998) a legal suit against the customer only to be confronted with another suit from the customer claiming loss of Rs. 10.33 crore on account of bad supplies.

The Management stated (March 1998) that M/s JBF Industries Limited was a potential customer for polyester chips and there was a need to rope in such customers. Management further stated that shares offered as collateral security were normally available in jumbo lots and that the intention behind obtaining the security was not to own or sell. According to the Management, JBF on their own, offered shares of CRB group as collateral security which were commanding better price at that point of time and further considering the fact that the objective of taking security was to hold it till such time the payment was received from the party, the shares were accepted as security with due approval of the Management.

The reply of the Management defies the very rationale of taking any security. There was little use in taking any security which was not intended to be sold to liquidate the outstanding amount, if the need arose. Instead of taking additional precautions in this case in view of the fact that the customer was new, the security accepted was also in contravention of the orders of the competent authority. The approval of the CMD for accepting the shares of another group of Companies rather than the firm's own shares was obtained only in August, 1996, i.e. when the dues had already mounted to Rs 3.90 crore. The higher price of the security was not relevant here as acceptance of those securities was itself against the rules as no prior approval of the CMD was taken for their acceptance which was against the spirit of the rules. Moreover, IPCL continued to supply the polyester chips to the firm even as it kept on defaulting on payments against earlier supplies and these sales were made in violation of the rules of credit sales of the Company, till the outstanding dues accumulated to Rs.3.90 crore. Due to adverse market conditions and irregularities committed by the CRB Group, and also because of the fact that the shares were in jumbo lots, IPCL's attempt to salvage their dues by selling shares was also not successful. Thus, violation of its own rules and credit sales to a new customer without necessary precautions resulted in loss of Rs.3.90 crore to the Company.

The matter was referred to the Ministry in June 1998; their reply was awaited (December 1999).

2.2.3 Avoidable payment of commitment charges and guarantee fee on foreign exchange loan

Delay in cancellation of unutilised foreign exchange loan resulted in avoidable payment of Rs.1.66 crore on account of commitment charges and guarantee fees.

IPCL entered into an agreement (7 October 1994) with Export-Import Bank of United States of America (US Exim) for loan of US$ 46.624 million to finance the import of capital goods and services from USA for its Petrochemicals Complex at Gandhar (Gujarat). The loan (up to 80 per cent) was guaranteed by State Bank of India and Bank of Baroda at a fee of 2.4 per cent p.a. As per the agreement IPCL could avail itself of the loan till 15th March 1997 but could also cancel, at any time before that date, all or part of the unutilised amount of loan. The agreement also stipulated payment of commitment charges at the rate of 0.5 per cent per annum on the uncancelled and undisbursed balance of credit.

Based on the purchase orders finalised upto February 1995 IPCL commenced drawl of the loan from August 1995. Till March 1996 it could draw only US$ 3.486 million because the rates quoted by US vendors did not turn out to be competitive and the quantum of imports from USA was consequently lower than expected. As the Company planned to utilise the loan for imports in connection with C2/C3 separation unit of the project for which bids were under negotiation, it requested (July 1996) US Exim to extend the date of availability of loan to 15 December 1997. US Exim accordingly extended (September 1996) the availability date of the loan till 15 December 1997. IPCL firmed up its requirement for foreign exchange loan for the project in April 1997 when it finalised bids for C2/C3 separation unit, but did not cancel the balance of the sanctioned loan immediately thereafter. It requested the Ministry of Finance for permission to cancel the undrawn balance of US$ 22.009 million belatedly on 8 September 1997. On receipt of this permission (7 October 1997), IPCL requested (20 October, 1997) US Exim to cancel the unutilised balance of US$ 22.009 million which was accepted by the latter on 8 December 1997. Had IPCL commenced the process of cancellation of the unutilised amount in May 1997 (when all the bids including the bids for C2/C3 separation unit were finalised) rather than in September 1997, it could have saved on commitment charges (Rs.13.21 lakh) and guarantee fee (Rs.1.53 crore) aggregating Rs.1.66 crore on the unutilised amount of the loan.

The Ministry, while accepting that import of C2/C3 separation unit were tentatively finalised in April 1997, stated (December 1998) that the Management took a conscious decision to continue with the low cost loan (@ 5.95 per cent per annum) till the position became clear and imports were confirmed. The reply is not convincing and only shows ineffective cash planning on the part of the Management. The funds requirement was known in April 1997 itself and the surplus loan ought to have been cancelled immediately thereafter, keeping a suitable cushion to take care of contingencies. Further, there was hardly any need to continue with the surplus loan amount after April 1997 because the only bidder from USA (M/s Stone and Webster) had lost in the final award of work for C2/C3

separation unit, thereby ruling out further prospects of any major imports from that country for which only the loan was to be utilised.

CHAPTER 3: MINISTRY OF CIVIL AVIATION

Department of Civil Aviation

Airports Authority of India

3.1.1 Loss due to undue favour to private parties

As a result of undue favour given to private parties, the Authority lost Rs.8.14 crore.

M/s Indian Hotel Company Limited (IHCL)-a private Company, had been unauthorisedly using (since 1986) 11,555 square metres (sqm.) of land of Airports Authority of India (Authority) at Mumbai as an approach road to its flight kitchen adjacent to the airport. However, on the basis of a request made (March 1992) by IHCL, formal permission for use of the land for this purpose was granted (March 1992) by the Authority without demanding any license fee for the same. Subsequently, the Authority decided (May 1994) to charge license fee at the rate of 5 times the normal license fee applicable for the use of the above land but failed to enter into any agreement with IHCL. Consequently, no bills could be raised for the recovery of the license fee.

In the meantime, another private company, M/s Lloyds Steel Industries Limited (LSIL) was permitted (April 1994) by the Authority to use the approach road to have temporary access to its proposed hotel project subject to payment of license fee at the rate of 5 times the normal license fee. An agreement was executed (March 1995) with LSIL for an initial period of one year and the requisite license fee of Rs.59.53 lakh for the first year (6 October 1994 to 5 October 1995) was collected from them. LSIL did not pay the bills for Rs.65.48 lakh for the second year on the plea that IHCL, which was the other user of the approach road, was not levied any license fee and contended that the demand of license fee only from them was unjustified.

A committee appointed (February 1997) for resolving the dispute, suggested that license fee at rates determined by the Authority earlier be charged both from IHCL (w.e.f. December 1986) as well as from LSIL.

When Audit pursued the matter of non-implementation of the May 1994 decision of the Authority to recover license fee from IHCL, the Authority directed (December 1998) its Mumbai office to recover the licence fee from IHCL, for the period from December 1986 to March 1992 at the normal rate and thereafter, at the rate of 5 times the normal license fee. However, no action was taken in this matter. When Audit again pointed out (March 1999) the non-implementation of the decision, the Authority raised (April 1999) bills for Rs.5.11 crore against IHCL and Rs.3.03 crore against LSIL for recovery of license fee till September 1999. Since the initial permission to IHCL (March 1992) did not specify payment of any license fee for temporary access to the land and no agreement was signed with IHCL after it was decided to levy license fee (May 1994), the Authority could not

recover the above amount. Consequently, LSIL also did not pay the outstanding amount of Rs.3.03 crore for the period from October 1995 to September 1999. The Authority thus allowed both the parties to use the approach road without payment of any licence fee.

The Management thus failed in (i) getting the agreement signed with both the private parties and enforcing the same for the recovery of licence fee from them, and (ii) refusing the right to access to the approach road in the event of non payment of bills. Management also did not initiate any legal action against the parties. License fee amounting to Rs. 8.14 crore thus remained unrecovered from the parties (November 1999). The land was still being used by the parties (November 1999).

The Management did not explain the reasons for the above lapses which amounted to showing undue favour to private parties.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

3.1.2 Avoidable payment of interest

Due to non payment of advance income tax, the Authority had to pay avoidable interest of Rs.2.10 crore

As per Section 208 read with Section 211 of the Income Tax Act 1961 (Act), each company was required to pay advance tax on due dates in quarterly instalments in a financial year in case the amount of income tax payable by the company during that year exceeded the amount specified in Section 208 of the Act. In case the company failed to pay such tax, it was liable under Section 234C of the Act to pay interest at the rate of 1.5 per cent per month on the unpaid amount of advance tax.

Airports Authority of India (Authority)* failed to pay the first three instalments of advance tax for the assessment year 1995-96 as stipulated under the Act and total assessed tax for the year was paid in lump sum on 15 March 1995. Due to default in depositing advance tax as per the requirement of the Act, the Authority had to pay (June 1997) avoidable interest of Rs.2.10 crore to the Income Tax department.

The Management stated (August 1999) that the Authority had accumulated losses of Rs.60.54 crore upto the assessment year 1993-94 and the budgeted profit for 1994-95 was Rs 3.96 crore and that advance tax was not paid in view of the carry forward of accumulated losses of the past years. Management further stated that the matter was referred by them to a consultant in October 1994 and on his advice (March 1995), total tax for the year was paid in lump sum on 15 March 1995.

The reply of the Management is not tenable as (i) the Authority erred in not paying the first three instalments (due upto December 1994) of advance tax due to incorrect estimation of profit for the financial year 1994-95 at Rs.3.96 crore, whereas the actual profit for that year was Rs. 75.58 crore, and (ii) the presumption of the Authority regarding setting of the profit of the said year against carry forward of losses also proved erroneous as the income

* ***Erstwhile National Airports Authority***

tax department did not allow such a set-off due to late filing of returns by the Authority, as admitted by the Management in its reply.

The matter was referred to the Ministry in August 1999; their reply was awaited (December 1999).

3.1.3 *Loss due to injudicious award of contract*

Non-adherence to proper procedure and delay in award of contract resulted in a loss of Rs.1.99 crore.

Jaipur Airport of the Authority had two separate halls for arrival and departure of passengers. To award the advertising rights for the arrival hall, the Authority invited (April 1995) open tenders and based on the quotations received from three parties, allotted (16 October 1995) the advertising rights to M/s Sandeep Publicity, Delhi, for Rs.45.37 lakh for a period of three years. For allotment of advertising rights in the departure hall, however, the Authority invited (September 1995) limited quotations from only two parties (M/s Sandeep Publicity, Delhi and M/s National Advertising Company, Jaipur) who were the first and second highest bidders in the previous tender. The Authority awarded (February 1996) the contract for exclusive advertisement rights for the departure hall at Jaipur to M/s National Advertising Company, whose bid was higher than that of the other firm, for Rs.72.76 lakh for a period of three years. This contract was later quashed (September 1996) by the Delhi High Court based on a case filed by a third party against the Authority for award of advertising rights without inviting open tenders. The Authority cancelled (October 1996) the above contract and floated (November 1996) fresh open tenders for advertising rights in the departure hall. Out of the 5 offers (valid up to February 1997) received in November 1996 against the above tender, M/s Capital Publicity Agency was the highest bidder, offering Rs.2.91 crore for three years.

The Authority awarded (January 1998) the contract to M/s Capital Publicity Services for a period of 2 years. M/s Capital Publicity Services, however, refused (February 1998) to accept the offer as the validity period of their offer was over. The Authority, thereafter, decided to wait for the expiry of the advertising rights of the arrival hall in October 1998 and then award the consolidated advertising rights for both the halls. Finally, after inviting fresh bids, the contract for advertising rights for both the halls was awarded (March 1999) to M/s Sandeep Publicity, Delhi, the highest bidder, for two years at Rs.2.10 crore.

Thus, delay of 3 years (i.e. from February 1996 to March 1999) due to (i) not following the normal procedure of open tendering and (ii) inordinate delay in awarding of the contract for advertising rights of the departure hall resulted in a loss of Rs.1.99 crore.

The Management in their reply (February 1999) did not state any reasons for not inviting open tenders in the case of the departure hall before awarding the contract in February 1996. As regards delay in award of contract for the departure hall, they stated that various procedures and events in the course of processing of the tender had resulted in the delay.

The reply of the Management is not tenable as the time taken for finalisation of the tender was abnormally long.

The matter was referred to the Ministry in May 1999; their reply was awaited (December 1999).

3.1.4 Inordinate delay in awarding a contract

Due to delay in finalisation of a contract to sell admission tickets at the Hyderabad airport, the Authority incurred loss of Rs.1.38 crore

The Authority invited (March 1997) tenders to allot a contract for the sale of tickets at Hyderabad Airport for three years with effect from 4 May 1997. The tenders which were opened on 17 April 1997 had a validity period of three months from the date of opening. However, a letter of acceptance of offer was issued (April 1998) to the highest bidder which was not accepted by him on the ground that the validity period of the bid was over. The second highest bidder, when approached by the Authority, also refused (June 1998) to accept the contract on the same ground.

As there was a delay in finalisation of the contract, the existing contract, which was expiring on 3 May 1997 was extended on ad-hoc basis at the existing license fees of Rs.6.53 lakh per month. In August 1998, the contract was awarded to the third highest bidder, Shri D. Sethuram Reddy, at a monthly license fees of Rs. 9.25 lakh for four months or till the finalisation of new tenders, whichever was earlier. The Authority re-invited tenders, which were opened on 11 March 1999 but the contract had not been finalised so far (May 1999). The contract given to Shri Reddy was extended from time to time and was still continuing (June 1999).

The Management admitted (May 1999) the facts and stated that the case was complicated and there was no wilful delay on the part of the Authority. The reply of the Management is not tenable as a delay of more than 2 years for finalisation of a tender cannot be justified on any ground.

Thus, avoidable delay in finalising the contract resulted in loss of revenue of Rs. 1.38 crore to the Authority till June 1999.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

Indian Airlines Limited

3.2.1 Loss due to defective agreement with Air Maldives

Due to defective agreement with Air Maldives, the Company lost Rs.1.76 crore.

Indian Airlines Limited (Company) entered (November 1994) into an agreement with M/s. Air Maldives Limited (AML) for providing ground handling facilities to them at Thiruvananthpuram airport. As per the agreement, the Company was to provide or arrange

for security clearance of cargo and mail. The security clearance of cargo was done after physical inspection and a mandatory cooling off period. In order to avoid physical inspection which led to delay in loading of the cargo, the local representative of AML requested (November 1994) the Company verbally for X-ray screening of cargo through Air India (since the Company did not have its own facilities for such screening), assuring reimbursement of Air India's (AI) charges. The Company, without revising the agreement and including a specific clause regarding reimbursement of AI's charges by AML, arranged for the screening of cargo by AI. But charges of AI on this account for US$ 426,300 for the period from November 1994 to November 1996 were not reimbursed by AML. In a meeting held in November 1996, AML rejected the claim of the Company on the plea that these services were part of the comprehensive handling agreement and hence, were covered under the normal handling charges. Even thereafter, the Company continued to provide the services till March 1997 and billed an additional amount of US$ 152,384 to AML. During bilateral discussions, AML agreed (January 1998) to pay a sum of US$ 90,000 as an *ex gratia* payment towards cargo security services. The Company accepted the amount and withdrew (March 1998) the balance claim of US$ 488,684 equivalent to Rs.1.76 crore. Thus, due to non-inclusion of a specific clause regarding reimbursement of screening charges in the agreement, the Company incurred a loss of Rs.1.76 crore.

The Management stated (April 1999) that security clearance of cargo was a part of the comprehensive ground handling services provided for in the agreement. The reply is an afterthought because if these services were part of the comprehensive ground handling services there was no need for the Company to raise the issue in the first place and the provision of clearance of cargo through AI was agreed to by the Company only after the local representative verbally agreed to pay extra charges for the same, which the Company itself had stated in the meeting with AML in November 1996. Besides, the Company billed AML for the services and the latter even paid a part of the amount. Further, in the new ground handling agreement effective from February 1998, AML agreed to bear third party charges if such services were provided by the Company at their request.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

3.2.2 Non-deduction of tax on compensatory allowance

Non-deduction of income tax from the salaries of its employees resulted in an avoidable payment of the tax of Rs. 72.86 lakh by the Company.

Indian Airlines Limited (Company) has been paying various types of allowances (viz. Kit maintenance Allowance, Compensatory Allowance, Telephone Allowance etc.) to its flying crew. The Company has been treating these allowances exempt under Section 10(14) of the Income Tax Act for the purpose of deduction of tax at source (TDS). However, as per the provisions of said Section, only those allowances which are specified by the Central Government by notification in the official gazette could be treated as exempt. The Income-tax authorities treated these allowances as taxable and issued demand notices to the

Company between February 1994 to March 1996 for Rs.20.83 crore for the period 1989-90 to 1994-95. While contesting the above demand notices with income-tax authorities, the Company accepted (June 1995) that one of the allowances viz. 'Compensatory Allowance' was not exempt under any instruction/notification. Consequently, the Company paid Rs. 72.86 lakh towards tax and penal interest during January 1995 to September 1995 to the tax authorities. As the tax was to be borne by the flying crew, the amount should have been recovered from them. The Company, however, had not made any efforts to recover this amount so far (December 1999).

The Management stated (February 1999) that the tax was paid by the Company 'to sort out the problem faced by the pilots'. The reply of the Management is not acceptable, as the Compensatory Allowance was not exempt under Section 10 (14) of the Income Tax Act and tax should have been recovered from the pilots.

The matter was referred to the Ministry (March 1999); their reply was awaited (November 1999).

3.2.3 Loss of revenue and infructuous expenditure

Provision of free trips and other facilities on inaugural flights resulted in infructuous expenditure amounting to Rs.32.76 lakh.

Indian Airlines Limited (Company) introduced 4 international routes during the period from November 1996 to November 1997 and incurred an expenditure of Rs.32.76 lakh on hotel accommodation, sightseeing arrangements and cost of tickets in respect of invitees carried free of charge as detailed below: -

Sl. No	Flight Particulars	Period	Persons* accommodated	Cost of Tickets (Rs in lakh)	Expenditure on hotel charges/ Sight-seeing etc.(Rs in lakh)	Total Expenditure (Rs. in lakh)
1	Delhi-Calcutta Yangoon-Calcutta-Delhi	7.11.96 to 11.11.96	14 officials of Ministry of Civil Aviation	1.61	1.36	2.97
2	Madras-Bangkok-Madras	19.4.97 to 22.4.97	17 officials of Ministry of Civil Aviation	4.62	1.56	6.18
3	Delhi-Madras-Trichy-Sharjah-Delhi	22.10.97 to 27.10.97	19 officials of Ministry of Civil Aviation	6.51	1.98	8.49
4	Madras-Trichy-Sharjah-Delhi-Madras	1.11.97 to 4.11.97	30 MPs/MLAs and others	10.28	4.84	15.12
	Total			23.02	9.74	32.76

**** MP/MLA: 7; Under Secretary: 2, Section Officers: 3; Assistants/Accountant: 12; Canteen Manager: 1; Daftaries: 4; Peons: 9; Despatcher: 1; PS /PPS/PA/Stenos: 5; UDC: 4; LDC: 5; Safaiwala: 1 and Others: 26***

It was further observed that in respect of Madras-Trichy-Sharjah-Delhi-Madras flight, IA allowed free passage to 30 persons of which 7 were MPs/ MLAs; IA allowed free passage to 23 other persons even without ascertaining their identity on the basis of a letter from Additional Private Secretary to the then Minister of State (Civil Aviation and Parliamentary Affairs). Ministry stated (October 1999) that no records pertaining to sanction of air – journey of these 30 persons were available with the Ministry.

When the matter regarding the infructuous expenditure incurred by the Company was taken up in Audit, the Management stated (April 1999) that it was customary for Indian Airlines to carry guests on inaugural flights in order to gain publicity mileage and goodwill. The Officials were carried on the directions of the Government of India. Besides the loss of Rs.23.01 lakh on the tickets of officials was a notional loss.

The reply of the Management is not tenable. It was seen that the delegation consisted of MPs and MLAs, Under Secretaries, Section Officers, Assistants, Private Secretaries and Stenos, UDCs, LDCs and even Canteen Manager, Daftaries, Peons and Safaiwala, Despatcher etc. It was, thus, unlikely that all these persons would be travelling frequently on these routes and help in giving any publicity mileage to the Company. It, thus, defied all logic as to how the Company could have earned commercial goodwill by flying these persons on gratis basis. As regards the cost of tickets, the loss was not notional but actual as the Company had to incur the usual operating expenditure for these flights. Moreover, the justification recorded by the Ministry of Civil Aviation while approving the proposal was to give an opportunity to the employees of the Ministry of Civil Aviation to fly on Indian Airlines/Air India abroad. It was clear that the commercial interest of the Company was not at all a consideration for accommodating MPs, MLAs and government officials on inaugural flights, which involved expenditure of public money to the extent of Rs.32.76 lakh which was not only infructuous but also against all norms of propriety.

The matter was referred to the Ministry in May 1999; their reply was awaited (November 1999).

CHAPTER 4: MINISTRY OF COAL

Bharat Coking Coal Limited

4.1.1 Injudicious investment in Power Support Longwall Equipment at Moonidih Project

The Company was saddled with a fruitless investment of Rs. 12.30 crore due to signing of a defective contract with a foreign supplier, failure to rectify the defects in the Bank Guarantee relating to instalation of equipment and failure to execute performance guarantee clause of the contract.

The holding Company - Coal India Limited (CIL) entered (June 1989) into a contract with Kopex Export Import Company, Poland for supply of one set of Powered Support Longwall Face equipment for Moonidih Project of Bharat Coking Coal Limited (BCCL), a subsidiary of Coal India Limited at a cost of Rs.12.30 crore. The agreement, *inter alia*, provided for supply of equipment and spares for two years, assured supply of spares for a period of 10 years, technical supervision, installation, commissioning, performance guarantee with average advance of coal face by 5.4 meters per day. The contract did not specify the seam where the equipment was to be installed. However, as per the offer (June 1987) of KOPEX, the equipment was to be installed at XVI and XVIII seams. As regards performance guarantee the supplier furnished a Bank Guarantee (BG) of Rs.2.36 crore with the indication that the equipment would be installed at XVIII top seam. The BG was to remain in force up to 15 days after signing of performance test certificate. The period of guarantee was 12 months from the date of operation but not later than 21 months from the date (15 December 1990) of last consignment. It was observed that the Management did not initiate any steps to reconcile the deviation between the offer of KOPEX and the BG provided by them since the offer included seam XVI and XVIII but the BG covered XVIII top seam only.

The equipment was finally installed at XVI combined seam by the Management in the presence of KOPEX team. Even at this stage the Management did not undertake appropriate steps to modify the relevant clause in the BG regarding the seam on which the equipment was to be installed. During trial run (March 1992) the equipment failed to give guaranteed performance. The average monthly progress of the equipment was only 2.2 metres per day as against guaranteed performance of 5.4 metres per day and failure was attributed by KOPEX to non-installation of the equipment in the pre-identified XVIII top seam. Besides matching electricals were also not provided by the Company. KOPEX withdrew (September 1992) their experts from the site without carrying out the performance test of the equipment. CIL could neither get the equipment rectified by the supplier nor encash the BG as per the provision of the contract as the equipment was installed in XVI combined seam as against XVIII top seam indicated in the BG.

The equipment was inspected by Central Mine Research Institute (CMRI), and Coal Mine Planning & Design Institute Limited (CMPDIL), in July 1994 and July 1995 respectively.

CMRI reported that the installed design and support of the longwall equipment was abandoned during 1992 in U.S.A. because of the stability problems and CMPDIL stated that the refurbishment of the equipment would be very costly and might not result in any tangible benefit. It further stated that metallurgical defects of the equipment could not be rectified without major change-overs and stability aspect of the support in the present configuration was an area of concern. CMPDIL suggested withdrawal of the equipment from the face and procurement of a new set of powered support. The Board of Directors of the Company recommended (April 1996) that in view of defective equipment the entire amount of contract should be got refunded from Kopex. But it was not possible, as the contract did not contain any such clause.

While accepting the facts, the Management/Ministry stated (May 1998/ August 1999) that the matter of rectification and performance guarantee was taken up with the supplier a number of times since November 1992 to December 1998. As the supplier was insisting upon procurement of refurbished spares for a considerable amount (US $ 4.356 million) without any performance guarantee, the Company did not agree to their proposal. Ultimately, the matter was discussed (October 1998) in the meeting of the Indo-Polish Working Group on Coal and it was decided that the issue being commercial in nature should be sorted out between KOPEX and CIL/BCCL. KOPEX again inspected (November 1998) the equipment but did not convey their consent to the proposal of the Company regarding performance guarantee and the matter remained unresolved (August 1999).

Thus, signing of a contract with serious loopholes, failure of the Management to rectify the discripency relating to installation of the equipment in the BG and failure to execute performance guarantee clause of contract had resulted in injudicious investment of Rs.12.30 crore on an equipment which was technically obsolete, defective and unsafe.

4.1.2 Unfruitful investment towards installation of Ash Analysers and modernisation of laboratories

Despite an investment of Rs. 7.72 crore on installation of Ash Analysers and modernisation of its laboratories, the Company had to depend on an outside agency for certification of ash content and continued to face deductions on quality factor.

The Company purchased 8 auto Ash Analysers from a private party at a cost of Rs. 7.05 crore and installed them at Patherdih, Bhojudih, Dugdha-I and Dugdha-II washeries between September 1995 and October 1996. The purpose of installation of these auto Analysers, inter alia, was to ascertain the ash percentage of washed coal despatched to steel plants in order to check the deductions made by these plants on account of quality slippage. Another step towards this direction was modernisation of existing laboratories in 1996-97 at a cost of Rs. 0.67 crore. Despite this expenditure of Rs. 7.72 crore (Rs. 7.05 crore + 0.67 crore), the Company failed to gain the confidence of Steel Authority of India Limited (SAIL) which was its primary buyer regarding the quality of coal being supplied. SAIL continued to make payment of washed coal on the basis of joint sampling report carried out both at the washery end and steel plant end. As the dispute of ash content remained unresolved, the work of analysis of ash percentage in washed coal was entrusted (December 1996) to Central Fuel Research Institute (CFRI) for a period of six months

initially which was extended upto March 1999 at a lumpsum fee of Rs. 0.96 crore for each period of twelve months. As per a Memorandum of Understanding (MOU) signed (November 1996) between CFRI, SAIL and the Company the result of CFRI was binding on both the parties. Two Analysers installed at Dugdha I washery at a cost of Rs. 1.79 crore had been lying idle since October 1996 consequent on the closure of the washery on safety grounds.

Thus, it is evident that an investment of Rs. 7.72 crore did not bring any monetary benefit to the Company and it continued to depend on an outside party for satisfaction of its buyers regarding the quality of its washed coal.

In reply, the Ministry endorsed (November 1998) the views of the Management that:

(i) Ash Analysers were used for the purpose of process control and not for commercial purpose.

(ii) After 2 December 1996 there was no deduction from their coal bills.

(iii) The Company had been able to control the quality and bring down the ash percentage by 2 per cent after installation of Ash Analysers.

The reply of the Management/Ministry is not tenable because:

(a) Process control can not be an end itself, the ultimate objective of analysis of ash content is to ensure the confidence of the buyer in certificate being issued regarding the quality of coal being supplied by the Company. Had the buyer (SAIL) developed that confidence it would not have insisted upon 100 per cent sample testing by CFRI which cost the Company Rs. 0.96 crore per annum from December 1996 to March 1999. The Management had again appointed another Analyst from April 1999 at all inclusive rate of Rs. 2.20 per tonne of despatch of washed coal to be shared equally by the Company and SAIL.

(b) It is not true that no deductions were made after commissioning of the Ash Analysers. In fact, Rs. 1.61 crore and Rs. 16.13 crore were deducted by SAIL during 1997-98 and 1998-99 respectively from coal bills on quality ground.

(c) The improvement in quality of coal by bringing down the ash content by about 2 per cent, as claimed by the Management occurred in respect of the entire coal being despatched by the Company including the coal being supplied by the washeries where the Ash Analysers had not been installed.

Thus, despite an investment of Rs.7.72 crore the Company failed to achieve the basic objective of ensuring production and despatch of washed coal with desired level of ash content.

4.1.3 Avoidable expenditure on transportation of coal

The Company resorted to selective manual loading of coal, although the extant law clearly prohibited it, and incurred additional expenditure of Rs.2.57 crore as compared to mechanical loading.

In order to bridge the gap between the requirement of washeries and the supply as per the then existing arrangement, the Company decided (October 1992) to transport coal from linked collieries to the washeries by road. Though the rate for mechanical loading and transportation (including picking and breaking at item-wise rate) was much cheaper than the composite rate of selective manual loading (i.e. manual loading, picking, breaking and transportation) the Company transported coal by road to Moonidih and Patherdih washeries using selective manual loading during the five years ending 1998-99 and incurred an extra expenditure of Rs.2.57 crore as detailed below: -

	Quantity (lakh / tonne)	Extra Expenditure (Rs. in lakh)
Moonidih Washery	3.73	70.02
Patherdih Washery	10.01	187.35
Total	**13.74**	**257.37**

Accepting the facts of the case the Management stated (January 1999), inter alia, that due to resistance by local labourers and inadequacy of stock which made deployment of payloader unsuitable, selective manual loading was resorted to. Management also stated that the coal had to be transported using selective manual loading due to presence of excessive shales/boulders etc. which had to be removed manually before transportation which improved its quality.

The contention of the Management was not tenable on the following grounds: -

a) Contract Labour (Regulation and Abolition Act, 1970/ CL (R&A) Rules, 1971) Act which was circulated (November 1994) by the Company to its various units for strict compliance prohibited the use of selective manual loading.

b) The argument that selective manual loading improved the quality of coal was not convincing since there was provision of breaking and picking under mechanical loading also. In fact the itemwise rate for mechanical loading included charges for breaking and picking.

c) Since transportation of coal using manual loading by the contractors was very slow the problem of shortage of coal persisted. Thus, the objective of bridging the gap between the demand and supply of coal to washeries remained unfulfilled.

d) The argument of the Management that due to inadequacy of stock deployment of pay loader was not suitable was incorrect as availability of stock cannot be considered as a valid criteria for resorting to manual loading inasmuch as a small quantity of 291.25 MT of coal was transported (April 1996) by the Company from Godhur colliery to Moonidih washery by means of mechanical loading system

while 2,97,740.50 MT was transported from the same colliery from April 1994 to March 1998 to Patherdih washery by means of selective manual loading.

It is thus, evident that by resorting to selective manual loading the Company not only violated the law, which clearly prohibits it, but also incurred an avoidable expenditure of Rs. 2.57 crore.

The matter was referred to the Ministry in January and July 1999; their reply was awaited (December 1999).

4.1.4 Loss of interest due to avoidable advance payment of sales tax

The Company paid Rs.49.58 crore as advance tax against future sales tax liabilities although it was not a statutory requirement. As the payment was made by resorting to borrowings, the Company suffered a loss of interest of Rs.2.52 crore.

As per Section 3 (10) of The Bihar Finance Act, 1981, sales tax for each year was to be collected in advance during a year on the basis of advance estimate of taxable turnover for that year. The tax was to be paid in such instalments as may be fixed by the prescribed authority. Further, as per Section 16(5) (ii) the dealer was to furnish a monthly abstract statement of sales and deposit the tax according to monthly statement on or before 25th of the following month and the receipt of tax was required to be enclosed with the monthly abstract statement.

Despite the fact that the Company was facing a severe liquidity problem, it made advance payment of sales tax for the months of February and March 1997 amounting to Rs.4 crore and Rs.3.07 crore in the respective months itself, though the tax was payable on the 25th of the following months as per the provisions mentioned above. Further, Rs.25.92 crore, Rs.6.75 crore and Rs.9.84 crore were deposited as estimated advance tax for the years 1997-98, 1998-99 and 1999-2000 on 31 March 1997, 31 March 1998 and 31 March 1999 respectively. As per the Act, the above estimated tax could be deposited in the respective financial years.

The records of the Company revealed that on the one hand it was taking loan from financial institutions to mitigate its liquidity problem and on the other hand it was making advance deposit of the tax, which was not a statutory requirement. Further, out of total advance payment of sales tax amounting to Rs.49.58 crore, Rs.46.08 crore were adjusted upto June 1999 leaving an unadjusted balance of Rs.3.50 crore. This avoidable deposit of advance sales tax resulted in loss of interest amounting to Rs.2.52 crore (at overdraft rates).

The Management while confirming the above facts stated (May / December 1998) that the advance sales tax was paid to keep up cordial relations with the Sales Tax Authorities in the interest of the Company. The balance advance tax remained unadjusted due to closure of one washery (Dugda I) and partly due to some unforeseen excessive deductions by the coal customers. It was further stated that payment of such type of advances in the month of March was a regular practice and was unavoidable.

Management's contention that payment of such type of advance was unavoidable was not tenable since the payment was not required as per the provisions of the Act. Payment of

advance tax against future liability in the name of maintaining cordial relationship with the State Government was injudicious and unjustified especially when the Company incurred an avoidable interest liability of Rs.2.52 crore on this account.

The matter was referred to the Ministry in January 1999; their reply was awaited (December 1999).

Central Coalfields Limited

4.2.1 Wasteful expenditure on Pipradih Reorganisation Open Cast Project

Undertaking of the Pipradih Reorganisation Open Cast Project without prior ascertainment of availability of land required for external dumping of overburden resulted in wasteful expenditure of Rs.2.45 crore.

Pipradih Reorganisation Open Cast Project (OCP) with a rated capacity of 0.40 MTY of W-II/W-III grade of coal at an estimated capital outlay of Rs.9.84 crore was approved (April 1986) by the Board of Directors of the Company with scheduled date of completion as June 1990. According to the Feasibility Report about eighty acres of land was required for external dumping of overburden (OB). Formal application for allotment of the said land was submitted (September 1987) to the District Land Acquisition Officer (Giridih). The Company was informed (August 1989) by the district authorities that it was not possible to allot the requisite land to them as the same had been put to alternative use. Due to non-availability of land for dumping of OB the project was kept in abeyance (April 1997) and the mining operation could not be started so far (April 1999). Pending allotment of the land, the Company had spent (upto March 1998) a sum of Rs.5.88 crore on the project for procurement of Heavy Earth Moving Machinery (HEMM) (Rs.2.49 crore), on Prospecting, Boring and Development (Rs.2.45 crore) and for construction of Residential Buildings, Roads and Culverts etc.(Rs. 0.94 crore) which proved to be infructuous.

Accepting the facts of the case, the Management/ Ministry stated (March 1998/ September 1999) that:

i) The equipment were procured keeping in view the lead time involved and

ii) most of the equipment procured and other expenditure incurred in respect of Prospecting, Service Buildings, Residential Buildings, Plant and Machinery, Roads and Culverts, Water supply etc. were gainfully utilised in nearby Swang and other collieries. Consequently, the performance of Swang colliery had improved.

The contention of the Management/ Ministry is not tenable because:

a) Lead-time no doubt was an important factor for procurement of HEMM but action for procurement before ascertaining the availability of the requisite land lacked justification. Instead of advance action for procurement of requisite land, Management had indicated to the State Government the requirement of land for the first time in September 1987 even though the Project Report was prepared in February 1986 and approved in May 1986.

b) Even if it is accepted that the equipment (valuing Rs.2.49 crore) transferred to other projects and buildings, roads, culverts etc. (valuing Rs. 0.94 crore) were gainfully utilised, the expenditure of Rs.2.45 crore (Rs.5.88 crore – Rs.2.49 crore – Rs. 0.94 crore) on Prospecting, Boring and Development which has since been written off (by providing 100 per cent depreciation) by the Management is a dead loss to the Company. Incidentally it may be mentioned that the amount had been written off without a specific approval of the Board of Directors.

Thus, Management's decision to go ahead with the project without ascertaining the availability of additional land was injudicious and led to a wasteful expenditure of atleast Rs.2.45 crore. Moreover, writing off the loss without a specific approval of the Board was improper.

4.2.2 Loss of interest due to failure to rectify wrong debits over last 17 years

Two wrong debits of Rs. 10 lakh each in the current account of the Company with the State Bank of India remained unrectified over the last 17 years resulting in loss of interest of Rs.1.10 crore.

CCL had been operating a current account (No. 30265) with the main branch of State Bank of India at Ranchi since its inception in November 1975. The Bank afforded wrong debits for Rs. 20 lakh during the period from May 1982 to September 1982. The said wrong entries remained unrectified till date (September 1999) despite repeated adverse remarks made by the Auditors since 1989-90. The rectification had become all the more difficult due to lapse of 17 years of time. As a result, the Company had not only failed to make use of the scarce fund of Rs. 20 lakh over the last 17 years but had also sustained a loss of interest to the tune of Rs. 1.10 crore calculated on a very conservative basis (12 per cent on yearly compounded basis). Unless the wrong entries are rectified the loss would tend to increase with the passage of time.

Accepting the facts of the case the Management stated (May 1999) that the matter was being vigorously pursued with the top management of the Bank and legal opinion was being sought for settlement of the issue. The Management further admitted (August 1999) that systematic reconciliation was not in practice in those years as revealed from the records. The Ministry also reiterated (May 1999) the reply of the Management and further stated that it was being asked to explain the circumstances under which the reconciliation for the discrepancy in the accounts could not be followed up for the last so many years resulting in loss of interest.

4.2.3 Infructuous expenditure on an abandoned project

Having become unviable Kathara Reorganisation Project was abandoned midway. In consequence construction of an integrated Workshop Complex at Kathara also had to be stopped resulting in an infructuous expenditure of Rs. 1.05 crore on work already executed.

The Company decided (May 1991) to construct an integrated Workshop Complex at Kathara at a cost of Rs. 9.70 crore for repair and maintenance of heavy equipment required

for the 'Reorganisation' of Kathara Open Cast Project. Pending approval of the Government for the integrated project, the Company took up advance action for construction of the workshop and awarded (October 1993 & June 1994) two contracts, one for the construction of the Workshop Complex (Rs. 12.05 crore) and the other for the boundary wall (Rs. 48.21 lakh), respectively. When the construction of the boundary wall was completed (August 1995) at a cost of Rs. 52.13 lakh and the construction of the workshop was in progress, the Reorganisation Project was dropped being unviable and the Company realised that under the changed circumstances the workshop would be of no use and abandoned it (November 1995). At the time of abandonment the Company had incurred an expenditure of Rs. 1.80 crore on the construction of the integrated Workshop (excluding mobilisation advance of Rs. 1.21 crore paid in two instalments i.e. July 1994 & May 1995 against a Bank Guarantee - BG of equivalent amount).

After closure of the contract the Company tried to recover the mobilisation advance by encashment of the BG but failed to do so due to imposition of injunction by the court prayed for by the contractor (M/S Braithwaite & Co.-a PSU). The contractor had also filed a suit for recovery of the contractual expenses (Rs. 1.30 crore) which was contested (August 1999) by the Company. The court deferred a decision on the case till the contractor was under the purview of Bureau of Industrial and Financial Reconstruction (BIFR).

Thus, on the one hand the expenditure of Rs. 1.80 crore incurred by the Company became infructuous and on the other hand the mobilisation advance of Rs. 1.21 crore was blocked for over four years involving loss of interest of Rs. 0.64 crore (@ 12 per cent) upto May 1999.

While accepting the contention of audit the Ministry stated (July 1999) that the loss of the Company would be restricted to Rs. 0.84 crore only on account of the following: -

1. Materials valuing Rs.0.23 crore lying at site supplied by the contractor can be utilised for other jobs.
2. Expenditure of Rs. 0.52 crore incurred on boundary wall constructed for the integrated Workshop Complex, Kathara cannot be treated as infructuous as it would help to check unauthorised encroachment of land by outside agencies.
3. If the court case filed by the contractor against encashment of BG given by him against the mobilisation advance of Rs. 1.21 crore is decided in favour of the Company, it would be able to recover a sum of Rs.0.21 crore (Rs 1.21 crore – Rs. 1 crore being the liability on account of contractual work actually executed and admitted).

The contention of the Ministry is not tenable because:

i) The materials valued at Rs.0.23 crore purchased in 1995 had remained unutilised (July 1999) and chances of use of the same were remote.

ii) With abandonment of the project the purpose of the boundary wall had also been defeated and the proposed use was only an after-thought. Moreover, maintenance of the boundary wall would put further burden on the Company.

iii) The decision to abandon the project was taken by the Management due to unviability of the project and not because of any lapse on the part of contractor therefore, the chances of encashment of BG were remote. On the contrary, the loss might increase in case the contractor succeeds in recovery of contractual expenses of Rs.1.30 crore against the provision of liability of Rs. 1 crore.

It is thus, apparent that even if the boundary wall (Rs. 0.52 crore) and material at the site (Rs. 0.23 crore) are utilised as claimed by the Management, the expenditure of Rs. 1.05 crore (Rs. 1.80 crore – Rs. 0.52 crore --Rs. 0.23 crore) has become totally infructuous and would not yield any return.

Coal India Limited

4.3 Infructuous expenditure on procurement of excess RABMN Terminals

Unplanned procurement of communication equipment without assessing the actual requirement led to an infructuous expenditure of Rs.1.86 crore.

In order to overcome the difficulties arising due to absence of an efficient and effective Data Communication system interconnecting the remote areas/projects of different subsidiaries, the Board of Directors of Coal India Limited (CIL) approved (June 1989) the procurement of a satellite based Data Network (Remote Area Business Message Network; RABMN) with hub centre at New Delhi, developed by Department of Communications (DOT). Accordingly, orders were placed for procurement of 92 RABMN terminals from DOT at a cost of Rs.6.85 crore. The terminals were received in two lots in March & June 1992 and the Company paid Rs.6.85 crore to the supplier by June 1992.

The 92 terminals were expected to be installed at three subsidiaries of CIL viz. Eastern Coalfields Limited (50 sets), Central Mine Planning & Design Institute Limited (30 sets) and South Eastern Coalfields Limited (12 sets), but even after 7 years of procurement 25 terminals had remained idle and were declared surplus by the concerned subsidiaries. As the possibility of utilising these 25 idle terminals is remote the expenditure of Rs.1.86 crore (calculated on a pro-rata basis) on their procurement has proved to be totally infructuous.

The Ministry while accepting the facts and figures stated (August 1999) that CIL had decided to constitute a Committee to find out the facts which might have led to procurement of excess RABMN terminals and the Committee was likely to take 3-4 months to complete the process.

CHAPTER 5: MINISTRY OF COMMERCE & INDUSTRY

Export Credit Guarantee Corporation of India Limited (ECGC)

5.1.1 Payment of an avoidable claim

Despite the fact that payments due from the party under the original contract were not forthcoming the Company enhanced the value of guarantee to include the elements of unpaid interest and foreign exchange fluctuations. This led to settlement of an avoidable claim of Rs. 1.44 crore.

Export Credit Guarantee Corporation of India Limited (Company) issued a guarantee (April 1981) in favour of Central Bank of India (CBI), Ahmedabad branch for US $ 200,000 equivalent to Rs.18.36 lakh in respect of an electrical project in Thailand undertaken by a private company (Testeels Limited) based in Ahmedabad. Bangkok branch of Bharat Overseas Bank, guaranteed by CBI, Ahmedabad branch arranged the finance for the project, which in turn was further guaranteed by the Company. The Guarantee cover was cancelled by the Company (January 1984) as financing of the project was taken over by London branch of CBI (December 1983). The Company again issued a guarantee in January 1985 which was effective retrospectively from 23 December 1983 to 31 December 1984 in favour of Ahmedabad branch of CBI for US $ 1.5 million equivalent to Rs.1.91crore subject to a maximum liability of Rs. 1.72 crore with the condition that it would not cover the unpaid interest. However, in April 1985 the guarantee value was enhanced to cover unpaid interest and later in July 1987 to cover foreign exchange fluctuations even though it was known by that time that payments due from the party under this contract had not been forthcoming since December 1982.

The guarantee was extended and also enhanced periodically and stood at Rs.3.51 crore (equivalent to US $ 2.2 million) as on 30 June 1990. It included cover towards interest element and foreign exchange fluctuations with a maximum liability of Rs.3.16 crore i.e. 90 per cent of the guarantee amount. The activities of the London branch of CBI were taken over by Bank of India, London (June 1987). As the payments were not forthcoming from the party in Thailand, the Bank of India, London invoked the guarantee (June 1990) for settlement of their dues from CBI, Ahmedabad branch for Rs.5.37 crore. The claim was finally admitted by the Company (July 1992) at Rs.3.16 crore and paid in March 1993/July 1996.

Thus, by revising its decision to cover the unpaid interest and bringing in a new element of foreign exchange fluctuation, while extending the guarantee, the Company had to settle an excess claim of Rs.1.44 crore (Rs. 3.16 crore – Rs.1.72 crore). This could have been avoided by not extending the cover from April 1985/ July 1987 as it was known by that time that payments were not being received from the party since December 1982.

The Management stated (July 1998) that though the project was incomplete, the account of the party was being conducted otherwise satisfactorily and there was no reason that could have restrained the Company from covering additional liability. It was also stated that the party was having dealings with the Company since 1975 and the proceeds from another contract were expected to wipe out the party's losses.

The Ministry while endorsing the views of Management further stated (October 1998) that the Company's decision to enhance the value of the guarantee cover was based on their normal underwriting practice and before issuing guarantee cover and approving extension at a later date including enhancement of its value, the Company made assessment of the nature of transaction and credit worthiness of the insured.

The reply of the Management/Ministry is not tenable on the following grounds:

(i) Even if the account of the party was being conducted otherwise satisfactorily as claimed by the Management, the fact that payments due from the party were not being received since December 1982 should have restrained the Company from providing cover for additional liability.

(ii) There is no justification for taking on the loss in one contract just because profit is expected on certain other contract with the party. Trying to wipe out the loss in one case through proceeds from another contract was contrary to the principles of commercial prudence.

(iii) The Company should have restricted its liability to the initial guarantee instead of taking over the loss which occurred because the Bank decided to accommodate the party. The loss should have been borne by the Bank and the Company should not have underwritten the same as its business was to underwrite risks and not to take over loss.

5.1.2 Loss due to adoption of inapplicable foreign exchange rate

The Company suffered a loss of Rs. 1.14 crore due to adoption of higher exchange rate than that prescribed in the policy while settling the claim.

The Company issued (March 1982) a Construction Works Policy (CWP) to M/s. Bhandari Builders Private Limited (Project Exporter), for a project involving construction of 800 houses in Iraq. The sum insured was Rs. 37.92 crore with a maximum liability of Rs. 29.01 crore. The project was originally planned to be completed by 1982 but was completed in January 1986. The sum insured as well as the maximum liability was reduced (September 1995) to Rs. 7.68 crore and Rs. 6.53 crore, respectively, based on the balances of principal receivable due from Central Bank of Iraq under the "Indo-Iraq Government to Government deferred payment agreement" as certified by the EXIM Bank of India.

Similarly, an Export Finance Guarantee (EFG) was also issued (March 1984) to Punjab and Sind Bank for a maximum liability of Rs. 1.77 crore towards advances granted to exporter to meet the expenses incurred on the wages to staff and workers engaged in executing the project. The maximum liability under the EFG was amended from time to time and stood

(February 1992) at Rs. 3.53 crore covering the Rupee loan advances for the project. The net liability under the CWP was to be arrived at after settling the claim under EFG.

Due to non-receipt of payments from Iraq after August 1990, the project exporter filed a claim (31 August 1992) for US $ 27.58 million (equivalent to Rs. 22.78 crore). However the claim was finally settled (March 1998) for Rs.6.53 crore being the maximum liability under CWP which comprised Rs.3.53 crore under EFG to the bank and Rs.3.00 crore under CWP, to the exporter.

In accordance with clause 21 (1) of the CWP, payments under the policy were to be made at the rate of Rs. 26.50 per Iraqi Dinar (ID) which in turn was as per the contract entered between project exporter and Iraqi project authorities. This rate was not to be changed except in case of devaluation of the currency in which the payment was to be made by the Iraqi project authorities. As per contract, the conversion rate to be adopted for the contract between ID and US $ was 3.2 US $ per ID. At the time of extension of the CWP in October 1984, the then prevailing rate of Rs. 10 for one US $ was adopted by the Company instead of Rs. 8.26 per US $ (arrived at by taking one ID = Rs. 26.50=3.2 US $) as envisaged in clause 21(1) of the CWP. The balance due at the time of settlement of claim was US $ 7.68 million. The equivalent balance in Indian Rupee was calculated to be Rs. 7.68 crore by using the conversion rate of Rs.10 = 1 US $ and the claim was settled for Rs. 6.53 crore (i.e. 85 per cent of the sum insured) whereas the sum insured and maximum liability as per applicable rate of exchange (Rs. 8.26 = 1 US $) should have been taken at Rs. 6.35 crore and Rs. 5.39 crore, respectively. Thus, adoption of inapplicable rate of exchange tantamounted to coverage of exchange loss and led to excess payment of Rs. 1.14 crore (Rs. 6.53 crore – Rs. 5.39 crore).

The Ministry stated (September 1999) that though clause 21 (I) of CWP referred to fixed parity of exchange rate, it was Company's practice that whenever the policy was required to be revalidated, the amount covered under the policy could be increased depending upon the rate prevalent at the time. It was also stated that for subsequent extension, the same exchange rate had been maintained.

Reply is not tenable for the following reasons:-

(i) ECGC guidelines clearly state that "the liability of the Company under the policy would be in terms of Indian Rupee. If the contract is expressed in a foreign currency, it shall be converted into Indian Rupee at the rate specified in the 'policy'. Thus, the claim was to be paid as per rate mentioned in clause 21(I), which was not to be increased under any circumstances. It is also not correct to say that it was the practice at the time of revalidation to increase the cover depending upon the prevailing exchange rate. Incidentally the Company had turned down in October 1986 the request of the same exporter (September 1986) for issue of cover at the then prevailing exchange rate of 1 US $ =Rs. 12.50 on the ground that exchange fluctuation was not covered in CWP.

(ii) The Company should not have revalidated the amount covered under the policy at increased rate to replace the laid down rate of exchange in CWP as this in effect covered the exchange loss caused by delay in completion of the project and settlement of the dues.

Thus, adoption of a higher exchange rate than that stipulated in CWP in revalidating the policy and settling the claim resulted in avoidable payment of Rs. 1.14 crore.

5.1.3 Payment of inadmissible claim

Company lost Rs.1 crore by settling a claim which was inadmissible on account of delayed receipt of premium.

The Company issued (5 January 1996) a standard policy to Douceur Sports Wear Manufacturing Company and approved (31 December 1996) a credit limit of Rs.50 lakh for export to K.K.D. Imports Inc., U.S.A. (Buyer). The above limit was increased (9 October 1997) to Rs.1.50 crore [Rs.50 lakh Delivery against Payments (DP) and Rs.1 crore Delivery against Acceptance (DA)]. Five shipments were made between 9 October 1997 and 8 November 1997 valued at Rs.1.24 crore on DA with 60-90 days credit. As payments for the above shipments were not received on due dates, the exporter submitted (28 March 1998) a claim of Rs.1.12 crore.

The claim was settled for Rs.1 crore despite the fact that the exporter had not paid the premium of Rs.0.64 lakh for three shipments of a value of Rs.99.77 lakh effected between 9 October 1997 to 20 October 1997, either at the time of making the shipments or by the due date for declaration of shipments. The premium was paid only on 31 December 1997 and that too when demanded by the Company on 9 December 1997. Further the premium of the above shipments was received by the Company only after the expiry of due dates for receipt of payments against the shipments. The premium of Rs.0.14 lakh for another two shipments made in November 1997 (Rs.23.79 lakh) was paid only in January 1998.

Delayed remittance of premium of Rs.0.78 lakh after occurrence of default was condoned (September 1998) by the sub-committee and Board of Directors and claim was paid (September 1998) in full for Rs.1 crore.

While endorsing the views of the Management, the Ministry stated (September 1999) that:

i) Though it was true that on a strict interpretation of policy conditions, failure to submit shipment declaration together with premium within the prescribed time would mean non-compliance and the Company would cease to have any liability in respect of those shipments, it was normal and accepted practice for the Company to allow for normal delays.

ii) Too strict enforcement of rules relating to delayed payment of premium would send wrong signals to exporters.

iii) If the Company was to refuse to accept the premium on the ground that it was delayed, it would facilitate exporters to pick and choose riskier shipments for cover and pay premium only for such shipments.

The reply of the Management/Ministry is not tenable as:

i) Insurance business consists of covering a risk on receipt of premium to indemnify against possible loss in future. If premium was to be received after the risk crystallised into a loss, as had happened in this case, it would tantamount to taking

over loss. Ministry's contention that the delay was normal is also not acceptable as by the time the premium for the first three shipments was received there was default in payment. Premium for subsequent shipments was accepted only after the default in payment of the earlier shipments had occurred.

ii) Receipt of timely declaration and premium being the primary requirement of a policy, its strict compliance should be the normal accepted practice.

iii) If premium in every case is received in advance there would be no scope for pick and choose by the clients. Only when delayed premium is also accepted that the exporter would get an opportunity to identify riskier exports and to pay premium for those only.

The grounds on which the delayed remittance of premium of Rs.0.78 lakh after occurrence of default was condoned and the claim sellted were not tenable. Thus, the Company lost Rs.1 crore by paying an inadmissible claim.

5.1.4 Avoidable payment of interest on Income Tax

The Company paid penal interest of Rs. 77.90 lakh on unpaid income tax which was avoidable.

In accordance with Section 115 JA of the Income Tax Act, 1961 (inserted vide Finance (No. 2) Act, 1996), the Export Credit Guarantee Corporation of India Limited (Company) was liable to pay income tax (Minimum Alternative Tax) on its book profits from the assessment year (AY) 1997-98 (Financial Year (FY) 1996-97). However, the Company failed to observe the above provisions of the Act and filed (November 1997) return with NIL tax liability for the AY 1997-98. The Company also failed to pay advance tax for the AY 1998-99 as required under Section 210 of the said Act. However, on the advice of a tax consultant, the Company filed a revised return for AY 1997-98 and return for AY 1998-99 in November 1998 taking into consideration provisions of Section 115 JA of the Act. The Company deposited tax alongwith penal interest of Rs. 55.56 lakh for AY 1997-98 and Rs. 22.34 lakh for AY 1998-99 for default/deferment in payment of advance tax under Sections 234B and 234C of Income Tax Act 1961.

The Management/Ministry stated (June 1999/October 1999) that;

(i) In view of the carried forward loss, no advance tax was paid for the AY 1997-98; and

(ii) The matter was taken up with the Ministry of Commerce (MOC) and with the Ministry of Finance (MOF), for obtaining exemption from application of Section 115 JA, on 27 February 1998 and 8 May 1998, respectively. Since MOF and MOC were silent on the matter a revised return was filed on 30 November 1998 and penal interest was paid.

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

(i) Under Section 115 JA of the Income Tax Act, 1961 Company was to compute and pay income tax irrespective of the carry forward loss of earlier years.

(ii) The matter for exemption from Section 115 JA was taken up only in February 1998 whereas, the last date for filing the return for AY 1997-98 was November 1997.

Thus, failure of the Company to comply with the provisions of Section 115 JA and non-payment of advance tax under Section 210 of the Act resulted in avoidable payment of penal interest of Rs. 77.90 lakh.

5.1.5 Avoidable settlement of a claim

An individual packing-cum-post shipment credit was guranteed to an exporter in the very first instance eventhough the risk factor involved was very high. This and subsequent increase in packing credit limit of the exporter from Rs.50 lakh to Rs.1 crore resulted in payment of an avoidable claim of Rs.41.10 lakh by the Company.

The Export Credit Guarantee Corporation of India Limited (Company) received (May 1993) a proposal from State Bank of India (bank) Zonal Office, Mumbai, for granting a guarantee in respect of an Individual Packing-cum-Post Shipment credit of Rs. 1 crore, for financing the export activity of one Baruah Medical Research Laboratories (India) Private Limited, Mumbai (exporter), a manufacturer of cardiac devices (valves). The said proposal mentioned inter alia that (a) a civil suit filed by them against this exporter towards an outstanding amount of Rs. 46.93 lakh was pending (b) the net worth of the exporter was negative and (c) the exporter had not submitted audited financial statement for the previous four years. The bank also indicated that they had been given to understand that the exporter had effected no sales till March 1993.

The Company nevertheless provided (July/August 1993) a cover for Packing Credit (PC) (Rs. 50 lakh) and Post Shipment (PS) Credit (Rs. 50 lakh) with a maximum total liability of Rs. 50 lakh against an order received from Canada by the exporter. Consequently, the bank gave PC advance of Rs. 39.87 lakh (September/October 1993) to the exporter against a Letter of Credit (L/C) which was valid upto 9 October 1993.

However, the exporter was unable to meet this commitment and the importer in Canada opened another L/C, which was valid upto 10 April 1994. Meanwhile, in November 1993, the exporter and the bank sought increase in the PC limit to Rs. 1 crore on the ground of escalation in prices of raw material and overheads. Though the Company was fully aware that increasing the PC limit was extremely risky, the Chairman-cum-Managing Director (CMD) of the Company agreed (January 1994) to guarantee the increased limit of Rs.1 crore allowing the bank to disburse an advance upto 85 per cent. The justification given for this enhancement was that the exporter might fail to ship the goods and might have to close down his business in the absence of such enhanced cover.

The bank disbursed advances to the extent of Rs. 87.46 lakh (September 1993 to March 1994). However the exporter failed to export the goods during the validity of L/C (upto 10 April 1994). The bank filed a report of default on 4 July 1994 and lodged a claim of Rs.43.79 lakh in August 1994. The claim of the bank was rejected at the level of Executive Director (ED) of the Company in May 1996 as the bank had failed either to take precaution like periodical inspection of work place or to initiate prompt action to take possession of the assets of the exporter.

While rejecting the claim the ED had stated, inter alia, "I am of the firm view that the claim is not payable by us. We may also take this opportunity to send a circular letter to all banks explaining the concept of follow up and staff accountability to enable them to take appropriate measures in this regard." However, instead of complying with the instructions of the ED, a Deputy General Manager (Guarantee) of the Company reopened the claim case (July 1996) on the plea that the concerned bank was one of the leading clients of the Company as far as guarantee scheme was concerned and that the bank had kept the Company informed at each and every stage. Finally after calling for comments of the bank the proposal to settle the claim for Rs.41.10 lakh being 50 per cent of net loss of Rs. 82.20 lakh was approved (6 January 1997) by the CMD of the Company and settled on 16 January 1997.

The Ministry stated (October 1998) that the Company had examined the proposals taking into account its role of export promotion. And based on the assessment of the risk the cover was given at a reduced rate of 50 per cent as against normal rate of 75 per cent.

The reply is not tenable because though the Company had a role in export promotion the same should not have been performed at its own cost. The risk factors should have been properly taken into account while giving the cover especially in view of the antecedents of the exporter. Though the risk cover was given at a reduced rate of 50 per cent, the subsequent relaxation of PC limit to Rs.1 crore from Rs.50 lakh nullified the effect.

Thus, the grant of cover in the first instance where the risk factor was very high, subsequent increase in PC limit from Rs. 50 lakh to Rs. 1 crore and settlement of the claim even when the bank had failed to take proper action to protect its interests resulted in payment of avoidable claim of Rs.41.10 lakh.

MMTC Limited

5.2.1 Blocking of funds and loss of interest in trading of basmati rice

Inappropriate handling by the Company in the trading of basmati rice resulted in the blockage of funds amounting to Rs.2.95 crore. Besides, the Company lost interest of Rs.4.53 crore in the process.

The Company decided (November 1992) to procure 'A' grade basmati paddy for the purpose of export of basmati rice and appointed (December 1992) a private firm, M/s K.J. International (Firm), a Karnal based exporter of basmati rice, for procurement and processing of 10,000 MT of superior basmati paddy on its behalf. At the time of taking the decision, the Company did not have any export orders on hand and had no experience in the procurement and processing of paddy. Even though the agreement signed between the Company and the firm (January 1993) stipulated that procurement and processing of paddy by the latter would be done in consultation and association with the Company, no such supervision was exercised by the Company while the firm procured paddy (December 1992 to March 1993) and partly processed the same in January 1994. The quantity of paddy

procured was 3784 MT for which the Company paid Rs.3.93 crore to the firm. The physical possession of the paddy lay with the firm. The firm, however, could process only a small quantity of 613 MT paddy (costing Rs.74.33 lakh) yielding 273 MT of rice, the quality of which was found not upto the mark for the purpose of export. This was, therefore, sold in the domestic market for Rs.53.14 lakh. The firm did not carry out any further processing.

In order to realise its dues, the Company allowed (January 1995) the firm to export 1000 MT rice directly by processing part of the stock of paddy lying with it. The firm promised to pay Rs.2 crore to the Company out of the export proceeds, but the Company did not enter into any contract with the firm for this purpose. So far (June 1999) the Company could realise only Rs.45 lakh against this. It had also not been able to recover the stock of paddy from the firm. A case for misappropriation of stocks was filed in October 1995 by the Company against the firm, which was still pending (June 1999) in the court of Judicial Magistrate, Karnal. The Company also filed an arbitration suit against the firm (December 1996) which was also pending (June 1999).

The action of the Company at every stage in this transaction violated the norms of commercial prudence and was open to question as listed below:

- Firstly, without having any export orders in hand and without having any experience in procurement and processing of paddy, the Company should not have ventured into a new area and contracted for procurement of huge quantity of paddy through a private firm.
- Secondly, even when it did so, the Company did not take any safeguards to protect their own interest, either in the form of any performance bank guarantee or security from the firm. There was no clause in the contract on either of these, neither was there any penalty clause.
- Thirdly, the Company did not have any physical control over the stock which was lying with the firm. The fate of the stock was not known to the Company even now (June 1999). The Company in any case should not have released full payment to the firm without having any safeguard to protect its own interest, which amounted to undue favour to the firm.
- Fourthly, the Company showed gross negligence in not supervising the operations of the firm in procurement of the stock of paddy and its subsequent processing. Proper supervision could have ensured the yield of the right quality of rice appropriate for export, thereby avoiding the loss in the sale of rice in domestic market.
- Lastly, the Company did not enter into any subsequent contract with the firm when it allowed the latter to export 1000 MT of rice directly on a mere promise by the firm despite its previous poor experience with the firm. This resulted in the Company's recovering only Rs.45 lakh, and that too after a legal case was filed by the Company, against the promise of Rs.2 crore.

The Company lost Rs.2.95 crore in the transaction, besides loss of interest of Rs.4.53 crore till July 1999 on the unutilised dues.

The Management admitted (June 1995) that despite their continuous efforts, they could not procure any export order for basmati rice and that the joint venture of paddy was a new field for the Company which was taken only on an experimental basis. Regarding supervision, it stated (July 1998) that due to the short time available for procurement of paddy, no supervision could be exercised. It, however, admitted that even supervision by the Company would not have contributed much as they did not have any experience in the field.

The reply of the Management is not tenable as the Company should not have ventured into a new field in the first place at such huge cost and without safeguarding its interest. Besides, procuring huge quantity of paddy without having any export orders in hand was itself a decision fraught with grave risks. The Company's action in allowing the firm to export rice directly without any agreement was also not justified. The Ministry stated (June 1999) that they had no further comments to offer as the matter was subjudice and the arbitration was still on.

5.2.2 Loss in a faulty import contract

Injudicious import of CC rods on behalf of a customer and failure of the Company to safeguard its financial interest resulted in loss of Rs.2.22 crore.

MMTC Limited (Company) entered (January 1995) into an agreement with Hindustan Cables Limited (HCL) for supply of Electrolytic Continuously Cast Copper Wire Rods (CC rods) of British origin. As per the terms of the agreement, HCL was to clear the materials from Bombay port after paying the value of the material (i) either through bank draft within 3 days of releasing the payment to foreign supplier by the Company or (ii) through irrevocable letter of credit (L/C) to be opened in favour of the Company, preferably within 15 days before the expected date of arrival of the vessel at Bombay port. All other charges were also to be met by HCL. The Company was to receive a net premium of US$ 14 per MT.

Accordingly, the Company imported (February to May 1995) 798.576 MT of CC rods. By the time the material reached Bombay port, HCL had not opened L/C in favour of the Company. HCL also did not clear the material from the port, statedly due to financial problems and requested (July 1995) the Company to clear the material on their behalf and keep the same in its godowns at Hyderabad. They further stated that the material would be drawn by them as per their requirements and availability of funds. The Company had no option but to clear (August 1995) all the consignments and stored the same in their godown at Hyderabad for selling to HCL later.

HCL lifted only 9.962 MT of the imported material of 798.576 MT and refused (February 1996) to lift the balance material due to funds constraint. The Company had to dispose off (March 1996 to January 1997) the balance quantity (788.614 MT) in open market and realised only Rs.11.85 crore against the cost of Rs.14.07 crore incurred on the procurement and thus sustained a loss of Rs.2.22 crore which could not be recovered from HCL so far (November 1999).

The loss could have been avoided, had the Company incorporated a clause in the contract for opening of L/C by HCL before shipment of the material. The agreement was quite vague as it was not specific about the date of opening of the L/C (*i.e. within 3 days of release of the payment to foreign supplier by the Company or preferably within 15 days of the expected time of arrival*). Ordinary business prudence would demand that the financial interest of the Company should have been safeguarded by incorporating a specific clause for opening of the L/C before shipment of material or to obtain a bank guarantee of adequate amount. Due to this lapse in safeguarding its financial interest, the Company had to clear the goods from Bombay Port on behalf of HCL and then sell it in the open market. Thus by a faulty contract, the Company had made itself vulnerable to losses.

The Management accepted (June 1999) that inclusion of a clause in the contract for opening of L/C by HCL before shipment would have been an ideal step, but contended that HCL being a public sector undertaking, it was expected that they would honour their commitment as per agreement, but for their financial problems which was not anticipated earlier. The Management further stated that the matter would be taken up with the Permanent Machinery for Arbitration (PMA). The Management's contention is not tenable, as it was their prime responsibility to safeguard the financial interest of the Company. No action has also been initiated for taking up the matter with the PMA.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

5.2.3 Loss due to export of substandard rice

Company suffered loss of Rs.96.62 lakh in export of substandard rice to Tanzania and Zanzibar due to non-enforcement of contractual conditions against suppliers.

The Company entered into a contract with a Calcutta based firm (January 1998) for supply of 1100 MT of rice to be exported by the Company as gift to Tanzania and Zanzibar on behalf of the Ministry of External Affairs (MEA). The rice was to be procured from the firm at the rate of Rs 8295 per MT FOB Kandla port and to be supplied to Tanzania and Zanzibar for which the Company was to receive Rs.8774 per MT plus ocean freight on CIF Dar-es-Salaam from the MEA. As per agreement, the inspection of the cargo was to be conducted at the load port by an independent inspection agency at the cost of the Company. Accordingly the Company appointed a Mumbai based firm, M/s. Geochem Laboratories (P) Ltd., for conducting the inspection. In violation of the terms of contract with the supplier, the material was, however, inspected by the agency (January-February, 1998) at various mills of the supplier in Uttar Pradesh instead of at the load port Kandla. It was shipped in February 1998 and full payment was released to the supplier in February 1998. However, when the containers were opened at the destination port Dar-es-Salaam in April 1998, the rice was found in a rotten condition unfit for human consumption. It was decided to bring back the damaged cargo and send a fresh cargo.

The damaged cargo was accordingly brought back to India and disposed of in July 1998, at a loss of Rs 93.82 lakh. The Company procured (August 1998) a quantity of 960 MT of rice from another firm in Delhi at the rate of Rs.10,345 per MT FOB Mumbai and exported the

same in August 1998, even though it received payment @ Rs 8774 as contracted earlier, incurring a further loss of Rs 2.80 lakh. Thus, due to negligence of the Company to ensure that material of the desired quality was actually shipped by conducting an inspection at the time of loading at port, the Company had to incur a total loss of Rs.96.62 lakh.

The Company lodged a claim with the insurer, the National Insurance Company Limited (NIC), for recovery of the loss on the ground that the damage to rice occurred in transit, but the claim was rejected by the NIC (May 1998) on the ground that the surveyors had attributed the loss to reasons other than transit loss and, therefore, the claim did not fall within the purview of the insurance policy. It may be mentioned that the report given by the Ministry of Health, Tanzania after analysis of samples drawn from the cargo of rice at Dar-es-Salam had also indicated that all the samples were not damaged by sea-water, implying that the entire damage did not occur during transit. The Company could have avoided the damage or at least minimised it if it had ensured loading of the appropriate quality of rice through inspection at the load port.

The Management stated (May 1999) that they were pursuing the case again with the insurance company and were hopeful of recovering the loss from them. It was further stated by the Management that the inspection was carried out at the mill in the presence of MEA officials and that rice was stuffed at the load port in the presence of the inspection agency.

The reply of the Management is not tenable as the inspection by the inspection agency was to be conducted only at the load port and not at the mills. The presence of MEA officials at the mills did not absolve the Company of its responsibility to conduct the inspection at the load port. Inspection at the load port only would have ensured that rice of appropriate quality was being shipped. This also would have made the Company's case stronger for recovery of the loss from the insurance company.

Thus, due to failure of the Company in enforcing its own contractual conditions, it had to suffer a loss of Rs.96.62 lakh.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

The State Trading Corporation of India Limited

5.3.1. Avoidable extra expenditure in import of wheat

Inept handling of wheat imports by the Company resulted in an avoidable extra expenditure of Rs. 44.48 crore.

The Company had been importing wheat on Government Account as and when required by the Government of India. After the import, wheat had been passed on to the Food Corporation of India (FCI) for distribution through the Public Distribution System. The Company had been getting service charges of 1.2 per cent of the CIF value of the imports from FCI.

During 1996-97 and 1997-98, the Company imported the following quantities of wheat as per the directives of the Government:

Year	Quantity as directed by the Government	Quantity ordered by the Company	Quantity actually received	CIF value
	(Quantity in lakh MT)			(Rupees in crore)
1996	20.00	16.75	17.51	1096.42
1997	10.00	10.00	10.18	701.39
1998	20.00	15.00	14.14	937.90
Total	**50.00**	**41.75**	**41.83**	**2735.71**

All the imports ought to have been made at the best possible terms in a low-key manner with minimum publicity so as not to disturb the international prices. The Company concluded 8 contracts with 3 suppliers for the purpose as follows:

Sl. No.	Date of contract	Name of Supplier	Quantity (in lakh MT)		CIF value
			Ordered	Received	(Rupees in crore)
1.	10.12.96	Australian Wheat Board (AWB)	10.00	10.50	638.60
2.	11.12.96	Canadian Wheat Board (CWB)	2.50	2.66	178.70
3.	31.1.97	AWB	1.25	1.31	85.42
4.	4.2.97	Tradigrain	1.00	0.95	58.73
5.	14.2.97	AWB	2.00	2.09	134.97
6.	25.3.97	AWB	2.50	2.43	171.85
7.	25.3.97	AWB	7.50	7.75	529.54
8.	26.2.98	AWB	15.00	14.14	937.90
		Total	**41.75**	**41.83**	**2735.71**

A review of the above contracts in Audit revealed the following:

1. The Government instructed (4 December 1996) the Company to import 20 lakh MT of wheat, out of which the first 10 lakh MT was to arrive at the earliest possible time and the balance within a month thereafter, with an option to cancel, if necessary. The Company invited (6 December 1996) offers from 18 foreign wheat traders on limited tender basis for wheat of USA, Canadian and Australian origins only. Out of the 7 offers received, only 2 conformed to the specifications included in the notice inviting tender. The Company negotiated (10 December 1996) with both the parties viz. AWB and CWB and asked them to supply 10 lakh MT of wheat. Only AWB agreed to supply 10 lakh MT. Following this, the Company finalised (10 December 1996) a contract with AWB for purchase of 10 lakh MT of wheat at US $ 148.00 per MT on FOB basis. The Company also entered (11 December 1996) into a contract with CWB for the purchase of 2.5 lakh MT of wheat "with the verbal approval of the Ministry of Food at competent level to diversify the sources of import"* at US $ 152.5 per MT on FOB basis for normal varieties of wheat and premia of US $ 3.5 and 7 per MT for higher qualities of wheat, against which 2.66 lakh MT of wheat

***** ***Stated by the Ministry of Commerce in its reply dated 8 February 1999***

costing Rs.178.70 crore was imported. It was observed in Audit that AWB, while accepting (11 December 1996) the order of the Company, indicated that they were willing to discuss the supply of an additional 10 lakh MT of wheat as per discussions held with the Company on 10 December 1996. But without taking cognizance of this offer, the very same day (11 December 1996), Company once again invited offers from global wheat traders for further import of wheat. As the prices offered were very high (at landed cost ranging from US$ 174 to US$ 195), the Company did not accept the tenders and decided (16 December 1996) to re-enter the market at an opportune time. The Company again invited offers on 22 January 1997 for the supply of wheat. Based on negotiations (31 January 1997, 2 and 4 February 1997) with the 2 tenderers who conformed to the required specifications, the Company entered into 3 contracts with the parties as detailed below:

Party	Date of Contract	Quantity (in lakh MT)	Rate (US $ per MT)
AWB	31.1.97	1.25	156 FOB
Tradigrain	4.2.97	1.00	173 C&F
AWB	14.2.97	2.00	156 FOB

Had the Company taken up the offer of the additional 10 lakh MT made by AWB on 11 December 1996, it was likely that the Company could have imported the wheat at the original rate of US $ 148 per MT offered by AWB on 10 December 1996, in which case the Company could have saved US $ 7.87 million (equivalent to Rs. 29.13 crore).

The Management replied (December 1998) that the intention of the Government was to import 10 lakh MT and explore the possibility of contracting another 10 lakh MT with the provision of cancellation, if necessary. Management further stated that AWB did not offer any additional quantity for the same delivery period with an option to the STC to cancel and that against the tender inquiry floated on 11 December 1996, they had not submitted any offer. The reply is misleading and evasive, since the final terms would have been known only after negotiating with the AWB; in fact, for a subsequent contract dated 31 January 1997, AWB had indeed agreed for a delivery schedule upto 15 March 1997 as against 10 March 1997 for the order dated 10 December 1996. As to the specific point why the offer of discussion with AWB for purchase of additional 10 lakh tonnes of wheat was not taken up, the Management reply was silent. Failure to discuss with AWB assumes significance in view of the fact that on the same day (i.e. 11 December 1996), the Company invited fresh tenders for purchase of additional quantity of wheat while ignoring the offer of AWB to discuss their offer for supplying the same. As regards option to cancel the order, it may be mentioned that the Company had indeed finalised (11 December 1996) a contract with CWB for importing 2.5 lakh MT of wheat without an option to cancel. Besides, the Management's contention about the intention of the Government is not tenable in view of the fact that the Committee of Secretaries had recommended (16 December 1996) that the Company should finalise the import of 20 lakh MT in a phased manner. Further, the Minister of Food had also stated (13 December 1996) in Parliament that the Government had decided to import 20 lakh MT wheat during the current financial year. In fact, Reuters reported on 13 December 1996 that a senior STC official had said that the organisation would import the entire 2 million tonnes. The

knowledge about these probable imports might have led the exporters to quote higher prices in December 1996.

The Ministry (February 1999) in its reply stated that the AWB gave the indication only to discuss business terms with no commitment/ offer for supply of additional quantity of one million MT of wheat and that the readiness to discuss could not be construed as a commitment to supply. The replies also do not address the question as to why the offer of AWB to negotiate was not taken up by the Company in the first place.

2. It was noticed that the wheat imported during January 1997 to February 1998 was covered under Bankers Acceptance Facility (BAF), payment under which became due on the 180th day from the date of the bill of lading. The Company was to pay interest to the bank on the amount borrowed under BAF at rates ranging from 5.593751 to 5.85938 per cent plus 0.35 per cent service charge above the base rate. In order to reduce exchange losses, the Company took forward covers for 24 bills between March 1997 to December 1997 valuing US $ 96.08 million due for payment between September 1997 to June 1998 at premia ranging from 7.71 to 14.11 per cent. It was also observed that bank credit was available to FCI, which was to make the final payments to the Company, at the rate of 13.75 per cent. The overall interest including forward cover premia was more than the interest payable by FCI for the bank credits available to them, making the FCI pay this differential to the STC. It was also noticed in Audit that the Company did not carry out any cost benefit analysis of the cost of taking BAF facility along with the cost of forward cover vis-à-vis the cost of taking credit by FCI locally. It was noticed in Audit that later on the Company on its own recommended to the Government (January 1998) not to take BAF facility due to this reason which was agreed to by the Government. Thus failure of the Company to conduct a cost benefit analysis in respect of the earlier period resulted in an extra expenditure of Rs. 4.66 crore.

The Ministry stated (February 1999) that to minimise the risks involved, STC went for forward cover for a partial amount of only about 21 per cent of the overall BAF amount. Ministry further stated that the highly volatile nature of the foreign exchange market does not offer scope of passing judgements in retrospect. Reply of the Ministry is not relevant because audit had not questioned the forward cover taken for the partial amount. Audit had only pointed out that the BAF facility was availed without any cost-benefit analysis which ought to have been done as a prudent measure. Had such an analysis been undertaken, the loss could have been avoided.

3 (a) During the execution of the contract of 14 February 1997 with AWB, the Company had noticed the presence of exotic weeds in the consignments. The Company was informed (July 1997) by AWB that they did not have necessary facilities to remove these weeds. The Company negotiated and obtained (July 1997) a discount of US $ 1.63 million at US $1.60 per MT from AWB, for a quantity of 10.18 lakh MT received under the contract of 25 March 1997, for the expenses involved in cleaning up the grain. However, it was observed that in respect of further imports from AWB in 1998, the Company did not negotiate for a similar discount for cleaning the consignment, resulting in loss of US$ 2.26 million (equivalent to Rs 9.50 crore) at the same rate of discount of US$ 1.60 per MT as obtained earlier.

The Management stated (December 1998) that in the previous contracts, the presence of weeds was not known to them and when the issue cropped up, discount was obtained as cleaning charges. They further stated that as the presence of weeds was known to them in the present contract, discount was not possible as the Prevention of Food Adulteration Act (PFA Act) and Plants, Fruits and Seeds (Regulation of Imports into India) Order, 1989 (PFS order) did not specify the limit of weeds. The reply of the Management is misleading as prior knowledge of the presence of weeds did not nullify the necessity for cleaning the wheat. Besides, the PFA Act and the PFS order had been in force even during the execution of the previous contract and did not prohibit the Management from including a provision in the new contract specific to the issue of exotic weeds.

The Ministry stated (February 1999) that the incidence of exotic weeds was lower by 33 per cent (compared to the purchases made in 1997) in half of the consignments for which information was available with STC and that in view of this, the cleaning discount obtained by STC in its previous contract in March 1997 could not be taken as a precedence. The reply is not tenable as reduction in percentage of weeds did not nullify the necessity of cleaning the wheat; in any case, such reduction was noticed only at a much later stage. Besides, it cannot justify non-negotiation for a possible discount, especially in the light of past experience to the contrary.

3 (b) It was noticed that during the visit of a Government of India delegation to Australia in June 1997, the Australian authorities had agreed, *inter alia*, to the total elimination of one of the 'very serious exotic weed seeds', viz. "*Emex Australis*" from their consignments in respect of the future contracts. However, it was noticed that the assurance had not been incorporated in the contract entered into with the AWB in February 1998. It was further noticed that this weed was found to be present in 3 of the shipments received from Australia, but no compensation could be claimed by the Company in the absence of any specific clause in respect of this in the contract.

4. It was noticed that the earlier contracts with AWB did not have any clause relating to the appointment of independent surveyors. As such the quality certificates given by AWB were accepted by the Company.

However, while entering into an agreement in February 1998, the Company incorporated a clause in the agreement regarding inspection of quality parameters by independent surveying agencies at the seller's cost. The certificates given by the agencies were to form part of the negotiable documents for payment. However, in spite of agreeing to the same earlier, AWB stipulated (2 March 1998) that the agencies could only oversee the loading operations and would not be allowed to take samples independently. They would be supplied with a set of samples by AWB for analysis. AWB further stipulated (10 March 1998) that the quality certificates issued by the agencies should not form part of the negotiable documents as it would take 7 to 10 days for realisation of payments, for which they were not willing to wait. The Company agreed to the above stipulations by AWB and amended (April 1998) the agreement accordingly. This amendment to the original contract was imprudent as the independent surveyor's report was made inconsequential, firstly by reducing the scope of his work to the disadvantage of the Company and secondly, by not making his report a part of the negotiable documents.

It was seen that the surveying agencies were to be paid US $ 0.28 million equivalent to Rs.1.19 crore by AWB for their services. As AWB was aware that they would have to arrange for the services of the agencies at their own cost, they naturally would have loaded the same in its price while negotiating with the Company. The Company should have negotiated with AWB for reduction in the price to that extent in view of the limited scope of work of the surveyors after their terms of services were revised which clearly made their work meaningless and did not warrant the payment.

It was imprudent on the part of the Company not to enforce the conditions of the agreement stipulating quality inspection by the surveyors. In the absence of surveyor's report forming part of negotiable documents, there was nothing in any of the agreements to protect the interest of the Company and to ensure that the quality of wheat at the load port was in accordance with the contractual specifications. It was observed that as per the terms of the agreements with AWB and CWB, the weight, quality and condition of wheat was to be treated as final on the basis of load port inspection reports.

In case of a shipment of 31500 MT valuing US $ 4.49 million (equivalent to Rs.18.85 crore) it was noticed that the Company could not take any action against AWB even though the surveyor's certificate indicated that the actual protein content (9.8 per cent) was below the contractual specifications (10 per cent). Ministry in this case had stated that no action was taken as a test conducted by the Ministry of Food had found the protein content to be 10.2%. This again proves that the independent surveyor was made redundant in the whole transaction as its report was ignored.

The Management stated (December 1998) that all the consignments were cleared by the Indian Health authorities in all respects indicating that there was no compromise of any kind on the quality parameters. They further stated that as the surveyors had discharged their functions within the framework of the scope specified at the time of finalising the contract, the question of negotiation of the contract price did not arise. The reply of the Management is not tenable since the surveyor's reports did not form part of the negotiable documents and in view of the limited scope of their work, their charges should have been deducted from the total contract price payable to AWB.

Thus, the inept handling of wheat imports by the Company resulted in an avoidable extra expenditure of Rs. 15.35 crore, besides losing the opportunity for a possible saving of Rs 29.13 crore as follows:

1. Possible saving on import of additional quantity of wheat during 1996-97: US$ 7.87 million equivalent to Rs. 29.13 crore;
2. Extra expenditure due to availing of BAF facility and forward cover despite availability of cheaper rupee credit: Rs. 4.66 crore;
3. Extra expenditure due to the Company's failure in negotiating a discount on account of presence of weed: US$ 2.26 million equivalent to Rs. 9.50 crore;
4. Extra expenditure due to the Company's failure to obtain a reduction in the price in view of the limited scope of work of the surveyor: US$ 0.28 million equivalent to Rs. 1.19 crore.

5.3.2 Avoidable payment of interest

Wrong estimation of income and consequent short deposit of advance tax resulted in levy of penal interest amounting to Rs. 2.15 crore.

As per Section 234 B (1) of the Income Tax Act, 1961 (Act), if the advance tax paid by the assessee was less than 90 per cent of the total assessed tax, the assessee would be liable to pay interest at the rate of 2 per cent per month or part thereof on such shortfall. Further, as per Section 234 C (1) (a) (i) of the Act, the assessee was also liable to pay interest at the rate of 1.5 per cent per month for three months, if the advance tax paid was less than the quantum stipulated in the Act.

A review of the income tax assessment files of the Company revealed that the Company had paid interest of Rs. 1.71 crore under Section 234 B (1) and Rs. 43.90 lakh under Section 234 C (1) (a) (i) respectively due to wrong estimation of income for the assessment year 1994-95 and consequential short payment of advance tax.

The Management stated (April 1999) that the payment of interest under Section 234 (B) & (C) for the assessment year 1994-95 was due to increase in the provision for doubtful debts. The Management further stated (September 1999) that the Company contemplated writing off a debt amounting to Rs. 5.73 crore when the chances of its recovery became very remote and that three instalments of advance tax were paid on the assumption of writing off the debt. Subsequently, when the Board decided to make a provision for doubtful debts instead of writing it off, income tax liability had increased and this had resulted in the payment of penal interest to the tax department. The Ministry, while endorsing the Management's reply, stated (September 1999) that they had no further comments to offer.

The reply of the Management and Ministry are not tenable, as mere provision for doubtful debts was not a deductible expenditure under Section 36 (2) of the Income Tax Act, 1961. As such, the decrease or increase in the provision for doubtful debts by the Company in its accounts would not alter its tax liability under the Act. As regards the assumption of writing off the debt, it may be mentioned that the Company ought not to have been guided by presumption while computing its tax liability.

Thus, wrong estimation of income and consequent short deposit of advance tax resulted in avoidable payment of interest of Rs. 2.15 crore.

5.3.3 Loss due to non-recovery of dues

Laxity on the part of Management in recovering outstanding dues from a co-operative society resulted in loss of Rs.1.72 crore.

The Company agreed (April 1995) to lend Rs.2 crore for four months to India Coffee Marketing Co-operative Limited (COMARK), Hassan (Karnataka) to enable the latter to purchase coffee seeds from growers and process the same for export of coffee. An agreement signed (May 1995) by the Company with COMARK stipulated, inter-alia, that (i) performance of COMARK would be watched by the Company during the next four months before extending any further loan; (ii) COMARK would hypothecate its stock of coffee having market value equivalent to a minimum of 150 per cent of the amount of loan

outstanding against it as security for the loan, and (iii) total amount outstanding against COMARK at any time should not exceed Rs.2.25 crore. In case of default in repayment of the loan, the Company had a right to take possession of the stock and sell it to recover the amount.

Guidelines formulated by the Company in October 1990 for the grant of such advances/loans to others provided that the entire outstanding advance along with interest should be adjusted from the export proceeds before making payment of the proceeds to the party. However, this clause was not included in the agreement. In June 1995, the principal amount of the loan had exceeded by Rs.0.72 crore the maximum limit of loan (Rs.2.25 crore).

Instead of watching the performance of COMARK for 4 months as stipulated above, within one month of sanctioning of the first loan in May 1995, the Company approved (June 1995) a second loan of Rs.2 crore, increasing the admissibility of the total loan for COMARK to Rs.4 crore. The agreement signed in June 1996 for this increase stated that the total dues outstanding against COMARK at any time should not exceed Rs.4 crore including interest thereon. However, the market value of the stock to be hypothecated against the outstanding loan was reduced from 150 per cent to 100 per cent.

The export proceeds from the exports made by COMARK were consistently released to them without fully recovering even the principal outstanding dues. The Company made payments aggregating Rs.12.57 crore to COMARK between May 1995 and March 1996 against the loan and recovered Rs.11.49 crore till September 1996.

As regards hypothecation of the stock of coffee, the agreements signed by the Company with COMARK provided that the hypothecated stock could include the stock-in-transit or the stock yet to be delivered. This was against sound commercial prudence as such stocks were not necessarily in the physical possession of COMARK for the purpose of verification. For example, the Management admitted that the stock statement as on 31.7.1996 furnished by COMARK included stock of clean coffee valuing Rs.3.28 crore which was in transit. It was obviously difficult to subject this kind of stock to verification by the Company. The total stock of coffee reported by COMARK as on that date was 1122.55 MT (Value:Rs.3.28 crore) and the stock verified by the Company was only 669.55 MT(Value: Rs.1.96 crore). The Company also did not have any physical control over the stock of coffee, which belied the purpose of hypothecation. The only control was through the stock statements submitted by COMARK, which were not submitted regularly as per provisions of the agreements. There was no attempt on the part of the Company either to insist upon the regular submission of stock statements or to verify the value of stock reported by COMARK regularly. Even such verification conducted by the Company at irregular intervals revealed that the quantity as well as value of the stock with COMARK were far less than that stated by COMARK on many occasions. Further, the verified value of the stock was also less than the amount of loan outstanding against COMARK in November 1995, March 1996 and July 1996, against the contractual requirements. These laxities on the part of the Company ultimately resulted in the stock suddenly and abruptly getting completely depleted without any prior knowledge of the Company.

In September 1996, COMARK informed that they had no stocks and fresh procurement of stocks was not possible under the prevailing market conditions. At that time, the Company was still to recover Rs.1.15 crore from COMARK.

The Management accepted (January 1998) that the Bangalore branch of the Company did not adjust the amount of the loan outstanding against COMARK. They also stated that a legal notice had been sent (April 1997) to COMARK for payment of all dues within 90 days from the date of notice. The Management stated that COMARK had assured that they would pay the outstanding amount only after receipt of a loan of Rs.3 crore from the National Co-operative Development Corporation (NCDC).

The reply of the Management is not tenable as one of the conditions imposed by NCDC for sanctioning the loan forbade its use for repayment of any previous loans taken by COMARK. The loan had still (May 1999) not been released by NCDC. Besides this, COMARK did not have assets to repay the loan.

Thus, the laxities on the part of the Management to adjust the outstanding dues from COMARK from the export proceeds received by it resulted in loss of Rs.1.15 crore besides loss of interest amounting to Rs.0.57 crore till June 1999.

The matter was referred to the Ministry in November 1997; their reply was awaited (December 1999).

5.3.4 Avoidable loss of interest due to non-submission of clear shipping documents

Submission of defective documents as well as non-realisation of sales proceeds amounting to Rs.79.10 lakh resulted in loss of interest amounting to Rs.1.17 crore.

In response to a letter of intent (March 1995) from M/s Bulk Trade International, Bangladesh (Buyer), the Company entered (March 1995) into an agreement for export of 12500 metric tonnes (MT) of Indian parboiled rice. The shipment was to be made by 31 March 1995 and payment was to be made through an irrevocable letter of credit (LC) which was opened by the buyer in March 1995.

The Company shipped 12958 MT of rice during April 1995 valued at US$3.16 million in two shipments (US$ 0.7 million and US$ 2.46 million respectively). On submission of shipping documents for both the above shipments (May 1995), the bank, however, released (May 1995) a payment of US$ 3.16 million 'under reserve' as the documents submitted by the Company were not in accordance with the terms and conditions of the LC and there were various discrepancies in those documents. As there was delay in getting the payment from the buyer, the bank reversed (June 1995) the credit given to the Company under reserve and charged Rs.22.34 lakh as interest. After negotiations lasting for nearly 3 months, the Company could ultimately realise (September 1995) a total amount of US$ 2.90 million as against the total dues of US$ 3.16 million, leaving US$ 0.25 million still outstanding (April 1999) from the buyer who had disputed the quality of rice supplied.

Thus, submission of defective documents to the bank resulted in the blockage of Rs.79.10 lakh and consequent loss of interest amounting to Rs.1.17 crore (March 1999) to the Company.

The Management admitted (June 1997) that the documents contained discrepancies which could not be rectified. Management also informed that a case had been filed (April 1998) against the buyer for recovery of the outstanding amount of principal together with interest.

The Ministry agreed (May 1999) with the reply of the Management.

5.3.5 Loss due to failure to enter into a back to back contract with the local supplier

Failure to enter into a back to back contract with the local supplier resulted in loss of Rs.43.52 lakh.

The Company entered into a contract (23 February 1995) with M/s Louis Dreyfus, Italy (buyer) for supply of 7000 Metric Tonnes (MT) of Indian Tapioca Chips, at a price of US$ 155 per MT based on the offer made (23 February 1995) by M/s N.W. Exports, Secunderabad (supplier). The entire shipment was to be completed before 30 April 1995. While confirming (February 1995) the proposal to the supplier, the Company indicated that the formal back-to back contract would be entered into and that the Letter of Credit (LC) to be opened by the foreign buyer would be transferred in favour of the supplier. Draft of the back to back contract was sent by the Company to the supplier in February 1995. On receipt of the draft contract, the supplier proposed (1 March 1995) certain amendments to the draft and to the terms of LC. The Company neither responded to the above nor transferred the LC received (6 March 1995) from the foreign buyer to the supplier. Therefore, no formal agreement was signed with the supplier.

The supplier informed (30 March 1995) the Company about the non-availability of Tapioca Chips in the market. The Company took up (31 March 1995) the matter with the foreign buyer for either cancellation of the contract or deferment of its execution to the next season. The buyer not only refused (31 March 1995) to accept the proposal of the Company, but also preferred (1 June 1995) a claim of US$ 168,000 for damages for breach of contract and went for arbitration. The Company, on the advice (21 October 1996) of the solicitor, went for an out of court settlement (January 1997) with the foreign buyer and paid (May 1997) US$ 100,000 equivalent to Rs.35.92 lakh in full and final settlement of the dispute.

The Company could not recover the above amount from the supplier as neither any formal contract was signed with them nor the LC was transferred in their favour. The supplier indicated (19 June 1995) that since there was no communication from the Company regarding amendments to contractual/LC terms till 28 March 1995, they could not procure the cargo and as such refused to accept any liability on this account. A court case filed (July 1997) by the Company against the supplier for recovery of Rs.43.52 lakh including legal expenses incurred in defending arbitration proceedings was still pending (March 1999).

The Management while accepting (March 1999) the audit contention had indicated that action was being taken against the erring officials for the lapses.

Thus, failure to enter into back to back contract with the supplier and consequent failure to supply the cargo in time to the buyer has resulted in a loss of Rs.43.52 lakh.

The matter was referred to the Ministry in April 1999; their reply was awaited (December 1999).

CHAPTER 6: MINISTRY OF COMMUNICATIONS

Department of Telecommunications

HTL Limited

6.1 Excess payment of Customs Duty

The Company suffered loss of Rs.27.30 lakh by making payment of customs duty twice on the same goods. The Company could not recover from the Customs Department the excess duty paid to it even after 4 years. The loss on account of interest forgone amounted to Rs 22.10 lakh.

HTL Ltd. placed (March 1995) orders on M/s. Siemens, Germany for supply of Electronic Telephone Equipment valuing Rs.1.56 crore. The shipment details received in advance indicated that delivery was being effected in 65 boxes sent together. The Company paid (March 1995) customs duty of Rs.1.26 crore for the goods; however, 16 out of 65 boxes were found short-delivered at the time of clearance of goods from the Port. The short delivery was made good by the supplier in two separate consignments of 14 boxes (April 1995) and 2 boxes (June 1995). But even though the customs duty on these 16 boxes was already paid earlier (March 1995), the Company failed to link up with the earlier payment of duty and paid Rs.27.30 lakh as customs duty again (April 1995 and June 1995). The Company lodged (July 1995) refund claims for this excess amount of customs duty, but the customs authorities have not responded so far to their claims (September 1999).

The Ministry while confirming the facts replied (August 1999) that the Company was regularly following the claim with the Custom Authorities. However, there was no documentary evidence to indicate that the Company's claim was under consideration by customs authorities.

The Company has so far suffered a loss of interest of Rs.22.10 lakh on the amount of Rs.27.30 lakh paid unnecessarily to the Custom Authorities due to its failure to link the customs duty paid earlier.

ITI Limited

6.2.1 Infructuous investment on Mobile Radio Trunked Service Project

Taking up a project for providing Mobile Radio Trunked Service (MRTS), a technology nearing obsolescence in 1996, resulted in infructuous investment of Rs. 6.41 crore by the Company.

Against a tender floated in February 1995, Department of Telecommunications (DOT) allotted 31 stations* to the Company for providing Mobile Radio Trunked Service (MRTS). The Company signed the licence agreements with DOT in November 1995 for operating the service in seven stations and in September 1996 for operating the same in 24 stations. Subsequent to signing of the first agreement, the Company procured (March 1996) six base equipment at a cost of Rs.3.18 crore. Three of these equipment could not be installed (November 1999). The Company also procured (March 1996) 520 numbers of hand sets costing Rs. 1.10 crore for selling to the subscribers out of which 475 handsets costing Rs. 1.01 crore were lying in stock unsold (March 1999).

Further, after signing the second agreement in September 1996, the Company procured (July 1997 and March 1998) five base equipment valued Rs.2.21 crore to provide the service at five additional stations in Gujarat and Maharashtra under a distribution agreement entered (March 1997) into with M/s Arvind Mills Limited, Ahmedabad. Two of these equipment received during April 1998 were yet to be commissioned and made operational (November 1999)

The Company initially admitted (July 1998) that MRTS as a concept was not accepted in the Indian market and introduction of Cellular Wireless Communication in the beginning of 1996 further worsened the scenario. Because of this several MRTS operators surrendered their licences and in 1998 only 40 MRTS stations out of the expected 950 were in operation and these 40 too were facing difficulties. It was further stated that MRTS was more or less an old technology and did not have Public Service Telephone Network (PSTN) connectivity and therefore chances of it taking off were remote. Later (July 1999), however, the Company stated that investment made in the project under the prevailing situation then was the right business decision to tide over the crisis of paucity of orders and to enter into new areas with the primary objective of focusing on expansion of customer base for its products, particularly when it was banned from entering into basic services.

The Ministry concurred (October 1999) with the views of the Company and stated that economic recession was the main reason for the failure of MRTS project.

The reply is not tenable, as no market survey was conducted by the Company. Further there was clear indication in early 1996 itself when the Company was initiating procurement of

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* 7 stations in Novemebr 1995 and 24 stations in September 1996.

basic equipment and hand sets, that cellular facility had emerged in the market and was gaining instant acceptability which was not affected by economic recession. Not withstanding the additional features, MRTS did not have the PSTN connectivity, which was the main reason for its failure to gain market acceptability. An alert management could have forestalled these procurement of equipment and handsets for an obsolete technology and avoided the infructuous investment.

Thus, entering into basic telecom service area even when the Company was aware of its obsolete technology resulted in infructuous investment of Rs.6.41 crore.

6.2.2 Avoidable loss due to retention of low yielding bonds

By continuing to retain low yielding bonds and availing cash credit simultaneously, the Company incurred a loss of Rs.3.21 crore during the period from December 1997 to July 1999.

The Company invested (February 1990) Rs.10 crore in 9 per cent Tax Free Redeemable Non-Cumulative Bonds issued by the Power Finance Corporation Limited (PFC), New Delhi, redeemable on 13th February 2000 and Rs. 19.35 crore (face value of Rs. 20 crore) in December 1991 in 9 per cent Tax Free Redeemable Non-Cumulative Bonds issued by the Indian Railway Finance Corporation Ltd. (IRFC), New Delhi, redeemable on 15th July 2001.

In January 1997, the Company received an offer from a private Company for the purchase of IRFC bonds at a discounted price which was ignored. The Company again got an offer (November 1997) from another private Company for the purchase of the bonds without any loss. The Company did not attempt to evaluate the offer.

The Company conducted (February 1998) a cost benefit analysis based on the prevalent market rate and decided to retain the bonds even though the cost benefit analysis clearly revealed that if the bonds were sold at the market rate, the Company would have saved cash credit interest of Rs.4.06 crore (calculated till the maturity of the bonds) even after considering the loss of Rs.1.7 crore in the face value of the bonds. The decision to retain the bonds was taken for availing short term loans by pledging the bonds. The Company availed of short term loans only on two occasions: from 8th June 1998 to 7th September 1998 (Rs.15 crore) and from 23rd December 1998 to 22nd March 1999 (Rs. 15 crore). It finally sold the bonds during August 1999 for Rs.29.98 crore.

It was observed that the Company could have saved Rs. 3.21 crore during the period from December 1997 to July 1999 towards payment of interest on cash credit, had the low yielding bonds been sold outright during November 1997 by accepting the offer received then.

The Management stated (July 1999) that the Company decided to retain the bonds and take short term loans by pledging the same:

- to meet interest payments on cash credit in case of shortage of funds in cash credit account.
- to ensure that no default occurred on interest payments on bonds issued by the Company .
- to infuse investor confidence about meeting the commitment of repayment of interest on due dates.
- to have some liquid assets to meet emergency commitments.

The Ministry stated (October 1999) that the offer received in November 1997 for IRFC bonds was without any quote and no offers were received for PFC bonds. It further stated that the Company was incurring losses during 1996 and 1997 and selling the bonds then would have resulted in avoidable non-business loss, and the cash position of the Company improved only slightly during 1997-98 and 1998-99.

The reply of the Management/Ministry is not tenable as the offer received in November 1997 was to purchase the whole lot of bonds without any loss and the liquidity position of the Company had improved substantially during 1997-98 and 1998-99 because of better realisation of dues and receipt of advances to the extent of 75 per cent of the value of the purchase orders from the Department of Telecommunications (DOT)/ Mahanagar Telephone Nigam Ltd (MTNL) and the Company had adequate means to meet its payment obligations on various accounts. This is further substantiated by the fact that the Company had taken short term loans against the bonds only on two occasions during 1998-99.

Thus, the Company suffered a loss of Rs 3.21 crore till July 1999 by retaining low yielding bonds and availing of the cash credit simultaneously.

Mahanagar Telephone Nigam Limited

6.3.1 Loss due to failure in maintaining the prescribed power factor

The Company failed to maintain the minimum power factor of 0.85 prescribed by the Delhi Vidyut Board and had to pay avoidable penal charges of Rs. 7.16 crore.

Delhi Vidyut Board (DVB) had prescribed that a minimum power factor of 0.85 (i.e. ratio of power actually consumed to that drawn from the supply system) shall be maintained by all industrial consumers for the energy drawn by them. In order to maintain the power factor within the stipulated limits, the consumer was required to install shunt capacitor of adequate rating. In case the power factor was less than the prescribed limits, penal charges were required to be paid to DVB.

Scrutiny of record by Audit during February 1998 to February 1999 in the exchanges of following areas revealed that Mahanagar Telephone Nigam Limited (MTNL), Delhi failed to maintain the minimum prescribed power factor as a result of which the Company had to make avoidable payment of Rs.7.16 crore on account of penal charges for low power factor to DVB in the following table:

Area General Manager	Penal Charges (Rs. in crore)	Period
North (Shakti Nagar)	0.17	January 1989 – October 1996
East (Idgah, Tis Hazari, Delhi Gate)	1.41	August 1992 – July 1998
South-II (Nehru Place, Okhla.)	1.45	August 1992 –December 1998
West –I	2.28	March 1993 – February 1998
West –II	1.23	April 1993 –March 1998
Trans Yamuna (Shahdara)	0.35	January 1996 – March 1998
South -I	0.27	January1996–November 1998
Total	**7.16**	

The Ministry stated (May 1999) that DESU/DVB never issued any notice about low power factor and no suggestions were given for providing shunt capacitors. It was also stated by the Management (between June 1998 to February 1999) that shunt capacitors were installed in Shakti Nagar, Idgah, Tis Hazari and Delhi Gate exchanges and the action for the installation of similar capacitors in remaining exchanges was also being taken up.

The reply of Ministry / Management is not acceptable since the tariff structure of DVB clearly laid down the penalties for failure to maintain minimum power factor. Further, the electricity bills of DVB also indicated the penalty being charged for low power factor.

Thus, due to negligence on the part of the Company to install the shunt capacitors of adequate ratings, the Company had to make an avoidable payment of Rs.7.16 crore.

6.3.2 Non recovery of Service Tax

Due to non-observance of rules, Service tax of Rs.3.84 crore could not be recovered on telephone services.

Ministry of Finance issued a notification in June 1994 imposing a Service tax at 5 per cent of the total amount of the bill from 1 July 1994 on the services provided to subscribers by the Department of Telecommunications (DOT) in relation to telephone connections. Accordingly, DOT circulated these instructions on 8 July 1994 to all Heads of Telecom Circles including Mahanagar Telephone Nigam Limited (MTNL) for compliance.

DOT clarified in June 1996 that telephone circuits, non-exchange lines, private wires, private branch exchanges, private automatic branch exchanges, etc. which were being used for transmission of speech would come within the purview of 'service in relation to a telephone connection' and therefore, service tax was to be recovered thereon from the subscribers. It was further clarified that the service tax was also to be levied on underground cables, ultra high frequency and very high frequency systems given on rent and guarantee basis with the telephone facilities at either end.

Examination of records by Audit in June 1998, however, revealed that in utter disregard of above orders, MTNL Mumbai unit did not levy Service tax while recovering the rental and other charges from the subscribers of above telecommunication facilities. This led to non-recovery of Service tax of Rs.3.84 crore during the period 1994 to 1998.

The matter was referred to the Ministry in September 1998. The Ministry while accepting the above facts stated (April 1999) that bills for recovery of Rs.3.84 crore were issued in January 1999, against which an amount of Rs.2.60 crore stood recovered.

The particulars of recovery for the balance amount of Rs.1.24 crore were awaited (December 1999).

CHAPTER 7: MINISTRY OF DEFENCE

Department of Defence Production & Supplies

Bharat Dynamics Limited

7.1 Unviability of Rifle Project

The Company took-up manufacture of Self Loading Rifles (SLRs) without assessing the available spare capacity which they intended to utilise. The project became unviable and the Company suffered a loss of Rs. 4.72 crore.

The Company decided (December 1991) to manufacture and supply 50,000 Self Loading Rifles (SLRs) over a period of 5 years to utilise the existing spare capacity. The SLRs were to be supplied to allottee agencies of Ministry of Home Affairs (MHA) as per requirement.

The Detailed Project Report (DPR) was prepared in November 1993, which was approved by the Board of Directors in December 1993. The Company had not assessed the extent of spare capacity available, either at the time of deciding to establish the Rifle project or thereafter. The Company stated (October 1997/ February 1998) that no accurate assessment of spare capacity either in terms of man power or machine hours could be made as the same varied from year to year depending upon the production plan/ ancillary facilities available. The Company's statement is not tenable in view of the fact that utilisation of spare capacity was one of the keystones on which the project was founded.

As per the DPR, 163 out of 166 components of SLRs were envisaged to be procured from sub-contractors. Machining operations in respect of balance three components viz., Body, Breech Block and Carrier Breech Block were proposed to be undertaken in-house after receipt of forged castings from the sub-contractors. However in May 1993, the Company decided to get the machining operation in respect of Carrier Breach Block also from sub-contractors on the ground that purchase from outside was cheaper. Similarly, 17 out of 28 sub-assemblies of SLRs which were intended to be done in-house were also off-loaded to the sub- contractors. However, no cost benefit analysis had been made to justify the off loading of items to sub contractors.

The Company / Ministry stated (August 1998) that the off-loading of components to other agencies was to ensure that only minimum number of critical components were manufactured in-house without substantial additions of Plant & Machinery or manpower. However, it did not specify the reasons for not analysing the cost benefits to justify the off loading of items to sub-contractors.

In addition to the capital expenditure of Rs. 33.20 lakh, the Company incurred Rs. 6.95 crore (March 1998) towards manufacture of jigs and fixtures and development of special tools as against the estimated expenditure of Rs. 2.61 crore in the DPR. The

Company stated (February 1998/ July 1998) that (i) the expected cooperation in transfer of technology was not forthcoming from the Ordnance Factories and finally it had to develop on its own and in this direction it had incurred more expenditure than estimated and (ii) the expenditure of Rs.6.95 crore represented fixed overheads viz. interest, depreciation, corporate office expenditure and administration overheads. The Company's statement is not tenable in view of the following:

The Company which had been depending on the assistance of Director General of Ordnance Factories (DGOF) with regard to the technical matters, source of supply, etc. should have taken up the matter of non-cooperation of Ordnance Factories, with regard to the transfer of technology in development of tooling etc, at the appropriate levels with the Ministry of Defence (MOD).

The expenditure of Rs.6.95 crore represents Rs.6.06 crore towards salaries and wages and other direct expenses and Rs.0.89 crore towards fixed overheads. Thus, the entire expenditure of Rs.6.95 crore was not on fixed overheads.

The following table indicates the year-wise quantity of Rifles sold, cost of production and loss suffered by the Company for the last four years ended 31.03.1998.

Year	Target as per DPR	Actual Production Nos	Qty sold No.	Sale value (Rs. in lakh)	Cost of production (Rs in lakh)	Unit cost of production (Rupees)	Profit(+)/ Loss (-) (Rs in lakh)
1993-94	6000	--	--	--	--	--	--
1994-95	10,000	596	596	116.99	182.53	30626	(-)65.54
			1186 *	232.81	232.81	19630	--
1995-96	10,000	2949	2949	578.89	854.56	28978	(-)275.67
1996-97	10,000	1500	675	132.50	173.88	25760	(-)41.38
1997-98	10,000	1252	2077	410.01	499.83	24064	(-)89.82
Total		**6297**	**7483**				**(-)472.41**

***Procured from Ordnance factories**

The Company had fixed the sale price of Rifle with effect from 1994-95 at Rs. 19630 and Rs. 19795 from 1997-98 onwards making it at par with sale price of Rifle manufactured by Ordnance Factories. As against this, the unit cost of production of Rifle during 1994-95 to 1997-98 was Rs.30626, Rs.28978, Rs.25760 and Rs.24064 respectively. The Company incurred a loss of Rs.472.41 lakh upto 31 March 1998 on the production and sale of 6,297 Rifles as against the anticipated profit (11 per cent) of Rs.87.53 lakh, due to substantial cost overrun which ranged between 46 per cent (1997-98) and 85 per cent (1994-95).

The Company / Ministry stated (August 1998) that the Rifle project after meeting all its variable cost had made a contribution. This is not tenable as the Company had adopted

estimated variable cost relating to labour and power & consumable for the purpose of arriving at contribution and not the costs actually incurred on the project. An analysis of the actual costs incurred vis-à-vis sales realisation during the last four years ended 31 March 1998 revealed that the Company had not recovered even the variable costs.

Inspite of off-loading many more items to sub-contractors than envisaged in the DPR, the actual labour hours spent for manufacturing each Rifle worked out to 33.6 hours in 1994-95, 45.3 hours in 1995-96, 45.8 hours in 1996-97 and 27.51 hours in 1997-98 as against 15 hours envisaged in the DPR. The Management stated (October 1997/February 1998) that complexity in manufacture of Rifles was not known fully at the time of preparation of DPR and hence an accurate assessment of labour hours could not be made. Therefore, the actual hours were on high side as compared to hours envisaged in DPR. This is not tenable as the production of Rifle was envisaged as per the design and technical specification of the Rifle being manufactured and supplied by Ordnance Factories. The technological process documents and testing documents for manufacture of rifles were received from DGOF duly certified by Director General of Quality Assurance (DGQA) much before starting of the production of Rifles in the Company. Thus, the technical problems were well known to the Company even at the stage of preparation of the feasibility report/DPR. Further, the technical problems which were encountered during the manufacturing process, if any, could have been averted by timely interaction with the Ordnance factories which are in the regular production of Rifles. The reply of the Management/ Ministry does not also explain the increase in actual hours from 33.6 hours in 1994-95 to over 45 hours in subsequent years.

As the manufacture of Rifles became unviable and uneconomical, the Company ultimately decided (June 1997) to discontinue the project from 1998-99. However, the Company stated (July 1998) that it is continuing manufacture of Rifles to the extent it can utilise the existing raw material/ work-in- progress (worth Rs. 173 lakh). Thus, apart from the investment of Rs. 0.33 crore on creation of capital facilities, Rs. 6.95 crore on development of tools, jigs and fixtures, etc. the Company suffered loss amounting to Rs. 4.72 crore on its ill planned Rifle Project.

Bharat Electronics Limited

7.2.1 Avoidable expenditure on import of modification kits for updation of SFM Radar

Lack of foresight in planning for indigenisation of 15 modification kits and consquential failure to indigenise resulted in avoidable expenditure of Rs.2.04 crore.

Bharat Electronics Ltd (the Company) received (December 1992) a letter of intent (LOI) from Government of India, Ministry of Defence (MOD) for updating 118 Superfledermaus (SFM) Radars. As per the LOI, the first 60 radars were to be assembled and supplied from kits imported from a foreign collaborator by M/s Ericsson Radar Electronics, Sweden (the Collaborator), and the balance 58 were to be supplied after indigenous manufacture based

on the technology transfer from the collaborator. Year-wise delivery schedule was to be indicated by the Company for the approval of the MOD.

The Company entered (January 1993) into an agreement with the Collaborator involving a total payment of SEK 23 million towards supply of know-how, production study programme, technical assistance, supply of information and patent licenses to the licenced product. According to the agreement, the Company had to buy from the collaborator only 45 modification kits at SEK 5 million each, instead of 60 kits as originally envisaged. The rates were valid till 31 March 1994. Purchase order for 45 kits was issued on 4 March 1993. The purchase order was restricted to 45 kits as a decision was taken (January 1993) to import 45 kits and to attempt indigenisation for the remaining quantity. Indigenisation programme was, however, planned to commence in March 1995 even though the order was placed in March 1993. Due to delay in indigenisation owing to non-receipt of certain documents from the collaborator, the orders for the balance requirement of 15 imported kits were placed in June 1995 (10 kits) and July 1995 (5 kits) at SEK 5.25 million each.

Thus, restricting the purchase to 45 kits and procuring the balance at a later date at higher price resulted in extra expenditure of SEK 3.75 million i.e. Rs.1.63 crore (at the exchange rate of SEK 1 = Rs.4.34 in June 1995)

Management's argument (June 1998) that the inventory would have been lying idle and that they would have incurred inventory carrying cost is not convincing as the LOI empowered the Company to decide the delivery schedule with the approval of MOD and accordingly the supplies could have been staggered to suit the delivery schedule.

Management's further argument (January 1999) that not ordering the entire quantity in March 1993 resulted in postponement of the advance payment in respect of the balance quantities, as a consequence of which the Company saved Rs.1.67 crore by way of interest is also not acceptable as the exchange rate had by then substantially increased and after considering the savings in interest as claimed by the Company, the net extra expenditure works out to Rs.41.46 lakh, in addition to the extra expenditure of Rs.1.63 crore due to increased prices.

The Ministry stated (July 1999) that the decision to place an order for only 45 kits was taken keeping in view the plan for early indigenisation and that since there was delay in receipt of certain documents and the lead time for supply of components by the collaborator varied from 6 to 11 months, the remaining 15 kits were also procured subsequently.

The reply is not tenable as the Company had decided (January 1993) to indigenise 15 kits as the agreement with Ericssion included only 45 kits. Further, had the indigenisation started in January 1993 instead of in March 1995, the difficulties faced subsequently by the Company in progressing with indigenisation would have come to light much earlier and the Company could have either achieved the indigenisation and supplied the 15 radars from indigenous production, or it would have had sufficient time to place the order for 15 kits well before 31 March 1994 to get the price advantage.

Thus, lack of foresight in planning for indigenisation and failure in the indigenisation effort resulted in an extra expenditure of Rs.2.04 crore.

7.2.2 Supply of material without security

In absence of security against equipment supplied to a private party, the Company could not recover sales proceeds of Rs.1.35 crore for over four years.

Kotdwara Unit of the Company received an order from M/s Shyam Telecom Limited, Gurgaon, (Firm) (1 February 1995) for the supply of 200 Nos. of primary Mux (VLSI version) at a total cost of Rs.1.49 crore. According to the terms of the order, a Letter of Credit (LC) was to be opened by the firm and the Unit was to complete the supplies by 23 March 1995. While accepting the offer, the Unit intimated the firm (10 February 1995) that they would supply the last batch of 80 pieces of equipment by 31 March 1995.

The firm, on 25 March 1995, expressed its inability to open the LC pleading shortage of funds and, instead, proposed to make the payment through post-dated cheques. Despite obvious risk involved in accepting this proposal, the General Manager of the Unit supplied to the firm 166 Nos. of Primary Mux valued at Rs.1.55 crore between 27-31 March 1995 without obtaining any security either in the form of Letter of credit or Bank Guarantee. The firm accepted only 46 numbers, at the same time, it retained the balance 120 equipment on behalf of the Company. As the equipment was specifically manufactured for the customer and supplied within the extended delivery schedule, the Company chose not to take back the 120 unaccepted pieces of equipment. The Company received only Rs.20 lakh (July 1995) against the total supplies worth Rs.1.55 crore. Though the judgement in the civil suit filed (December 1995) by the Company against the firm for recovering Rs.1.35 crore has been pronounced (July 1999) in favour of the Company, but (M/s Shyam Telecom Limited had filed an appeal against the order on 14 October 1999) the fact remains that the Company deviated from the normal business prudence and jeopardised its financial interest inasmuchas sales proceeds of Rs.1.35 crore had remained unrecovered for over four years.

The Ministry stated (March 1998) that the Company should not have despatched the material on the basis of good faith alone. There should have been due precautions for getting the payment for supplies made, particularly when the buyer had failed to establish LC as originally indicated. The Ministry added that the Company was being advised to ensure that there were adequate safeguards for realisation of payments against supplies made to the customer.

7.2.3 Loss in fabrication of Automatic Die Bonder

Taking up a project much against the advice of its own user division, coupled with lack of planning and delay in execution led to avoidable expenditure of Rs.39.01 lakh.

Bharat Electronics Ltd., (Company) approved (January 1989) a proposal for the design, development and fabrication of Automatic Die Bonders for TO-220 devices at a total cost of Rs.37.62 lakh, even though its Semiconductors Division (the user division) had indicated (August 1988) that there was no need for the same. The time schedule for completion of the work was June 1990. The Company started the work in February 1989, but the work could not be completed even by October 1995, when the Company decided to close the project on

the ground of obsolescence and probable necessity of design revalidation after incurring an expenditure of Rs.42.37 lakh. The project was finally abandoned (February 1997) when the actual expenditure on the project was Rs.42.58 lakh. An amount of Rs. 39.01 lakh, representing the net expenditure after transferring certain useful items to stores (Rs.3.57 lakh) was written off by the Company in the accounts for the year 1997-98.

The Management stated (June 1999) that:

(i) the project got delayed and could not be completed due to (a) obsolescence of the model of equipment and critical sub systems; (b) shortage of manpower and non-availability of technical details/documents due to resignation of engineers who worked on this project and (c) the additional cost and time required for completion of the project;

(ii) the project was taken up as it was identified as a potential product for business development and that the product aimed at avoiding imports and achieving savings in foreign exchange; and

(iii) the project was taken up as an R & D activity and had to be evaluated accordingly.

The reply of the Management is not tenable as:

(i) The project should have been planned keeping in view the rapid obsolescence in the electronic industry, and the progress of execution should have been watched against the scheduled date of completion; in fact, the inordinate delay in completion of the project as against the target date by 64 months further contributed to the obsolescence.

(ii) As regards the Company's aim to avoid imports and to save foreign exchange, it may be mentioned that the product was neither required by its user division nor had any market survey indicating future demands been made.

(iii) The stand that it was an R&D activity was not endorsed by its Finance Department.

The Ministry stated (August 1999) that it was a development project and that the user division's opinion was based upon their immediate requirement. The reply is not tenable as any development is based on the assessment of possible future demand and in this case, no such assessment was made.

Thus, the decision to embark upon a project much against the advice of its own user division was imprudent. This, coupled with inordinate delay in execution of the project, had resulted in an avoidable expenditure of Rs.39.01 lakh.

7.2.4 Loss in purchase of zoom objects for Flycatcher Radar

Hasty placement of a purchase order even before the receipt of revised quotation resulted in extra expenditure of Rs.35.48 lakh on the import of 28 zoom objects required for the manufacture of Flycatcher Radar.

Bharat Electronics Limited (Company) received (January 1995) an indent from the Director General of Ordnance Services, New Delhi for supply of 28 Flycatcher Radars which were

to be delivered in 1995-96 (8 Nos. or more), 1996-97 (8 Nos. or more) and balance in 1997-98.

On an enquiry (June 1995) by the Company for purchase of 12 zoom objects required for the manufacture of the Radars, M/s Angenieus SA. France, the sole suppliers of zoom objects, quoted (July 1995) a unit rate of FF 108,825 for 12 and FF 105,300 for 15 zoom objects each. The Company floated (4 August 1995) another enquiry to ascertain from the supplier, the applicable rates for the total requirement of 28 units of zoom objects.

Even before the revised quotation from the supplier was received, the Company placed (14 August 1995) an order on the supplier for supply of 12 units for 1995-96 despatches at the rates originally quoted i.e. FF 108,225 each. Meanwhile, the supplier quoted (22 August 1995) a unit rate of FF 82,310 for 28 units. The Company thereafter issued (4 October 1995) an amendment to the purchase order increasing the quantity from 12 units to 28 units at FF 82,310 each. The supplier did not agree (October 1995) for this amendment as the production of 12 units ordered earlier had already commenced and hence manufacture of balance 16 units was to be commenced afresh. However, the supplier agreed (November 1995) to supply 12 units already ordered at FF 104,470 each and the balance 16 units at the rate of FF 97,642 each. The Company thereafter issued (8 November 1995) a second amendment confirming these rates. The supplies against the earlier order for 12 units were received between December 1995 and May 1996 and the balance 16 units were received between July 1996 and January 1997.

Had the order for the entire requirement of 28 units been placed on the supplier after receipt of the revised quotation, it would have resulted in a saving of Rs.35.48 lakh.

The Management stated (March 1999) that the order had to be placed before 21 August 1995, otherwise there was the risk of not getting timely supplies. The Management further stated that there was no possibility of placing the order for 28 units before 21 August 1995 as the quote dated 22 August 1995 (for 28 units) was received only on 23 August 1995. The reply is not tenable as the rates of earlier quotations of July 1995 (at which the order was placed) were valid till 24 October 1995.

The Ministry, while conceding that the Company should have enquired and ascertained about the applicable rates for 28 numbers before placing the orders in August 1995, stated (July 1999) that any delay in delivery would have affected the overall production, sales and realisation and that the loss on this account would have been significantly higher than the amount of Rs.35.48 lakh. The reply is not tenable as the 12 units ordered (August 1995) for 1995-96 were actually received in the Company between December 1995 and May 1996 and were taken to stock between March 1996 and June 1996. The Company could have consolidated the requirement of 28 numbers while ascertaining (July 1995) the rates from the supplier and placed the order for the entire requirement with staggered delivery schedule, which would have resulted in the savings of Rs.35.48 lakh.

Garden Reach Shipbuilders and Engineers Limited

7.3 Ill-planned import of a diesel engine resulting in accumulation of non-moving inventory

Ill-planned import of material without ascertaining its marketability resulted in accumulation of non-moving inventory to the tune of Rs.84.10 lakh.

The Company received an offer from Bharat Heavy Electrical Limited (BHEL) in November 1990 for manufacturing of 1 (one) No. GRSE- Burgen Diesel Engine (type-KRGS-9) to be supplied to Chambal Fertilizer & Chemicals Limited (CFCL) on "back to back" basis as agreed to between BHEL and CFCL.

Accordingly, the Company negotiated with its foreign collaborator M/s Bergen Diesel, Norway on 7 November 1990 for import of one set of components required for manufacture of the said engine. M/s Bergen Diesel asked (27 November 1990) the Company to submit its offer by end of 1990 so as to enable them to execute the order by 30 June 1991. It was agreed (12 October 1991) between the Company and BHEL that the engine would be delivered to CFCL by 31 December 1991 and final acceptance of the delivery schedule by CFCL would be intimated by 19 February 1991 by BHEL. BHEL withdrew their letter of intent on 28 February 1991 as CFCL was not agreeable to their proposal for extension of delivery schedule.

However, the Company instead of persuading the collaborator for cancellation of letter of intent placed on them went ahead with the import plan to keep the engine as a stock item on the plea of long lead-time for procurement and against anticipatory orders in future. Import order was placed on M/s Bergen diesel, Norway on 9 October 1991 and the engine was delivered in September 1992 at a cost of Rs.98.10 lakh. The engine had not been utilised nor disposed off till September 1999. The Company, however, stated that they could sell some components worth Rs.14 lakh. The engine had been devalued at Rs.49.05 lakh (50 per cent of its original cost) in the accounts of the Company for 1995-96.

Thus, ill-planned import of material without ascertaining its marketability has resulted in accumulation of non-moving inventory to the tune of Rs.84.10 lakh.

The Management stated (May 1999) that outright cancellation of the letter of intent would have meant breach of understanding and loss of business with the collaborator and therefore the Company decided to import the engine with the hope of its marketability in near future. The Management also stated that due to failure of negotiations with another prospective buyer the Company landed up in the situation.

The argument of the Management is hypothetical. Since the business involved mutual interest, the Company should have approached the collaborator with the fact that the project for which the material was being imported was a non-starter. Moreover, the business with the collaborator had not yielded such results as would warrant any such disregard for financial prudence. Failure of negotiations with the prospective buyer also implied that the import plan was made without ascertaining the marketability.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

Hindustan Aeronautics Limited

7.4.1 Avoidable payment of liquidated damages

Delay in transferring an order from one division to another within the Company resulted in avoidable payment of Rs.1.18 crore as liquidated damages.

The Company (Nasik Division) received a repair, maintenance and supply (RMS) order from Air HQ, in April 1988 for supply of 320 Nos. of Wing Drop Tanks (WDTs) at a unit cost of Rs.2.36 lakh to be delivered during 1990-91. The division received another order in January 1989 for supply of 180 WDTs at the same price for delivery during 1991-92. Due to increased workload at Nasik Division, the Company (Nasik Division) transferred (February 1991) the order for 400 WDTs (220 WDTs for the first order and 180 WDTs for the second) to Aircraft Division (Bangalore) and an amendment in this regard was issued by Air Headquarters in January 1992.

Nasik Division supplied the remaining equipment in time, but as the supply by Aircraft Division was delayed, the Company requested (February 1993) the Air HQ for amending the delivery schedule which was not accepted by them. Air HQ insisted for supply to be completed by 1993-94. Aircraft division completed the supply during October 1993 to December 1994. Later Air HQ amended (January 1996) the delivery schedule as 1993-94 for the first order and 1994-95 for the second order, subject to liquidated damages and pointed out that there was delay of 34 months and 25 months respectively in transferring the two orders itself and that the Company had to take responsibility for slippage in the delivery schedule. The Company had to pay liquidated damages amounting to Rs 1.18 crore for the delay. Even though extension of delivery schedule by Air Headquarters was without prejudice to liquidated damages, the Company claimed (August 1996) waiver of the liquidated damages, which was rejected (December 1996).

The Management stated (July 1999) that the levy of liquidated damages was purely due to the fixing of impractical delivery schedules by Air Headquarters and that the delay in getting the material from CIS/USSR affected the supplies which was a force majeure condition due to the disintegration of erstwhile USSR. The reply is not acceptable as the orders received during 1988 and 1989 were transferred only in February 1991, which ultimately resulted in the delay in procurement and hence the force majeure condition was not applicable. This was also corroborated by the fact that Nasik division could complete the supply within the delivery schedule.

The Ministry endorsed (August 1999) the reply given by the Company .

Thus, delay in transferring the orders resulted in corresponding delay in supplies and the Company lost Rs.1.18 crore by way of liquidated damages.

7.4.2 Avoidable loss due to double payment to a foreign supplier

The Company made double payment of Rs.1.22 crore to M/s Dassault Aviation, France, which resulted in blocking of foreign exchange and loss of interest of Rs.56.82 lakh.

For overhaul of Mirage aircraft, Hindustan Aeronautics Limited (Company), placed a purchase order for supplies and services on M/s. Dassault Aviation, France, (supplier) in January 1994 at a total cost of FF 128 million (Rs.77.96 crore). During the course of supplies, the Company paid Rs.1.23 crore to the supplier against 8 invoices in October 1995. The Company once again paid an amount of Rs.1.22 crore against the same 8 invoices in November 1995. It was only in February 1998 i.e. after more than two years when the reconciliation of LC payment was done by the Company that the double payment was noticed. The Company referred the matter to the supplier (March 1998) and the amount was paid by the supplier in September 1998. As a result, besides the avoidable outflow of foreign exchange, the Company's funds to the extent of Rs.1.22 crore were blocked for a period of 1038 days with consequent loss of interest of Rs.56.82 lakh.

The Management admitted the double payment (May 1999) and stated that amount paid on both occasions was reimbursed by Deputy Controller of Defence Accounts by way of adjustment against their ad-hoc advance with the Company and there was no blocking up of Company's funds. Management further stated that reconciliation between payments made and items received was done only when the LC was closed and that there was no system of periodical reconciliation in this regard.

The Company's reply is not tenable because normal financial prudence would warrant a periodical reconciliation between supplies and payments which would have revealed the double payment. In this case the double payment was noticed after more than 2 years in February 1998, which clearly indicated that there were lapses in application of the desired checks. Besides, the Company's contention that the reconciliation was made only when the LC was closed is not correct as the double payment in this case was detected in February 1998 when the LC was still open. As regards the blocking of funds, the adjustment from the ad-hoc advance received by the Company had the same effect as the blockage of Company's own funds. The Ministry endorsed (July 1999) the views/comments given by the Company.

Thus, failure to exercise a proper system checks resulted in blocking of valuable foreign exchange and loss of interest of Rs.56.82 lakh.

7.4.3 Non-realisation of interest on deferred credit relating to Plant and Machinery

Failure of Hindustan Aeronautics Limited (Company) to include in the operating expenses the interest on deferred credit relating to plant and machinery resulted in mistake in computing the man hour rate and consequential non-realisation of Rs. 52.03 lakh.

According to Government of India policy (July 1992), for the supplies made by the Company from 1990-91 onwards, only production overheads were to be included in the operating expenses for working out man hour rate (MHR) for the purpose of reimbursement of expenses by the customer (Indian Air Force). Non-production overheads (NPOH) were to be reimbursed at actuals to the Company separately along with profit of 5.5 per cent at the end of each quarter. However, according to the Company, interest on deferred credit relating to Plant & Machinery which was a part of NPOH, was not reimbursed separately by the customer. The Company included this as an element of cost for working out the MHR.

Hyderabad and Koraput divisions of the Company failed to include the element of interest on deferred credit relating to Plant & Machinery in MHR (1993-94 and 1994-95) resulting in loss of Rs. 52.03 lakh.

The Company stated (August 1999) that the matter was being taken up with the customer for recovery. Ministry endorsed the Company's reply (September 1999).

Thus, as a result of Company's failure to consider the element of interest on deferred credit on Plant & Machinery while computing the MHR, an amount of Rs.52.03 lakh could not be recovered, resulting in loss to the Company.

CHAPTER 8: DEPARTMENT OF FERTILIZERS

The Fertilisers and Chemicals Travancore Limited

8.1 Undue favour to a private Company

The Company was not able to recover its dues to the tune of Rs. 2.20 crore because it sold goods to a customer without any security against post -dated cheques .

In violation of DPE guidelines, FACT Ltd. sold (July 1993 to August 1997) caprolactum to a private Company, M/s. J.K. Synthetics Ltd. by relaxing its credit terms of allowing credit for 60 days against bank guarantees. Sales to the firm were made against post-dated cheques and without obtaining any bank guarantee/security. Even these post dated cheques were not presented to the banker on their respective due dates in response to the request of buyer citing paucity of funds. Instead of promptly proceeding legally against the customer, FACT returned the stale cheques and obtained fresh ones. The Company again allowed the party to replace them with another set of fresh post-dated cheques. In blatant violation of all norms of commercial prudence, the Company continued to allow the buyer to roll back their cheques in the same manner for as long as 3 years and failed to take prompt legal action against them on the grounds that (i) by continuing to do business with M/s. J.K. Synthetics, the Company was realising its dues to an appreciable extent from the party and that (ii) the party had always acknowledged their dues and had at no time indicated that they would not pay up. The dues amounted to Rs.2.20 crore comprising Rs.0.95 crore against post dated cheques of Kota Unit (April and August 1994), Rs.1.02 crore against post dated cheques of Jhalawar Unit of JK Synthetics Ltd. (June to August 1997) and Rs.0.23 crore against Letter of Credit of the Kota Unit (September 1996). When FACT presented the Cheques of the Kota unit in March1997, the Cheques bounced. Only then the Company issued (April 1997) legal notices to all the Directors of M/s J.K. Synthetics Ltd. and thereafter filed criminal cases (May 1997 and December 1997) and a winding up petition (February 1998) for recovery of its dues amounting to Rs. 2.20 crore. The cases were still pending (September 1999). Further it was observed that even after legal notice was served (April 1997) on the Company's Directors in respect of defaults by Kota unit of the buyer, goods valuing Rs.1.02 crore were supplied on post dated cheques to its Jhawalar Unit (June 1997- August 1997) which also subsequently became unrealisable.

The acceptance of post-dated cheques in violation of DPE guidelines, failure to present cheques on due dates and acceptance of a fresh set of post-dated cheques repeatedly in lieu of earlier ones, were against all norms. Consequently, realisability of dues amounting to Rs.2.20 crore had become uncertain.

With regard to the prospects of realisability of the dues, Management admitted (November 1998) that the liquidation proceedings would take a long time and hence the recovery of the amount would substantially be delayed. Management further stated (July 1999) that the outstanding dues arose due to circumstances which could not be foreseen when the sales were made and should therefore be treated as a normal commercial risk. The Ministry

confirmed (August 1999) the facts and figures and stated that FACT had to relax hitherto followed terms of security/delivery against payment so as to increase sales and reduce the inventory cost. The replies are not tenable. The non-realisation of sale proceeds were mainly due to the Company's deviations from its own credit policy and violation of DPE guidelines which resulted in accommodating the party at the cost of the Company.

Action of the Company in extending an undue favour to a private party against all established commercial practices and norms had thus resulted in blockage of funds and the prospect of ultimate non-recovery to the tune of Rs.2.20 crore.

Hindustan Fertilizer Corporation Limited

8.2.1 Import of spares without proper assessment

The Company incurred avoidable expenditure of Rs. 69.16 lakh on import of spares, which were actually not required and remained idle.

Against an indent (March 1992) for 7 items of spares for major overhauling of the 2.5 MW Gas Turbine of the Barauni Unit of Hindustan Fertilizer Corporation Limited, a purchase order (May 1993) was placed on a foreign firm (M/s. Nissho Iwai Corporation) for supply of items at a cost of 15.16 million Japanese Yen equivalent to Rs.44.32 lakh. Though, the materials reached Calcutta Port in March 1994 the same could not be cleared due to non-availability of funds for payment of customs duty. Ultimately, the materials were released in June 1995 after additional payment of Rs.4.18 lakh on account of interest on customs duty and other charges. However, due to the lock out in the transporters' godown the same reached the Barauni Unit in January 1996, and were accepted by the stores in August 1997 at Rs. 69.16 lakh. The materials were lying unused (July 1999) since then as overhauling of the Gas Turbine stood completed (September 1995) long before the materials reached the site and the chances of their use were remote as the Company decided (January 1999) to suspend production activities at Barauni due to incurring of heavy loss in production.

The Ministry/ Management stated (March 1999/October 1998) that these spares were required to be kept in stock in order to meet any eventuality as the component could fail at any time of operation and that the old bearings were found to be in good condition during overhauling in the year 1995. The Management's reply is to be viewed in the light of the fact that when in October 1992 a review of the whole indent was suggested to find out the possibility of reduction in quantity of the indented material to avoid inventory build up and foreign exchange liability, the user department did not agree to the possibility of any further reduction and assured that all the spares would be consumed during the major overhauling of November 1993. The Management also accepted the view of the user department that there would be no inventory build up. But the fact remains that the material could not be utilised and the inventory did build up in the face of acute shortage of funds being faced by the Company. There are very remote chances of the use of the materials in future also as heavy loss in production had forced the Company to suspend production activities at Barauni. Thus, the Company had incurred an avoidable expenditure of Rs.69.16 lakh towards import of spares, which were not actually required.

8.2.2 Avoidable payment towards post-berthing demurrage

Due to its inability to complete discharge of fertilizers in stipulated lay time & settlement of accounts with the C& F agent before the settlement of demurrage with the Ministry, the Company had to pay avoidable payment of Rs. 53.82 lakh towards post-berthing demurrage.

Hindustan Fertilizer Corporation Limited (HFCL) was appointed as handling agent by Ministry of Chemicals & Fertilizers to handle imported urea for the years 1991-92 and 1992-93 on commission basis. As per terms of agreement, the handling agent would be responsible for efficient and quick discharge of the fertilizers from the vessels and would arrange for removal of the cargo from the port area. It was also stipulated that the entire demurrage accruing after the berthing of the vessel i.e. post-berthing demurrage would be to the account of the handling agent.

Pay and Accounts Officer, Department of Fertilizers deducted post- berthing demurrage in respect of three vessels amounting to Rs. 53.82 lakh on the advice (during 1995) of the Ministry as the fertilizers could not be discharged within the stipulated lay time by HFCL. The Management stated (February 1996) that the Ministry recovered post-berthing demurrage on account of three shipment presumably because the Ministry did not grant the extended time-schedule, upon loss of lay time under force majeure circumstances beyond its control. The Management further stated (October 1998) that demurrage charges could not be avoided because of Ministry's not involving HFCL in calculation of earning/ demurrage. Further, according to the Management, HFCL would have been certainly in a position to recover any loss from the C&F agent had the demurrage been intimated within a reasonable time.

It would be evident from the Management's reply of February 1996 that the HFCL was aware of the loss of lay time and the extension of time schedule was presumed by it under the Force Majeure clause though the grounds of loss of time (e.g. meal break, fog etc.) as recorded by the HFCL were not construed as Force Majeure under the Charter Party agreement.

The Ministry in its reply (February 1999) stated that there was no scope for extension of time schedule beyond the terms and conditions of the Charter Party agreement and the period of stoppages due to meal break, fog etc. as recorded in the Statement of Facts could not be construed as Force Majeure as per the provision of the Charter Party agreement.

Thus, HFCL's inability to complete the discharge of fertilizers in stipulated lay time and settlement of accounts with C&F agent before the settlement of demurrage with the Ministry resulted in an avoidable payment of Rs. 53.82 lakh towards post-berthing demurrage.

Indian Farmers Fertilizer Co-Operative Limited (IFFCO)

8.3 Loss due to sale of fertilizer at pre-revised price

Owing to the defects in the Release Orders, Indian Farmers Fertilizer Co-operative Limited failed to charge from its customers revised price of fertilizer which was higher and suffered loss of Rs. 3.73 crore.

Sale of fertilizers by Indian Farmers Fertilizers Co-operative Limited (IFFCO) to various customers is being made through a document called Release Order (RO) which indicates quantity to be released, price to be charged, period of validity and the credit period. The customer presents the RO to the designated godown and accepts delivery of the fertilizer at a price mentioned in the RO. Thus, in the event of downward revision of price during the intervening period, customer could avoid payment of higher price by not presenting the RO. But in case of upward revision the customer will be able to take delivery at lower rate because in the release orders there is, presently, no stipulation that can oblige the customer to pay the revised price on upward revision; nor there is any provision to cancel it altogether. Consequently, when rate of potassium fertiliser was increased with effect from 1 April 1994, IFFCO delivered 66,871 MT of fertiliser to various customers at the pre revised rate on the basis of ROs issued prior to that date and thus suffered a loss of Rs. 3.73 crore.

The Management stated (February 1999) that the ownership of goods (fertilizers) was transferred to the customer alongwith the risk through issue of ROs and IFFCO was holding stock on behalf of customers as bailee. The contention of the Management is not tenable because till goods are not lifted or RO is not allowed to lapse the goods remain in the godown as 'unascertained goods'. Hence no risk is passed to the customer prior to delivery of goods.

The Ministry stated (September 1999) that all PSUs and Co operatives including IFFCO were being advised to incorporate a condition that the purchaser would be liable to pay Maximum Retail Price (MRP) applicable on the date of delivery in case of any difference in MRP mentioned in the RO.

Thus, the fact remains that IFFCO suffered loss of Rs.3.73 crore as it failed to charge higher price of fertiliser from its customers consequent upon revision of rate of fertiliser owing to the defects in the Release Orders.

Krishak Bharati Co-Operative Limited (KRIBHCO)

8.4.1 Non-realisation of sale proceeds

Supply of fertilizer to Jammu and Kashmir Co-operative Supply and Marketing Federation Limited by Krishak Bharti Co-operative Limited (KRIBHCO) continued inspite of the previous dues remaining unpaid as a result of which KRIBHCO failed to recover Rs.2.84 crore.

KRIBHCO began supply of fertiliser on credit to Jammu and Kashmir Co-operative Supply & Marketing Federation Ltd. (JAKFED)-one of its constituents with effect from 1986-87. Though default in receipt of sale proceeds was experienced in the very first year of supply and continued year after year KRIBHCO took no effective steps to secure its dues. Instead, it continued to seek from Government of India allocation for marketing its fertiliser in the J&K State. Consequently, outstanding dues against JAKFED at the end of 1990-91 accumulated to Rs. 3.32 crore. Thereafter, the allocation of KRIBHCO to sell fertilizer in J&K under Essential Commodities Act, was withdrawn by the Central Government. In 1991-92 JAKFED paid to KRIBHCO a sum of Rs 25 lakh. Simultaneously, dividend (Rs.9.99 lakh) payable to JAKFED during the years 1992-99 and handling charges (Rs.12.82 lakh) were also adjusted towards outstanding dues. This brought down outstanding dues to Rs. 2.84 crore as of 31 March 1999.

Having failed to realise the amount by regular persuation KRIBHCO approached (March 1996) the Central Registrar of Co-operative Societies (CRCS) for recovery of principal and interest. In his interim order (May 1997) CRCS directed JAKFED to liquidate the outstanding amount in equal installment of Rs.15 lakh per month starting from June 1997. As the interim order was not honoured by JAKFED, CRCS in his final order (August 1999) waived off the interest and asked JAKFED to make concerted efforts to obtain finances either from its Marketing Societies or from State Government. It also directed the JAKFED to give an undertaking to KRIBHCO that money collected from its Marketing Societies would be subject to first charge by KRIBHCO. No such undertaking has been given by JAKFED so far (October 1999).

Thus, by continuously supplying fertilizer, over a long period, even while previous dues remained unpaid, KRIBHCO has blocked its sales proceeds amounting to Rs.2.84 crore. As the financial condition of JAKFED is precarious chances of realisation of these dues are remote, more so when another Company owned by Government of India had to write off Rs.14.76 crore which it could not recover from JAKFED.

The Management stated (December 1998) that from 1989-90 materials were supplied to JAKFED with extra care. They also added that the legal action was not taken during 1992-94 as JAKFED had agreed to clear the dues. The Ministry (May 1999) accepted the facts of the case.

8.4.2 Blocking up of funds

Lack of adequate forethought in acquisition of three plots of land and unwaranted retention of title over 2 of the 3 plots resulted in a sum of Rs.1.23 crore blocked and loss of interest of Rs. 1.21 crore.

KRIBHCO deposited (December 1988) Rs.1.93 crore with NOIDA towards the cost of 7 acres of land proposed to be acquired for construction of residential units for its employees. Subsequently, a lease deed was executed (September 1989) for 6.21 acres of land (25138.30 sq. meters) consisting of 3 plots for a sum of Rs.1.71 crore. The balance amount of Rs.22 lakh was adjusted/refunded by NOIDA in April 1990.

As one of the three plots was under litigation, KRIBHCO turned down (June 1990) the request of NOIDA (February 1990) for taking over possession of other two plots as simultaneous possession of all the three plots was considered essential for developing a composite colony. Though in February 1992, the Managing Director of KRIBHCO decided to take possession of two plots, actual possession was taken in February 1997. Presently, one plot (measuring 7094.68 sq. meters) is being used for construction of KRIBHCO 'township'. The other plot (measuring 10513.70 sq. meters) is being contemplated for transfer to the 'Group housing society' of KRIBHCO employees, which does not fall within the essential requirements of KRIBHCO. The third plot remains still unpossessed without causing any spatial problem to the KRIBHCO. Hence two out of three plots (measuring 18043.62 Sq.metres) should not have been purchased ab-initio. Thus, owing to lack of adequate forethought, KRIBHCO blocked Rs.1.23 crore (cost of two plots) thereby losing interest of Rs.1.21 crore between February 1990 and February 1997.

The Management stated (October 1998) that they wanted to construct a composite colony on all the three plots. The Ministry (September 1999) stated that blocking of funds occurred during the process of taking possession of land from NOIDA. These contentions are not tenable because KRIBHCO is developing its own residential colony only on one of the two plots and, therefore, the acquisition of the second plot was also in excess of its essential requirement. It is also evident that before insisting for simultaneous possession of all the three plots management had not carefully worked out the area of land actually required.

8.4.3 Infructuous expenditure on unwarranted acquisition of a plot of land

Acquisition of a plot of land by KRIBHCO for its proposed Training Institute without first firming up its requirements and its surrender after a lapse of more than five years resulted in infructuous expenditure of Rs.21.54 lakh and loss of interest of Rs. 52.18 lakh.

For locating its proposed Training Institute KRIBHCO acquired, in January, 1989, a plot of land measuring 4500 sq.mt at the cost of Rs.90.01 lakh which was paid in advance (January 1988). No action was, however, initiated for construction of necessary buildings within the period of two years allowed by NOIDA.

In April 1991, the Board suggested that KRIBHCO should work out a scheme in collaboration with the Government of India to develop a training institute for the entire

fertiliser industry on fund sharing basis or alternatively, contribute to the development of the IFFCO's Institute at Gurgaon as a joint IFFCO-KRIBHCO facility. As neither the Government nor IFFCO agreed to the proposal of KRIBHCO, Board decided on 29 June 1993 to surrender the plot of land stating that its office building in NOIDA which was structurally completed in July 1991 had sufficient space for developing the training facilities required for its use. Accordingly, the decision to surrender the land was communicated to NOIDA in July 1993.

NOIDA accepted the KRIBHCO's proposal and adjusted (July 1996) Rs. 21.54 lakh towards recovery of lease rent (Rs.10.23 lakh), extension charges (Rs.10.81 lakh) and registration charges (Rs.0.50 lakh).

Thus, acquisition of a plot of land for Training Institute without firming up its requirement and its surrender to NOIDA at a later stage resulted in an infructuous expenditure of Rs.21.54 lakh and loss of interest of Rs.52.18 lakh on deposit made with NOIDA, from January 1988 to June 1996.

The Management Stated (April 1998) that in view of the inability on the part of IFFCO and Government of India to collaborate for such a large institute, KRIBHCO had surrendered the plot. The Ministry stated (January 1999) that since collaboration with various agencies did not materialise, KRIBHCO was constrained to drop the idea for setting up of the Training Institute.

The Management/Ministry's reply is not tenable as KRIBHCO acquired the land on its own without consulting other agencies (Government of India and Fertiliser Companies/IFFCO).

Madras Fertilizers Limited

8.5 Loss due to non-adherence to procedure

Failure of the Company in effectively exercising the prescribed controls in marketing has resulted in loss of Rs.53 lakh due to the dishonoured cheques of the dealers besides loss of interest of Rs.24.75 lakh.

Under the cheque discounting facility the Company's bankers State Bank of India (SBI) allowed instant credit to the Company's account for outstation cheques. In April 1997 the Company's cash credit account was debited by an amount of Rs.78.43 lakh. This was due to dishonour of the cheques discounted by the Company during the period from October 1992 to January 1993. These cheques were given by 9 dealers, all from the Bellary Region, which were neither returned to the Company, nor the fact of dishonouring of instruments was intimated for more than 4 years by the SBI. The fact of non-realisation of cheques came to the knowledge of the Company only after 4 years (February/March 1997).

The Company thereafter took up the matter (April 1997) with the bank protesting that the debit advice was not acceptable since the instruments were not returned by the bank. SBI, however, was not agreeable to reverse the debit. Meanwhile the Company collected a sum of Rs.25.83 lakh from 6 out of the 9 defaulted dealers. The balance amount of Rs.52.60

lakh due from three dealers remained to be collected (May 1999). Significantly, among the three, one dealer alone accounted for a sum of Rs.39.80 lakh. This dealer had in the meanwhile reconstituted his partnership firm and was doing business with MFL under a different name. According to the Company, it was extremely difficult to realise the above dues.

When Audit pointed out (December 1997) the laxity in ascertaining the realisation of dealer's cheques before supplying the next consignment to the same dealer, the Company replied that during peak seasons it was not possible for its marketing officers to verify the dealers pass books before release of goods. The Company further stated that the product was released based on past performance and reputation of dealers. This is not tenable. The procedure laid down by the Management for controls/checks to be exercised before delivering product to dealers envisaged confirmation of realisation of dealers' cheques (including cheques discounted by MFL) obtained from the dealers before issuing warehouse release order for lifting the goods.

The Ministry's reply (October 1999) while confirming the facts of the case, was silent on the Company's failure to follow the system of verification of dealer's pass books by its marketing officers before release of goods. The Ministry further informed that the Committee on Disputes had decided that action should be taken by MFL and SBI to settle the matter amicably. This had so far not come through (October 1999).

Thus, the failure of the Company's Marketing officials to effectively exercise the prescribed controls resulted in blockage of Rs.53 lakh with the resultant loss of interest on cash credit funds amounting to Rs.24.75 lakh (March 1999). The possibility of realisation of dues was doubtful, given the fact that the dealers' firms were either non-existent or non-traceable.

Paradeep Phosphates Limited

8.6 Loss due to late opening of Letters of Credit

Company's failure to open Letters of Credit within the stipulated period and delay on its part in making payments in a urea import deal led to avoidable expenditure of Rs. 1.63 crore towards liquidated damages and penal interest.

The Company was appointed (June 1994) handling agent for handling imported urea at the port of Bhavnagar, JNPT, Navalakhi and Veraval during 1994-95. As per the terms of the contract, the handling agent was to establish an irrevocable Letter of Credit (LC) in favour of the Department of Fertilizers for the quantity of the cargo of each shipment within seven days of issue of Nomination Cable by the Department of Fertilizers or before commencement of discharge of cargo whichever was earlier, failing which liquidated damages @ Rs. 25000 per day were leviable from the date of commencement of discharge of cargo till the date of actual opening of the LC.

Out of 30 shipments handled during 1994-95 only in 7 cases the Company opened LC within the stipulated time, in 20 cases LC was opened after a delay ranging from 1 to 24

days and for the remaining three vessels LC was not opened at all and the payment was made by cheques subsequently. Due to not / late opening of LC the Government levied liquidated damages amounting to Rs. 0.86 crore and deducted the same from the claims of the Company.

Again in 1997-98, the Company obtained a similar handling contract at the port of JNPT, Kakinada and Navalakhi. According to the terms of 'Notice Inviting Tender (NIT)' of 1997-98 the LC was to remain valid for a period of three months from the date of opening and was required to be encashed on the 30th day from the date of completion of discharge of cargo of the vessel. Once again out of 16 vessels handled, the Company failed to open LC in respect of 10 vessels within the stipulated time resulting in payment of Rs. 0.70 crore as liquidated damages. In addition the Company had to pay penal interest of Rs. 0.57 crore due to delay in payment in respect of 8 vessels.

Thus, due to not opening of LC within the stipulated time or delay in making payments, the Company had to incur an avoidable expenditure of Rs. 2.13 crore (liquidated damages of Rs. 0.86 crore and Rs. 0.70 crore + Rs. 0.57 crore penal interest). However, after taking into account the saving of LC commission of Rs. 0.50 crore, due to not opening of LC the net loss worked out to Rs. 1.63 crore. (Rs. 2.13 crore – Rs. 0.50 crore).

The Management while admitting the facts, attributed (July 1999) its failure in the opening of LC, *inter alia,* to:

(i) difficulty in assessment of LC requirement at the initial stage;

(ii) bunching of vessels and introduction of Panamax vessels with huge capacity; and

(iii) difficulty in getting the sanction of higher LC limit from the bank.

The reply of the Management reinforces the observations of audit that loss on account of liquidated damages and penal interest was avoidable because having accepted the responsibility of a handling agent the Company should have effectively guarded itself against eventualities like increase in the volume of import or bunching of vessels leading to the requirement of higher LC limit etc.

The matter was referred to the Ministry in July 1999; their reply was awaited (November1999).

CHAPTER 9: MINISTRY OF FINANCE

(INSURANCE DIVISION)

Tariff Advisory Committee

General Insurance Corporation of India Limited

9.1.1 Heavy losses due to adverse claim experience in Motor Insurance Business

Due to delay in revision of premium, Insurance Industry lost Rs.1568 crore through adverse claim experience in respect of Motor Vehicle insurance policies.

The four subsidiary companies of the General Insurance Corporation of India (GIC) issue annual policies covering vehicles under 'Third Party (TP) cover and 'Comprehensive cover' (own damage with third party).

The motor insurance business had been consistently suffering losses which were attributable to inadequacy of TP premium. In view of the mounting losses, Tariff Advisory Committee (TAC) appointed (1986) Operations Research Group, Mumbai (ORG) to recommend revision in motor tariff so that claim experience during the ensuing years could be brought down from the then existing 100 per cent and above to 75 to 80 per cent. Though ORG Report submitted in December 1987 proposed an overall increase of 62.10 per cent, the premium rates were increased only by 32.65 per cent by TAC (1990).

Meanwhile, the new Motor Vehicle Act, 1988 made third party liability of insurance companies unlimited. By a subsequent amendment to the Act, (September 1994) a structured schedule for payment of compensation for third party fatal accidents/injury was introduced. In this background TAC approached ORG again (November 1994) to suggest revision in tariff. The ORG recommended (September 1996) an increase in TP premium rates ranging from 235.9 per cent to 857.4 per cent and decrease in Own Damage (OD) premium for some type of vehicles.

In March 1997 TAC decided to increase the TP premium for different classes of vehicles (215 per cent for two wheelers, 657 to 799 per cent for private carriers). To soften the burden, it was decided to give effect to the increase in three stages of 25 per cent, 75 per cent and 100 per cent of the decided increase with effect from 1 April 1997, 1998 and 1999, respectively.

The proposed increase could, however, not be enforced because of nationwide strike of transport owners from 30 March 1997. Based on the negotiations with motor owners as directed by Government, TAC modified the rates in October 1997 offering substantial relief. The same could not be notified as the Calcutta High court had granted a stay in May 1997. The stay was vacated on 27 January 1998 and revised tariff was notified on 28 January to be effective from 15 February 1998. The magnitude of the increase as proposed in March 1997 and as modified in January 1998 is illustrated in the following table:

Sl. No.	Class of Vehicle	Existing Premium	Proposed increase	Revised T.P.Premium (deferred) (in Rupees)			Increased premium effective from 15.02.98 (In Rupees)		
				As on 1.04.97	As on 1.04.98	As on 1.04.99	As on 15.2.98	As on 15.2.99	As on 15.2.2000
1.	Public Carrier Upto 2000 Kg Over 2000 Kg.	805 1245	657%	2127 3290	4772 7380	6094 9425	1797 2779	3780 5846	4772 7380
2.	Private Carrier Upto 1500 cc Over 1500 cc	644 996	799%	1930 2986	4503 6965	5790 8954	1609 2488	3538 5472	4503 6965
3.	Taxi Upto 1500 cc Over 1500 cc	200 300	422%	622 933	1044 1566	N.A.	622 933	1044 1566	N.A.

However, it was decided later in January 1999 by TAC that the proposed increases effective from 15 February 1999 and 15 February 2000 might not be enforced. Failure of TAC to hike the premium over the years to meet the adverse claims experience resulted in cumulative loss under Motor Insurance business to the extent of Rs.1568 crore to the insurance industry during the last six years upto 1997-98. The mounting loss under the Motor Insurance business could not be checked as TAC failed to enforce the revised tariff as proposed in March 1997 due to the following reasons:

(i) The increase in tariff was very steep. Increase could have been effected periodically in small quanta so that the owners of the vehicles got enough time to absorb the increase. Due to the inordinate lag between two revisions the increase had to be very steep.

(ii) The announcement of decision (March 1997) to increase premium rates was ill timed as it came on the heels of an announcement of levy of service tax on the freight charged by goods carriers. The immediate strike launched by transporters led the Government to direct TAC to keep the increase in abeyance.

In reply the Ministry endorsed (September 1998) the views of Tariff Advisory Committee (July 1998) that:

a) the earlier revision could not be effected from 1 April 1990 as a case was pending in Supreme Court. As directed by the Court, discussions were held with transporters and certain benefits were given to them and the revision came to finality only in September 1992. The next revision exercise started in 1994 based on the experience commencing from 1991-92. Thus, the matter was not allowed to stagnate.

b) the revision of tariff could not be too frequent particularly since on each and every occasion, revision of tariff was challenged.

c) the collection of statistics from sample divisions spread all over the country, amendment to Motor Vehicles Act increasing the liability of the insurers, decision to include 1994-95 experience also for the purpose of study, discussion with Transporters Association as per Supreme Court directive, writ application in Calcutta High Court, transporters' strike, Government directive to keep the revision

in abeyance and further round of discussion with transporters were to a large extent contributory factors for the delay in implementing revision.

d) the Calcutta High Court before which writ petition had been filed against proposed revision finally cleared the revision on 27 January 1998 and the very next day revision was notified.

e) the TAC had to file all the papers in the Calcutta High Court and situation might have developed in which TAC would not have been permitted to effect second and subsequent increases without going through the entire statistical study.

The reply of the Ministry/TAC is not tenable as ;

a) the tariff revision in 1990 (effective from September 1992) came after a span of more than ten years, because of which an overall increase of 62.10 per cent was warranted to bring down the claim ratio. Periodical and timely review of the claim ratio and adjustment of premium would have avoided such steep increase.

b) the contention that the matter was not allowed to stagnate and the process of collection of statistics for the purpose of revision of tariff had been going on is not acceptable as the process took considerable time (1992-1997) which resulted in premium loss. This undue delay was due to the absence of proper databank of premia/claims either with the TAC or the insurance companies. Such a data bank would have obviated the necessity of engagement of outside agencies besides enabling quicker and timely revisions in premia on rational basis.

c) the revision of tariff was challenged as the transporters who were used to same rates for a long period were not prepared for any large enhancement. Revisions were challenged not due to their frequency but because the increases were considered very high.

d) the ORG took almost two years to give their recommendations. Further delay in implementing the revision was caused by other extraneous factors like transporters' strike, court intervention etc. which would not have possibly arisen had gradual and timely revision been effected on rational basis.

The contention that TAC would not have been permitted to effect subsequent increases in tariff is not tenable as TAC is empowered to revise the tariff and such revisions are not required to be got cleared by Judiciary in the first instance.

9.1.2 Loss of premium due to violation of tariff

Insurance companies lost premium income of Rs. 49.76 crore due to tariff violation that was ratified by Tariff Advisory Committee (TAC) as a 'fait accompli.'

Marine cum Erection (MCE) tariff provided that:

(i) where the sum insured was more than Rs. 50 crore (revised to Rs. 100 crore) a reference had to be made to Tariff Advisory Committee (TAC) for rate quotation.

(ii) provisional rate quotations for risk having sum insured of over Rs. 50 crore (revised to Rs. 100 crore) not consistent with the provisional rates given in the tariff would be treated as breach of tariff.

The subsidiaries of General Insurance Corporation of India (GIC) issued MCE policies to nine parties for different periods varying between March 1995 to November 2001 at rates lower than the provisional rates prescribed in the tariff. This resulted in loss of premium of Rs. 49.76 crore. When the ratings were referred to TAC, a special group consisting of General Managers of all subsidiaries and GIC was constituted to consider the issues involved. The group in their report recommended (November 1998) that TAC might ratify as a one-time exercise the rates, terms and conditions of various large proposals provisionally rated by the companies. By then, most of the projects had been completed or were nearing completion. Accordingly, TAC in its meeting held on 18 December 1998 decided as a one-time exercise to ratify the proposals. By this action TAC ratified non-enforcement of tariff when there was no justification in allowing the companies to deviate from it.

TAC stated (March 1999) that:

(i) Though all projects above Rs. 100 crore were rated by TAC, leading international and Indian Financial Institutions often insisted upon widening the scope of MCE policies by deletion of many exceptions and inclusions of additional covers.

(ii) In view of this, special group constituted by the TAC to consider the issues involved recommended that TAC might ratify the proposals as a one-time exercise.

(iii) It was noted while ratifying proposals that most of the projects had already been completed.

The reply is not tenable as:

i) The ratification by TAC was in violation of provisions of section 64 UC of Insurance Act 1938, which states that in fixing or amending or modifying any rates the committee shall try to ensure, as far as possible, that there is no unfair discrimination between risks of essentially the same hazard. In this case charging of rates lower than tariff rates in a few cases was ratified resulting in discrimination.

ii) In ratifying the rates retrospectively, the TAC exceeded its authority as TAC had no authority to take decision from retrospective dates as stressed by Ministry of Law and Justice in U.O. note No. 22378/88 dated 29 August 1988.

iii) Insurance companies not only violated tariff but had also flouted the authority of TAC in that the policies were underwritten without reference to the provisional rates.

iv) One of the reasons mentioned for ratification was that most of the projects had already been completed and/or were nearing completion and had come under operational policies. However, this did not bar the companies from recovering the short charged premium, which could have been insisted upon by TAC as the initial rating was only provisional and subject to final rating by TAC.

v) The special group constituted by TAC to consider the issues involved consisted of General Managers of insurance companies and GIC who had themselves violated the tariff.

vi) The function of the regulatory authority was to ensure compliance of its guidelines. Instead, in this case by ratification of the violations, the TAC failed in its role.

vii) If there had been insistence from Financial Institutions etc. for widening the scope of the policies as well as for deletion of many exceptions and inclusions, the correct course of action would have been to review the policy and tariff structure after a study. Allowing the individual companies to resort to arbitrary rating and then ratifying it after the issue became a case of 'fait accompli'.

Failure of TAC as the regulatory mechanism in enforcing the tariff thus resulted in loss of premium of Rs. 49.76 crore.

The matter was referred to the Ministry in August 1999; their reply was awaited (December 1999).

National Insurance Company Limited

9.2.1 Loss due to application of inappropriate premium rate

The Company suffered a loss of Rs.1.12 crore due to incorrect application of premium rates on Jute stock under floating declaration fire policy.

The Company issued a floating declaration fire policy to Jute Corporation of India with extended cover for flood group of perils to the insured to cover stock of jute for a provisional sum insured of Rs.3 crore for the period 28 July 1997 to 27 July 1998. The final average sum insured, based on declaration stood at Rs.35.92 crore. The policy covered jute in bales and/or lying loose in various godowns at more than 500 locations including Jute Press and assortment sheds. The premium was realised at an average rate of Rs.13.35 per mille for fire and Rs.0.75 per mille for flood perils.

According to the provisions of All India Fire Tariff, one of the following two rates was applicable under the floating policies covering more than 500 locations.

(i) Rate of Class-I construction for the highest rated commodity with a loading of 10 per cent, or

(ii) Average rate to be fixed by the Head Office of the Insurance Company based on sum insured in the year immediately preceding the expiring policy period with applicable tariff rate for each location.

As the risk in question was not covered under any policy by the Jute Corporation of India during two years preceding the expiring policy period rate of class-I construction for the highest rated commodity (i.e. Rs.45.10 per mille for stocks lying in godowns in the compound of Jute Press) with a loading of 10 per cent was chargeable. Instead the

Company charged the lower average rate of Rs. 13.35 per mille based on rates charged in the last available underwriting year i.e. 1994-95. This resulted in undercharge of premium by Rs.1.12 crore (including service tax).

The Management stated (June 1998) that in the absence of the policy during the preceding year, the last available underwriting year i.e. 1994-95 had to be considered for arriving at the average rate for the policy for the year 1997-98. Ministry endorsed (October 1999) the views of the Management.

The reply of the Ministry/Management is not tenable as the year immediately preceding the expiry policy period was not the same as the last available underwriting year which was adopted by the Company. Moreover tariff had clearly prescribed an alternative rate in such a situation. Had the alternative rate based on highest rated commodity with a loading of 10 per cent been considered, the Company would have realised an additional amount of Rs.1.12 crore as premium on the basis of declaration of actual stock in 1997-98.

9.2.2 Loss of premium due to incorrect application of tariff

The Company suffered a loss of Rs.47.82 lakh due to incorrect application of tariff in respect of flood peril.

One Mumbai based Divisional Office of the Company issued Fire Policies "C"* covering flood peril also to M/s. Essar Steels Limited for the periods 20 February 1998 to 28 November 1998 and 9 May 1998 to 28 November 1998 for Rs.41 crore and Rs.48 crore covering the 'Stock of equipment of iron ore" and "Stock of lime pipes", respectively. The insurance policy clearly stated that both the stocks were lying in open at the pelletisation plant site, Vishakapatnam. These policies were further renewed from 29 November 1998 to 28 November 1999 for the sum insured of Rs. 41 crore and Rs.48 crore, respectively.

As the policies issued were in respect of stock lying in the open, the rate of Rs.4 per mille was applicable for including flood peril as per item B (iii) (b) part-III, Section 10 sub section 10 of All India Fire Tariff. As against this applicable rate the division charged a rate of Rs. 0.75 per mille. Application of incorrect rate for flood peril resulted in loss of premium of Rs. 47.82 lakh.

The matter was referred to the Management/Ministry in February 1999 and May 1999, respectively; their reply was awaited (December 1999).

9.2.3 Loss of premium due to non-adoption of TAC rates

Non adoption of premium rates fixed by Tariff Advisory Committee resulted in loss of premium of Rs.39.24 lakh.

Hyderabad based Division of the Company issued fire policies covering building machinery, stock and stock in process of a fibre yarn unit for the period 1 April 1993 to 31

** Fire "C" policy covers industrial and manufacturing storage risks for fire, lighting explosion/implosion, impact by Rail/Road vehicle for animal, articles dropped by aircraft and riot, strike, malicious and terrorist damage. Further risks like Earthquake, STFI(Storm, Tempest, Flood and Inundation) landslide, spoilage of stocks can be covered with additional payment of premium.*

March 1997. The said policies also covered Blow room, carding/spinning/post spinning/yarn godown for which premium at rates varying between Rs.2.10 per mille and Rs. 2.50 per mille were charged.

The Madras Regional Office of Tariff Advisory Committee (TAC) inspected (January 1994) the site and sanctioned the rate of Rs.11.73 per mille (less 10 per cent discount) applicable to (i) Blow Room (ii) Carding/Spinning/Post spinning/Yarn godown and (iii) Annexe block with effect from 1 April 1993 to 31 March 1998 as the risks were communicating. (The rates were further amended to Rs.8.90 per mille with effect from 1 April 1994).

Subsequently, the Committee clarified (April 1994) that in case the requirements of separation of risks as laid down by the Committee were complied with by the insured within 9 months the 'per se' rating would be applied with effect from 1 April 1993 or otherwise from the date of compliance of the requirements.

The inspection report submitted (20 March 1997) by the Company's engineer stated that the requirements suggested by Madras Regional Office of TAC had not been fulfilled by the insured. The Divisional office, however, continued to charge premium rate varying between Rs.2.10 per mille and Rs.2.50 per mille for the risks communicating with Blow Room.

Non adoption of premium rates fixed by the Madras Regional Office of TAC resulted in loss of premium of Rs.39.24 lakh for the period 1 April 1993 to 31 March 1997. Subsequently on segregation of the Blow Room and Carding Section, Madras Regional Office (TAC) in January 1998 sanctioned 'per se' rating for both the departments.

The Ministry in reply, endorsed (February 1999) the views of the Management that on account of representations made to TAC for extending the time for fire protection for communication of Blow Room and carding through chute feeding arrangements in textile mills, the same had indeed been extended from time to time by TAC. Final extension was granted upto 30 June 1996 and hence the insured was eligible to avail of the benefits of extension.

The reply of the Management/Ministry is misleading and thus not tenable because nowhere in the TAC circulars cited in the reply had it been mentioned that extension was granted for segregation of blow room and card room. These circulars related to grant of extension for installation of carbon dioxide flooding system which was not synonymous with fire protection system. For eligibility for 'per se' rating the textile mills were required to segregate the departments by way of construction of screen wall and thickening of the brick wall apart from the installation of carbon-d-oxide flooding system. From the circulars it is clear that extension was granted by the TAC for setting up of the Carbon-di-oxide system provided the blow room and the card room were otherwise segregated. Since the insured had not compiled with the conditions of segregation even by March 1997 it was not entitled to 'per se' rating.

The New India Assurance Company Limited (NIA)

(Tariff Advisory Committee)

9.3.1 Loss of premium

Loss of premium of Rs.2.20 crore due to non-adherence to tariff provision regarding loading for 'cluster of risks'

All Petrochemical plants, Refineries, Fertilizer Plants with feed stock like Naptha, Fuel Oil, Natural Gas, Coal etc. were governed by a separate petrochemical Tariff. The tariff, inter alia, contained a warranty (E-1) which envisaged a loading of 15 per cent on the net rates arrived at, if the plant was located in an area where there was a cluster of petrochemical plants/refineries resulting in hazards from such neighbouring plants, besides other loading contemplated therein. Discount ranging from 5 per cent to 20 per cent was also allowed for specified superior features such as installation of fire hydrants etc. The maximum discount allowable was restricted to 35 per cent.

However, loading for 'cluster of risks' was not applied by TAC to any of the risks indicated in the table below resulting in loss of premium of Rs.2.20 crore for the period 1995-96 and 1996-97:

Insured	Leading Insurance Company	Location	Surrounding risks	Amount not loaded (Rs. in lakh)
KIRBHCO (Fertilizer unit)	NIA	Hazira (Surat)	Gas processing complex of ONGC. Petrochemical Complex of RPL Gas based on power generation plant of NTPC.	131.51
IPCL (Petroche-mical complex)	NIA	Vadodara	Petrochemical complex of PETROFILS oil Refinery of IOC petrochemical complex of GCFC.	43.29
HPCL (Oil Refinery)	NIA	Mahul, (Mumbai)	Oil Refinery of BPCL petrochemical complex of CALICO CHEMICALS petrochemical complex of OSWAL PETRO CHEMICALS.	44.93
			Total	**219.73**

The Ministry stated (December 1998) that the tariff had only kept an option to apply a loading for a plant in case it was located in an area where there was cluster of risks and that the loading was never applied on any plant as 'Probable Maximum Loss' (PML) consideration did not show any risk to neighbouring plant getting affected. It was also stated that based on the recommendation of the sub group of TAC which examined the matter, TAC later decided for deletion of this warranty. The reply is not tenable because:

(i) The TAC had never considered the aspects mentioned in their reply now while rating the above mentioned risks and no reasons were recorded specifically in the rating schedule about the applicability or otherwise of warranty E-1.

(ii) The PML consideration is widely used only in the context of reinsurance and rarely used for the purpose of rating the risks as the PML only measures the risk exposure.

(iii) Emphasis on the wordings of the tariff viz. 'may charge a loading', amount to stretching the logic too far and confers non-existent discretion or option to the insurer. Incidentally, the tariff also uses the same word 'may' for allowing or not allowing discount off the basic rate but such option or discretion not to allow discount was seldom exercised.

(iv) Further, the decision of TAC to delete the warranty (August 1997) itself signifies that the tariff did not confer any optional application of E-1 as the TAC need not have deleted the warranty if the discretion was implied by the tariff wordings.

(v) The deletion of warranty had only a prospective effect and did not imply that the premium of Rs.2.20 crore pertaining to earlier period need to be realised.

Thus, due to non-adherence of tariff provisions, the Insurance Companies suffered a loss of premium to the extent of Rs.2.20 crore.

9.3.2 Loss of premium due to non-application of TAC rates

The Company failed to apply premium rates as advised by TAC and lost premium of Rs.77.07 lakh.

One Chennai Divisional Office of the Company issued fire policies covering urea plant of M/s. Neyveli Lignite Corporation Limited (insured) for the period 1 April 1997 to 31 March 1999. Tariff Advisory Committee (TAC) had inspected the risk in June 1996 and had found that the hydrant system was not in conformity with tariff warranty. A time limit of one year (i.e. upto 30 June 1997) was granted by TAC to revamp the hydrant system and in case the requirements were not complied with by that time a penalty of 25 per cent from 1 July 1997 and 50 per cent from 1 July 1998 was advised to be applied on premium. Though the insured sought time upto 31 March 1998, no formal extension was granted by TAC.

In the meantime, the Company continued to charge premium without applying the penalty prescribed by TAC from 1 July 1997. In March 1998, the insured informed the Company that the required work had been completed. Based on the inspection of the modification, the TAC intimated (February 1999) the Company that the work said to have been completed by the insured was not in accordance with the requirements of TAC and hence penalty had to be followed.

As the insured had not completed the modification as required and TAC had not granted any extension, the Company should have applied penalty on the premium from 1 July 1997 and 1 July 1998. Failure to do so resulted in a loss of premium of Rs.77.07 lakh.

The Ministry while accepting the audit observation stated (November 1999) that the Insurance Company had initiated action for recovery by holding a meeting with representative of the insured.

Although the Insurance Company had taken up the matter with the insured (May 1999) and a meeting was held (August 1999) in this regard, recovery was yet to be effected (December 1999).

9.3.3 Settlement of fire claim specifically excluded by fire tariff

The Company settled a claim for Rs. 49.54 lakh in violation of exclusion provision of fire tariff.

A Mumbai Divisional Office issued Fire and consequential loss of profit policies to M/s Tata Chemicals Limited covering their chemical plant at Mithapur (Gujarat) for the period 1 April 1994 to 31 March 1995 for a sum of Rs.191 crore. On 5 December 1994 there was a fire which damaged their 11 KV switchboard disrupting power supply leading to the insured lodging consequential loss of profit as well as material damage claim.

The surveyors in their preliminary report identified short-circuiting as the cause of the damage. The expert appointed by the Company opined that there was short circuiting, arcing resulting in fire in the switchboard. On the basis of this report the Divisional Office, settled the loss at Rs.4.19 lakh under material damage and Rs.45.35 lakh under loss of profit.

According to the fire policy exclusion clause, loss or damage to any electrical machine apparatus, fixture or fitting or to any portion of the electrical installation, arising from or occasioned by over running, excessive pressure, short circuiting, arcing, self heating or leakage of electricity from whatever cause was not to be covered by insurance. This exclusion, however, applied to the particular electrical machine, apparatus, fixture, fitting, or portion of the electrical installation so affected and not to other machines, apparatus, fixtures, fittings or portions of the electrical installation etc which may be destroyed or damaged by the fire so set up.

In the instant case, the fire occurred because of short circuiting and damaged only 11 KV switchboard. Since it did not spread to other portions of electrical installation, the claim should have been repudiated as per the exclusion clause.

The Ministry stated (September 1999) that:

(i) In view of the nature of the damage, expert consultants were appointed and based on their report it was concluded by the surveyor that the damage had originated in cubicle No.13 and fire spread to and affected other cubicles of the same switchboard.

(ii) The surveyor had apportioned the loss as loss due to short circuit and loss due to spread of fire.

The reply of the Ministry is not tenable because:

(a) In the instant case fire originated in the switchboard and was confined to different panels of the switchboard only. Thus, as per the exclusion clause no compensation was payable. The Company, however, settled the claim by treating different panels of the same switchboard as different items. Breaking down the machine or

apparatus into small parts and treating each part as a separate unit in order to circumvent the exclusion clause amounted to violation of the spirit of the said clause.

(b) The exclusion clause did not distinguish between loss due to short circuit and loss due to fire.

Thus, settlement of claim of Rs.49.54 lakh (Rs.4.19 lakh for material damage and Rs.45.35 lakh for loss of profit) was in violation of the exclusion clause of fire tariff.

The Oriental Insurance Company Limited

9.4 Loss of premium due to non loading for adverse claim experience

By not following the underwriting guidelines issued by the Company after de-tariffing of marine business, which stipulated loading for adverse claim experience, the Company incurred a loss of premium of Rs.1.51 crore.

According to the guidelines issued by the Company effective from 1 April 1994 loading was to be applied on the rate charged for marine open policies whenever claim ratio for the past 3 years excluding the expiring policy period exceeded 60 per cent.

A Delhi Divisional Office of the Company issued a marine open policy to Chambal Fertilizers and Chemicals Limited (insured) covering transit from anywhere in India to anywhere in India for the period 18 July 1998 to 17 July 1999 for a sum insured of Rs.466.28 crore. The average claim ratio for the preceding three years excluding the previous year (1994-95, 1995-96 and 1996-97) was 287 per cent which warranted a loading of 379.5 per cent on the then existing rate of 0.0850 per cent. However, the Divisional Office continued to charge only 0.0850 per cent instead of charging 0.41 per cent which included correct loading of 379.5 per cent, resulting in loss of premium of Rs.1.51 crore.

The Management/Ministry replied (August/October 1999) that:

i) The dealing office had continued with the rate of 0.0850 per cent from the year 1996 onwards as the entire account of the insured was giving overall profit.

ii) Since there was no tariff from 1 April 1994 non loading of premium did not involve breach of any provision.

iii) The client had been adopting suitable loss control measures under the Company's advice resulting in significant reduction in the claims.

iv) Further the clients were commissioning another phase of their project with an anticipated premium potential of Rs.10 crore which the Company hoped would improve the portfolio.

The reply is not tenable as:

i) Each portfolio of insurance business being unique in its risk factors, rating had to be made based on the merits of individual portfolios and not based on overall business with the client. If individual portfolios are not separately rated, a major loss in one portfolio would render the overall business unprofitable.

ii) Since an adverse claim ratio in any portfolio of a client cannot be offset by loading his other portfolio, each portfolio has to be administered separately.

iii) In the detariffed scenario underwriters have the freedom to rate marine policies based on their risk assessment. However, once the claim ratio turns adverse it has to be rectified by suitable loading, as the adverse claim ratio would indicate that the initial risk assessment was off the mark.

iv) In case the claim ratio comes down, loading can also be suitably adjusted downward. Hence the results of the loss prevention measures taken by the client would automatically get reflected in decline of claim ratio and consequently in the premium charged.

v) Anticipated future premium, consequently on additional creation of assets by the client cannot justify charging of uneconomical rates in existing business, as there is no guarantee that the new business would come to the same company.

Thus, non-loading of premium resulted in loss of premium of Rs.1.51 crore.

United India Insurance Company Limited

9.5.1 Revenue loss due to application of lower tariff rate

Failure to charge premium at correct tariff rates resulted in revenue loss of Rs.37.23 lakh to the Company.

One of the Madurai based Divisions of the United India Insurance Company Limited (UIIC) issued Fire 'C' policies to M/s. Southern Roadways Limited covering their Lorry Booking Offices cum Godowns against fire and allied perils for the years 1997-98 and 1998-99. While charging the premium, the Company failed to take note of the revised higher rates fixed by the Tariff Advisory Committee (TAC).

Non-charging of the revised higher rates of premium by the Company resulted in loss of revenue to the extent of Rs.37.23 lakh for the years 1997-98 and 1998-99. The Company replied (March 1998) that they had taken up the matter with TAC for allowing the old rates to be continued. The TAC has not so far agreed to the Company's request (June 1999).

The reply is not tenable as the tariff revisions by TAC are binding on all the Insurance Companies in India and hence the Company should have charged the premium at the rates in force. Failure to adhere to the tariff rates thus resulted in loss of revenue to the tune of Rs.37.23 lakh.

The matter was referred to the Ministry in April 1999; the reply was awaited (December 1999).

9.5.2 Loss of premium due to incorrect application of tariff

Application of lower rates of fire and earthquake premium in certain cases caused loss of Rs.18.50 lakh to the Company.

Patna Division of the Company (UIIC) issued (May 1992 to February 1996) fire policies to M/s. Bihar State Electricity Board (BSEB) covering various units of their power generating stations. The fire policies were also extended (May 1992 to February 1997) to cover flood and earthquake perils. All these policies issued between May 1992 and February 1996 included Coal Handling System with Pulveriser, Coal Mills, etc. The premiums were incorrectly charged on these units at rates lower than that applicable as per All India Fire Tariff. As a result, the Company suffered loss of Rs.5.22 lakh on premium for the period from May 1992 to February 1997.

Further, the Tariff Advisory Committee revised the classification of earthquake zones with effect from November 1993. As per the revised classification, the location of BSEB's power generating station at Begusarai came under Zone II instead of erstwhile Zone III, thereby attracting levy of higher rate of premium. However, the Division charged the lower rate of premium as applicable to Zone III for policies issued between May 1994 and February 1996. This resulted in the Company incurring loss of premium of Rs.13.28 lakh for the period from May 1994 to February 1997.

The Company admitted (April 1999) the under charging of premium and also stated that prospects of recovery of the amounts undercharged were not good. The total loss of revenue to the Company in this regard was Rs. 18.50 lakh.

The Ministry stated (May 1999) that they were examining the matter.

9.5.3 Loss of premium in Fire Insurance

Extension of Fire 'C' policy for flood coverage to selected items only instead of entire property covered under fire policy resulted in loss of premium of Rs.14.92 lakh.

Bhagalpur Division of the Company (UIIC) issued 4 Fire 'C' Policies covering various plants and machineries, oil tanks, raw materials and finished products located in the premises of the Barauni Refinery of M/s. Indian Oil Corporation Limited (IOC). The total sum insured was Rs.400.86 crore during the period from 1 April 1994 to 31 March 1995. Another Fire 'C' Policy was issued for the same refinery covering part of the property in the same premises for an insured sum of Rs.2.98 crore covering both fire as well as flood perils for the period from 29 June 1994 to 28 June 1995.

According to Part III, Section 10 of All India Fire Tariff, flood cover is to be granted to the entire property in one complex/compound/location covered under Fire 'C' Policy. Further, the sum insured for the extension of flood cover is to be identical to the sum insured against the risk covered under Fire 'C' Policy. Thus, in the instant case, the Flood cover should

have been extended to the whole of the 4 Fire C policies for the insured sum of Rs. 400.86 crore. Thus by extending the flood cover to part of the sum insured under Fire `C' Policy for selected items, the Division had violated the provisions of All India Fire Tariff resulting in loss of premium to the extent of Rs.14.92 lakh. The Company admitted the mistake (May 1999).

The Ministry agreed with the Management (September 1999) and further stated that the action of the Management was through oversight and that there was no intent to cause detriment to the Insurance Company. However, the fact remains that the act of the Company resulted in loss of premium to the extent of Rs.14.92 lakh.

The Oriental Insurance Company Ltd. and National Insurance Company Ltd.

9.6 Loss of premium due to undercutting of rates

Insurance industry lost Rs.1.49 crore due to undercutting of premium rates.

A meeting on 30 January 1996 of the officers of divisional offices of insurance companies decided to adopt a uniform approach while quoting for insurance cover of High Value Direct Current (HVDC) Dadri Poles I and II of Power Grid Corporation of India Limited to avoid any unhealthy competition. Inter Company Coordination Committee meeting held on 13 June 1997 also decided that premium quotation for HVDC Dadri Pole II and HVDC Rihand Pole II should conform to the rates agreed upon by the companies in keeping with TAC advice. The rate agreed upon for the machinery breakdown policies was 1.05 per cent net of all discounts. TAC later (December 1998) reduced the rate to 0.98 per cent for the risk from 1 January 1998.

Insurance companies, however, violated the above rates and covered the risk at lower rates undercutting each other for different periods, as follows:

DADRI POLE I

Name of Insurance Company	Policy Period	Rate Charged
Oriental DO Ghaziabad	27.2.1997 to 26.2.1998	0.82%
Oriental DO Ghaziabad	27.2.1998 to 26.2.1999	0.78%
National DO Faridabad	27.2.1999 to 26.2.2000	0.11% to 0.80%
DADRI POLE II		
Oriental DO Ghaziabad	3.7.1996 to 2.7.1997	0.82%
Oriental DO Faridabad	3.7.1998 to 2.7.1999	0.27% to 82%
RIHAND POLE I		
National DO Faridabad	1.1.1999 to 31.12.1999	0.11% to 0.80%
RIHAND POLE II		
Oriental DO Faridabad	3.7.1998 to 2.7.1999	0.27% to 0.82%

This resulted in loss of premium of Rs.1.49 crore compared to the premium chargeable at uniform rates on the lines advised by TAC.

One of the companies involved, National Insurance Company Limited, stated (April 1999) that undercutting had been resorted to by other companies also and there was little option for them having regard to the commercial nature of business. The Company also stated (August 1999) that at the instance of audit they had raised the bills in July 1999 for Rs.26.71 lakh and Rs.26.75 lakh being the balance premium in respect of policies relating to Rihand Pole–1 and Dadri Pole–1 for the period commencing from 1 January 1999 and 27 February 1999, respectively.

The Ministry while endorsing the views of the Management stated (November 1999) that 'National' had already initiated recovery proceedings from the insured. As regards 'Oriental' it was stated that the rate of 0.82 per cent for the years 1996, 1997 and 1998 was arrived at after applying a discount of 45 per cent on the rate of 1.50 per cent and on reduction of the rate to 1.40 per cent, the underwriting office had charged the rate of 0.78 per cent for the period 27 February 1998 to 26 February 1999.

The reply of the Ministry is not tenable as additional 15 per cent discount had been allowed by TAC in March 1995 subject to the condition that the insurer satisfied itself that all equipment of the power station were covered. In December 1998 the discount was withdrawn. It was observed that all the equipment were not covered and only valve hall equipment were covered. As the condition laid down by TAC for grant of 15 per cent discount had not been complied with, the insured was not eligible for this discount at any time.

Unhealthy competition among the insurance companies and consequent undercutting of premium rates, therefore, resulted in a loss of premium of Rs.1.49 crore to the insurance industry.

CHAPTER: 10 DEPARTMENT OF BANKING

Indbank Merchant Banking Services Limited

10.1.1 Loss due to non-recovery of inter corporate deposits

Due to violation of norms prescribed in the guidelines for sanction of inter corporate deposits and deviation from prudent business practices as well as poor follow up, the Company had to write off an amount of Rs.13.15 crore. Besides, recovery of an additional amount of Rs.24.73 crore which was overdue as on 31 March 1999 also became doubtful.

Indbank Merchant Banking Services Limited (IBMBS), a subsidiary of Indian Bank, had framed guidelines (November 1990) relating to the placing of Inter Corporate Deposits (ICD) which were short term deposits (normally for 3 months to 6 months) with various firms. These guidelines classified the corporate sector into three categories: A+, A and B and ceiling limits for ICDs were fixed at 20 per cent, 15 per cent and 10 per cent of the net worth respectively for the three categories of companies. The guidelines also, *inter alia*, laid down time limits for repayment by the client companies as well as norms for rolling over of the ICDs.

Test check of 16 ICD cases described below revealed repeated violations of the Company's own guidelines and instructions, poor follow up and ineffective monitoring. In some cases, even the basic lending norms and all prudence in business practices were flouted. Following are the details of the cases:

10.1.1.1. Deve Annapoorna Foods, Chennai. (DAF)

2 ICDs for a total of Rs.2.50 crore were sanctioned and placed (January 1992 – Rs.1.50 crore/June 1992 – Rs.1.00 crore) by IBMBS, for a period of 91 days, with DAF against public issue of DAF expected to be floated in August 1992. The issue, however, did not materialise. The ICDs were rolled over till March 1995. As the Company did not pay the principal and interest till March 1996, a sum of Rs.5.47 crore (Principal Rs.2.50 crore plus Interest Rs.2.97 crore) was written off in the accounts for the year 1995-96.

The following deviations/irregularities were noticed in the placement of the ICD:

(i) The ICD amount was much more than 10 per cent of the net worth of the firm (which belonged to the B category) as prescribed in the guidelines for sanction of ICD. As against the maximum eligible amount of Rs.3.5 lakh in January 1992 and Rs.14.5 lakh in June 1992, the disbursement aggregated to a staggering Rs.2.5 crore.

The Management stated (September 1999) that although the exposure was more than 10 per cent of the net worth criteria, considering the projected post-issue net worth, ICD for a higher amount was sanctioned.

The reply is not at all tenable. As per guidelines, the ICD should be for a maximum amount of 10 per cent of the net worth at the time of sanction and not the post-issue projected networth. It was thus a clear violation of the guidelines.

(ii) The ICDs were rolled over 12 times and 10 times respectively, as a matter of routine (till March 1995) against the norm of one time as per the guidelines.

The Management stated that the ICDs were given in the project implementation stage and rolled over in view of revision in the project and delay in floating the public issue. The reply only confirms the violation of guidelines, which provided for no such relaxation by the management.

(iii) The firm's credit worthiness was not verified by obtaining credit opinion from its bankers/ financiers;

The Management stated (September 1999) that in tune with the market practice at that point of time, no credit opinion was insisted upon. The reply only confirms the casual approach of the management while making investments with firms whose credentials were not verified.

(iv) The ICDs were placed hastily, before the client firm had obtained the consent of Controller of Capital Issues / Securities and Exchange Board of India (SEBI) for its proposed public issue, which was a mandatory requirement as per the guidelines before placing any ICD tied to a public issue;

(v) Although there was change of ownership of the client firm in November 1994, IBMBS came to know of it only when the new management requested for roll over in March 1995, indicating lack of monitoring. In fact, the follow up action was also poor as evident from the fact that even the winding up of the Company was ordered (November 1997) on a petition filed by another financier. The Company learnt about this fact only in February 1998.

10.1.1.2. Denmur Fax Rolls, Coimbatore (DFR)

ICD of Rs.50 lakh was sanctioned and placed (April 1994) by IBMBS for 90 days towards working capital of the firm. The ICD was not repaid on the due date, but the Company continued to roll over the ICD. DFR ceased its operations from March 1995. Outstanding dues of Rs.74.34 lakh were written off by the Company in 1995-96. IBMBS issued legal notice (December 1997) more than 1 year after write off of the ICDs and filed a suit after a further delay of six months in June 1998.

The following deviations/irregularities were noticed in the placement of the ICD:

(i) The ICD was sanctioned without even a formal request from the client firm.

(ii) Date of incorporation of the firm was 29 April 1992 and as such it did not satisfy the condition of existence of 5 years at the time of sanction as required under the guidelines.

(iii) Sanction was without any appraisal /credit opinion from the firm's financiers/ bankers.

(iv) ICD was rolled over as many as 10 times against the norm of one time only.

The Management stated (September 1999) that the sanction of ICD was based on the fact that IDBI and Indian Bank had sanctioned term loans, working capital and LC limits to the firm and that the appraisal of the firm by its bankers/financial institutions were relied upon. The reply is not tenable, since the Company, as a prudent commercial practice, ought to have made its own independent appraisal of the client Company's financial status before sanction of the ICD which was not done, nor was there any mention in the sanction note about appraisal of this client Company made by other financial institutions on which it was stated to have relied upon. IBMBS had not even taken into account the fact of the client Company being irregular in its repayments to its own holding Company (Indian Bank).

10.1.1.3. Foremost Ceramics Ltd., Delhi (FCL)

ICD of Rs.2.50 crore was sanctioned and placed with FCL (August 1990) against public issue of M/s Foremost Industries Ltd, the holding Company of FCL, expected to be floated by October/November 1990 which did not materialise. FCL paid interest of Rs.4.80 lakh only and ceased payments from April 1991. Outstanding dues of Rs.4.21 crore were written off by the Company in 1994-95 and 1995-96. Though the repayments and public issue were not forthcoming, IBMBS chose to wait for five years and filed a suit only in July 1996, just before the Company was referred to BIFR (December 1996).

The following deviations from the guide lines were noticed in Audit:

(i) ICDs were not permitted to be sanctioned for the purpose of investment by the client Company. In this case, it was sanctioned as advance towards allotment of equity shares out of promoter's quota. (The client Company was acting as a promoter to its holding Company's public issue.) IBMBS, nonetheless, sanctioned Rs 50 lakh of the ICD for this specified purpose;

(ii) The banker's opinion on FCL's credit-worthiness was not obtained;

(iii) ICD was rolled over 22 times as against permissible limit of one time as per the guidelines.

10.1.1.4 Uletimo Polymers Ltd., Hyderabad (UPL)

As against ICD of Rs.50 lakh sanctioned to the party (UPL) in November 1992 for a period of 3 months against its proposed public issue slated for December 1992; disbursement of Rs.25.00 lakh was, however, made before the sanction in October 1992 on the oral permission of the president of the IBMBS. The public issue of UPL did not take off as envisaged and UPL failed to pay up on due date except for a sum of Rs.2 lakh only (December 1994). Legal notice was issued (February 1995) and civil suit was filed in September 1996 after a lapse of 18 months which was still pending in Court (October 1999). IBMBS had written off Rs.39.92 lakh (Rs.19.96 lakh each in 1994-95 and 1995-96).

The following irregularities were noticed in audit:

(i) The net worth of the client Company as on March 1992 was Rs.21.94 lakh and the ICD amount sanctioned and disbursed was much more than 10 per cent of its net worth which was the amount eligible for sanction.

(ii) The debt equity ratio was higher (3.10:1) than the norm of 2:1.

(iii) ICD was sanctioned against the client Company's proposed public issue, although the consent from CCI/SEBI for its proposed public issue was not obtained. It may be mentioned that IBMBS was one of the lead managers to the proposed public issue.

(iv) Though the sanction was accorded on 5 November 1992, ICD was disbursed on 20 October 1992 itself, without any written orders which was against all norms.

The Management stated (September 1999) that when the draft prospectus was filed for bringing out the public issue during 1993 with SEBI, they were asked (March 1994) to resubmit the prospectus with certain changes. However, the client Company did not co-operate in submitting the details to enable IBMBS to resubmit the prospectus.

The action of the Company itself confirms that in violation of its guidelines, the disbursement was made even before the necessary prior sanction and without filing the prospectus for clearance by SEBI which finally resulted in non-materialisation of the public issue.

10.1.1.5 Unikol Bottlers Ltd., Bombay(UBL)

ICD of Rs.50 lakh was sanctioned and placed (April/May 1991) for a period of 90 days by IBMBS against public issue of the client Company. The proposed public issue did not materialise. The Company continued to roll over the ICD till Match 1992, but the party (UBL) did not repay and their factory remained closed since March 1993 due to lock out. The Company had written off Rs.1.00 crore (Rs.50.05 lakh each in 1994-95 and 1995-96).

The following deviations/irregularities were noticed in Audit:

(i) The placement of funds was not based on merit as the net worth as on March 1991 of the client Company was only Rs.30 lakh against which IBMBS placed an ICD of Rs.50.00 lakh, which was much more than 10 per cent of the net worth applicable to the Company as permitted under the guidelines.

(ii) The ICD was rolled over 3 times as against the norm of one time.

10.1.1.6. Ushma Investments (P) Ltd. and Vista Finance and Leasing Pvt. Ltd.

ICD of Rs.2.50 crore was sanctioned and placed (6 January/3 February 1992) by IBMBS with 2 companies belonging to the same group (Armour Group), viz., M/s. Vista (Rs.1.80 crore) and M/s. Ushma (Rs.70 lakh) for a period of 6 months to enable them to subscribe to the public issue of M/s. Armour Polymer Ltd. (APL), another Company belonging to the same group. The total outstanding liability as in January 1995 was Rs.3.83 crore (principal Rs 2.50 crore plus interest Rs 1.33 crore) when the ICDs became non-performing assets and consequently the Company stopped charging interest on these. Out of the total interest liability of Rs 2.11 crore (January 1995), the client companies paid a total amount of Rs 78.52 lakh (Ushma: Rs 22.12 lakh and Vista Rs 56.40 lakh) till September 1995 and stopped payments thereafter. The Company realised the principal amount of Rs.2.50 crore by way of a compromise proposal worked out in March 1997, resulting in non-recovery of interest Rs.1.33 crore which was written off in 1996-97.

In this connection, the following irregularities were noticed in audit:

(i) Both Ushma & Vista were new companies engaged in financial activities and their subscribed capital were respectively Rs.2.80 lakh and Rs.2000 only. There was thus clear violation of the guidelines which required a Company to exist for a minimum of 5 years for placing of ICDs.

(ii) Besides, the amount of the ICDs sanctioned was far above the norm of 10 per cent of net worth applicable to the client companies.

10.1.1.7. MFB Industries Limited (MFB)

2 ICDs for Rs.25 lakh and Rs.15 lakh, were sanctioned in December 1992 and February 1993 respectively, against their prospective public issue (Rs.2.70 crore) which was to be floated by February 1993. The ICDs were repayable after 91 days and 10 days respectively. Though the issue could not be floated on the proposed date and MFB failed to repay the ICDs with interest, IBMBS chose to place further ICDs of Rs.15 lakh and Rs.45 lakh in April 1993 and February 1995 respectively, payable in 94 and 91 days against the same proposed public issue.

While ICD of April 1993 (Rs 15 lakh) was closed belatedly in October 1993, the other 3 ICDs were consolidated as one ICD w.e.f. 1 April 1996. The issue was time and again postponed and the ICDs were renewed periodically. The Company did not insist on repayment of ICD up to March 1998, by which time the outstanding dues had shot up to Rs.1.27 crore including interest. The outstanding dues as on 31 March 1999 was Rs.1.45 crore (principal Rs.85 lakh plus interest Rs.60.22 lakh).

In this connection, the following deviations from guidelines in sanctioning the ICDs were noticed:-

i) MFB was only a 3 year old Company belonging to B category. The ICD sanctioned on all the four occasions was far above the permissible limit of 10 per cent of the net worth for the Company as on the relevant date, (Net worth; December 1992 and February 1993: Rs.3.00 lakh; March 1993:Rs 30.00 lakh and February 1995: Rs.2.08 crore) which was in violation of the guidelines.

ii) The ICDs were rolled over 6 times as against the norm of one time.

iii) The ICDs were continued to be placed against a public issue, which never saw the light of the day.

The Management stated (September 1999) that under a compromise proposal approved by the Board (April 1999), the IBMBS had recovered an amount of Rs.98.16 lakh in June 1999, as against outstanding dues of Rs.1.45 crore as on 31 March 1999. This compromise had resulted in loss of Rs.47.06 lakh to IBMBS.

10.1.1.8 Malladi Group of Companies

(a) ICDs totalling Rs.5.00 crore were sanctioned (January 1995) for a period of 6 months to 3 individual companies belonging to the Malladi group (Malladi Investment Private Ltd.: Rs.2.00 crore; Saga Marketing Services Ltd.: Rs.2.00 crore; and Malladi Project Management Centre: Rs.1.00 crore) against the proposed public issue of M/s

Emmellen Bio-tech Pharmaceuticals Ltd. (EBPL), another Company of the Malladi Group. These client group companies were shareholders of EBPL. The public issue of EBPL did not take off as envisaged in April 1995. All these ICDs aggregating to Rs.5.00 crore had remained unpaid so far (October 1999).

The following deviations/irregularities were noticed in sanction of these ICD's:

(i) The amounts of ICDs sanctioned were much higher than the norm of 10 per cent of net worth of these companies. As against the net worth of these companies which were Rs.36.30 lakh, Rs.28.48 lakh and Rs.38.22 lakh respectively as on the date of sanctions, the sanctions were for Rs 2 crore, Rs 2 crore and Rs 1 crore respectively.

(ii) The ICDs were rolled over 4 times against the norm of 1 time.

The Management stated (September 1999) that in view of the depressed market conditions, these ICDs were remaining unpaid and that they had filed civil suit in January 1999 for recovery of dues. The out come of the court cases was awaited (October 1999).

(b) Karnataka Malladi Bio-tech Ltd. (KMBL)

Similarly, ICD to the extent of Rs.4.50 crore was sanctioned (January 1995) to KMBL for a period of 6 months, against proposed public issue of M/s Emmellen Bio-tech Pharmaceuticals Ltd. (EBPL). As the public issue of EBPL was not forthcoming, at the end of the period of 6 months, when KMBL failed to repay the ICD along with interest, under a 'bought out deal arrangement', Rs.4.02 crore of the total ICD amount of Rs 4.50 crore was converted (July 1995) by IBMBS into equity shares of KMBL and the balance of Rs.47.50 lakh was treated as ICD for six months again. The shares of KBML were not listed.

The client Company had undertaken to buy back their shares in the event of non-listing of the shares within two years from the date of allotment at a rate which would guarantee a minimum return of 20 per cent to IBMBS, but it failed to buy back the shares after 2 years even though it continued to remain unlisted, and was an unlisted Company even now (October 1999). Legal notice was served to the client Company after a delay of 2 years (August 1999) for invoking the buy back clause.

In this case, the following irregularities were noticed:

(i) No steps to recover the entire amount of Rs. 4.50 crore were initiated by the Company after the client Company had failed to repay the amount on the due date. Rather, the client Company was accommodated by converting the major portion of the ICD into their equity shares without taking into account the risks related to the liquidity of the unlisted shares. This was also against the guidelines which did not permit the conversion of short-term funds into investments.

(ii) The remaining ICDs amounting to Rs.47.50 lakh were rolled over 3 times against the norm of 1 time for ICD.

The outstanding dues as on 31 March 1999 in these cases [(a) and (b) above] were Rs.9.93 crore (principal Rs.5.48 crore plus interest Rs.4.45 crore)*. IBMBS issued a legal notice

* This excludes the amount of ICD converted into shares (Rs 4.02 crore).

for recovery of the outstanding dues belatedly in April 1998 and filed the recovery suit only in January 1999.

10.1.1.9 Kedia Group of Companies

ICD of Rs.10.00 crore was sanctioned and placed (December 1994) with Kedia Castle Dillon Ltd. (KCDL) by the IBMBS for six months against prospective public issue of KCDL expected to be floated February 1995. The public issue was not launched and ICD was extended for a further period of six months by the Board (July 1995). The Company converted (December 1995) part of the ICD amounting to Rs.7.24 crore into Hire Purchase financing in favour of M/s Kedia Great Galleon Ltd. (KGGL), one of the group companies. The remaining Rs.2.76 crore was extended as ICD till July 1996 and further extended till December 1996. In spite of the above accommodation to the borrowers, no repayment was forthcoming either from KGGL or KCDL. Legal notice was issued in July 1997 and a civil suit was filed in December 1997 for recovery of outstanding dues. IBMBS could not repossess the assets so far (October 1999). As on 31 March 1999, Rs.4.15 crore towards ICD and Rs.10.17 crore towards Hire Purchase were outstanding against KCDL and KGGL respectively. KCDL was subsequently referred to BIFR (June 1998).

The following irregularities were noticed:

(i) KCDL was rated as an 'A' grade Company. As per the guidelines for sanction of ICD to 'A' grade companies, the ICD amount was to be restricted to 15 per cent of net worth. By sanctioning an ICD of Rs.10.00 crore the exposure limit was exceeded by Rs 3.73 crore.[*]

The Management stated (September 1999) that although the exposure was more than 15 per cent of net worth criterion, considering the projected post issue net worth on the expected public issue, the deviation was made. The reply is not tenable since the credit exposure was to be calculated on the existing net worth and not on any expected future net worth.

(ii) As per guidelines, ICD could be sanctioned against a public issue only after the consent for the proposed public issue was obtained from SEBI. In this case, the letter of consent was obtained in September 1995 while the date of sanction/ disbursal was December 1994/January 1995. Besides, IBMBS disbursed Rs.5.00 crore of the ICD on 7 December 1994, before the same was sanctioned by the Board (27 December 1994).

The Management stated (September 1999) that since IBMBS had previous dealings with the group which were satisfactory and further considering the reputation and performance of the group at that time, it was decided to disburse Rs.5.00 crore before sanction was taken. The reply is not tenable as the guidelines did not provide for any exceptions based on 'previous dealings'.

(iii) No credit opinion from the bankers was obtained while sanctioning the ICD.

(iv) The conversion of part ICD (Rs.7.24 crore) as hire purchase finance to KGGL was

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[*] ***15% of net worth of Rs.41.78.crore = Rs.6.27 crore.***

unusual and was done clearly to accommodate the client Company (KCDL). Management admitted (September 1999) that it was decided to convert part of the ICD into Hire Purchase so to have the security of assets worth Rs.7.24 crore.

The reply is not acceptable. Despite the 'security', the Company could not repossess the assets. The entire sum of Rs.10.00 crore including the Hire Purchase portion, besides interest of Rs 4.32 crore (as on 31-03-1999) had remained unrecovered (September1999).

Thus, due to violation of its own guidelines, the Company had to write off an amount of Rs.13.15 crore (principal Rs.6.25 crore and interest Rs.6.90 crore) in respect of 8 ICDs which had become non-performing assets. Besides, an amount of Rs.24.73 crore (principal Rs.15.48 crore and interest Rs.9.25 crore) had become overdue in respect of 8 other ICDs as on 31 March 1999 which were also doubtful of recovery.

The Company sought to underplay the flouting of guidelines and norms and assumption of bad business risk by it and stated (September 1999) that:

- ICD placement was used as a leverage for getting merchant banking assignments; and

- ICDs for more than Rs.300 crore were placed; the overdue amounts worked out to 17 per cent of the cumulative income of Rs.193 crore earned as interest on ICDs up to 31 March 1999 and that they had arisen due to external reasons beyond the control of the Company .

The reply is not tenable. The violations from guidelines, instructions and norms as indicated above cannot be justified for getting additional business or earning additional income. The defaults and overdues could have been avoided by following the norms, guidelines and prudent business practices. While deviating from these, the Company undertook unusually high risks which ultimately resulted in the ICDs turning into non-performing assets with consequent loss and non-recovery of huge amounts. The losses thus could not be attributed to external reasons beyond the control of the Company .

The Indian Bank, the Holding Company endorsed (September 1999) the views of the Company . The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

10.1.2 Loss under hire purchase scheme

Due to irregular sanction of hire purchase facility, Indbank Merchant Banking Services Limited could not recover a sum of Rs. 8.91 crore overdue as on 31 March 1999.

Indbank Merchant Banking Services Limited (IBMBS) framed, in May 1991, guidelines (revised in 1993 and 1995) to regulate its hire purchase business in respect of plant and machinery with corporate clients. The guidelines covered the type of assets to be considered, minimum transaction value, maximum quantum of lending, eligibility criteria and other parameters like norms for sanction of hire purchase rate, repayment schedule, etc.

Audit scrutiny of 6 cases of Hire Purchase (HP) default revealed that a total amount of Rs.8.91 crore (including 5 cases exceeding Rs.1 crore each) of the Company's fund as on 31 March 1999 had become irrecoverable mainly on account of deviations by the Company from its guidelines as well as due to poor follow up and ineffective monitoring:

10.1.2.1. Indiana Dairy Specialities Ltd. (IDSL)

Under the hire purchase facility, a sum of Rs.1.10 crore was sanctioned and disbursed (August 1995) by IBMBS for two chilling plants. The amount was repayable in 60 instalments spread over five years. IDSL paid 13 instalments amounting to Rs.35.75 lakh up to November 1996 after which it did not pay any further instalment. The overdue amount as on 31 March 1999 was Rs.79.75 lakh (Principal Rs.49.22 lakh plus interest Rs.30.53 lakh), which excluded receivables of Rs 49.50 lakh from April 1999 onwards. The following management lapses were noticed in audit:-

(i) The Company was not eligible for the facility as it was only 3 years old as against the norm of 5 years as per the guidelines.

(ii) The fact that IDSL had availed of credit facilities of Rs.84 crore from 40 other creditors was not taken into account while processing the sanction. The Company ought to have verified the credit-worthiness of the party by obtaining market intelligence before sanctioning any credit facility to it.

(iii) IBMBS did not take action to repossess the assets soon after default in repayment (December 1996). Legal advice in this regard was obtained belatedly (February 1997 and July 1997). The Company had failed in its attempt to re-possess the assets without court intervention and had filed a winding up petition (January 1998). Outcome of the Court's decision was awaited (October 1999).

10.1.2.2. TMT (India) Ltd. (TMT)

Credit of Rs.50 lakh was sanctioned and disbursed (December 1995) by IBMBS, repayable in 36 instalments spread over 3 years. A sum of Rs.23.56 lakh was recovered up to September 1998 after which the party defaulted in repayment. The overdue amount outstanding as on 31 March 1999 against the party was Rs.44.12 lakh (principal Rs.32.20 lakh plus interest Rs.11.92 lakh). The following management lapses were noticed in audit:-

(i) Although the application and sanction was for purchase of paper manufacturing machinery, the disbursement was made for a different machinery, i.e. for manufacturing of gas cylinders;

(ii) The hire purchase facility was extended with an option to lease the machinery to Sri Laxmi Saraswathy Paper Mills, a sick unit taken over by TMT. The guidelines did not provide for any such arrangement of leasing.

The Management stated (September 1999) that there was no guideline prohibiting the further leasing of assets acquired through the hire purchase facility to another unit taken over by the client. This is not tenable as the beneficiary was a sick Company and therefore not eligible for hire purchase facility as per the guidelines.

(iii) The Company's debt equity ratio (2.48:1) and current ratio (0.48:1) did not satisfy the guideline norms (2:1 or less and 1.25:1 respectively).

(iv) Post sanction inspection of assets was carried out after a period of 16 months as against 1 month period envisaged in the guidelines/manual.

(v) IBMBS did not take action to repossess the assets as soon as the Company started defaulting (December 1996). According to the Company's reply (September 1999), no decision had yet been taken to move the Court to take possession of the assets.

10.1.2.3. Patheja Group

(a) Patheja Brothers Forgings and Stampings Ltd.
(b) Patheja Forgings and Auto Parts Manufacturers Ltd.

Under the guidelines for sanctioning hire-purchase facility, a group exposure norm was prescribed according to which credit facility for more than Rs 5.00 crore should not be disbursed to the same group of companies. However, in clear violation of these guidelines, two credit facilities for hire purchase were sanctioned for Rs.3.00 crore and Rs.5.00 crore respectively in December1994 and March 1995 to two companies belonging to the same group of Companies (Patheja group), and an amount of Rs.2.96 crore and Rs.4.98 crore were disbursed (December 1994 and March 1995 respectively), which were repayable in 12 quarterly instalments spread over 3 years. The 2nd credit facility thus exceeded the group exposure limit of Rs 5.00 crore. Against these two credits totalling to Rs 7.94 crore, a sum of Rs.5.66 crore were only recovered up to November 1996. A civil suit was filed only in August 1998, nearly two years after the party became a defaulter. The total outstanding balance against the group amounted to Rs.4.59 crore (principal Rs.3.93 crore plus interest Rs.66 lakh) as on 31 March 1999 could not be recovered so far.* The outcome of the civil suit was awaited (October 1999).

The Management stated (September 1999) that the client group of companies had been referred to BIFR on 5 April 1999 and IBMBS had written to BIFR to make them a party to the hearings before the Board.

The Management further stated that the group exposure norm of Rs. 5 crore was fixed in May 1991 and considering the volume of growth in hire purchase business, the group exposure limit was exceeded by the Company . This is not tenable as no change in group exposure limit was made after 1991 and hence there was a clear deviation from guidelines in this regard. Besides, Management had so far (October 1999) taken no action to repossess the assets of the defaulting companies.

10.1.2.4. Real Value Appliances Ltd. (RVA)

Credit under hire purchase facility for Rs.2.00 crore was sanctioned (October 1994), repayable in 12 instalments over 3 years. A sum of Rs.1.95 crore was disbursed between December 1994 and August 1995 against the sanction. The party paid (September 1995) Rs.21.38 lakh of the first instalment only. Amount to be recovered as on 31 March 1999 was Rs.2.35 crore (principal Rs.1.79 crore and interest Rs.56.64 lakh). IBMBS could not

For the first advance, outstanding amount of principal was Rs 1.61 crore and interest Rs 29.53 lakh (31-03-1999). For the second advance, the outstanding amount of principal was Rs 2.32 crore and interest Rs 36.11 lakh (31-03-1999).

recover the balance amount so far (October 1999). It filed a suit for recovery of the outstanding amount only in June 1997. A Court Receiver was appointed (November 1997) to take over the inventories of the Company. The client Company was subsequently referred (December 1997) to BIFR.

Under the guidelines, hire purchase facility could be extended only for the purchase of plant and machinery and vehicles. However, in the instant case, the sanction was for the purchase of new furniture and office equipment.

The Management stated (September 1999) that hire purchase facility was sanctioned for acquiring furniture as the client was increasing its marketing network for its new innovative products and other NBFCs also extended hire purchase facility to the same Company for acquiring furniture. The reply was not tenable as hire purchase facility was not to be extended for purchase of furniture as per IBMBS guidelines. Further, soon after default, the Company could have taken possession of the furniture which had not been done so far (October 1999).

10.1.2.5. VATAN Dye Chem (Export) Ltd.

Credit under the hire purchase facility for Rs.1.00 crore was sanctioned and disbursed (October 1995), repayable in 20 quarterly instalments over 5 years. A sum of Rs.8.06 lakh was recovered up to June 1997. The overdue amount outstanding as on 31 March 1999 was Rs.72.79 lakh (principal Rs.39.70 lakh and interest Rs.33.09 lakh) which excluded receivables of Rs 80.90 lakh from April 1999 onwards.

The client Company was incorporated on 31 March 1994. The hire purchase was sanctioned to the Company within two years of its incorporation, as against the guideline requirement for a minimum period of 5 years of corporate existence.

No legal action had been taken to recover the dues so far (October 1999). Management stated (September 1999) that IBMBS was considering a proposal for filing civil suit and winding up petition against the Company.

Thus, in the above cases, deviations from guidelines and poor follow up action cost the IBMBS Rs.8.91 crore by way of principal and interest lost up to 31 March 1999. In addition, recovery of receivables from two of the client companies on account of instalments payable from April 1999 onwards amounting to Rs.1.30 crore also became doubtful.

The Indian Bank, the Holding Company endorsed (September 1999) the views of the Company. The matter has been referred to the Ministry in July 1999; their reply was awaited (December 1999).

10.1.3 Loss due to non-recovery of lease rental

Violation of the guidelines, failure to adhere to prudent business practices and ineffective pre-sanction evaluation resulted in Rs.8.68 crore remaining overdues as on 31 March 1999.

Besides merchant banking, Indbank Merchant Banking Services Limited (IBMBS) was also engaged in lease financing to corporate entities. IBMBS had laid down guidelines to ensure gainful distribution of its funds to the corporate sector. The guidelines indicated the minimum and the maximum transaction value, ceiling on group exposure, norms for sanction etc., besides other parameters like period of lease, lease rentals, lease management fee etc.

Test check of 6 cases of lease finance revealed default amounting to a total of Rs 8.68 crore as on 31 March 1999 due to deviations from the guidelines, poor follow up and ineffective monitoring by the management. Following are the details of the cases:

10.1.3.1. Scan Organics Ltd (SOL): Manufacturer of dyes and dye-intermediates

IBMBS disbursed (February 1995) lease finance of Rs.1.06 crore to the party (SOL) to be repaid over a period of 5 years. The party paid back only Rs.33.36 lakh and defaulted from August 1996 onwards. The amount outstanding against the party as on 31 March 1999 was Rs.116.86 lakh (principal Rs. 90.82 lakh plus interest Rs. 26.04 lakh). The amount due from the party as on 31 March 1999 was, however, Rs 86.94 lakh, excluding receivables of Rs 29.92 lakh from April 1999 onwards.

The sanction of lease finance was in violation of guidelines and prudent business practices as shown below:

(i) Personal guarantee of the promoter, a pre-sanction requirement, was obtained belatedly after sanction of the lease, but the same was not invoked when the client Company defaulted in payment.

(ii) Asset and liability statements were obtained neither from the borrower nor the guarantor as required under the procedures, nor any verification of the credentials of the client and guarantor were conducted by independent sources.

10.1.3.2 Ravishankar Films (P) Ltd. (RFL): Hirer of equipment to film industry

Lease finance of Rs.2.00 crore was sanctioned and disbursed (September 1995) to the party by IBMBS to be repaid over a period of 5 years. The party (RFL) paid back Rs.55 lakh up to November 1996 and defaulted thereafter. The amount outstanding against the party as on 31 March 1999 was Rs.2.82 crore (principal Rs.1.69 crore plus interest Rs.1.13 crore). The amount due from the party as on 31 March 1999 was, however, Rs 1.74 crore, excluding receivables of Rs 1.08 crore from April 1999 onwards. Following deviations from guidelines and accepted good business practices were noticed:

(i) The Asset Coverage Ratio (Net Assets: Long Term Debts) of the client Company (which was 0.83, 0.87 and 1.48 during the previous three years respectively) was

short of the norm (1.5 to 1.75); this fact was not ascertained before sanction of the lease finance.

(ii) IBMBS filed civil suit/winding up petition only in November 1998, i.e. after a delay of 2 years.

10.1.3.3 Amarjothi Granites (I) Pvt. Ltd. (AGL): Manufacturer and seller of cut and polished granites

IBMBS, sanctioned and disbursed (March 1992) lease finance of Rs.1.65 crore to the Client Company (AGL) to be repaid over a period of 5 years. AGL repaid only 4 instalments amounting to 13.00 lakh up to April 1994 as against Rs 93.85 lakh due till that time and did not pay any further instalment. As the Board felt (July 1995) that neither the invoking of the personal guarantee of the directors of the client Company nor the repossession of assets would be of any practical use, the foreclosure of the lease was approved by the Board in July 1995 at a total cost of Rs 1.40 crore payable by the party as one time settlement, as against the total dues of Rs 2.33 crore recoverable from the party. The Company thus lost Rs. 92.52 lakh in the transaction. Following deviations from guidelines and prudent business practices were noticed:

(i) The Company was not in existence for five years or more as required under the guidelines.

(ii) Lease finance was sanctioned to a new venture for which leasing was not permitted under the guidelines.

(iii) The Company was not a profit making Company which was a requirement for lease financing under the guidelines.

The Management stated (September 1999) that in the light of promoter's background, growth and export potential of granite industry, the lease finance was considered as a 'special case' although new companies were not eligible for lease finance and that personal guarantees of the two Directors were obtained.

The reply is not tenable. While it was apparent that AGL was treated as a 'special case', the reasons therefor adduced by the Company were neither convincing nor based on sound business sense. Further the personal guarantees of the Directors were not invoked after default was noticed. Besides, the leasing facility was extended to a seasonal industry, which involved the risk of non-repayment evenly throughout the year.

10.1.3.4. M/s. Renewable Energy Systems Ltd. (RES): Manufacturer of systems that use electricity generated from solar energy

IBMBS disbursed lease finance of Rs.4.64 crore in March 1995 to the party (RES). The amount was to be repaid over a period of 5 years. RES repaid Rs.1.48 crore up to July 1996 and defaulted thereafter. The amount outstanding against the party as on 31 March 1999 was Rs. 4.45 crore (principal Rs. 3.59 crore plus interest Rs. 85.97 lakh). The amount due from the party as on 31 March 1999 was, however, Rs 3.56 crore excluding receivables of Rs 88.92 lakh from April 1999 onwards. Following deviations from guidelines and prudent business practices were noticed:

(i) Sanction of the loan was based on inadequate financial analysis of the party. As against the requirement of three out of the last five years, the financial analysis was done only for two years. Besides, the financial ratios of RES as worked out by the Company related to the years 1992-93 and 1993-94 while the loan was sanctioned on 30 March 1995 and disbursed on the same day. The financial ratios as worked out by the Company before sanctioning the loan (i.e. for 1992-93 and 1993-94) were within the norms, but were far below the norms if the results for 1994-95 were taken into account due to abnormal increase in the long term loans as shown in the table below:

Financial Ratios	**Norm**	**1992-93**	**1993-94**	**1994-95**
Current ratio	1.25:1	1.32:1	1.22:1	1.26:1
Debt Equity ratio	2:1or less	0.29:1	0.52:1	2.27:1
Asset coverage ratio	1.5-1.75	2.11:1	1.47:1	0.57:1
Long-term loans (Rs in Lakh)	-------	69.32	207.00	3714.00

The Company ought to have worked out the provisional results for the year 1994-95 since the lease finance was given on 31 March 1995 which would have revealed the extent of the risk being undertaken by it in sanctioning finance of such a huge amount to the party. The abrupt increase in long term loans and credit-worthiness of the party could have been confirmed through market intelligence also. The Company did not thus exercise abundant caution while sanctioning and disbursing the amount to the party.

(ii) Civil suit for recovery of the overdue amount was filed on 3 September 1997, i.e. more than a year after the party became a defaulter. The decision of the Court was still awaited (October 1999).

10.1.3.5 M/s. Premier Vinyle Flooring Ltd. (PVF): Producer of artificial floor coverings

IBMBS, sanctioned and disbursed lease finance of Rs.2.00 crore to the party (PVF) in June 1995 repayable over a period of 5 years. The repayments were irregular and finally stopped from November 1997. The amount outstanding against the party as on 31 March 1999 was Rs. 2.73 crore (principal Rs. 1.51 crore plus interest Rs. 1.22 crore). The amount due from the party as on 31 March 1999 was, however, Rs 1.51 crore, excluding future receivable of Rs 1.22 crore from April 1999 onwards. The party approached (May 1998) BIFR to be declared sick. IBMBS lodged their claim belatedly (December 1998) with BIFR.

The following deviations from guidelines and common good business practice were noticed:

(i) No pre-sanction inspection of the client Company was done by IBMBS.

(ii) IBMBS did not take any action to repossess the assets purchased out of the lease finance after default as per the lease agreement. The Company also did not take any legal action against the party after it became a defaulter.

10.1.3.6 *M/s. Network Ltd.*

The party was engaged in the production of electronic typewriters which was facing obsolescence in view of the availability of computers at low cost. Electronic typewriter and fax machines accounted for about 75 per cent of the total sales of the Company. Ignoring these facts, IBMBS disbursed (June 1995) lease finance of Rs.1.96 crore repayable over a period of 5 years. The party started defaulting from April 1997. The amount outstanding against the party as on 31 March 1999 was Rs. 1.85 crore (principal Rs. 1.59 crore plus interest Rs. 25.82 lakh). The amount due from the party as on 31 March 1999 was, however, Rs 1.01 crore, excluding receivables of Rs 83.93 lakh from April 1999 onwards.

The party submitted a compromise proposal in June 1997 for foreclosure of the lease, which was not accepted as the party was not agreeable to make one-time payment. The Company did not initiate any legal action against the party for recovery of the overdue amounts. Another compromise proposal submitted to Board in February 1999 was approved by Board in July 1999, according to which the party was to pay Rs.1.65 crore repayable in three instalments in July 1999, September 1999 and October 1999, thus foregoing Rs 54.77 lakh of income by way of lease rentals. Out of this, however, the Company could recover only a sum of Rs 55.41 lakh till August 1999; the agreed subsequent instalments had not been received by the bank so far (October 1999).

Sanction of the lease finance without taking into account the nature of the assets and the future prospects of the client Company was against prudent business practices and norms. The Company had foregone Rs.54.77 lakh of lease rentals as a result of the compromise formula which eventually did not work, resulting in the prospect of non-recovery of Rs. 1.09 crore as well.

The Management stated (September 1999) that the companies were performing well and were considered to be good credit risk at the time of sanction of lease finances. However, according to the Management, owing to liberalisation, some of the activities of these companies were affected resulting in repayment instalments falling overdue and consequently, their accounts turning into Non-Performing Assets (NPA) for IBMBS. Some of the client companies were also subsequently referred to the BIFR. Management added that it was not always possible to repossess the assets, since these were client-specific industrial assets.

The Management's reply is not tenable. Liberalisation had become the accepted policy of the Government by the time the lease finances were sanctioned and the fact that the assets were not easily repossessable was known even before sanctioning of the lease. Such being the case, the Company should have been even more careful and prudent in sanctioning finances to these firms. Besides, rather than liberalisation, it was deviation from the guidelines and prudent business norms coupled with the lack of alertness and poor monitoring on the part of the Company which resulted in the non-recovery of amounts sanctioned to the parties.

Thus, imprudent sanction of lease finances, ineffective monitoring and poor follow up resulted in overdue amounts accumulating to the extent of Rs.8.68 crore as on 31 March 1999. In addition, recovery of receivables from the client companies on account of

instalments payable from April 1999 onwards amounting to Rs 4.33 crore also became doubtful.

The Holding Company, Indian Bank, endorsed (September 1999) the views of the Company. The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

CHAPTER 11: MINISTRY OF CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION

Central Warehousing Corporation

11.1.1 Blockage of funds and consequent loss of interest

Injudicious investment of surplus funds in a Corporation in poor financial condition resulted in blockage of Rs. 5 crore and loss of interest to the extent of Rs. 4.66 crore.

The Corporation made two deposits with Fertilizers Corporation of India Limited (FCIL) on 19 April 1990 and 13 September 1990 for a sum of Rs. 2 crore and Rs.3 crore at an interest rate of 14.5 per cent and 15 per cent respectively. These sums were loaned for a period of one year. While making the deposits, the fact that as on 31 March 1990, FCIL had an accumulated loss of Rs. 1217.02 crore whereas its capital base was only Rs. 616.40 crore, was overlooked by the Managing Director of the Corporation who had authorised these deposits without informing the Board of Directors. Before making deposits the possibility of investment in some other Company or body was also not explored.

Since FCIL was unable to refund the deposited sums on their dates of maturity, the two deposits were extended for one year and six months, respectively. Though prior to extension of the deposits, Ministry of Chemicals and Fertilizers had given to the Corporation an assurance that the sums loaned would be deducted from the subsidy payable to FCIL in the event of its failure to refund the same, the assurance could not be kept by the Ministry on the plea that deduction of amount from the subsidy due to FCIL would further worsen the financial condition of FCIL. However, the Management had not considered the possibility of Ministry being unable to honour its assurance even as this should have been evident from the circumstances of FCIL. After the deposits were due for refund a second time, the Ministry of Chemicals and Fertilizers again informed (August 1992) the Corporation that it was not advisable to adjust any part of Rs. 5 crore or interest there on from the subsidy payable by the Government of India to FCIL because FCIL had already been referred to BIFR under the Sick Industrial Companies (Special Provisions) Act, 1985 for declaring it as a sick Company. As on 31 March 1998, the accumulated loss of FCIL, as a percentage of its paid up capital had increased more than three fold. Thus, as on 31 March 1999, an amount of Rs. 9.66 crore on account of principle and interest was due from FCIL even after adjustment of Rs. 2.64 crore towards cost of urea supplied by it to the Corporation between February 1995 to March 1997.

The Management stated (September 1999) that loan was given on the written assurance of the Ministry of Chemicals and Fertilizers and that at the time of giving the loan, FCIL was not a sick Company. It further stated that the aforementioned Ministry had confirmed (June 1999) making of adequate provision for settlement of its liabilities in the revival package submitted to the competent authority for rehabilitation of FCIL.The Ministry endorsed (November 1999) the views of the Management.

The reply was unacceptable because no written assurance had been obtained from the Ministry before making the first deposit, nor the financial position of FCIL was critically examined before taking the decision to invest in FCIL particularly when there was no compulsion on the Corporation to do so. Moreover, there can be no immediate prospect of deposits being retrieved as a result of action by BIFR.

11.1.2 Injudicious investment in augmentation of storage capacity

Storage capacity at Uluberia (West Bengal) was augmented by 5000 MT without taking into account actual usage of existing capacity and the likely reduction in the inflow of stocks as a consequence of the decision of the Government of West Bengal to withdraw octroi from the entire State. This resulted in injudicious investment of Rs. 51.57 lakh.

Between November 1995 and March 1997, Central Warehousing Corporation augmented storage capacity at Uluberia, West Bengal by 5000 MT at a cost of Rs. 51.57 lakh. The justification given (January and December 1994) for adding to the storage capacity of 10000 MT existing since September 1992, inter alia was that the warehouse being located in an octroi free zone, was expected to fetch more business. In taking this decision (December 1994), the Board of Directors ignored the fact that even the existing warehouse having a capacity of 10000 MT, had never been fully utilized except during November and December 1992.

Contrary to the Board's expectations, the volume of business and, therefore, utilization of existing warehouse, had fallen to 52.99 per cent by October 1995 and continued to fluctuate between 42.66 and 69.66 per cent upto March 1997. This was attributable to withdrawal of levy of octroi (April 1995) by the Government of West Bengal in the entire State, thus making the warehouse, which hitherto fore was located in an octroi-free zone , less attractive to the customers.

Between April 1997 (when the augmented warehouse capacity became operative) and December 1998, volume of business ranged between 3777.10 MT and 8413.25 MT per month which was even less than the capacity of original warehouse (10000 MT). Thus, creation of additional capacity of 5000 MT at a cost of Rs.51.57 lakh was unnecessary and resulted in injudicious investment.

The Management stated (September 1999) that additional capacity was set up keeping in view the best interest of the Corporation as a going concern and its situation in octroi free zone was not the material consideration. It also stated that if the staff cost of Rs.17.08 lakh and Rs.20.65 lakh was excluded, the warehouse had generated surplus of Rs.7.29 lakh and Rs.19.54 lakh during the years 1997-98 and 1998-99 respectively. The Ministry also endorsed (November 1999) the reply of the Management.

The reply of the Management was not acceptable because the business of the warehouse was directly linked to the adjoining areas enjoying the status of an octroi free zone. This was clear from the letters written by Regional Manager, CWC, Calcutta in January and December 1994 to the Corporate Office. After the levy of octroi was withdrawn all over the State with effect from April 1995, the business risk was clearly ascertainable and could

have been avoided particularly when even the pre-augmented capacity had been fully used only for a period of two months. Moreover, even without augmentation of capacity, the working results would have been the same because the augmented capacity had not been utilised.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

Food Corporation of India

11.2.1 Excess payment on account of storage gain

Due to indecision on the part of the Government of India, the Corporation had to make excess payment of Rs.38.59 crore to various State Agencies on account of increase owing to absorption of moisture in the weight of wheat stocks (transferred by these Agencies).

The Corporation procures wheat for the Central Pool directly as well as through State Government Agencies. Due to operational constraints, the Corporation can not take over the entire stocks procured by State Government Agencies immediately after it is procured. Therefore, the State Government Agencies store wheat meant for ultimate delivery to the Corporation over extended periods. During such storage and particularly during rainy season, wheat gains weight due to natural phenomena of absorption of moisture (the weight of the wheat, however, does not revert to its original level even after the rainy season is over and thus, the increase already registered is permanent). While the Government of Punjab has taken note of this phenomena and has been claiming such gains from its own Agencies at the rate of 1.5 per cent for grains stored under covered sheds and at the rate of 1 per cent for grains kept in the open, the Corporation continues to pay State Agencies for gross quantities delivered by them to it irrespective of quantities attributable and adjustable on account of moisture gain. A reference made by the Corporation to Government of India (March 1993) seeking a direction for reduction of State Agency claim against the Corporation for the excess wheat stock delivered by State Agencies as a consequence of moisture gain has not drawn any definite response so far.

Thus, while the Corporation has been passing on similar benefits in regard to wheat procured by it directly from the mandies to the Government of India, it has been unable to persuade the State Agencies to part with moisture gain on 104.67 lakh MT wheat lifted from State Agencies in Punjab during the years 1994-95 to 1997-98 and to pass on the consequential benefit to the Government of India. The loss to the Corporation and consequent extra food subsidy claimed from Government of India on 1.03 lakh MT of wheat thus delivered in excess in the State of Punjab alone worked out to Rs.38.59 crore.

The Management, while accepting (October 1998) the facts stated that the storage gain in wheat stocks procured directly by the Corporation was being passed on to the Government of India each year through reduction in the subsidy. However, in absence of the prior specific sanction of the Ministry to this effect, the Corporation could not unilaterally

enforce any reduction on the bills preferred by State Government Agencies in respect of wheat purchased and stored by them for the Central Pool.

The Ministry of Food & Consumer Affairs, Government of India regretted (April 1999) the delay in disposal of the case and stated that the matter was under consideration in consultation with the Government of Punjab and the same would be decided shortly.

11.2.2 Deterioration of stock through undue accumulation

Non-compliance with the prescribed procedure for liquidating foodgrain stock resulted in its undue accumulation and deterioration. Loss on disposal of such stock was Rs.20.78 crore.

With a view to avoiding accumulation of old stock of foodgrains, the Corporation reiterated from time to time the instructions for liquidating stock strictly on first in, first out (FIFO) basis. Instead of following the above procedure, the Sr.Regional Manager (Bangalore) of the Corporation during the period from July 1993 to July 1997, permitted the officials of Karnataka Food and Civil Supplies Corporation (KFCS) to visit the godowns of the Corporation 15 days in advance of issue of foodgrains and select such stocks with which they were satisfied. This was done in response to persistent complaints from the public that rice supplied by the Corporation under Public Distribution System (PDS) was not of good quality.

The decision of the Sr. Regional Manager (Bangalore) of the Corporation to despatch rice stocks to KFCS on a selective basis resulted in accumulation and consequential deterioration of 95089.853 MT rice which had to be sold through tender at a loss of Rs.20.78* crore between April 1995 and January 1999.

The Management stated (May 1999) that complaints had been received in regard to the quality of stocks despatched from Punjab and Haryana, as a result of which relaxation from the prescribed procedure had been given. It was also stated that the value realised was only slightly less (Rs.2.43 crore) than what would have been received had the stocks been issued through Public Distribution System. The Ministry also endorsed (May 1999) the reply of the Management.

There was, however, no evidence of the fact that poor quality of rice received from Punjab/Haryana had been verified and investigated as per procedure prescribed under the rules. Hence the reply of the Management would indicate lack of internal control and laxity in following laid down procedure for procurement/despatch/issue of foodgrains. Responsibility for the loss was required to be fixed on the officials of the Corporation and, loss suffered by the Corporation was required to be recovered. This was not done. The Management's argument that part of the loss would have been recovered anyway as subsidy is not only an attempt to side step the main issue in this case but is also untenable because subsidy is claimable only in respect of stocks issued through PDS.

* ***Sale realisation Rs.60.41 crore against the economic cost of Rs.81.19 crore***

11.2.3 Short realisation of cost of wheat supplied to Government of Bhutan

The supply of wheat to Food Corporation of Bhutan (FCB) between July 1993 and March 1995 by the Corporation Officials in the Eastern Region at central issue price instead of the economic cost contravened Government of India (GOI) directions on the subject and also resulted in short realisation of Rs.3.98 crore as well as additional financial burden on Government of India.

The Ministry of Food, Government of India (GOI) in June 1993 directed the Corporation to supply wheat to Food Corporation of Bhutan (FCB) at economic cost. The direction was received at the Corporate Headquarter on 17 June 1993 and conveyed to the Sr. Regional Manager and the Zonal Manager, Calcutta on 15 July 1993. The necessary instructions for compliance with the Government directive were passed down by Calcutta Office to Silliguri District Office on 9 March 1995 i.e. after a lapse of 19 months. By that time (between 3 July 1993 and 7 March 1995) 21584.224 tonnes of wheat had already been supplied by Silliguri District Office to FCB at central issue price which was lower than the economic cost thus resulting in short realisation of Rs.3.98 crore from FCB. The District Office Silliguri took up the matter with the FCB on 15 March 1995. The latter, however, regretted (24 March 1995) their inability to pay the differential cost on the ground that the wheat lifted by them had already been sold and it was not possible for them to recover the differential amount from the consumers. FCB also stated that had they been cautioned about the matter right from the beginning, they could have taken precaution and would have been in a position to pay the differential cost.

On being asked (March 1995 and July 1995) by the Corporate Headquarter to explain and investigate as to why instructions to charge economic cost were not followed, the Zonal Office, Calcutta directed (August 1995) the Joint Manager (Operation) of Calcutta Office of the Corporation to investigate the matter and to furnish action taken reply. Nothing, was, however, on record to show that the matter was thoroughly investigated and the responsibility for the lapse fixed.

Incidentally, the fact that the central issue price and not the economic cost was being charged for wheat being supplied to FCB since January 1993 had come to the knowledge of Corporate Headquarter in May 1994 itself. If Corporate Headquarter had ensured even at that stage that the correct rate is charged from FCB, short realisation amounting to Rs.1.92 crore on supply of 11956.388 tonnes of wheat after 31 May 1994 could have been avoided.

The Management stated (July 1999) that after raising the claims against the FCB, the matter was brought to the notice of Ministry who after examination of the issue in consultation with the Ministry of Finance decided that increase in the issue price of wheat need not be given retrospective effect from June 1993. Thus there was no short realisation for earlier period. It also stated that its Vigilance Division had been directed to look into the matter and to fix responsibility for delay in implementation of the instructions on flimsy grounds.

The Ministry stated (September 1999) that they had intimated the Corporation on 11 June 1993 that wheat would be supplied to FCB at economic cost but the Corporation implemented the decision after March 1995 for which they had directed the Corporation to investigate and fix responsibility.

The reply of the Management that Vigilance Division was looking into the case contradicts its stand that there was no short realisation in this case. Moreover, even as Ministry of Food may have regularised (August 1995) the lapse by ruling that economic cost should not be charged for the supplies effected between June 1993 and March 1995, lack of promptness on the part of the officials of the Corporation in disseminating the Government directive and absence of any monitoring to oversee its implementation which resulted in loss of Rs.3.98 crore to the Corporation are self evident.

11.2.4 Excess payment to labourers employed under direct payment system

Adoption of incorrect rates for payment to the labourers employed under 'Direct Payment System' in respect of work falling under 'Other Operations' resulted in excess payment of Rs.3.66 crore by the Corporation.

In May 1996, the Corporation introduced the system of making payment directly to the labourers (Direct Payment System). Prior to this, the Corporation used to hire labour through the contractors (Contract Payment System). For the purpose of payment, a distinction was made by the Corporation between 'basic operation' viz., unloading foodgrains bags from wagons/trucks or any other vehicle and directly loading on trucks or any other vehicle/wagon, and other type of work called 'other operations'. The piece rate for basic operations was fixed at Rs.138 per 100 bags which worked out to 360 per cent above schedule of rates (ASOR). In case existing rate was more than Rs.138 per 100 bags, the same was to be protected for basic operations till the next revision which fell due every two years after 1 May 1996. In respect of all other operations listed in the tender schedule, no such relaxation was allowed and the rate payable in such cases would remain subject to the ceiling of 360 per cent ASOR.

It was, however, observed in audit that the Corporation made payment in respect of 'other operations' on the rates applicable to 'basic operations' in two depots in Tamil Nadu Region, two depots in Karnataka Region and sixteen depots in Kerala Region. This resulted in excess payment of Rs.3.66 crore to the labourers between May 1996 and April 1998.

The Management stated (November 1998) that wherever the existing rates were higher than the rates prescribed by the Headquarters, the existing higher rates were allowed for all operations till the next revision.

The reply was not acceptable because the instructions issued by the Corporation in June 1996 did not allow protection of existing higher rates for 'other operations'. Failure to implement the instructions issued by Headquarters by the field units and approval of the action of field units by Corporate Headquarters while replying to audit comment in November 1998 was indicative of breakdown of control mechanism in the Corporation.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

11.2.5 Avoidable payment of turnover tax

Failure to store separately the levy rice procured from registered dealers in West Bengal resulted in avoidable payment of turnover tax amounting to Rs.3.02 crore.

Till the Kharif year 1996-97, the Corporation had been procuring levy rice in West Bengal from registered as well as un-registered dealers. Since the turnover tax was not payable by the Corporation on the sale of levy rice procured from the registered dealers, the Regional Office, West Bengal issued (September 1989) instructions to its district offices to store such stocks separately so as to distinguish these from rice stock procured from un-registered dealers on which turnover tax was payable. These instructions were, however, not complied with by the district offices which resulted in payment of turnover tax on the entire stock including that procured from registered dealers. The element of turnover tax paid to Sales Tax Authorities in respect of levy rice procured from registered dealers and sold during the period 1988-89 to 1993-94 amounted to Rs.3.02 crore. This resulted in loss to the Corporation.

Further, due to non-segregation of levy rice procured from registered dealers, undue burden of turnover tax amounting to Rs.37.67 lakh was passed on to the buyer during the period from 11 April 1994 to 30 April 1995. Levy of turnover tax was abolished with effect from 1 May 1995.

The Management stated (May 1999) that segregation of levy rice procured from the registered dealers could not be done due to operational problems as a result of which turnover tax on entire sales had to be paid. They also stated that refund of undue turnover tax has been claimed through revised returns and an amount of Rs.95.43 lakh on account of refund for the year 1992-93 had been received in July 1996. For the remaining amount, the matter was stated to be under correspondence with the Sales Tax Authorities. The Ministry also endorsed (June 1999) the reply of the Management.

The reply was not acceptable because it was an acknowledgement of Management's failure to enforce its own instructions which had been reiterated in October 1992 as also its inability to resolve operational problems, if any. Even if the Management is able to obtain refund in future, it can not absolve itself from the responsibility of putting the Corporation to a loss of Rs.3.02 crore by way of payment of interest on funds availed through cash credit equal to the amount of turnover tax paid in excess as also for unduly burdening the buyer to the extent of Rs.37.67 lakh.

11.2.6 Avoidable loss due to inaction on the part of the Management

The Corporation failed to shift in time stocks kept in Central Warehousing Corporation (CWC) godown at Chrompet where no handling and transportation facilities existed to nearby godowns where such facilities were available. This resulted in avoidable payment of Rs. 41.09 lakh to CWC as storage charges and likely loss of Rs.1.91 crore due to deterioration of stock.

In January 1995, the Corporation reserved storage space in Central Warehousing Corporation (CWC) godown at Chrompet (Tamilnadu) sufficient to accommodate 53000

MT foodgrains. By 1 July that year, the requirement of storage space was brought down to 25000 MT which was further brought down to 10000 MT from 1 October 1995. In response to Corporation's request (February 1996) to reduce space reserved for it further down to 5000 MT, the CWC informed (April 1996) that since the handling & transportation arrangement at the godown was expiring in June 1996, it would not be possible to make any fresh arrangement thereafter keeping in view the meagre quantity being stored by the Corporation. Despite this, the Corporation continued to store 4440.468 MT rice in the godown when the same could have been shifted to the near by godowns at Avadi or Egmore (both owned by Corporation) where handling and transportation facilities were available. Consequently, the stock continues to remain in the godown and has, in consequence, deteriorated from category A/B to D category according to the report made by the Corporation's District Categorization Committee in October 1998. Thus, the Corporation not only paid avoidable hiring charges of Rs. 41.09 lakh to CWC upto July 1999 but would also suffer loss due to deterioration of foodgrains to the extent of Rs. 1.91 crore, being the difference between the economic cost (Rs. 4.66 crore) and the purchase offer (Rs. 2.75 crore) received in August 1999. Since the stock has not been sold so far, the loss due to further deterioration of stock and consequent fall in its value was likely to increase in future.

The Management admitted (November 1999) lack of handling and transportation arrangements at Chrompet and availability of space at Avadi and Egmore but attributed the former to failure of CWC to make such arrangements and the latter to labour unrest at Avadi and Egmore. Regarding loss likely to be suffered on the disposal of damaged stocks, it stated that the same would not be much. It also stated that the loss would be claimed from the CWC because it would arise out of its failure to provide handling and transportation arrangements.

The reply of the Management confirmed the facts brought out by audit and was, thus not acceptable. The CWC was not likely to reimburse the loss because it had expressed its inability in April 1996 to provide such arrangements beyond June 1996, i.e. before the expiry of existing contract. Moreover, as per CWC terms and conditions of storage, normally the depositors were required to make their own arrangement for handling and transportation and the same could be entrusted to CWC only after its prior consent.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

11.2.7 Avoidable payment of conveyance allowance

Payment of conveyance allowance retrospectively and subsequent enhancement of the same beyond the ceiling prescribed by the Department of Public Enterprises, Government of India, resulted in avoidable payment of Rs.1.86 crore to the executives/employees of the Corporation.

In compliance with an order passed by the Supreme Court (May 1990), the Government of India, Ministry of Programme Implementation, Department of Public Enterprises (DPE) allowed (June 1990) the Management of those Public Enterprises as were following Central Dearness Allowance (CDA) pattern to take a decision for the payment of conveyance

allowance to such of its executives and employees who owned and maintained conveyance such as cars, scooters and mopeds and used them for official purposes. The payment of the allowance was subject to the ceiling laid down by DPE.

Based on the above instructions of DPE, the Corporation sanctioned (October 1990) conveyance allowance to its employees at the rates specified thereunder. Though, as per the aforementioned judgement of the Supreme Court, benefit of conveyance allowance was to be given only prospectively, the Corporation sanctioned and paid this benefit to its employees retrospectively with effect from 1 December 1988. This resulted in avoidable payment of Rs.1.02 crore to the employees upto 31 May 1990.

Further in June 1994, the Corporation revised the rates of conveyance allowance beyond the ceiling prescribed by DPE disregarding the fact that its proposal to revise such rates had been rejected by DPE (August 1992). While rejecting the proposal, DPE had opined that payment of conveyance allowance itself was a concession extended to the employees of the Corporation and other PSEs placed in a similar situation and that enhancement of conveyance allowance was particularly unjustified because the employees of the Corporation as had opted to remain on CDA pattern had been compensated adequately in terms of liberal DA rates. The Ministry of Food had also endorsed (October 1992) the views of DPE.

The inadmissible enhancement of conveyance allowance resulted in an additional and recurring annual burden of Rs.18 lakh to the Company since 1994. The expenditure already incurred on this account from July 1994 to March 1999 amounted to Rs.84 lakh. The total avoidable payment in this manner by the Corporation upto March 1999 was Rs.1.86 crore.

The Management stated (September 1998/April 1999) that according to para 9 of DPE OM dated 12 June 1990, Board of Directors of PSE was authorised to decide the date from which a particular perquisite was to be introduced, unless an otherwise specific date was mentioned in above orders. Since in case of conveyance allowance specific date was not indicated, the Management took a conscious decision to implement the instructions of DPE with effect from 1 December 1988. Needless to say, the construction of DPE instructions by the Management was out of consonance with the orders of the Supreme Court.

Regarding revision of rates, the Management stated that the DPE letter of August 1992 was not a decision of Government of India but only a view in the matter and since the Corporation had extended revision of conveyance allowance for employees under IDA pattern with effect from 1990, its inability to suitably revise the conveyance allowance of employees under CDA pattern would have brought in inconsistency in the emolument structure of the two groups of employees.

The above reply of the Management is untenable because by receiving higher quantum of DA, employees borne on CDA pattern were already enjoying better emoluments and to that extent an inconsistency in the pattern of emoluments between the two groups of employees pre-existed enhancement of conveyance allowance to employees borne on IDA pattern.

11.2.8 Loss due to improper storage of wheat

6367.165 MT wheat of good quality at Food Storage Depot (FSD) Adra under District Office Bankura, West Bengal got damaged due to improper storage and lack of supervision and had to be sold for Rs. 2 crore against economic cost of Rs. 3.63 crore. This resulted in a loss of Rs. 1.63 crore to the Corporation.

With a view to maintaining food stocks in sound condition, suitable technical personnel are provided in each depot. They are personally responsible for planning and implementation of measures to keep the stock in good condition. District Managers are required to inspect periodically every depot under their jurisdiction. They are also required to organise surprise inspections by teams of Assistant Managers drawn from their offices and from the depots under their charge. Apart from above, Senior Regional Managers are also required to inspect six depots within their jurisdiction in a month. While District Managers are responsible for investigations into the reasons for the damage to stocks during storage and consequent actions required to be taken, Regional Managers are responsible for fixation of responsibility for damage/deterioration of stock.

It was observed in audit that at Food Storage Depot (FSD) Adra under District Office Bankura, West Bengal, food stock was not stored properly. Despite availability of space, the stock was stored in an amalgamated condition with the old, substandard and damaged stock and was even dumped in alleyways and gangways. Neither curative treatment required to maintain quality of foodgrains was provided nor inspections of the depot, as required, were conducted by District Manager/teams of Assistant Managers/Senior Regional Manager. As a result of improper storage and lack of supervision, 6367.165 MT wheat received at the depot between March 1993 and July 1994 in good condition got damaged and had to be sold for Rs.2 crore as against its economic cost of Rs.3.63 crore (including cost of storage loss of 680.147 MT wheat). This resulted in a loss of Rs.1.63 crore to the Corporation.

The Management, while accepting the facts regarding damage to stocks, stated (October 1998) that the delinquent official had been chargesheeted and the enquiry was likely to be completed shortly. Regarding loss, it was stated that the same should have been calculated on the basis of central issue price instead of economic cost and after allowing storage loss. The Ministry also endorsed (May 1999) the reply of the Management.

The reply was not acceptable because even after a lapse of four years since the disposal of damaged stocks, the enquiry was incomplete. Consequently, the loss had remained unrecovered. Moreover, the Management had chargesheeted only the Quality Control Officer but no action had been taken against the District Manager and the Senior Regional Manager who had failed to inspect the depot and ensure proper storage of the stock well before its quality deteriorated. The loss had also to be calculated on the basis of economic cost and after including storage loss which was as high as 10.68 per cent of tendered quantity whereas the permissible limit was 1 per cent.

11.2.9 Extra expenditure on procurement of levy rice from the millers

The Corporation incurred an extra expenditure of Rs. 1.51 crore in Orissa Region due to engagement of departmental labour for work which was required to be done by millers' labour at no extra cost to the Corporation.

For every procurement season, Department of Food and Civil Supplies approves a uniform rate of forwarding and transportation charges payable to the rice millers for the levy rice delivered to the Corporation at various destinations throughout the country.

Accordingly, for the Kharif season 1997-98, Department of Food and Civil Supplies approved (December 1997) forwarding and transportation charges at Rs.4.80 and Rs. 5.55 per quintal for 95 Kg and 50 Kg packing, respectively. These charges inter-alia included charges for unloading of levy rice at the platforms in Corporation godowns. However, in 6 district offices* under Orissa Regional Office, due to pressure from departmental labour, millers could not unload 5562466 bags of levy rice brought for delivery to the godowns. The work had to be entrusted, per force, to departmental labour who were paid an amount of Rs. 1.51 crore over and above their normal monthly wage by way of incentive for additional work.

The matter was referred to the Management and Ministry in September 1999; their replies were awaited (December 1999).

11.2.10 Avoidable expenditure on revenue stamps

Expenditure on revenue stamps used for making disbursement of salary, medical claims, travelling allowances etc. to the employees was being borne by the Corporation in violation of Section 30 of the Indian Stamp Act, 1899. This resulted in an avoidable extra expenditure of Rs. 75.39 lakh during the years 1992-93 to 1997-98.

Section 30 of the Indian Stamp Act, 1899 provides that any person receiving any money exceeding rupees twenty in amount shall, on demand by the person paying such money, give a duly stamped receipt for the same. The amount of twenty rupees and the stamp duty of twenty paise were increased to five hundred rupees and one rupee respectively with effect from 13 May 1994.

It was observed in audit that since October 1965, the Corporation has been itself bearing the cost of revenue stamps required to be affixed on the receipts obtained from its employees against payments effected to them on account of salary, medical claims, travelling allowance etc. The order issued by the Corporation in October 1965 authorising the above practice, however, violates Section 30 of the Indian Stamp Act, 1899. The Corporation has incurred an expenditure of Rs. 75.39 lakh on this account during the years 1992-93 to 1997-98 which was avoidable.

* *Sambalpur, Behrampur, Titlagarh, Balasore, Jeypore & Bhubaneshwar*

The Management accepted (July 1999) contravention of Section 30 of the Act ibid but stated that such payments were covered under Section 29, Schedule 1, item 53 of the said Act. The Ministry also endorsed (August 1999) the reply of the Management.

The reply of the Management was not acceptable because Section 29 of the Act which deals with certain instruments of Schedule 1 in respect of which stamp duty was payable by the person drawing, making or executing such instruments does not cover item 53 referred to by Management and is, therefore, not relevant to the issue raised by audit.

11.2.11 Loss due to abnormal shortages of foodgrain during transit

Though consignors' seals on wagons carrying foodgrain were found intact, abnormal shortages aggregating 1495.43 MT valuing Rs.70.29 lakh were noticed at the consignees' end. No action had been taken to recover the loss from the delinquent officials.

To bring down transit losses, the Corporate Headquarters of the Corporation has issued instructions to Zonal and Regional Offices, from time to time. The instructions inter-alia provided for carrying out surprise checks at loading and unloading points by the Zonal Managers (ZMs), Senior Regional Managers (SRMs), Regional Managers (RMs) as also by the Internal Audit and Physical Verification Wing (IA & PV). Prescribed procedure also provided for enquiries being carried out by the District Managers of the consignor and the consignee expeditiously and in cases involving transit losses above 5 per cent, finalisation of enquiry reports within three months by a Committee of three officers, one each being drawn from the Head Office, the despatching zone and the receiving zone. Since such losses were required to be recovered from the defaulting officers, the relevant enquiry reports were required to pinpoint persons responsible for the transit losses.

It was observed in audit that in the following cases shortages were noticed at the receiving end, even though the consignor's seals were intact. Total value of quantities found short worked out to Rs.70.29 lakh as indicated in the table :

Commodity	Period of despatched	Despatched		Quantity Despatched in MTs.	Quantity found short-in MTs.(%)	Value of quantity	
		From	To			Despatched -Rs. in lakh.	Found short Rs. in lakh.
Raw rice, superfine	Nov. 1992 to Feb. 1993	Faridkot	Bangalore	9847.55	524.14 (5.32%)	496.00	26.40
Wheat	Oct. 1994 to April 1995	Ferozpur	Santa/ Manmad	7708.87	526,61 (6.83%)	297.31	20.31
Raw rice, superfine/ common	Sept. 1991 to Dec. 1994	Sangrur	Parbhani/ Trichirap-alli/ Nagarcoil	6293.81	444.68 (7.06%)	333.74	23.58
Total				**23850.23**	**1495.43**	**1127.05**	**70.29**

Audit revealed that neither surprise checks were carried out in these cases at the loading and unloading points, as envisaged under the rules, nor delinquent officials had been identified within the prescribed period of three months and have continued to remain

unidentified even after a lapse of four to six years. Further, even though audit brought these cases to the notice of the Corporate Headquarter in January 1995 and February 1996, no action was taken against the officials who failed to finalize these cases and to identify delinquent officials within three months. Thus, transit losses amounting to Rs.70.29 lakh remain under investigated and unrecovered. The Corporation had to bear the consequential loss owing to managerial negligence at various levels.

While confirming the transit shortages, the Management stated (January 1999) that as against ten cases pointed out by audit, charge sheets had been issued against delinquent staff in two cases. In respect of remaining eight cases disciplinary proceedings were yet to be initiated. The Ministry, while endorsing the reply of the Management, stated (March 1999) that its Vigilance Division was monitoring the progress of these cases.

The replies of the Management and the Ministry were not acceptable because the procedure laid down by the Corporation for minimising and the disposal of cases of transit shortages had been bypassed by the field offices as well as by the Corporate Office. Swift action should have been taken for early investigation, identification of delinquent officials and recovery of loss from them as per the procedure laid down.

11.2.12 Avoidable expenditure on transportation of sugar

The Corporation did not follow the practice of direct booking of sugar rakes from despatch points to various destinations in Assam and NEF regions. This resulted in avoidable expenditure of Rs.50.23 lakh on transportation of sugar.

With effect from 1 October 1986, the Railways allowed the Corporation to book foodgrain rakes meant for all stations in Assam and North East Frontier (NEF) regions* to New Bongaigaon (NBQ) and then to rebook the same to different destinations under the Centralised Booking Scheme (CBS) without loss of advantage in telescopic rates of freight available on direct booking. However, sugar rakes bound for above areas were not brought under CBS by the Railways in view of meagre quantity of this commodity being offered for movement by rail and the delay being experienced in rebooking foodgrains owing to non-submission of original railway receipts from forwarding stations by the Corporation. Hence, in order to avail the benefit of telescopic rates of freight in movement of sugar by rail, the Corporation was required to follow the practice of direct booking from despatch point to destinations.

It was observed that between January 1992 and February 1998, for transporting 48591.80 MT sugar from sugar surplus states of Maharashtra and Uttar Pradesh to Assam and NEF regions, the Corporation did not follow the practice of direct booking. Instead sugar rakes were first booked to NBQ and then rebooked to different other destinations in North East as a result of which additional and avoidable freight of Rs.50.23 lakh was paid by the Corporation over and above the telescopic rates of freight chargeable for sugar between the despatch stations and the ultimate destination. Though the lapse was pointed out by audit in November 1995, the Management switched over to direct booking of sugar to these areas only with effect from 21 February 1998.

* ***Except Churaibari and Dharmanagar to which direct booking was to be made.***

The matter was referred to the Management/Ministry in September 1999; their replies were awaited (December 1999).

11.2.13 Unfruitful expenditure on the construction of a godown at Passighat

The expenditure of Rs.45 lakh incurred upto March 1994 on the construction of a godown at Passighat, Arunachal Pradesh was rendered infructuous as, in absence of a boundary wall, the godown could never be put to use.

The original contract for construction of a 2500 tonne capacity godown at a cost of Rs.38.05 lakh at Passighat, Arunachal Pradesh was rescinded in December 1993 owing to the failure of the contractor to complete the work within the stipulated time. The work awarded in October 1989 was to be completed by mid-October 1990, but dragged beyond that date. At the time of termination of the contract, the expenditure had exceeded the contracted cost (Rs.38.05 lakh) by Rs.2.77 lakh while the boundary wall, an important component of the work, was yet to be constructed. The balance work got executed through other contractors at a cost of Rs.3.91 lakh at the risk of the original contractor did not include the construction of boundary wall. A separate tender invited in January 1995 for construction of the boundary wall could not, however, be finalised because the original contractor, who was not invited to bid, brought an injunction from the court. In consequence, the court directed (April 1996) the Corporation to first consider the representation of the original contractor against the decision of the Corporation to get the boundary wall constructed at his risk. The Zonal Manager neither took any action on the representation received from the first contractor in May 1996 nor took any alternative action to proceed with the work. The plea of the Zonal Manager that lack of action was attributable to non-availability of funds was incorrect because requirement of funds was projected to the higher management 30 months (November 1998) after the direction from the court had been received (April 1996). The boundary wall remained unconstructed and, therefore, the godown remained unused.

The Management admitted (February 1999) the lapse in not including the construction of boundary wall in subsequent tenders. Inaction on the part of Zonal Manager on the representation of the original contractor was reported (July 1999) to be under investigation by the Corporate Office. The Ministry endorsed (July 1999) the reply of the Management.

CHAPTER 12: MINISTRY OF HEAVY INDUSTRY AND PUBLIC ENTERPRISES

Andrew Yule & Co. Limited

12.1 Infructuous expenditure on a technical collaboration

The Company incurred infructuous expenditure of Rs.85.72 lakh by entering into a new venture without a detailed project report and paid technology transfer fee without receiving adequate document and without absorbing the relevant technology.

On expectation of some orders from a customer, the Company entered into (January 1992) a technical collaboration agreement with M&I Heat Transfer Products Limited, Canada on direct negotiation basis for transfer of technology, know-how and technical information for manufacture of industrial and commercial positive Seal Damper, Compac Space Fan System, Air Handling System and VAV Air Valve at a fee of US $ 381,000 to be paid in three equal instalment of US $ 127,000 each as follows: -

- 1st instalment to be paid after filing of the Agreement with Reserve Bank of India.
- 2nd instalment to be paid after delivery of complete technical documents.
- 3rd instalment to be paid after commencing of commercial production.

Besides a fee of US $ 30,000 was also payable to M&I for rendering necessary training to Engineers/personnel of the Company.

After payment of 1st instalment of US $ 127,000 (Rs. 39.87 lakh) in April 1992, M&I furnished technical documents to the Company. During examination and assimilation of the same the Company observed certain shortcomings and called for (June 1993) certain clarification/further documents from M&I. However, without receiving any clarification/further document from M&I the Company released (October 1994) the second instalment of US $ 127,000 (Rs. 40.70 lakh) only on the assurance from M&I that it would help the Company to meet the technology gap. The Company also incurred Rs. 5.15 lakh on training of personnel by M&I (including payment of first instalment of training fees of US $ 15,000).

When the Company subsequently asked M&I several times for clarifications/further documents M&I insisted on deputing the Company's team for training at collaborator's premises for assimilation of the technology on the plea that they had already sent the complete set of documents. But the Company took a stand not to send the team for training until receipt of clarifications/further documents sought from M&I. The matter, therefore, remained unresolved. The situation could have been avoided by the Company by sending selected personnel for training after briefing them about the discrepancies noticed in the technical documents. This would have enabled the Company to clear the

technical doubts and paved way for absorption of the technology. But the Management failed to act accordingly. As such M&I got an excuse to get rid of the obligation to help the Company in sorting out the technology gap. In December 1996, M&I demanded payment of 3rd instalment as per the agreement and eventually served a notice of termination of contract in May 1997. The Company's proposal (July 1997) for an amicable settlement of the issue which included waiver of third instalment of fee was turned down (July 1997) by M&I.

A market survey conducted subsequently by the Company revealed that there was very limited market for the licensed products. It was observed that the project was, in fact, taken up by the Company without proper evaluation for its technical and commercial viability in as much as no detailed project report (DPR) was prepared.

While admitting the above facts Management stated (May 1999) that against the suit filed by M&I claiming Rs. 62.69 lakh besides other damages the Company had preferred a counter claim for recovery of technology transfer fee and other expenses. The case was pending in court (May 1999).

Thus, as a result of the Company's venture in a new area without a DPR and subsequent failure to absorb the technology the entire expenditure of Rs. 85.72 lakh (39.87+40.70+5.15) proved to be infructuous.

The above matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

Bharat Heavy Electricals Limited

12.2 Avoidable expenditure in procurement of material

Frequent changes in the delivery schedule and failure to open the LC required by the supplier led to non-execution of the original order and the resultant delay enabled the supplier to hike the price of the material by Rs.58.99 lakh.

Bharat Heavy Electricals Limited, Bhopal (Company) placed an order (July 1994) on a foreign supplier for purchase of 54282 metres of welded stainless steel tubes required for four high pressure heaters, at FOB price of US$ 0.29 million. As per the delivery schedule, 50 per cent of the total quantity was to be supplied in December 1994 and the remaining in April 1995 and the payment was to be made through letter of credit (LC). Without opening the LC, the Company, however, changed (August 1994) the delivery schedule requiring the entire supply to be made by April 1995, but again insisted on the original schedule in September 1994. The supplier expressed (October 1994) their inability to comply with the delivery schedule proposed by the Company and instead offered to deliver the entire material in February 1995, provided an irrevocable and confirmed LC for full value of the order and valid up to June 1995 was received by them within a week.

Without opening any LC, the Company requested (October/November 1994) the supplier for early shipment of the material. The supplier informed (December 1994) that already the Company had created uncertainty by changing the delivery schedule and as it had failed to open the LC in October 1994, the order had not been booked by the supplier. The Company opened LC only in December 1994 with validity up to 25 March 1995 for shipment of 50 per cent of the quantity. As the Company did not satisfy the condition set out by the supplier for opening of the LC by October 1994, the latter did not supply the material against the LC. The supplier instead offered (January 1995) to supply the tubes at prices prevailing at that time which was higher than the original prices contracted by the Company in July 1994. In view of this, fresh quotation was obtained and the Company issued a fresh purchase order (2 May 1995) on the same firm after opening the LC on 29 April 1995 for a total value US $0.443 million. The material was dispatched in September 1995 in accordance with the delivery schedule.

Thus, frequent changes in the delivery schedule and failure to open LC on mutually agreeable terms led to non-execution of the original purchase order and the consequent delay which enabled the supplier to hike the price of the material for which the Company had to pay an extra amount of Rs.58.99 lakh.

The Ministry stated (November 1998) that the supplier was not keen to execute the order at the price, as the cost of manufacturing the tubes had increased due to shortage of nickel. Moreover insufficient availability of funds in July 1994 against the purchase order commitment resulted in deferment of the delivery.

The reply of the Ministry is not tenable since the party was awarded the purchase order based on their quotation, but the supply was not effected due to the changes made by the Company in the delivery schedule and the failure of the management in opening the LC. As regards sudden paucity of funds, the Company knew about the requirement well in advance and ought to have provided for it.

Cement Corporation of India Limited

12.3 Payment of excise duty at higher rate

Due to failure in obtaining certificate of installed capacity well in time, Rajban unit of the Company had to pay excess excise duty of Rs.36.53 lakh.

As per notification of 1 March 1992, cement-manufacturing unit having a capacity of 1.98 MT were made eligible for concessional rate of excise duty by half of the production i.e. 99,000 MT p.a. The concession was available from 1 March 1992 subject to certification of installed capacity by the Director of Industries of the State concerned. The Rajban unit of the Company was thus entitled to this concession from 1 March 1992. But the management applied to the Director of Industries for necessary certificate on 25 July 1992. The certificate was issued 2 days later and concession became available to the Company from 28 July 1992. Thus there was a delay of over 4 months in seeking necessary certificate. As a result of delay the Unit could not avail itself duty concession of Rs.36.53 lakh in respect

of 25,415 MT of cement despatched during the month of March 1992 alone (loss of duty exemption in respect of cement despatched in the subsequent period between April to July 1992 was availed by the Unit during the later part of the financial year).

The claim for refund of Rs.36.53 lakh lodged (April 1993) by the Unit was rejected (June 1995) by the Assistant Commissioner, Customs and Central Excise on the ground that the claim was time barred. The appeal against the orders of the Assistant Commissioner, Customs and Central Excise was also rejected by the Commissioner (Appeals) in December 1996 on the same ground. Further, the pursuance of the case for refund with Customs Excise & Gold (Control) Appellate Tribunal was not allowed (October 1997) by the Committee of Secretaries on Disputes.

The Management stated (September 1998) that the claim was lodged within the stipulated period of 6 months from the date of approval of classification list i.e. 15 March, 1993 as envisaged in Section 11B of the Central Excise & Salt Act, 1944. The Management's reply is not tenable as rules ibid, provide for lodging of refund claim within 6 months of payment of excise duty (September 1992) and not from the date of approving classification list.

Thus, the Company failed to avail itself of concessional rate of Excise Duty of Rs.36.53 lakh owing to delay in applying to the Director of Industries, Himachal Pradesh for certificate to the effect that installed capacity of the Unit was 1.98 lakh MT.

The matter was referred to the Ministry in February 1999; their reply was awaited (December 1999).

HMT (International) Ltd

12.4.1 Loss due to contract entered into on unfavourable terms

Entering into a contract which did not provide for compensation in the event of non fulfillment of contractual obligations by the customer resulted in loss of Rs.86 lakh to the Company.

HMT (International) Ltd. (Company) entered (June 1993) into a contract with M/s Tehran Urban and Suburban Railway Company, Ministry of the Interior, Islamic Republic of Iran (Customer) for supply, design, manufacture, procurement, installation and construction of certain equipment and vehicles at a contract price of Irian Rials 1,266.723 million, in addition to a foreign currency component of US $40.056 million.

As per the contract (i) the Company was to submit the performance bank guarantee for an amount equivalent to 10 per cent of the initial contract price within 30 days of signing the contract, (ii) the Customer was to open a Letter of Credit (LC) within 120 days from the date of signing the contract for an amount equal to the total foreign currency portion i.e. US $ 40.056 million and, (iii) 10 per cent of the foreign currency portion i.e. US $ 4.006 million, was to be paid to the Company by the Customer as advance after opening of the LC.

The Company submitted the bank guarantee within the stipulated period for a value of Iranian Rials 126.67 million as well as US $ 4.006 million. However, the Customer did not open the LC and did not comply with the terms of the contract. As the Customer failed to fulfill his contractual obligations, the Company did not make any supplies. At the request of the Company (August 1994), the Customer released the bank guarantee.

The contract with the customer did not provide for claims for compensation in the event of non-fulfillment of contractual obligations by the Customer. The Company had already incurred (till August 1994) expenditure of Rs.86 lakh towards charges for issue of performance bank guarantee and other incidental expenditure relating to travelling, communications and on employment of technical and commercial experts etc. connected with the project consequent to the signing of the contract (June 1993). The Company lodged (September 1994) a claim on the customer for the amount, but there was no response from the customer.

Even though the approval (April 1996) of the Ministry of Industry, Government of India for taking legal action against the customer was obtained and legal notice was issued (February 1997), the Company did not file any suit against the customer on the premise that 'filing a suit against a country like Iran may not prove beneficial'.

Thus, by entering into a contract on unfavourable terms, the Company lost Rs.86 lakh.

The matter was referred to the Management in June 1999; and the Ministry in July 1999; their replies were awaited (December 1999).

12.4.2 Loss due to poor follow up by the Company and confusion regarding the LC terms

The Company lost Rs.64.59 lakh on account of lack of clarity in the terms of payment in Letter of Credit as well as poor follow up by the Company in regard to deviation in the LC from the terms of the purchase order.

The Company received (October 1988) an order from M/s Hutteen General Establishment, Baghdad, Iraq (customer) for supply of machines for DM 9.56 lakh on FOB basis. According to the purchase order, the customer was to pay 100 per cent value of the order against shipping documents. However, according to the Letter of Credit (LC) established (November 1988) by the customer and issued by the Central Bank of Iraq (Opening Bank) in favour of United Commercial Bank (UCO Bank), 75 per cent was only payable against the presentation of shipping documents and the rest 25 per cent was payable against production of bank guarantee for the same amount. Details as to the reasons for variation between the purchase order and the LC and whether this was taken up with the customer could not be furnished by the Company as the files/records relating to technical and commercial aspects were stated (August 1999) to have been misplaced.

At the request of Company, its banker, M/s UCO Bank, confirmed the LC and obtained transfer guarantee from M/s Export Credit Guarantee Corporation of India (ECGC). The Company asked (January 1989) UCO Bank to issue bank guarantee for 25 per cent of the value of LC amounting to DM 2.39 lakh and credit its account by 25 per cent advance on

the value of LC. UCO Bank, however, discounted 25 per cent of the amount of the LC (DM 2.39 lakh) and credited the Company's account with Rs. 20.01 lakh in March 1989. In the meanwhile, goods were shipped to the customer on 30th March 1989 and 75 per cent amount was realised on presentation of shipping documents on 30th March 1989.

The claim of the UCO Bank for the advance amount of DM 2.39 lakh (Rs.21.23 lakh) was not honoured as funds were not provided by the Opening Bank (Central Bank of Iraq). The claim of the UCO bank on ECGC, on the strength of the transfer guarantee, was also rejected by ECGC on the ground that the Company had violated the terms of the LC by shipping the goods before the receipt of advance remittance from the customer. Thereupon UCO Bank debited the Company with Rs.21.23 lakh in April 1995 and for a further amount of Rs.43.36 lakh in March 1996 towards interest for the period from March 1989 to March 1996.

The Company protested (December 1996) against the above debits on the plea that (i) there was no commitment on the part of the Company requesting the bank to purchase the LC as claimed by the Bank; (ii) the Company was not to receive any advance payment and 25 per cent bank guarantee was nothing but performance guarantee for the goods supplied. However, the Company wrote off the entire amount of Rs 64.59 lakh in the accounts for the year 1997-98.

The Management stated (August 1999) that:

(i) Terms as per LC were beneficial to the Company as it provided for 25 per cent advance payment;

(ii) The Company did not ask the Bank to purchase the bill in respect of 25 per cent advance amount; and

(iii) Rs.43.36 lakh being the interest debited by the bank was notional as the Company utilised the same for its working capital requirements and to that extent short term borrowing had been reduced.

The Ministry endorsed the views of the Management (October 1999). The reply of the Management is not acceptable because of the following:

(i) The statement of the Company that terms of LC were beneficial as it provided 25 per cent advance payment was an afterthought. The Company itself had held in its protest letter to UCO Bank (December 1996) that it was not to receive any advance payment while it had indeed asked (January 1989) the Bank to give it the 25 per cent advance. This confusion indicates a lack of clarity about the terms of LC.

(ii) The discounted proceeds of 25 per cent of the value of LC was credited to the Company's account in March 1989. If the Company was not to receive this advance, it ought to have taken up the matter with the Bank immediately thereafter. Further, the Company's account was debited by the Bank in April 1995 and March 1996, but the Company protested against this to the Bank only in December 1996. Failure to react quickly to situations where the Company's financial interests were in jeopardy was reflective of the confusion prevailing in the Company regarding the payments terms.

(iii) Earlier, deviation in the terms of LC from those in the purchase order which were more advantageous to the Company was also ignored by the Company which was a major reason for the loss suffered by the Company.

(iv) Besides, the fact remains that even this 25 per cent of the LC value amounting to Rs.21.23 lakh was yet to be recovered from the customer and the loss of interest on the same till it was written off in 1997-98 was more than Rs.43.36 lakh which had already been recovered by the UCO Bank.

Thus variation in the terms of payment in LC from those in the purchase order, failure to take timely follow up action and lack of clarity regarding the terms of LC resulted in avoidable loss of Rs.64.59 lakh.

HMT Limited

12.5.1 Loss on account of seizure of components and wrist watches by Customs Department

Procurement of watch components of foreign origin through indigenous sources of uncertain antecedents by the Company resulted in confiscation of components/wrist watches worth Rs.5.07 crore by the Customs authorities on the ground that goods (components/wrist watches) were brought into the country in contravention of Customs Regulations.

Keeping in view the range of styles of watches being offered by its competitors and trend in the international market, the Watch Directorate of the Company in 1988-89 assigned to its Watch Factory at Ranibagh the task of manufacture of slim line series of wrist watches with calibre 4630 movement and integrated bracelets. Purchase orders for integrated bracelets were initially placed on two foreign suppliers viz., M/s Munnier Frers SA, France and M/s Sunchit Manufacturers Limited, Hongkong during the month of February, 1989. However, contrary to the expectation of the Management, integrated bracelets imported from outside did not qualify for concessional rate of Customs Duty (ranging between 30 to 55 per cent) and attracted the full rate of Customs Duty at 160 per cent. This made the final product and the project itself economically unviable. The Company, with the apparent intention of overcoming the handicap imposed upon it by high incidence of duty on watch components, started sourcing these from three domestic firms viz., Karnataka Horologicals Limited, Bangalore, Falken Watch Industry Private Limited, Mumbai and Indo-French Time Industries Limited, Mumbai. Since the components valuing Rs.4.26 crore had been sourced through these firms, allegedly without payment of proper import duty, Customs and Central Excise authorities treated the same as smuggled items and raided the factory at Ranibagh and offices of the Company during May 1991 and again in August 1991. Customs authorities in July 1991 also seized 2823 watches worth Rs.81.38 lakh from the premises of one Commission & Forwarding Agent of the Company. Though the Company preferred an appeal before CEGAT in July 1995, a decision was still awaited from the Tribunal. Thus, watch components/wrist watches worth Rs. 5.07 crore had remained unused and unsold for the last 8 years resulting in blockade of capital and loss of interest amounting to Rs.6.49 crore during the above period. Besides loss of interest, the

Company was also likely to suffer loss on account of damage to and obsolescence of components/wrist watches to an extent, which was unascertainable.

The Company stated that it had made the procurements from firms duly registered with the DGTD and Central Excise authorities and had cleared goods from the suppliers' premises after payment of Excise Duty and Sales Tax.

The Ministry stated (September 1998) that the matter was sub-judice. The fact, however, remains that whatever be the outcome of the case, the Management of the Company by entering into injudicious transactions with firms of uncertain antecedents, had caused not only financial loss to the Company but also damaged its reputation.

12.5.2 Infructuous expenditure in development of machine

The Company developed a machine without assessing customer requirements which resulted in infructuous investment of Rs.1.38 crore.

For the purpose of developing and marketing laser based machine tools in India, the Company entered into (July 1990) a tripartite agreement with M/s Coherent General Inc. USA (CGI), and IGE (India), the Indian representative of CGI, for co-operation in the development and marketing of laser equipped machine tools. A list of potential customers was obtained (August 1989) from IGE (India) Ltd. The automotive sector, the biggest user of laser machines, did not express any interest in the laser machine tools. A joint market survey conducted by the Company and IGE soon after signing the agreement indicated that M/s Lakshmi Machine Works (LMW), Bharat Earth Movers Limited and Bajaj Auto were keen to have these machines, but due to the prevailing economic uncertainties they had deferred their plans to purchase laser machines. Despite this, it was proposed to import the laser machine with the expectation that industrial climate would improve with liberalisation policies of the Government and demand for modern manufacturing technology viz. those using laser machines, would emerge. In the proposal for the purchase of the machine (December 1991), among other things, it was proposed to design the machine in such a way that it would be saleable to one of the prospective customers. However, the Company had not identified any specific prospective customer in order to assess his specific requirements.

The Chairman and Managing Director accorded approval to the import proposal for the machine in June 1992 and the machine was imported (November 1992) at a cost of Rs.1.15 crore. Further expenditure of Rs.23.47 lakh was incurred on the machine for indigenous bought-outs, design, manufacture/assembly of the workstation. One of the prospective customers, M/s.LMW, was approached but it backed out because the machine did not have certain features available in imported models. By then, imported laser machines with additional features and equipped with new generation of laser heads were available at lower prices due to lowering of customs duty on liberalisation. As the model imported by the Company had become obsolete and was not manufactured any more by the supplier, services and spare support were not readily available. As the Company was not able to sell the machine, it was commissioned (May 1993) for carrying out trials of its customer's components. The Company took up job works on the machine from October 1993. The

machine broke down in May 1996 and it had not been used since then. The Company earned a net income of Rs.20.65 lakh through job works till May 1996.

Though the Company took a decision (September 1997) to dispose of the machine on "as is where is condition", it could not find a customer for the machine. It made a provision of Rs.1.38 crore towards obsolescence of the machine in the accounts for 1997-98.

Thus, failure on the part of the Company in developing a machine without assessing customer requirements resulted in an infructuous investment of Rs.1.38 crore.

The Management stated (June 1999) that the decision to develop the machine was based on the then prevailing market and economic policies and therefore must be viewed as a business decision governed by usual risk factors associated with new developments and that even though its development could not be commercialised, the expenditure had not been entirely infructuous since it had brought technology inputs in several fields of importance in machine tools technology.

The reply of the Management which was endorsed by the Ministry in July 1999 is not acceptable as the Company ventured into development without locating a customer and assessing his requirements. Besides, as the machine was purchased after the economy was liberalised, the Company should have taken into account the prevailing economic conditions and investment options of the customers before venturing into purchase and development of the machine.

As regards the contention that the technology inputs in several important fields were utilised as a benefit accruing from the purchase of this machine, the Company had not been able to produce any evidence in support of its contention.

12.5.3 Idle investment on manufacture of LAMP chains without firm orders

The action of the Company in continuing with the manufacture of a product without firm orders and without safeguarding its interest resulted in blockage of funds amounting to Rs. 94.63 lakh and consequential loss of interest of Rs. 70.19 lakh.

HMT Limited (Company) received (November 1992) an order from M/s. Crompton Greaves Ltd, Bombay (Customer) for supply of three lamp chains at a price of Rs. 1.47 crore each. Subsequently the customer reduced the order (March 1993) to only one chain with a promise to place order for the other two chains. The Company accepted the revised order (March 1993) for reduced quantity and supplied the chain in March 1994.

Meanwhile, despite want of further confirmed orders from the customer, the Company continued with the manufacture of the other two chains and incurred an expenditure of Rs.94.63 lakh up to 1995-96. The Company did not receive any further order from the customer for these chains which were still lying in incomplete condition with the Company under work-in-progress (June 1999).

The Management stated (January 1999) that the manufacture of three lamp chains was taken up and materials procured based on the order received from the customer. After the order was reduced to one chain, the Company continued with the manufacture of other

chains with materials already available, in anticipation of orders which at that time appeared quite likely. Management further stated that individual machines of the chain could be converted and sold as spares to lamp manufactures.

Reply of the Management is not borne by facts. As against the total material worth Rs. 99.37 lakh used in the manufacture of one completed lamp chain and two in the WIP, Company had placed orders for procuring raw materials valued Rs.30.59 lakh only before reduction in the ordered quantity. Besides, neither the Company did succeed in getting orders for the two chains nor could it sell any of the individual machines after conversion as spares.

The Ministry confirmed the facts and figures of the draft para (August 1999).

Thus, the action of the Company in continuing with the manufacture of a product without firm orders resulted in blockage of funds amounting to Rs. 94.63 lakh and consequential loss of interest of Rs. 70.19 lakh (April 1999).

12.5.4 Manufacture of machine without confirmed order

Manufacture of a machine without confirmed orders resulted in idle investment of Rs. 55.60 lakh and loss of interest of Rs.53.49 lakh

Without having any proposal from any prospective buyer, the Marketing Division of HMT Limited placed a letter of intent in May 1991 on its Press Division, Hyderabad for supply of one CNC Turret Punch Press valued at Rs.60 lakh for delivery in February 1992. The Press Division started manufacturing the machine in June 1991. However, the Company was not able to get confirmed orders from any customer. Despite this, the division continued with the manufacture of the machine and completed it in May 1995 at a cost of Rs.55.60 lakh. Company's efforts to get orders for the machine did not yield any result and the machine was still lying in stock-in-trade (July 1999).

The Management stated (January 1999) that manufacturing activity for the machine was taken up during 1992-93 to utilise the spare capacity available and with the significant improvement in the order book for the year 1993-94 and 1994-95, the completion of the said machine was deferred/delayed and it was completed only during 1995-96. Management further stated that the loss of interest on account of blocking of funds, as calculated by Audit, should be confined only to the material cost which worked out to Rs.31.54 lakh, as the labour cost was fixed.

The reply is not tenable, as the Company had started manufacturing the machine in June 1991 itself. The Company had executed orders worth Rs.6.77 crore only during 1992-93 as against the orders on hand worth Rs.27.50 crore. The Company booked major expenditure (53.68 per cent) in the manufacture of the machine during 1993-94, when the orders on hand were worth Rs.34.44 crore and the Company could execute orders only for Rs.12.85 crore. Thus the existing capacity could have been much more profitably used in respect of items where confirmed orders were available. As regards the Management's contention that interest on labour cost should not be considered since labour cost was fixed, it may be stated that labour could also have been utilised on confirmed orders.

Thus taking up the manufacture of a machine without confirmed order from any customer resulted in idle investment of Rs.55.60 lakh and consequential loss of interest of Rs.53.49 lakh (April 1999).

The Ministry confirmed (June 1999) the facts and figures of the draft paragraph.

Heavy Engineering Corporation Limited (HEC)

12.6 Irregular payment of commission

The Company appointed a private consultant in January 1994 for obtaining orders from Government/PSUs which was in contravention of the instructions of Bureau of Public Enterprises. The commission of Rs.1.11 crore to the consultant was irregular.

Under the orders of Bureau of Public Enterprises, Public Sector Undertakings were to quote the price of their products directly to the Government Departments without routing their offers through any distributor. This was to avoid payment of commission on supplies made to the Government Departments.

In contravention of the aforesaid orders, the Company appointed a private consultant viz. M/s ESCON International, New Delhi during the period from January 1994 to December 1995 for securing orders from M/s. Bokaro Steel Plant, Bhilai Steel Plant and Central Organisation for Modernisation of Work (COFMOW) on payment of a service charge of 2.5 per cent of ex-works price of the orders secured. The Company accordingly paid Rs.1.11 crore till September 1999 as commission on the orders received from these units.

The purpose of the appointment, as stated by the Company, was to liaison with the steel plants to ward off unfair competition from others. However, for this very purpose, the Company had a liaison office at plant level in addition to the marketing network at Headquarters and a mechanism of Committee of Secretaries at Ministry's level. The appointment of the Consultant was thus not only irregular but totally unwarranted. Had the Company used the existing mechanism more effectively it could have avoided the payment of Rs.1.11 crore towards commission to the agents.

The Ministry in its reply (February 1998) justified the action of the Management on the ground of reduced flow of orders to the Company due to liberalisation of economy and entry of multi-nationals.

The contention of the Ministry is not tenable because the process of liberalisation of the economy and entry of multi-nationals continued even in 1995 when the Ministry itself issued (September 1995) an order restraining the Company from engaging any private agent for obtaining orders from Government departments.

Hindustan Cables Limited

12.7 Infructuous expenditure on an abandoned project

Due to improper selection of a collaborator and subsequent abandonment of a project, the Company incurred an infructuous expenditure of Rs.8.52 crore.

With a view to set up manufacturing facilities for 2.90 lakh Thermo Shrink Jointing Kits for telecom cables at Rupnarainpur unit, the Company floated a global tender in June 1990 for the technical know-how and the supply of plant & machinery. An in-house committee of the Company evaluated the two bids received against the tender from REPL Engineering Limited, India and Fujikura of Japan. As both the bids were technically acceptable, financial bids were opened in December 1990. One of the bidders Fujikura Limited of Japan quoted a total amount of Yen 636.55 million (equivalent to Rs.7.79 crore) for plant and machinery including technical know-how. The other bidder REPL Engineering Limited, India had quoted Rs.9.80 crore (Rs.7.65 crore for plant and machinery and Rs.2.15 crore for technical know-how fee).

However, as Fujikura's bid was not strictly as per the tender they were asked to submit an alternative offer for plant and machinery. The alternative offer submitted by Fujikura limited was higher than the original bid by Yen 340.96 million (Rs.4.17 crore). The Committee did not consider the alternative offer being beyond the scope of the tender. Instead the Committee re-evaluated the original quotation of Fujikura at Rs.10.03 crore by making adjustments for the technical efficiency of production, royalty provision etc. to make the two bids comparable.

As the tender committee recommended (February 1991) acceptance of the offer of REPL, the Company signed (August 1991) a Technical Collaboration and License Agreement with REPL at a fee of Rs.2.15 crore and placed (September 1991) purchase order for supply of plant and machinery at a value of Rs.7.65 crore. The project was divided into 4 phases (IA, IB, 2 and 3) and it was to be completed in a phased manner by July 1993.

It was observed that while the technology offered by Fujikura was approved by the Department of Telecommunication, Government of India, there was nothing on record about the expertise or track record of REPL in supply of jointing kits plant. However, no wieghtage was given to this fact in technical/financial evaluation of the bids.

REPL completed the phase-IA in January 1992 and failed to adhere to the completion schedule thereafter. They could complete phase –IB and phase-2 in March 1994 but failed to commission phase-3 (i.e. setting up manufacturing facility for all products for 100 per cent rated capacity) even after several trial rounds and abandoned the work. In the meantime the Company had already released Rs.7.72 crore to REPL (Rs.6.64 crore on account of plant and machinery and Rs.1.08 crore as technical collaboration fee) and also procured 35MT Hot Metal Adhesive at a price of Rs.1.43 crore. The material was still lying unutilised (October 1999) and the Company's effort to dispose of the same did not fructify due to very low price. Besides, the Company also incurred Rs.14.05 lakh for civil and other work for the project. The Company ultimately terminated the contract with REPL in

June 1995 and claimed refund of the entire amount paid (Rs.7.72 crore) along with interest. The matter was under arbitration (October 1999).

After termination of the contract, REPL offered (July 1995) for short-closure of the contract up to phase-2 on the plea that the project would not be viable due to lower market price on account of reduction of import duty and liberalised licensing policy. However, the Company did not accept the offer and invoked the bank guarantee of Rs.76.48 lakh provided by REPL.

Thus, selection of collaborator without properly assessing their capabilities led to abandonment of the project and rendered infructuous the expenditure of Rs.8.52 crore (Rs.7.72 crore + Rs.1.43 crore + Rs.14.05 lakh – 76.48 lakh).

The Management stated (July 1999) that REPL was a well-known and established supplier of jointing kits in India and seemed to have sufficient expertise in manufacturing jointing kits. The contention of the Management is not acceptable as expertise in manufacturing jointing kits can not be construed as expertise in supply of machinery and installation of plant for manufacturing jointing kits as would be evident from the fact of ultimate failure by REPL to complete the project.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

Praga Tools Limited

12.8 Irregular Payment of ex-gratia/adhoc payment

The Company made irregular payment of Rs.59.48 lakh as ex-gratia/adhoc payment to its employees from the year 1990-91 to 1997-98 in contravention of the guidelines issued by the Department of Public Enterprises (DPE).

The Company had been paying bonus to its employees/workmen subject to the ceilings of pay and other terms and conditions as prescribed under the Payment of Bonus Act, 1965. The Company had also been paying productivity linked incentives to its employees as per the existing schemes. In addition, the Company, with the approval of its Board of Directors paid during 1990-91 to 1997-98 a sum of Rs.59.48 lakh as ex-gratia/adhoc payment to its employees who were not covered by the Payment of Bonus Act by virtue of drawing their wages/salary beyond the limit stipulated therein.

As per the instructions issued by Department of Public Enterprises (DPE) no ex-gratia payment whatsoever outside the Payment of Bonus Act would be made by the Public Enterprise unless otherwise authorised under an incentive scheme duly approved by the Government. The Company did not obtain the approval of the Government of India for payment of ex-gratia as required in the DPE instructions.

Thus, the payment of ex-gratia of Rs.59.48 lakh to the employees who were not covered under the Payment of Bonus Act by virtue of drawing wages/salary beyond the ceiling

prescribed, was irregular and went against the spirit of the Payment of Bonus Act besides contravening the DPE instructions.

The matter was referred to the Ministry in June 1999; their reply was awaited (November 1999).

Tungabhadra Steel Products Limited

12.9 Avoidable expenditure due to appointment of an external agency

The Company made unwarranted appointment of an external agency for following up an arbitration case between two Public Sector Enterprises with the Permanent Machinery of Arbitration (PMA) and committed an expenditure of Rs.37.40 lakh which was avoidable as well as improper.

Tungabhadra Steel Products Limited (Company) received an order (May 1982) from Visakhapatnam Steel Plant (VSP) for fabrication and erection of structural steel works to the extent of 10,000 MT. The scheduled date of completion was May 1985 and the value of the order Rs.7.64 crore. Due to reasons attributable to VSP, the work was completed only in May 1990 for a reduced quantity of 8691 MT at an assessed value of Rs. 6.91 crore. When the Company submitted the final bill for Rs. 26.01 lakh (March 1993), VSP insisted on a no claim certificate. The Company issued the certificate (March 1993) in order to realise the payment. As the delay was attributable to VSP, the Company lodged a claim (July 1993) for Rs.1.70 crore towards increased cost incurred in completion of the work. VSP rejected (March 1995) the claim on the grounds that the Company had issued a "no claim Certificate" while settling the final bill. As negotiations failed, the matter was finally referred (April 1995) to Permanent Machinery of Arbitration (PMA).

Even though the matter was strictly between two Public Sector Companies, the Company appointed (December 1995) a private agency, M/s.Cosmic Marketing Services, Visakhapatnam (agent) for preparation of the case, for liaison work and realisation of payments from VSP after award by PMA. The remuneration fixed was 14 per cent of the amount realised from arbitration award.

The arbitration was decided (June 1996) in Company's favour. The Arbitrator awarded an amount of Rs.2.67 crore comprising Rs.1.49 crore towards claims and Rs.1.18 crore towards interest during the period. The amount was payable within 2 months failing which interest at 18 per cent was payable. An amount of Rs.3.26 crore (including interest of Rs.1.77 crore) was realised in instalments (December 1997-July 1998). The agency was accordingly paid Rs.28 lakh out of a total due of Rs.37.40 lakh. The balance of Rs. 9.40 lakh was provided for in the accounts of the Company.

The Company admitted (July 1999) that there was no qualitative and quantitative changes in the nature of claims put forth by it in 1993 and those submitted in 1996. The Ministry justifying the appointment, however, stated (October 1999) that it was not possible for the Company's own engineers to sort out the 'special technical issues' which required

'intricate knowledge and experience in the fabrication of complicated structures related to the issue and it was necessary to appoint an external agency for constant follow up as VSP was facing liquidity problems.

The reply is not tenable as the Company could not produce any documentary evidence in support of the agency's contribution that tilted the award in favour of the Company. As the entire work had been carried out by deployment of Company's engineers the statement by the Ministry that the Company's engineers were not competent to handle technical issues lacked justification in view of the Company's experience for the past 38 years in the field of structural engineering. There was also no legal complication in the claim except the issue of 'no claim certificate' which was set aside by PMA. Nevertheless, VSP was also bound by the arbitration award and the transaction being between two PSEs, intervention of an external agency in realisation of the arbitration award, was not warranted.

It is also pertinent to mention here that the Company has further appointed/proposed to appoint agency/consultants for realisation of claims/dues from Government departments/Government sponsored projects on payment of commission ranging from 2 to 6.50 per cent involving an expenditure of Rs.44.96 lakh. The appointment of external agency/consultants for following up arbitration cases between Government companies was not called for and was against the norms of propriety.

Thus engagement of services of an external agency towards preparation of the case and realisation of arbitration award was not warranted and the entire committed expenditure of Rs.37.40 lakh was avoidable and improper.

CHAPTER 13: MINISTRY OF INFORMATION TECHNOLOGY

DEPARTMENT OF ELECTRONICS

Semi Conductor Complex Limited

13.1 Avoidable loss due to defective contract

The Company did not obtain appropriate security from a purchaser before manufacturing Electronic Circuit Blocks (ECBs) in consequence of which it suffered loss of Rs.74.93 lakh as the purchaser, owing to financial problems, failed to lift the whole material.

In April 1990, the Company received a purchase order from Hyderabad Allwyn Limited (client) for supplying 7 lakh Electronic Circuit Blocks (ECBs) worth Rs. 402.50 lakh. Though the product was to be manufactured exclusively for the client and there was no other customer for the product, the Company did not get the value of the purchase order backed up by an irrevocable Letter of Credit/Bank Guarantee before initiating manufacturing process.

The client became financially sick after accepting 2,46,400 units of ECBs. Consequently, the Company was left with 1,66,500 units costing Rs.74.93 lakh, which could neither be delivered to the client nor sold in the open market.

Thus, by failing to incorporate in the purchase order suitable provisions to secure itself against client's failure to take delivery of goods manufactured on order, the Company suffered a loss of Rs.95.74 lakh (including profit element of Rs.20.81 lakh) as it had already made a provision in its accounts for the year 1995-96 to write off the value of the unsold units of ECBs.

The Management contended that as per the then prevailing practice a clause to make good the losses in case of default by the client could not be incorporated in the purchase order. The contention of the Management which was also endorsed by the Ministry (April 1999) is not tenable because it was not unusual for the Company to take advance from customers against specific purchase orders.

CHAPTER 14: MINISTRY OF INFORMATION AND BROADCASTING

National Film Development Corporation Limited

14.1. Loss of revenue on a telecast agreement

The Company incurred loss of Rs.7.77 crore by renewing a telecast agreement with Doordarshan for continuing to produce a loss making entertainment programme.

The Company entered (22 April 1997) into an agreement with Doordarshan (DD) for producing an entertainment programme 'RANGOLI', at a Minimum Guarantee fee of Rs.51.05 lakh (Rs.43.39 lakh after deduction of 15 per cent agency commission) per episode of 55 minutes, for a period of one year covering 52 episodes to be telecast every Sunday morning. Each episode allowed a free commercial time (FCT) of 720 seconds of which 120 seconds belonged to DD and the balance to the Company . The Company had to produce each episode at its own cost and also provide publicity material including promotional literature, synopsis, stills etc.

During the period from 27 April 1997 to 26 April 1998 the Company telecast 52 episodes of the programme which were produced at an average cost of Rs.2.20 lakh each i.e. Rs. 1.14 crore in all. The Company could not market its share of FCT in full on 28 occasions and thus could not generate revenue even to meet the minimum guarantee fee resulting in a deficit of Rs.0.41 crore. The total loss inclusive of production cost came to Rs.1.55 crore (Rs.1.14 crore production cost + Rs. 0.41 crore deficit of revenue over minimum guarantee fee).

Despite incurring loss during the previous year, the Managing Director of the Company renewed the agreement in April 1998 for another year with a reduced FCT of 450 seconds at a minimum guarantee fee of Rs.38.25 lakh (Rs.32.51 lakh after deduction of 15 per cent agency commission) per episode. During the period May 1998 to April 1999, the Company telecast 52 more episodes. The Company could not sell even the reduced FCT of 450 seconds except on 5 occasions and again failed to generate enough revenue to meet the minimum guarantee fee resulting in a deficit of Rs.6.63 crore, thereby incurring a further loss of Rs.7.77 crore (Rs.1.14 crore production cost + Rs.6.63 crore deficit of revenue over minimum guarantee fee). Thus, the Company had incurred a loss of Rs.9.32 crore (Rs.1.55 crore: 1997-98 + Rs.7.77 crore : 1998-99) upto April 1999.

The Management stated (April 1999) that when it took up the programme, it was a lean period and it was expected to improve during the peak/festival season, but did not improve due to incoming of other private channels. They further stated that since DD had given them other top slots where lot of money was being earned, it continued with 'RANGOLI' programme.

The Management's reply is not tenable as after experiencing loss in the first year of operation of the agreement and being fully aware that the situation was still not favourable due to severe competition from private channels which were in existence from the year 1996, there was no justification for renewing the agreement. The fact that the DD was giving other slots which were profitable was no ground for agreeing to an arrangement which was not in the commercial interest of the Company as the agreements for different slots were not interlinked.

Thus, the overall loss of the Company on this account was Rs.9.32 crore of which loss of Rs.7.77 crore could have been totally avoided by exercising commercial prudence and not renewing the loss making agreement.

The matter was referred to the Ministry in May 1999; their reply was awaited (December 1999).

CHAPTER: 15 MINISTRY OF MINES AND MINERALS

Hindustan Copper Limited

15.1 Extra financial burden due to enchancement of retirement age

As a consequence of enhancement of retirement age of employees the Company had to bear extra expenditure of Rs.43.05 lakh towards voluntary retirement benefits. Besides, it also entailed the liability to pay extra salary & wages amounting to Rs 207 crore (approx.) for additional years of service of the continuing employees.

In order to effect reduction of surplus manpower the Company introduced Voluntary Retirement Scheme (VRS) in September 1986. With modifications from time to time the VRS continued based on retirement age of 58 years till April 1998. The benefits available under the scheme were proportionate to the number of years of service left of the VRS candidate.

In May 1998, the Government of India announced an enhancement in existing retirement age by two years (i.e., from 58 years to 60 years). While communicating the above decision the Ministry stated that the decision would be effective from the date on which the rules and regulations of the public sector undertakings (PSUs) were amended by the concerned PSU and would be applicable to employees below Board level.

The Company's employees were governed by different sets of rules/orders so far as their age of retirement (ranged between 58 years and 60 years) was concerned. In May 1998, out of total 18379 employees of the Company, in case of 11508 employees the retirement age was 58 years and for 6 employees the retirement age was 59 years. The Board of Directors of the Company decided (May 1998) to amend the existing service rules by enhancing the age of retirement of all below Board level employees from 58/59 years to 60 years with immediate effect.

With the enhancement of retirement age the main objective of the VRS to reduce surplus labour and manpower cost was frustrated. This also had a cascading effect on the Company's dwindling financial condition. This was due to increase in the quantum of benefits under VRS because of increase in the number of years of service left and also due to additional two year's salary & wages for employees not opting for VRS. The Company had to pay extra voluntary retirement benefits amounting to Rs. 43.05 lakh to 32 employees due to enhancement of the retirement age from 58 years to 60 years. However, the Company did not approach the Government/Ministry for obtaining exemption from raising the age of retirement.

The Management stated (June 1999) that the Company had merely complied with the Government's directive to raise the retirement age. While admitting the extra expenditure the Management claimed (June 1999) that the Company would be saving a substantial amount towards salary and wages due to better response from employees for VRS and the extra payment under VRS on account of enhancement of retirement age of the employees was insignificant. The Ministry also endorsed (September 1999) the views of the Management.

The contention of the Management/Ministry is not acceptable as being a financially sick Company its turnaround strategy depended mainly on substantial reduction of surplus manpower and the related costs. Besides the extra expenditure towards payment of voluntary retirement benefits the Company would also have to bear the extra expenditure of Rs. 207 crore (approximately) towards salary & wages for additional 2 years of service of employees not opting for VRS. This would aggravate the current financial crisis of the Company. The fact that 123 employees were released on VRS between May 1998 and March 1999 as compared to 1564 employees during April 1997 to March 1998 contradicted the Management's claim of better response after introduction of Government's order for enhancement of retirement age. Therefore, the Management/Ministry in consultation with the Government of India, should have sought and obtained exemption from application of enhanced retirement age for the Company. Across the board application of enhancement of retirement age of PSU's employees by the Government irrespective of financial health has imposed additional burden on sick PSUs like Hindustan Copper Limited, which were trying to reduce manpower cost through VRS.

CHAPTER 16: MINISTRY OF PETROLEUM AND NATURAL GAS

Bharat Petroleum Corporation Limited

16.1.1 Undue Advantage to a Private Party

BPCL failed to levy penalty on Reliance Industries Ltd. for delay in evacuation of naphtha from its pipeline. Loss to BPCL on account of this undue exemption, at rates at which the Company levied penalty on other client, was Rs.3.48 crore.

In September 1993, BPCL entered into an agreement with Reliance Industries Ltd. (RIL) to receive, store and handle naphtha imported by the latter. The agreement required RIL to evacuate the imported naphtha at the earliest but not later than 10 days of receipt by BPCL. Unlike the Company's similar agreement with National Organic Chemical Industries Ltd. (NOCIL) around the same time (November 1993), BPCL's agreement with RIL did not provide for any penalty or additional charge in case of failure by RIL in timely evacuation. During the period from October 1993 to April 1995, RIL delayed evacuation of a total quantity of 71,470 MT for a total period of 924 days over and above the period of 10 days which was allowed. Failure in inclusion of any penalty clause for delayed evacuation, on similar basis as that of NOCIL, cost BPCL Rs.3.48 crore, and resulted in undue advantage to RIL.

The Ministry supported (April 1999) the Company's reply in the matter, whose salient points were as follows:

(a) BPCL did discuss with RIL about the penalty for evacuation delays beyond 11 days while finalising the agreement to receive, store and handle RIL's imported naphtha. The Company could not, however, firm it up as a formal agreement clause as RIL wanted BPCL to forego the requirement of priority evacuation of naphtha produced and sold by the latter to the former. (As per the agreement, RIL was permitted to import naptha in case BPCL was unable to meet its requirement. Such imported naptha was handled by BPCL.)

(b) BPCL sold a total of 6.30 lakh MT of naphtha to RIL during the period 1993-94 to 1995-96. Had BPCL insisted on penalty charges, RIL would have evacuated the imported stock earlier, which would have resulted not only in the reduction of BPCL's sales to RIL, but also in 'containment problem' in BPCL Refinery leading to down-gradation of products or partial shutdown of refinery. Reduction of sales from BPCL would have resulted in loss of profits as well as distress sales/ exports at a lower price.

The Ministry's reply is not tenable because:

(a) BPCL has not recorded its pre-agreement deliberations with RIL. The background of non-inclusion of penal clause as a quid pro quo for sale and evacuation of

BPCL's own naptha in preference to evacuation of naptha imported by RIL but handled by BPCL on its behalf was therefore not ascertainable. There was also little meaning of the clause for evacuation within a specified period of 10 days in BPCL's agreement with RIL without provision of any penalty for delay.

(b) Sale of naptha to RIL constituted only 0.85 per cent of the total sales of BPCL during 1993-94 to 1995-96, which could not be a justification for the preferential treatment given to RIL for custody and evacuation by BPCL of the naptha imported by the RIL.

(c) According to the terms of the agreement with RIL, and also in actual practice, RIL resorted to imports of naptha to meet the shortfall between the naptha supplied by BPCL and their requirements. Since the imports were to meet the shortfall at any given point of time, there should not be any delay in uplifting of naptha in the normal course. Delayed evacuation would, therefore, be only due to inadequate storage space at RIL. RIL, therefore, made use of BPCL's storage facilities without any material consideration which amounted to an undue advantage to RIL.

16.1.2 Excess payment of transportation charges

The Company sustained loss of Rs.1.43 crore by way of excess transportation cost owing to non-verification of actual distance covered in transportation for out of zone stock transfers.

The Road Construction Department of the Government of Bihar used to purchase bitumen from the Oil Companies. As per the industry practice, the requirement of customer falling within the Barauni Pricing Zone was met by stock transfer by road from Haldia to Barauni, as bitumen was not available at Barauni for onward delivery to customers at ex-Barauni price. The transportation cost of such stock transfer was reimbursable by the Oil Co-ordination Committee (OCC).

For the purpose of reimbursement, the product was first to be physically reported at Barauni terminal of the Company and then supplied to the customers in that zone. However, without verification of actual reporting of the product at Barauni terminal and the actual distance covered in transportation, the transporters were paid by the Company presuming that the trucks first reached the Barauni terminals and were thereafter sent to the consignees.

It was observed that some transporters took advantage of this system deficiency as the Ministry of Petroleum and Natural Gas informed (March 1997) the Company that there were a number of instances where products had not reached the intended destination i.e. Barauni. Instead the same were diverted and delivered short of destination directly to consignees. However, the transporters were paid for the full distance from Haldia to the ultimate consignee's destination via Barauni. Failure to institute a system of physical reporting of trucks at the Barauni terminal and consequent non-verification of actual distance covered led to an excess payment of Rs. 2.36 crore to 12 transporters during the period from November 1993 to July 1996 for the short covering of 59155 kms. Against this excess payment (Rs. 2.36 crore) the Company could withhold only a sum of Rs. 93.63 lakh from the security deposit and subsequent transportation bills of the transporters. The

Company stopped sending bitumen from Haldia to Barauni on stock transfer basis since 1997 and the products were being sold ex-Haldia only.

Thus due to inadequate safeguards and non-verification of actual distance covered for out of zone stock transfers, the Company sustained a loss of Rs.1.43 crore (Rs.2.36 crore - Rs. 93.63 lakh) towards excess payment of transportation cost.

While accepting the above facts Management stated (September 1999) that for recovery of the balance dues from the transporters, the Company had referred the matter to Arbitration and followed it up continuously. However, it was observed that a major portion of the excess payment of transport charges had already been provided for in the accounts of the Company for the year 1998-99 as doubtful debts, but no responsibility had been fixed for the irregularity.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

16.1.3 Non-recovery of transit losses from transport contractors

Due to weakness in internal control system the Company could not recover dues of Rs.1.18 crore for more than a year on account of transit losses from the transport contractors.

BPCL hired tank lorries on contract from public carrier vehicle owners to transport petroleum products from its installations and depots to various customers and also to its own depots. As per terms and conditions of a transport contract, the transport contractors were required to compensate BPCL for loss of petroleum products in transit while the products were in their charge irrespective of the reasons for such losses.Transport charges were payable to the transporters on the basis of delivery documents after making the recoveries for the transit losses, if any.

In most of the cases, the Company, however, paid the transport charges upon receipt of delivery documents from customers/ its own depots without adjusting recoveries for loss and damage in transit by the contractors for which the recovery details were received from the receiving locations much later. By the time these recovery inputs were processed, some of the transporters had discontinued their operations. The amount recoverable from transport contractors on this account as on 31 March 1998 stood at Rs.1.88 crore out of which Rs.48.70 lakh pertained to the period up to 1994-95, i.e. more than 3 years old. Out of Rs.1.88 crore, Rs.1.18 crore were outstanding as on 31 March 1999.

The Management replied (March 1998) that effective from June 1997, the payments to the transporters were being made only when both dispatch and receipt documents were matched. It admitted that numerous cases of wrong documentation and fictitious entries were identified. In its reply to the Ministry on the subject (March 1999), while confirming the facts stated in the para, Management stated that there was time lag in receiving and processing recovery inputs due to wider geographical spread of locations.

The Management's reply indicated that the system was deficient inasmuch as payments were being made without effecting the recoveries. It further indicated that the system deficiencies still persisted and had not been fully rectified. The deficiency in the system led not only to non-recovery of transit losses, but there was also the possibility of fraud due to the existence of fictitious entries. During the year ended March 1999, the Company had itself considered and provided Rs.67 lakh on this account as doubtful of recovery.

The Ministry,to whom the matter was referred in June 1998, endorsed the reply of the Management.

16.1.4 Loss due to non-delivery of bitumen

Due to negligence and poor monitoring of the process of physical movement of bitumen the Company suffered a loss of Rs. 97.92 lakh of which Rs. 82.10 lakh was the value of bitumen not delivered to the consignee by the transporters and Rs. 15.82 lakh related to transportation charges paid thereon.

The Road Construction Department (RCD) of the Government of Bihar used to purchase Bitumen from the Oil Companies at ex-Barauni price. As per the industry practice, the requirement of customer falling within the Barauni pricing zone was met by stock transfer by road from Haldia to Barauni as Bitumen was not available at Barauni for onward delivery to customers at ex-Barauni price. The transporters were paid from Haldia to Barauni for stock transfer and thereafter ex-Barauni to the consignees' destination.

In terms of Transport Agreement of the Company, it was the carrier's responsibility to ensure safe and correct delivery of products to the specified consignee and to obtain a clear receipt from the consignee against delivery of the product. The carrier was required to handover the receipt to the Company's representative at the supplying depot/installation along with remittances within a period of 48 hours of completing the delivery. The Transport Agreement also stipulated that the transporter would make good to the Company any loss of products due to any cause whatsoever.

It was seen that during the period from July 1994 to January 1996 a total quantity of 1479.80 MT of Bitumen valuing Rs. 82.10 lakh was given to seven transporters (on 128 occasions) for delivery to the consignee. But the same had neither reached the intended destination nor did the transporters report to the Company with either the product or the Consignee's Receipt Certificate (CRC) as a proof of delivery. As a result, the Company could not raise bills against the consignee for the said consignments. The Company did not even insist immediately on recovery of the value of such missing/undelivered consignments from the transporters. And surprisingly, the same transporters were allowed by the Company to continue to lift the product on future occasions despite their failure to handover the CRC along with remittances for previous deliveries. The transporters were also paid their transportation charges amounting to Rs. 15.82 lakh during the above period without having any proof of delivery of the products.

The Management stated (July 1999) that as soon as the fact of non-delivery of product to consignees was detected, the matter was taken up with transporters in writing as well as verbally. It was, however, observed that the Company did not exercise due diligence in

recovering the value of product since the Management issued letters to the parties after a period of 6 months to 1 year from the date of Challan-Cum-Delivery Advice (CCDA). Further the Company went for arbitration in September 1998 only, i.e. after a lapse of more than 3 years from the date of CCDA, while the actual passage time involved for carrying the product was only 3 to 4 days approximately. The Arbitration proceedings were yet to start (October 1999).

Thus, due to sheer negligence and non-monitoring of the entire process of physical movement of Bitumen with CRCs, the Company suffered an avoidable loss of Rs.97.92 lakh (Rs.82.10 lakh: value of bitumen + Rs. 15.82 lakh : transportation charges). It was ascertained that a major portion of the loss towards non-delivery of bitumen had already been provided for in the accounts of the Company as doubtful debts pending reconciliation.

The above matter was referred to the Ministry in July 1999; their reply was awaited (November 1999).

Bongaigaon Refinery & Petrochemicals Limited

16.2. Avoidable financial liability due to an unrealistic supply commitment

As a consequence of an unrealistic supply commitment of Calcinated Petroleum Coke (CPC), the Company sustained an avoidable loss of Rs.3.19 crore.

In November 1995 the Company received an order from National Aluminium Company Limited (NALCO) for supply of 30000 MT calcined petroleum coke (CPC) to be delivered by September 1996 at a total firm price of Rs.16.24 crore (@Rs. 5414 per MT X 30000 MT). The purchase order stipulated, inter-alia,:- (i) submission of performance bank guarantee for 10 per cent of the value with a validity period up to the date of receipt and acceptance of the full quantity of material, (ii) deduction of liquidated damages subject to a maximum of 5 per cent of the order value in case of failure to supply CPC by the scheduled date and (iii) a risk purchase clause.

As against the commitment of supplying 30000 MT of CPC, the Company supplied only 19565 MT by the scheduled date i.e. August 1996, leaving a balance quantity of 10435 MT. The Company stated that the balance quantity could not be delivered due to production problems arising out of repeated break-down of Coke Calcination Unit (CCU). In October 1996, the Company sought for an extension of the delivery period till March 1997. Extension was granted by NALCO till December 1996 subject to continuous supply of CPC. The Company's request (October 1999) for increase in price to Rs.6914 per MT w.e.f. 1 October 1996 was, however, not accepted by NALCO as the contracted price was firm.

Despite repeated promises made by the Company to supply the balance quantity of 10435 MT from September 1996 onwards till the end of December 1996, it did not supply the required quantity to NALCO although it was in a position to do so considering its stock and

production levels. After expiry of the extended period (December 1996), NALCO exercised its option for procurement of balance quantity of CPC from other sources, after serving due notice (January 1997) on BRPL, at the risk and cost of Company in terms of the default clause in the purchase order. NALCO claimed (May 1997) Rs.3.19 crore being additional expenditure excluding interest @ 18 per cent per annum from January 1997 till the date of payment. Meanwhile NALCO also encashed (June 1997) the bank guarantee for Rs.1.62 crore as the Company was not agreeable to pay the risk purchase claim. The case was under arbitration (November 1999).

The above situation would not have arisen had the initial offer of the Company been for a realistic supply of 20,000 MT of CPC instead of the imprudent contractual commitment of 30,000 MT keeping in view its past production experience.

The Management stated (April 1999) that considering the stock position (9525 MT) and past production performance, the Company was justified in submitting quotation for supply of 30,000 MT of CPC to NALCO. The contention of the Management was not tenable in as much as the Company had a stock of only 9525 MT of CPC at the time of submitting quotation for supply of 30,000 MT. Considering that the average annual production of CPC in the past had been around 20,000 MT and there were other supply commitments to customers like BALCO etc., the supply commitment given to NALCO was financially imprudent in view of the stringent penalty clauses in the contract.

The Management further stated (July 1999) that by selling the balance quantity of 10435 MT to other parties at higher price instead of supplying it to NALCO at contract price, it could realise a higher amount by Rs.3.55 crore. This argument was also not tenable because had the Company quoted for a realistic quantity of 20,000 MT to NALCO, it could have avoided NALCO's claim of Rs.3.19 crore for breach of contract while supplying the balance quantity of 10435 MT to other parties at higher price.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

Indian Oil Corporation Limited

16.3.1 Excess payment to transporters

The Company's failure to observe the system prescribed by Oil Coordination Committee (OCC) for sale of products in Out-of-Zone areas led to excess payment of Rs.2.77 crore towards transportation cost and blocking up of Rs.6.49 crore.

Since bitumen was not available at Barauni, Bihar, the requirement of customers falling within the Barauni pricing zone was being met by the Company through stock transfer by road from Haldia to Barauni. As bitumen was under the Administrative Price Control (APC) mechanism the Company was entitled to get reimbursement of the cost of such transportation from Oil Coordination Committee (OCC).

For the purpose of reimbursement the product was first to be received physically at Barauni terminal; thereafter, stock transfer challan and sales documents at ex-Barauni price were to be prepared for supply to customers in that zone. However, there was no infrastructure at Barauni terminal to weigh bulk bitumen and no records such as entry/exit register or gate passes were being maintained from which it could be established that loaded bulk bitumen tank lorries were reporting to Barauni physically for weighment and its subsequent delivery to consignees. Operations of transporters were regularised at Barauni at a later date by acknowledging challans and by issue of sales documents.

It was observed that some transporters took advantage of this system deficiency as the Ministry of Petroleum and Natural Gas informed (July 1996) the Company that there were a number of instances where products had not reached the intended destination i.e. Barauni. Instead the same were diverted and delivered short of destination directly to consignees. However, the transporters were paid for the full distance from Haldia to the ultimate consignee's destination via Barauni. Thus when the transportation cost from Haldia to Barauni was ultimately claimed by the Company from OCC's Oil Pool Account it retrenched Rs.10.66 crore on account of this irregularity and asked for self audit by oil industry in this regard. Accordingly a committee was constituted by the Company. This committee concluded (December 1996) that failure to institute a system of physical reporting of trucks at Barauni for all stock transfer led to overpayment to 12 transporters during the period from November 1993 to June 1996. Another committee constituted by the Company identified (November 1997) that a sum of Rs.4.17 crore was recoverable from the transporters towards the excess payment and the balance Rs 6.49 crore (Rs.10.66 crore-Rs.4.17 crore) was recoverable from the OCC. Against this excess payment (Rs.4.17 crore) the Company could withhold only a sum of Rs.1.40 crore from 12 transporters.

Thus due to inadequate safeguards and non-observance of prescribed procedure for out of zone stock transfers, the Company sustained a loss of Rs.2.77 crore (Rs.4.17 crore - Rs.1.40 crore) towards excess payment of transportation cost besides blocking up of Rs 6.49 crore which was yet (November 1999) to be recovered from the OCC.

While accepting the facts Management stated (April 1999) that attempts would be made to realise the balance amount from the transport contractors for which arbitration cases had been filed. Management further stated (June 1999) that in respect of claim on OCC, necessary action was being taken by Hindustan Petroleum Corporation Limited, the industry coordinator, for self audit by the Industry. But it was noticed that the Company did not fix any responsibility for the irregularity and the self audit as suggested by OCC had not yet started (September 1999). However, the Company stopped sending bitumen from Haldia to Barauni on stock transfer basis since August 1997 and the products were being sold ex-Haldia only.

The matter was referred to the Ministry in May 1999; their reply was awaited (December 1999).

16.3.2 Loss due to collection of excess sales tax

Due to collection of excess specific entry sales tax from its customers the Company could not realise Rs 2.87 crore as the customer had deducted the amount from pending bills of the Company. This resulted in interest loss of Rs. 1.22 crore.

The Government of Rajasthan vide notification dated 23 March 1989 reduced the Specific Entry Sales Tax (SEST) on Aviation Turbine Fuel (ATF) to 10 per cent from 18 per cent imposed by it on 8 March 1988. As the Company did not keep itself posted with the new rate, it collected from various customers excess SEST of Rs. 15.36 crore upto June 1993 and deposited the amount with the State Government.

On discovery of the above mistake, the Company appealed (August 1993) to the Commercial Taxes officer for rectification and sought refund of SEST deposited in excess. The Commercial Tax Officer declined (September 1993/ March 1994) to refund the amount either to the Company or to the ultimate customer i.e. Indian Airlines (one of the customers from whom tax was collected in excess by Rs.2.87 crore) on the ground that excess tax received by it on ATF alone could not be isolated because the Company had in its sales tax return depicted the entire sale of Motor Spirit and ATF as if it was sale of Motor Spirit.

The Company filed several appeals with the Deputy Commissioner*, Direct Taxes (Appeals) after its earlier appeals to the Commercial Tax Officer/ Assistant Commissioner, during September 1993 to July 1996, for making refund to Indian Airlines had been rejected. In consequence, the cases for the years 1989-91 were remanded back to the assessing authority in March 1999. No decision has been arrived at so far (September 1999) by the Deputy Commissioner (Appeals) in relation to the cases for the years 1991-93. Meanwhile, Indian Airlines recovered (April 1996) Rs. 2.87 crore due to it from the pending fuel bills of the Company.

Thus due to mistake in applying correct rate of SEST on sale of ATF and non-maintenance of separate records for sale of ATF, the Company blocked Rs. 2.87 crore and, consequently, suffered loss of interest thereon amounting to Rs. 1.22 crore. The Company also burdened unknown customers with additional amount of Rs. 12.49 crore which unintendedly benefited the State Government.

The Ministry stated (November 1999) that decision of the Commissioner of Commercial taxes in this matter was still awaited.

* ***June 1995, July 1996 and September 1996***

16.3.3 Loss due to injudicious decision

Injudicious decision to defend a case before the Arbitrator and to prefer an appeal before the High Court of London resulted in the Company incurring infructuous expenditure of Rs. 1.12 crore (UK Pounds 157,202) on litigation / arbitration. Besides, the Company also lost an opportunity to receive Rs. 57.99 lakh (US $ 152,601) offered by the Supplier as a part of settlement package.

The Company placed (November 1996) a purchase order on M/s Contichem, USA (Supplier) for supplying 8.7 to 9.5 thousand MT of butane based on Saudi Aramco specifications on behalf of Oil Coordination Committee for its use in the refineries of Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL). As the butane supplied was usable for producing normal Liquefied Petroleum Gas without any additional cost and also met the tender specifications though not the contractual specifications, HPCL and BPCL accepted 3.5 and 5.1 thousand MT in December 1996 and January 1997, respectively. However, the Company deducted US$ 500,000 from the bills of the Supplier to cover its claims against the supplier (US$ 100,000) on account of variation in specifications and other administrative and legal expenses. Even after taking the matter before Arbitration, the Supplier offered (April 1997) a settlement package of US $ 152,601 whereby they agreed to pay US$ 60,000 towards quality variation and demurrage for five days (US $ 92,601) attributable to them and, in return, sought refund of US$ 500,000. Despite the fact that offer of the Supplier actually exceeded Company's claim of US $ 100,000, the Empowered Standing Committee (ESC) rejected (April 1997) the offer and directed the Company to defend the arbitration proceedings. Though the Arbitrator directed (August/ September 1997) the Company to refund US$ 500,000 alongwith interest (US $ 53,923) and demurrage and interest thereon (US $ 304,681.62) the Company went in appeal before the High Court of London. The Board of Directors of the Company, which considered the matter after the dismissal of the appeal, resolved (21 November 1997) to honour the arbitration award. Accordingly, the Company paid (January and May 1998) Rs.1.39 crore (US$ 365,901.07) towards demurrage and interest on demurrage (US$ 304,681.62), interest on late payment of consignment value (US$ 53,923.48) and arbitration fees and interest thereon (US $ 7,295.97), and in addition to US$ 500,000 withhold by the Company. The Company also incurred Rs.1.08 crore (UK Pounds 152,725.92) towards litigation cost including the litigation cost of M/s Contichem (UK Pound 61,700).

It was revealed in audit that the Company defended the case before the Arbitrator inspite of the fact that its solicitors advised (January 1997) that liability of the supplier as a consequence of variation in the specification, if any, should be sorted out with the Supplier. Even after receipt of the opinions of Attorney General of India and the Solicitor General (September 1997) that scope of appeal was limited and very expensive, the leave of appeal, filed on 18 September 1997, was not withdrawn. Though ESC had recommended that in view of discouraging legal opinion at the highest level the case should be put up before the Board of Directors for further course of action, the matter was formally considered only after actual dismissal of the appeal by the High Court of London. Thus through a series of lapses and injudicious decisions i.e. to defend the case before the Arbitrator, to reject the offer of settlement made by the supplier, to prefer an appeal before the London High Court

and to place the matter formally before the Board at a belated stage, the Company incurred infructuous expenditure of Rs.1.12 crore (UK pounds 157,202) besides foregoing an opportunity to receive Rs.57.99 lakh* (US $ 152, 601) offered by the Supplier as a part of settlement package.

The Management stated (April 1999) that US$ 500,000 was withheld to cover the costs towards the supply of product which was not as per contractual specifications, legal costs and damages for breach of contract. They further stated that settlement outside arbitration was not accepted, as it would have resulted in adverse remarks from various Government agencies. The reply of the Management ignores the fact that the Company acted against legal advice without having any substance in its claims. Further, by ascribing its wrong decisions to the possible reaction of Government Agencies, Management is merely casting aspersion on the soundness and fairness of the judgement of the latter.

The matter was referred to the Ministry in May 1999; their reply was awaited (December 1999).

16.3.4 Blocking of funds due to inconclusive acquisition of land

Due to acquisition of a piece of land, which was ultimately not accepted, the Company blocked Rs.81.87 lakh with consequential loss of interest of Rs 1.01 crore and lost Rs.8.05 lakh outright by way of penal deduction made by the seller.

The Government of India had in September 1984 accorded approval for setting up of a refinery near village Baholi in the then Karnal* district of Haryana. The project also envisaged the location of a township nearby. Though the township with various facilities/amenities was large enough to meet the housing requirement of the officers and employees of the LPG Bottling plant, Divisional office as well as the proposed Area office of Karnal, the Chairman of the Company accorded approval in August 1991 for purchase of another piece of land measuring 8000 sq. meters from Haryana Urban Development Authority (HUDA) for the same purpose at another site at Karnal.

On payment of Rs 81.87 lakh on different dates between August 1991 and August 1992, the required land (measuring 8000 sq. meters) was formally allotted in May 1993. The Company requested (May 1995) HUDA for allotment of an alternate plot of land measuring 2500 sq. meters in sector 5 of the urban estate developed by it in Karnal. Though the alternate land was allotted in December 1995, the Company neither took over its possession nor surrendered it. The land was ultimately surrendered in pursuance of a decision taken in May 1998 and the Company received back Rs. 73.82 lakh (October 1999). The balance of Rs. 8.05 lakh was retained by HUDA by way of penal deduction.

Thus, due to acquisition of a piece of land, which was not required in the first place and its retention without any ostensible purpose, the Company blocked Rs.81.87 lakh and suffered consequential loss of interest of Rs. 1.01 crore besides losing Rs. 8.05 lakh outright.

* ***Conversion of foreign currency based on approximate basis***
* ***Now part of Panipat District***

The Management stated (June 1998) that the requirement of 8000 sq. meters was for the employees of Divisional office and Area office assessed on the basis of the then existing strength. The reply overlooks the fact that there was no requirement of land at Karnal as the refinery project envisaged location of a township which was large enough to accommodate even the offices proposed to be located at Karnal including Divisional office/Area office.

The matter was referred to the Ministry in July 1998; their reply was awaited (December 1999).

16.3.5 Loss due to despatch of off specification LDO

Failure of the Company staff to complete quality control procedures before despatch of a rake of Light Diesel Oil (LDO) to a customer resulted in off specification LDO being supplied. Consequential rejection of supply by the customer and its redespatch to the Company at latter's risk and cost resulted in loss of Rs. 60.78 lakh due to avoidable expense on freight on transit of LDO to and fro.

In April 1998, Assam Oil Division of the Company despatched one railway rake of Light Diesel Oil (LDO) from its Tinsukia Terminal to Hindustan Petroleum Corporation Limited (HPCL), Budge Budge without receiving any indent from HPCL. The Company paid railway freight amounting to Rs.29.59 lakh for the rake. The rake reached the destination in April 1998. HPCL did not accept the rake as it was off specification (water contaminated) and re-booked (April 1998) it back to Tinsukia Terminal after payment of railway freight, demurrage etc. of Rs.31.19 lakh on account of the Company. Though as per the Freight Subsidy Pool (FSP) Scheme the freight for onward movement of LDO from Tinsukia Terminal to Budge Budge was to be reimbursed by OCC, in a meeting of Industry Committee convened by the Ministry in May 1998 it was decided that the freight for to and fro movement of off specification LDO would not be reimbursed by OCC and had to be borne by the Company.

It was observed that not enough time was given for carrying out complete quality control procedures to test the water content before loading LDO in railway rakes. Thus, the Company incurred a loss of Rs.60.78 lakh towards freight due to inadequate quality control and despatch of off specification LDO.

While accepting the loss the Management stated (July 1999) that due to unscheduled arrival of railway rakes, enough time could not be given for carrying out complete quality control procedures to avoid detention of the rakes and consequent demurrages. It was, however, observed that at an earlier occasion when the Company despatched (November 1997) off specification LDO it was accepted by HPCL as a special case only with clear directives that, in future, the off specification LDO would not be accepted and be re-booked to Tinsukia at the Company's cost. Therefore, instead of loading the off specification LDO the Company should have taken enough time (about 72 hours) for carrying out the complete quality control procedures. In such a case the Company would have incurred only Rs. 2 lakh for demurrage which could also be got waived off because the rake was placed by the Railways without any prior intimation.

have incurred only Rs. 2 lakh for demurrage which could also be got waived off because the rake was placed by the Railways without any prior intimation.

Further, the Management also failed to justify the despatch of LDO without any request from HPCL. However, after conducting a departmental enquiry the Company had issued caution letters to the errant officials for not carrying out full quality control procedures.

The matter was referred to the Ministry in July 1999; their reply was awaited (November 1999).

Madras Refineries Limited

16.4 Idle Investment on Gas Sweetening Unit

By taking up a project without firming up the supply for raw materials, an investment of Rs.15 crore made by the Company became totally unproductive.

On the basis of an estimate (May 1990) made by GAIL that 'associated gas' of 0.5 MMSCMD* would be available from 1994-95 onwards in the Cauvery Basin area, Madras Refineries Limited (MRL) had obtained the approval of the Ministry of Petroleum and Natural Gas (July 1991) to a proposal for setting up of a LPG Recovery Unit (LRU). The proposal also included the setting up of a Gas Sweetening Unit (GSU) side by side, since a major portion of the associated gas was estimated to be 'sour' (i.e. natural gas with hydrogen sulphide) rendering it necessary for 'sweetening' (i.e. removal of sulphur) before recovery of LPG. The Board of Directors of MRL, without firming up the supply of sour gas, sanctioned (July 1991) the project at a cost of Rs.40.40 crore.

The LPG Recovery Unit was commissioned at a cost of Rs.28.54 crore in March 1996 and the Gas Sweetening Unit was completed in April 1996 at a cost of Rs.15 crore. However, the unit could not be commissioned as no sour gas could be obtained by the Company in the absence any supply arrangement made by it. Consequently, due to the failure of the Company to firm up supply of feed gas, the GSU had remained idle ever since, rendering the investment of Rs.15 crore thereon totally unproductive.

The Company attributed (May 1997) the idling of GSU to the non-supply of sour gas by GAIL. This is not tenable as the Company set up the plant without firming up arrangement for supply of Gas by GAIL.

The matter was referred to the Ministry in July 1998; their reply was awaited (November 1999).

* *Million Metric Standard Cubic Metre per day*

Oil and Natural Gas Corporation Limited

16.5.1 Idle investment on Gas Metering Station

Due to lack of planning and mismanagement, the expenditure of over Rs.6 crore incurred by ONGC on installation of GMS at Hazira remained idle for over six years.

The Hazira Gas processing Complex of ONGC supplied Sweet gas to Gas Authority of India Ltd. (GAIL) which was measured by GAIL at their own Gas Metering Station (GMS). Due to technical and commercial considerations and to obviate possible disputes with GAIL on account of erroneous measurements, ONGC initiated (December 1986) a proposal to have its own GMS at Hazira to measure the gas supplied to GAIL. However, in December 1987, long before the proposal was even approved by the competent authority (December 1988), ONGC invited global tenders through their consultants M/s Engineers India Limited (EIL) for supply, supervision of installation, testing and commissioning of a GMS. The tenders were submitted by 6 firms by the closing date of 15 February 1988. ONGC took more than two years after this to decide on the matter and finally placed an order (May 1990) on M/s. Petrogas, Holland for supply of GMS (without any additional financial implication). The equipment was received by ONGC in two consignments (June 1991 and June 1992) at a total cost of Rs.4.12 crore. Simultaneously, in March 1992, ONGC placed orders on M/s. Bridge & Roof Company Ltd. for erection of the GMS at a cost of Rs.51 lakh with scheduled completion by September 1992.

During inspection/erection of the control panels (a part of the GMS) in September 1992, it was, however, found that rainwater had seeped into the container kept in the store yard and had damaged the control panels. ONGC replaced/repaired the damaged control panels at a cost of Rs.6.11 lakh and the erection of GMS was completed in November 1993. The GMS, however, could be commissioned only in April 1996 after rectifying certain defects noticed during the pre-commissioning checks (April 1994 and April 1995). After running for barely 2 months, the GMS stopped functioning due to various technical problems. These defects were also rectified and the GMS was re-commissioned in November 1997. However, due to increase in the quantity of gas processed at Hazira to 41 MMSCMD* from initial 20 MMSCMD for which the GMS was designed, it could not yet be made functional (March 1999). The variations in the actual pressure and capacity at Hazira had necessitated installation of additional facilities which, according to the Management (March 1999), would take yet another 15 months.

After the matter was pointed out by audit (March 1997), ONGC ordered (July 1997) an enquiry to ascertain the reasons for delay in the commissioning of the GMS. The enquiry report attributed (January 1998) the delay in commissioning of GMS mainly to (a) splitting of the job in two parts viz, procurement and installation due to which series of problems came up and (b) failure of EIL/ONGC representatives/officers to supervise the progress of work. The report had also found the approach on the part of officers handling the execution of the project to be lackadaisical and the concerned officers were advised to be

* ***Million Metric Standard Cubic Metres per day***

more careful in future performance of their duties. The Ministry confirmed the facts (February 1998).

Thus, due to bad planning and mismanagement, the GMS costing Rs.6.06 crore (including the cost of pipes, fittings, valves etc. valuing Rs.1.42 crore) had remained non-functional even after more than six years.

16.5.2 Avoidable loss of revenue

ONGC incurred an avoidable loss of revenue of Rs.5.51 crore due to delay in making arrangements for gas compressors at its Mehsana Project.

With a view to maintain oil production from the 'gas lift' wells, high pressure compressed gas was injected into these wells. As there was a considerable increase in the number of gas lift wells from 79 in 1992-93 to 96 in 1993-94 in the Mehsana project, the Western Regional Business Centre approved (December 1994) a proposal for setting up of a compressor plant at its Sobhasan Oil field at the estimated cost of Rs.5.12 crore. The objectives of the proposal were to:

(i) compress and reuse the low-pressure gas generated in the process of high- pressure gas injection to avoid its flaring and

(ii) reduction in lifting of free gas from the nearby fields and consequential facilitation of additional sales of the free gas.

No time schedule was, however, indicated in the proposal for completion of the work. Since the lead time involved in the installation of Gas Compressor Plant was felt to be significant, the Project initiated (November 1995) another proposal for hiring of a gas compressor as a stop-gap arrangement. However, during the course of the evaluation of the proposals for hiring the compressors, it was revealed that hiring of compressors was economically more viable and cheaper than the option of installing own compressor. The construction of own compressor was accordingly deferred and tenders invited for hiring of compressors (June 1996). Due to poor response, tenders had to be invited thrice. The contract for hiring of compressors was finally awarded (July 1997) to an Ahmedabad-based firm and the hired compressors were ultimately commissioned in March 1998, after 18 months from inviting tenders for the same.

Meanwhile, due to delay in making timely arrangements for compression of gas, the Company had to flare the low pressure gas and was forced to use the free gas for gas lift purposes which could otherwise have been sold. The consequent revenue loss could have been avoided if the Company had made proper evaluation of the proposal in December 1994 itself and not suffered from indecision and confusion regarding hiring of compressors. Had it decided to hire compressors in December 1994 itself, the same could have been commissioned by June 1996 (i.e. after a gap of 18 months actually taken between inviting tenders and commissioning of hired compressors). The loss to the Company due to use of free gas for gas lift purposes during the period June 1996 to February 1998 worked out to Rs.5.51 crore.

The Management stated (June 1998) that the delay in installation of compressors was mainly due to poor response to tenders and had the free gas not been used, ONGC could have lost in oil production. The reply does not address the initial confusion and the resultant delay over the decision to install compressors in the first place. The Ministry, while admitting confusion/indecision in ONGC regarding hiring of compressors, stated (October 1998) that the poor response to the tenders which had to be invited thrice also added to the delay. Ministry further stated that the Company has been advised to take effective steps to avoid such delays/indecision in future. It is, however, pertinent to mention that the compressors could have been commissioned in June 1996 (even after considering the poor response to the tenders which had to be invited thrice) if the Management had decided to hire them in December 1994 in the first place.

16.5.3 Avoidable expenditure on Effluent Treatment Plant

ONGC incurred an expenditure of Rs.5.16 crore on building an effluent treatment plant (ETP) which has never been gainfully utilised since its inception in August 1994.

With a view to treat the effluent generated at its Lanwa field, the Mehsana Project of ONGC initiated (July 1991) a proposal for construction of an Effluent Treatment Plant (ETP). The proposal was approved (January 1992) on the basis of effluent generation projections made by the ONGC's Regional Reservoir Engineering Division (RRED), Baroda in May 1991. Though the maximum effluent generated at the field during 1991-92 was only 450 cubic metres per day, the maximum effluent production for design purposes was estimated by RRED at 2000 cubic metres per day. The work of the construction of 2000 cubic metres per day capacity ETP was awarded (July 1992) on turnkey basis to M/s Spic SMO, Madras. The ETP was commissioned in August 1994 at a total capital cost of Rs. 5.16 crore.

As against a total installed capacity of 2000 cubic metres per day, the actual quantity of effluent generated at the field had, however, ranged between only 418 cubic metres per day to 500 cubic metres per day during the period 1992-93 to 1998-99. The report (July 1993) of the Institute of Reservoir Studies of ONGC also scaled down the effluent projections to around 60 per cent to 70 per cent of the original maximum designed capacity of the ETP. As the minimum turndown capacity of the ETP was 50 per cent of the maximum capacity i.e. 1000 cubic metres per day, due to lesser-than-envisaged effluent availability, ONGC could not run the ETP on a regular basis after running it for a period of barely two months till October 1994 at around $1/4^{th}$ of its capacity.

The project Management admitted (September 1997 and August 1999) that the plant was completely stopped owing to lesser than envisaged effluent availability and non-availability of technical manpower. Although the ETP had subsequently been recommissioned (March 1998) and effluent brought from elsewhere (North Kadi field) had also been treated at Lanwa, the ETP still operated below its minimum turndown capacity of 1000 cubic metres per day. The project Management admitted (August 1999) that the efficiency of the ETP when operated below its designed turndown capacity was not optimum. Thus, due to unrealistic capacity planning, an investment of Rs.5.16 crore on ETP could never be gainfully utilised.

The Management in their reply (July 1998) endorsed by the Ministry (August 1998) mainly stated that (a) ETP was planned as per the effluent generation projections at the relevant point of time; (b) due to complexity of the field, the performance of the field did not match the projections and in the E&P business, the production profiles predicted might vary in the range of 10 per cent -40 per cent; (c) ONGC had since considered alternative arrangement for making the plant operational. A pipeline had been laid down from North Kadi field to Lanwa and the effluent of both the fields could be treated at Lanwa.

The reply is not tenable because:

(a) The projection for effluent to be treated was only tentative at the time of placement of the order for ETP in July 1992.

(b) Total effluent generation before and after the installation of ETP never exceeded even 25 per cent of the designed capacity.

(c) Despite the alternative arrangements made by the management to utilise the ETP, it was operated below its minimum turndown capacity due to which its efficiency remained sub-optimal.

16.5.4 Avoidable payment of penalty due to delayed payment of license fee

ONGC had to pay Rs 3.65 crore as penalty for delay in payment of the petroleum exploration license fee to the Government. The Government is yet to take a view on waiving further penalty of Rs 5.32 crore on delayed payment of penalty.

As per provisions of Petroleum and Natural Gas Rules 1959 (P&NG Rules), Government of India, Ministry of Petroleum and Natural Gas (Ministry) grants Petroleum Exploration Licence (PEL) for prospecting of petroleum in the offshore area for an initial period of four years, which could be extended further. During the period of license, the licensee had to pay to the Ministry every year and in advance, a prescribed license fee. P&NG Rules also provided that the license fee would be increased by 10 per cent for each month or a portion of a month during which such fee remained unpaid.

In September 1996, ONGC was holding 48,282 sq.km under the PEL in Bombay offshore area. For the period from 14 November 1996 to 13 November 1997, ONGC was required to remit a licence fee of Rs.2.90 crore to the Ministry by 13 November 1996. ONGC however, paid the same only on 1 July 1997 after having been reminded by the Ministry (June 1997). Due to delay in payment of licence fee, Ministry imposed (July 1997) a penalty of Rs.3.65 crore on ONGC (if paid till 31 July 1997). The Ministry also advised ONGC to make the payment of penalty immediately so as to avoid further levy of penalty. ONGC however, requested the Ministry (July-October 1997) for condoning the delay and waiving of the penalty, which was not acceded to by the Ministry (February 1998), as there was no provision in the P&NG Rules for such waiver. ONGC, therefore, paid the penalty of Rs.3.65 crore in February 1998. Subsequently, Ministry advised (June 1998) ONGC to pay an additional penalty of Rs.5.32 crore for delayed payment of the original penalty of Rs.3.65 crore. ONGC represented (June-August 1998) to the Ministry for waiver of additional penalty of Rs.5.32 crore on the ground that the proposed penalty was 'penalty on penalty'. Ministry was yet to take a view on this request. In reply to audit (November

1998) ONGC attributed the delay in payment of PEL fee to the 'communication gap' between their offices at Delhi and Mumbai. ONGC also stated that a departmental enquiry was on for fixation of responsibility.

The mater was referred to the Ministry in March 1999; their reply was awaited (December 1999).

16.5.5 Wasteful expenditure on creation of excess capacity in Gas Compressors

ONGC incurred wasteful expenditure of Rs. 53.50 lakh in commissioning of one extra compressor which was neither required nor used for processing of low and medium pressure gas produced in its Gandhar Project.

With a view to compress the low and medium pressure gas produced at its GNAQ and NADA fields which unless compressed had to be flared, the Gandhar Project of the Western Regional Business Centre (WRBC) of ONGC initiated (August 1990) a proposal for installation of compressor facilities for a maximum capacity of 150,000 m^3 per day. Although the actual production of low/medium pressure gas at that time was only 58000 m^3 per day, according to the proposal, it was estimated to go up to 150,000 m^3 per day once the fields were fully developed. Subsequently (February 1992), the availability of gases was reassessed based on the actual production behaviour of the fields and the requirement was scaled down to 100,000 m^3 per day. Accordingly, in February 1992, proposal for Rs 4.80 crore for installation of 3 compressors of 100,000 m^3 per day capacity was approved by the WRBC. While doing so, it was decided to review the position of gas production after 2.5 years and re-deploy the compressors, if necessary.

In spite of the decision to install compressors with a total capacity of 100,000 m^3 per day, the Company awarded the work (February 1992) to M/s. ICB Ltd. Bombay on turnkey basis for installing three compressors of capacity 150,000 m^3 per day on the ground that the extra cost of creating the additional capacity of 50,000 m^3 per day was only Rs.53.50 lakh. WRBC installed and commissioned the compressors in February 1994. It was found that during the period (from February 1994 to October 1998) the low/medium pressure gas actually produced and processed by these compressors was only 39537 m^3 per day on the average.

The actual production of gas requiring compression was thus much less than even one-third of the capacity installed, and just about half of the revised estimated quantity of 100,000 m^3 per day. Thus only one of the three compressors would have sufficed to compress the available quantity of low/medium pressure gas. It was also found that only on five occasions, the quantity produced exceeded the capacity of a single compressor, and that too only marginally. Further, it was observed that a quantity of gas amounting to 12,000 m^3 per day was procured from elsewhere (Jambusar EPS) to augment the capacity utilisation. The Company had used two compressors even though one was sufficient to process the available quantity of gas while the third was never put to use. Management could not also redeploy the extra compressors at other possible locations due to the non availability of the required 3.3 KV electric power at those locations.

The Management in their reply (August 1998), which was endorsed by the Ministry, justified the creation of the excess capacity on the ground that 50 per cent increase in capacity could be achieved by 'just paying Rs.53.50 lakh' and that this provided in-built spare capacity and flexibility. It was also stated that a task force had been set up for the purpose of transferring the extra compressors and its recommendations were awaited.

The reply is not tenable because considering the actual production behaviour, the Management had itself scaled down the expected compression requirement to 100,000 m^3 per day in February 1992 and also envisaged a situation where the surplus compressors would have to be diverted to other fields if the position of gas production did not improve after 2.5 years. In such a scenario, the creation of excess capacity was uncalled for. Moreover, even after taking into account the additional input of 12,000 m^3 per day of gas procured from elsewhere, the total gas processed by compressors was below 40,000 m^3 per day on the average, even less than the capacity of a single compressor. The argument of stand-by compressor was an afterthought, as the proposal specifically indicated that there was no provision for any stand-by compressor. As regards the recommendations of the Task Force, it may be mentioned that even after four years of the non-use since inception, ONGC had not been able to re-deploy the extra compressors.

Thus, due to injudicious decision, the Company procured one extra compressor which was not needed at all and incurred a loss of Rs.53.50 lakh.

ONGC Videsh Limited

16.6 Avoidable payment on foreign travel

Delay on the part of the Company to implement the instructions of the Department of Public Enterprises resulted in an avoidable payment of Rs. 34.44 lakh to the officials on foreign travel claims.

To effect economy in expenditure on foreign travel, Department of Public Enterprises (DPE) instructed (September 1995) all the Public Sector Undertakings that where touring officers do not render separate accounts in support of their claims, daily allowance payable to them on foreign travels as prescribed by the Ministry of External Affairs would also cover room rent, taxi charges, entertainment, official telephone calls and other contingent expenditure. All Ministries were, therefore, advised to inform the PSUs under their administrative control so as to adopt the instructions by the respective Board of Directors. The Ministry of Petroleum and Natural Gas circulated the above instructions on 18 October 1995.

The Board of Directors of the Company , however, did not adopt the above instructions till May 1996. In consequence, during November 1995 to May 1996 the Company settled the claims of its officers for amounts over and above the rate of daily allowance permitted by the Government for PSU employees of various grades without insisting that the concerned official render the account. As a result, the Company incurred an avoidable expenditure of Rs. 34.44 lakh on foreign travels.

The Management stated (April 1999) that the Board took some time to examine the implications about the adaptability of DPE instructions to its employees and the time lag in enforcing the instructions was mainly attributable to internal discussions between the Government and the Board. The Ministry stated (September 1999) that the Board of ONGC Limited adopted the modified foreign travel rules in its meeting held on 24th May 1996 whereafter, the Company (a wholly owned subsidiary of ONGC), followed suit. The replies, however, overlook the fact that DPE had clearly required the Company to adopt the instructions in its Board meeting without leaving any scope for discussions with the Government or its parent Company . Moreover, there was no recorded evidence in the Board Agenda papers/ minutes of such discussions having been carried out.

Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) & IBP Co. Limited (IBP)

16.7 Loss due to non-recovery of sales tax from the dealers

Consequent upon enhancement of the rates of sales tax payable in the State of Uttar Pradesh on motor spirit and diesel by 4 per cent, BPCL and IBP suffered loss of Rs.2.71 crore and IOCL and HPCL incurred a liability to pay Rs.5 crore due to non-collection of enhanced rate of sales tax from their respective dealers from the effective date.

The Government of Uttar Pradesh amended Uttar Pradesh Sales of Motor Spirit, Diesel Oil and Alcohol Taxation (Amendment) Act, 1994 enhancing the rate of Sales tax on Motor spirit and Diesel oil by four per cent. The amendment was notified in the Gazette on 23 April 1994. Being unaware of the change, oil PSUs operating in Uttar Pradesh viz. Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and IBP Co. Limited (IBP) did not collect tax at the enhanced rate from 23 April 1994 to 9 May 1994. All the oil Companies made joint representation on 11 May 1994 to Government of Uttar Pradesh seeking to make the amendment effective from 10 May 1994 (instead of 23 April 1994) on the plea that the relevant circular had become public on 7 May 1994 and was received by the oil companies on 9 May 1994. Government of Uttar Pradesh rejected (June 1994) the plea of oil companies stating that it was not obligatory on the part of the State Government to inform the oil companies of the amendment in the Act and, therefore, demanded additional amount of sales tax. Civil suit filed by BPCL and IBP in Allahabad High Court against the order of the Government of UP was dismissed in July 1997. In May 1998, BPCL and IBP paid the differential sales tax of Rs.1.73 crore and Rs.97.92 lakh respectively. Honourable Allahabad High Court granted stay (July 1994) for payment of Rs.3.78 crore by IOCL. HPCL had neither paid the differential rate of sales tax of Rs.1.22 crore nor appealed to the Court against the decision of the UP Government.

Thus, BPCL and IBP suffered loss of Rs.2.71 crore and IOC and HPCL incurred a liability to pay Rs.5 crore due to non-collection of enhanced rate of sales tax from their respective dealers from the effective date.

The respective management of the Oil Companies to whom the matter was referred to in May 1999 had not contradicted the facts and figures of the case.

The matter was referred to the Ministry in August 1999; their reply was awaited (December 1999).

CHAPTER 17: MINISTRY OF POWER

National Hydroelectric Power Corporation Limited

17.1 Irregular payment of commission

The Company paid commission of Rs. 6.84 crore in violation of Section 76 (1) of the Companies Act, 1956.

Section 76 (1) of the Companies Act, 1956, inter-alia, provides that a Company may pay a commission to a person in consideration of his subscribing or agreeing to subscribe for any share or debentures of the Company, provided the payment of the commission is authorised by its Articles of Association. The Articles of Association of the Company did not provide for payment of any commission on issue of bonds till 17.03.1997 when the Articles of Association were amended by a special resolution, after taking the approval (December 1996) of the Ministry of Power.

Between February 1992 and 16 March 1997, when the Company was not authorised by its Articles of Association to pay any commission, it raised funds on 25 occasions through private and public financial institutions and paid a commission of Rs. 6.84 crore to 8 private (Rs. 2.53 crore) and 16 public financial institutions and banks etc. (Rs. 4.31 crore) in contravention of the aforesaid provisions of the Act.

The Ministry stated (October 1999) that the Company had followed the guidelines issued by the Ministry of Finance on the subject of floating of the bonds which stated that "a PSU can make private placement of bonds provided the terms of such placements, including any front end fees payable on the bonds, are in conformity with the guidelines internally drawn up by the PSU and every private placement is approved by its Board." The Ministry further stated that in this case, the funds were raised and commission paid in accordance with the internal guidelines approved by the Board of the Company from time to time. The reply is not tenable because the Ministry's guidelines and also the internal guidelines of the Company, being in the nature of administrative instructions, cannot override the provisions of the Act. The Company ought to have amended its Articles of Association earlier or issued the bonds directly. Thus the payment of Commission of Rs 6.84 crore was irregular.

North Eastern Electric Power Corporation Limited

17.2 Loss due to procurement of material ahead of requirement

Due to procurement of material ahead of requirement the Company incurred an avoidable expenditure of Rs.33.18 lakh towards storage charges. It also incurred loss of interest amounting to Rs.2.40 crore on blocked fund.

In December 1992, the Company invited a global tender for procurement of 2915.16 MT of Boiler Quality steel plates required for fabrication and erection of steel liners at its Ranganadi Hydro Electric Project. After scrutiny of tenders, purchase order was placed (February 1994) on M/s DAVAL, France at FOB price of FF 10.547 million (Rs.6.24 crore). The material was to be delivered within 6 months from the date (14 July 1994) of opening of the letter of credit.

The material arrived at Calcutta Port in February and March 1995. The material was cleared from the port and stored in ware-house of Bengal Warehousing Corporation as contract for fabrication work was not finalised by then due to delay in receipt of approved drawings and selection of fabricator. The contract for fabrication work was awarded to M/s Texmaco Limited in March 1996 at a negotiated price of Rs.15.75 crore. The imported steel plates were delivered to the fabricator in December 1996 i.e. after storing the material in the warehouse for a period of about 22 months for which the Company had to pay storage charges of Rs.33.18 lakh.

As per PERT chart for the project, the procurement of the steel plates should have commenced only after award of fabrication contract; no reason was, however, recorded as to why the Management decided to reschedule the two linked events of the project plan.

Thus, due to procurement of material ahead of requirement, the Company had to incur an additional expenditure of Rs.33.18 lakh towards storage charges besides loss of interest of Rs.2.40 crorre (@ 15 per cent per annum) on blocked fund of Rs.8.72 crore for 22 months.

The Management stated (May 1999) that though the procurement of material was made ahead of actual requirement, there was practically no loss because had the procurement been made in December 1996, the cost would have been higher due to exchange rate variation and increase in rate of custom duty.

This argument is not tenable because the Company did not take into account probable future variation in exchange rate and increase in custom duty while taking the decision for procurement of material. Further, even if the contention of the Management is accepted, the net loss still works out to Rs. 52.84 lakh because storage charges of warehouse and loss of interest on the blocked fund for 22 months were higher than the increase in cost on account of exchange rate variation and increase in custom duty.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

Power Grid Corporation of India Limited

17.3 Avoidable payment of interest due to delayed payment of advance tax

Due to wrong interpretation of the provisions of Income Tax Act and consequent delay in payment of advance tax, the Company had to incur avoidable expenditure of Rs.5.97 crore.

Section 115JA, introduced in the Income Tax Act, 1961 through Finance Act 1996, provided for payment of minimum alternate tax (MAT) by the Companies on their book profit.

Under sub clause (iv) of clause (2) of the aforesaid section, the amount of profit derived by an industrial undertaking from the business of generation or generation and distribution of power was to be reduced from the book profit computed under Section 115 JA (1) of the Act. In case of delay in payment of advance tax, simple interest @ 2 per cent per month on the amount of income tax due under Section 234 B and 1.5 per cent per month for deferment of advance tax under Section 234 C of the Income Tax Act, 1961, were also leviable.

The Company did not make advance payment of income tax for the year 1996-97 (assessment year 1997-98) though payable before 31 March 1997 at periodical intervals, on the assumption that it was exempted under Section 115JA of the Income Tax Act 1961. But the Company was not entitled for any exemption as it was engaged only in the business of transmission of power whereas the section 115JA was applicable for companies engaged in the generation, or generation and distribution of power.

The Company had to pay a sum of Rs.39.50 crore in November 1997 towards its income tax liability for the year 1996-97 on account of this when the omission was found out. Since it did not make advance payments of tax at periodical intervals as envisaged in Section 211 of the Act, the Company also became liable to pay penal interest of Rs.7.07 crore for delayed payment of income tax under section 234B and Rs.2.99 crore for deferment of payment of advance tax under section 234C of the Income Tax Act, 1961. These amounts totalling to Rs.10.06 crore were paid by the Company in March 1998.

The Management stated (July 1999) that this was due to their interpretation of the 1996-Budget Speech of the Finance Minister in which companies engaged in power and infrastructure sectors were sought to be exempted from the levy of MAT. However, at the time of filing of the return, it was discovered that the Company was not entitled to the benefit of exemption and accordingly tax and interest were paid. The Management also stated that if the Company had paid advance tax on due dates, it would have had to avail of the cash credit facility, entailing an interest liability of Rs.8.49 crore.

The reply is not tenable because cash credit is a temporary arrangement resorted to when Company's own funds are not available for meeting its need for funds. In this case, the management had calculated the saving of interest of Rs.8.49 crore by non-payment of advance tax without taking into account the surplus funds available with it on other accounts like Public Deposit Account, Short Term Deposits etc. The Company, in fact,

always had sufficient financial resources to meet the liability of advance tax during the relevant period and also invested its surplus funds ranging from Rs.20 crore to Rs.220 crore in various deposits. Financial prudence warranted encashment of part of these deposits for timely discharge of the liability for advance payment of income tax.

Even after taking into account the amount of interest that would have been earned by the Company on the unpaid amount of advance tax (totalling to Rs 39.50 crore) for the period from the due dates of payment to the actual date when the tax was paid (i.e. November 1997) which amounted to Rs.4.09 crore at the average rate of 10 per cent, the Company incurred a loss of Rs.5.97 crore (Rs 10.06 crore – Rs 4.09 crore) due to incorrect interpretation of the provisions of the income Tax Act, 1961.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

National Thermal Power Corporation Limited

17.4 Avoidable expenditure due to an improper decision

Injudicious decision of the Company to go in for re-tendering despite the fact that the offer of L-1 firm was technically and commercially responsive, resulted in avoidable expenditure of Rs.1.98 crore.

The Company invited (June 1995) international competitive bids (ICB) for the construction of Coal Handling Plant (CHP) Part B package for Feroz Gandhi Unchahar Thermal Power Project (FCUTPP) Stage-II. The package was to be funded under a loan from Asian Development Bank (ADB). For this package, the cost estimate of Rs.6.42 crore was prepared (September 1994) on the basis of latest estimates for Farakka and Talchar projects awarded in 1988-90. Two firms, namely M/s. Larsen & Tubro Limited (L&T) and M/s. TRF Limited submitted (September 1995) their bids quoting Rs.13.87 crore and Rs.16.95 crore respectively.

Keeping in view the appreciable difference between the approved cost estimate (Rs.6.42 crore) and the quoted price of L-1 firm, estimates were revised on the basis of cost data of Vindhyachal Super Thermal Power Project (Stage-II) awarded in June 1995, which worked out (December 1995) to Rs.12.75 crore and the offer of L&T was worked to Rs.12.86 crores[#] for comparative purposes. The offer of L&T was found by the Tender Evaluation Committee to be technically suitable and also commercially viable, being only 1 per cent higher than the revised cost of the project. Despite clear recommendation of the Committee, the Corporation decided (March 1996) to re-invite the open tenders in view of restricted competition.

[#] For Vindhyachal STPP II, the mandatory spares were about 6 per cent of the ex-works price of the main equipment while in the L&T bid, the same was 17 per cent. Reducing the mandatory spares to 6 per cent would have resulted in the lowering of bid price to Rs 12.86 crore.

Accordingly, the proposal for fresh invitation of bids was sent (April 1996) to ADB for approval. ADB refused (June 1996) to accept the Company's proposal for re-bidding since it was not established that the two bids received were either non-responsive or were excessively priced.

Despite being aware of the fact that re-bidding would take more time and deemed export benefits would not be available if the package was taken out of ADB funding, the Management reiterated (June 1996) its decision for re-bidding under domestic financing.

The Company, while going in for re-invitation of bids (August 1996) under domestic funding, indicated the approved estimated cost at Rs.12.08 crore. However, in response, only three parties submitted (October 1996) their bids viz. L&T, TRF and M/s. Krupp. Of these, the bid of L&T was again evaluated (January 1997) as L-1 with a price of Rs.17.54 crore. The Company, after negotiation with the L-1 firm, settled the price at Rs.14.84 crore and awarded (July 1997/November 1997) the contract to L&T.

Thus, the decision of the Company to go in for re-tendering resulted in avoidable expenditure of Rs.1.98 crore.

The Ministry stated (September 1999) that decision for rebidding was taken as competition was considered inadequate and the prices were considered high compared to the initial cost estimate. The reply is not tenable as it was known to the Management (December 1995) that the approved cost estimate of Rs.6.42 crore based on 1988-90 figures was outdated and that the cost estimate of Rs.12.75 crore prepared by the Company's cost engineering department in December 1995 was more realistic. If the Management had relied on the realistic estimate prepared by its own cost engineering department, the need for re-tendering would not have arisen. The rejection of recommendation of the tender evaluation committee, despite the L-1 tender being technically and commercially responsive, was not based on sound logic.

Power Finance Corporation Limited

17.5 Avoidable payment on commitment charges

The Company agreed to take a loan of US $ 20 million from the World Bank without considering the prospects of its utilisation. Its limited success to relend the loan to SEBs resulted in non-withdrawal of the major portion of the loan. Consequently, it had to pay Rs 46.40 lakh to the World Bank as commitment charges.

The World Bank offered (April 1993) a loan assistance of US $ 20 million to the Government of India, for lending to the Company which, in turn, would lend the money to the State Electricity Boards (SEBs) and other power utilities which planned to enter into agreements with private parties for the purchase of power. The activities for which the loan could be given included, inter alia, 'the provision of financial, legal and technical advisory services to review outstanding project proposals and assist in contract negotiations, and assistance to SEBs to prepare a package of new projects', besides helping them in bidding

and other processes. It was subsequently decided that the Company would directly receive the loan and the Government would stand guarantee. The Company acquiesced (May 1993) in the matter, without exploring the prospect of its utilisation by SEBs/other power utilities and signed the agreement with the World Bank on 7 July 1993. The closing date of the loan was 31 December 1995. The terms and conditions of the agreement, inter alia, provided for payment of commitment charges @ 0.25 per cent per annum on any principal amount of the loan not withdrawn by the Company.

When the loan was under negotiation, the Company informed (June 1993) the State Governments about the availability of the aforesaid assistance and its objectives and solicited loan proposals from SEBs. However, without waiting for their response, the Company signed (July 1993) the agreement with the World Bank. While reviewing the position, in March 1995, World Bank expressed the view that since the SEBs had not been 'able to overcome the inertia to utilise the Technical Assistance loan', it would be prudent for the Company to allow the loan to lapse. Despite the dim prospects of the SEBs seeking technical loan assistance from the Company under the project and World Bank's views in the matter, the Company approached the Government in December 1995 to request the World Bank to extend the closing date by two years, instead of allowing it to lapse as suggested by the World Bank.

Although the Company's request for extending the closing date of the loan was agreed to for one year, its efforts at relending the assistance to the SEBs did not meet with much success. Till May 1997, the Company had withdrawn amount totalling just US $ 1.2 million for relending to three SEBs of Haryana, Andhra Pradesh and Tamil Nadu. Consequently, the Company had to pay commitment charges of Rs 46.40 lakh to the World Bank till September 1997 when the loan was closed.

Thus, the initial action of the Company of taking the loan, without considering the prospect of its utilisation and the subsequent lapse in not foreclosing the loan, resulted in avoidable expenditure of Rs 46.40 lakh on payment of commitment charges.

While admitting the fact of payment of commitment charges, Management stated (July 1999) that as the Company was a development financial institution for the power sector, it was obliged to support the institutional development activities including skill development of the SEB professionals and that this was an institutional activity and not a commercial activity. The reply of the Management is not acceptable as the expenditure of commitment charges was borne by the Company not in pursuance of any such objective but due to its failure to re-lend the loan assistance received from World Bank to SEBs.

The Ministry stated (October 1999) that the Company entered into the loan agreement with World Bank only after a detailed assessment. The reply of the Ministry is not tenable because the utilisation of loan would not have been low, if such an exercise had been conducted before signing the agreement.

Tehri Hydro Development Corporation Limited

17.6 Loss due to defective insurance cover

An equipment costing Rs. 35 lakh (approximately) damaged in a wind storm remained un-repaired for the last 5 years and virtually turned into scrap because the heavy cost of its repairs could not be claimed from the Insurance Company owing to a defect in the Insurance Policy cover.

An Electric Gantry Crane mounted on a mobile platform and brought to (February 1994) Company's plant facility area at Rishikesh was badly damaged due to high velocity wind storm in June 1994. Since the entire crane structure had fallen down and collapsed, its repair cost was assessed at Rs.31.54 lakh which was almost equal to its assessed insurance value of Rs.34.97 lakh. The Insurance Company refused to defray the cost of repairs on the plea that the damage due to wind storm was not covered by the insurance policy.

It was found in Audit that while the Company had sought to insure the equipment under 'Non-Motor Policy', the Insurance Company issued a cover note which indicated that the machine had been insured under 'Machinery Breakdown Policy'. The mistake was not discovered immediately after the cover note was issued in April 1994 but a year later in April 1995. If the Cover note had been drawn as intended by the management, the Insurance Company would not have been able to reject the claim for damages lodged by the Company. Thus, due to failure to discover mistakes in the insurance cover note the machinery remained unrepaired ever since it was damaged in June 1994 and, has virtually become scrap owing to its non-use for a long period.

The Management attributed the non-settlement of its claim to non-co-operation of the Insurance Company. This is not correct as legally the claim of the Company was untenable.

The matter was referred to the Ministry in March 1998; the reply was awaited (December 1999).

CHAPTER 18: MINISTRY OF RAILWAYS

Container Corporation of India Limited

18.1.1 Avoidable loss due to waiver of terminal service charges

Unjustified waiver of terminal service charges due from an importer resulted in loss of revenue of Rs.11.13 crore.

The Company maintained inland container depots (ICDs) at various places in the country to provide parking facilities for containers containing imported goods and machinery upon their arrival in India for which terminal service charges (TSC) were collected by the Company from the users.

M/s. Daewoo Motors India Limited (Party) was importing auto components through ICD, Tughlakabad. Since the party was not prompt in taking delivery of their imported consignments from ICD, Tughlakabad, heavy amounts on account of TSC had accrued against them. In September 1997, the party requested the Company for waiver of the total TSC of Rs.16.78 crore for those containers which had arrived at ICD, Tughalakabad prior to 1.5.1997. The Company, while approving (November 1997) the proposal of waiver of TSC to the extent of 40 per cent upto 1.7.1997 and 60 per cent thereafter, decided to enter into a Memorandum of Understanding with the party. Accordingly, a MOU was signed in November 1997 between the Company and the party which, *inter alia*, provided that the party would offer the entire business of handling of all their future import and export consignment by rail and sea port to the ICD, Tughlakabad and the Company, in return, would provide a special concessional rate for TSC to the party.

The party, however, violated the terms contained in the MOU and entered into (March 1998) a separate MOU with another private party, M/s. Associated Container Travels Limited, Faridabad (ACTL), for routing part of its traffic of import and export consignments. Though the Company was aware of this, instead of taking objection for this violation, the Company waived (October 1998) TSC amounting to Rs.11.13 crore.

The Management stated (July 1999) that the waiver was a commercial decision aimed at retaining the customer. According to Management, an increase in competition from ACTL during 1997-98 accompanied by reduction in traffic due to drop in the sale of cars manufactured by the party and also in view of the permission granted by the Customs Department to the party to develop a bonded facility in their own premises, the Company was prompted to waive the TSC so as to retain its customer. The reply is not only silent on the party's failure to ensure compliance to the terms of the MOU by the party, it is also non-convincing because there was no indication that waiver of TSC would be enough to retain the Company's customer, due to competition from ACTL and the permission of the Customs Department to develop a bonded facility in the party's premises. In view of the above, the contention of the Company that it was a prudent commercial decision is not sustainable.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

18.1.2 Loss due to a wrong investment decision

Imprudent investment of surplus funds by the Company at lower rates of interest despite offer of higher rate of interest resulted in loss of interest of Rs 41.90 lakh.

18.1.2.1 Department of Public Enterprises issued guidelines in December 1994 to public sector undertakings (PSUs) on the subject of investment of their surplus funds. The guidelines, inter-alia, provided that the PSUs should take investment decisions on sound commercial judgement and surplus funds should be invested in instruments carrying maximum safety.

For investment of its surplus funds of Rs 19.50 crore, the Company invited offers from various PSUs and banks in June 1997. Response was received both from the banks and PSUs. Although Global Trust Bank (GTB) had offered the highest rate of interest at 13 *per cent*, the Company decided in July 1997 to invest Rs.14.50 crore in ICICI Limited @ 11.5 per cent interest and the balance of Rs.5 crore in Steel Authority of India Limited (SAIL) @ 11.2 per cent interest on the plea of minimising risk. However, just four months later (November 1997), the Company invested Rs.10 crore @ Rs.12 per cent interest in GTB, the highest offer at that time, on the ground that its financial credentials had since been evaluated. The Company had failed to carry out any proper evaluation of GTB during June 1997 which had a high credit rating of P1* made by CRISIL.The failure resulted in a loss of interest of Rs 31.73 lakh, being the difference of rates of interest offered by Global Trust Bank and SAIL/ICICI.

The Ministry stated (October 1999) that their decision of July 1997 to invest surplus funds in ICICI and SAIL was governed by safety consideration. At that time, the financial credibility of Global Trust Bank had been considered. As the latter's capital adequacy ratio** had declined from 9.36 *per cent* in March 1996 to 8.65 per cent in September 1996, the Company decided not to place its surplus funds with the Global Trust Bank.

The reply is not tenable. That the Management did not consider the capital adequacy of Global Trust Bank in July 1997 is evident from the fact that the ratio had improved from 8.65 *per cent* in September 1996 to 10.16 *per cent* in March 1997 and remained at that level in November 1997. Moreover, GTB had high credit rating of P_1 made by CRISIL. The Management's contention, therefore, of considering GTB unsafe in July 1997 and safe in November 1997 is not satisfactory.

P Granding is given by CRISIL to institution inviting short term deposits. Highest ratio of P1+ followed by P! and P!-.

***** Capital adequacy ratio is the norm laid down by the RBI to determine the adequacy of resources. For the non-banking financial companies, this has been fixed at a minimum of 8% by the RBI.***

18.1.2.2 Subsequently, with effect from 9 February 1998, Syndicate Bank revised its interest rate to 12.5 per cent on fixed deposits for periods ranging from 46 to 90 days. Ignoring the higher interest rates, the Company invested Rs.12.24 crore with various banks at lower rate of interests ranging from 7 per cent to 11 per cent during the period 12 February 1998 to 4 April 1998. This resulted in a loss of interest of Rs.10.17 lakh upto 6 October 1998.

The Ministry contended that the loss was computed without considering the fact that premature encashment of their fixed deposits from other banks for investment in Syndicate Bank would have partly wiped out the gain resulting from higher interest on fixed deposits in the Syndicate Bank. The reply is not tenable. The question of premature encashment of fixed deposits did not arise as the Company had invested at lower rates after the rates of Syndicate Bank were revised, ignoring the higher rate of 12.5 per cent offered by it.

Thus, due to imprudent investment decision in July 1997 and failure to invest the surplus money in Syndicate Bank, the Company suffered loss of interest of Rs.41.90 lakh.

Indian Railway Finance Corporation Limited

18.2 Loss due to lack of prudence in investment of surplus funds

The Company ignored an offer from the Government of Tamil Nadu for investment of Rs.125 crore in Kisan Vikas Patras (KVP) in their State and lost cash incentive of Rs 2.5 crore.

The Company receives lease rentals for its assets leased out to the Indian Railways on 1 April and 1 October every year. After taking into account its immediate requirements, the surplus funds are invested by the Company on short/long term basis. As per the directions issued by RBI, the Company is required to place a certain minimum percentage of its funds in Government securities which included Kisan Vikas Patras(KVP).

The Directorate of Small Savings and Social Security, Government of Tamil Nadu, Chennai, approached the Company on 23 March 1994 for investment of its surplus funds in KVP and intimated that the Government of Tamil Nadu was offering a cash incentive of two *per cent* to the Companies making such investments within the state of Tamil Nadu. But ignoring the offer of cash incentive of Tamil Nadu Government, the Company invested on 5 April 1994 its surplus funds amounting to Rs.125 crore in the Parliament Street Post Office, New Delhi in KVP without obtaining any cash incentive. Thus the failure of the Management to invest the surplus funds in KVP within Tamil Nadu State led to the loss of revenue to the tune of Rs.2.5 crore.

The Ministry stated (October 1995) that the cash incentive of two *per cent* offered by the Government of Tamil Nadu was liable for immediate refund, if the amount deposited in KVP was withdrawn by the Company within the prescribed period of five years. In that event, it was contended by the Ministry, the Company's liquidity could have been placed under severe constraint. The Ministry's reply is hypothetical and untenable. Even in the

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

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Imprudent investment of surplus funds by the Company at lower rates of interest despite offer of higher rate of interest resulted in loss of interest of Rs 41.90 lakh.

18.1.2.1 Department of Public Enterprises issued guidelines in December 1994 to public sector undertakings (PSUs) on the subject of investment of their surplus funds. The guidelines, inter-alia, provided that the PSUs should take investment decisions on sound commercial judgement and surplus funds should be invested in instruments carrying maximum safety.

For investment of its surplus funds of Rs 19.50 crore, the Company invited offers from various PSUs and banks in June 1997. Response was received both from the banks and PSUs. Although Global Trust Bank (GTB) had offered the highest rate of interest at 13 *per cent*, the Company decided in July 1997 to invest Rs.14.50 crore in ICICI Limited @ 11.5 per cent interest and the balance of Rs.5 crore in Steel Authority of India Limited (SAIL) @ 11.2 per cent interest on the plea of minimising risk. However, just four months later (November 1997), the Company invested Rs.10 crore @ Rs.12 per cent interest in GTB, the highest offer at that time, on the ground that its financial credentials had since been evaluated. The Company had failed to carry out any proper evaluation of GTB during June 1997 which had a high credit rating of P1[*] made by CRISIL.The failure resulted in a loss of interest of Rs 31.73 lakh, being the difference of rates of interest offered by Global Trust Bank and SAIL/ICICI.

The Ministry stated (October 1999) that their decision of July 1997 to invest surplus funds in ICICI and SAIL was governed by safety consideration. At that time, the financial credibility of Global Trust Bank had been considered. As the latter's capital adequacy ratio[**] had declined from 9.36 *per cent* in March 1996 to 8.65 per cent in September 1996, the Company decided not to place its surplus funds with the Global Trust Bank.

The reply is not tenable. That the Management did not consider the capital adequacy of Global Trust Bank in July 1997 is evident from the fact that the ratio had improved from 8.65 *per cent* in September 1996 to 10.16 *per cent* in March 1997 and remained at that level in November 1997. Moreover, GTB had high credit rating of P_1 made by CRISIL. The Management's contention, therefore, of considering GTB unsafe in July 1997 and safe in November 1997 is not satisfactory.

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***** Capital adequacy ratio is the norm laid down by the RBI to determine the adequacy of resources. For the non-banking financial companies, this has been fixed at a minimum of 8% by the RBI.***

18.1.2.2 Subsequently, with effect from 9 February 1998, Syndicate Bank revised its interest rate to 12.5 per cent on fixed deposits for periods ranging from 46 to 90 days. Ignoring the higher interest rates, the Company invested Rs.12.24 crore with various banks at lower rate of interests ranging from 7 per cent to 11 per cent during the period 12 February 1998 to 4 April 1998. This resulted in a loss of interest of Rs.10.17 lakh upto 6 October 1998.

The Ministry contended that the loss was computed without considering the fact that premature encashment of their fixed deposits from other banks for investment in Syndicate Bank would have partly wiped out the gain resulting from higher interest on fixed deposits in the Syndicate Bank. The reply is not tenable. The question of premature encashment of fixed deposits did not arise as the Company had invested at lower rates after the rates of Syndicate Bank were revised, ignoring the higher rate of 12.5 per cent offered by it.

Thus, due to imprudent investment decision in July 1997 and failure to invest the surplus money in Syndicate Bank, the Company suffered loss of interest of Rs.41.90 lakh.

Indian Railway Finance Corporation Limited

18.2 Loss due to lack of prudence in investment of surplus funds

The Company ignored an offer from the Government of Tamil Nadu for investment of Rs.125 crore in Kisan Vikas Patras (KVP) in their State and lost cash incentive of Rs 2.5 crore.

The Company receives lease rentals for its assets leased out to the Indian Railways on 1 April and 1 October every year. After taking into account its immediate requirements, the surplus funds are invested by the Company on short/long term basis. As per the directions issued by RBI, the Company is required to place a certain minimum percentage of its funds in Government securities which included Kisan Vikas Patras(KVP).

The Directorate of Small Savings and Social Security, Government of Tamil Nadu, Chennai, approached the Company on 23 March 1994 for investment of its surplus funds in KVP and intimated that the Government of Tamil Nadu was offering a cash incentive of two *per cent* to the Companies making such investments within the state of Tamil Nadu. But ignoring the offer of cash incentive of Tamil Nadu Government, the Company invested on 5 April 1994 its surplus funds amounting to Rs.125 crore in the Parliament Street Post Office, New Delhi in KVP without obtaining any cash incentive. Thus the failure of the Management to invest the surplus funds in KVP within Tamil Nadu State led to the loss of revenue to the tune of Rs.2.5 crore.

The Ministry stated (October 1995) that the cash incentive of two *per cent* offered by the Government of Tamil Nadu was liable for immediate refund, if the amount deposited in KVP was withdrawn by the Company within the prescribed period of five years. In that event, it was contended by the Ministry, the Company's liquidity could have been placed under severe constraint. The Ministry's reply is hypothetical and untenable. Even in the

unlikely event of premature encashment of KVP, all that the Company would have parted with was the element of cash incentive. The question of the Company facing liquidity crunch did not, therefore, arise. Incidentally, the Company has not so far (August 1999) encashed the KVP which were due to mature on 5.10.1999.

Thus, due to the lack of prudence in investment of its surplus funds and foregoing the cash incentive offered by the Government of Tamil Nadu, the Company suffered a loss of Rs 2.5 crore.

Konkan Railway Corporation Limited

18.3.1 Loss in a sale and lease back arrangement

The Corporation incurred loss of Rs.21.77 crore by entering into a sale and lease back arrangement which was in essence contrary to the spirit of the agreement forming Konkan Railway Corporation Limited (KRCL).

KRCL was formed in June 1990 through an agreement between the Government of India and 4 State Governments which inter-alia provided that during the life of the Company (KRCL) the properties acquired or created by the Company by whatsoever means shall vest in their entirety in the Company and after discharge of liabilities accrued during the period of construction, the properties shall be transferred to the Ministry of Railways. However, taking advantage of Para 30 of III (B) of the Memorandum of Association (MOA) of the Corporation which allows for sale of whole or any part of the Company's immovable properties for consideration and to take back the same on leasing terms, the Corporation entered into agreements with various parties including M/s. Infrastructure Leasing and Financial Services Limited for sale and lease back of 166 kms of main lines and 19.2 kms additional running lines of the track along with its fittings for Rs.98 crore during December 1995 to March 1996. The assets were leased back to KRCL on payment of 20 per cent of the cost as security deposit and lease rental as per the terms of the agreement.

This sale and lease back arrangement apart from being contrary to the spirit of the agreement forming KRCL resulted in a loss of Rs.21.77 crore due to under valuation of assets. Although the assets sold were valued by an approved valuer the valuation included only the cost of material but excluded finance charges and other miscellaneous expenses & development cost. Taking these charges into account, the total value of assets as calculated by audit worked out to Rs.129.12 crore as against Rs.98 crore received by KRCL. After taking into consideration depreciation charges (Rs.9.35 crore) the loss incurred by KRCL worked out to Rs.21.77 crore (Rs.129.12 crore - Rs.98 crore - 9.35 crore).

Not only did the Corporation incur a loss (Rs.21.77 crore) on sale of assets it was observed that even the terms on which it took back the same on lease were also very unfavourable. Corporation paid 20 per cent of the cost of the assets (Rs.19.60 crore) as security deposit thus the net amount received by the Corporation was Rs.78.40 crore. There was, however, no justification for this security deposit as the ownership of the assets remained with the

lessor and the interest of the lessor was also secured by way of an escrow account where the freight and passenger earnings of the Corporation were required to be credited.

KRCL took back the assets on lease initially for a period of 7 years and was required to pay Rs.14.70 crore during the first year, Rs.18.82 crore per annum during the second, third, fourth and fifth year, and Rs.23.34 crore per annum in sixth and seventh year as lease rental charges. Thus the Corporation would be paying rental charges at the rates ranging from 18.8 per cent to 29.8 per cent per annum on the amount of Rs.78.40 crore in the primary lease period of seven years. This lease rental charge was very high when compared with the average rate of interest of 17.7 per cent paid by the Corporation on short term borrowings during 1995-96.

The Management in their reply (October 1998), with the approval of Railway Board (November 1998), had stated the following:

(a) Agreement did not have any clause which prohibited sale or disposal of any property once it had been acquired or constructed and agreement itself provided that the MOA could contain provisions other than the terms and conditions of the agreement.

(b) Even though the ownership remained with the lessor, the actual control and custody of the asset was passed to the lessee for unrestricted use during the primary lease period. Any owner parting with absolute possession of his asset to another party needed to be secured.

(c) Valuation of the assets for the purpose of sale had been made on the basis of current costs and prices i.e. those prevailing at the time the scheme was being formulated and not on the basis of historical costs and prices. Because of the inflation in wages and prices, which had taken place in the intervening period, the cost of figures adopted, on a current basis, were more than the cost actually incurred by the Corporation, and to that extent, the financing and other charges stood covered in the sale value.

The reply of the Management is not acceptable due to the following reasons:

(a) The main object of the KRCL, as per MOA, was to construct the railway line and operate the same till liabilities were discharged. Thereafter, the line was to be transferred to the Ministry of Railways. As such the sale of main assets was not justified.

(b) Though the actual control and custody of the assets was passed to the lessee for unrestricted use during the primary lease period, the lessee was to keep the asset in perfectly good condition to run the trains and there was thus no need for any security deposit to ensure the upkeep of the assets in good condition.

(c) The Corporation had already accepted a loss of Rs.15.15 crore on the sale of assets as it had accounted for a loss of Rs.3.77 crore in the year 1995-96 and Rs.11.38 crore in 1997-98 on this account. Thus the Corporation's contention that the figures of the cost adopted on a current basis were more than the cost actually incurred by

the Corporation and to that extent the financing and other charges stood covered in the sale value is not acceptable.

18.3.2 Avoidable payment of price variation

The Corporation paid an avoidable sum of Rs.3.89 crore to contractors on account of price variation clause that was included in the contract in contravention of instructions issued by the Railway Board.

Instructions issued by the Railway Board in January 1987 inter-alia provided that 'price variation' clause would be applicable only in case of contracts where the stipulated period of completion was more than one year.

A test check of 66 cases of various zones of the Corporation related to the period from 1991-92 to 1994-95 revealed that in contravention of the said instructions of the Railway Board the Corporation included the 'price variation' clause although the completion period of these contracts as per the agreement was one year or less. The avoidable payment to contractors towards escalation on this account worked out to Rs.3.89 crore.

The Management, with the approval of the Railway Board, stated (November 1998) that the instructions issued by Railway Board were not mandatory for the Corporation. Further, the provision of 'price variation' clause ensured that the quoted rates were competitive and contractors did not provide for anticipated escalation in cost. If 'price variation' clause had not been provided for in the contracts then tenderers would have quoted high rates to cover for inflation during the tenure of the contract.

The contention of the Management is not tenable on the following grounds:

(i) As per para III (A) of the Memorandum of Association, the Corporation is a Railway Company as defined in Indian Railways Act, 1890. The assets created by the KRCL would be taken over by the Ministry of Railways after clearing the debts accrued during construction. Under these circumstances, creation of additional liability without observing rules framed by the Railway Board on the pretext that their orders were not mandatory is not acceptable.

(ii) The said instructions of the Railway Board were based on an in-depth study of the provision of 'price variation' clause by a special Committee appointed by the Board. It was thus surprising that the Board by giving approval to the reply of the Corporation had allowed them to justify the deviation from the rules.

(iii) Since the instructions were issued by the Railway Board with concurrence of the Ministry, these were equally applicable to the Corporation.

(iv) KRCL's contention that contractors would have quoted higher rates if 'price variation' clause was not provided in contract agreement was a misplaced assumption as in a number of contracts with the stipulated period up to 12 months this clause was not included and the Corporation did not pay any escalation.

Thus, the payment of Rs.3.89 crore made by the Corporation towards cost escalation was avoidable.

CHAPTER: 19 DEPARTMENT OF SMALL INDUSTRIES AND AGRO AND RURAL INDUSTRIES

Andaman & Nicobar Island Integrated Development Corporation Ltd.

19.1 Loss in financing an ill- conceived project

The Company loaned Rs. 49.77 lakh for an ill conceived project for processing American diamonds without obtaining a bank guarantee for securing its investment. Consequently, neither the principal amount of the loan nor interest thereon could be recovered.

The Corporation sanctioned (June 1995) a loan of Rs.49.77 lakh for an American Diamond processing project sponsored by Andaman and Nicobar Administration for the benefit of 313 local entrepreneurs (@ Rs. 15900 per beneficiary). The project was to be managed by New Technic Gem Cutting Institute (NTGCI), a private firm in Madras. The loan was released (September/ October 1995) to NTGCI for supply of 313 diamond cutting machines subject to the following conditions:-

- Loan was to be secured by hypothecation of the machines.
- NTGCI was to refund the entire loan along with interest in 78 monthly instalment from the wages of beneficiaries.
- NTGCI was to remain liable to repay each instalment of loan & interest by 7th of every succeeding month even if not recovered from the beneficiaries.

Though the success of the project essentially depended on the managerial performance of NTGCI, neither a bank guarantee as financial security was obtained from NTGCI against the loan nor was NTGCI asked to be responsible for safe custody of the hypothecated machines. Further, the loan was released without verifying that proper space for installation of 313 machines and other infrastructure facilities existed. The project started in November 1995 but it failed to attract enough beneficiaries for a long period mainly due to low earning of the beneficiaries, higher rejection of finished products by NTGCI, irregular supply of raw material, frequent power failures and non-availability of transport facility to the beneficiaries.

In view of the operational loss NTGCI closed down the work from 15 February 1997 but did not return the machines to the Company by stating (March 1997) that those were handed over to the beneficiaries. The Management did not ascertain the actual position of the machines and surprisingly decided (February 1997) not to take any legal action against NTGCI.

Action initiated (January 1998) by the Company, after the audit objection, against NTGCI under Public Premises Act 1971 had not yielded any results so far (October 1999).

Thus, by financing a project without a financial security in the form of performance bank guarantee from the main promoter the Company could not recover the loan of Rs.49.77 lakh and the interest thereon from NTGCI.

The Management stated (January 1998) that there was an overwhelming response to the project but due to lack of aptitude on the part of the beneficiaries and the method of production adopted the production levels were not up to expectation causing low income to the beneficiaries. The Ministry endorsed (February 1998) the contention of Management.

The contention of the Management was not tenable as the initial overwhelming response subsided quite rapidly prior to closure of the project due to lack of aforesaid infrastructure facilities. Moreover the project ran merely for 15 months and there were only 106 beneficiaries (January 1997) against the expected number of 313.

CHAPTER 20: MINISTRY OF STEEL

Hindustan Steelworks Construction Limited

20.1 Award of work relating to an ash pond on a single tender basis

Though the Company had the capacity to execute a work by itself, the same was awarded to a contractor on a single tender basis or by engaging workers on piece-rate. This resulted in avoidable expenditure of Rs. 15.70 crore.

The Company received three orders in February/June/September 1994 valuing Rs.26.38 crore for removal, excavation and transportation of ash from Ash Pond No.3 and 4 of Bokaro Steel Plant (BOSP). The work orders, inter-alia, required excavation of 30 lakh cum ash from Ash Pond No.4 and disposal of the same within a distance of 2 to 3 kilometers at the rate of Rs.66.85 per cum valued at Rs.20.05 crore. The Company off-loaded (April/ July 1994 and February 1995), the entire work of excavation of ash (30 lakh cum) of Ash Pond No.4 to M/s Bakhtawar Singh Balkrishna (BSBK) at the rate of Rs.59.40 per cum valuing Rs.17.82 crore on a single tender basis leaving a margin of Rs.2.23 crore (12.54 per cent) over contract payment. The work was off loaded as the senior officers of BOSP felt that M/s BSBK was the only agency which could convince local leaders and villagers for carrying out this work and tackle the problem of their demanding permanent jobs from BOSP.

M/s BSBK actually executed the total work valuing Rs 17.68 crore, which inter-alia, included 28.95 lakh cum of ash valuing Rs 17.20 crore relating to Ash Pond No.4 upto September 1996.

In January/October 1997, the Company received another order for extraction of ash from Ash Pond No.3 and 4 for a value of Rs.9.23 crore comprising, inter-alia, 10 lakh cum excavation of ash at revised rate of Rs.90.50 per cum. The work of Ash Pond No.3 was taken up departmentally. However, for execution of work relating to Ash Pond No.4, the management approved (May 1997) a rate of Rs 43/- per cum to Piece-rated workers (PRWs). The Company actually executed the work of 15.66 lakh cum ash, which included 9.25 lakh cum departmentally and 6.41 lakh cum through PRWs from Pond No.3 and 4 respectively during the period from January 1997 to March 1998.

Test check of records in audit relating to execution of work relating to Ash Pond No.4 disclosed the following:

a) The decision of the management to off-load the work to M/s BSBK was not justified in view of the following :

i) Against orders of January/October 1997, the Company actually executed the work of 15.66 lakh cum relating to Ash Pond No.3 and 4 through departmental sources/PRWs during January 1997 to March 1998. This contradicted the views of

the tender committee (March 1994) that execution of work was not possible without engagement of M/s BSBK and hence work be awarded to them on a single tender basis.

ii) M/s BSBK proposed (March 1994) to deploy 6 excavators, 50 dumpers and 2 dozers to execute work of 1 lakh cum per month, whereas they actually deployed 4 dumpers and one excavator. With these equipment BSBK could have executed only 0.22 lakh cum per month even in 2 shifts. This clearly indicated that petty contractors were deployed by BSBK for execution of at least 75 per cent of the work.

iii) To achieve the monthly target of 1 lakh cum, the Company required 7 excavators and 42 dumpers. Against this, the Bokaro unit of the Company was maintaining 10 excavators/poclain, 44 dumpers and 5 dozers besides a manpower of over 5000. For execution of work with departmental equipment, variable/operational cost was about Rs.12 per cum against the rate of Rs 59.40 per cum paid to M/s BSBK and Rs.43/- per cum paid to PRWs.

b) M/s BSBK was paid interest free mobilisation advance at 20 per cent of contract value. This was not payable in the case of PRWs. Extra financial loss on account of interest free advance given to BSBK worked out to Rs. 43.64 lakh at 18 per cent per annum.

It may be seen from the above that the Company had the capacity to execute all the work orders of 1994 and 1997. Had the Company executed the entire work of 35.36 lakh cum [28.95 lakh cum got done from M/s BSBK pertaining to 1994 work orders and 6.41 lakh cum through piece-rated workers (PRWs) pertaining to 1997 work order], it would have saved Rs.15.70 crore (Rs.10.96 crore paid in excess to M/s BSBK and Rs.4.74 crore paid in excess to PRWs).

The Ministry stated (August 1998) that all attempts of HSCL during October 1993 to January 1994 to departmentally start the work, even with the help of police and CISF failed due to armed resistance by local villagers. The client and the local law and order authorities were of the view that BSBK was the agency which could tackle this problem. In view of this, work was awarded to BSBK in April 1994. In 1997, HSCL could execute the work in Ash Pond No.3 & 4 through departmental resources/PRWs due to improved law and order situation and interference/protection by the political parties, local authorities, CISF etc. However, HSCL was being advised to be more vigilant to ensure that this might not occur in future.

The contention of the Ministry is not tenable as law and order situation could not be treated as a sufficient ground for off loading the work to a private party on a single tender basis particularly when the Company was a Government Company and had adequate manpower and equipment. Further protection of CISF was also available in 1994 when the work was awarded to M/s BSBK on single tender basis. HSCL, in fact, executed the work through departmental sources against the order of January/October 1997 not due to improved law and order situation but due to the agitation by the departmental workers alongwith the local Member of Parliament to execute the work departmentally.

Indian Iron and Steel Company Limited (IISCO)

20.2 Injudicious decision of relining of a blast furnace

Decision to reline Blast Furnace (BF) No.1 by Indian Iron and Steel Company Limited without assessing the market condition resulted in unfruitful expenditure of Rs.8.50 crore as BF was lying inoperative from April 1998.

The Company decided in August 1988 to phase out uneconomic working units of Burnpur works including Blast Furnace (BF) no. 1 commissioned in November 1922 with installed capacity of 600 tonne of hot metal per day. The furnace was phased out finally in April 1989.

In October 1990, the plant management took a decision to revamp BF-1 by way of relining it without undertaking any cost benefit analysis. However, due to tight liquidity position of the Company, the relining of the furnace was postponed. In August 1993, the management decided to go in for complete relining of BF-1 within 88 days with effect from 15 November 1993 at an estimated cost of Rs.8.35 crore.

The Blast Furnace-1 was relined at a cost of Rs.8.50 crore (approx.) and was blown in on 4 June 1996. However, in view of the persisting sluggish market for pig iron, low intake of hot metal at Steel Melting Shop (SMS), poor condition of turbo blower & stoves (1.2 and 1.4) and inefficient working of Gas Cleaning Plant (GCP), the operation of Blast Furnace was stopped with effect from 1 April 1998 for six months. Since then, the Blast Furnace had been lying inoperative. It was thus evident that the decision to reline BF-1 without assessing the market condition was injudicious and resulted in an unfruitful expenditure of Rs.8.50 crore.

The Ministry stated (October 1999) that it was incorrect on the part of the Company not to have undertaken a cost benefit analysis for relining of BF-I as relining of BF was an important task which required lot of investment and planning. Moreover, the Company should have also considered undertaking repairs and upgradation of its ancillaries.

The Ministry's contention is an admission of Company's poor planning as relining of BF-1 was undertaken without any upgradation of its ancillary units and without taking into consideration the relative cost and benefit of such a huge investment. This resulted in unfruitful expenditure of Rs.8.50 crore which a sick Company like IISCO could ill afford

as it was facing acute shortage of working capital and reeling under accumulated loss of Rs.816.51 crore as on 31 March 1993.

Kudremukh Iron Ore Company Limited

20.3.1 Avoidable loss due to continued business with a defaulting customer

Failure to safeguard its interest based on past experience in dealing with a customer resulted in avoidable loss to the extent of Rs.99.90 lakh to the Company.

The Company entered into contracts with M/s. Prosperous Enrich Ltd, Hongkong (the customer) for sale of concentrates and pellets for steel mills in China for the years 1992-93 and 1993-94. According to these contracts, 95 per cent of the payment of each shipment was to be made by an irrevocable Letter of Credit (LC) opened by the customer and the balance 5 per cent by telegraphic transfer by the customer's bank within 20 days of receipt of final invoice from the Company. The final invoice was to be prepared by the Company based on the discharge port certificate issued by China Commodity Inspection Bureau (CCIB) issued within 60 days after completion of discharge in China.

The Company supplied 21 shipments during 1992-93 and 1993-94. Invoice for balance 5 per cent payment was raised by the Company in respect of these shipments after considerable delay ranging from 21 days to 443 days after the stipulated time. Payments in respect of these final invoices (except three shipments) were also received from the customer's bank after delays ranging from 20 days to 356 days in these two years.

Despite the fact that 4 final invoices of 1992-93 valued US $ 210,826.48 and 5 final invoices of 1993-94, valued US $ 303,006.89 were pending for a period ranging from 1 to 11 months by then, the Company entered (February 1994) into a fresh contract with the customer for sale of concentrate/ pellets in 1994-95 on the same terms of payment except that the 5 per cent final payment was to be made within 30 days upon receipt of final invoice by customer's bank as against 20 days in the 1993-94 contract. Ultimately the customer failed to pay the final invoices in respect of three shipments of 1993-94 amounting to US $ 105,969.18 and in respect of 11 shipments made during 1994-95 amounting to US $ 240,956.09. The Company, however, did not renew the contract with the firm in 1995-96 in view of this default.

The Company filed (August 1996) a suit in Hongkong Court and obtained (September 1996) an ex-parte decree in its favour for US $ 346,925.27, but could not execute the decree as the whereabouts of the erstwhile Directors of the customer firm and the details of its assets were not known. A provision of Rs.1.44 crore (Rs.44.54 lakh towards dues of 1993-94 & Rs.99.90 lakh towards dues of 1994-95 was made in the accounts up to 1998-99.

Thus, failure on the part of the Company to amend the terms of payment to cover 100 per cent value of supplies made against LC for supplies made in 1994-95 based on the experience of delay /default in payments during the earlier years or to cancel the contract

for the year 1994-95 had resulted in an avoidable loss of Rs.99.90 lakh relating to supplies made in 1994-95.

The Ministry stated (May 1999) that:

(i) the prevalent practice in the Chinese market was that they established L/C for 95 per cent and 5 per cent balance by telegraphic transfer;

(ii) failure to enter into contract with the customer for 1994-95 would have resulted in accretion of stock, stoppage of pellet plant and loss of business and loss of increased sales in Chinese market; and

(iii) one could not severe the business connection merely because the residual payment was outstanding.

The reply of the Ministry is not acceptable as:

(a) The Company modified (1996-97) the clause regarding payment in case of Hongkong based buyers (with a view to reduce the risk in respect of 5 per cent payment) which provided for 100 per cent payment through letters of credit;

(b) While renewing the contract, the Company ought to have safeguarded its own interest based on past experience;

(c) The Company had stopped supplies to Iran, when payments became similarly outstanding and did not renew the contract for 1995-96 because of default by the customer.

20.3.2 Introduction of an unviable Voluntary Contributory Pension Scheme

Failure to assess ab-initio, the viability of a voluntary contributory pension scheme resulted in Company's blocking up of Rs.28.51 lakh over an indefinite period of time.

Kudremukh Iron Ore Company Ltd (Company) introduced (April 1992) an Employees Contributory Superannuation-cum-Family Annuity Fund (Company scheme). The scheme was approved by Govt of India in August 1992.

The salient features of the scheme were (i) The Company would contribute a lumpsum of Rs. 100/- per annum for all the employees taken together; (ii) All the employees on rolls as on 1 April 1992 would be given an option to join the scheme and those to be appointed after 1 April 1992 would compulsorily join the scheme, (iii) Payment of pension would start after contributing to the scheme for a minimum period of eight years i.e. by 1 April 2000. However employees with less than eight years service left before retirement were allowed to make lumpsum contribution for the periods short of eight years at the time of superannuation. Contributions ranged between 2 per cent and 5 per cent of wage/salary of employees depending upon their age. (iv) On superannuation of employees, the Trust proposed to be set up by the Company for the management of the funds, would purchase annuities from the Life Insurance Corporation of India (LIC). The pension shall be payable during the life time of the employee out of income from these annuities to be disbursed through the LIC. Upon death of the members, the face value of the annuity was returnable to the Trust by LIC.

Accordingly, a Trust was setup (April 1992) to operate the scheme and the Trust purchased annuities amounting to Rs. 55.39 lakh for 54 retired members till October 1997 against which their contributions were only Rs. 24.95 lakh.

When the Employees Pension Scheme of Govt of India (Govt. scheme) came into effect from November 1995, the Company consulted an Actuary for seeking exemption from the Govt. scheme. The Actuary opined (May 1996) that no worthwhile pension scheme could be formulated without 8 to 10 per cent contribution (contribution envisaged under Company's scheme ranged between 2 to 5 per cent). The Actuary also stated that under the scheme, while the older members would receive pension, there would be no money left for the younger members to receive pension at the existing rate of contributions and thereby the fund would become insolvent. Based on the assessment of the Actuary, a review of the scheme was made by the Trust and it was observed (October 1997) that, as pointed out by the Actuary, the Trust would face liquidity problem in view of the fund getting blocked for buying annuities for retired members and eventually the scheme would become insolvent from the year 2005. The Company's Scheme was therefore proposed to be closed (November 1997). Since a portion of the fund viz. Rs. 30.44 lakh (Rs. 55.39 lakh - Rs.24.95 lakh) was blocked in buying the annuities for the retired employees, the Company advanced Rs.30.44 lakh (November 1997) to the Trust to enable it to refund the contributions with interest to the serving employees. The Trust accordingly refunded (November 1997) the accumulated contributions (Rs.184.07 lakh) and interest (Rs.67.25 lakh). However, subsequent to the above, an amount of Rs.1.93 lakh was received by the Company from the Trust consequent on the death of three beneficiaries.

Thus, failure of the Company to assess the viability of the scheme by an Actuary at the time of its formulation resulted in blocking up of funds of Rs.28.51 lakh for an indefinite period, i.e. till the Trust repaid the Company's loan as and when it received refund of annuity amount from the LIC on death of the retired members. The blocked amount carried an interest liability of Rs.3.56 lakh per annum.

The Management stated (July 1999) that the Company had not obtained the opinion of an Actuary before the introduction of the scheme since it had followed the scheme adopted by another Public Sector Undertaking (Bharat Earth Movers Ltd) which had consulted an Actuary before introduction of the Scheme. Management further stated that problems in the fund had arisen mainly on account of the phenomenal increase in salary compared to the normal increase that would have been assumed for any calculations.

The reply of the Management is not acceptable as:

i) Viability of the scheme differs from Company to Company depending on individual contribution, age profile of the employees and number of employees retiring every year. Following a scheme introduced by another Public Sector Undertaking is not an excuse by itself for not analysing the viability of the Scheme in the situation obtaining in the Company . In fact, Chairman of the Trust had admitted (October 1997) "Had we taken the opinion of the Actuary before introducing the scheme, we would not have landed ourselves in a situation" like this.

ii) As regards the 'phenomenal' increase in salary, the Company's contention is not tenable as the contribution, being linked to the salary, would also increase

correspondingly. As pointed out by the Actuary later, the fund was unviable because of the low level of contributions envisaged in the scheme and had nothing to do with the increase in salary.

The Ministry confirmed the facts and figures of the draft para (October 1999) and stated that they had no remarks to offer on the para.

MSTC LIMITED

20.4 Loss on sale of imported steel scrap

The decision of Management to hand over the documents to the party to take delivery of the goods without obtaining a valid Letter of Credit (LC) led to non-recovery of dues amounting to Rs.39.88 lakh.

The Company received (20 May 1992) an order from Punjab Steel Corporation Limited (PSCL) for supply of 1000 MT of steel scrap. The Company, being the canalysing agency for import of steel scrap, used to supply the imported scrap at cost plus service charges. Accordingly, the Company placed (5 June 1992) an import order on Transakta Co. Ltd., Czechoslovakia and allotted (7 July 1992) 973 MT of scrap valuing Rs.39.88 lakh to the party (PSCL) on 'high sea basis'.

As per the arrangement the intimation regarding despatch of the goods by the foreign supplier was sent directly to the party on 19 August 1992. The Company instructed (10 September 1992) the party to collect the shipping documents and certificate of sale of the material by making payment of service charges and the other expenses including cost of material by issuing a demand draft. Despite repeated reminders, the party did not carry out their obligation under the contract.

The Company made the payment for the goods to the supplier on 18 September 1992 and issued a high sea sale letter to the party on 22 September 1992. As the vessel had reached Kandla Port, the Company released on 17 November 1992 the original Bill of Lading (B/L) to the clearing agent to avoid demurrage.

On 18 November 1992, an officer of PSCL visited the Regional Office of the Company at New Delhi and intimated that they had opened a Letter of Credit (LC) on 16 November 1992 for Rs.40 lakh covering the total value of the material and already sent the same to Calcutta Office of the Company . However, LC was of no use as the original B/L, which was required to be presented along with other documents for negotiation of LC, had already been handed over to the clearing agent for clearance of material. On the basis of a verbal assurance of the party that they would furnish an amended LC by inserting the word "one non-negotiable copy of B/L" instead of "one original B/L", the Company handed over the documents to the party and the party took delivery of the goods.

On 24 November 1992, the Company sent back the LC to the party for necessary amendment but the same was never received. It was only in July 1995 (i.e. after a lapse of 2 ½ years) that the Company filed a legal suit against the party claiming Rs.39.88 lakh

towards cost of material, other expenses and service charges and Rs.29.56 lakh towards interest for the delay in payment of dues upto the date of filing of the legal suit. The Company failed to create any pressure on the party and the matter was still sub-judice (September 1999).

Thus, the decision of the Management to deliver the material to the party without obtaining a valid amended LC led the Company to sustain the loss of Rs.69.44 lakh (39.88 + 29.56).

While accepting the audit observations the Management stated (June 1999) that the Bill of Lading had been handed over to avoid port demurrages. This contention was not tenable as that the material could have been discharged and stored in the Company's stock yards/Port Trust's godown to avoid demurrage and handed over to the party only on receipt of an amended LC.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

MECON (I) Limited

20.5 Avoidable loss due to amendments in a purchase order

Unwarranted amendment in a purchase order resulted in a loss of Rs.43.72 lakh towards liquidated damages and additional payment of Rs.15.13 lakh towards cost of special boxing charges.

For execution of a contract with Bokaro Steel Plant (BOSP) the Company (MECON) placed a purchase order in March 1993 on M/s Sunag Corporation, USA for supply of Taylar Winfield Flash Butt Welding machine with spares at a contract price of Rs.8.74 crore (IS$ 2.80 million) on FOB port of shipment basis. As per clause 5 of the aforesaid purchase order, in case of any delay of delivery beyond 15 February 1994, liquidated damage at the rate of 1 per cent per month or part thereof subject to a maximum of 5 per cent of the total contract price were to be deducted from payment due against shipment. Clause 4 (iii) of the purchase order stipulated payment of 85 per cent (i.e. 100 per cent of contract value less advance payment of 5 per cent and 10 per cent progress payments) through a letter of credit against shipping documents, manufacturer's test certificate etc. and standby letters of credit/equivalent documentary credit acceptable to MECON's banker and Reserve Bank of India for 5 per cent for Preliminary acceptance certificate (PAC) and 5 per cent against Final acceptance certificate (FAC) of the total contract price.

Based on a request of M/s Sunag Corporation, the aforesaid clause 4(iii) was amended (August 1993) with the approval of the Board of Directors, making the supplier eligible for receiving payment in five instalments-three instalments against certificate of satisfactory progress of manufacturing work by M/s Taylar Winfield, a sub-contractor of M/s Sunag Corporation and the last two instalments upon presentation of manufacturer's (M/s Taylar Winfield) certificate regarding readiness of equipment for shipment and after verification of shipping documents together with manufacturer's test certificate against an irrevocable

letter of credit for 5 per cent of the total contract price valid upto Preliminary acceptance certificate (PAC) to be issued by Bokaro Steel Plant. Four instalments were released as per amended terms of payment. The last instalment was, however, released (11 June 1994) relaxing the requirement of verification of shipping documents, test certificate and opening of irrevocable letter of credit. The equipment shipped in June 1994 reached the buyer's premises in August 1994.

A test check of records disclosed the following:

(i) The deletion of clause 4 (iii) regarding payment of 85 per cent against shipping documents and replacing it by progressive payment in 5 instalments was made without making suitable provision in the purchase order to safeguard Company's interest in case there was a default in supply.

(ii) The amended terms of payment actually made the liquidated damage clause (clause 5) of the purchase order ineffective. Though there was delay in shipment of equipment by more than four months, no claim was lodged with the overseas supplier. The claim was lodged only on 10 June 1997 when pointed out by Audit in May 1997. No amount had, however, been received so far (November 1999). On the other hand the principal client Bokaro Steel Plant/SAIL recovered Rs.79 lakh towards liquidated damages for belated supply. Had the Company levied liquidated damages to the extent of Rs.43.72 lakh (being 5 per cent of the contract value as per the original terms of the contract) from overseas supplier, the loss (Rs.79 lakh) on the account could have been off set to that extent.

(iii) The special boxing charges of US$ 48,090 (equivalent to Rs.15.13 lakh) demanded by supplier, over and above the terms of order, was also paid without taking the approval of Board of Directors.

(iv) The condition of obtaining standby letter of credit against 5 per cent for PAC and 5 per cent of FAC of the total contract price in the original agreement was relaxed at the time of payment. This was in total disregard of the normal contractual provision in such cases.

Thus acceptance of unusual request of the supplier against the normal prudent commercial practice without safeguarding the Company's interest resulted in loss of Rs.43.72 lakh towards liquidated damages and payment of Rs.15.13 lakh towards cost of special boxing charges.

The Management stated (June 1998) that since the equipment procured was propriety in nature, the conditions of the payment were amended. It further stated that the payment of special boxing charges paid was a part of M/s Sunag's offer right from the beginning as such the payment involved there against even though finalised subsequently might not be treated as additional expenditure.

The contention of the Management is not tenable in view of the fact that subsequent changes in the terms and conditions contrary to the Company's interest could not be justified simply because the equipment procured was of proprietary nature. Further, Rs.15.13 lakh paid on account of special boxing charges was not shown separately in the contract price for the equipment and as such it was an additional expenditure. The Tender Negotiation Committee (TNC) note clearly stipulated that for any additional monetary

involvement on account of special boxing charges, separate proposal would be submitted for approval. However, no approval of the Board of Directors had been obtained.

The matter was referred to the Ministry in November 1998; their reply was awaited (December 1999).

National Mineral Development Corporation Limited

20.6.1 Loss due to injudicious investment of surplus funds

Injudicious inter-corporate deposits (ICD's) given to five PSUs resulted in loss of interest of Rs.20.15 crore and interest on interest to the tune of Rs.4.24 crore. The realisation of principal amount of Rs.16 crore is also doubtful and the Company has made full provisions in its accounts thereagainst.

The Company deployed its surplus funds in the form of short-term loans to various Public Sector Undertakings (PSUs) offering higher rates of interest as compared to banks. Five PSUs which were given loans during October 1989 to October 1992 neither paid the interest nor re-paid the principal on the due dates. The total principal outstanding and interest receivable thereon from the five PSUs as on 31 March 1998 was Rs.16 crore and Rs 20.15 crore respectively.

The above short-term loans were advanced by the Company without either entering into any written agreement/contract with the borrowing PSUs or verifying their financial soundness/re-paying capacity. As a result the Company could not realise the principal as well as interest on the due dates. The Company had written-off the total interest of Rs.20.15 crore due upto March 1998 from these PSUs as bad debt. The Company also made provision of Rs. 5 crore each during 1995-96, and 1996-97 and the balance Rs.6 crore during the year 1997-98 towards principal amount of Rs.16 crore considering it as doubtful of recovery. Further, non-realisation of interest on interest resulted in loss of Rs.4.24 Crore.

Thus, injudicious deployment of surplus funds resulted in loss of interest of Rs.20.15 crore and interest on interest of Rs.4.24 crore besides blocking up of funds amounting to Rs.16 crore for a period exceeding five years.

The Ministry in their reply have stated (May 1998) inter-alia the following:

(i) The rates of interest offered by banks at that time were much lower when compared to the rates on ICD's offered by PSUs.

(ii) All the PSUs were regular in paying interest and principal amounts as and when demanded by the Company . Considering this, the Company had been extending these advances. However, due to the withdrawal of budgetary support/financial assistance by the Government from the year 1991-92, some of the PSUs had defaulted in the payment of interest and refund of principal amounts.

(iii) Fertilizer Corporation of India, Instrumentation Limited and Hindustan Photo Films

have since been referred to BIFR and suitable provisions are reported to have been made in their revival plans in respect of amounts due to NMDC.

The reply of the Ministry is not tenable because of the following:

(i) Adopting rate of return as the only criteria for grant of loan is not in accordance with prudent commercial practices especially when substantial amounts are involved.

(ii) The Company can not absolve itself of the responsibility of assessing the repaying capacity of the borrowers in terms of various well laid down parameters like liquidity ratio, net worth, profitability ratio, debt servicing coverage ratio and debt equity ratio just because the borrowing companies happen to be PSUs. In this context Ministry's own observations regarding grant of loan to Fertilizer Corporation of India (one of the five PSUs mentioned in the para) are relevant "There appears to be a serious lapse on the part of NMDC while giving the inter-corporate loans without ascertaining the financial position of the borrower. A mere fact as 'Public Sector Undertakings' cannot be construed as sufficient guarantee for advancing inter corporate loans".

(iii) If the Company was expecting to get back its dues it would not have written off Rs.20.15 crore towards interest and made a full provision against the principal sum of Rs.16 crore. Moreover, BIFR had sanctioned a revival package wherein the unpaid interest including penal interest payable by the Instrumentation Limited (also one of the five PSUs mentioned in the para) to NMDC was to be written off. This only goes to prove that the chances of recovery of either the interest or the principal amount are very remote especially since the 'Committee of Disputes' has also restrained the Company from taking legal action against all the five PSUs.

20.6.2 Under utilisation of a screening plant

A screening plant established by the Company at the cost of Rs.10.66 crore could not screen calibrated lump ore as envisaged due to poor planning and monitoring of the project. In the process, cumulative loss of Rs.3.30 crore was suffered by the Company by the end of 1996-97.

The Company commissioned in November 1992 a Screening Plant at Visakhapatnam Port with a capacity to screen 2.5 to 3.00 Million tonnes of Calibrated Lump Ore (CLO) per year at a cost of Rs.10.66 crore to meet the domestic as well as international market specifications regarding fines content in the calibrated lump ore. The conveying equipment of the plant was designed to match the conveyor system of Visakhapatnam Port Trust (VPT).

The Detailed Project Report (DPR) inter-alia envisaged the following

i) The plant would screen 5.00 lakh MTs during 2nd year, 10.00 lakh MTs during 3rd year, 15 lakh MTs during 4th year, 20 lakh MTs during 5th year and 25 lakh MTs 6th years onwards.

ii) Additional realisation of Rs.4.44 crore on sale of 25 lakh MT of screened CLO.

iii) A cumulative loss of Rs.73 lakh during the first three years of operation and profit thereafter i.e. from the 4th year of operation.

The plant did not screen any quantity of CLO for sale during the first four and a half years of its operation ending 1996-97, resulting in loss of Rs.3.30 crore. It, however, took up screening of iron ore offered by a private party by charging Rs.25 per MT towards service charges. The plant screened 10.46 lakh tonnes against 36.09 lakh tonnes received at the port during 1993-94 to 1996-97 resulting in revenue loss of Rs.6.41 crore. The main reason attributed for the shortfall in the screening was that the twin tippler of VPT was not connected with the screening plant as originally envisaged in DPR.

It was observed that the drawings for the work of connecting the plant with the twin tippler of VPT were submitted in May 1991. However, VPT did not approve the proposal apprehending mismatch/incompatibility with its conveyor system. Instead of submitting an alternate proposals/modified designs and drawings and pursuing the matter, the Company kept the issue in abeyance till May 1994. The Company submitted modified designs/proposals for approval by VPT in May 1994, obtained their approval in November 1994 and completed the connection only in September 1996.

The Ministry replied (January 1998) that due to Government decision to stop export of CLO, the usage of screening plant was obviously restricted for screening of CLO being sold only to domestic user namely, M/s ESSAR. The comparison of actual quantities and earnings with DPR projections was not appropriate in the changed circumstances since the DPR projections included earnings through exports. Further, they added that NMDC could get the approval of VPT for connecting twin tipplers with the plant very late and the screening of CLO to be supplied to ESSAR was done to the extent allowed by VPT and to the extent preferred by the buyer.

The Ministry's reply is not acceptable as:

- Export of CLO was not contemplated in the DPR in the first two and a half years of operation.
- The plant could not even screen the entire CLO received by the customer M/s ESSAR, due to abnormal delay in connecting the plant with twin tippler of VPT.
- The performance of the Screening Plant improved appreciably after connecting with the twin tippler. During 1997-98, the Screening Plant was able to screen 8.25 lakh MT of CLO out of the 11.48 lakh MT received at the port from the customer.

Thus, it is evident that delay in connecting the plant with the twin tippler was the main contributing factor due to which the plant failed to achieve it's objective and suffered a loss of Rs.3.30 crore besides a revenue loss of Rs.6.41 crore.

20.6.3 Pre-mature award of work orders

The Company released four work orders on Deposits 10 & 11A, without obtaining clearance from the Government of India in respect of forest land under Forest (Conservation) Act, 1980. This resulted in blocking of Rs.3.58 crore paid towards mobilisation advance and consequential interest loss of Rs.1.12 crore.

The Company received a sanction in August 1995 from Government of India, for development of a new Iron Ore Project on Deposit 10/11A at Bailadilla (M.P.) at an estimated cost of Rs.430.50 crore. The time schedule for completion of the project was 48 months from the date of sanction. The development of the project involved work on forest and non-forest land.

Paragraph 4.4 of the Government of India clarifications under the Forest (Conversation) Act 1980, stipulated that if a project involved Forest as well as Non-Forest land, work should not be started on Non-Forest land till the approval of Central Government for release of forest land under the Act was obtained.

The Company however released four work orders between June 1996 to September 1996 amounting to Rs.35.88 crore to two private contractors for construction of Civil and Structural Works on Deposit 10 & 11A. An interest free mobilisation advance of Rs.3.58 crore was paid to the contractors during July 1996 to February 1997. The work orders stipulated that the work be completed within 22/24 months from the date of issue of letters of intent and the clearance from the forest department was to be obtained by the contractor on behalf of the Corporation. The Contractors/Company, however, could not get clearance of forest land from Government of India (June 1999). Thus, the release of work orders on forest and non-forest land was contrary to the clarifications given by the Government of India under the Forest (Conservation) Act 1980. As a result, there was no progress of the work. The payment of mobilisation advance of Rs.3.58 crore led to blocking of funds with consequential interest loss of Rs.1.12 crore (June 1999).

The Ministry stated (June 1999) that:

The contractors were paid mobilisation advance to the extent of 10 per cent of the contract value as the Contractors mobilised the required men and machinery at the project site in accordance with the terms and conditions stipulated. However, due to certain unexpected developments as detailed below the renewal of mining lease, clearance by forest authorities was delayed affecting the progress of works.

a) The Honourable Supreme Court directed (December 1996) that in accordance with Sec 2 of Forest (Conservation) Act, 1980, prior approval of Central Government was required for all non-forest activities including felling of trees and mining on any forest land. The work orders were released before the Supreme Court Orders were passed. The state authorities while referring to the order of the Honourable Supreme Court directed (February 1997) the Company to stop all activities in the forest land till the permission from the Government of India was obtained.

b) The Honourable Supreme Court in its order dated 11.2.1997 directed the State Government to ensure that no trees would be felled in the forest of Bastar District, even under any permission granted by local administration until further orders.

The reply of the Ministry was not tenable as the Honourable Supreme Court had only given direction based on existing provisions of Forest (Conservation) Act, 1980 and in line with the earlier Government of India clarifications (Para 4.4 of the Forest (Conservation) Act, 1980) that the work on non-forest land should not be started till the approval of Central Government for release of forest land was obtained.

Thus, the release of work orders resulted in blocking of funds amounting to Rs.3.58 crore paid towards mobilistion advance with consequential interest loss of Rs.1.12 crore (worked out @ 12 per cent upto June 1999).

20.6.4 Avoidable loss of interest

The Company suffered an avoidable loss of interest of Rs.2.83 crore in transportation of iron ore by rail in paying the Railways due to adoption of 'weight only system' instead of 'Credit note-cum-cheque system'.

The Railway freight charges for transportation of Iron Ore were to be borne by the Company in terms of an agreement (June 1995) between the Company and Mineral and Metals Trading Corporation of India Limited (MMTC).

The Railway freight could be paid in either of the following manner:

(i) Payment through Demand Draft for freight plus surcharge @ 10 per cent on the amount of freight payable if the consignments were booked on "To pay" basis.

(ii) Payment through 'Weight Only System'-An interest free security deposit in cash equivalent to 20 days average transactions was required to be deposited with Railways. Railways issued the freight bills for every 10 days to the nominated bank of the Company for payment and the bills were required to be cleared within 10 days from the date of its presentation. No surcharge was payable under this system.

(iii) Payment through "Credit Note-cum-Cheque facility"- The 'Credit Note-cum-Cheque' was to be deposited by the Company at the time of booking of the consignment but in any case before the closure of the transaction of the goods station for the day. The 'Credit Note-cum-Cheque' was to be honored by the Company's banker immediately on its presentation. For availing 'Credit-Note-cum-Cheque System', security could be given in the form of a bank guarantee instead of depositing cash with Railways. Under this system also surcharge was not payable.

A review of the above payment systems revealed that "Credit Note-cum- Cheque System" was more beneficial for the Company as blocking up of it's funds as interest free security deposit with Railways could be avoided.

The Company, however, entered into agreements with Railways, for booking iron ore, under 'weight only system' in respect of Donimalai Iron Ore Project (DIOP) (January 1996) and Bailadila Iron Ore Project (July 1996) by paying Rs.12.93 crore as security deposit as it allowed the Company more credit period for payment of freight from the time rake was loaded.

In the process, the Company suffered an avoidable interest loss of Rs.2.83 crore upto September 1999.

The Ministry stated (May 1999) that the 'weight only system' was adopted to avail of the following benefits:

(i) It allowed the Company on an average 15-20 days time for payment of freight from the time the rake was loaded;

(ii) It allowed the Company to get early settlement of dues on account of diverted rakes.

The reply of the Ministry was not tenable as,

(i) the benefits under 'weight only system' were also available under 'credit-note-cum-cheque system' except some extra credit period available for payment of freight. Moreover, the loss of interest of Rs.2.83 crore has been calculated after taking into consideration the extra credit period available under the 'weight only system'.

(ii) the settlement of dues on account of diverted rakes would be based on the rules/regulation applicable for diversion of rakes, rather than the payment system under which iron ore was transported.

Thus, the Company, by opting for 'weight only system' instead of 'Credit Note-cum-Cheque System' sustained an avoidable interest loss of Rs.2.83 crore upto September 1999.

20.6.5 Injudicious investment of funds in a subsidiary company

Expenditure of Rs.2.71 crore by the Company on a Joint Venture with Jammu and Kashmir Minerals Limited (JKML) for setting up a Dead Burned Magnesite (DBM) plant proved to be infructuous as the project had to be closed prematurely.

National Mineral Development Corporation Limited (NMDC) and Jammu & Kashmir Minerals Limited (JKML) promoted a Joint Venture Company Jammu and Kashmir Mineral Development Corporation Limited (J&KMDC) in May 1989 with the main objective of exploitation of Magnesite Deposit at Panthal by setting up a Dead Burned Magnesite (DBM) Plant with equity to be contributed by NMDC and JKML in the ratio of 74:26 respectively.

NMDC subscribed its share of Rs.2.96 crore in respect of Ist and 2nd call made by J&KMDC in June 1989 and July 1990 even though JKML did not subscribe its share in full. The DBM project was approved by the Government in November 1992 at a capital cost of Rs.60.02 crore and completion schedule of 30 months. This was to be funded by means of equity and long-term loans in the ratio of 1:2. As the project was not found support worthy (January 1993) the long term loan from IDBI did not materialise. Meanwhile, fall in the price of DBM in international market and reduction in the customs duty on imported DBM in 1993-94 adversely affected the viability of the project.

In view of the above the Ministry of Steel advised the Company (April 1993) not to incur/commit any substantial expenditure on the project until the techno-economic viability was reviewed and re-established. Disregarding these instructions, the Company subscribed

(November 1993 to April 1994) Rs.1 crore towards equity and Rs.0.45 crore in the form of advance to the Joint Venture Company. But in February 1995 J&KMDC Board took a decision to close the project after obtaining administrative approval from the Government of India. The approval was still awaited (March 1999). Thus the entire investment of Rs 4.41 crore (Rs 2.96 crore +Rs 1 crore +Rs. 0.45 crore) made by the Company in the Joint Venture did not yield any return.

The Ministry stated in July 1998 that:

(i) Only after the proposal for setting up of the DBM project was considered to be viable that the Government had given its approval to go ahead with the project.

(ii) The equity participation of Rs.2.96 crore up to clearance of project included an amount of Rs.1.08 crore on shares allotted for the expenditure transferred by the Company representing investigation works carried out prior to the incorporation of the Joint Venture Company.

(iii) It was only in April 1993 that there was a fall in international prices and dumping of DBM by Chinese exporters. These developments could not have been foreseen and moreover it was not possible to put a halt to the project.

(iv) A suitable market for raw magnesite had been established during 1997 due to constant efforts made by the Company. Based on the above, the Board of J&KMDC decided (December 1997) to once again revive the project in three phases.

The above reply is not tenable for the following reasons

(i) Though the Government had given approval to the project in November 1992, the project was not found support worthy by IDBI in January 1993. The Ministry of Steel also advised the Company in April 1993 not to commit any substantial expenditure on the project until the techno-economic viability was re-established.

(ii) There was an inordinate delay of 40 months (June 1989 to November 1992) in getting the project cleared by the Government during which Rs.2.17 crore were incurred on the project by JV Company, besides expenditure of Rs.1.08 crore on investigation works carried out prior to incorporation.

(iii) Further, Rs.65.18 lakh were incurred by the JV Company on intangible assets, subsequent to Government's instruction of April 1993.

(iv) The decision (December 1997) to revive the project at a revised cost estimate of Rs.120.03 crore in three phases after 34 months had to be seen in the light of the fact that viability of the project had not been assessed and the rate of return and pay back period had not been worked out.

(v) The decision to take up Phase-I of the project, envisaged utilisation of facilities of Rs.1.09 crore out of Rs.5.14 crore incurred on the project by the JV Company. As a result, the expenditure incurred by JV Company on intangible assets of Rs.3.66 crore in the form of miscellaneous and preliminary expenditure became infructuous of which the share of the Company being 74 per cent worked out to Rs.2.71 crore.

20.6.6 Avoidable payment of customs duty

Failure of the Company to follow the procedure prescribed in the 'Exim Policy' for obtaining an Advance Licence led to payment of Customs duty of Rs. 2.61 crore, which was avoidable.

National Mineral Development Corporation Limited (the Company) had been exporting Iron Ore to Japan and China as a 'Supporting Manufacturer' through a 'Merchant Exporter' viz. Minerals and Metals Trading Corporation Limited (MMTC). The Company had also been importing high value consumable items viz Tricone Rock Roller Bits, Steel Cord Belts and OTR Tyres.

Since the Company was exporting (iron ore) it could have availed of the benefit of importing the consumable items without payment of customs duty through MMTC in accordance with the Export and Import Policy (EXIM) as para 59 read with para 47 of EXIM (1 April 1992- 31 March 1997) stipulated inter-alia that, any merchant exporter or manufacturer exporter who held an Importer- Exporter code number, a specific order/ letter of credit and was in a position to realise the export proceeds in his name could apply for duty free licences for import of material required for the purpose of export production under the Duty Exemption Scheme (scheme).

The Advance licence issued under the scheme could be value or quantity based and the Advance licence holder was free to transfer the duty free imported material to his supporting manufacturers whose names were entered in the Duty Exemption Entitlement Certificate (DEEC) for the purpose of export production.

Though the facility of importing consumable items without payment of customs duty was available to the Company by obtaining Advance Licence through MMTC with effect from April 1992, it did not avail of the facility in respect of 6 consignments imported during the period April 1992 to July 1994 and paid Rs. 2.61 crore towards customs duty which was totally avoidable.

It was only in January 1994 that the Company approached MMTC for obtaining duty free Advance Licence. The Merchant Exporter (MMTC) obtained (February 1994) Advance Licence on behalf of the supporting manufacturer (NMDC) and endorsed the same in favour of the Company . Thereafter the Company imported (February 1995 to October 1995) (i) OTR Tyres, (ii) Steel Cord Conveyor belt and (iii) Tricone Rock Roller Bits without payment of Customs duty.

In reply, the Ministry stated (August 1999) that:

(a) The Director General of Foreign Trade (DGFT) had time and again rejected the Company's application for one reason or the other.

(b) Even though the guidelines from the Ministry of Commerce were there for the issue of Advance Licence, Company's application of June 1993 was rejected on the ground that it was a third party export and the same was not allowed under the then prevailing Exim Policy.

(c) When efforts were made for obtaining Advance Licence for import of consumable items and licences were not received, the Company had no other alternative during the period 1992-94 than to pay the prevailing customs duty on import of goods, hence it cannot be treated as avoidable payment.

The reply of the Ministry is not tenable because:

(a) the Company failed to receive the advance licence not because it was not entitled to it but because it did not follow the correct procedure for applying for the Advance Licence.

(b) as per the EXIM policy the Company should have approached DGFT through its Merchant Exporter i.e. MMTC for grant of Advance Licence instead it approached the DGFT directly, so the Company could not get the licence.

(c) when the Company adopted the correct procedure and approached MMTC for obtaining licence, DGFT issued (February 1994) the Advance Licence to MMTC which was transferred to the Company .

Thus, failure of the Company to follow the prescribed procedure under EXIM led to avoidable payment of Rs. 2.61 crore towards customs duty.

20.6.7 Irregular expenditure on Foreign Travel

The Company did not regulate foreign travel claims of employees in accordance with the instructions of the Department of Public Enterprises (DPE) and made to them irregular payments aggregating Rs. 56.66 lakh.

With a view to bring about economy in expenditure on foreign travel by the Officers of Public Sector Undertakings (PSUs), Department of Public Enterprises (DPE) issued certain instructions in September 1995. According to these instructions, the consolidated amount paid as per the guidelines of Reserve Bank of India (RBI) to each employee in respect of foreign travel was to cover room rent, taxi charges, entertainment, if any, official telephone calls, other contingent expenditure and daily allowance for which the PSU employee were to render account on return from foreign tour for all items other than daily allowance which normally covered food etc. Further, any surplus was to be refunded to the concerned PSU. It was also envisaged to bring the above guidelines to the notice of all the PSUs for adoption by their Board of Directors.

The Company placed the DPE instructions of September 1995 before the Board of Directors as late as in January 1997 but the consideration of the above item was deferred by the Board without assigning any reasons. Meanwhile, the Company issued an office order (January 1997) for regulating the Bills, which was in contravention of the DPE instructions as it stipulated submission of vouchers for room rent only covering 35 per cent of the consolidated daily allowance as against submission of vouchers for 100 per cent of the allowance (excepting daily allowance for food) as envisaged in the said guidelines.

A scrutiny of cases of foreign travel undertaken by the officers of the Company during the period from September 1995 to December 1996 revealed that the Company did not insist

on submission of vouchers for hotel accommodation and entertainment allowance etc in 19 cases in contravention of the said DPE guidelines resulting in irregular payment of Rs. 19.54 lakh.

Further, from January 1997 the Company insisted upon submission of vouchers for room rent covering only 35 per cent of consolidated daily allowance as against vouchers for the entire allowance (except daily allowance for food) as stipulated in DPE instructions of September 1995. Admitting the balance 65 per cent expenditure without supporting documents was against the DPE instructions and led to inadmissible payment of RS. 37.12 lakh in 57 cases during the period from January 1997 to March 1999.

The Management stated (August 1999) that:-

i) No separate bills for utilisation of foreign exchange were insisted upon by the Company as the allowances sanctioned were within the limits prescribed by RBI.

ii) The Company issued an Office Order (January 1997) for regulating the claims of the employees on foreign tour, rendering of accounts for utilisation of the amount released to them and refunding of surplus amount, if any.

iii) Having regard to the business requirement and other factors concerning individual PSEs, evolving different procedure which may not be fully in line with DPE guidelines on the subject is considered inescapable.

The reply of the Management is not tenable as :-

i) DPE instructions envisaged rendering of account on return from tour for the consolidated amount whereas the Company did not insist upon rendering of account supported by vouchers for the period September 1995 to December 1996 violating DPE instructions.

ii) The office order issued in January 1997 was not in accordance with the DPE guidelines.

iii) The DPE guidelines were issued especially for PSUs. That these guidelines should have been adopted by the Company after obtaining the approval of its Board is evident from the fact that the Ministry had sought confirmation (November 1996 and June 1997) of adoption of the same by the Board.

Thus, non-compliance of DPE instructions resulted in irregular payment of Foreign Travel Allowance amounting to Rs.56.66 lakh (US $ 148,396).

The matter was referred to the Ministry in August 1999; their reply was awaited (December 1999).

Steel Authority of India Limited

20.7.1 Infructuous investment on Alkali Scrubbing System

An investment of Rs. 8.20 crore on setting up an Alkali Scrubbing System with the objective of controlling pollution and generating value added product i.e. Sodium Nitrite/Nitrate proved to be infructuous as the Rourkela Steel Plant failed either to meet the statutory requirement of the Pollution Control Board or to find suitable buyers for Sodium Nitrite/Nitrate.

The Board of Steel Authority of India Limited (SAIL) approved in July 1993 three pollution control schemes at an estimated cost of Rs. 21.84 crore for Fertilizer Plant of Rourkela Steel Plant (RSP). One of the schemes was incorporation of Alkali Scrubbing System for NOx (Oxides of Nitrogen) gases in Nitric Acid Plant at an estimated cost of Rs. 8.20 crore. The main objective of the system was to bring down the NOx emission to the level of statutory requirement and also to generate value added product i.e. Sodium Nitrite/Nitrate liquor for direct sale. The system was developed, designed and patented by M/s Project & Development India Limited (PDIL) and all specifications were provided by them in the contract. However, the expected Alkaline content of sodium nitrite/nitrate liquor to be generated by the system was not specified. For disposal of sodium nitrite/nitrate, the Company entered (March 1995) into a 10 years contract with M/s. Rourkela Nitrate Limited which was to purchase the entire production. The material was expected to be available from October 1995.

The Alkali Scrubbing System was completed and commissioned in September 1996 at a cost of Rs. 8.20 crore. But the Company terminated the contract for sale of sodium nitrite/nitrate liquor with M/s Rourkela Nitrate Limited on 25 October 1996 due to non-fulfillment of contractual obligations (mainly due to failure to submit bank guarantee of Rs. 5.52 lakh) by the latter. Thereafter, the management contacted some other parties for sale of the nitrate liquor but their response was not positive due to high alkaline content of the liquor. Out of the 612 tonne of nitrate liquor generated during the period September 1996 to 20 February 1997, only 455 tonne could be disposed of by November 1998. As the Alkaline content percentage had not been specified in the contract for setting up of the Scrubbing system, the Company could not hold PDIL responsible for high alkaline content of the liquor generated.

The operation of the system was suspended in February 1997. Meanwhile the management entrusted M/s MECON to prepare a techno-economic feasibility report for setting up a Sodium Nitrite/Nitrate Salt Plant at Rourkela Fertilizer Plant to utilize the Alkali Scrubbing System and paid Rs.4.25 lakh. The estimated cost of setting up the plant was Rs. 5.89 crore. The feasibility report submitted by MECON in January 1997 was still under examination by the Management (November 1999).

The main objective of setting up the plant i.e. pollution control also remained unfulfilled due to non-reduction of NOx emission to the statutory limits on account of lesser production of sodium nitrate. The State Pollution Control Board, Orissa issued notice on 22 August 1997 to the Company for high emission of Acidic fumes (NOx) due to non-functioning of the Alkali Scrubbing System and had also served a show cause notice on 22

January 1998 for failure to control air pollution by bringing down the NOx emission to statutory limits.

Thus, due to poor planning by the management and absence of foresight regarding future demand for sodium nitrite/nitrate liquor the entire investment of Rs. 8.20 crore on Alkali Scrubbing System did not yield any results and proved to be infructuous.

Ministry while agreeing that only 455 tonne of sodium nitrite/nitrate liquor could be disposed of due to non-availability of orders had stated (August 1999) that this system shall be used for NOx abatement in near future once the proposed Sodium Nitrite/Nitrate Salt Plant comes up.

The reply is not tenable as setting up of new plant would require a further investment of Rs. 5.89 crore and as on date the project had not been approved by the competent authority.

20.7.2 Infructuous expenditure due to deficiencies in Purchase order

Due to deficiencies in the purchase order a hydro blasting machine had to be accepted by the Company, though it never worked satisfactorily on a consistent basis, resulting in an infructuous expenditure of Rs.1.68 crore.

Rourkela Steel Plant (RSP), a unit of SAIL placed an order on M/s Beekay Engineering Corporation, Bhilai in October 1990 for design, engineering, supply, erection and commissioning of a Hydro Blasting Machine in its Foundry Shop at a cost of Rs 1.68 crore. The machine was intended to clean 3200 ingot moulds per year through a high pressure water jet.

The machine was erected in May 1992 and put on trial run in July 1992 but it could not achieve the desired results as stipulated in the purchase order due to various defects/deficiencies. However, the preliminary acceptance certificate (PAC) and the commissioning certificate were issued by the Management in August and September 1992 respectively though the machine never worked continuously from the date of its trial run. An amount of Rs 1.68 crore was paid to the supplier towards supply and erection of the machine upto March 1994. Meanwhile, an attempt was made by the supplier to rectify the defects/deficiencies but even after its rectification, the machine could not run properly as it could wash only 53 ingot moulds in four months' time from October 1992 to January 1993 against the envisaged capacity of 266 moulds per month.

The performance guarantee tests were conducted during the period from 15 March 1993 to 29 March 1993 when the machine washed only 42 moulds. The machine stopped working from July 1993. In August 1993, the equipment was submerged in water due to unprecedented rain. In December 1993, the final acceptance certificate (FAC) was also issued on the ground that as per the performance guarantee test reports the machine was capable of delivering the desired results. However, the fact was that the machine had stopped working from July 1993.

The purchase order inter-alia stipulated that the performance guarantee tests would be deemed to be completed when the contractor had demonstrated that the machine had achieved the following performance guarantee values/ parameters:-

(i) Working pressure of H.P System at the main blasting gun.	150-200 Kg/ cm2 (variable)
(ii) Delivery of H.P water at the main blasting gun.	12-15 M3/ hr (variable)
(iii) Average cycle time for each ingot.	1 hour 15 minutes

Performance guarantee, however, did not cover any pre-condition regarding satisfactory working of the machine or achievement of the rated capacity as stipulated in the purchase order.

Thus, due to faulty provision in the purchase order, and issuance of the final acceptance certificate by the Management though the machine was not working satisfactorily/consistently, the expenditure of Rs 1.68 crore proved to be infructuous.

The Ministry in its reply stated (April 1997) that it was evident from the performance guarantee test reports that the machine was capable of delivering the desired results but working of the machine could not be stabilised due to cumbersome operational practices, maintenance prone equipment and design inadequacies. Further the failing of machine was also attributed to the damage of equipment due to water accumulation in August 1993. However, necessary spares costing Rs.4.52 lakh were arranged to replace the damaged spares and the machine was brought back into operation in September 1996.

The fact, however, remains that even after replacing the necessary spares departmentally, the machine did not work satisfactorily on a continuous basis as it could wash only 678 ingot moulds during its operation for 21 months i.e. from December 1996 to August 1998 (an average of 32 moulds per month as against the capacity of 266 moulds per month). The machine stopped functioning from August 1998 and had been lying idle since then (November 1999). Further, with the commissioning of 4 Slab Casters Plant - I and II under modernisation of RSP, there remains no chance to use the machine in future.

20.7.3 Injudicious procurement of equipment

Failure of management in correctly assessing the requirement of frame assembly for Blooming and Billet Mill resulted in blocking of capital amounting to Rs.1.02 crore, the guaranteed period of which had already expired.

A scheme for replacement of working roll table in Blooming and Billet Mill (BBM) of Bhilai Steel Plant (BSP) was approved by the Management (March 1994) at a cost of Rs.1.97 crore. The job was to be carried out during capital repairs of BBM scheduled in September 1994. The purchase order for supply of frame assembly at a price of Rs.1.55 crore (excluding statutory charges etc.) was issued to Heavy Engineering Corporation Limited (HEC) in October 1994 with the stipulation to deliver the equipment by the first quarter of 1995-96. The equipment was guaranteed for any defective material and bad

workmanship for a period of 18 months from the date of receipt of materials at BSP or 12 months from the date of commissioning, whichever was earlier. The frame assembly was received in April 1997 at a cost of Rs.1.67 crore. Out of this, internals worth Rs.65 lakh were only used during the capital repair. But the main frame assembly valuing Rs.1.02 crore was not installed although capital repairs of the Mill were done in November 1997 and again in 1998.

Non-commissioning of the frame assembly resulted in blocking up of capital amounting to Rs.1.02 crore. Apart from this, guarantee period of the equipment had also expired (October 1998) and management had no safeguard/security available against any failure of the equipment on its commissioning.

The Ministry stated (December 1999) that during the period 1995-97, there was an accumulation of ingots and with the stoppage of Mill for a longer duration for changing the frame assembly, there would be higher ingot inventory. Therefore, it was decided to carry out insitu repairs of the existing frame.

The contention of the Ministry is not tenable as it was a known fact that whenever the replacement of assembly was made, the plant had to be kept under shut down for a longer period. The action of the management proved that the procurement was made without assessing the actual requirement which could have been met by repairing the old assembly.

20.7.4 Avoidable expenditure on procurement of lubricants

Delay in decision making and failure to negotiate the rates to be charged in respect of supplies received between the period of issue of limited tender enquiries (LTEs) and the date of their final negotiation led to avoidable expenditure of Rs.98.02 lakh.

Till April 1994, Bokaro Steel Plant, a unit of the Company (SAIL) was meeting its entire requirement of lubricants by procuring it from M/s Indian Oil Corporation Limited on proprietory basis (as a particular brand was considered most reliable at that given point of time). The lubricants of other brands though available in earlier years were not tested by the Company. In order to explore alternate sources of supply of lubricants, the Company issued limited tender enquiries (LTEs) in April 1994 to four Government companies viz. Indian Oil Corporation Limited (IOC), Hindustan Petroleum Company Limited (HPCL), Bharat Petroleum Company Limited (BPCL) and Balmer Lawrie & Company Limited for supply of different type of lubricants.

The offers received in April 1994 from the four Government companies were examined by the Tender Committee and during negotiations the tenderers confirmed that their products would be hundred per cent as per the required specifications. Substantial amount of discounts, credit facility and absorption of freight element were also offered by all the tenderers during negotiations which were completed in January 1995. In order to avail of the most attractive price, the Tender Committee decided in February 1995 to issue a letter of intent on IOC.

It was seen that IOC continued to supply the lubricants to the Company without formal order during the period from April 1994 to January 1995 i.e. from the date of calling

tenders to the date of their final negotiation. Although the lubricants so supplied by IOC were covered under LTEs, the payments were made by the Company at the prevailing price without availing of any discounts/concessions.

Thus, by not taking up the matter of allowing discounts/concessions with IOC in respect of supplies made during the period from April 1994 to January 1995 and also taking abnormal time of about 10 months in arriving at the final decision, the Company incurred an additional avoidable expenditure of Rs 98.02 lakh on procurement of lubricants.

In reply the Management stated (May 1999) that:

(i) at no point of time, there was any thought of making the discounts/concessions applicable from April 1994.

(ii) it was not possible to make clear to IOC that supplies would be covered by the negotiated price since at the initial stages of tendering, neither performance of the products offered by other parties to the tender was established nor the negotiations were completed.

(iii) delay in taking final decision on the offers received in response to LTE issued in April 1994 was because of acceptance of technical bids since suitability of offered products of new parties, as a substitute of the products of M/s IOC had to be carefully evaluated.

Reply of the management is not tenable in view of the following:

(i) interest of the Company should have been safeguarded by asking IOC to extend discounts/concessions on lubricants by covering supplies under LTEs from the initial stage of tendering i.e. from April 1994.

(ii) establishment of performance of the products of new parties had nothing to do with the application of the negotiated price for the supplies made by IOC from April 1994.

(iii) taking abnormal time of about 10 months in arriving at the final decision was not justified even if it involved evaluation of technical bids of the products offered by new parties.

Had the Company avoided delay in taking the final decision in the matter or made it clear to IOC at the initial stage of tendering about the rates to be charged in respect of supplies made between the period of issue of LTEs (April 1994) and the date of their final negotiation (January 1995), it could have avoided an extra expenditure of Rs 98.02 lakh by availing the discounts/concessions.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999)

20.7.5 Infructuous expenditure due to non-commissioning of a recuperator

Recuperator procured at a cost of Rs.89.71 lakh for reducing consumption of mix gas in Walking Beam Furnace of Electric Sheet Mill could not be commissioned due to cables costing only about Rs.0.76 lakh not being laid.

Rourkela Steel Plant, a unit of the Company (SAIL) initiated a proposal in September 1989 for providing a Recuperator for Walking Beam Furnace (WBF) of Electric Sheet Mill (ESM). The proposal which intended to reduce consumption of mixed gas in WBF from 2000 NM3/hour to 1400 NM3/hour level with a saving of Rs.58.60 lakh per annum was sanctioned in December 1989. However, the plant took an abnormal time of 17 months to decide to go for a revised tender enquiry which was issued in March 1992 as against the initial quotations received in October 1990. The plant again took another 4 months' time in issuing Letter of Intent after receipt of revised quotations (May 1992). The order for design, engineering, manufacture, supply, erection and commissioning of the equipment was placed in September 1992 on M/s Wesman Engineering Co. Ltd., Calcutta at a total price of Rs.1.06 crore. As per the terms of the order, the equipment was to be commissioned within 14 months from the base date of 16 September 1992 i.e. by November 1993.

The equipment was installed in August 1994 and an amount of Rs.89.71 lakh was paid to the contractor and Rs.16.24 lakh were retained to be released after satisfactory performance of the equipment. However, the equipment could not be commissioned due to non-laying of cables from Power Distribution Board to Motor Control Centre (MCC) room which was the responsibility of the purchaser (SAIL). The estimated cost of laying the cables was merely 0.76 lakh (approximately), as claimed by the supplier. The plant management unnecessarily insisted upon laying of cables by the supplier although supply of cables had been excluded from the scope of contractor's work by the plant itself. This dispute could not be settled till March 1996 and from April 1996, the Electric Sheet Mill (ESM) ceased its operation due to which the Recuperator could not be commissioned in ESM.

Non-commissioning of the equipment not only rendered the expenditure of Rs.89.71 lakh infructuous but also deprived the plant of the benefit of Rs.92.78 lakh on account of saving in energy consumption for a period of about 2 years i.e. from August 1994 to March 1996.

The Ministry stated (September 1999) that the equipment could not be commissioned due to failure of the contractor to complete the job in all respect. Further due to shift in priority of product-mix, the production in ESM was reduced gradually and stopped completely in April 1996. As such, the commissioning of the equipment lost its importance. Meanwhile, Research Development Centre for Iron & Steel (RDCI&S) had been requested to assist RSP for gainfully utilising the Recuperator elsewhere in SAIL.

The reply of the Ministry is not tenable as it was the Company and not the contractor who was responsible for laying of the cables. The delay in commissioning the Recuperator was also attributed to rescheduling of capital repair of ESM time and again, delay in obtaining approval of drawings, construction of approach road and preparation of break-up price schedule etc. The delay caused by the management was evident from the fact that the delivery period was extended by the Company without imposing any clause of Liquidated
[illegible] within a reasonable time and prompt

action taken for procurement (SAIL took 17 months in issuing revised tender enquiry and 15 months for supply, erection and commissioning), the equipment could have been commissioned by March 1992.

20.7.6 Non-levying of penalty on purchasers of granulated slag

Failure to invoke the clause in the agreements with the purchasers of granulated slag which made them liable to pay to the Company (Bhilai Steel Plant/SAIL) damages for not lifting the agreed quantity, resulted in non-recovery of Rs.45.53 lakh incurred by the Company on shifting/re-shifting of the unlifted quantity of 1.99 lakh tonne of granulated slag.

Bhilai Steel Plant, a unit of SAIL entered into long term agreements for a period of 10 years with four cement companies between October 1990 and June 1991 for sale of granulated slag produced by it. As per agreement following quantities were to be lifted annually by the purchasers:

Sl.No.	Name of the purchaser	Quantity to be lifted as per agreement
1.	M/s Associated Cement Companies Limited (ACC)	8 lakh tonne per annum
2.	M/s Cement Corporation of India Limited (CCI)	20 per cent of the production in excess of 8 lakh tonne subject to a maximum of 2 lakh tonne per annum
3.	M/s Modi Cement Limited	40 per cent of the production in excess of 8 lakh tonne subject to a maximum of 2.4 lakh tonne per annum
4.	M/s Raymond Cement Works.	40 per cent of the production in excess of 8 lakh tonne subject to a maximum of 2.4 lakh tonne per annum

Clause 3 of the agreements stipulated that in case of failure of the purchasers to lift agreed quantities of granulated slag, they were liable to pay to the supplier (SAIL) damages equivalent to the actual amount incurred by the supplier in shifting and or re-shifting of the unlifted granulated slag on a monthly basis.

None of the purchasers except M/s Raymond Cement Works lifted the agreed quantity. Consequently, the Company had to shift 1.99 lakh tonne of granulated slag during the period from 1993-94 to 1996-97 to other places by incurring an expenditure of Rs.45.53 lakh. However, clause - 3 (c) of the agreement was not invoked by the Company and no amount was recovered from the purchasers resulting in loss of revenue of Rs.45.53 lakh.

The Management stated (August 1998) that no penalty was levied on M/s Cement Corporation of India Limited and M/s Modi Cement Limited as they gradually became sick units and were referred to BIFR in April 1996 and June 1994 respectively. No penalty was also levied on M/s Associated Cement Companies Limited keeping in view long term relationship with them.

The Management's contention is not tenable as the Company had to incur additional expenditure of Rs. 45.53 lakh on shifting/re-shifting of the granulated slag which should have been recovered from the purchasers as per terms of the agreements.

The matter was referred to the Ministry in January 1999; their reply was awaited (December 1999).

20.7.7 Loss due to failure to take timely action

Company's failure in filing the case in time for recovery of the decreetal amount led to a loss of Rs. 43.90 lakh.

Durgapur Steel Plant (DSP), a unit of the Company placed an order on M/s Andhra Cement Company Limited, Secunderabad in November 1988 for purchase of 1100 metric tonne (MT) of cement against authorisation of Regional Development Commissioner (RDC) at a total price of Rs.11.49 lakh. As per the terms of payment, DSP paid the entire amount as 100 per cent advance on 30 November 1988. The party could supply only 837.95 MT of cement valuing Rs.4.24 lakh in December 1988 and the unadjusted balance of Rs.7.25 lakh remained outstanding against the party. Similarly, another order for supply of 825 MT of cement was placed in January 1989 and 100 per cent advance amounting to Rs.8.43 lakh was paid on 3 February 1989 without adjusting the outstanding amount of advance from the earlier deal. The party neither supplied the cement nor refunded the advance. Since, the plant failed to recover the outstanding amount of Rs.15.68 lakh, a suit for recovery of the above amount was filed against M/s Andhra Cement Company Limited only in December 1991 i.e. after a lapse of about 3 years.

A decree in favour of Durgapur Steel Plant was passed by the Hon'ble Court in December 1992 for Rs.15.68 lakh along with interest at the rate of 6 per cent per annum from the date of filing the suit till realisation. However, DSP filed the execution case for recovery of the decreetal amount only in April 1998 i.e. after a lapse of more than 5 years. In the meantime, M/s Andhra Cement Company Limited was referred to Board for Industrial and Financial Reconstruction (BIFR) in June 1993 under the Sick Industrial Companies (Special Provisions) Act, 1985.

Thus payment of advance without adjusting the outstanding amount of the earlier deal and delay in filing execution case for recovery of decreetal amount for more than 5 years resulted in a loss of Rs. 43.90 lakh (decreetal amount of Rs.15.68 lakh and interest of Rs.28.22 lakh thereon at the rate of 18 per cent per annum for 10 years).

The Ministry stated (September 1998) that demand for refund was actively pursued and the litigation was taken as the last resort when efforts to get the refund amicably did not materialise.

The reply was silent regarding delay in filing the execution case for recovery of the decreetal amount for more than five years.

CHAPTER 21: MINISTRY OF SURFACE TRANSPORT

Dredging Corporation of India Limited

21.1.1 Loss on dredging contracts

The Company suffered loss of Rs.29.62 crore on execution of 9 dredging contracts due to lack of proper planning and poor negotiation of terms of contract.

21.1.1.1 Dredging Corporation of India Limited (DCI) undertakes both capital and maintenance dredging in sea, rivers, lakes and canals. Capital dredging contracts are normally undertaken by the Company on open tender basis and maintenance dredging contracts on nomination basis.

Nine dredging works (seven capital dredging works and two maintenance dredging works) entered into by the Company with various Port Trusts during the last seven years ended 31 March 1998 were reviewed and it was seen that in execution of all the nine dredging works, the Company suffered either an overall loss or loss of revenue. It may be pointed out that Audit had already brought to notice a loss of Rs.22.14 crore in execution of another six works undertaken by the Company during the last 7 years through C&AG's Commercial Audit Reports (1994 to 1997).

The Company suffered a loss of Rs.19.70 crore on four out of the nine contracts under review and in the remaining five cases the revenue foregone was to the tune of Rs.9.92 crore as detailed in the following table:

	Reasons for Loss				
Sl. No.	**Defective terms & conditions of the contract**	**Loss on account of non-conduct of pre-dredging survey**	**Improper planning & non-finalisation of contract**	**Inefficiency of Machinery & Labour**	**Total Loss**
Capital Dredging Contracts		(Rs. in crore)			
1. Kakinada Port Trust	--	1.09	10.32	--	11.41
2. EQ7 Vizag Port Trust	--	1.16	4.18	--	5.34
3. 11th Cargo Berth, Mormugoa.	--	--	0.78	--	0.78*
4. Double banking, Mormugoa.	--	0.84	0.62	--	1.46
5. Kandla Port Trust.	--	--	1.49	--	1.49
6. Ballaribar, Calcutta Port Trust.	--	--	5.53	1.56	7.09*
7. Paradip Port Trust.	--	--	1.58	--	1.58*
Maintenance Dredging Contract		(Rs. in crore)			
8. Bombay Port Trust.	--	--	0.24	--	0.24*
9. Haldia, Calcutta Port Trust.	0.23	--	--	--	0.23*
Total Loss	**0.23**	**3.09**	**24.74**	**1.56**	**29.62**

**Revenue Loss*

The following were identified by Audit as the underlying reasons for the loss /loss of revenue incurred by the Company in execution of the said 9 works: -

i) Failure to conduct pre-dredging surveys to assess the quantum and nature of work involved. The Company's dependence on the survey data furnished by the ports in respect of soil conditions, depths and site conditions resulted in cost overrun/loss amounting to Rs.3.09 crore and time overrun ranging from one month to nine months.

ii) Execution of dredging works without finalising the terms and conditions of the contracts and deviations in the terms and conditions of the contracts resulted in disputes and consequent loss amounting to Rs.24.74 crore.

iii) Breakdown of machinery of the dredgers resulted in loss amounting to Rs.1.56 crore

iv) Defective terms and conditions of the contract resulted in loss of Rs.0.23 crore.

21.1.1.2. The following paragraphs give a contract-wise analysis of the deficiencies in execution of the 9 contracts under reference.

(i). Capital dredging for Kakinada Port Trust

As per an agreement (March 1995) the capital dredging work for development of Kakinada Port was awarded to the Company for Rs.65.77 crore. The work was completed in August 1997 beyond the scheduled date of completion i.e., 13th August 1996. It was observed that:

(a) The Company deployed ten dredgers as against the agreed deployment of two dredgers and made frequent changes in deployment program even after off loading 50 per cent of the work to the sub-contractor resulting in more time for mobilisation & demobilisation of dredgers and extra expenditure of Rs.2.98 crore.

(b) There was a change in the mode of dredging from double handling, dredging with both Cutter Suction Dredger (CSD) and Trailer Suction Dredger (TSD), to direct handling (dredging with TSD alone). Thus the CSD VII was kept idle for 254 days which resulted in avoidable idle expenditure of Rs.7.34 crore.

(c) The production assessment made by the Company at the time of tendering proved to be un-realistic and led to over all cost overrun of the project.

(d) The Company accepted additional work without conducting a pre-dredging survey, which resulted in dispute with the employer, leading to arbitration.

(e) Though the actual dredging work was completed in May 1997, the Company had to deploy Dredger VIII during August 1997 for clearance of silt and in the process incur extra expenditure of Rs.85.95 lakh.

(f) Due to delay in completion of the contract by 9 months, the Company could not recover Rs.5.51 lakh on account of labour escalations as the employer freezed the price beyond the scheduled date of completion.

Thus, due to improper planning in deployment of dredgers, improper assessment of production and not conducting a pre-dredging survey there was a time overrun of 9 months and over all cost overrun of Rs.11.41 crore in execution of this project.

(ii). Capital dredging for Eastern Quay - 7 Berth of Visakhapatnam Port

The work of capital dredging for eastern quay - 7 berth was awarded to the Company on nomination basis in October 1994, at a total cost of Rs.3.20 Crore. The work was to be completed in three months i.e. by January 1995.

It was observed that the dredging work was commenced on 23rd March 1995 without gathering any data about site condition and was completed on 26th December 1995. The delay in completion was mainly due to failure in making a realistic estimate of total deployment days and type of dredgers required for the work. This led to frequent changes in deployment of dredgers.

The Company thus could not claim extra mobilisation expenses amounting to Rs.68.07 lakh on account of frequent changes in deployment of dredgers. The employer also rejected the claim of Rs.1.16 crore made by the Company towards idle time charges.

Eventually the Company incurred a loss of Rs.5.34 crore in execution of the work due to the fact that the actual cost of deployment of dredgers worked out to Rs.250 per cum. against the accepted rate of Rs.85.33 per cum.

(iii). Capital dredging at 11th cargo berth, Mormugoa

The Company received a letter of intent (April 1993) from the Mormugoa Port Trust (MGPT) for capital dredging work of 8.5 lakh Cum. at 11th Cargo berth, Goa to be completed within a period of 70 days. However, no final agreement was signed. The Company deployed dredgers without deciding the dredging rate per cum.

While undertaking capital dredging MGPT also requested the Company to take up maintenance dredging work of removing silt at berth no.8 and 9. However, no formal agreement was signed. Accordingly, the Company dredged a quantity of 1.03 lakh cum. The Company could not claim an amount of Rs.64.85 lakh for this additional work as the employer insisted that the dredging be undertaken on Company's account only as the above areas were silted due to the effect of dredging at 11th Cargo berth.

The Company raised a final bill for an amount of Rs.18.84 crore against which a sum of Rs.18.37 crore has been paid by MGPT. The balance amount of Rs.47.01 lakh included an amount disallowed by the employer amounting to Rs.26.03 lakh towards idle time charges.

The Company finally suffered a loss of revenue of Rs.78 lakh on execution of this project due to deployment of dredgers without finalising the terms and conditions of the contract and accepting additional work without a separate work order.

(iv). Capital dredging at Double Banking Area

The Mormugoa Port Trust (MGPT) had offered the second dredging work contract (October 1993) at Double Banking area, Mormugao. There was no written agreement. The Company was to execute the work as per the minutes of a meeting (October 1993) with MGPT.

The work commenced in February 1994. While undertaking dredging hard strata was encountered (18-3-94) and the dredgers had to be withdrawn. Before resuming further dredging, both the parties mutually agreed to obtain soil investigation done by a third party (March 1994). However, the Company redeployed the dredger in November 1994 with suitable equipment for hard strata dredging without insisting upon investigation of site conditions by a third party. Subsequently the dredger encountered a submerged steel wreck and could not proceed further. The dredger was again withdrawn and the work was abandoned in November 1994. It was observed that:

(a) The Company incurred expenditure of Rs. 1.34 crore towards mobilisation and demobilisation charges on re-deployment of dredger for second time against which, the Company could recover only Rs.50 lakh resulting in loss of Rs.84.09 lakh.

(b) The Company imported special type of pick points at a cost of Rs.33.45 lakh exclusively for dredging the hard strata and the cutter teeth were repaired /modified to suit the special type of pick points at a cost of Rs.30 lakh. But the Company could not make use of the pick points for the purpose for which they had been imported which resulted in blocking up of capital.

(c) The Company submitted the final bill for Rs. 4.37 crore (December 1996) based on the minutes of a meeting held in November 1996 against which the MGPT settled Rs. 4.11 crore. MGPT disallowed Rs. 26.86 lakh (Rs.11.65 lakh towards idle time charges and Rs.15.21 lakh towards service charges) contrary to the understanding reached between the two parties.

Thus, by undertaking the contract without getting a pre-dredging survey done, preferably by a third party and deploying dredgers without finalising the terms and condition of the contract, the Company suffered an overall loss of Rs.1.46 crore.

(v). Capital dredging work at Kandla

The Company entered into an agreement with the Kandla Port Trust (KPT) (September 1991) to undertake Capital Dredging Work in front and approach channels of the 7th Cargo Berth, Kandla. As per the agreement, the Company was to deploy one Cutter Suction Dredger ID-IV/Dredge-VII to undertake dredging of 6.12 lakh Cu.m. at approach channel at the rate of Rs.53 per Cum. and 0.56 lakh Cum. underneath the berth at the rate of Rs.144 per Cum. within nine months from the date of commencement of the work. The Company sub-contracted the dredging work of underneath the berth to a private contractor at the rate of Rs.144 per Cum. The Company commenced dredging from 4th December 1991 and completed the dredging work (February 1993) with an over all delay of six months.

Continuing with low capacity dredger for longer period, delay in mobilisation of higher capacity dredger and delay in pre-dredging arrangements led to time over run of six months and overall loss of Rs. 1.49 crore in the execution of the Project.

(vi). Dredging contract at Ballaribar

The Company received from Calcutta Port Trust (CPT) a work order (September 1994) for the maintenance dredging work at Ballaribar, Calcutta and another separate work order (March 1995) for additional dredging work of 1,000 Mtrs. of stretch nearby the Ballaribar.

Both the works were to be completed by March 1995. However, no terms and conditions were signed by Calcutta Port Trust.

During the execution of the work, the production meter of Dredge VII did not work on two different occasions during the period of the contract i.e. from 22 November 1994 to 9 December 1994 for 307 pump hours and from 23 January 1995 to 8 March 1995 for 655 pump hours. As per the mutually agreed conditions, the average production during the above periods worked out to 1095 Cum. and 1232 Cum. per hour respectively.

Contrary to the mutually agreed condition, the Company adopted for raising bills, the average production of 938.77 Cum. per pump hour for the whole contract period. Unilateral deviation from the mutually agreed terms and conditions resulted in a short billing for 2.40 lakh Cum. amounting to Rs.1.56 crore.

The Company had raised bills amounting to Rs.20.22 crore on CPT against which it received Rs.14.69 crore only. An amount of Rs.5.53 crore remained outstanding for the last three years with the CPT (March 1998). The Ministry stated (June 1998) that the entire matter had been referred to Arbitration.

The overall loss of revenue on execution of this project worked out to Rs.7.09 crore.

(vii). Capital dredging for Paradip Port Trust

The Capital Dredging work for the Multipurpose Berth (MPB) and other areas (I Phase) at Paradip Port Trust (PPT) was entrusted to the Company in May 1995 on nomination basis for a total quantity of 8 lakh Cum. at a unit rate of Rs.93 per Cum. The work commenced in August 1995 and was completed in October 1995 against the scheduled date of completion of August 1995. The employer also entrusted (November 1995) additional capital dredging work at the Fertilizer Berth and the Western Quay and the work was completed on 1 December 1995. However, no written agreement was entered into.

The employer further entrusted capital dredging works at South Quay, Central dock and other areas (II Phase) to the Company in April 1996. The Company dredged a quantity of 7.75 lakh Cum. in Phase II and raised bill for Rs.10.12 crore including idle time and fuel escalation charges. The Company could realise a sum of Rs.6.93 crore only (March 1998). It was observed that:

(a) The Company raised (May 1996) bills for idle time charges at the rate of Rs.45,000 per hour amounting to Rs.1.10 crore for the I phase. The employer paid Rs.84.19 lakh only and disallowed the rest. This had resulted in a loss of Rs.25.42 lakh. For the II phase, the Company billed idle time charges amounting to Rs.2.33 crore (at the rate of Rs.45,000 for dredger Aquarius and Rs.15, 325 for dredger VII) of which the employer agreed to pay Rs.1.69 crore only and disallowed the balance amount without assigning any reason resulting in a loss of Rs.63.70 lakh.

(b) The Employer disallowed an amount of Rs.1.60 lakh for a quantity of dredging work of 1724.82 cum. The Company had written off the amount without recording any reasons.

(c) For the II phase the port disallowed a further amount of Rs.67.53 lakh for dredging of 86858.69 cum. for which, reasons were not on record.

Thus, the Company could not realise Rs.1.58 crore as no written agreement was entered into.

(viii). Maintenance dredging of Pirpau berth & channel of Bombay Port Trust

The Company was awarded (January 1994) by Bombay Port Trust (BPT) the Maintenance Dredging work of PV Channel and Pirpau Channel for the year 1993-94 for a total quantity of 1.44 lakh Cum. at the rate of Rs.69 per Cum. However, no written agreement had been entered into with BPT before commencement of the work. The agreement was signed only in June 1994 after completion of the work.

The Company carried out the dredging from January 1994 to February 1994. A bill for Rs.35.42 lakh was raised in June 1994 (revised in August 1997 to Rs.32.81 lakh). BPT paid Rs.8.87 lakh only as per letter of intent dated January 1994, disputing the method of measuring the dredged quantity by the Company.

The Company argued (January 1997) that the dredging was done as per the contractual terms and conditions and requested BPT to release the balance amount (July 1995). The matter had since been referred to Arbitration. Disputed amount of Rs.23.94 lakh was yet to be recovered. Had the contract been signed before commencement of work the dispute could have been avoided.

(ix). Maintenance dredging work at Haldia

The Company entered into dredger wise agreement with Calcutta Port Trust (CPT) to undertake maintenance dredging at Haldia for two years from April 1994 to March 1996. A review of the agreement revealed that idle time charges amounting to Rs. 22.64 lakh for 93.40 hours were not claimed due to lacunae in the terms and conditions of the agreements.

21.1.1.3. The observations of audit on the 9 contracts under reference were brought to the notice of the Ministry. In response the Ministry stated (June 1998) that:

i) The loss estimated by audit was not based on facts and was over-stated. The exact financial results could be determined only after conclusion of the Arbitration proceedings in the case of Kakinada, Calcutta and Mumbai projects.

ii) The Company was making constant efforts to expedite realisation of its dues from its employers.

iii) The Company did not agree with the views of audit that it was incumbent on the part of the Company to carry out soil testing before quoting for tenders.

iv) The primary factor responsible for delays in execution of capital dredging projects was the low output of Cutter Suction Dredgers (CSDs) due to aging.

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

(a) The loss pointed out was based on scrutiny of records.

(b) The Company might have made efforts towards recovery of dues, but the efforts had not yielded any fruitful results. Further there was no evidence to show that the

Company had worked out a methodology and time frame to expedite settlement of the disputes outside the Arbitration framework.

(c) The basic data in respect of soil investigation was essential for executing contracts. The Company neither had the authentic data provided by the employer nor conducted any survey themselves. The Company being a commercial organisation should have aimed at maximising profits for which the pre-dredging survey was a primary pre-requisite as it had a bearing on the overall profitability of the projects.

(d) The main reason for the low output of the CSDs was not only aging of the dredgers but also poor maintenance of dredgers, lack of sufficient infrastructure like survey launches, barges etc., and frequent changes in the deployment program.

(e) Board minutes reveal that time and again the Board of Directors advised the Company for collection and analysis of the vital data, research and development, productivity, improving the contract administration etc. In the Board Meeting No.102/2 the Board of Directors while discussing the delay in completion of the Southern End Reclamation capital-dredging work had observed that the Company should carry out independent soil testing always before quoting any work of similar projects. Board also commented that by relying on the data furnished in the tender document without conducting the individual soil testing the Company suffered heavy loss in the capital dredging contracts of Mandovi and Zuari, Goa.

It is thus evident that due to lack of planning, inadequate groundwork and poor negotiation of terms of contracts before accepting orders, the Company faced huge losses in execution of works under reference.

21.1.2 Avoidable payment of Customs Duty

The Company imported spare parts for dredgers without availing exemption available from payment of custom duty which resulted in avoidable expenditure of Rs.2 crore.

The Company placed (March 1995) three purchase orders on different overseas firms for manufacture and supply of spare parts viz., flexible discharge hoses with flanges, self-floating pipeline and ball & sockets for repairing Cutter Suction Dredgers.

The spares were received during October 1995 to February 1996 at Madras Port. These were cleared after payment of customs duty amounting to Rs.2.00 crore though full exemption from payment of customs duty and additional customs duty under customs Notification No.106/92 dated 1.3.1992 was available. The Company, while filing the Bills of Entry neither claimed exemption nor lodged a claim for refund of duty within six months from the date of payment of duty as per Section 27(I)(b) of the Customs Act. The belated claim made by the Company in September 1997 was dismissed by the Customs Authority in June 1998 as it was found to be time barred.

The Management stated (August 1999) that: (a) the parts were urgently required for the repair of the Dredger and there was no time to agitate the matter with regard to exemptions available. The Company was forced to pay duty for clearing the goods in the firm belief that if the Duty was paid under mistake of law or on misrepresentation of the provisions of

the Act, the same could be claimed by way of refund. (b) the Company was very firm about the favourable application of notification No. 106/92. Cus. dated 1.03.1992. (c) it could claim protection under Article 226 of the Constitution of India for claiming the refund. (d) a writ petition was filed in High Court, Chennai against the orders of the Customs Authorities and the Committee on disputes was moved to accord the approval.

The reply of the Management is not tenable as:

i) Urgency in procurement of spare parts does not preclude the management from making payment of Customs Duty 'under protest' in order to keep the options open for filing a refund claim without limitation of time under the Section-27 of the Customs Act.

ii) No refund claim was filed within the stipulated time of 6 months as provided under Section-27(I)(b) of the Customs Act.

iii) Taking recourse to remedial action purported to be available under the Constitution of India was only an after thought and as such, lacked justification.

iv) The 'Committee of Disputes' has not accorded permission for filing a writ petition for refund of Customs Duty so far (July 1999).

The Company thus neither claimed exemption nor availed of the facility of paying Duty "under protest". As a result it incurred an avoidable expenditure of Rs.2.00 crore on Customs Duty.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

The Shipping Corporation of India Limited

21.2 Cost and time overrun on repair of a vessel

Failure on the part of the company to follow proper system of inviting tenders and to assess the capability of the ship repair yard before entrusting major repair work resulted in cost overrun of Rs.3.32 crore and time overrun of 118 days

M.V. Harshavardhana a passenger-cum-cargo vessel acquired by Shipping Corporation of India (SCI) in 1974 at a cost of Rs.5.68 crore completed 20 years of life in December 1994. This vessel was operated by the Company between mainland and Andaman and Nicobar Islands on behalf of the Ministry of Surface Transport (MOST). All the certificates of the vessel expired in March 1995 and the vessel was laid up at Calcutta from 24 March 1995. MOST decided (May 1995) to repair the vessel immediately and to recommission it for a period of one year as only one of the other three passenger vessels (managed by SCI) in the said sector was plying at that time.

The Regional Office (RO) of the Company at Calcutta, examined the various alternatives for dry docking the vessel at Calcutta and found that Chokhani Shipyard (Bengal) Limited

(CBSL) was the only choice. They could not explore the possibilities of dry docking the vessel at other ports because by the time the decision to repair the ship had been taken all the certificates of the vessel had expired and the ship could not be moved. Based on the scope of work indicated by the RO Calcutta, CBSL quoted Rs.6.19 crore with a timeframe of 75 days. Considering that the vessel was required to be put into service at the earliest, the scope of the work was reduced thereby bringing down the repair cost to Rs.1.83 crore and time to 35 days. The normal procedure like preparation of detailed dry docking repair specifications, invitation of tenders and its technical and commercial evaluation, etc. were not followed in this case. The capacity of CSBL in terms of its staff strength and financial standing to undertake the work was also not fully assessed before entrusting the work to them.

The repair of the vessel commenced on 20 May 1995. As the repair progressed, it became apparent that CSBL did not have the right equipment, skilled manpower and managerial capacity to take up and complete such major repair jobs due to which the estimated steel consumption increased from 70 to 136 tons and considerable part of the work had to be off-loaded to other workshops.

The repair work was finally completed on 20 October 1995 by taking 153 days. The cost also went up to Rs.7.43 crore which was later reduced to Rs.5.15 crore on negotiation (Rs.2.80 crore to CSBL and Rs.2.35 crore to other workshops).

Progress of the work was not closely monitored and prior approval of the Board of Directors for the wide variation in cost and time was not obtained in contravention of the laid down procedure. Thus, the Company could not achieve the intended purpose of making the vessel available for service within the stipulated time. In the absence of competitive tendering the economy of expenditure could also not be established.

The Ministry admitted (October 1999) that there was a complete system failure in this case resulting in continuous increase in scope of work which ultimately led to both cost overrun and time overrun. It further stated that there was a need to revise and revamp the reporting and control formats and system which should give the extent of work in relation to the original plan of work, revised specification and cost etc., and had asked the Company to take immediate action.

Thus, failure on the part of the Company to follow proper system of inviting tenders and to assess the capability of the ship repair yard before entrusting major repair work resulted in cost over-run Rs.3.32 crore and time over-run of 118 days.

CHAPTER 22: MINISTRY OF TEXTILES

The Cotton Corporation of India Limited

22.1.1 Avoidable payment of interest

Company's failure to pay advance tax as per the provisions of the Income Tax Act in four years, resulted in avoidable payment of Rs.6.68 crore towards interest under sections 234B and 234C of the Income Tax Act.

Under section 208 of the Income Tax Act, it is obligatory to pay advance tax during the financial year (FY) in every case where advance tax payable is Rs. 5000 or more (upto 30 September, 1996 Rs.1500 or more). Advance tax as calculated under section 209 of the Act on the current income shall be payable in four instalments falling on or before 15 June (15 per cent of such advance tax), 15 September (45 per cent of such advance tax as reduced by the amount already paid), 15 December (75 per cent of such advance tax as reduced by the amount paid earlier) and the balance on or before 15 March of each financial year, failing which, assessee shall be liable to pay simple interest at the rate of 2 per cent per month under section 234B of the Act for default in payment of Advance Tax and simple interest at the rate of 1.5 per cent per month under section 234C of the Act for deferment of advance tax at the prevailing rate.

Section 210 (2) of the Act also stipulates that an assessee who has paid, any instalment or instalments of advance tax may increase or reduce the amount of advance tax payable in the remaining instalment or instalments in accordance with his estimate of the current income and make payment of the said amount in the remaining instalment or instalments.

The Company failed to pay advance tax as required under the provisions of the Income Tax Act and consequently had to pay avoidable interest to the extent of Rs.3.95 crore under section 234B and Rs.2.73 crore under section 234C of the Act levied by the Income tax authorities as follows:

Sl. No.	Financial Year / Assessment Year	Amount of interest paid (Rs. in crore)	
		U/S 234B	U/S 234C
1.	1993-94 / 1994-95	2.07	-
2.	1994-95 / 1995-96	0.50	0.96
3.	1995-96 / 1996-97	0.36	0.78
4.	1996-97 / 1997-98	1.02	0.99
	TOTAL	**3.95**	**2.73**

The Ministry endorsed (March 1999) the reply of the Management inter-alia stating the following:

(i) Short payment of advance tax was not due to paucity of funds but due to practical difficulties in making fairly accurate estimates of income.

(ii) The Company had gone into litigation against the earlier income tax assessment for getting deduction applicable for 'trader exporter' and in case they were successful income tax liability would be substantially reduced.

The reply of the Management/Ministry is not tenable on the following grounds:

(a) Inability of the Company to accurately estimate its income year after year reflected poor financial management and should not be used as an excuse for non-fulfillment of its statutory liabilities. The Company could have based the estimates on trend of profit in earlier years. But the Company's lack of financial acumen is evident from the fact that though the profit in all the years (1993-94 to 1996-97) was more than Rs.40 crore, Company's assessment was wide of the mark ranging between Rs.15.12 crore (1995-96) to Rs.21.50 crore (1994-95).

(b) The Income Tax authorities had not considered the Company's contention for being treated as trader exporter and hence liability should have been worked out accordingly. Prudence and law both required the Company to pay the advance tax pending decision on its appeal. Incidentally it may be pointed out that Company's appeal was turned down (May 1999) by the Income Tax authority.

Thus, the Company's non-adherence to provisions of the Income Tax Act, 1961 led to an avoidable payment of Rs.6.68 crore during 1993-94 to 1996-97. Even after allowing for an interest income of Rs.3.16 crore calculated at the maximum rate of interest of 10 per cent which the Company might have earned by parking equivalent funds in short term deposits the net loss of the Company worked out to Rs.3.52 crore (Rs.6.68 crore-Rs.3.16 crore).

22.1.2 Loss due to delay in applying for exporter status and Special Import License

Company's failure to apply, in time, for exporter status and Special Import License (SIL), to which it was entitled, led to loss of premium of Rs.3.78 crore.

The Export Import (EXIM) policy for the period 1 April 1992 to 31 March 1997 was notified by the Government of India in March 1992. The Policy classified exporters into different categories as Export House, Trading House, Star Trading House and Super Star Trading house and the Company was entitled to Special Import License (SIL), at specified percentages of the export earnings based on their status. The above classification was made on the basis of the FOB value of exports or Net Foreign Exchange (NFE) earned by the exporter during the last 3 licensing years or the preceding licensing year which ever was opted for by the exporter. The Special Import Licenses were freely transferable and commanded a premium in the market.

The Cotton Corporation of India Limited (Company) which had an Export House status for the period 1 April 1990 to 31 March 1993 was entitled to a Star Trading House (STH) status from 1 April 1993 based on the exports for the period 1990-91 to 1992-93. However, the Company did not apply for it on or before 31 December of the licensing year (1993) as required under the EXIM policy. The Company applied for the status of STH

based on their exports for the period 1991-92 to 1993-94 in September 1994 and was accorded status of STH on 2 December 1994 for the period 1 April 1994 to 31 March 1997.

The Company failed to reap the full advantage of this policy because of its failure to apply for the appropriate status and prefer the claim for grant of SIL within the due date stipulated in the policy. Because of its lackadaisical attitude the Company lost the benefit of premium of Rs.3.78 crore on sale of SIL as detailed below:

(i) The Company was entitled to the Star Trading House (STH) status from 1 April 1993 based on the exports for the period 1990-91 to 1992-93. The Company failed to apply for the STH status for 1993-94 and forfeited the right to claim of SIL of Rs.12.94 crore for the export of 1992-93 to which it was otherwise entitled.

(ii) For the year 1993-94 the NFE of the Company was Rs.329.08 crore on which it was entitled to get a SIL for Rs.36.20 crore at the rate of 11 per cent of the export earning. As against this the Company received a SIL claim for Rs.18.51 crore only because:

(a) while preferring the claim the Company wrongly applied the rate of 7.5 per cent of NFE as against the applicable rate of 11 per cent since the Company was granted the status of STH.

(b) a 25 per cent cut was imposed because the claim was preferred on 31 March 1995 as against the due date of 30 January 1995.

(iii) The claim of SIL for Rs.1.90 crore at the rate of 11 per cent of NFE of Rs.17.25 crore for the year 1994-95 was rejected outright as the claim was preferred on 28 January 1997 as against the due date of 31 December 1995.

Thus, as against the total entitlement of SIL of Rs.51.04 crore (Rs.12.94 crore for 1992-93 + Rs.36.20 crore for 1993-94 + Rs.1.90 crore for 1994-95) the Company received a SIL for Rs.18.51 crore. The Company sold this SIL (valued at Rs.18.51 crore) in September 1997 and realised premium of Rs.2.23 crore at the rate of 12.0717 per cent. The premium calculated at the same rate on Rs.51.04 crore i.e. the value of SIL to which the Company was actually entitled, worked out to Rs.6.16 crore. Excluding sales tax at the rate of 4 per cent the loss of premium suffered by the Company worked out to Rs. 3.78 crore (Rs.6.16 crore – Rs.2.23 crore –Rs.0.15 crore sales tax).

The Ministry endorsed (May 1999) the reply of the Management that:

(i) delays in submission of application were due to staff constraints for collection of bank realisation certificates.

(ii) on detection of omission to submit claims, the matter was vigorously pursued and as a result, the SIL for 1993-94 was obtained from Director General of Foreign Trade with a cut of 25 per cent for belated claim.

(iii) the loss of premium was only Rs.1.97 crore.

The reply is not tenable as:

(a) excuse of staff constraint should not be used as a cover for inefficiency leading to huge financial loss.

(b) had the Company preferred the claim for 1993-94 within the stipulated date it could have avoided the cut of 25 per cent.

(c) the loss of premium of Rs.1.97 crore has been worked out at a rate of 7.5 per cent for 1992-93 and 1993-94 and 11 per cent for 1994-95 whereas the actual rate applicable for all the three years was 11 per cent.

Jute Corporation of India Limited

22.2 Operation of uneconomic purchase centres

By delaying the decision on closure of certain uneconomic purchase centres, the Company incurred avoidable expenditure of Rs.45.63 lakh on rent of the space from which such centres were operating.

The Company had been maintaining 208 purchase centres for procurement of raw jute. In May 1993 the Management attempted to close down 31 purchase centres where level of procurement was consistently low and purchase operation itself was uneconomic. The Ministry instructed (August 1993) the Company not to close down any centre on the ground of social and political resentment. The Company again decided (December 1996) to close 52 uneconomic purchase centres as a measure to cut down establishment expenditure and accordingly submitted ((February 1997) a proposal to the Ministry. The Company further decided (March 1997) to close down another 23 purchase centres so as to make itself economically viable. Therefore, a revised proposal for closing of 75 centres was submitted (April 1997) to the Ministry. The Ministry approved (June 1997) the proposal. But considering the operation trend/problems the Company requested (February 1998) the Ministry for closure of only 43 purchase centres which were not operated during the current season. In March 1998, the Ministry approved the proposal for closure of 43 centres.

The Company had closed down 2 purchase centres in time i.e. immediately on identification of the purchase centres as uneconomic and another 32 centres were belatedly closed from time to time till September 1999. The expenditure incurred towards rent of office/godown of these 41 centres, which were either not closed or belatedly closed, amounted to Rs. 45.63 lakh during the period from June 1993 to March 1999.

Had the Management/Ministry decided to close down those 41 uneconomic purchase centres timely the expenditure amounting to Rs.45.63 lakh towards rent of uneconomic centres could have been avoided.

The Management stated (May 1999) that the decision of closure of uneconomic centres taken from time to time could not be implemented due to strong resistance from staff/officer's Associations, the local peoples' representatives and State Governments.

The contention of the Management is not tenable in view of the fact that since the Company decided to re-deploy the excess staff in other centres on the basis of requirement, the question of retrenchment of staff did not arise. The Management/Ministry

should have taken a firm decision about closure of the uneconomic purchase centres to avoid the wasteful expenditure. Even if the employees had to be retained/ re-deployed, the closing down of uneconomic centres would have saved the amount of rent paid for the godowns.

The matter was referred to the Ministry in July 1999; their reply was awaited (December 1999).

National Jute Manufactures Corporation Limited

22.3 Retention of employees in service beyond the age of superannuation

Despite a voluntary retirement scheme in operation to reduce surplus employees, the Company had to incur an additional expenditure of Rs. 30.07 crore for retention of employees in service beyond the age of superannuation because it failed to arrange appropriate funds to pay their retirement benefits in time.

With a view to reduce surplus manpower and achieve optimum utilisation of manpower the Company, with the approval (September 1989) of the Ministry, introduced a Voluntary Retirement Scheme (VRS) in the year 1990-91. The fund required for implementation of VRS was to be provided by the Government.

While the Company was operating the VRS to reduce manpower it continued to employ 4664 number of employees in service beyond their actual date of superannuation from the year 1990-91 due to paucity of funds to pay their normal retirement benefits in time. The period of extension granted ranged from 12 days to 45 months. Grant of such an extension frustrated the very purpose of VRS. However, The Company failed to take any concrete action to arrange funds to retire these employees by paying their retirement benefits in time. Although the problem cropped up in 1990-91, it was only in March 1994 that the Company informed the Ministry of the problem and approached them for permission to utilise the VRS fund towards the payment of retirement benefits of superannuated employees. Despite the fact that the matter had been brought to the notice of the Ministry and had also been highlighted in the national symposium of National Renewal Fund (NRF) in March 1995, the Ministry failed to respond.

Meanwhile the Company incurred an additional expenditure of Rs.30.07 crore towards pay and allowances for employees being retained in service beyond their date of superannuation during the period 1991-92 to 1998-99. Further, 2800 such employees were still on rolls of the Company as on 31 July 1999 leading to an additional recurrent liability of Rs.12 crore (approximately) per annum. The Company could have avoided this financial burden had it approached the Ministry for fund by way of special grant or explored other possibilities of raising fund such as sale of surplus assets, additional loan against hypothecation of assets/Government guarantees etc.

The Management stated (September 1999) that from time to time the Company had informed the Ministry about the number of superannuated workers continuing on job

beyond the age of superannuation. Management further stated that as all the workers continuing on roll beyond the date of superannuation were directly related with important jobs in the production, there would not have been any savings in the wage bill because to replace these employees other workers had to be taken from casual pool.

The Management's reply is not tenable because it was surplus manpower in the Company that had prompted it to operate VRS. Further, while requesting (March 1995) the Ministry to allow it to utilise the VRS fund for the payment of retirement benefits to the superannuated employees it was clearly stated by the Company that it was being forced to retain the employees past their retirement age despite their inefficiency, only on account of shortage of working capital.

Thus, the Company failed to resolve the dilemma of operating the VRS on one hand and retaining superannuated employees on the other hand and incurred an avoidable expenditure of Rs. 30.07 crore and recurrent liability of Rs. 12 crore per annum.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

National Textile Corporation (TN&P) Limited

22.4 Incorrect adoption of sale value resulted in non-refundable payment of excise duty

The Company lost Rs 50 lakh in making excess payment of duty of excise which was non-refundable.

Under the self-assessment procedure introduced by the Central Excise Authorities for the Textile Industry (September 1996), textile mills were to assess and pay excise duty for the goods being cleared from the factory on the price/rate prevailing at the selling point on the day of removal. While the textile mill is duty bound to make good any under-assessment, any excess duty paid because of incorrect determination of higher sale rate/price was not refundable.

In respect of 8 mills under NTC (TN&P) Ltd., the price/rate adopted for determination of excise duty payable was higher than the price/rate prevailing at the point of sale on the date of removal. This resulted in payment of excess excise duty amounting to Rs 49.93 lakh during 1997-98. This was an avoidable loss suffered by the Company as the excess duty paid was not refundable.

While confirming the audit observations the Ministry added (September 1999) that the Management has been directed to fix responsibility for the lapse. The Ministry also directed the PSU to issue necessary instructions to ensure that such lapse do not occur in future.

CHAPTER 23: MINISTRY OF URBAN DEVELOPMENT

Housing & Urban Development Corporation Limited

23.1 Avoidable payment of interest due to short payment of advance tax

Incorrect estimation of taxable income by the Company led to short payment of advance tax. Consequently, the Company had to pay interest of Rs 1.24 crore on the amount of tax short paid.

The Company was required to discharge its tax liability for the assessment year 1997-98 in advance in four quarterly instalments at the prescribed rates and within the stipulated time in such a way that the entire tax payable for the assessment year was paid by 15 March 1997. In the event of short payment of advance tax, the Company was liable for payment of interest under the provisions of Income tax Act, 1961. For the assessment year 1997-98, 15 per cent of total estimated tax was payable by 15-6-96, 45 per cent by 15-9-96, 75 per cent by 15-12-96 and 100 per cent by 15-3-97. According to section 234(B) of the Income tax Act, if the advance tax paid was less than 90 per cent of the assessed tax, simple interest @ 2 per cent for every month or part thereof on the amount short deposited was leviable. Section 234 (C) further provided that if the advance tax paid up to the third quarter was less than 75 per cent and up to fourth quarter was less than 100 per cent of the assessed tax on returned income, simple interest for a period of 3 months was payable on the amount of tax short paid.

The Company estimated its taxable income in respect of the assessment year 1997-98 at the time of making payment of the instalments of advance tax as shown below (figures in Rs crore):

Quarter Ending	Estimated Taxable Income for the whole year	Advance Tax Paid	Date of Payment
June 1996	69.00	4.80	15-06-96
September 1996	56.70	5.41	13-09-96
December 1996	58.11	8.53	15-12-96
March 1997	47.02	1.48	15-03-97
Total		**20.22**	

The Company filed its income-tax return on 28.11.1997 computing a taxable income of Rs 64.54 crore for the whole year after payment of additional amount of tax of Rs.7.51 crore on 27.11.1997. As there was a short payment of advance tax due to incorrect estimation of taxable income, interest amounting to Rs 1.24 crore was levied by the Income Tax

Department under section 234(B) and (C) of the Act. Thus the gross error by the Company in the estimation of its income for the year 1996-97 resulted in the short payment of advance tax and attracted avoidable payment of interest to the extent of Rs 1.24 crore. The interest was finally paid by the Company on 17-6-98.

Admitting the fact of under-estimation of taxable income, Ministry explained (November 1999) that their estimate of the accrued interest on Non Performing Assets (NPA) at the time of payment of the 4th instalment of advance tax was Rs 35.67 crore, which actually turned out to be Rs 10.31 crore due to payments received from some defaulters. Consequently, the income of the Company increased, leading to higher liability of income tax.

The reply is not tenable because the defaulters in this case were 3 development authorities in UP[*] and the NPA was reduced consequent upon signing of MOU (March 1997) by the Company with the UP Government relating to rehabilitation packages for these authorities. Even though the MOU was signed in March 1997, the packages were approved by both the Company itself and the UP Government in March 1996. The Company was, thus, well aware of the increased liability on account of income tax well before payment of the first instalment of advance tax in June 1996. The fact, therefore, remains that the error of the Company in the estimation of its income, resulted in under payment of income tax and consequently led to an avoidable payment of interest of Rs 1.24 crore to the income tax department.

[*] Ghaziabad Development Authority, Meerut Development Authority and Allahabad Development Authority

CHAPTER 24: DEPARTMENT OF WELFARE

National Scheduled Castes and Scheduled Tribes Finance & Development Corporation

24.1 Loss due to inappropriate rate of interest being charged on unutilised loan

The Company lost Rs.36.04 lakh due to its failure to charge the appropriate rate of interest on the loans remaining unutilised with a channelising agency.

The Company is the apex institution for financing, facilitating and promoting the economic development activities of Scheduled Castes and Scheduled Tribes through State channelising agencies. Prior to September 1992, the rate of interest chargeable by the Company on the loans advanced to the channelising agencies was 4.5 per cent. With a view to activating the channelising agencies for expeditious disbursal of funds, the Company decided in September 1992 to charge interest at an enhanced rate of 12 per cent on funds remaining unutilised beyond 90 days of its release by the Company. This decision was embodied as part of the Company's accounting policy.

At the request of Tamil Nadu Adi Dravidar Housing and Development Corporation (TAHDCO), the Company sanctioned a scheme in February 1993 for development of sericulture for the landless agricultural labourers in Tamil Nadu. The scheme envisaged to cover 750 beneficiaries during 1992-93 and 1250 beneficiaries during 1993-94. Against the sanctioned amount of Rs.2.90 crore, the Company released Rs.1.38 crore in May 1993 for 952 beneficiaries. The rate of interest applicable to this scheme was 4.5 per cent. The terms and conditions of the loan required the channelising agency to utilise the loan within 90 days from the date of its release by the Company .

Even though TAHDCO did not succeed in identifying the remaining beneficiaries, it did not refund the loan amount to the Company . The unutilised loan amount was eventually refunded by TAHDCO to the Company in May 1997 on which interest was paid @ 4.5 per cent, although the Company's policy warranted recovery of interest at the enhanced rate of 12 per cent beyond 90 days. Thus, due to non-adherence to its own stated policy, the Company incurred loss of interest amounting to Rs.36.04 lakh. Moreover, TAHDCO received the benefit of receiving easy finance at low interest rate, without implementing the project intended by the Company for the benefit of landless farmers.

The Ministry stated (November 1999) that action for recovery of the remaining amount of interest from TAHDCO had since been initiated. The reply of the Ministry is not tenable as the only 'action' taken by the Company was to issue a demand advice in December 1996. The Company had not initiated any legal action so far (November 1999).

National Backward Classes Finance & Development Corporation

24.2 Unauthorised investments resulting in blockage of funds and consequent loss of interest

Out of the amount released to it towards its share capital and for disbursement of loan for development project of backward classes the Company invested Rs.15 crore in a loss making Public Sector Undertaking (PSU). This step was in gross violation of terms and conditions of the sanction issued by the Government. To adjust a sum of Rs.8 crore due to it from the PSU, the Company purchased from this PSU a piece of land which could neither be sold nor found it to be of any alternative use. This resulted in blocking of funds besides loss of interest of Rs.3.14 crore.

National Backward Classes Finance and Development Corporation was incorporated in January 1992 with the main objective of promoting economic and developmental activities for the benefit of backward classes by providing its target group access to loan on easy terms and assistance for skill development, leading to self employment/ventures. As the Company was wholly owned by the Government of India, it received share capital from the Government from time to time to enable it to provide such loans/assistance to backward classes. Government of India sanctioned (February 1994) and released (March 1994) Rs.32 crore to the Company for the purpose subject to the condition that any unutilized fund available with the Company as on 31 March 1994 would have to be deposited in the Public Account of India. Out of this, an amount of Rs.5 crore was earmarked for disbursement, leaving a balance of Rs.27 crore, which remained unutilized till 31 March 1994. But instead of depositing the unutilized amount in the Public Account, the Company invested of Rs.15 crore with HMT Limited and Rs.12 crore with Infrastructure Leasing & Financial Services Limited (ILFS).

After withdrawing part of the dues from HMT, a sum of Rs.8.00 crore was still due to the Company (March 1997) which the former was not in a position to repay. The Company had earlier sought (October 1996) the approval of Ministry for acquiring a piece of land belonging to HMT Limited at Bangalore in partial settlement of its claims on HMT. The approval was still awaited (May 1999), but the Company, without waiting for approval of the Ministry, entered into an agreement (March 1997) with HMT Limited for purchase of land at a cost of Rs.8 crore in lieu of Company's dues and took possession of the land. But it could neither sell the land nor put it to any use. The Company has lost interest amounting to Rs.3.14 crore (May 1999) on the blocked funds of Rs.8 crore.

Thus, besides violating the terms and conditions of the sanction issued by the Government, the Company also invested Rs.15.00 crore injudiciously in a loss making Company. Further, its action in adjusting dues worth Rs.8.00 crore in exchange for a piece of land was also violative of the norms as the requisite approval of the Ministry was not taken. This transaction was also imprudent as the piece of land acquired could neither be sold nor utilized, resulting in blockage of funds amounting to Rs.11.14 crore including interest (May 1999).

The Management stated (May 1999) that it had invested Rs.27 crore on 3 March 1994 in order to earn interest and maintain liquidity. It further contended that in March 1994, HMT

Limited was not a loss making Company. It also sought to justify the acquisition of the plot of land from HMT Limited in exchange of its dues on the ground of preventing the dues of the Company from turning into bad debts. As the plot of land was in its possession, Management further contended that the Company had not suffered any loss.

The reply of the Management is not tenable. The basic objective of the Company is to finance projects intended for socio-economic development of the backward classes. The equity capital of Rs.32 crore received by the Company from the Government was not meant for investments for earning interest or maintaining liquidity. The Company not only failed to observe the terms of the sanction that the unspent amount should be parked in the Public Accounts, it also made the imprudent decision to invest in HMT Limited, which indeed was a loss making Company in March 1994 as evident from its financial statements for the year 1992-93. Failure of the Company to sell the plot of land acquired from HMT Limited or to put it to some alternative use resulted in the blocking of a huge amount and loss of interest besides limiting the Company's capacity to promote socio-economic development of the backward classes.

The matter was referred to the Ministry in June 1999; their reply was awaited (December 1999).

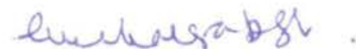
CHAPTER 25

Follow up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes, duly vetted by Audit indicating therein remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Reports of the Comptroller and Auditor General of India (Commercial) as have been laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Undertakings for detailed examination. The COPU in its 2nd Report (1998-99- 12th Lok Sabha) while reiterating the above instructions recommended that follow up action taken notes duly vetted by Audit in respect of all the Reports of the C&AG of India (Commercial) presented to Parliament should be furnished to the Committee within six months from the date of presentation of the relevant Audit Reports.

A review has revealed that inspite of reminders from audit, the remedial/corrective action taken notes on the paragraphs/appraisals contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in Appendix, have not been forwarded to Audit for vetting.

Since remedial action, if any, taken by the Government on the audit paras included in the Reports of the C&AG of India is watched by the Parliament through the COPU, non-submission of such ATNs has resulted in keeping a large amount of the Government expenditure outside such parliamentary scrutiny.



(A.K.CHAKRABARTI)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
The 27 मार्च MAR 2000

Countersigned

(V.K. SHUNGLU)
Comptroller and Auditor General of India

New Delhi
The 27 मार्च MAR 2000

APPENDIX

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes are pending as on 31 January 2000

No. and Year of Report	Name of the Report	Para No., if any
Department of Bio-Technology		
1. No. 3 of 1998	Audit Observations	Para 2.1
Ministry of Civil Aviation		
1. No. 3 of 1993	Audit Observations	Para 3.10
2. No. 3 of 1997	Audit Observations	Para 3.1
3. No. 3 of 1998	Audit Observations	Para 4.1.1
Ministry of Commerce & Industry		
1. No. 3 of 1994	Audit Observations	Para 4.2
Ministry of Environment & Forest		
1. No. 3 of 1994	Audit Observations	Para 11.1
2. No. 2 of 1995	Comments on Accounts	Paras 2.2.30
3. No.16 of 1995	Andaman & Nicobar Island Forest Development Corporation Ltd	
4. No. 2 of 1996	Comments on Accounts	Paras 2.2.16 and 2.7.3
5. No. 2 of 1997	Comments on Accounts	Paras 2.2.18, 2.2.23, 2.4.17 and 2.5.13
Ministry of Finance (Banking Division)		
1. 3 of 1997	Audit Observations	Para 9.5
2. No. 2 of 1998	Comments on Accounts	Paras 1.2.26, 1.2.27, 2.1.17, 2.2.8, 2.2.10, 2.6.12 to 2.6.14 and 2.8.8
Ministry of Health & Family Welfare		
1. No. 2 of 1998	Comments on Accounts	Para 2.7.8

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Heavy Industry & Public Enterprises		
1. No. 3 of 1997	Audit Observations	Para 12.1.3
2. No. 3 of 1998	Audit Observations	Paras 12.1.2 to 12.1.4, 12.7 and 12.8
Department of Small Scale Industries & Agro and Rural Industries		
1. No. 2 of 1995	Comments on Accounts	Paras 1.3.34 and 2.2.30
2. No. 2 of 1997	Comments on Accounts	Para 1.2.49
Ministry of Petroleum and Natural Gas		
1. No. 2 of 1993	Comments on Accounts	Paras 1.2.10, 1.3.29, 2.5.26 and 2.5.27
2. No. 3 of 1993	Audit Observations	Para 16.4
3. No. 2 of 1994	Comments on Accounts	Para 1.3.39
4. No. 2 of 1995	Comments on Accounts	Para 1.2.33, 1.3.40 and 2.4.26
5. No. 3 of 1995	Audit Observations	Paras 14.4, 14.8, 14.12 and 14.14
6. No.20 of 1995	IOC Ltd. (Refinery and Pipelines Divisions)	
7. No.24 of 1995	IOC Ltd. (Marketing)	
8. No. 2 of 1996	Comments on Accounts	Paras 1.2.24, 2.4.43 and 2.5.13
9.No. 5 of 1996	Private participation in production of Crude Oil-JVs	Selected by COPU for examination.
10. No. 2 of 1997	Comments on Accounts	Para 2.4.38
11. No. 2 of 1998	Comments on Accounts	Paras 2.2.24 and 2.4.20
Department of Science & Technology		
1. No. 2 of 1998	Comments on Accounts	Paras 2.1.39, 2.2.25, 2.7.20 and 2.8.19
Ministry of Steel		
1. No. 3 of 1995	Audit Observations	Para 17.5
2. No. 21 of 1995	Rourkela Steel Plant	
3. No. 4 of 1998	Durgapur Steel Plant	

No. and Year of Report	**Name of the Report**	**Para No., if any**
Ministry of Tourism		
1. No. 2 of 1998	Comments on Accounts	Para 2.1.4
Ministry of Urban Development & Employment		
1. No. 2 of 1998	Comments on Accounts	Paras 1.2.72, 1.3.43, 2.1.45, 2.2.31, 2.6.40, 2.7.23 and 2.8.23
2. No. 3 of 1998	Audit Observations	Para 19.1
Department of Welfare		
1. No. 2 of 1997	Comments on Accounts	Paras 1.3.43, 2.1.39, 2.2.54 and 2.3.52.
2. No. 2 of 1998	Comments on Accounts	Paras 1.2.74 and 1.2.75

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