Report of the Comptroller and Auditor General of India

for the year ended March 2003

Union Government (Commercial)

Public Sector Undertakings
Transaction Audit Observations

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CONTENTS

CHAPTER/ PARAGRAPH	SUBJECT	PSU	Page No.
	PREFACE		xi-xii
	OVERVIEW		xiii-xxviii
Chapter 1	**DEPARTMENT OF CHEMICALS AND PETROCHEMICALS**		
1.1.1	Delay in completion of minor civil work resulted in non-installation of incineration system valued at Rs.1.70 crore	Hindustan Fluorocarbons Limited	1
1.2.1	Blocking of capital	Hindustan Insecticides Limited	2
1.3.1	Blocking of funds amounting to Rs.3.08 crore	Hindustan Organic Chemicals Limited	3
1.4.1	Avoidable expenditure of Rs.3.80 crore towards monthly minimum energy charges	Indian Drugs and Pharmaceuticals Limited	4
Chapter 2	**MINISTRY OF CIVIL AVIATION**		
2.1.1	Loss of revenue due to undercharging of lease rent from a private party	Airports Authority of India	6
2.1.2	Infructuous investment of Rs.8.23 crore on the incomplete work of extension of runway	Airports Authority of India	7
2.1.3	Loss of revenue by undue favour to a second highest bidder	Airports Authority of India	8
2.2.1	Loss of Rs.26.74 crore due to write-off of recoverable advances	Air India Limited	10
2.2.2	Avoidable expenditure on excess payment of council tax	Air India Limited	11
2.2.3	Loss of Rs.3.34 crore due to defective Material Management	Air India Limited	12
2.3.1	Loss of Rs.3.49 crore due to non-verification of credentials of the lessor	Indian Airlines Limited	13

2.3.2	Loss of revenue due to undercharge	Indian Airlines Limited	15
2.3.3	Loss due to non-claiming of refund of goods and services tax	Indian Airlines Limited	16
2.4.1	Infructuous expenditure of Rs.9.86 crore due to injudicious procurement of stores and spares	Pawan Hans Helicopters Limited	16
Chapter 3	**MINISTRY OF COAL**		
3.1.1	Avoidable loss of Rs.4.49 crore due to despatch of non-weighed coal	Bharat Coking Coal Limited	18
3.1.2	Additional expenditure of Rs.1.87 crore on rerailment of the derailed wagons	Bharat Coking Coal Limited	19
3.1.3	Loss of Rs.78.31 lakh due to non-disposal of washed coal	Bharat Coking Coal Limited	20
3.2.1	Wasteful expenditure of Rs.7.66 crore on diesel generating sets	Central Coalfields Limited	21
3.2.2	Blocking up of fund of Rs.1.22 crore	Central Coalfields Limited	22
3.3.1	Extra expenditure of Rs.3.11 crore due to procurement of Miners' Shoes on single tender basis	Eastern Coalfields Limited	23
3.4.1	Loss of Rs.7.25 crore due to negligence	Neyveli Lignite Corporation Limited	24
3.4.2	Idle investment of Rs.4.50 crore on Distributed Digital Control System	Neyveli Lignite Corporation Limited	25
3.4.3	Avoidable payment of excise duty due to omission to avail concessional rate	Neyveli Lignite Corporation Limited	26
3.4.4	Loss due to under settlement of insurance claim by Rs.58.16 lakh	Neyveli Lignite Corporation Limited	27
3.5.1	Infructuous expenditure of Rs.8.02 crore	Western Coalfields Limited	28
Chapter 4	**MINISTRY OF COMMERCE**		
4.1.1	Avoidable loss due to non-removal of crude palm oil from custom bonded warehouse on payment of customs duty	MMTC Limited	30
4.1.2	Extra expenditure due to unjustified enhancement of rate in discharging and transportation of coal	MMTC Limited	31
4.1.3	Excess payment in the implementation of	MMTC Limited	32

	voluntary retirement scheme		
Chapter 5	**MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION**		
5.1.1	Blocking up of funds on purchase of flats for staff	Central Warehousing Corporation	34
5.1.2	Irregular publicity expenditure	Central Warehousing Corporation	35
5.2.1	Undue benefit on export of rice	Food Corporation of India	35
5.2.2	Irregular payment of double line machine stitching charges	Food Corporation of India	37
5.2.3	Avoidable interest loss	Food Corporation of India	38
5.2.4	Loss on disposal of 'Relaxed Specifications' rice	Food Corporation of India	39
5.2.5	Misappropriation of stocks	Food Corporation of India	39
5.2.6	Loss on sale of wheat	Food Corporation of India	40
5.2.7	Improper maintenance of stocks	Food Corporation of India	41
5.2.8	Extra expenditure in procurement of Aluminium Phosphide	Food Corporation of India	42
5.2.9	Unjustified increase in transportation rates	Food Corporation of India	42
5.2.10	Delayed arrangement of storage space	Food Corporation of India	43
Chapter 6	**MINISTRY OF DEFENCE**		
6.1.1	Avoidable payment of penal interest and additional customs duty	Bharat Earth Movers Limited	45
6.2.1	Loss due to acceptance of amendment in delivery schedule	Bharat Electronics Limited	46
6.3.1	Liquidated damages of Rs.11.33 crore due to delay in repair/overhaul of aircraft	Hindustan Aeronautics Limited	47
6.3.2	Loss due to non submission of bill of materials	Hindustan Aeronautics Limited	48
6.4.1	Avoidable loss of Rs.71.11 lakh	Mishra Dhatu Nigam Limied.	48
6.4.2	Avoidable loss of Rs.40.72 lakh due to not preferring a claim in time on the insurers towards the goods damaged in	Mishra Dhatu Nigam Limited	49

	transit		
Chapter 7	**DEPARTMENT OF FERTILIZERS**		
7.1.1	Infructuous expenditure of Rs.71.69 crore on repairs to sick plants	Fertilizers and Chemicals Travancore Limited	51
7.2.1	Infructuous expenditure of Rs.4.52 crore	Madras Fertilizers Limited	52
7.2.2	Loss of Rs.1.03 crore on marketing deal	Madras Fertilizers Limited	53
7.2.3	Non-recovery of loss of Rs.36.06 lakh	Madras Fertilizers Limited	54
Chapter 8	**MINISTRY OF FINANCE (Insurance Division)**		
8.1.1	Avoidable loss of Rs.3.17 crore	General Insurance Corporation of India	56
8.2.1	Loss of premium	National Insurance Company Limited	57
8.2.2	Loss of Rs.1.58 crore due to overpayment of claim	National Insurance Company Limited	58
8.2.3	Loss of premium due to application of incorrect rate	National Insurance Company Limited	59
8.2.4	Loss due to non-assessment/ revision of probable maximum loss in time	National Insurance Company Limited	60
8.2.5	Avoidable loss of Rs.73.29 lakh	National Insurance Company Limited	60
8.2.6	Avoidable loss of Rs.65 lakh	National Insurance Company Limited	62
8.2.7	Loss due to incorrect application of fire tariff	National Insurance Company Limited	63
8.3.1	Loss of premium	The New India Assurance Company Limited	63
8.3.2	Irregular allowance of fire special rating discounts	The New India Assurance Company Limited	64
8.4.1	Loss of Rs.60.30 lakh due to short realisation of earthquake premium	The Oriental Insurance Company Limited	65
8.5.1	Excess settlement of claim by Rs.93 lakh	United India Insurance Company Limited	66
8.5.2	Non-compliance with directives of Tariff Advisory Committee	United India Insurance Company Limited	67

8.5.3	Loss due to application of incorrect premium	United India Insurance Company Limited	68
8.5.4	Loss due to under charging of premium Rs.22.87 lakh	United India Insurance Company Limited	69
Chapter 9	**DEPARTMENT OF BANKING**		
9.1.1	Loss of Rs.5.68 crore due to imprudent under-writing	BOB Capital Market Limited	70
9.2.1	Loss due to sanction of loan to a promoter without verifying his competence	Industrial Investment Bank of India Limited	71
9.2.2	Loss of Rs.4 crore due to non-recovery of loan	Industrial Investment Bank of India Limited	72
9.3.1	Non-achievement of objective and resultant unfruitful expenditure	Karnataka Agri Development Finance Company Limited	73
Chapter 10	**MINISTRY OF HEALTH AND FAMILY WELFARE**		
10.1.1	Non-realisation of sales dues of Rs.54.02 lakh.	Hindustan Latex Limited	75
Chapter 11	**DEPARTMENT OF HEAVY INDUSTRIES**		
11.1.1	Extra expenditure of Rs.13.06 crore	Bharat Heavy Electricals Limited	76
11.1.2	Blocking of capital amounting to Rs.3.29 crore and loss of interest of Rs.1.57 crore	Bharat Heavy Electricals Limited	77
11.1.3	Loss of Rs.4.27 crore due to delay in completion of works	Bharat Heavy Electricals Limited	77
11.1.4	Loss due to inaccurate estimates and accepting orders at un-remunerative prices	Bharat Heavy Electricals Limited	79
11.1.5	Failure to enter into a power purchase agreement with APTRANSCO for selling power generated in the Company's windmill at Kadavakallu resulting in loss of Rs.1.96 crore	Bharat Heavy Electricals Limited	81
11.1.6	Avoidable loss of Rs.1.92 crore due to failure to take advantage of price reduction	Bharat Heavy Electricals Limited	83
11.1.7	Avoidable loss of Rs.1.18 crore due to delayed and defective manufacturing	Bharat Heavy Electricals Limited	84

11.1.8	Blocking of capital	Bharat Heavy Electricals Limited	85
11.1.9	Avoidable expenditure of Rs.62.66 lakh due to delay in placement of purchase order for rotors	Bharat Heavy Electricals Limited	86
11.2.1	Avoidable expenditure of Rs.1.61 crore due to delay in taking/implementing decision to buy oxygen and nitrogen rather make them in house	Bharat Heavy Plate and Vessels Limited	87
11.3.1	Unauthorised payment to the employees	Bharat Opthalmic Glass Limited	88
11.4.1	Loss of Rs.1.83 crore due to improper production facility	Bharat Wagon and Engineering Company Limited	89
11.5.1	Excess payment due to encashment of half-pay leave in contravntion of DPE guidelines	Engineering Projects (India) Limited	90
11.6.1	Idle investment in a project	Hindustan Cables Limited	91
11.7.1	Avoidable expenditure due to delay in decision making	Hindustan Paper Corporation Limited	93
11.8.1	Non-supply of machine within delivery schedule resulting in cancellation of order	HMT Machine Tools Limited	94
11.8.2	Loss due to improper management of funds	HMT Machine Tools Limited	95
11.9.1	Loss of Rs.3.61 crore due to delay in execution of purchase orders	Instrumentation Limited	96
11.10.1	Loss of Rs.96.05 lakh	NEPA Limited	97
11.11.1	Blockade of Rs.1.63 crore due to extension of undue benefit	Scooters India Limited	98
11.12.1	Injudicious engagement of liaison agent	Tungabhadra Steel Products Limited	99
Chapter 12	**MINISTRY OF HUMAN RESOURCES DEVELOPMENT**		
12.1.1	Infructuous expenditure of Rs.60.43 lakh on development of software	Educational Consultants India Limited	101
Chapter 13	**MINISTRY OF MINES**		
13.1.1	Avoidable payment of higher interest on Debentures	National Aluminium Company Limited	103

Chapter 14	MINISTRY OF PETROLEUM AND NATURAL GAS		
14.1.1	Loss of Rs.41.21 crore in processing imported crude	Bongaigaon Refinery and Petrochemicals Limited	104
14.1.2	Loss due to short lifting of Mono Ethylene Glycol	Bongaigaon Refinery and Petrochemicals Limited	105
14.2.1	Avoidable payment due to belated remittance of statutory dues	Chennai Petroleum Corporation Limited	106
14.3.1	Infructuous expenditure on the abandoned work of despatch terminal	Gas Authority of India Limited	107
14.4.1	Infructuous expenditure of Rs.6.52 crore in acquiring land.	Hindustan Petroleum Corporation Limited	108
14.4.2	Avoidable payment of Rs.3.45 crore towards power factor surcharge due to delay in installation of capacitors	Hindustan Petroleum Corporation Limited	109
14.4.3	Loss due to non recovery of sales dues	Hindustan Petroleum Corporation Limited	110
14.5.1	Non-realisation of sale proceeds due to extension of undue credit	Indian Oil Corporation Limited	111
14.5.2	Infructuous expenditure on up-gradation of virtual jetty	Indian Oil Corporation Limited	113
14.5.3	Undue benefit to the employees under Voluntary Separation Scheme	Indian Oil Corporation Limited	114
14.5.4	Blockage of funds of Rs.13.33 crore	Indian Oil Corporation Limited	115
14.5.5	Avoidable expenditure due to delayed testing of equipment	Indian Oil Corporation Limited	116
14.5.6	Loss of Rs.5.98 crore on acquisition of land for a project subsequently abandoned	Indian Oil Corporation Limited	117
14.5.7	Avoidable loss on account of irrecoverable excise duty	Indian Oil Corporation Limited	119
14.6.1	Unnecessary investment on creation of excess gas lift compression facility	Oil and Natural Gas Corporation Limited	120
14.6.2	Avoidable expenditure on re-drilling	Oil and Natural Gas Corporation Limited	121
14.6.3	Extra expenditure of Rs.15.52 crore due to hiring of higher capacity drilling rig	Oil and Natural Gas Corporation Limited	122
14.6.4	Avoidable expenditure of Rs.5.06 crore in hiring of a production Logging Unit	Oil and Natural Gas Corporation Limited	123

14.6.5	Unfruitful expenditure of Rs.3.50 crore due to delay in finalisation of drilling contracts	Oil and Natural Gas Corporation Limited	124
14.6.6	Avoidable payment of customs duty	Oil and Natural Gas Corporation Limited	125
14.6.7	Infructuous expenditure of Rs.88 lakh due to improper planning	Oil and Natural Gas Corporation Limited	126
14.6.8	Idle investment in Condensate Metering Facility	Oil and Natural Gas Corporation Limited	127
14.7.1	Idle investment of Rs.5.43 crore in Scope Minar Complex	Oil India Limited	128
14.7.2	Blocking up of Rs.2.75 crore due to non-utilisation of casing pipes	Oil India Limited	129
Chapter 15	**MINISTRY OF POWER**		
15.1.1	Avoidable payment	National Thermal Power Corporation Limited	131
15.2.1	Irregular disbursement of loans of Rs.99.32 crore to a private party	Power Finance Corporation Limited	132
15.2.2	Avoidable payment of extra interest due to not exercising call option	Power Finance Corporation Limited	133
15.3.1	Extra expenditure in construction of Kishenpur –Moga Transmission System	Power Grid Corporation of India Limited	134
15.3.2	Construction of transmission system much ahead of generation project	Power Grid Corporation of India Limited	135
15.3.3	Irregular payment of ex gratia/special incentive of Rs.17.44 crore	Power Grid Corporation of India Limited	136
15.4.1	Avoidable loss due to not insuring infrastructure assets	Satluj Jal Vidyut Nigam Limited	137
15.5.1	Blockade of funds	Tehri Hydro Development Corporation Limited	138

Chapter 16	DEPARTMENT OF PUBLIC ENTERPRISES		
16.1.1	Irregular expenditure of Rs.16.96 crore on foreign travel	India Trade Promotion Organisation, Shipping Corporation of India Limited, IRCON International Limited, Hindustan Aeronautics Limited, PEC Limited, Bharat Earth Movers Limited and Bharat Electronics Limited	140
16.1.2	Extra financial burden on non-viable Companies of Rs.16.68 crore due to increase in age of retirement	Triveni Structurals Limited, Bharat Pumps and Compressors Limited, Hooghly Dock and Port Engineers Limited, Bengal Chemicals and Pharmaceuticals Limited, Scooters India Limited and Bengal Immunity Limited	142
16.1.3	Excess payment of Rs.5.33 crore due to incorrect regulation of leave encashment	MMTC Limited, The State Trading Corporation of India Limited and PEC Limited	145
Chapter 17	**MINISTRY OF RAILWAYS**		
17.1.1	Irregular and extra payment of compensation	IRCON International Limited	147
Chapter 18	**MINISTRY OF SHIPPING**		
18.1.1	Avoidable loss due to payment of excess liquidated damages	Cochin Shipyard Limited	149
18.2.1	Infructuous expenditure of Rs.129.72 crore in procurement of dredger-XVI and XVII	Dredging Corporation of India Limited	150
18.2.2	Avoidable expenditure of Rs.2.88 crore in dry-docking dredger-XI	Dredging Corporation of India Limited	151
18.2.3	Avoidable loss of Rs.2.85 crore due to short billing on the dredgers deployed with Kolkata Port Trust	Dredging Corporation of India Limited	152

18.2.4	Avoidable expenditure of Rs.2.41 crore on borrowing of funds	Dredging Corporation of India Limited	153
18.3.1	Loss on conversion of a vessel and its idling	The Shipping Corporation of India Limited	154
Chapter 19	**MINISTRY OF SMALL SCALE INDUSTRIES AND AGRO AND RURAL INDUSTRIES**		
19.1.1	Idle investment of Rs.34.83 lakh	Andaman and Nicobar Islands Integrated Development Corporation Limited	156
Chapter 20	**MINISTRY OF URBAN AFFAIRS & POVERTY ALLEVIATION**		
20.1.1	Non-preparation of detailed estimates	Delhi Metro Rail Corporation Limited	157
20.2.1	Avoidable payment of guarantee fee	National Buildings Construction Corporation Limited	158
Chapter 21	**Follow up on Audit Reports (Commercial)**		159
	APPENDIX		160
	Glossary		172

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, 1956. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act 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 Corporations viz. Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation, relevant statutes designate CAG as their sole auditor. In respect of one Corporation viz. Central Warehousing Corporation, 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 Corporation.

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

4. 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.

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. The cases mentioned in this Report are among those which came to notice in the course of audit during 2001-2002 and 2002-2003 as well as those which came to notice in earlier years but could not be covered in previous years.

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

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 statute governing the particular Corporations are included in this Report.

2. This Report includes 153 paragraphs in respect of 72 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 105 paragraphs were not received even as this report was being finalised. Earlier, the draft paragraphs were sent to Management of PSUs concerned - in respect of 10 paragraphs, they failed to respond despite being reminded repeatedly.

3. 153 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 was awaited**
1. Chemicals and Petrochemicals (18/**4**)	4	21.24	3
2. Civil Aviation (8/**4**)	10	206.62	9
3. Coal (10/**5**)	11	40.46	9
4. Commerce (9/**1**)	3	4.83	2
5. Consumer Affairs, Food and Public Distribution (3/**2**)	12	195.76	11
6. Defence (9/**4**)	6	85.72	2
7. Fertilizers (9/**2**)	4	77.60	2
8. Finance (8/**5**)	15	22.97	7
9. Banking (44/**3**)	4	17.37	3
10. Health and Family Welfare (3/**1**)	1	0.54	1
11. Heavy Industries (49/**12**)	23	75.98	20
12. Human Resource Development (1/**1**)	1	0.60	1
13. Mines (4/**1**)	1	85.64	-

14. Petroleum and Natural Gas (17/**7**)	24	320.84	19
15. Power (9/**5**)	8	982.54	3
16. Department of Public Enterprises (♦/8♣)	16	38.97	7
17. Railways (8/**1**)	1	2.83	1
18. Shipping (7/**3**)	6	144.75	5
19. Small Scale Industries and Agro and Rural Development (1/**1**)	1	0.35	-
20. Urban Affairs (3/**2**)	2	12.39	-
Total	**153**	**2338.00**	**105**

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

- Wasteful/ infructuous expenditure of Rs.979.05 crore on repairs to sick plants, injudicious procurement of stores and spares, abandoned work etc. in 28 cases.
- Loss due to irregular disbursement of loan, non-realisation of sale proceeds, non-verification of credentials of lessor etc., amounting to Rs.381.53 crore in 49 cases.
- Idle investment and blocking of funds of Rs.256.19 crore in 20 cases.
- Extra expenditure on construction of projects, wasteful expenditure on DG sets etc. amounting to Rs.208.32 crore in 13 cases.
- Violation of DPE guidelines, Government instructions and consequent loss of Rs.184.68 crore in 22 cases.
- Loss due to undercharge of lease rent, avoidable expenditure due to delay in testing of equipment etc. amounting to Rs.166.57 crore in 6 cases.
- Loss of Rs.139.69 crore in 3 cases due to non compliance to rules, delay in commissioning of equipment of Rs.3.45 crore in one case, loss of Rs.1.87 crore due to non-enforcement of contractual provisions in one case, overpayment of Rs.2.51 crore in 2 cases and non-achievement of objective and consequent unfruitful expenditure of Rs.0.69 crore in one case.
- Inaccurate estimates, improper maintenance of stock, loss due to negligence etc. amounting to Rs.13.45 crore in 7 cases.

♦ ***All the PSUs are under Department of Public Enterprises***

♣ ***excluding the PSUs included under respective Ministries***

II. Highlights

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

- The failure of **Hindustan Fluorocarbons Limited** to execute minor civil works required for installation of incineration system resulted in equipment valued **Rs.1.70 crore** lying idle for seven years from **March 1996 to March 2003.**

  (Para 1.1.1)

- **Hindustan Insecticides Limited** could not resolve technical problems of its Mancozeb Plant and could operate the plant for six months only after its commissioning in **August 2002** resulting in blocking of capital of **Rs.9.97 crore**.

  (Para 1.2.1)

- Indecisiveness in the utilisation of a plot of land by **Hindustan Organic Chemicals Limited** has resulted not only in blocking up of funds of **Rs.3.08 crore** but also loss of interest of **Rs.2.69 crore** up to **March 2003.**

  (Para 1.3.1)

- **Indian Drugs and Pharmaceuticals Limited** incurred an avoidable expenditure of **Rs.3.80 crore** towards monthly minimum energy charges during **October 1996 to March 2003** due to its failure either in transferring the share of energy or selling off the share capital to their sister concern.

  (Para 1.4.1)

- Undercharging of lease rent from a private party and reduction of turnover levy resulted in foregoing of revenue of **Rs.145.69 crore** by **Airports Authority of India (AAI)** over the lease period from **June 2002**.

  (Para 2.1.1)

- **AAI** incurred infructuous expenditure of **Rs.8.23 crore** on extension of runway and construction of boundary wall at Jammu Airport, as it had to foreclose the contracts in **January 2002** for want of clear possession of land.

  (Para 2.1.2)

- Inappropriate decisions of the Corporate Management in sanctioning advances to its employees, which were subsequently written off resulted in loss of **Rs.26.74 crore** up to **March 2002** to the **Air India Limited (AIL)**.

  (Para 2.2.1)

- Due to negligence **AIL** did not inform its property status to the local council authorities at London, which resulted in avoidable payment of **Rs.4.25 crore** as council tax till **March 2003** and continues to cost **Rs.85 lakh** per annum till corrective action is taken by the Management.

  (Para 2.2.2)

- Absence of effective stores management in **AIL** resulted in an avoidable loss of **Rs.1.87 crore** due to shelf life expiry of perishable and non-perishable aircraft materials, besides loss of **Rs.1.47 crore** as interest on blocked funds up to **June 2003**. In addition there was customs duty liability of **Rs.3.01 crore.**

  (Para 2.2.3)

- **Indian Airlines Limited** lost **Rs.3.49 crore** incurred on bank charges and litigation cost up to **June 2003** as it had transferred fund towards lease charges of aircraft without ensuring the capability of the lessor to arrange aircraft on lease basis.

  (Para 2.3.1)

- **Pawan Hans Helicopters Limited** has incurred infructuous expenditure of **Rs.9.86 crore** up to **March 2002** on injudicious procurement of stores and spares.

  (Para 2.4.1)

- **Bharat Coking Coal Limited (BCCL)** suffered an avoidable loss of **Rs.4.49 crore** due to supply of unweighed coal to a steel plant of Steel Authority India Limited through Burragarh Railway siding during the period **1997-2000**. The coal could not be weighed on account of in-operation of electronic weigh bridge at loading point.

  (Para 3.1.1)

- **BCCL** had to incur an additional expenditure of **Rs.1.87 crore** for rerailments during the period **1998 to 2002** due to improper maintenance of railway tracks at private sidings of washeries, non-enforcement of contractual provisions against the contractors responsible and non supply of pathway materials in time by the Company.

  (Para 3.1.2)

- **Central Coalfields Limited (CCL)** commissioned two DG sets in **1999** to meet exigencies on account of anticipated higher demand of power supply due to forthcoming projects in Hazariabagh area. The DG sets have not been in operation since **October 2000**, resulting in wasteful expenditure **Rs.7.66 crore**.

  (Para 3.2.1)

- **CCL** spent an amount of **Rs.1.22 crore (1998)** on construction of a bridge, which could not be utilised as of **August 2003** due to delay in construction of approach roads for transportation of coal, resulting in idle investment.

  (Para 3.2.2)

- **Eastern Coalfields Limited** procured miners' shoes at higher rates on single tender basis without ascertaining the market price and rates of procurement of other subsidiaries and thereby incurred an extra expenditure of **Rs.3.11 crore** during the year **1998-99 to 2000-2001.**

  (Para 3.3.1)

- A gantry crane of **Neyveli Lignite Corporation Limited (NLC)** collapsed in a cyclone (**November 2000**) and the supplier refused to compensate it resulting in a loss of **Rs.7.25 crore**. **NLC** invoked the arbitration clause and the arbitration proceedings were still under progress **(May 2003)**.

  (Para 3.4.1)

- **NLC** installed **(September/October 2000)** a Distributed Digital Control System in their old fertilizer plants which were closed subsequently **(April 2001/February 2002)**. This resulted in idle investment of **Rs.4.50 crore of which Rs.1.07 crore** was infructuous.

  (Para 3.4.2)

- **Western Coalfields Limited (WCL)** incurred an expenditure of **Rs.8.02 crore** on construction of Coal Handling Plant (CHP) at Sasti open cast project. As the work could not be completed for ten years and **WCL** decided subsequently (**March 2003**) that the CHP was no more required, the expenditure of **Rs.8.02 crore** became infructuous.

  (Para 3.5.1)

- Failure of **MMTC Limited (MMTC)** to remove imported crude palm oil from the bonded warehouse on payment of customs duty resulted in payment of additional customs duty of **Rs.1.95 crore** in **June 2002.**

  (Para 4.1.1)

- **MMTC** incurred an extra expenditure of **Rs.1.47 crore** in discharging and transportation of coal from **May 2000 to October 2000** by acceding to an unjustified increase in the existing contracted rate.

  (Para 4.1.2)

- Incorrect application of DPE guidelines resulted in excess payment of **Rs.1.41 crore** for implementation of voluntary retirement scheme by **MMTC** in **January 2001.**

  (Para 4.1.3)

- Purchase of flats for staff quarters at Dwarka without ensuring suitability of the design and assessment of demand resulted in idle investment of **Rs.3.33 crore** and consequent loss of earnings of **Rs.1.33 crore** during the period from **February 1997 to March 2003** to **Central Warehousing Corporation.**

  (Para 5.1.1)

- **Food Corporation of India (FCI)** incurred avoidable loss of **Rs.133.13 crore** during **April 2001 to September 2002** on extending undue benefit to the exporters in terms of excess allowance.

  (Para 5.2.1)

- The Government of India instructions withdrawing the payment of double-line machine stitching charges, with effect from **October 2000,** were not followed by the **FCI** leading to an avoidable payment of **Rs.39.89 crore** during **October 2000 to December 2002**.

  (Para 5.2.2)

- **FCI** incurred avoidable payment of interest on cash credit, during **July 2001 to March 2003,** aggregating to **Rs.6.33 crore** due to non submission of bills within stipulated time.

  (Para 5.2.3)

- **FCI** incurred unnecessary expenditure of **Rs.51.60 lakh** towards railway freight on transportation of 'Relaxed Specification' rice, whose shelf life was expired, from the State of Punjab to the State of Karnataka, which was later disposed of during **2000-01** through tender at a loss of **Rs.2.23 crore**. **FCI** suffered a total loss of **Rs.2.75 crore**.

  (Para 5.2.4)

- There was system failure leading to misappropriation of stocks valuing **Rs.2.20 crore** by the employees of the **FCI** at Food Storage Depot, Zira during **1999-2000 and 2000-01.**

  (Para 5.2.5)

- In the absence of clear instructions from the Head Office and delay in issue and circulation of clarification by Regional Office, **FCI** suffered a loss of **Rs.1.85 crore** on the sale of normal wheat during **October 2001 to November 2001**.

  (Para 5.2.6)

- **FCI** suffered a loss of **Rs.1.47 crore,** on account of wheat stocks damaged during **July 2001 to August 2002** and lost in **March 2002,** which were improperly kept for a longer period in poorly constructed temporary plinths at Food Storage Depot, Whitefield Banglore .

  (Para 5.2.7)

- **FCI** incurred an additional expenditure of **Rs.1.25 crore** in the procurement of Aluminium Phosphide at higher rates during the contract period **2000-01 and 2001-02** in the South Zone.

  (Para 5.2.8)

- **Bharat Earth Movers Limited** paid penal interest of **Rs.2.43 crore** in **July 2002** due to delayed payment of customs duty. In addition, due to non-availment of concessional customs duty, it also paid additional customs duty of **Rs.68 lakh** in **July 2002** on domestic sales.

(Para 6.1.1)

- **Bharat Electronics Limited** failed in protecting its interest at the time of amendment of delivery terms resulting in blocking up of funds of **Rs.58.37 crore** and consequential loss of interest of **Rs.9.89 crore** from **1995-96** to **2001-02.** It also incurred **Rs.1.32 crore** towards insurance premium for safeguarding the goods.

(Para 6.2.1)

- **Hindustan Aeronautics Limited** failed to fulfill its commitment for repair/overhaul of MIG 21 M and 27 M Aircraft in time resulting in incurring of liquidated damages of **Rs.11.33 crore** from **1995-96 to 2002-03**.

(Para 6.3.1)

- **Fertilizers and Chemicals Travancore Limited** carried out major repairs to old plants at a cost of **Rs.71.69 crore** during **1998-99 to 2001-02**, which were subsequently declared economically unviable and it decided **(February 2003)** to dispose of the plants and write off the assets even without assessing the efficacy of the repairs.

(Para 7.1.1)

- Urea Prill Tower of **Madras Fertilizers Limited (MFL)** did not attain guaranteed norms even after rectification works carried out during **October 1999 to July 2001**. To overcome this situation, the Company embarked upon an alternative scheme **(September 2002)** which rendered the expenditure of **Rs.4.52 crore** infructuous.

(Para 7.2.1)

- **MFL** could not recover interest for credit periods overrun by a wholesaler in remitting sale proceeds during the period **October 1999 to March 2002** which resulted in a loss of **Rs.1.03 crore**.

(Para 7.2.2)

- **General Insurance Corporation of India's** failure to adopt correct figures in the finalisation of commutation agreement in **January 2002** under Re-insurance arrangement with Reinsurance Australia Corporation resulted in an avoidable loss of **Rs.3.17 crore.**

(Para 8.1.1)

- **National Insurance Company Limited (NIC)** incurred a loss of premium of **Rs.3.80 crore** in **March 1999** due to non-adherence of rates stipulated in market agreement entered into between General Insurance Corporation of India and its four

subsidiaries for underwriting the Group Janata Personal Accident Policy issued to Chandrapur District Central Co-operative Bank Limited.

(Para 8.2.1)

- **NIC** paid **Rs.1.58 crore** in excess **(1999)** due to incorrect method of calculation of claim for a policy covering the year 1997-1998.

(Para 8.2.2)

- **New India Assurance Company Limited** incurred a loss of premium of **Rs.7.20 crore** in **March 1999** due to non-adherence of rates stipulated in market agreement entered into between General Insurance Corporation of India and its four subsidiaries for underwriting the Group Janata Personal Accident Policy issued to Western Coalfields Limited.

(Para 8.3.1)

- **BOB Capital Market Limited** incurred loss of **Rs.5.68 crore** in **March 2001** due to imprudent under-writing support to M/s. Krishna Filaments Limited for their public issue of Optionally Fully Convertible Discounted Debentures.

(Para 9.1.1)

- **Industrial Investment Bank of India Limited (IIBI)** faces the risk of potential loss of **Rs.7 crore** due to disbursement of loan to a promoter during the period from **November 1997 to July 1999** without verifying its competence.

(Para 9.2.1)

- **IIBI** faces the risk of potential loss of **Rs.4 crore** due to extending undue favour to a private party in the disbursement of loan in **July 1998** without obtaining any security.

(Para 9.2.2)

- **Bharat Heavy Electricals Limited** (**BHEL**) accepted an order on firm price basis without preparing proper estimates and finalising design details. As a result, it incurred (**January 2000**) extra expenditure of **Rs.13.06 crore** due to design changes, increase in consultation charges and delay in execution of the work.

(Para 11.1.1)

- **BHEL** blocked its capital amounting to **Rs.3.29 crore** since **March 1999** and incurred loss of interest of **Rs.1.57 crore** thereon, due to commencement of manufacturing of motors without receipt of advance payment from a private customer and delay in putting the manufacturing activities on 'hold'.

(Para 11.1.2)

- **BHEL** could not complete three works within the contractual schedule due to improper planning and inaccurate estimates. This has resulted in loss of **Rs.4.27 crore** (**May 1998 to December 1998)** against the estimated profit of **Rs.3.12 crore**.

(Para 11.1.3)

- **BHEL** incurred loss of **Rs.2.63 crore** by accepting orders from a private customer in **March 2000** at un-remunerative prices, by not adhering to its pricing policy as well as failure in estimating the workable cost.

(Para 11.1.4)

- **BHEL** could neither utilise the entire power generated by its windmill nor could it sell surplus power to APTRANSCO/ third party in the absence of power purchase agreement which resulted in a loss of **Rs.1.96 crore** during **September 1999 to June 2003.**

(Para 11.1.5)

- **BHEL** incurred an extra expenditure of **Rs.1.92 crore** during the period from **August 2001 to May 2003** due to its failure to take note of reduction in prices in subsequent orders and negotiate with supplier for matching prices.

(Para 11.1.6)

- **BHEL** suffered a loss of **Rs.1.18 crore** during **1999-2000 to 2001-02,** due to delayed and defective manufacturing.

(Para 11.1.7)

- Due to lack of proper co-ordination amongst its units and not taking into consideration the customer's financial capability, **BHEL** has manufactured **(March 1999)** the motors, which remained un-disposed for more than four years, resulting in blocking of capital to the extent of **Rs.1.03 crore**.

(Para 11.1.8)

- Due to delay in taking/implementing decision to buy oxygen and nitrogen rather make them in house, **Bharat Heavy Plate and Vessels Limited** incurred avoidable expenditure of **Rs.1.61 crore** during **1997-98 to 2001-02.**

(Para 11.2.1)

- Sanction of *ad hoc* advance without approval of its Board or Ministry and in contravention of the Government orders in **April 2000 and February 2001** by **Bharat Ophthalmic Glass Limited** led to an unauthorised payment of **Rs.1.44 crore** to its employees including 36 employees opted for VSS.

(Para 11.3.1)

- Due to reduction of rates by Ministry of Railways on account of delay in production of wagons, **Bharat Wagon and Engineering Company Limited** suffered a loss of **Rs.1.83 crore** up to **June 2001.**

(Para 11.4.1)

- Delay in taking up the project for commissioning by **Hindustan Cables Limited** led the viability of project under doubt and the investment of **Rs.19.42 crore** on the project remained idle since **February 2001.**

(Para 11.6.1)

- Delay in disposal of slow/non-moving stocks of paper led to a loss of **Rs.8.62 crore** on account of inventory carrying cost to **Hindustan Paper Corporation Limited** during the period from **December 2000 to March 2002.**

(Para 11.7.1)

- Failure of **HMT Machine Tools Limited** to supply the machine due to non-procurement of imported components resulted in cancellation of the order by the customer leading to blocking up of funds of **Rs.1.31 crore** and loss of interest of **Rs.61.16 lakh** from **April 2000 to June 2003**.

(Para 11.8.1)

- Delay in supply of equipment by **Instrumentation Limited** due to delay in placement of order and receipt of supplies from the vendors resulted in a loss of **Rs.3.61 crore** by way of liquidated damages up to **March 2002**.

(Para 11.9.1)

- **Scooters India Limited** extended credit to its dealer in relaxation of terms of agreement, and its own credit policy leading to non-recovery of sale proceeds during **July 2000 to March 2003** which had accumulated to **Rs.1.63 crore** as on March 2003.

(Para 11.11.1)

- Non-inclusion of exit option in the Non-convertible Debentures by **National Aluminium Company Limited** in **March 1999,** resulted in avoidable liability of interest of **Rs.85.46 crore**.

(Para 13.1.1)

- **Bongaigaon Refinery and Petrochemicals Limited (BRPL)** sustained a loss of **Rs.41.21 crore** in the processing of imported crude during the period from **February 2001 to December 2001** without assessing its economics.

(Para 14.1.1)

- Due to non lifting of the entire ordered quantity of Mono-Ethylene-Glycol **BRPL** incurred avoidable expenditure of **Rs.1.01 crore** in **July 1999** by procuring the remaining quantity at higher rate.

  (Para 14.1.2)

- **Gas Authority of India Limited** incurred an infructuous expenditure of **Rs.1.87 crore** during **December 1999 to January 2001** for dispatch terminal and connected pipelines to transport gas from a refinery which was not coming up due to damage by a cyclone.

  (Para 14.3.1)

- **Hindustan Petroleum Corporation Limited (HPCL)** incurred infructuous expenditure of **Rs.6.52 crore** in acquiring 34.10 acres of land in coastal regulation zone at Haldia and subsequent delay of about eight years ending **July 2001** in surrendering it.

  (Para 14.4.1)

- **HPCL** incurred an avoidable payment of surcharge of **Rs.3.45 crore** on account of low power factor due to delay in installation of capacitors during **April 1997 to December 2000.**

  (Para 14.4.2)

- Allowing of unsecured credit to a customer during **December 2000 to June 2001** resulted in non-realisation of sale proceeds amounting to **Rs.2.27 crore** by **HPCL**.

  (Para 14.4.3)

- **Indian Oil Corporation Limited (IOCL)** extended interest-free credit without any financial security to a private company in relaxation of terms of agreement, its credit policy and Ministry's instructions leading to non-recovery of sale proceeds of **Rs.77.19 crore** as of **March 2003.**

  (Para 14.5.1)

- Upgrading of a virtual jetty into a permanent jetty at Kandla Port, during the year **2000-01** has resulted in infructuous expenditure of **Rs.35.77 crore** due to **IOCL** Management's defective planning and lack of foresight.

  (Para 14.5.2)

- Introduction of Voluntary Separation Scheme by **IOCL** in **May 2000** in contravention of the Government of India orders led to an extra liability of **Rs.30.78 crore** in its eastern region.

  (Para 14.5.3)

- Failure of **IOCL** to synchronise its purpose and area of land required therefor during last ten years ending **March 2003** resulted into blockage of funds of **Rs.13.33 crore.**

  (Para 14.5.4)

- **IOCL** could not test and operate an equipment within the validity period of its performance bank guarantee. The equipment when subsequently tested was found damaged. A new equipment was imported at a landed cost of **Rs.7.73 crore** with scheduled delivery of **July 2003** for replacement of damaged one.

  (Para 14.5.5)

- **IOCL** decided to surrender **(April 2001)** 107 acre surplus land procured in 1996 and suffered a loss of **Rs.5.75 crore** besides blocking up of funds to the tune of **Rs.3.28 crore** for more than seven years.

  (Para 14.5.6)

- **IOCL** availed excise duty exemption on the Rubber Spray Oil sold during the period from **March 1990 to June 1994** and incurred avoidable loss of **Rs.2.18 crore** on account of irrecoverable excise duty.

  (Para 14.5.7)

- During **1999-2000, Oil and Natural Gas Corporation Limited (ONGC)** created excess gas lift compression facility in Ankleshwar project, rendering the investment of **Rs.25.09 crore** infructuous.

  (Para 14.6.1)

- Despite specific recommendations of an expert agency, **ONGC** undertook re-drilling of a previously declared non-commercial exploratory well, which derived the similar conclusions in **December 1998,** thus, resulting in infructuous expenditure of **Rs.24.71 crore**.

  (Para 14.6.2)

- **ONGC** hired higher capacity rig for Extended Reach Drilling of wells but utilised same for drilling of other directional wells between **August 1998 and July 2000**. This resulted in extra avoidable expenditure of **Rs.15.52 crore**.

  (Para 14.6.3)

- **ONGC** incurred an avoidable expenditure of **Rs.5.06 crore** up to **November 2000** in hiring a production logging unit for an extended period because of delay in procuring the stack tools of lesser value for making a departmental production logging unit operational.

  (Para 14.6.4)

- Due to the inordinate delay in finalising the 2 Short hole-drilling contracts during **2001-02** field season, **ONGC** had to incur unfruitful expenditure of **Rs.3.50 crore**.

  (Para 14.6.5)

- Failure of **ONGC** to avail exemptions available under customs Act, 1962 on import of spares during **1997-98** for one of its foreign going vessel resulted in avoidable expenditure of **Rs.2.26 crore**.

  (Para 14.6.6)

- **Oil India Limited (OIL)** booked an office space in the Scope, Minar Complex in March 1991 and subsequently, purchased (January 1992) a plot at NOIDA for construction of an office premise with a view to surrender or sell office space booked with the Scope. However, the Company could neither surrender nor occupy the space resulting in blocking of funds of **Rs.5.43 crore** besides annual maintenance and rent charges amounting to **Rs.2.07 crore** from **January 2002**.

  (Para 14.7.1)

- **OIL** received reports from Surveyor/Drilling department (September/December 1999) for Non-Destructive test and necessary treatment on rusted casing pipes to make them usable. However, the test was completed in May 2002 and the part portion of casing could only be used in **December 2002 and March 2003.** This resulted in blocking of funds worth **Rs.2.75 crore.**

  (Para 14.7.2)

- **National Thermal Power Corporation Limited** did not reassess requirement of water, despite allocation of reduced quantity of gas and approval to only one stage of project. This resulted in avoidable payment of fixed charges amounting to **Rs.1.31 crore (February 1998/July 1999)** on account of reserved quantity of water.

  (Para 15.1.1)

- **Power Finance Corporation Limited (PFC)** disbursed loans amounting to **Rs.99.32 crore** during the period from **February 1999** to **July 2000** to a private party without ensuring fulfillment of pre-disbursement conditions. As the work has been held up for more than two years, the Company faces risk of **potential** loss of **Rs.99.32 crore**, besides loss of interest amounting to **Rs.39.54 crore.**

  (Para 15.2.1)

- **PFC** did not exercise call option for early redemption of the bonds during **December 2001 to February 2002** despite the fact that there was downward trend in rate of interest. As a result, it incurred avoidable liability of extra interest amounting to **Rs.3.88 crore**.

  (Para 15.2.2)

- **Power Grid Corporation of India Limited (PGCIL)** incurred extra expenditure of **Rs.217.22 crore** on construction of 800 kV Kishenpur - Moga Transmission System

due to avoidable delay of 30 months attributable to inexperience of a foreign contractor. Besides, excess capacity created **(May 2000 and January 2001)** at an additional expenditure of **Rs.433.81 crore** would remain grossly underutilised for years to come due to non materialisation of expected generation of power as most of the identified generation projects were not even taken up for implementation.

(Para 15.3.1)

- **PGCIL** constructed Ranganadi -Balipara Transmission System much ahead of an associated generation project due to not assessing the anticipated schedule of completion of the generation project. This has resulted in idling of the transmission system involving blocking of funds amounting to **Rs.148.79 crore** for more than four years. In addition, **PGCIL** had to incur extra expenditure of **Rs.17.05 crore** towards interest on borrowed funds and operation and maintenance of the system during the period from **September 1998 to November 2002**.

(Para 15.3.2)

- **PGCIL** effected irregular payment of *ex-gratia*/special incentive amounting to **Rs.17.44 crore** during the last ten years ending **2000-01** to its employees whose salary exceeded the limit as stipulated under the Payment of Bonus Act.

(Para 15.3.3)

- **Satluj Jal Vidyut Nigam Limited** suffered losses of **Rs.3.03 crore** (**1992 to 2000**) due to non-insurance of its infrastructure assets relating to 1500 MW hydroelectric power project

(Para 15.4.1)

- Failure to regulate foreign travel claims of the employees in accordance with the instructions of the Department of Public Enterprises resulted in irregular payment of **Rs.16.96 crore** by **India Trade Promotion Organisation, Shipping Corporation of India Limited, IRCON International Limited, Hindustan Aeronautics Limited, PEC Limited, Bharat Earth Movers Limited and Bharat Electronics Limited** during the period from **September 1995 to March 2003.**

(Para 16.1.1)

- **Triveni Structurals Limited, Bharat Pumps and Compressors Limited, Hoogly Dock and Port Engineers Limited, Bengal Chemicals and Pharmaceuticals Limited, Scooters India Limited and Bengal Immunity Limited,** had to bear an extra financial burden of **Rs.16.68 crore** during the period from **May 1998 to February 2002** due to enhancement in the retirement age from 58 years to 60 years.

(Para 16.1.2)

- Due to adoption of 26 days as a month instead 30 days for the computation of encashment of earned leave, **MMTC Limited, The State Trading Corporation of**

India Limited and PEC Limited made excess payment of **Rs.5.33 crore** to their employees during the period from **July 1993 to March 2003.**

(Para 16.1.3)

- **IRCON International Limited** paid compensation to the extent of 75/90 days to its employees opting for VRS during the period from **May 2000 to December 2002** against the ceiling of 60 days salary as fixed by the Department of Public Enterprises resulting in an irregular and extra payment of compensation to the extent of **Rs.2.83 crore**.

(Para 17.1.1)

- **Cochin Shipyard Limited** incurred avoidable loss of **Rs.1.40 crore** due to inclusion of defective clause in the agreement which resulted in excess payment of liquidated damages on a repair job carried out during the year **1998-99** to a Rig of ONGC.

(Para 18.1.1)

- **Dredging Corporation of India Limited (DCIL)** incurred avoidable expenditure of **Rs.129.72 crore** during **April 1999 to July 2001** due to its decision to ignore the competitive offer of IHC, Holland of November 1996.

(Para 18.2.1)

- The failure of **DCIL** to carryout basic cost benefit analysis before placing the order for repair of dredger-XI resulted in avoidable expenditure of **Rs.2.88 crore** during **September 1998 to December 1998.**

(Para 18.2.2)

- **DCIL** suffered avoidable loss of **Rs.2.85 crore** due to short billing on the dredgers deployed in **April/May 2000** with Kolkata Port Trust.

(Para 18.2.3)

- **DCIL** incurred an extra expenditure of **Rs.2.41** crore during **November 2000 to July 2002** due to its failure for borrowing the funds without assessing its surplus funds invested in term deposit at lower interest rate.

(Para 18.2.4)

- **Shipping Corporation of India Limited** incurred an avoidable expenditure of **Rs.5.49 crore** in **March 1998** due to conversion of a very large crude carrier as floating product storage tanker without any written agreement for its employment by Oil Co-ordination Committee.

(Para 18.3.1)

- In the absence of detailed estimates, **Delhi Metro Rail Corporation Limited** did not carry out an item-wise analysis for a contract awarded in **November 1998** so as

to ensure reasonableness of rates. A comparison of the rates allowed to the contractor with those for similar contracts awarded subsequently in **February 2000 and January 2001** revealed that the former were higher to an extent of **Rs.10.91 crore**.

(Para 20.1.1)

- Failure of **National Buildings Constructions Corporation Limited** to realistically estimate the guarantee to be taken from Government led to an avoidable payment of guarantee fee to the extent of **Rs.1.48 crore** up to **March 2003.**

(Para 20.2.1)

CHAPTER 1: DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Hindustan Fluorocarbons Limited

1.1.1 Delay in completion of minor civil work resulted in non-installation of incineration system valued at Rs.1.70 crore

The Company could not install incineration system due to delay in completion of minor civil work. This resulted in blocking of Rs.1.70 crore for seven years and non-compliance with the APPCB's norms for pollution control.

As on date (June 2003), the incineration system worth Rs.1.70 crore (supplied between September 1995 and March 1996) could not be installed as Hindustan Fluorocarbons Limited (Company) failed to have the required civil works of Rs.8.77 lakh completed till February 2002. Further, even after completion of the said civil works in March 2002, the system remained uninstalled.

To comply with the directions (May 1993) of AP Pollution Control Board (APPCB) a work order was issued (March 1995) to M/s. Thermax Limited (supplier) for design, manufacture, fabrication, supply, inspection, erection, commissioning testing and handing over of incineration system at a cost of Rs.1.78 crore. The Company was required to execute all the civil works required for the plant for which the supplier would provide the designs and drawings and the supplier would hand over the system to the Company latest by May 1996.

The incineration system was supplied between September 1995 and March 1996 at the cost of Rs.1.70 crore. The Company, however, could not initiate proper action for getting the required civil work completed. The civil works (Value Rs.8.77 lakh) were entrusted to a contractor in January 2002 and completed in March 2002. The incineration system has, however, not been installed so far (June 2003).

Ministry, while confirming the above facts and figures, replied (March 2003) that delay in completion of civil works was due to dismantling of a part of the work done by the contractor on account of the poor quality of cement used. It was further informed that the Company could not undertake erection work due to non-availability of funds at that point of time over and above the operational requirements.

The Ministry's reply does not explain why the Company failed to execute civil works involving a small outlay of Rs.8.77 lakh when equipment worth Rs.1.70 crore was lying idle. That the Company did not have funds to undertake these works is not factual because during this period (1996-97 and 2001-02) the Company had incurred Rs.1.63 crore on other capital works.

Thus, the failure of the Company to execute minor civil works required for installation of incineration system has resulted in the equipment lying idle for 7 years. This has resulted in (a) not fully complying with the APPCB's norms for pollution control; and (b) blocking of Rs.1.70 crore paid to the supplier.

Hindustan Insecticides Limited

1.2.1 Blocking of capital

The Company's prolonged and unsuccessful efforts to resolve technical problems encountered during erection of the plant resulted in blocking of capital of Rs.9.97 crore.

Hindustan Insecticides Limited (Company) commissioned its Mancozeb Plant in August 2002 at a capacity of 240 MTPA[♠] against installed capacity of 1000 MTPA. The plant could operate for six months only and produced a small quantity of 40 MT. The production was discontinued from March 2003 onwards due to poor performance.

The Company had planned to develop a laboratory scale plant into a Commercial plant and decided (June 1996) to set up a Mancozeb (Technical) and downstream Formulation Plant, to be commissioned by December 1997 at an estimated cost of Rs.6.70 crore. The new plant was also to provide employment to labour rendered surplus as a result of the closure (April 1997) of the Company's defunct BHC[♣] Plant. The Detailed Project Report (DPR) projected a pay back period of around 15 months with Internal Rate of Return (IRR) of 90.16 per cent.

The Company faulted in embarking upon commercial project without gathering complete technical information with regard to product, process stages, quality, environmental and safety considerations. These deficiencies became more pronounced when the Project encountered a series of deficiencies right from beginning. Only after commencement of work, the Company realised that complete technical information was lacking with regard to product, process stages and quality of final product. During erection of the plant, the Company came to know that competitors had upgraded their technology to obtain the finished product of specified particle size and suspensibility in the Technical Plant itself without any need for further processing in the separate Formulation Plant. The Company's failure to resolve technical and other problems resulted in delay of more than four years in commissioning of the project, and its objectives of product diversification and utilisation of redundant labour did not materialise

By the time the Plant was commissioned in August 2002 at a cost of Rs. 9.97 crore, four new manufacturers in the private sector had already captured the market. Further, the cost of production had gone up (June 2003) from the projected figure (@ 100 per cent

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[♠] ***Metric Tonne Per annum***

[♣] ***Benzene Hexa Chloride***

capacity utilisation) of Rs.71.85 per kg to Rs.118 per kg which was higher than the prevailing selling price.

The Management stated (June 2002) that delay in Board's approval for awarding civil works, procurement of equipment and changes made in the detailed engineering and process parameters contributed to the delay. They further added (June 2003) that samples have been distributed to various formulators to study 'shelf life' to know the quality of the same.

The reply is not tenable, as the reasons attributed to delays were internal problems and could have been resolved to meet the schedule. Despite installation of equipment and changes made in the detailed engineering and process parameters, the desired particle size could not be achieved. The fact that the Company could not obtain any confirmed order, even after a lapse of one year from the date of commissioning and despite distribution of free samples, is indicative of the non-acceptance of the product.

Considering the Management's prolonged and unsuccessful efforts to resolve technical problems for over five years and due to the prevailing low market price, commercial viability of the project is doubtful.

Thus, the capital of Rs.9.97 crore remained blocked with a recurring interest burden to the extent of Rs.77 lakh per annum.

The matter was referred to the Ministry in July 2002; their reply was awaited (August 2003).

Hindustan Organic Chemicals Limited

1.3.1 Blocking of funds amounting to Rs.3.08 crore

Indecisiveness in the utilisation of a plot of land has resulted not only in blocking up of funds of Rs.3.08 crore but also loss of interest of Rs.2.69 crore up to March 2003.

The Company incurred a loss of interest of Rs.2.69 crore up to March 2003 due to investment of funds amounting to Rs.3.08 crore in acquisition of 1000 square metre plot in Kharghar Node in November 1995 which is lying idle for over seven years.

The Company acquired (November 1995) a plot of 1000 square metre for the construction of office building without preparing the initial cost estimates and finalising the sources of finance and paid lease premium of Rs.3.08 crore in instalments up to 22 January 1996. As per terms of allotment order, the Company was to execute an agreement for lease as a precondition for taking possession of land and complete construction within four years. However, due to financial crunch owing to incurring of loss from 1997-98 onwards and inadequate development of surrounding area at a later stage, the Company did not execute the lease agreement for taking possession of land and

requested City and Industrial Development Corporation of Maharashtra Limited (CIDCO) for the refund of lease premium of Rs.3.08 crore.

CIDCO informed the Company that refusal to take possession of the land would attract forfeiture of earnest money deposit (EMD) i.e. 10 per cent of cost of land plus 25 per cent of the lease premium, which worked out to Rs.1.08 crore. Company's request of August 1998 to allot ready built premises in developed area in place of land in Kharghar Node was accepted by the CIDCO. Accordingly an area measuring 35679 square feet was offered (September 1998) at Belapur Railway Complex at a cost of Rs.6.78 crore (@ of Rs.1900 per square feet) Company did not accept (March 1999) the offer on the ground that price quoted by CIDCO was higher than the prevailing market rate. Hence the amount of Rs.3.08 crore is blocked up since January 1996 without any yield.

Management stated (May 2003) that the Company decided to acquire 1000 square metre plot in newly developed Kharghar Node as a part of scheme for shifting of its Corporate office at a time when it was making profit. With the adverse impact on profitability from 1997-98 onwards, the acquisition of land and further development was deferred.

The above contention of the Management is not tenable as the indecisiveness in the matter for a period of more than seven years without having any plan for future use has resulted in blocking of capital of Rs.3.08 crore with consequential loss of interest amounting of Rs.2.69 crore up to March 2003.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Indian Drugs and Pharmaceuticals Limited

1.4.1 Avoidable expenditure of Rs.3.80 crore towards monthly minimum energy charges

The failure of the Company either in transferring the share of energy or selling off the share capital resulted in avoidable expenditure of monthly minimum energy charges of Rs.3.80 crore from October 1996 to March 2003.

The Synthetic Drug Plant (Unit) of IDPL had to incur an expenditure of Rs.3.80 crore towards monthly minimum energy charges for the period from October 1996 to March 2003, which also resulted in erosion of its share capital to Rs.93.80 lakh in Andhra Pradesh Gas Power Corporation Limited (APGPCL).

The Unit was having 4MW share in APGPCL by paying Rs.1.07 crore for 10.72 lakh shares of Rs.10 each till August 1996. As per the MOU entered into by the participating industries, APGPCL allocated power to each shareholder in proportion to the shareholding in advance on a monthly basis. In case the actual utilisation fell short of the

allotted share, the concerned shareholder was billed for actual utilisation subject to minimum charges payable to APSEB[♣] (now APTRANSCO) as per its tariffs and terms and conditions of supply. The participating industries were allowed either to transfer their share of energy from APGPCL or to transfer all or part of their share capital to their sister concern located in the State of Andhra Pradesh.

The Unit, which had turned sick, could not pay the power bills to the APGPCL from January 1995. When APGPCL offered (July 1996) the Unit rights shares, the Unit sold (August 1996) 0.5 MW share along with rights shares thereon to M/s. Visakha Cement Industries Limited, Secunderabad for a price of Rs.2 crore. APGPCL received the amount of Rs.2 crore from Global Trust Bank, Secundrabad on 2 September 1996 on behalf of Visakha Cement Industries to clear the dues of IDPL towards energy consumption charges. And as such APGPCL adjusted the sale proceeds of Rs.2 crore against outstanding dues of the Unit up to 1996. As a result the Unit's share holding in APGPCL came down to Rs.93.80 lakh representing 3.5 MW.

As the production activity came to a complete halt from October 1996, the Unit could not utilise the power allocated by APGPCL but the latter continued to levy minimum charges as per MOU. However, it was only in April 1999 that the Management transferred 7.5 lakh units per month to Hindustan Fluorocarbons Limited, Hyderabad. It has neither tried so far to further transfer remaining allocation of power from APGPCL to other PSU, nor has it made any effort to sell its balance share capital.

Management stated (July 2003) that it had already submitted to BIFR requesting them to direct the Company to pay only consumption charges on actual basis and waiver of other charges.

Thus, the Company has been exposed to a loss of Rs.3.80 crore being the minimum charges for the period October 1996 to March 2003.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

[♣] ***Andhra Pradesh State Electricity Board***

CHAPTER 2: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1.1 Loss of revenue due to undercharging of lease rent from a private party

Undercharging of lease rent from a private party and reduction of turnover levy resulted in foregoing of revenue of Rs.145.69 crore over the duration of the agreement.

Centaur Hotel, Mumbai of Hotel Corporation of India♠ (HCI) was built on land belonging to the Airports Authority of India (Authority). The two organisations had not executed a formal lease agreement for this. To settle divergent issues between HCI and Authority in order to effect disinvestment of HCI, Government of India appointed the Joint Secretary of the Ministry of Civil Aviation to act as an arbitrator. The Arbitrator, *inter-alia,* gave (November 1999) an award that HCI should pay lease rent as demanded by the Authority on the basis of standard lease rent charged by them for all hotels as well as other commercial establishments. However, instead of applying standard lease rent♣ which contained a clause for 10 per cent annual escalation, the Authority entered into an agreement with HCI on 7 December 2000 stipulating that lease rent payable by HCI should be Rs.163 per square metre per annum effective from 1 January 2001 with 20 per cent escalation every three years.

HCI sold the business of Centaur Hotel to Batra Hospitality Private Limited (BHPL) on 18 April 2002. Since the lease deed of December 2000 cited above was a transaction document in this sale, the fixing of lower rent with HCI had an adverse impact on the future lease rent of the land. As a result, instead of applicable lease rent of Rs.197 per square metre per annum as on the date of Agreement with 10 per cent annual escalation, a lease rent of Rs.163 per square metre per annum was adopted with escalation by an amount not exceeding 20 per cent at an interval of not less than three years. Consequently, the Authority forfeited revenue amounting to Rs.14 lakh up to 4 June 2003 and would also forego Rs.58.30 crore over the remaining period of lease of 28 years.

As per the agreement dated 7 December 2000 HCI was to pay 6 per cent of their annual turnover to the Authority as a turnover levy subject to minimum guaranteed amount. Accordingly, this was circulated to the bidders prior to the submission of financial bid on 5 November 2001. Since the financial bid received on 5 November 2001 was below the reserve price, the Ministry of Disinvestments invited fresh bid on 18 January 2002 reducing the turnover levy from 6 per cent to 2 per cent of the annual turnover. Accordingly, the Authority agreed to charge lower turnover levy from BHPL. This

♠ ***A subsidiary of Air India Limited***

♣ ***Standard lease rent was Rs.163 per square metre per annum from 1 October 1999 to 30 September 2000***

reduction of turnover levy by Authority resulted in loss of revenue of Rs.1 crore up to 4 June 2003 and anticipated loss of revenue of Rs.86.25 crore[♣] to Authority over the lease period.

Thus, the Authority has already foregone total revenue of Rs.1.14 crore and would also forego Rs.144.55 crore over the remaining period of lease.

Management stated (June 2003) that the rate of lease rent vis a vis the revision period of three years was incorporated in the agreement as per the decision of the Board of Directors of the Authority and the decision to charge lower turnover levy was taken at the instance of the Government.

Contention of the Management is not tenable because by foregoing revenue amounting to Rs.145.69 crore, the Authority acted contrary to the award of the Arbitrator that HCI should pay lease rent as demanded by the Authority on the basis of standard lease rent charged by them for all hotels as well as other commercial establishments. Further, by reduction in royalty from 6 per cent to 2 per cent on turnover the Authority created a disparity with its existing lessees (A. B. Hotel –Radisson, IGI and Hotel Leela Venture, Mumbai). The Authority also did not bring it to the specific notice of the Government that it would forego minimum amount of Rs.145.69 crore over the lease period to safeguard its financial interest.

Besides, Air India Limited/ HCL received Rs.83 crore on disinvestment of the hotel, that too after extending concession of Rs.145.69 crore at the cost of the Authority.

Thus, the fact remains that failure of the Authority to determine the initial licence rent along with the rate of annual escalation and also reduction of turnover levy resulted in foregoing of revenue of Rs.145.69 crore.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

2.1.2 Infructuous investment of Rs.8.23 crore on the incomplete works of extension of runway

Airports Authority of India incurred infructuous expenditure of Rs.8.23 crore on extension of runway and construction of boundary wall at Jammu Airport, as it had to foreclose the contracts in January 2002 for want of clear possession of land.

Investment of Rs.7.98 crore made by the Airports Authority of India (Authority) remained infructuous since January 2002 as the work of extension of runway by 273 metres length was initiated without actually taking possession of required land. Consequently, runway of 244 metres length from the other end could only be constructed leaving a gap of 29 metres between existing and newly constructed runways. Thus,

[♣] *As per minimum guaranteed amount*

objective of the investment to facilitate operation of A-320/B-737 Aircrafts at the Jammu airport without load restrictions was not achieved. Similarly, for want of land an expenditure of Rs.25 lakh on the boundary wall that was constructed up to 1200 metres as against approved length of 1650 metres, also become infructuous. Board of Directors had approved investment of Rs.11.32 crore on extension/strengthening of runway and construction of boundary wall with other facilities only after the Management had apprised the Board that it had already acquired the land.

Management, while confirming the facts, stated (June 2003) that the pending works would be completed shortly on taking possession of balance area of land from State Government and constant pursuance was being made at senior levels. They further stated that had the aforesaid work not been completed earlier, the cost required, at this stage, for execution of works would have been much more.

The reply of the Management overlooks the fact that the Board had approved the execution of the project only after the Management had apprised the Board that it had already acquired the land. Further, the contention of the Authority that construction, if taken now, would have increased the cost of the project has not been supported with any details as to whether cost escalation due to time overrun would have been more than the interest cost on expenditure already incurred on the extension of runway and construction of boundary wall not completed so far.

Thus, due to improper planning and scheduling of work without clear possession of land, Rs.8.23 crore remained infructuous because of non-operationalisation of the extended runway.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

2.1.3 Loss of revenue by undue favour to a second highest bidder

Airports Authority of India has foregone revenue of Rs.51.48 lakh due to delay in awarding of sole advertising rights at Biju Patnaik Airport, Bhubaneswar.

To awarding sole advertising rights in the New Terminal Building (NTB) at Biju Patnaik Airport, Bhubaneswar which was commissioned on 4 February 1998 a multi-disciplinary committee (MDC) fixed (October 1998) Rs.1.94 lakh per month as a Minimum Reserve Licence Fee (MRLF). When second[•] NIT[♠] was issued in September 1999 M/s. Softline Advertising Private Limited (SAPL) quoted highest rates of Rs.2 lakh per month in the first year which went up to Rs.4.75 lakh per month in the fifth year, leading to total revenue of Rs.1.92 crore during the proposed five year period of the contract. The second highest bidder, M/s. TDI International Limited (TDI), quoted Rs.2.32 lakh per month with compounded escalation at 10 per cent per annum and the total revenue worked out to Rs.1.70 crore during the period of the contract.

[•] *First NIT issued in December 1998 yielded no response*

[♠] *Notice Inviting Tender*

The Tender Opening Committee recommended (November 1999) conditional award of the advertising contract to SAPL, which was accepted (February 2000) by the Corporate office subject to the condition that SAPL should match the rates for the first two years with the rates quoted by TDI and should also agree for forfeiture of security deposit in the event of premature closure of the contract in the first four years of the contract period. Although SAPL agreed to the condition of forfeiture of security deposit that was sufficient to protect the financial interest of the Authority, it did not agree with the Authority to match the rates for the first two years with that of TDI.

Even though total revenue of Rs.1.92 crore offered by SAPL over a period of five years of the contract was higher than the second highest bidder as well as the MRLF by Rs.22 lakh and Rs.76 lakh respectively the advertising right was not awarded to SAPL even within the extended validity period♥ of the offer of 30th June 2000.

Consequently, another NIT was issued in September 2000 and the advertising right was awarded in December 2000 (effective from 15 January 2001) to TDI (single bidder) at rates of Rs.2.16 lakh per month for the first year with cumulative escalation of 10 per cent for the next four years against Rs.2.32 lakh per month with cumulative escalation of 10 per cent for the next four years obtained in the second NIT. Thus, the Authority has foregone revenue to the tune of Rs.33.48 lakh♦ over a period of five years up to 14 January 2006. Further, delay in awarding of the contract resulted in revenue loss of Rs.18 lakh♣ from April 2000 to December 2000.

Ministry, while endorsing the reply of the Management, stated (February 2003) that SAPL was not ready either to match the rates for the first two years with the rates quoted by TDI or to forfeit the security deposit.

Contention of the Ministry is not tenable as SAPL agreed to the forfeiture of the security deposit during the negotiations (14 March 2000), which was communicated to the Corporate office on 20 March 2000. Further, the Authority offered the contract to SAPL on 19 July 2000 on the terms agreed earlier but after the expiry of extended validity period, which was accepted by SAPL.

Thus, the fact remains that the Authority has foregone revenue of Rs.51.48 lakh due to delay in awarding of the contract enabling the second highest bidder to get the advertising rights on a single tender basis at a rate lower than what the firm had quoted earlier.

♥ ***Contract was awarded on 19 July 2000 which was declined***

♦ ***Computed with reference to difference in the rates offered by SAPL and the rates at which the contract was awarded toTDI***

♣ ***Computed at the rate quoted by SAPL***

Air India Limited

2.2.1 Loss of Rs.26.74 crore due to write-off of recoverable advances

Inappropriate decisions of the Corporate Management in sanctioning advances to its employees, which were subsequently written off, resulted in loss of Rs.26.74 crore up to March 2002 to the Air India Limited.

Air India Limited (AIL) incurred an avoidable loss of Rs.26.74 crore up to March 2002 due to inappropriate decisions of the Corporate Management in sanctioning advances to the staff who were not entitled to bonus between 1995-96 and 2000-01, when the Company was making losses.

Air India Employees Guild (AIEG) demanded payment of *ex gratia* in lieu of bonus for the year 1995-96, which was conceded by the Management by signing a record note (November 1996) to pay a sum of Rs.4000 per employee for the year 1995-96 as *ad hoc* recoverable advance. As no terms or procedure for affecting the recovery of advance from the employees were instituted, the Management changed its earlier position and established the practice of paying an *ex gratia* amount to its staff by charging a sum of Rs.4.48 crore to Profit and Loss Account in the very next year i.e. 1996-97. In the subsequent years from 1996-97 to 2000-01 despite no likelihood of such advances being recovered, the Management continued the practice of making similar payment to its employees but described these payments as 'recoverable advances' aggregating Rs.22.26 crore.

Having failed to take any effective steps for recovery of the stated 'recoverable advances' the Management sought directions from the Board of Directors (November 2001). The Board constituted a One-man Committee comprising of 'Joint Secretary and Financial Advisor' to the Ministry (the Government nominee on the Board), to suggest a scheme of recovery. Considering the unfeasibility of effecting any recovery, the Committee recommended (July 2002) that the entire amount of advance be written off. The Company thus, wrote off another sum of Rs.22.26 crore relating to payments made to employees in the years 1996-97 to 2001-02. The total amount of these advances, thus, written off up to the year 2001-02 amounted to Rs.26.74 crore. In taking this decision the Board confirmed and covered up the inappropriateness of Management's past decisions to sanction such payments.

Management stated (October 2001) that the advance could not be recovered due to pressure from the union and the One-man Committee appointed by the Board of Directors had recommended the advances to be written off as the recovery would cause disharmony resulting in greater loss to the Company.

The contention of the Management is not acceptable because by charging off the advance made in 1995-96 in the very next year, the Management had established a wrong precedence. Non-recoverability of subsequent advances made during the years 1996-97 to 2000-01 was obvious even before such advances were proposed. In this context, the

appointment of One-man Committee by the Board of Directors was only to regularise an action which was unjustified.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

2.2.2 Avoidable expenditure on excess payment of council tax

Negligence of the Air India Limited to claim tax relief from the local council authorities at London has resulted in avoidable payment of Rs.4.25 crore as council tax till March 2003 and will continue to cost Rs.85 lakh per annum till corrective action is taken.

According to the rules of the local Borough[♠], relief in council tax for non- domestic property was admissible at (i) 50 per cent of the full rate, if the property remained vacant for three months or more and (ii) the rebate was full, if the property remains unoccupied/empty in industrial area until it was reoccupied. As per rules this rebate was admissible only when claimed annually and no retrospective relief was admissible.

Air India Limited (Company) was in possession of a leased building property (581, Sandrigham Road, London) having 25,300 square feet of space, which is classified as industrial for the purpose of council tax. Until July 1998, the Company could utilise 6000 square feet for office accommodation and the remaining portion as cargo warehouse. However, as cargo operations were outsourced in August 1998, the requirement of office accommodation remained limited to 9000 square feet.

The Company, instead of claiming tax relief by informing the local Council about the portion of the cargo warehouse rendered surplus, continued to pay tax on full rates from September 1998 onwards for surplus portion. This resulted in avoidable expenditure of £0.48 million (equivalent to Rs.3.75 crore)[♣] till March 2003.

Management while accepting that the space in cargo building at 581 Sandrigham Road was in excess of its requirements stated (June 2002) that it was unable to demarcate the additional space, which could be sealed off for claiming the tax relief.

The reply is not tenable, because the Company was aware of local council rules and ought to have taken steps to demarcate the surplus space after recognising the excess space in the cargo building immediately after August 1998. The Company had already spent Rs.50 lakh as council tax for the period April 1995 to March 1997 due to delay in claiming rebate from the local council authorities for surplus space in yet another building (Highways building, Colnbrook, London).

[♠] ***Local Municipal Council***

[♣] ***At official exchange rate of 1£ =Rs 78.01 prevalent in March 2003***

This negligence on the part of local Management of the Company has already resulted in avoidable expenditure of Rs.4.25 crore till March 2003 (Rs.3.75 crore plus Rs.50 lakh), and shall continue to cost further Rs.85 lakh per annum till surplus space is segregated and tax relief claimed from the local authorities.

No steps have been taken so far to avoid the further loss nor any responsibility has been fixed (June 2003).

The matter was referred to the Ministry in September 2003; their reply was awaited.

2.2.3 Loss of Rs.3.34 crore due to defective material management

Absence of effective stores management in Air India Limited resulted in an avoidable loss of Rs.1.87 crore due to shelf life expiry of perishable and non-perishable aircraft materials, besides loss of Rs.1.47 crore as interest on blocked funds up to June 2003. In addition there was customs duty liability of Rs.3.01 crore.

Air India Limited (Company) incurred avoidable loss of Rs.3.34 crore due to injudicious procurement of consumables (cost of materials Rs.1.87 crore and interest on blocked funds Rs.1.47 crore) with have a liability of Rs.3.01 crore for customs duty, which is yet to be paid (August 2003).

The Company procures various types of perishable and non-perishable material for aircraft maintenance, passenger servicing and other forms of in-flight consumption on the basis of indents placed upon it by the Engineering Department and In-flight Services Department (IFSD). Since these items are not intended for consumption within India and are to be uploaded for in-flight consumption, the material is kept in custom bonded warehouses at Old Airport in Mumbai. As per the Customs Act, 1962 the bond period for storing such imported materials is only 12 months whereafter which Customs Authorities♣ can permit, at their discretion, extension of bond period for a period of 6 months or further. Thus, the Company has to uplift the stored items well before the expiry of their initial bonded periods or the expiry of their shelf life, whichever was earlier.

The scrutiny of records of the Company's bonded warehouse at Old airport, Santacruz revealed that 948 non-perishable items valuing Rs.1.76 crore and originally bonded for varying periods (between 1975 to 1996) were lying unused, even after expiry of shelf life. The respective bond periods of different items were being got extended♠ by the Company without verifying the actual shelf life of each item or its suitability to consumption.

Continued storage of these items in the warehouse in the opinion of Environmental Authority was hazardous; as such the Company was directed to dispose of these items without any further delay. When Company sought permission of Customs Authorities (March 2000) for destruction of such bonded items, the latter demanded (7 September

♣ *Commissioner or Chief Commissioner of Customs*

♠ *Last such renewal was made in March 2002*

2001) that customs duty amounting to Rs.1.10 crore as well as interest of Rs.1.84 crore leviable thereon, be paid before permission for destruction of these materials could be granted. The Company had to, thus, commit itself to pay the Customs Department an aggregate sum of Rs.2.94 crore in respect of 948 items of material which had lost all in-house as well as market value.

Similarly, a test check of Cabin Bond Stores at Sahar Airport, Mumbai revealed that 21 perishable items of consumption valuing Rs.12 lakh had also outlived their shelf life. When, the Company wanted to clear these items from the stores, the Customs Authorities demanded payment of Rs.6.65 lakh towards customs duty chargeable on these items. (July/November 1999).

Management in its reply (July 2003) stated that:

- Unlike in manufacturing organisations where the consumption of items was uniform and known in advance, in the Engineering and Engine Overhaul Department of the Company, consumption of items was not uniform.
- The non-availability of some stores could result in stoppage of work.
- The Company has a varied fleet; more items are required to be procured in small quantities.
- As aviation technology is constantly changing old items of inventory become non-usable.

The reply is not acceptable in the absence of analysis of 948 items of materials to ascertain essentiality of their retention for prolonged periods. That the Company could not utilise/consume the bond items before their shelf life had expired itself proves that these items were procured beyond realistic levels of requirement. It also highlights Company's failure in monitoring the consumption of materials vis-à-vis stock levels, which reflects a weakness in its system of internal control.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Indian Airlines Limited

2.3.1 Loss of Rs.3.49 crore due to non-verification of credentials of the lessor

Indian Airlines Limited lost Rs.3.49 crore incurred on bank and litigation charges up to June 2003 as it had transferred fund towards lease charges of aircraft without ensuring the capability of the lessor to arrange aircraft on lease basis.

Indian Airlines Limited (Company) lost Rs.3.49 crore by not adhering to the tender conditions. Despite the fact that M/s. GIA International Limited (GIAL) did not furnish their business profile and details such as a list of clients to whom aircraft had been leased, size, type of fleet, annual turn-over from leasing business, details of their bankers, ownership pattern giving details of the shareholders etc. the Company issued a letter of intent (LOI) on 21 September 2000 to them for five B-737 aircraft on dry lease basis. The Company opened (9 October 2000) an unconditional, transferable stand-by letter of credit (SBLC) in favour of GIAL for a sum of US$ 11.88 million at a cost of Rs.71.95 lakh* without obtaining any performance guarantee bond or any counter guarantee to safeguard its financial interest. As a result when the Company terminated (May 2001) the contract because of GIAL's failure to deliver the aircraft even by the rescheduled date, the latter did not reimburse the bank charges of Rs.71.95 lakh to the Company. Thereafter, the Company spent Rs.2.77 crore towards court fees, legal charges etc. although it was fully aware that GIAL might not have sufficient assets to satisfy the proposed decreed amount.

Thus, the Company lost Rs.3.49 crore by not adhering to the tender conditions and due to its failure to insist upon GIAL to provide a performance/ counter-guarantee to safeguard the financial interest of the Company.

Management stated (May 2003) that in aircraft leasing transactions, no counter-performance guarantee was generally provided by the lessor for the letter of credit to be issued by the lessee. They also contended that ability of the GIAL to provide aircraft was not doubted as informal inquiries made by it revealed that GIAL were in negotiation with a owner of aircraft to purchase the same.

Contention of the Management is not tenable as an investigating agency termed GIAL as a "one man and fax machine company" as owner of the GIAL did not have any worthwhile property except one mobile home valuing US$ 0.124 million which would have enabled GIAL to purchase aircraft. Verification of the credentials of GIAL would have disclosed the fact that the owner of GIAL had been earlier associated with an Aviation Company (now defunct), which was involved in a case of breach of contract. Even GIAL had breached its contract with a party in the delivery of a leased aircraft in March 1999. Non- submission of the documents by way of providing business profile and financial status along with the tender documents should have alerted the Company about the incapability of GIAL in making available the aircraft particularly when established leasing company submitted its past performance report to satisfy the Company about its capability. Further, there was no recorded reason for ignoring these tender condition.

Thus, the Company suffered a loss of Rs.3.49 crore due to its failure to verify the credentials of a prospective lessor in accordance with the stipulation of the tender.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

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* *Towards bank charges*

2.3.2 Loss of revenue due to undercharge

The Company had to forego revenue of Rs.87.67 lakh due to charging of lower rates for X-ray screening of registered baggage.

Indian Airlines Limited (Company) provides X- ray screening baggage services to other airlines. Aircrafts are classified as 'wide bodied'[*] and 'narrow bodied' for the purpose of charging rates for X-ray screening of baggages. The Company had made applicable following rates from 1 December 1996:

Type of Aircraft	For Transit Flight	For Turn around Flight
B-747, DC-10 and TRISTAR	US $210	US $279
All other aircraft	US $ 176	US $245

From the above it is evident that while fixing rates Indian Airlines did not consider A-330, A-340 and B-767 aircraft as wide-bodied aircraft although International Air Transport Association (IATA) classified these aircraft as such. The Company classified the following as narrow-bodied aircraft: A-340 aircraft operated by Air France during the period December 1996 and June 2001; A-330 aircraft operated by Swiss Air between March 1997 to June 2000; B-767 aircraft flown by Gulf Air (between March 1997 and March 2002), SAS (between March 1997 and September 2001) and Asiana Airlines (between April 1998 and March 2002). In each of the cases cited above the Company charged the foreign airlines rates applicable to 'narrow-bodied' aircraft. Thus, the Company has foregone revenue of US$ 0.18 million (Rs.87.67 lakh) to the advantage of foreign airlines.

Management stated (March 2003) that there existed ambiguity regarding charges to be levied for Aircraft like B-757, B-767, A-320, and A-340 etc. and that B-767 aircraft had been reclassified as narrow-bodied aircraft and hence there was no undercharge. Management's reply overlooks the fact that it took almost five years to remove the ambiguity, which caused loss of revenue to the extent of Rs.87.67 lakh. Further, approval of the Board of Directors was not obtained to reclassify B-767 aircraft as narrow-bodied aircraft though it is a wide-bodied aircraft as per the classification made by the Company to claim comprehensive charges for handling of flights (except X-ray screening) of casual operators. Besides, it also considered B-767 aircraft as a wide-bodied aircraft when it entered in to a fresh agreement with M/s. Crossair Limited effective March 2002 to provide X-ray screening services.

Thus, by adopting unreasonable classification, the Company charged lower rates from foreign airlines for X-ray screening of registered baggage. The lack of uniformity in levying charges on its clients led to its forfeiting revenue amounting to Rs.87.67 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

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[*] ***Aircraft with Maximum Take-off Weight (MTOW) more than 190 tonnes or aircraft with MTOW 190 or less having two aisle in its pax version***

2.3.3 Loss due to non-claiming of refund of goods and services tax

Indian Airlines Limited suffered a loss of Rs.61.56 lakh as it failed to claim refund of goods and services tax in time in Singapore.

Inland Revenue Authority of Singapore introduced Goods and Services Tax (GST) in 1992, which is a tax on domestic consumption. Accordingly, a supply of goods and services can be zero-rated if the goods are exported or if the services are international services. Test check of records in Audit revealed that during the period from April 1999 to March 2002 Singapore station of Indian Airlines Limited (Company) paid GST of Rs.61.56 lakh♦ while making payment of Rs.20.52 crore♠ towards hotel accommodation to crew and passengers, food services to passengers, telephone, printing and stationery, rents, postage, publicity and sales promotion. However, the Company could not claim the refund of GST of Rs.61.56 lakh as it registered itself with Inland Revenue Authority of Singapore only on 19 August 2002.

Management in its reply did not dispute the facts and stated (May 2003) that while the refunds for the period post-registration have been obtained, concerted efforts were being made to obtain refunds for the earlier period.

Thus, the fact remains that the Company could not get refund of Rs.61.56 lakh due to its failure to register itself in time with Inland Revenue Authority of Singapore.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003)

Pawan Hans Helicopters Limited

2.4.1 Infructuous expenditure of Rs.9.86 crore due to injudicious procurement of stores and spares

The Company has incurred infructuous expenditure of Rs.9.86 crore on procurement of stores and spares which were not required.

Pawan Hans Helicopters Limited (Company) procured stores and spares valuing Rs.9.86 crore which was not required for the operation and maintenance of its helicopters. As a provision for diminution in their value was made in the accounts for the year ending 31 March 2002 the Company has recognised the fact of non-utility of these spares in future. This has resulted in an infructuous expenditure of Rs.9.86 crore.

Test check of inventory holding of Western Region of the Company revealed that the Company procured stores and spares even when a particular item was available in stock

♦ *Singapore $ 0.23 million*

♠ *Singapore $ 0.77 million*

in sufficient quantity. The Company also imported spares without ensuring the suitability or otherwise of the spares in their helicopters. A few major cases are discussed below:

Case (A)

14 pieces of Door RH[•] were procured to modify the Dauphin helicopters from sliding doors to hinged doors. It was only in January 1998 that one piece was used and the balance 13 pieces valued at Rs.18.80 lakh were found unutilised in stock. The Management stated (April 2003) that the remaining hinged doors were not used because it was very costly and time consuming to carry out the modification. They further stated that there were differences in dimension of sliding doors and the hinged doors. Meanwhile the Company procured (September 1997/June 1998) 32 pieces of MOD[♠] kit to have a modified locking system which the manufacturer had designed for the hinged doors. As the hinged doors were unfit for use in the helicopters, all the 32 pieces of the locking kit valuing Rs.36.64 lakh also remained untilised till date.

Case (B)

The Company could use only 5 pieces of Kit retrofit since the last 10 years against procurement of 20, costing Rs.32.27 lakh. Further, the Company procured 40 pieces of shaft of two kinds valuing Rs.12.28 lakh between April 1993 to September 1994 out of which only 3 shafts have been used. As the Company again procured 4 pieces, 41 pieces have become surplus. Consequently, inventory of Rs.36.78 lakh became surplus vis-a-vis requirement.

In reply, Management stated (October 2002/May 2003) that the material management function in the Company was not working efficiently and effectively and that an action plan for improvement of inventory control system was being drawn up to avoid such anomalies in future.

The fact remains that the Company incurred an infructuous expenditure of Rs.9.86 crore on stores and spares, which are not useable.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

[•] ***Right Hand***

[♠] ***Modified***

CHAPTER 3: MINISTRY OF COAL

Bharat Coking Coal Limited

3.1.1 Avoidable loss of Rs.4.49 crore due to despatch of non-weighed coal

The Company suffered an avoidable loss of Rs.4.49 crore due to supply of unweighed coal to a steel plant of Steel Authority of India Limited through Burragarh Railway siding during the period 1997-2000. The coal could not be weighed on account of in-operation of electronic weighbridge at loading point.

Bharat Coking Coal Limited (BCCL) suffered an avoidable loss of Rs.4.49 crore due to unweighed coal supplied from Kustore Area to the Durgapur Steel Plant of Steel Authority of India Limited (SAIL) through Burragarh Railway Siding during the period from August 1997 to February 2000. The coal was despatched unweighed as the electronic weighbridge was not in operation during that period and the Management could not involve the SAIL in the system of joint volumetric measurement till the electronic weighbridge was put in operation.

SAIL disallowed the payment for shortages of 23291.20 MT and made the deduction to the extent of Rs.4.49 crore (value of coal found short on weighment at destination). During this period the quantity of coal for billing purpose was determined as per carrying capacity of the wagons plus 2 MT and from March 2000 onwards no coal was despatched through Burragarh siding. The weighbridge is still defective (July 2003) and its performance is to be stabilised.

Management while accepting the facts stated (February 2003) that the despatches were made to fulfill the requirement of SAIL for their uninterrupted production cycle. The contention of the Management is not acceptable since they being aware that unweighed coal was being supplied to SAIL, neither stopped the despatch of coal through Burragarh siding till February 2000 nor made available a weighbridge to measure the coal prior to despatch. Further, no claim for shortages was lodged with the Railways, because the coal was not weighed before loading in wagons. Resultantly, the Company suffered an avoidable loss of Rs.4.49 crore.

The amount of Rs.4.49 crore has also been written off in the respective year of accounts, of the Company.

The matter was referred to the Ministry in May 2003; their reply was awaited (August 2003).

3.1.2 Additional expenditure of Rs.1.87 crore on rerailment of the derailed wagons

Bharat Coking Coal Limited had to incur an additional expenditure of Rs.1.87 crore for rerailments during the period 1998 to 2002 due to improper maintenance of railway tracks at private sidings of washeries, non-enforcement of contractual provisions against the contractors responsible and non supply of pathway materials in time by the Company.

Bharat Coking Coal Limited (BCCL) sustained a loss of Rs.1.87 crore during the period 1998 to 2002 due to improper maintenance of Railway tracks and non-enforcement of contractual clause against the private contractors, who were responsible for proper maintenance of railway tracks at private sidings of washeries.

The contracts *inter alia* stipulated that if any accident of wagon, rolling stock, derailment, blocking of movement etc. occurred due to poor maintenance of the tracks, the contractor would be held responsible and penalty would be levied as per terms and conditions of the contract to be decided by the Management.

A scrutiny of 100 cases out of 185 incidents of derailment (barring 15 cases where proper replacement of the pathway materials could not be made in time by the Company) revealed that the derailment was caused due to the fault of the contractors, on account of various reasons like jamming of railway tracks by soil, coal dust, boulders, improper closing of the door of wagon and water logging etc. As result of this, BCCL had to incur expenditure of Rs.1.87 crore[♦] by way of charges paid to Railways for rerailment of the derailed wagons, apart from the contractual payments of Rs.1.27 crore made to the contractors during the said period. Surprisingly, in no case was the contractor held responsible.

In every case of derailment, a Committee consisting of Railways representatives and Washery representatives examined the matter wherein the Company was held responsible for improper maintenance of track at washeries.

While accepting the fact, the Management *inter alia*, stated (July 2003) that they had appointed a Fact Finding Committee to look in to each incident of derailment and after getting the report of the Committee the needful would be done.

Thus, by not enforcing the contractual clause against the private contractors, the company had to incur additional expenditure of Rs.1.87 crore towards rerailment charges.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

[♦] In the eastern zone Rs.12.29 lakh at Sudamdih, Rs. 90.73 lakh at Bhojudih and Rs. 25.97 lakh at Patherdih washery, in the western zone Rs.28.30 lakh in Dugda washery, Rs.22.21 lakh in Moonidih washery and Rs.7.30 lakh in the Mohuda washery.

3.1.3 Loss of Rs.78.31 lakh due to non-disposal of washed coal

The Company did not take timely and appropriate action to dispose of closing stock of spilled over washed coal resulting in its deterioration. Management booked a loss of Rs.78.31 lakh in the Company's accounts for the year 2001-02.

Bharat Coking Coal Limited (BCCL) had a closing stock of spilled over washed coal of 20,262.75 MT as on 31 March 2002, which had piled up on account of spillage of washed coal from the conveyor belt over a period of five years (March 1997 to March 2002) and was lying in the open space at loading point of the Bhojudih washery.

The quality parameters for supply of washed coal to steel plants are stringent and degradation may result due to various factors including exposure to atmosphere etc. Over the passage of time it would enhance the ash content of washed coal beyond permissible limit making it non-vendable for steel plants. Though the Management was fully aware of the quality parameters for supply of washed coal to steel plants, they did not take effective steps either to despatch the spilled over washed coal from ground stock level to steel plants at the earliest or to protect the washed coal lying in the open space from deterioration.

The grade of washed coal as declared by Mineral Exploration Corporation Limited (MECL) on sampling basis at loading point was acceptable to the Company as well as Steel Authority of India Limited (a PSU customer). On an analysis (September 2002) of the grade of spilled over washed coal in stock, MECL declared that out of 20262.75 MT of washed coal 11,229.18 MT was non-vendable the ash content being 22.96 per cent as against the limit of 20.90 per cent.

Further, there was over all shortage of 49,821 MT of washed coal in fulfilling the contractual quantity to be despatched to the steel plants during the years 1998- 2002.

At the instance of audit, the Company calculated the amount of loss at Rs.78.31 lakh[♦] and provided the loss in its accounts for the year 2001-02.

Management stated (July 2003) that as per MOU signed with SAIL during 1997-98, SAIL was to take coal with ash up to 24 per cent but as per MOU during 1998-99, the ash percentage was restricted to 20.90 per cent, and there was a huge accumulation of old stock of coal. It further stated that the old stock would be liquidated with in two years.

The reply of the Management is not acceptable, as only after being pointed out in audit, the Management has committed to liquidate the old stock of washed coal.

Thus, by not taking timely and appropriate action to dispose of the spilled over washed coal to avoid grade deterioration, the Company suffered a loss of Rs.78.31 lakh.

[♦] ***{11,229.18 MT X (Rs.2003.61 i.e., price of wahsed coal minus Rs.1306.25 i.e., price of ROM coal}***

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Central Coalfields Limited

3.2.1 Wasteful expenditure of Rs.7.66 crore on diesel generating sets

Two-DG sets were commissioned in 1999 to meet exigencies on account of anticipated higher demand of power supply due to forthcoming projects in Hazariabagh area. The DG sets have not been in operation since October 2000, resulting in wasteful expenditure of Rs.7.66 crore.

M/s. Garden Reach Shipbuilders & Engineers Limited (GRSEL) commissioned 2 DG sets (3 MW) in March 1999 against the contract value of Rs.8.83 crore awarded in July 1990. These sets were required as an alternate source of power supply during switching over of supply from Bihar State Electricity Board (BSEB) to Damodar Valley Corporation (DVC) and to meet shortages of power that the Central Coalfields Limited (Company) presumed in Hazariabagh area as well as meet anticipated higher demand of power that may arise due to coming up of Parez Coal Washery and Coal Handling Plant (CHP) in that area and for safety needs.

Switching over of power supply from BSEB to DVC was completed in January 1992 without DG sets and since then, DVC had been meeting contractual demand of power as and when required by the Company.

The DG sets scheduled for commissioning by October 1991 were taken over by the Company only in March 1999. The delay in installing DG sets as stated by the Management (March 2002) was due to delay in construction of powerhouse building that was done departmentally as well as due to law and order situation. The contractor was paid Rs.7.66 crore (April 2003). The DG sets were operated for only 90 hours during the years 1998-99 to September 2000. The DG sets could not be used since October 2000 as a result of breakdown (April 2003).

Further the proposal for construction of Parez washery and CHP in that area were dropped[♠] in the Revised Project Report.

The contention of the Management (September 2002) that the DG sets were commissioned because of safety requirement and also to maintain production in case of power failure was not tenable. The approval for the project was primarily because of the inadequate capacity of BSEB and to meet the exigency of switching over of power supply from BSEB to DVC. No action has been taken by the Management to have an alternative source of power to meet essential load in exigencies or for safety requirements till the DG sets were commissioned. Moreover, the fact that DG sets were operated only for a few hours and are under breakdown condition for more than two years indicates that the

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[♠] ***This was due to change in coal linkage from Parez east to Kedla Washery through existing Kedla CHP***

Management did not feel any such exigency. There was no shortage of power supply from DVC with the enhancement of contract demand.

Thus, the objectives of installing DG sets have been frustrated and resulted in wasteful expenditure of Rs.7.66 crore.

The matter was referred to the Ministry in April 2002; their reply was awaited (August 2003).

3.2.2 Blocking up of fund of Rs.1.22 crore

Central Coalfields Limited spent an amount of Rs.1.22 crore on construction of a bridge, which could not be utilised due to delay in construction of approach roads for transportation of coal, resulting in idle investment.

The Company awarded a work of construction of the bridge across river Damodar at a cost of Rs.1.20 crore. This was under advance action plan of Ashok Open Cast Project (OCP) to integrate the existing infrastructural facilities of the KD Heasalong Project and railway siding with the Ashok OCP and new project-Purnadih East (OCP).

An approach road on the both sides of the bridge was also to be constructed. Management had proceeded with a tender for construction of the approach roads on both sides of the bridge in 1996, however, it was decided not to award the work till the physical possession of land for the road was obtained. As the construction period of the bridge was only twelve calendar months and its utility depended upon the construction of approach roads, the Management should not have awarded the contract for construction of the bridge before taking physical possession of the land.

The work of construction (commenced in October 1993) of the bridge across the river Damodar was completed in January 1998 at a cost of Rs.1.22 crore, but the bridge could not be utilised (February 2003) in the absence of the approach roads on the both sides of the river.

Management stated (October 2001) that though the approach road on the south side was under physical possession yet the Forest Department had certain objections and in the Northern bank, construction of the road was suspended due to agitation by the villagers for employment in the Company as well as militancy and law and order problems.

Ministry while accepting the fact *inter alia* stated (July 2002) that to overcome all these problems the construction of civil works and roads in these areas was proposed to be entrusted to M/s. Border Road Organisation (BRO) based on future projection of coal projects. However, till February 2003 there was no progress on construction of approach roads.

It is, therefore, evident that due to poor planning and injudicious project execution the investment of Rs.1.22 crore made by the Company on construction of the bridge across

Damodar has yielded no result besides blocking up of funds to that extent involving recurring annual loss of interest of Rs.16.47 lakh per annum (@ 13.5 per cent per annum) without any certainty of its use in the near future.

Eastern Coalfields Limited

3.3.1 Extra expenditure of Rs.3.11 crore due to procurement of Miners' Shoes on single tender basis

Eastern Coalfields Limited procured miners' shoes at higher rates on single tender basis without ascertaining the market price and rates of procurement of other subsidiaries and thereby incurred an extra expenditure of Rs.3.11 crore during the year 1998-99 to 2000-2001.

Eastern Coalfields Limited (Company) incurred an extra expenditure of Rs.3.11 crore during the year 1998-99 to 2000-2001 on procurement of miners' shoes at higher rates on single tender basis without ascertaining the market price and rates of procurement of other subsidiaries.

The coal miners are being provided with miners shoes for working in the surface as well as underground mines. In 2001-02 the miners' shoes were purchased through open tenders. It was observed that till 2000-01, the Company procured miners shoes from a party on single tender basis at higher rates than the rates obtained by open tendering in 2001-02. Despite instructions from Board of Directors and other competent authorities, the Management did not initiate action to obtain competitive rates by open tendering or by exploring other alternate source. It was also observed that two neighboring sister subsidiaries procured miners shoes on competitive rates by inviting open tenders. The rates at which shoes were procured during that period by the other subsidiaries were between Rs.74.50 and Rs.78.92 per pair compared to the rates of Rs.227.00 and Rs.234.00 per pair paid by the Company.

It was only in January 2000 that the Company obtained rates from other manufactures, which was found to be cheaper than the rates at which the Company procured the shoes on single tender basis. Inspite of this, the Company did not change the procurement policy. Thereafter, only in 2001-02 based on the recommendation of the functional Directors to explore the possibility of procuring shoes from other manufacturer and at the instance of audit observation, the Company went for open tendering and obtained lower rates of Rs.69.50 and Rs.72.50 per pair.

Thus, due to placement of orders on single tender, the Company had to incur an additional expenditure of Rs.3.11 crore in comparison to the rates of procurement of Bharat Coking Coal Limited (a subsidiary of Coal India Limited) on 4.07 lakh pairs of shoes.

The matter was referred to the Management in March 2003 and Ministry in June 2003; their replies are awaited (August 2003).

Neyveli Lignite Corporation Limited

3.4.1 Loss of Rs.7.25 crore due to negligence

The Company procured a Gantry crane for their Mine-I expansion project. The crane collapsed during cyclone due to Company's failure to secure the crane by locking all the parking devices resulting in a loss of Rs.7.25 crore.

Neyveli Lignite Corporation Limited (Company) failed to properly secure the crane by locking all parking devices to arrest any movement during a cyclone on 29 November 2000 which led to collapse of the crane and resulted in a loss of Rs.7.25 crore. Further, the Company could not recover the loss through insurance, as the asset was not insured against the perils of nature.

The Company procured one 40/5 ton Gantry crane from M/s. Mukund Limited (Supplier) for Mine-I expansion project and after successful commissioning, the crane was taken over (August 1999) at a cost of Rs.8.93 crore. Though, the crane was functioning satisfactorily till noon of 29 November 2000 it collapsed and got damaged beyond repairs on the same evening due to cyclone. The Committee constituted (November 2000) to probe into the causes of the collapse of the crane held (March 2001) the supplier responsible for failure to undertake erection in a proper manner. The Company requested (April 2001) the supplier to replace the damaged crane or provide necessary compensation. However, the supplier refused (April 2001) to entertain the Company's request either for compensation or for replacement of the crane. The supplier in response to the notice issued (September 2001) by the Company informed that crane was designed to withstand the wind speed of 203 kmph[♣] whereas the wind velocity on the fateful day was only 104 kmph. The supplier further added that crane was not secured before the impending cyclone, by locking all the parking devices and, thus, cause of the collapse was negligence on the part of the Company. After supplier refused to replace the crane or to compensate the Company, it invoked the arbitration clause against the supplier. Arbitration proceedings were still under progress (May 2003).

The Company stated (May 2003) that collapse of the crane was not due to their negligence, since proper erection had to be ensured by the supplier and action for recovery of the loss was under progress.

The reply is not tenable, as the Company should have anchored the crane hooks with dead weight which was the normal procedure during storm.

Thus, the negligence of the Company in not securing the crane as per operating instructions resulted in a loss of Rs.7.25 crore after adjusting salvage value including

[♣] ***Kilometre per hour***

spares (Rs.45.61 lakh), depreciation (Rs.56.56 lakh) and encashment of bank guarantee (Rs.66 lakh). The negligence also resulted in unnecessary costly litigation.

The matter was referred to the Ministry in March 2003; their reply was awaited (August 2003).

3.4.2 Idle investment of Rs.4.50 crore on Distributed Digital Control System

The Company's decision to install a modern control system in their loss making unit led to idle investment of Rs.4.50 crore of which Rs.1.07 crore was infructuous being cost of control system for a dismantled boiler.

The Company closed operation of its Briquetting and Carbonisation (B&C) and Fertiliser plants in April 2001/February 2002. This rendered the new Distributed Digital Control System (DDCS) involving an investment of Rs.4.50 crore idle out of which Rs.1.07 crore, the cost of DDCS towards dismantled Boiler II, was infructuous. The Company considered all the three Boilers of the Process Steam Plant (PSP), Electro Static Precipitators (ESP) units meant for pollution control and the DDCS as impaired assets and created provision in the accounts for 2002-03.

An explosion occurred (September 1998) in ESP unit of Boiler II and damaged Boilers No. I and III and control room of PSP also. All the three Boilers of PSP were shutdown, while ESP of Boiler No. I and III were repaired and brought back to service in October and November 1998 respectively, ESP II was dismantled (December 2001) but erection work was not taken up. Even though the Company was holding discussions with ICICI Limited since August 1999 on commercial feasibility of continuing the operations of B&C and Fertilizer plants, it did not consider this while awarding (October 1999) work of installing the DDCS. The Company commissioned the DDCS for Boiler I and III in October and September 2000 respectively but the DDCS for Boiler II could not be put to use due to non-commissioning of Boiler II. As the operation of B&C and Fertilizer plants was closed in April 2001/ February 2002, DDCS have been lying idle since then.

Management stated (July 2003) that due to uncertainty regarding resumption of plant operations further works on ESP II could not be decided upon and hence the DDCS for Boiler II could not be commissioned. They further added that there was no definite sign of closure of PSP at the time of placement of order for DDCS and the system could be put to effective use in other units which was being pursued.

The reply is not tenable as the procurement of DDCS lacked justification since the commercial feasibility of continuity of the operation of B&C and Fertilizer plants were not definite in view of mounting losses and the Company had already been contemplating (August 1999) the closure of the plant at the time of awarding the work of DDCS. No proposal for alternative use has been finalised so far (July 2003).

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

3.4.3 Avoidable payment of excise duty due to omission to avail concessional rate

The Company's failure to keep itself up to date on Government Notification resulted in avoidable payment of excise duty of Rs.98.40 lakh.

Aggrieved by the decision (January 1998) of the Commissioner of the Central Excise (Appeals) to remand the case of refund of excess excise duty of Rs.98.40 lakh to the lower authority for fresh appraisal of the claims, Neyveli Lignite Corporation Limited (Company) filed an appeal (April 1998) with Custom Excise and Gold (Control) Appellate Tribunal (CEGAT) without obtaining the necessary clearance of the Committee of Secretaries.

However, the Board of Directors of the Company accorded approval (September 2002) for not pursuing excess excise duty claim and close the matter by allowing the appeal to CEGAT to lapse.

The Assistant Commissioner, Central Excise, Ranipet to whom the case was remanded by the Commissioner of Central Excise (Appeals) sought from the Company details of receipt of goods. As the Company neither appeared for the personal hearing nor sent the details called for, the Assistant Commissioner finally rejected (January 2003) the claims.

In fact the Company placed orders from April 1988 to February 1990 on M/s. Bharat Heavy Electrical Limited (BHEL) for the manufacture, supply and erection of retrofit Electrostatic Precipitators (ESPs) intended for pollution control in its Thermal Power Station-I (TPS-I). The system was commissioned between 1990 and 1996.

Government of India (GOI) by notification No. 78/90-CE dated 20 March 1990 allowed concessional rate of excise duty of 5 per cent advalorem on pollution control equipment subject to production of a certificate from the Ministry of Environment and Forests to the effect that the subject ESP equipment was pollution control equipment. The Company apparently was not aware of the notification and reimbursed BHEL at the normal rate of 15 per cent resulting in excess payment of duty amounting to Rs.98.40 lakh. The Company became aware of the concessional duty in November 1991.

Three claims for refund of excise duty of Rs.98.40 lakh were lodged (January 1993) with the excise authorities with necessary certificates issued (December 1992) by the Ministry of Environment and Forests, which were rejected (February 1996) as time barred and inadmissible by the Assistant Commissioner, Central Excise, Ranipet.

On the appeal challenging the above order, the Commissioner of Central Excise (Appeals), Chennai while holding that the Company was eligible for the concessional rate of duty and that part of the claims were time barred, remanded (January 1998) the case to lower authority for fresh appraisal of the claims.

The Company admitted the facts (December 2002) and stated that as per legal opinion, it could not hold BHEL liable for the differential excise duty and further Ministry of Coal

had directed it to reconsider the issue of pursuing the appeal before CEGAT. Thus, the Company was left with no alternative except to allow the appeal to lapse.

Ministry stated (January 2003) it was of the opinion that expensive legal procedure over money that had gone to public exchequer was not necessary.

The justification is not tenable in view of loss suffered due to ignorance of Government notification and failure to avail of the opportunity afforded by the Commissioner of Central Excise (Appeals).

Thus, the lapse of the Company to keep itself up to date on statutory changes/Government notification resulted in avoidable payment of Rs.98.40 lakh.

3.4.4 Loss due to under settlement of insurance claim by Rs.58.16 lakh

The Company suffered loss of Rs.58.16 lakh on account of disallowance of claim by insurer due to failure to conduct the survey of damaged cargo within the mandatory period.

Neyveli Lignite Corporation Limited (Company) failed to protect the recovery rights of M/s. United India Insurance Company Limited (UIIC) which resulted in settlement of claim on non-standard basis (May 2000) and consequent loss of Rs.58.16 lakh.

The Company imported 2100 metre trailing cable for Bucket Wheel Excavator from M/s. Krupp and 1050 metres for Spreader from M/s. Mantakrap and the materials were received at Chennai Port on 20 January 1999 and 22 February 1999 respectively. A portion of the cables received in three drums was in a damaged condition. The Company lodged a claim (June 1999) with UIIC for a total amount of Rs.3.90 crore. UIIC admitted (May 2000) an amount of Rs.2.33 crore out of which Rs.1.75 crore was paid after deducting Rs.58.16 lakh towards non protection of recovery rights, as UIIC was deprived of the right of claiming loss from the steamer and customs. Though the 'Landing Remarks Certificate' issued by Chennai Port Trust clearly indicated damage to the packages at the time of landing of cargo, it was cleared by the clearing agent without participation of appropriate officials from insurance, Port and Customs. Moreover, the Company had not taken prompt action to conduct a detailed survey within the mandatory period of 3 days of landing even though the cable drums had suffered visible external damage. Such actions resulted in prejudicing the UIIC's right to recover the claim amount from the steamer and Customs leading to the deduction of 25 per cent from the admissible amount of the claim.

The Company stated (July 2003) that UIIC arbitrarily took a decision that the Company/clearing agent did not conduct survey within the mandatory period which was totally wrong and that the survey was conducted on the date stipulated by the steamer agent who alone was responsible for any delay in conducting the survey.

The reply is not tenable, as the steamer agent had repudiated the claim of the Company. Surveyor's report clearly indicated that the survey was applied for belatedly. Further, the clearing agent had not requested the Customs officials for a detailed examination, thus, causing loss of recovery rights of UIIC from the steamer and Customs.

The matter was referred to the Ministry in June 2003: their reply is awaited (August 2003).

Western Coalfields Limited

3.5.1 Infructuous expenditure of Rs.8.02 crore

The Company could not complete construction of Coal Handling Plant for ten years. As it decided subsequently that the CHP was no more required, the expenditure of Rs.8.02 crore incurred thereon became infructuous.

Western Coalfields Limited (Company) incurred an expenditure of Rs.8.02 crore on construction of Coal Handling Plant (CHP) at Sasti open cast project. As the work could not be completed for ten years and the Company decided subsequently (March 2003) that the CHP was no more required, the total expenditure of Rs.8.02 crore became infructuous.

The Company had awarded (February 1991) the work of construction of the CHP to M/s. Rehabiliation Industries Corporation Limited (contractor) to be completed by August 1993. The contractor could not complete the work within the stipulated time and stopped the work in May 1996 on account of escalation, delayed payments, etc. Though the contractor recommenced (March 1997) the construction, it finally abandoned the work in August 1999. By this time, 90 per cent of the work had been completed and the Company had paid a sum of Rs.8.02 crore to the contractor. Although the contractor had become sick and gone into BIFR[♣] in October 2000, the Company did not show any urgency in completion of the CHP by awarding the balance work to another contractor. Meanwhile, the Company decided (March 2003) not to complete the balance work as the CHP was not required. As a result, the expenditure of Rs.8.02 crore incurred on the project became infructuous.

Management stated (April 2003) that the CHP was no more required in view of non-availability of demand for washed coal, deferring the proposals for expansion of Sasti open cast project, etc.

The reply is not acceptable, as the construction of the CHP was envisaged for maintaining proper quality, sizing, weighing and loading of coal and the reasons cited by the Management were not linked to the proposed CHP as such. Besides, the requirement

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[♣] ***Bureau of Industrial and Financial Reconstruction***

for the work should have been assessed before the work was awarded and not when it was nearing completion.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

CHAPTER 4: MINISTRY OF COMMERCE

MMTC Limited

4.1.1 Avoidable loss due to non-removal of crude palm oil from custom bonded warehouse on payment of customs duty

Failure of the Company to remove imported crude palm oil from the bonded warehouse on payment of customs duty resulted in payment of additional customs duty of Rs.1.95 crore.

MMTC Limited (Company) entered (August 2001) into an agreement with M/s. PGEO Edible Oils, Malaysia for import of 6000 MT of crude palm oil (CPO) on ex-tank Kandla basis for supplying to M/s. GBK Export Limited (buyer). Accordingly, a vessel MV Chemstar King carrying 5997.624 MT of CPO arrived at Kandla port. The CPO was discharged and kept (16 September 2001) in customs bonded shore tanks. As it was expected that customs duty on CPO was likely to go up, MMTC paid customs duty of Rs.5.28 crore on 12 November 2001.

Although simultaneous action was to be taken to transfer the crude palm oil from the bonded tanks the Company did not take such action as the buyer had evinced no interest in lifting the CPO because of fall in the international price. Thereafter, when the Company identified parties for the sale of the CPO on retail basis, tariff value of CPO underwent changes from US$ 286 per MT to US$ 392 per MT and customs duty on revised tariff value worked out to be Rs.7.23 crore[♣]. Consequently, the Company had to make (June 2002) additional payment of customs duty of Rs.1.95 crore being the duty differential between the rate of customs duty initially paid and the revised duty paid on clearance of CPO in June 2002.

Thus, non-removal of CPO from bonded warehouse after making payment of customs duty resulted in payment of additional customs duty of Rs.1.95 crore by the Company.

Management accepted (January 2003) the fact that the goods should have been physically removed from the customs bonded tanks immediately on payment of customs duty.

The matter was referred to the Ministry in March 2003; their reply was awaited (August 2003).

[♣] ***On discharged quantity of 5991.832 MT***

4.1.2 Extra expenditure due to unjustified enhancement of rate in discharging and transportation of coal

The Company incurred an extra expenditure of Rs.1.47 crore in discharging and transportation of coal by acceding to an unjustified increase in the existing contracted rate.

MMTC Limited (Company) entered (August 1999) into an agreement with M/s Rich Group International Limited (supplier) for supply of 7.5 lakh MT of coal to Punjab State Electricity Board (PSEB) at the rate of US$ 31.7 per MT C&FFO* Navalakhi/ Jamnagar or any other port in Gujarat as mutually agreed upon. The Sales and Purchase Committee♦ (SPC) of the Company in its meeting (August 1999) decided to award contracts for stevedoring, handling and clearing, road bridging and transportation of coal by rail up to the stockyard of PSEB (Ropar) at a consolidated rate of Rs.1275 PMT.

The Company had, in the period of September 1999 and April 2000 got five shipments of coal handled at the Navlakhi and Mundra ports through two Contractors, M/s. Mercator Lines Limited (MLL) and M/s. Adani Port Limited at the rate of Rs.1275 PMT and Rs.1270 PMT respectively.

When the supplier of coal proposed (March 2000) the nomination of Sikka port for discharging of coal, the Company asked (April 2000) for the services of a third handling contractor, M/s. Flaminco Services Private Limited (FSPL), with whom an agreement had been entered into by the Company (September 1999) for handling of coal at Navalakhi or any other port in Gujarat. However, FSPL refused to handle the coal at the rate of Rs.1275 per MT as per the contract on the plea that the 10 per cent discount applicable on railway freight had been withdrawn and there had been an escalation of 2 per cent in the freight rates in the Budget.

Based on the above consideration, the Company amended the terms of the contract (20 April 2000) and agreed to a new rate of Rs.1400 per MT instead of Rs.1275 PMT for the same type of work. The local Management exceeded the overall limit fixed by the Board of Directors at Rs.1275 PMT. As a result, it incurred an extra expenditure of Rs.1.47 crore ♣towards 141677.36 MT of coal handled/transported by the agent up to the PSEB stockyard during May 2000 to October 2000.

Management stated (October 2001 and July 2002) that the agreement executed (September 1999) with the handling contractor provided for a rate of Rs.366 PMT for handling of coal at Navalakhi/ Jamnagar or any other port in Gujarat and the payment of railway freight from any port to the PSEB plant at Ropar would be organised by the Company and/or by the handling contractor on actual basis and there was no contract with a consolidated rate of Rs.1275 per MT and hence, there was no additional payment.

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* ***Cost and Freight Free Out***

♦ ***A Committee of Directors***

♣ ***Excluding Rs.21.10 per MT being 2 per cent increase in railway freight received by the Company from PSEB***

Management's contention is not tenable for the following reasons: -

- FSPL confirmed in writing on 7 January 2000 that they would accept the payment of Rs.1275 PMT subject to the condition that any or all increase in railway freight received by the Company from PSEB and any concession received from Railways would be passed on to FSPL.

- Management has not explained the reasons why it had entered in to a contract in September 1999 with the handling contractors at a rate of Rs.366 PMT exclusive of railway freight amounting to Rs.948 PMT* and thus, exceeded the consolidated rate of Rs.1275 PMT as approved by SPC for all services including road bridging and rail transportation.

- Withdrawal of 10 per cent discount from Navalakhi port by Railways followed reduction of transportation cost of 70 km due to availability of Rail head near the port, which was built into the consolidated amount of Rs.1275. Further, no road bridging was necessary in Sikka port. Therefore, withdrawal of 10 per cent discount at Navalakhi did not have any impact on the consolidated amount of Rs.1275 PMT warranting any compensation to the handling contractor.

Ministry, while endorsing the reply of the Management, stated (July 2002) that since the transaction under scrutiny related to business/ commercial activities of the Company, it was not in a position to offer any comments. The reply is not very encouraging because Company's entering into a fresh contract without acting on the existing contract does not constitute a normal business practice and needed a thorough probe from the Ministry.

Thus, the fact remains that the Company made an extra payment of Rs.1.47 crore to the handling contractor by enhancement of an existing contracted rate for handling and transportation of coal.

4.1.3 Excess payment in the implementation of voluntary retirement scheme

Incorrect application of DPE guidelines resulted in excess payment of Rs.1.41 crore for implementation of voluntary retirement scheme.

MMTC Limited (Company) introduced (December 2000) a voluntary retirement scheme (VRS) to reduce surplus manpower. The scheme was in operation from 1 to 31 January 2001 and 356 employees were relieved under the same.

In accordance with this scheme based on Department of Public Enterprises (DPE) guidelines (May/December 2000), employees were to be paid *ex gratia* equivalent to two months' emoluments for every completed year of service or monthly emoluments multiplied by the balance months of service left before the normal date of retirement, whichever was less. But contrary to the guidelines, the Company reckoned 26 days as one

* *Excluding 10 per cent discount for road bridging*

month instead of 30 days and extended the period beyond 2 months for every completed year of service for computation of *ex gratia*. Consequently, the Company made an excess payment of Rs.1.41 crore to 276 employees (out of 356 employees) who had taken voluntary retirement from Corporate Office and 7 Regional Offices* out of 13 Regional Offices.

Management stated (December 2002) that computation of 26 days in a month was applied in cases where the *ex gratia* was paid based on past service and this was approved by the Board of Directors of the Company.

Contention of the Management is not tenable as the approval of the DPE was necessary for the computation of one-day salary considering 26 working days as a month for the payment of *ex gratia*. Further, the Administrative Ministry, while conveying (December 2000) the approval for the introduction of the VRS in the Company, had directed that the VRS guidelines as contained in the DPE order of May 2000 should be strictly conformed to.

Thus, adoption of 26 days as one month instead of 30 days for computation of *ex gratia* for implementation of VRS resulted in an excess payment of Rs.1.41 crore.

The matter was referred to the Ministry in June 2002; their reply was awaited (August 2003)

**** Goa, Chennai, Mumbai, Ahmedabad, Visakhapatnam and Kolkata***

CHAPTER 5: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Central Warehousing Corporation

5.1.1 Blocking up of funds on purchase of flats for staff

Purchase of flats for staff quarters at Dwarka without ensuring suitability of the design and assessment of demand resulting in idle investment of Rs.3.33 crore and consequent loss of earnings of Rs.1.33 crore.

Central Warehousing Corporation (Corporation) in response to an offer received from Delhi Development Authority (DDA) in January 1997 registered (February 1997) for 50 flats (30 type 'A' and 20 type 'B') at a total cost of Rs.2.52 crore at Dwarka to be used as staff quarters and made initial deposit of Rs.5.25 lakh. However, preliminary requirement scrutiny of the layout plan to ensure their suitability for occupation by its officer and assessment of demand was not done by the Corporation. The flats were allotted on 30 July 1998 and the Corporation made balance payment of Rs.2.47 crore on 30 October 1998.

DDA handed over the flats in September 1999. Subsequently, the Corporation also incurred expenditure of Rs.81.26 lakh on expansion of these flats up to March 2001. In October 2001, the Managing Director of the Corporation constituted a committee to visit the staff quarters and give recommendations for its utilisation by various cadre officers. On inspection, committee observed that the design of the flats was such that there was lack of privacy and also the net useable area was much less. The committee, therefore, recommended that type 'A' quarters could be allotted to Group 'B' or Group 'C' staff and type 'B' could be allotted to Group 'C' and Group 'D' staff. The committee also felt that in case of poor response from the employees, it would be appropriate to explore the possibility to recover the investment in these flats through offering these flats to the employees on ownership basis at cost. The report of the committee though received in April 2002 has not been submitted to top Management for decision so far (May 2003). As a result the Corporation could allot only one flat and rest of the flats have been lying idle.

Management in their reply stated (May 2003) that providing housing facilities to employees was a welfare measure and, therefore, the cost of the flats was not overriding consideration. It was also stated that the Corporation never anticipated that the houses constructed by DDA would lack proper layout.

The reply of the Management is not tenable as the Management failed to satisfy itself about the design and requirement of flats. As a result there are no takers for these flats and the welfare objectives is not achieved. Further, as the DDA offered the flats on 'as is where is basis' and did not construct flats specifically for the Corporation, it was necessary to study the layout plan of the flats before making substantial investment.

Thus, the investment of Rs.3.33 crore made in the flats was injudicious and unwarranted which prevented the Corporation from earning interest of Rs.1.33 crore during February 1997 to March 2003 (@ 10 per cent on investment).

The matter was referred to the Ministry in April 2003; their reply was awaited (August 2003)

5.1.2 Irregular publicity expenditure

Irregular payment of Rs.56.82 lakh on advertisement of Antyodaya Anna Yojana.

The Corporation paid Rs.56.82 lakh on advertisement on implementation of Antyodaya Anna Yojana (AAY), which was unrelated to its activities.

On completion of one year of launch of AAY Government of India, Ministry of Consumer Affairs, Food & Public Distribution (Department of Food and Public Distribution) decided (December 2001) to release an advertisement, on implementation of AAY, to the print media in all States and UTs. The Ministry/ Department of Food and Public Distribution took a decision that the expenditure on the advertisement be borne by the Corporation and the National Consumer Cooperative Federation (NCCF) in the ratio of 50:50 as it did not have budget provision for publicity. Although the advertisement was not related to the activities of the Corporation, it incurred an expenditure of Rs.56.82 lakh (including Rs.5.48 lakh on preparation two video films)

The Ministry got the publicity job executed at the cost of Corporation instead of obtaining the necessary supplementary grants or appropriations separately in accordance with the provisions of Article 115(1) of the Constitution.

The Management replied (April 2003) that the above expenditure was incurred on the specific instructions received from the Ministry and the Board of Directors had ratified the expenditure. The fact remains, however, that the Corporation had incurred an irregular expenditure of Rs.56.82 lakh on publicity unrelated to its activities.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003)

Food Corporation of India

5.2.1 Undue benefit on export of rice

Avoidable loss of Rs.133.13 crore on extending undue benefit to the exporters.

The Corporation suffered an avoidable loss of Rs.133.13 crore on account of supply of rice to the exporters during April 2001 to September 2002 beyond the permissible limit

for broken rice in deviation of its own rules. Further, as the concession was not granted with the approval of the Government, no allowance was to be given for broken rice other than 2 per cent for operation losses. The Corporation, however, supplied 25 per cent and 16 per cent of excess rice in respect of raw rice and par-boiled rice respectively and thereby provided undue benefit to exporters of Rs.232.02 crore.

The Ministry of Consumer Affairs, Food and Public Distribution permitted (February 2001) the Corporation to make available rice for export to interested parties at concessional rates. The terms and conditions framed (June 2001) by the Corporation regulating sale of rice for export purpose, *inter-alia*, envisaged that a margin of 2 per cent plus equivalent percentage of reduction in brokens as per bill of lading or 'H' Form may be allowed to the buyers, towards upgradation/rebaggage, while reckoning the quantity actually exported with reference to quantity actually lifted from godown by any party. This concession did not have the approval of the Ministry.

The Corporation procures rice of two varieties viz., raw rice and par-boiled rice. Normally, raw rice contains 25 per cent brokens and Par-boiled 16 per cent. For export, broken rice is to be removed and brought down by the exporters before exporting to the levels with which they can export rice, as per the orders received by them. It was noticed that the exporters had exported rice which contained broken rice varying from 0 per cent to 16 per cent, the average of which was taken by the High Level Committee of the Ministry as 8 per cent. Accordingly, the percentage of broken rice to be removed works out to 17 per cent (25-8) in respect of raw rice and 8 per cent (16-8) for par-boiled rice. The Corporation, therefore, should have supplied 117 Kg of rice for an export order of 100 Kg for raw rice and 108 Kg for par-boiled rice besides 2 per cent for operational losses. Instead the Corporation had supplied 127 Kg of raw rice and 118 Kg of par-boiled rice for an order of 100 Kg indiscreetly to all the exporters. Thus, there was an excess supply of raw rice and par-boiled rice to the extent of 8 per cent. During April 2001 to September 2002, the Corporation supplied 37.48 lakh MT of raw rice and 19.76 lakh MT of par-boiled rice to the exporters. Therefore, excess quantity supplied to exporters at concessional rates on this account was equivalent to 3.70 lakh MT. The concessional rates during the above period ranged from Rs.5650/- to Rs.6750/- per MT as against Open Market Sales Price of Rs.9500/- per MT. Thus, there was an undue benefit to the exporters to the extent of Rs.133.13 crore being the difference between the Open Market Sale Price and the concessional rate on supply of excess quantity of 3.70 MT to the exporters. This has resulted in an avoidable loss of Rs.133.13 crore to the Corporation.

Besides, the Corporation had allowed the concession for allowance for broken rice in April 2001 without seeking prior approval of the Ministry as mentioned by them. This has resulted in extending unintended benefit to the exporters to the tune of Rs.232.02 crore, on rice supplied for export during April 2001 to September 2002, being the value of brokens of 17 per cent in respect of raw rice and 8 per cent for par-boiled rice, which could have been avoided had the approval of the Ministry been sought in advance.

The matter was referred to the Management/Ministry in April 2003. The Ministry in their interim reply (May 2003) stated that the conclusions drawn in the Draft Para, particularly those relating to financial burden were not acceptable because the exports were over seen

by a High Level Committee. It was decided to hold an inquiry by a senior officer of the Ministry and the inquiry is expected to be completed shortly and no further action may be initiated till the results of the same were available.

5.2.2 Irregular payment of double-line machine stitching charges

The Government of India instructions withdrawing the payment of double-line machine stitching charges, with effect from October 2000, were not followed by the Corporation leading to an avoidable payment of Rs.39.89 crore.

The Government of India (GOI) offered (May 2000) an incentive for incidentals to rice millers, for delivering rice in double-line machine stitched gunny bags, for Kharif Marketing Season (KMS) 1999-2000 The incentive was withdrawn (July 2000) from KMS 2000-2001 due to commence from October 2000 by GOI. Withdrawal of incentive was also reiterated in December 2000 since the stitching charges were already included in the mandi labour and this kind of stitching had become a common practice.

However, GOI directions withdrawing the payment of extra incidentals were not communicated by FCI Headquarters to the Regions for implementation in KMS 2000-2001. This was done belatedly in April 2002. As a result extra incidental charges for double-line stitching continued to be paid by field offices even subsequent to October 2000 in Karnataka (up to September 2001) and Andhra Pradesh (up to September 2002) regions. FCI paid Rs.1.08 crore on 86.47 lakh bags in Karnataka Region and Rs.33.15 crore was paid in Andhra Pradesh on 2652.27 lakh bags. Similarly an amount of Rs.5.66 crore on 452.93 lakh bags was paid during November 2000 to December 2002 in Orissa Region. Thus, there was an avoidable payment of Rs.39.89 crore on account of payment of incidentals.

The Zonal Management replied (October 2002) that they were not aware of GOI directions of July 2000 and December 2000, withdrawing the payment of double-line machine stitching charges and GOI orders were not applicable to mill levy rice.

The reply is not tenable as FCI Headquarters had sufficient time (July to September 2000) to communicate GOI instructions to its field offices and the said orders also covered mill levy rice. Further, adoption of 1999-2000 rates, which included payment of double-line stitching charges, for 2000-2001 and 2001-2002, was not in order as evident from FCI Headquarters communication of April 2002 that the double-line machine stitching charges were not payable as per GOI directions.

Thus, the payment of Rs.39.89 crore towards double-line stitching charges was irregular and was contrary to GOI directions.

The matter was referred to the Management and Ministry in April 2003; their replies were awaited (August 2003).

5.2.3 Avoidable interest loss

The Corporation suffered avoidable interest loss of Rs.6.33 crore on cash credit due to delayed realisation of sums due under Sampoorna Grameen Rozgar Yojana and Food for Work Programme.

The Corporation incurred avoidable payment of interest on Cash Credit, during July 2001 to March 2003, aggregating to Rs.6.33 crore as it did not submit the bills amounting to Rs.272.45 crore on time in respect of foodgrains supplied during December 2001 to November 2002 under Sampoorna Grameen Rozgar Yojana (SGRY) and during June 2001 to September 2001 under Food for Work Programme (FFW).

FCI Headquarters had issued instructions in June/December 2001 to its field offices stipulating definite time frame for submission of bills under SGRY and FFW Schemes.

A test check of claim transactions relating to supply of foodgrains under SGRY revealed that there were delays in submitting the bills beyond the stipulated period by the field offices to FCI Headquarters. In North Zone the delays ranged from 3 to 174 days in submitting the bills of Rs.182.89 crore. In North East Frontier (NEF) region the field offices took 135 days in resubmitting the bills for Rs.15.58 crore, which were returned by the Ministry for want of additional certificates. This led to delayed realisation of dues from Department of Rural Development as well as debit to cash credit account. Consequently, the Corporation suffered interest loss of Rs.3.42 crore during January 2002 to March 2003. (North Zone Rs.2.75 crore and NEF Rs.66.58 lakh @ 11.30 per cent to 11.55 per cent on cash credit)

Similarly, the Corporation suffered interest loss of Rs.2.91 crore during July 2001 to February 2002 due to delays ranging from 113 days to 144 days in submitting the bills aggregating to Rs.73.98 crore by the field offices to FCI headquarters for reimbursement from the Ministry of Rural Development, Government of India in respect of foodgrains supplied under FFW in Orissa region.

The Regional/Zonal Management stated (February/April, 2003) that there were delays in getting the bills verified from State Government Agencies and the time limit of seven days was not sufficient keeping in view various constraints in North Eastern Zone. Delay in submission of single consolidated bills to Headquarters under FFW on monthly basis for the supply made was not intentional but due to procedural matters.

The reply of the Management is not tenable since the instructions for billing were framed by the Corporation itself after taking into consideration various constraints under which the field offices were required to work.

The matter was referred to the Management and Ministry in June 2003; their replies were awaited (August 2003).

5.2.4 Loss on disposal of 'Relaxed Specifications' rice

Disposal of 'Relaxed Specifications' rice after expiry of shelf life resulted in a loss of Rs.2.75 crore.

The Corporation incurred unnecessary expenditure of Rs.51.60 lakh towards railway freight on transportation of 'Relaxed Specifications' rice, whose shelf life expired, from the State of Punjab to the State of Karnataka, which was later disposed of through tender at a loss of Rs.2.23 crore.

Government of India, Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Civil Supplies relaxed (March 1999) the specifications in respect of custom milled rice procured during 15 September 1998 to 27 October 1998 by the Corporation in Punjab. The shelf life of raw rice procured under 'Relaxed Specifications' was termed as eight months.

Of the rice procured under 'Relaxed Specifications', 2283.295 MT was despatched from Sunam in May 2000 and 2343.961 MT from Barnala in October 2000 to Maddur and Tumkur (Karnataka State) respectively, well after expiry of the defined shelf life by incurring Rs.51.60 lakh on railway freight. Further the stocks received at Food Storage Depots at Maddur and at Tumkur contained broken/discoloured grains exceeding the limits stipulated under 'Relaxed Specifications'. The stocks could not be issued to Public Distribution System because of consumer resistance.

Consequently, of the 4627.256 MT of 'Relaxed Specifications' rice received in Karnataka 3893.627 MT was disposed of through tender during 2000-01 for Rs.2.35 crore as against economic cost of Rs.4.22 crore resulting in a loss of Rs.1.87 crore. There was a balance stock of 733.629 MT on which the Corporation is likely to suffer a loss of Rs.35.53 lakh

Thus, the Corporation suffered a total loss of Rs.2.75 crore which was avoidable.

The matter was referred to the Management and Ministry in August 2003; their replies were awaited (August 2003).

5.2.5 Misappropriation of stocks

Loss Rs.2.20 crore due to misappropriation of stocks by the employees of the Corporation.

There was system failure leading to misappropriation of stocks (wheat 1813 MT, rice 288 MT and paddy 1143 MT) valuing Rs.2.20 crore by the employees of the Corporation at Food Storage Depot (FSD), Zira during 1999-2000 and 2000-01.

The Corporation has a well-laid down procedure for maintaining the stock accounts of all foodgrains received and issued on day to day basis and reconciling them on monthly

basis right from Assistant Grade-I (Depot) to Assistant Manager (Depot) and up to the level of the Senior Regional Manager/ the Regional Manager and the District Manager.

The compliance of the laid-down procedure, however, was not ensured at various levels. As a result 1813 MT of wheat, 288 MT of rice and 1143 MT of paddy was misappropriated by the employees at FSD Zira. The total value of the misappropriated stocks at their economic cost worked out to Rs.2.20 crore. Besides this, 834 MT of rice (grade A) valuing Rs.80.29 lakh was booked under storage loss during 1 April 1999 to 31 March 2000 for which details are awaited.

This was due to lack of internal controls to ensure that the (i) Stock Ledgers recording receipts and issues on day to day basis in strict chronological order for each grain and variety of grain are maintained by the Assistant Grade (Depot), (ii) the Master Ledger maintained by the Assistant Manager (Depot) commoditywise and varietywise is reconciled with that of the Stock Ledgers monthly basis and (iii) monthly stock statement is submitted to the to District Office.

The matter was referred the Management and Ministry in June 2003; their replies were awaited (August 2003).

5.2.6 Loss on sale of wheat

Loss of Rs.1.85 crore on sale of wheat in the absence of clear instructions.

On the basis of requests received from the Governments of Punjab, Haryana and U.P. and Food Corporation of India (Corporation), regarding unseasonal rains affecting wheat stocks during procurement operations and standing crop in advance stage of maturity, the Govt. of India declared (6 July 2001) the wheat as 'lustre lost' in the whole of the Punjab, 15 revenue districts in Haryana and 10 revenue district in U.P. The wheat procured in revenue districts of Hissar, Mohindergarh, Rewari and Panchkula in Haryana was not declared 'lustre lost'. The Government of India also decided to dispose of 'lustre lost' wheat on overriding priority ignoring the 'First In First Out' principle.

In order to liquidate '2001-2002 wheat' procured in Punjab and Haryana on priority, the Head office of the Corporation issued instructions on 27 August 2001 to issue wheat @ Rs.610 per quintal under Open Market Sales Scheme (Domestic) without specifying that the rate fixed was for 'lustre lost' wheat. As a result, 1.32 lakh quintal of wheat which was not 'lustre lost' was sold during 4 September 2001 to 6 October 2001 from revenue districts of Hissar, Mohindargarh and Rewari @ Rs.610 per quintal.

On 5 October 2001, the Head Office of the Corporation clarified that '2001-02 wheat' meant the 'lustre lost' wheat procured in the regions of Punjab, Haryana and U.P. in the revenue districts communicated on 11 July 2001. These instructions were circulated to the field as late as on 30 October 2001 by the Regional Office, Haryana. As a result, 3.30 lakh quintals of wheat was sold during 8 October 2001 to 21 November 2001 @ Rs.610 per quintal against the rate of Rs.650 per quintal fixed for normal (other than lustre lost) wheat.

Thus, in the absence of clear instructions from the Head office of the Corporation and delay in issue and circulation of clarification by Regional Office, the Corporation suffered a loss of Rs.1.85 crore on the sale of 4.62 lakh quintals of normal wheat @ Rs.610 per quintal instead of Rs.650 per quintal.

The Zonal Office of the Corporation stated (March 2003) that the wheat was sold @ Rs.610 per quintal as per instructions of Head Office dated 27 August 2001. It was further stated that the Government of India had also declared subsequently (June 2002), the wheat procured in Hissar, Rewari and Mohindargarh also as 'lustre lost' wheat.

The reply of the Zonal Office that the wheat procured in these 3 districts was also declared 'lustre lost' is not relevant because the Government of India had only declared the wheat remaining in stock at that time (June 2002) as 'lustre lost'.

The matter was referred to the Management and Ministry in May 2003; their replies were awaited (August 2003).

5.2.7 Improper maintenance of stocks

Loss of Rs.1.47 crore on account of damaged and lost stocks of wheat at Food Storage Depot Whitefield, Bangalore.

The Corporation suffered a loss of Rs.1.47 crore, on account of wheat stocks damaged (July 2001 to August 2002) and lost (March 2002), which were improperly kept for a longer period in poorly constructed temporary plinths at Food Storage Depot, Whitefield Bangalore (FSD).

Temporary plinths were constructed hurriedly at FSD for accommodating heavy wheat stock arrivals from ex-North, which commenced from July 1999 onwards till March 2002 and dumping was in temporary plinths, alleyways and platforms. Due to poor off-take, the stocks in plinths were kept for a longer period than envisaged. The Cuddapah slabs used for flooring in the temporary plinths were broken due to weight of stocks. As there were continuous rains during 1999-2001, the stocks were damaged due to rainwater and infestation. The deteriorating condition of the stocks was noticed in October 2000, whereas the reconditioning and salvaging operations were taken up only in February 2001.

Consequently 1211 MT of wheat was found damaged which was retrieved at a cost of Rs.4.81 lakh and 659 MT of wheat stock valuing Rs.59.33 lakh was found missing. Of the 1211 MT of damaged wheat, 1180 MT was sold for Rs.23.42 lakh as against the economic cost of Rs.1.06 crore resulting in a loss of Rs 82.58 lakh. Thus, there was a loss to the Corporation totaling to Rs.1.47 crore.

Zonal Office while accepting (February 2003) the general narration in the Factual Statement stated that a police complaint has been made and the matter is under investigation.

The matter was referred to the Management and Ministry in May 2003; their replies were awaited (August 2003).

5.2.8 Extra expenditure in procurement of Aluminium Phosphide

Extra expenditure of Rs.1.25 crore in procurement of Aluminium Phosphide due to not ensuring that the rates paid in different Zones were uniform.

The Corporation incurred an additional expenditure of Rs.1.25 crore in the procurement of Aluminium Phosphide (ALP) at higher rates during the contract period 2000-01 and 2001-02 in the South Zone.

The purchase of chemicals was decentralised (July 1984) giving powers to Zonal /Senior Regional Managers to maintain adequate stocks at all centres at all times. The Head Office of the Corporation informed (April 1996) the Zonal/Senior Regional Managers to workout the requirement of chemicals for a year and procure them on rate running contract basis. However, it was not ensured that the rates paid in different Zones were uniform.

In the South Zone 169 MT of ALP was procured @ Rs.305 per kg during the contract period 2000-01 and 43 MT @ Rs.299 per kg during 2001-02. These rates were higher as compared to the rate of Rs.244 per kg. (November 2000) in the West Zone and the rates of Rs.255 per kg and Rs.244 per kg in the South Zone during 1998-99 and 1999-2000 respectively. Subsequently the Management, on noticing that the indigenous manufacturers/suppliers had adopted unfair trade practices by forming a cartel and exploiting the Corporation by selling ALP at exorbitant price, succeeded (November 2002) in reducing the rates to Rs.245 per kg for the subsequent period.

Had the Management taken the corrective action timely, the additional expenditure of Rs.1.25 crore incurred in the procurement of ALP during the contract period of 2000-01 and 2001-02 could have been avoided.

The Management replied (June 2003) that the increased rates were due to hike in duties and taxes. The reply is incorrect considering the ALP rate that prevailed in the West Zone and the subsequent reduction that the Corporation obtained.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

5.2.9 Unjustified increase in transportation rates

The Corporation allowed increase in transportation rates even though no escalation clause existed in the contracts and incurred an additional expenditure of Rs.83.75 lakh.

The Corporation incurred an additional expenditure of Rs.83.75 lakh during November 1999 to November 2000 due to unjustified increase in transportation rates.

Food Corporation of India (FCI) appointed three road transport contractors for transportation of foodgrains from Jammu to various destinations in the State of J&K, one in May 1998 for two years and the other two for one year each in September 1999 and November 1999. The contract rates ranged from Rs.41.90 to Rs.79.00 per quintal. However, there was no escalation clause in the contracts for likely increase in the prices of High Speed Diesel (HSD).

One of the contractors demanded increase in the transportation rates on account of increase in the prices of HSD. The Senior Regional Manager, J&K region informed Zonal Office that the State Government had allowed 10 per cent increase for the goods carriages belonging to Jammu and Kashmir State Road Transport Corporation (JKSRTC) that were hired by Food and Supplies Department for carriage of foodgrains to various places in the State. On this basis, 10 per cent increase was allowed (October 1999) on the existing rates initially for one contractor and later extended to other two contractors. Undue benefit to the contractors worked out to Rs.83.75 lakh for the period November 1999 to November 2000.

The matter was referred to the Management and Ministry in June 2003; their replies were awaited (August 2003).

5.2.10 Delayed arrangement of storage space

Loss of Rs.81.86 lakh due to procurement of wheat in Khanauri Mandi without ensuring storage space.

The purchase of wheat during the procurement season 2000-01 in Khanauri Mandi in Sangrur District was linked with storage depots at Khanauri having a capacity of 45025 MT as of 31 March 2000. The stock holdings in the Depots as on that date were 38720 MT leaving an available storage space of 6305 MT. The procurement of wheat commenced from 11 April 2000. The Corporation arranged 20000 MT of storage space as late as on 22 and 23 April 2000 after procurement of 23262 MT of wheat. The Corporation procured in total 36062 MT of wheat up to 4 May 2000, of which 20032 MT was lifted from the Mandi up to 11 May 2000. There was a balance of stock of 16030 MT lying in the Mandi on 12 May 2000.

The storage space at Khanauri was not sufficient to accommodate the wheat stocks lying in the Mandi. Heavy rains experienced in the night of 12 May 2000 caused damage to stocks lying unlifted in the Mandi awaiting despatches. Consequently, 299 MT of wheat valuing Rs.26.42 lakh was found short and 766.32 MT of wheat was found damaged on which the Corporation had to incur Rs.10.07 lakh on salvaging operations. The damaged quantity was sold in auction in September 2000 for Rs.22.33 lakh only as against the economic cost of Rs.67.70 lakh resulting in a loss of Rs.45.37 lakh.

Thus, the procurement of wheat stocks without ensuring the availability of required storage space, considering the fact that 34362 MT was procured during the last

procurement season and Khanauri Mandi was located in the flood prone area resulted in an avoidable loss of Rs.81.86 lakh to the Corporation.

The matter was referred to the Management and Ministry in June 2003; their replies were awaited (August 2003).

CHAPTER 6: MINISTRY OF DEFENCE

Bharat Earth Movers Limited

6.1.1 Avoidable payment of penal interest and additional customs duty

Delay in payment of customs duty resulted in avoidable payment of penal interest of Rs.2.43 crore. Even after considering interest saving due to delayed payment of customs duty, the Company suffered a loss of Rs.1.03 crore being the differential interest. In addition, due to non-availment of concessional customs duty, the Company paid additional customs duty of Rs.68 lakh.

Bharat Earth Movers Limited (Company) paid (July 2002) customs duty of Rs.1.10 crore and penal interest of Rs.2.43 crore due to delay in release of raw material and components (items) imported under advance import licence. The Company had imported items worth Rs.72.62 lakh without payment of customs duty with the obligation to export BH-50 dumpers after using the imported items.

Due to non-receipt of expected order, the Company could not discharge its export obligation against the advance import licence even at the end of the extended period (March 2000). Imported items were utilised for domestic sales which was subject to concessional customs duty of Rs.42 lakh.

Management stated (September 2002) that they had deposited money towards the customs duty and interest thereon under protest and had taken up the matter with the Custom authorities for waiver of interest. Management further stated (March 2003) that relevant certificates had been furnished to Custom authorities for extending concessional notification benefits to the goods manufactured out of imported items and supplied to domestic customers. The Ministry endorsed (August 2003) the reply of the Management and further stated that delay in payment actually resulted in gain of Rs.29.46 lakh to the Company.

The reply of the Management/Ministry is not acceptable due to the following:

- The request for waiver of penal interest had already been turned down (January 2001) by the Ministry of Finance, which directed the Company to pay the penal interest in addition to differential duty;

- The request for charging concessional duty though made in October 2001 has not been acceded to by the Custom authorities;

- Due to technological changes, the Company could not export BH-50 dumpers after 1992-93 and it stopped their production from September 1995. The Company's decision to continue to seek extension was, therefore, not prudent, and

- The gain has been worked out by adopting a compound interest rate which is not acceptable, as cash credit account is a running account of credits and debits and the Company seldom pays compound interest on the same.

Thus, delay in payment of customs duty resulted in avoidable payment of penal interest of Rs.2.43 crore. Further, even after considering interest saving due to delayed payment of customs duty, the Company suffered a loss of Rs.1.03 crore being differential interest. In addition, due to non-availment of concessional customs duty, the Company paid additional duty of Rs.68 lakh on domestic sales.

Bharat Electronics Limited

6.2.1 Loss due to acceptance of amendment in delivery schedule

Failure on the part of the Company to protect its interest at the time of amendment of terms of sale orders resulted in blocking up of funds of Rs.58.37 crore and consequential loss of interest of Rs.9.89 crore. In addition, the Company also incurred Rs.1.32 crore towards insurance premium to ensure safe custody of the goods.

Bharat Electronics Limited (Company) mainly deals with Government customers like Defence, All India Radio etc. Generally, the sale orders placed by the Defence customer on the Company stipulate advance payment up to 85 per cent to 95 per cent of the order and balance after receipt of the consignment in good condition. The goods are to be despatched after their inspection by the customer.

The Company had on several occasions accepted amendments to the sale orders which enabled the customer to take delivery at a later date at its convenience. Although the goods were ready, and had been inspected by the customer, yet these were not despatched at the instance of the customer. As such the Company could not claim the balance amounts due in these cases. The sales were, however, accounted for by the Company.

A scrutiny of the records revealed that the Company held goods worth Rs.382.84 crore, Rs.357.86 crore, Rs.269.92 crore and Rs.309.12 crore at the end of the years 1998-99, 1999-2000, 2000-2001 and 2001-02 respectively relating to such sale orders. The delay in delivery of such goods ranged between one and seven years. This resulted in blocking up of funds of Rs.58.37 crore as on March 2002 and consequent loss of interest of Rs.9.89 crore. In addition, the Company expended Rs.1.32 crore towards insurance premium for their safe custody.

Ministry stated (September 2002) that

- as per terms of payment, balance payment would be released by customers only after receipt of the items by consignee; and

- the change in terms has not affected realisation of the payment.

Ministry's reply is not acceptable in as much as the change in delivery terms was one-sided and actually blocked realisation of balance amounts due to the Company despite acceptance of goods by the customer. The Company should have insisted on changing the term of payment commensurate with change in delivery term to protect its interest.

Thus, failure on the part of the Company in protecting its interest at the time of amendment of delivery terms resulted in blocking up of funds of Rs.58.37 crore and consequential loss of interest of Rs.9.89 crore, apart from incurring Rs.1.32 crore towards insurance premium for safeguarding the goods.

Hindustan Aeronautics Limited

6.3.1 Liquidated damages of Rs.11.33 crore due to delay in repair/overhaul of aircraft

Due to delay in repair/overhaul of aircraft, the Company incurred liquidated damages of Rs.11.33 crore from 1995-96 to 2002-03.

The Company failed to fulfill its commitment for repair/overhaul of MIG 21 M and 27 M aircraft in time resulting in incurring of liquidated damages (LD) of Rs.11.33 crore from 1995-96 to 2002-03.

Management attributed (June 2001) the delay in repair/overhaul and delivery of the aircraft to the non-availability of the aero-engine in time by Air HQ, receipt of certain aircraft in crated condition with deficiencies of major items like fuselage, wings etc. Management further stated that the issues have been taken up with Air HQ. The Ministry endorsed (June 2001) the reply of the Management.

The reply is not tenable, as the Management had identified the following factors as the reasons for the delay.

- Induction of aircraft in excess of capacity/task,
- Delay in procurement of imported raw materials/components,
- Heavy absenteeism,
- Non-adherence to norms in different manufacturing shops,
- Delay in supplies by sister divisions; and
- Non-achievement of progress as per action plan.

The Company's failure is further substantiated from Air HQ's observation (December 2000) that the matter regarding induction of aircraft beyond the Company's capacity to overhaul within the cycle time should have been taken up with Air HQ for reduction in task to avoid the adverse impact of levy of LD. However, Air HQ without giving any assurance for reduction in LD stated that a decision would be intimated after further review at Air HQ which was awaited (July 2003).

6.3.2 Loss due to non submission of bill of materials

Failure of Hindustan Areonautics Limited to submit fixed price quotations based on bill of materials resulted in loss of Rs.58 lakh.

Hindustan Areonautics Limited (Company), *inter alia*, is repairing/overhauling rotables for Indian Air Force (IAF). The fixed price quotation (FPQ) for repairing/ overhauling of rotables was to be submitted based on bill of materials. A review of the cases for repair/overhaul of rotables for IAF for the year 1998-99, however, revealed that as against the cost of sales of Rs.4.15 crore the Company was able to set up sales for Rs.3.57 crore only due to the adoption of material hour rate which was not based on bill of materials. The Company, thus, had to absorb escalation in material cost over and above material hour rate. Thus, failure on the part of the Company to submit the FPQ based on bill of materials resulted in a loss of Rs.58 lakh.

Management stated (February 2002) that the FPQs, based on bill of materials, could not be submitted as the number of rotables repaired/overhauled was large. Management while accepting (May 2002) the loss as factual further reiterated that the loss should not be viewed in isolation since their sales to both Army and IAF over the years exceeded the cost of sales. Ministry confirmed (September 2002) the views of the Management.

The reply of the Management/Ministry is not acceptable as any prudent business practice dictates analysis of contribution of all its activities towards the profitability of the Company and addressing any avoidable loss even in a profitable environment. In this case there was a policy/procedure which enabled recovery of full material costs but the same was not taken advantage of due to Company's inability to document information required for that purpose.

Thus, the failure on the part of the Company to submit FPQs based on bill of materials resulted in loss of Rs.58 lakh.

Mishra Dhatu Nigam Limited

6.4.1 Avoidable loss of Rs.71.11 lakh

The failure of the Company in factoring the yields in pricing and also seeking increase in sale price resulted in loss of Rs.71.11 lakh.

The Company entered (28 August 2000) into a Memorandum of Understanding (MOU) with M/s. HBL Nife Power Systems Limited, Hyderabad for supply of 18000 kg each of

nickel strip and nickel wire with deliveries staggered over three years ending March 2003. The price was to be made up of cost of nickel based on London Metal Exchange (LME) price prevailing 3 months prior to dispatch (Rs.475/kg.) *plus* processing charges of Rs.485/kg for strip and Rs.560/kg for wire. The price committed to the customer did not factor in the process yields although the Company estimated (18 August 2000) yields of 42 per cent and 49 per cent for nickel strip and nickel wire respectively. As a result the Company lost Rs.71.11 lakh from sale of 129 kg of wire and 1478 kg of strip from December 2000 to April 2001, after giving credit to the nickel recovered as scrap. The order was short closed in March 2002. Despite realising the above omission in pricing as early as in October 2000, the Company failed to take immediate action in getting the prices revised. It did not withhold the supplies either.

Management stated (July 2003) that (a) the Company knew that processing at external work centres would improve yield but knowingly decided to continue in-house processing which had inherent disadvantage; (b) for reasons of business prudence, it could not seek revision of prices within 2 months of signing MOU; and (c) the business ethics required that the supplies be continued.

The reply of the Management is not tenable due to the following:

- The Company altogether omitted to consider the yield factor while working out the price. Outside processing would also have not redressed the problem, as yield factor is inherent in any metallurgical process.
- There was a serious omission in pricing which is an extraordinary situation. The Company lost Rs.71.11 lakh on a small portion of the supply. To state that business prudence and ethics demanded it to continue supplies is stretching the argument too far.

Thus, the Company incurred a loss of Rs.71.11 lakh as a result of its failure to (a) factor the yields in pricing; and (b) seek increase in price till June 2001 despite noticing the omission in October 2000 itself.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003)

6.4.2 Avoidable loss of Rs.40.72 lakh due to not preferring a claim in time on the insurers towards the goods damaged in transit

The Company had not lodged timely a claim on carrier/insurance company for damages in transit resulted in an avoidable loss of Rs.40.72 lakh.

The Company placed (August 2000) an order on a Singapore firm for supply of Austenitic Stainless 304 L Steel Plates (380 MT) on CIF Mumbai Sea Port basis at a price of US$ 1.19 million. As per the order of the Company, the supplier provided marine insurance cover through China Insurance Company. Geo-Chem Laboratories (P)

Limited was the designated surveyor and settlement agent. As per the insurance policy, the Company was (a) not to give clean receipts where goods are in doubtful condition; (b) apply immediately for survey if any loss or damage is apparent and claim on the carriers or the bailees agents for any actual loss or damage found at such survey; and (c) give notice to the carriers or other bailees within 3 days of delivery if the loss or damage was not apparent at the time of taking delivery. Thus, the Company's claim for damages lay first with the carrier and then with the insurer. The claim against the supplier was laid only in case of any manufacturing defect.

The material was supplied in three consignments in December 2000, January 2001 and March 2001. While the material received in first and second consignment was in good condition, some external damages to the packages were noticed in third consignment. A survey conducted on 12 April 2001 revealed that the damages were attributable to falls, blows, and shocks or jerks received during transit. The Company nevertheless issued a clean receipt to the carriers and transported the goods to its factory at Hyderabad. On inspection of the material (17 April 2001) at the factory, it was found that 17 plates weighing 19.108 MT (Value Rs.46.04 lakh) had UT defects and as such did not conform to the customer's specifications.

Instead of lodging a claim with the carriers/insurers in terms of insurance policy, the Company requested (April 2001) the supplier to replace the 17 rejected plates. After protracted correspondence and negotiations, the supplier finally agreed (March 2002) to replace only 2 plates. As for the balance 15 plates, the supplier contended that the defects were due to transit damages, which were out of their control and responsibility. Even at this stage the Company did not prefer any claim on the carrier/insurer and made a provision in the 2001-02 accounts for doubtful claims towards the cost of 17 plates (Rs.28.32 lakh) and charged off Rs.17.74 lakh of customs duty.

Only when this issue was raised by Audit (October 2002), the Company lodged a claim on the Insurance Company (November 2002). The Insurance Company also did not accept the claim stating (April 2003) that it was time-barred.

Management stated (June 2003) that the damage was limited to the external packaging only, the plates themselves being received in apparent good condition, the claim was not lodged with carriers/insurers.

Management's reply is not tenable as immediately on receipt of Marine Survey Report of April 2001, the Management, as a prudent measure, should have lodged a claim with the carrier/insurer as per the terms of the insurance policy instead of giving a clean receipt to the carrier. Had the Company made a claim on carrier/insurer in time, it would have protected its interest better.

Thus, by not claiming the cost of 15 steel plates damaged in transit from the carrier/insurer within the validity of the insurance policy, the Company had sustained an avoidable loss of Rs.40.72 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

CHAPTER 7: DEPARTMENT OF FERTILIZERS

Fertilizers and Chemicals Travancore Limited

7.1.1 Infructuous expenditure of Rs.71.69 crore on repairs to sick plants

Major repairs were carried out on vintage plants at a cost of Rs.71.69 crore, which were declared economically unviable and the Company decided to dispose of the plants and write off the assets even before the Company could assess the efficacy of the repairs.

Fertilizers and Chemicals Travancore Limited (Company) incurred an expenditure of Rs.71.69 crore during 1998-2002 on repairs of more than 25 years old Ammonia and Urea plants (Plants). As the Company subsequently decided (February 2003) to close the operation of the Plants owing to the change in the Government's pricing policy, the entire expenditure of Rs.71.69 crore became infructuous.

The Company's Cochin Division-I Plants had equipment limitations and associated breakdowns in the Ammonia plant. There were also inherent design limitations with resultant higher energy consumption than design values. The plant being very old was consistently showing poor performance and recorded losses of more than Rs.20 crore per annum during the period 1998-99 to 2000-01. Despite this, the Company continued to take up piecemeal retrofits/repair works and spent Rs.64.11 crore during the period from 1998 to 2001. Further, the actual improvement attained in performance could not be ascertained by the Company since the plants remained shut since July 2001 due to sudden failure of Reformer Gas Boiler, which was replaced in December 2002 with further investment of Rs.7.58 crore. The Plants were restarted in January 2003 but even then these could not achieve stabilised run at higher loads resulting in the Company's inability to assess the impact of the renovations. Moreover, the Company found it difficult to procure even the raw materials to run the plants due to paucity of funds. The restart efforts were, therefore, stopped on 8 February 2003.

In the meantime Government notified (January 2003) 'group pricing policy' effective from 1 April 2003 to replace the existing 'retention price scheme.' While reviewing the impact of group Pricing scheme, the Company felt that further investment to the tune of Rs.350 crore through Government grant would be required to bring down the excess energy consumption levels and to make the Plants economically viable. Board of Directors of the Company did not consider (February 2003) the above option feasible and ordered to dispose of the plants and write off the existing assets.

While confirming the facts, the Company stated (July 2003) that vintage of the plant designed in late sixties led to poor performance. The basic objective of the piecemeal

revamp was to explore the possibility of operating the plant continuously at optimum consumption efficiencies so that the operation became viable.

The reply is not tenable as the plants were closed down due to economic unviability resulting in efficacy of improvement measures going unassessed. Further, as the Company was aware of the review of pricing policy being undertaken by the Government through various Committees since 1987, the Company should have ascertained the economic viability of the plant before taking up piecemeal major repairs.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

Madras Fertilizers Limited

7.2.1 Infructuous expenditure of Rs.4.52 crore

The Urea Prill Tower did not attain guaranteed norms even after rectification works carried out during October 1999 to July 2001. To overcome this situation, the Company embarked upon an alternative scheme (September 2002) involving further expenditure of Rs.2.42 crore which rendered the expenditure of Rs.4.52 crore infructuous.

Madras Fertilizers Limited (Company) was facing problems in the operation of its Urea Prill Tower. As temperature of the Prill Tower continued to remain high at 95^0C against the norms of 60^0C, the Company awarded (October 1999) the modification works of the Prill Tower to M/s. Monsanto Enviro Chem System Inc. (Contractor) at a cost of US$1,095,000 which was mechanically completed in July 2001. The prill tower did not yield the desired results and the Company embarked upon (September 2002) an alternative scheme at a cost of Rs.2.42 crore, which rendered the total expenditure of Rs.4.52 crore infructuous.

The Government approved major revamp aimed at modernisation and capacity expansion of the Company's Ammonia, Urea and Complex Fertilizers plants in January 1993 and it engaged M/s. UTI Construction Inc., Delaware, USA (UTIC), the process consultants of original Urea Plant, for the revamp of Urea plant. The revamped plants were commissioned in March 1998 at a total cost of Rs.601.43 crore. The contract with UTIC expired in June 1998 but the contractual obligations relating to Prill Tower temperature and guaranteed test run (GTR) of Urea plant remained unfulfilled. The contract could not be extended as UTIC was not willing for further extension. High temperature in Prill Tower posed caking problems and difficulties in bagging operations. The Company stated (March 2001) that the process and equipment were of proprietary nature, specially in respect of Urea and there was a compelling necessity to maintain good business relations with the consultant, as such no dispute was raised. Further, the design of the reactors was also with the consultant, and therefore, their continued assistance and advice were required on several issues.

Subsequently, the Company entered into an agreement (October 1999) with the contractor to modify the Prill Tower at a cost of US$ 1.09 million payable in full on successful demonstration of the performance guarantees through GTR within 60 days of the mechanical completion. After the mechanical completion was achieved, the Company failed to provide the plant for GTR within the stipulated time due to water shortage and one of the reactors being under repairs. The contractor did not accept these reasons as force-majeure and invoked arbitration clause for release of the payment. Later a Memorandum of Agreement (MOA) was signed (November 2001) with the contractor and the Company released (December 2001) the payment of US$ 0.941 million after withholding US$ 0.154 million as remedy for successful demonstration of performance guarantee through GTR. As the efforts to make the contractor take up GTR did not evoke positive response, the Company went ahead to install a fluidised bed prill cooling system and had incurred an expenditure of Rs.2.09 crore so far and the system was yet to be commissioned (July 2003).

While confirming the facts, the Management stated (July 2003) that they were exploring the possibility of recovering from the contractor cost of installation of new cooling system and other expenditure incurred.

This has to be viewed in the background of MOA by which contractor had the right to retain the amount paid and the Company's sole and exclusive remedy towards non-performance of GTR was restricted to US$ 0.154 million withheld by it.

The matter was referred to the Ministry in June 2003; their reply was awaited August 2003.

7.2.2 Loss of Rs.1.03 crore on marketing deal

The Company could not recover interest for credit periods overrun by a wholesaler in remitting sale proceeds during the period October 1999 to March 2002 which resulted in a loss of Rs.1.03 crore.

Madras Fertilizers Limited (Company) failed to recover Rs.1.03 crore from M/s Rallis India Limited (RIL) on account of interest on delayed payments, tax deducted at source and court fee. This resulted in a loss of Rs.1.03 crore.

The Company entered (April 1998) into an agreement with RIL for marketing of fertilizers in Maharashtra under which the Company had to establish warehouses and issue release orders to RIL twice a month. The Company initially allowed credit of 55 days, which was further increased to 70 days (June 2000) without obtaining any tangible guarantee. Agreement provided for interest @ 18 per cent to be charged on the payments delayed beyond the credit period. The Company, though, extended the option to prepone payments or make purchases on advance payments but it failed to safeguard its own interest by not obtaining any security for the quantities to be supplied to RIL. This arrangement of extraordinary long credit period resulted in accumulation of four to five releases with RIL even before the first payment became due.

RIL failed to remit the sale proceeds of October 1999 to March 2002 within the credit period and the Company raised debit notes for interest chargeable as per agreement. Though, amount recoverable stood at Rs.14.11 lakh and Rs.70.43 lakh at the end of 1999-00 and 2000-01 respectively the Company continued to supply the product to RIL without interruption. Eventually outstanding amount accumulated to Rs.1.03 crore (March 2002) including Rs17 lakh on account of tax deduced at source on rentals and charges towards court fee etc. A task force of officers deputed (August 2002) by the Company to sort out the problems with RIL failed to realise the dues.

Management admitted (July 2003) that the debit notes amounting to Rs.1.03 crore raised by them on RIL for delayed payment in terms of agreement were disputed by RIL and added that they were still following the matter with RIL. The Ministry endorsed (August 2003) the views of the Management.

The reply is not supported by facts as RIL did not respond as agreed to in the joint meeting held in April 2002 and the Company after deployment of a task force in August 2002 did not take any further action till August 2003. This indicates poor monitoring of the recoverable dues.

7.2.3 Non-recovery of loss of Rs.36.06 lakh

The Company could not recover the value of pilfered cargo amounting to Rs.36.06 lakh from its clearing and forwarding agent due to flaw in the agreement.

Madras Fertilizers Limited (Company) could not recover Rs.36.06 lakh from M/s. Express Clearing and Forwarding Agency (agent) against the value of the urea short delivered at the Company's godowns out of the urea shipment handled during April/May 2000. The contract provided for recovery of the cost for all the losses in excess of permissible limit (0.5 per cent for urea) on an aggregate basis at the end of the contract period instead of recovery of losses on vessel to vessel basis.

The Company appointed the agent for one year (20 August 1999 to 19 August 2000) for stevedoring and clearing and forwarding of fertilizers in bulk from ships arriving at Chennai Port to its godowns in city/plant. The agent failed to deliver 996 MT urea out of the shipment (16295 MT) referred to above, which was available at the Port as per draft survey report. Though, the Company was aware of the unaccounted difference in the cargo, it failed to take action against the agent to make good the loss during the currency of the contract. The value of the urea pilfered en-route Port to destination worked out to Rs.50.74 lakh and the Company adjusted Rs.14.68 lakh against the bills outstanding, despatch money and security deposit. The Central Bureau of Investigation (CBI) has been investigating possible criminal conspiracy between the Company's officials and the agent.

The Ministry stated (August 2003) that for recovery of balance amount of Rs.36.06 lakh, the Company proceeded on arbitration against the agent. The Arbitral Tribunal award was against the Company and it was planning to prefer an appeal to Hon'ble High Court

for setting aside the Arbitral award. However, the fact remains that flaw in the agreement resulted in non-recovery of loss and unnecessary litigation.

CHAPTER 8: MINISTRY OF FINANCE

Insurance Division

General Insurance Corporation of India

8.1.1 Avoidable loss of Rs.3.17 crore

Company's failure to adopt correct figures in the finalisation of commutation agreement under Re-insurance arrangement with Reinsurance Australia Corporation (ReAC) resulted in an avoidable loss of Rs.3.17 crore.

General Insurance Corporation of India (Company) suffered an avoidable loss of Rs.3.17 crore due to adopting of the incorrect/ unreconciled figures of the outstanding losses and outstanding balances as on 31 March 2000 in the commutation agreement finalised on 21 January 2002 under Re-insurance arrangement with ReAC.

The Company during the period from 1994-95 to 1999-2000 for reinsurance of domestic/ foreign inward business, placed its outward treaties with ReAC. Since ReAC's financial position deteriorated, consequent to few big losses in the year 1999, it came out (March 2000) with an offer to pay 50.27 per cent for outstanding losses and 96.50 per cent for outstanding balances to commute the liabilities of all the treaties. The Company did not accept ReAC offer of March 2000 on the plea that amount offered was too low. Subsequently, ReAC in June 2001 revised its offer to pay 56.83 per cent for outstanding losses and 100 per cent for outstanding balances. Due to deteriorating financial position of ReAC, the revised offer of ReAC of June 2001 was accepted (January 2002) by the competent authority.

The commutation agreement entered into between ReAC and the Company on 21 January 2002 stipulated that all obligations and liabilities whether known or unknown to the reinsured and reinsurer would be treated as fully and finally settled in consideration of the payment by the reinsurerof the sum of Rs.7 crore to the reinsured i.e. GIC. Subsequently, the Company realised that as against the recoverable amount of outstanding losses (@ 56.83 per cent)-Rs.4.94 crore and outstanding balances (@ 100 per cent)-Rs.5.23 crore, the Company due to adopting of incorrect/unreconciled figures in its claim, had actually recovered an amount of Rs.3.14 crore and Rs.3.86 crore respectively, resulting in avoidable loss of Rs.3.17 crore.

The Company took up the matter regarding the factual inaccuracies such as non inclusion of gross losses and balances as on 31 March 2000 in the computation of commuted amount with ReAC and requested (August 2002) that the case be reopened as the amounts involved were substantial. However, ReAC had not responded so far (July 2003).

In reply the Management stated (August 2003) that party offering the commutation generally decides an amount irrespective of total amount due and with constant negotiations the Management had been able to increase the amount paid to them from the parties initial offer of Rs.5 crore to 7 crore.

The above contention of the Management is not tenable as ReAC in their offer of June 2001 had specifically agreed to pay 56.83 per cent for outstanding losses and 100 per cent for outstanding balances to the Company. Had the Company assessed the recoverable amount correctly from ReAC before finalisation of commutation of agreement in January 2002, the loss of Rs.3.17 crore could have been avoided.

The matter was referred to the Ministry in June 2003; their replies was awaited (August 2003).

National Insurance Company Limited

8.2.1 Loss of premium

Loss of premium of Rs.3.80 crore due to non-adherence of rates stipulated in market agreement entered into between General Insurance Corporation of India and its four subsidiaries for underwriting the Group Janata Personal Accident Policy issued to Chandrapur District Central Co-operative Bank Limited.

General Insurance Corporation of India (GIC) and its four subsidiaries entered into a market agreement effective from 15 January 1999 for underwriting Group Janata Personal Accident Policy (GJPAP) as it was non tariffed. Rate of premium was fixed at Rs.15 per annum per Rs.25000 of sum insured per person allowing group discount ranging from 10 to 60 per cent depending upon the group size, long term policy discount ranging from 5 to 20 per cent based on term of policy, 15 per cent special discount in lieu of agency commission, etc. with a stipulation that all the discounts put together would be limited to 60 per cent under all circumstances. Being an agreed rate under market agreement, no powers for relaxation of the conditions by individual companies was envisaged.

Warora Branch Office under Nagpur Divisional Office of the National Insurance Corporation Limited (Company) issued eleven long term GJPAP to Chandrapur District Central Co-operative Bank Limited for twelve years from February-March 1999 to February-March 2011. The policy covered one-lakh beneficiaries for a sum insured of Rs.5 lakh each. As per rates of premium stipulated in market agreement (effective from 15 January 1999), the premium at the rate of Rs.1701 per person (after deducting all types of discounts like group/term/special discounts and including service tax) was to be charged for the policies issued. Against this, the Company had charged premium of Rs.230 per person. Due to non-adherence to the rates contemplated in the market agreement entered into between GIC and its subsidiaries (effective from 1 January 1999), Company could recover premium of only Rs.2.30 crore as against the recoverable amount of Rs.17.01 crore. This resulted in loss of premium of Rs.14.71 crore in underwriting GJPAP to Chandrapur District Central Co- operative Bank Limited.

In reply the Management stated (September 2002) that with a view to rectify underwriting irregularities all the eleven policies issued for the period from March 1999 to March 2011 to the insured (Chanrapur District Central Co-operative Bank Limited) were cancelled w.e.f. 1 May 2002 after retaining the pro-rata premium of Rs.59 lakh.

Ministry endorsed (November 2002) the reply of the Management.

However, the Management while rectifying underwriting irregularities by way cancellation of eleven policies, did not adhere to the rates contemplated in the market agreement (effective from 1 January 1999) because against the realisable premium of Rs.4.39 crore (for validity period of eleven policies from March 1999 to March 2002) on pro-rata basis, it actually recovered premium of Rs.59 lakh only. This resulted in loss of premium of Rs.3.80 crore in underwriting GJPAP to Chandrapur District Central Co-operative Bank Limited.

8.2.2 Loss of Rs.1.58 crore due to overpayment of claim

The Company paid Rs.1.58 crore in excess due to incorrect method of calculation of claim.

The Company issued a Loss of Profit Policy to Indian Oil Corporation (IOCL) for its refinery at Digboi for a sum of Rs.70.49 crore covering the period from 1 May 1997 to 30 April 1998.

According to conditions attached to the policy, the insured had to bear the first amount of loss computed of each and every admissible claim equivalent to the rate of earned standing charges applied to standard output for 7 days.

A fire occurred on 9 January 1998 in the insured's premises leading to loss of production. Insured's claim for consequent loss of profit was paid by the Company (March 1999) at Rs.8.62 crore.

In working out the settlement of claim, instead of calculating the loss by first taking into account under-insurance and then deducting therefrom the value of 7 days loss to be absorbed by the insured as per provision contained in Consequential Loss (Fire) Tariff, the Company had incorrectly deducted 7 days' loss from gross claim before applying under-insurance. Resultantly, the Company settled the claim for Rs.8.62 crore as against an amount of Rs.7.04 crore which should have been paid based on calculations under Consequential Loss (Fire) Tariff. This resulted in an excess settlement of claim by Rs.1.58 crore.

Management stated (September 2001) that in case of time excess, reduction in turnover during the period specified as excess should be deleted first from the interruption period and thereafter further adjustment was to be done.

Ministry endorsed (December 2001) the views of the Management.

The reply is not tenable as according to the General Regulation no.15 (ii) of Consequential Loss (Fire)-Insurance Tariff, the first amount of loss was to be calculated and only then the monetary value of 7 days' loss was to be deducted. Thus, application of an incorrect method of calculation of claim resulted in excess settlement of claim by Rs.1.58 crore.

8.2.3 Loss of premium due to application of incorrect rate

The Company lost premium of Rs.86.56 lakh due to application of incorrect rate.

As per All India Fire Tariff, silent risk rate of Re.1 per mille[♣] is chargeable for the insurance of factories where no manufacturing/storage activity is carried out continuously for 30 days or more. Where, however, storage activity is carried out, appropriate storage rate or silent rate whichever is higher is chargeable.

A Delhi-based division of the Company issued three fire policies during October 2000 to April 2002 to M/s. Cement Corporation of India Limited for their Nayagaon (District Nimach, Madhya Pradesh) plant. They charged the client a rate of Re.1 per mille although, the factory was being used for storage of coal and the storage rate chargeable was Rs.4.5 per mille for policies issued up to 30 March 2001 and Rs.5.5 per mille for policies issued on or after 31 March 2001 as per All India Fire Tariff.

Management stated (October 2002) that

- Wherever there is no manufacturing or storage activity for more than 30 days, the risk can be categorised as silent and hence rated accordingly.
- The stock of coal was less than three per cent of the total sum insured and also no manufacturing activity was being carried out at that time. The Regional office, therefore, authorised the Divisional Office to rate the risk as silent and charge premium accordingly.
- They had represented (October 2002) to Tariff Advisory Committee on rating and definition of silent risk.

The reply is not tenable in view of the following:

- Since the coal was being stored in the factory, appropriate storage rate which was higher than silent rate had to be charged as per All India Fire Tariff and as clarified by Tariff Advisory Committee.
- All India Fire Tariff does not provide any such concession that silent rate of Re.1 per mille could be charged in case the stock was less than 3 per cent of the total sum insured.
- Tariff Advisory Committee had already clarified (September 2002) the Company's doubts about definition of the silent risk. No scope was, therefore, left to charge the rate of Re.1 per mille as against the appropriate storage rate.

[♣] ***per thousand of the sum insured***

Thus, the Company lost Rs.86.56 lakh due to application of incorrect rate on the policies issued by it.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

8.2.4 Loss due to non-assessment/ revision of probable maximum loss in time

Company's failure to assess and revise probable maximum loss in time resulted in loss of Rs.78 lakh by way of under recovery of loss from re-insurers.

National Insurance Company Limited (NIC) issued fire and allied perils policies for the period from 1st August 1997 to 31st July 1998 and 1st October 1997 to 30 September 1998 to M/s. Aarati Industries Limited, Vapi (Gujarat), with a total sum insured of Rs.112.77 crore. As probable maximum loss (PML) was not assessed, it was initially treated as medium sized risk (MSR). A fire occurred on 25 December 1997 and loss was estimated at Rs.13.57 crore. Since risk was underwritten as MSR, total re-insurance recovery was only Rs.1.07 crore. After the loss the Company assessed (January 1998) the PML at Rs.55 crore with effect from 1 October 1997. The risk was reclassified as large risk (LR) with effect from 27 January 1998.

Company had instructed all underwriting offices to arrange inspection of the risk by an engineer immediately and assess the PML in respect of risks whose sum insured exceeded Rs.26 crore. As sum insured (Rs.112.77 crore) in the case of insured (M/s. Aarati Industries Limited) was substantially high, the Company should have arranged inspection of risk by an engineer to assess PML either before or immediately after assumption of risk.

Had PML of Rs.55 crore been assessed either before or immediately after assumption of risk, the recovery from re-insurers for the loss would have been Rs.2.13 crore (as against actual realisation of Rs.1.07 crore) by taking reinsurance cover in respect of risk of insured under LR instead of as MSR by incurring an additional premium of Rs.28 lakh only. Thus, actual recovery was less by Rs.78 lakh (Rs.2.13 crore minus Rs.1.07 crore minus Rs.28 lakh)

Thus, lapse on the part of the Company to assess the correct PML in time resulted in loss of Rs.78 lakh by way of under recovery of loss from re-insurers.

Ministry stated (July 2003) that the Company had initiated necessary preventive measures to avoid recurrence of this situation.

8.2.5 Avoidable loss of Rs.73.29 lakh

Failure to assess probable maximum loss in time resulted in excess outgo of premium of Rs.73.29 lakh to the foreign reinsurers.

National Insurance Company Limited (NIC) issued a fire insurance policy covering risk of material damage (MD) for the period from 1 January 2001 to 31 December 2001 to Nagarjuna Fertilizers and Chemicals Limited, Kakinada (insured) for Rs.1897 crore.

As per the Indian Market Reinsurance Programme, risks with probable maximum loss (PML) of Rs.26 crore and above were required to be underwritten centrally by General Insurance Corporation of India (GIC) on the basis of PML information received from all the insurance companies that had accepted such risks.

Accordingly, the Company had instructed all underwriting offices to arrange inspection of risk by an engineer immediately and assess the PML. The Company although well aware of the high value of the sum insured (Rs.1897 crore) did not arrange a timely inspection of risk to assess PML. The assessment of PML of Rs.606 crore was done on the basis of a report of Tata AIG Risk Management Services Limited, which was provided by the insured.

The insured also took loss of profit (LOP) fire policy for the financial year 2001-02 from the previous lead insurer United India Insurance Company Limited (UIIC) which informed (December 2001) GIC that the combined PML for both MD and LOP policies was Rs.353 crore, where as the NIC had advised PML of MD as Rs.606 crore. As such, the GIC did not consider it 'practical to have varying PML for the same risk' and sought (January 2002) necessary clarification from both the insurance companies, which was not furnished to the GIC.

Subsequently, an engineer of the Company inspected the risk and assessed the combined PML of MD and LOP risks of the insured's plant to be Rs.400 crore, only in March 2002, after the policy period had expired. Had this PML been assessed by the Company immediately after assumption of risk, as per its own instructions, it would have incurred an expenditure of Rs.1.29 crore in arranging re-insurance of risk as against the actual expenditure of Rs.2.03 crore. This resulted in excess expenditure of Rs.73.29 lakh on account of excess outgo of premium to foreign reinsurers.

Management stated (May 2003) that the earlier lead insurer UIIC was not willing to part with the required information on PML and by adopting the readily available PML estimates of Rs.606 crore (based on Tata AIG Risk Management Services Limited's report) they had taken the best possible step to protect the interest of Company in the event of loss.

The contention of the Management is not tenable in view of the followings:

- In order to obtain the PML information for the earlier period from the UIIC, the Company could have sought co-operation from the GIC, which co-ordinated the reinsurance activities of all subsidiaries; and

- The Company could not arrange timely inspection for assessment of PML.

The failure of the Company to assess PML in time had resulted in excess outgo of premium to foreign reinsurer and consequent loss of Rs.73.29 lakh in premium income.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

8.2.6 Avoidable loss of Rs.65 lakh

The Company lost an amount of Rs.65 lakh due to non-ceding of proportionate share to Gujarat Insurance Fund as per terms and conditions of co-insurance arrangements.

Insurance companies were required to remit 60 per cent of the premium in respect of projects financed through Gujarat State Financial Corporation (GSFC) and Gujarat Industrial Investment Corporation Limited (GIIC) to the Gujarat Insurance Fund (GIF) in accordance with the co-insurance arrangement. Accordingly, the insurance companies were required to send risk statements to GIF in respect of business underwritten relating to such projects in any particular month by 20th of the following month.

A Divisional Office (DO) of the Company in Mumbai issued four fire policies covering plant, machinery, electrical installation, structure of building etc., financed by GSFC and GIIC, to M/s. Heranba Industries Limited (insured) for its chemical plant situated at Vapi, District Valsad in Gujarat, during the period between 5 August 1997 and 30 September 1998. The DO collected a total premium of Rs.1.52 lakh for all the four policies. The DO neither remitted 60 per cent of premium (Rs.0.91 lakh) nor forwarded the risk statement to GIF in respect of four policies referred to above.

The building, machinery/accessories, electrical installations etc., of the insured were damaged due to fire in the plant on 29 July 1998. The Company approved and paid a claim of Rs.1.10 crore in full and final settlement. It could have recovered 60 per cent of the claim viz. Rs.66 lakh from GIF if it had ceded Rs.0.91 lakh that is, 60 per cent of the collected premium of Rs.1.52 lakh.

Thus, failure to cede proportionate share of premium to GIF as per terms and conditions of co-insurance arrangement resulted in avoidable loss of Rs.65 lakh.

In response, the Management stated (October 2002) that as there was no agreement between GIF and their Regional office and consequently, there was no obligation on their part to cede a share to them.

Ministry endorsed (November 2002) the reply of the Management.

The above contention of the Ministry/Management is not tenable as the Board of Directors of the Company noted (June 1996) that it was obligatory to cede 60 per cent premium to GIF, in respect of projects financed through Gujarat Financial Institutions. The fact that the Rajkot DO of the Company had remitted GIF's share of premium out of

the premium collected during the period from April 1998 to December 1999 to Directorate of Insurance, GIF further, substantiated that premium in respect of projects financed by Gujarat financial institutions was to be ceded to the latter.

8.2.7 Loss due to incorrect application of fire tariff

Incorrect application of All India Fire Tariff resulted in loss of premium amounting to Rs.46.81 lakh to the Company.

As per All India Fire Tariff, insurance premium for storage risks located outside the manufacturing/industrial compounds are charged on the basis of their category of hazard. The electronics goods are treated as Category- I hazardous goods for application of fire tariff as clarified by the Tariff Advisory Committee.

During the period from August 2000 to December 2001, a Delhi-based Division of the Company, issued ten fire policies to its three clients viz., Samsung Electronics, HCL Info Systems and Silicon Graphics for electronic goods stored in their godowns situated outside the industrial/manufacturing compounds. The Divisional Office charged premium @ Re.1 per mille treating the goods as non-hazardous instead of Rs.2.50 per mille which was applicable to Category –I hazardous goods. On a policy issued in May 2001 to a client manufacturing electronic goods, the Division charged a rate of Re.1 per mille as against the rate of Rs.2.25 per mille chargeable under the All India Fire Tariff.

Management stated (October 2002) that electronic goods are not hazardous. The contention of the Management is not correct as Tariff Advisory Committee had clarified in July 2000 and reconfirmed in April 2003 that electronic goods are to be treated as Category-I items for fire rating purposes.

Thus, the action of the Company treating the electronic goods as non-hazardous and charging lower premium from various clients resulted in a loss of revenue of Rs.46.81 lakh and undue favour to the clients.

The matter was referred to the Ministry in March 2003; their reply was awaited (August 2003).

The New India Assurance Company Limited

8.3.1 Loss of premium

Loss of premium of Rs.7.20 crore due to non-adherence of rates stipulated in market agreement entered into between General Insurance Corporation of India and its four subsidiaries for underwriting the Group Janata Personal Accident Policy issued to Western Coalfields Limited.

General Insurance Corporation of India (GIC) and its four subsidiaries entered into a market agreement effective from 15 January 1999 for underwriting Group Janata Personal Accident Policy (GJPAP) as it was non tariffed. Rate of premium was fixed at Rs.15 per annum per Rs.25000 of sum insured per person with a stipulation that all the

discounts put together would be limited to 60 per cent under all circumstances. Being an agreed rate under market agreement, no powers for relaxation of the conditions by individual companies was envisaged.

Nagpur Divisional Office II of the New India Assurance Company Limited issued long term GJPAP to Western Coalfields Limited for ten years from 15 March 1999 to 14 March 2009. The policy covered 64,801 employees for a sum insured of Rs.6 lakh each (including Rs.1 lakh for spouse). As per rates of premium stipulated in market agreement (effective from 15 January 1999), the premium at the rate of Rs.1620 per person (after deducting all types of discounts like group/term/special discounts) was to be charged for the policies issued. Against this, the Company had charged premium ranging from Rs.484 to Rs.818 per person. Due to non-adherence to the rates contemplated in the market agreement entered into between GIC and its subsidiaries (effective from 1 January 1999), Company could recover premium of only Rs.3.30 crore as against the recoverable amount Rs.10.50 crore. This resulted in loss of premium of Rs.7.20 crore in underwriting GJPAP to Western Coalfields Limited.

In reply the Ministry stated (December 2002) that admittedly in this case there was a lapse on the part of the employees of the Company and for which the Company had initiated administrative action against the erring employees. It was further added that as recovery was not possible, the insurance Company decided to cancel the policy. However, the insured and trade unions of the Western Coalfields Limited obtained the interim stay order from the Hon'ble High Court, Mumbai, Nagpur Bench. The matter being sub-judice, further course of action will depend upon the orders from the Court.

8.3.2 Irregular allowance of fire special rating discounts

The Company allowed discounts more than those sanctioned by the Tariff Advisory Committee on a fire policy resulting in a loss of premium of Rs.77.48 lakh.

According to All India Fire Tariff, risks involving a sum insured of Rs.15 crore and above were eligible for special fire rating and special fire rating discounts subject to inspection by a qualified engineer of Tariff Advisory Committee (TAC).

A Delhi-based Division of the Company issued Fire policy to Indo Rama Synthetics (I) Limited for a sum insured of Rs.762.29 crore for the period 24 December 1999 to 23 December 2000. This was renewed further for the period from 24 December 2000 to 23 December 2001 for sum insured of Rs.765.74 crore. In respect of the same risk, loss of profit policy was also issued for the period 2 March 2000 to 1 March 2001 for sum insured of Rs.173.49 crore which was renewed further for the period from 2 March 2001 to 1 March 2002 for sum insured Rs.225.48 crore.

An engineer of TAC inspected the risk (September 1999) as the sum insured was more than Rs.15 crore. Based on his report, TAC sanctioned special fire rating discounts ranging from nil to 25 per cent for various blocks of the plants covered under the policy.

Even though the above discounts sanctioned by TAC were valid for three policy periods up to February 2002, the Company allowed (February 2000) 35 per cent special fire rating discount on the whole risk on the basis of a report of its surveyor. This resulted in an extra discount of Rs.77.48 lakh to the client and a consequent loss of premium to the Company.

Management stated (July 2002) that TAC vide their letter dated 14 October 1999 had discontinued the procedure of inspections and tariff discounts like Electrical Installation Discount and Fire Special Rating Discount, etc. were left to be sanctioned by the insurers. In the instant case, the inspection of the risk was carried out by a surveyor and on the basis of his report, Fire Special Rating discount of 35 per cent was allowed.

The reply of the Management is not tenable. In the instant case there was no need for a fresh inspection to be carried out by a surveyor barely within a few months after the TAC engineer's inspection which was valid for three policy periods. Moreover, the TAC letter dated 14 October 1999 only did away with the future inspections by their engineers, it did not render invalid the inspections already carried out and the discounts sanctioned on their basis.

Thus, the Company allowed an additional discount of Rs.77.48 lakh to its client and also lost premium to that extent.

The matter was referred to the Ministry in September 2002; their reply was awaited (August 2003).

The Oriental Insurance Company Limited

8.4.1 Loss of Rs.60.30 lakh due to short realisation of earthquake premium

The Company suffered a loss of Rs.60.30 lakh during August 2001 to July 2002 due to charging earthquake premium at the rates less than those fixed by the Tariff Advisory Committee.

The Oriental Insurance Company Limited (Company) charged earthquake premium at the rates ranging from 0.10 to 0.25 per mille[♣] on the policies issued by it for the period August 2001 to July 2002 instead of charging a rate of 0.35 per mille as per the instructions of the Tariff Advisory Committee (TAC).

As per the instructions (July 2001) of TAC, earthquake cover for pipelines including their contents located outside the compounds of Industrial Complex should be charged at a single rate of Rs.0.35 per mille irrespective of the earthquake zones they pass through.

A Delhi based Division of the Company issued four Standard Fire and Special Peril policies including earthquake cover to M/s. Indian Oil Corporation Limited, Noida in respect of their pipelines with contents for the period from 1 August 2001 to 31 July

[♣] ***per mille means per thousand of the insured amount***

2002. The Division, however, charged a lower rate of premium ranging from Rs.0.10 per mille to Rs.0.25 per mille resulting in short realisation of premium of Rs.60.30 lakh.

Management stated (December 2002) that by the time TAC circular dated 30 July 2001 was issued, the rates were already quoted/tenders were opened and placement of business was finalised by the client on 29 July 2001. The bank guarantee was also deposited by the client on 31 July 2001. As the contract of insurance had already been entered, it was not feasible to change the premium as per TAC circular, which was received by the Division on 14 August 2001 only. Ministry endorsed (March 2003) the views of the Management.

The reply of the Ministry/Management is not correct since the client conveyed their acceptance to the tender of the Company only on 31 July 2001 and the premium was also deposited on 31 July 2001 (i.e. after the issue of circular by TAC on 30 July 2001). The Company should have charged the rate of 0.35 per mille in view of the TAC instructions which made it obligatory for it to charge this rate on all fresh business and renewals falling on or after 30 July 2001. Further, in order to safeguard the interests of the Company, it should have incorporated a clause in the tender that rates quoted against the tender would not be less than the rates fixed by the TAC in future.

Thus, charging lower rates of premium than those prescribed by the TAC resulted in loss of premium of Rs.60.30 lakh to the Company.

United India Insurance Company Limited

8.5.1 Excess settlement of claim by Rs.93 lakh

The Company by not regulating the claim as per Claim Procedure Manual admitted (August 2000) a claim in excess by Rs.93 lakh although the Insured had failed to ensure protection of recovery rights by not serving a notice on the Carrier.

United India Insurance Company Limited (Company) admitted (August 2000) a claim of M/s. MICO Limited (Insured) for Rs.3.72 crore in respect of machines imported from Germany. These were damaged by severe corrosion caused by rainwater, which entered the wooden cases during ocean transit and prolonged storage in open at the destination Port. The Company did not regulate the claim as per provisions of the Claim Procedure Manual (Manual), which resulted in excess settlement of claim by Rs.93 lakh.

The Company's Bangalore Divisional Office had issued (January 1998) a Marine policy to the Insured to cover the import of machines from Germany. The Interim Survey Report (January 1999) after pre-despatch survey in November 1998 revealed that wooden cases transported in the Open Flat Rack Containers were received in wet condition. The Joint Surveyors assessed (July 2000) the loss at Rs.3.72 crore for final settlement. The Institute Cargo clause cast upon the Insured the duty of protecting recovery rights. However, the Insured had not served any notice on the Carrier, though the machines packed in wooden

cases were found wet externally, resulting in failure to protect recovery rights. The Manual permits settlement of such claims up to 75 per cent of the assessed loss, accordingly, the Company should have restricted the claim to Rs.2.79 crore.

The Management stated (April 2003) that the container was delivered in apparently sound condition and it was incorrect to state that the Insured was aware of the damage at the time of taking delivery as the damage to the contents of the container could be known only after taking delivery and de-stuffing. Ministry endorsed (August 2003) contention of the Management that containers were delivered in good condition at the time of landing as reported by the Port authorities and hence the Carriers' responsibility could not be foisted.

The reply is not tenable in view of the findings of the Interim Survey Report. Further, the consignment was discharged during rainy season with recorded rainfall, the Insured should have served notice on the Carrier instead of giving a clean receipt contending that the cases were delivered in apparently sound condition.

8.5.2 Non-compliance with directives of Tariff Advisory Committee

The Company failed to collect 10 per cent surcharge towards terrorism risk in respect of seven cases amounting to Rs.60.99 lakh in violation of TAC directive.

Tariff Advisory Committee (TAC) directed (September 2001) the insurance companies to collect a surcharge of 10 per cent towards terrorism risk on the net premium on all fire and engineering policies issued fresh or renewals falling due on or after 1 October 2001 and to collect the surcharge on the existing policies on pro-rata basis for the un-expired period of the policy. TAC also clarified (December 2001) that the surcharge so levied would be treated as premium and no option was to be given to the insured to opt out of terrorism cover.

A test check revealed that in respect of seven policies issued by United India Insurance Company Limited (Company), the pro-rata surcharge of 10 per cent amounting to Rs.60.99 lakh was not collected resulting in non-compliance with the TAC directive.

The Company stated (June 2003) that these policies had commenced earlier to the date of the circular of the TAC and to charge the premium it was necessary to issue notice of cancellation and to renegotiate the terms of the cover afresh. It also added that the TAC had revised the terms with effect from 1 April 2002 making the terrorism cover optional. Further, the Company informed (July 2003) the Ministry that situation had to be considered in totality including the legalities/circumstances involved and policies already in force did not have any provision for collection of premium other than what was prescribed in the tariff. Ministry endorsed (August 2003) the views (July 2003) of the Management.

The reply is not tenable as the directive of the TAC (September 2001) was categorical and had to be complied with. Terrorism cover was made optional only from 1 April 2002. As such the Company had no alternative but to re-negotiate the terms afresh with the

existing policy holders and collect the pro-rata surcharge on the above referred policies also during the intervening period. It was observed that there had been increase in the fire premium during the year 2001-02 *inter alia* due to inflow of 10 per cent surcharge towards terrorism, which indicated that the Company had collected premium on some policies.

Thus, the failure to comply with the directive of the TAC resulted in non- collection of premium of Rs.60.99 lakh.

8.5.3 Loss due to application of incorrect premium

The Company suffered a loss of premium of Rs.58.24 lakh as a result of failure to charge premium as per All India Fire Tariff.

A Branch Office (Karur Divisional office) of United India Insurance Company Limited (Company) covered the stock of Indian Made Foreign Liquor (IMFL) and Beer of M/s. TASMAC Limited lying at their various depots. The sum insured was Rs.150 crore and Rs.140 crore for the years 2000-01 and 2001-02 respectively.

As per All India Fire Tariff (Tariff) rate applicable to flammable liquids falling under category II having flash point between 32°C and 65°C attracted a rate of Rs.4.50 per mille. The Tariff Advisory Committee (TAC) clarified (May 2003) that IMFL and Beer in bottles would fall under Category II of hazardous goods. Instead, the Company charged a basic rate of Rs.2 and Rs.2.50 per mille for the year 2000-01 and 2001-02 respectively. It was also observed that premium charged for the year 2000-01 was even less than the rate applicable for Category I Part III of the Tariff. The erroneous rates adopted resulted in short collection of premium of Rs.58.24 lakh (Rs.35.63 lakh and Rs.22.61 lakh for two years respectively).

Management stated (June 2003) that as per Tariff, potable spirits having flash points below 32°C when stored in sealed tins or bottles and/or in jars, drums etc. had to be treated as Category II and therefore, potable spirits with flash points above 32° C when stored in bottles, drums etc. were to be treated as Category I under the Tariff and accordingly applicable premium was charged. Further, it stated that as per expert opinion obtained the flash point of IMFL was more than 32° C. Ministry endorsed (August 2003) the reply of the Management.

The reply is not tenable because it is nowhere stated in the Tariff that potable spirits with flash points above 32°C when stored in bottles, drums etc. should be classified under Category I. Further, TAC had also clarified that IMFL and Beer would fall under Category II of the Tariff. Moreover, the expert opinion was obtained in January 2003 whereas, the lower rate was charged for the years 2000-01 and 2001-02. Therefore, IMFL and Beer were of Category II classification of Tariff and attracted higher rate.

Thus, failure to classify these goods correctly and charge appropriate premium resulted in loss of premium of Rs.58.24 lakh.

8.5.4 Loss due to under charging of premium Rs.22.87 lakh

Failure of the Company to charge appropriate Group Mediclaim premium led to under recovery of premium amounting to Rs.22.87 lakh.

United India Insurance Company Limited (Company) issued (December 2000) a Group Mediclaim Policy to M/s. VST Industries Limited for the period from January 2001 to December 2001 under its guidelines relating to tailor made policies. The Company did not load the premium as per adverse claim ratio and allowed the group discount in excess of the prescribed rate which resulted in under charging of premium of Rs.22.87 lakh.

As per guidelines for devising tailor made Mediclaim policy to corporate clients, the terms and conditions of standard Mediclaim policy should be followed in the tailor made policies, subject to deviations permitted therein. The guidelines did not modify loading for adverse claims experience of earlier policies. The loading criteria specified in the Standard Mediclaim Policy, therefore, were applicable to this policy. As the claim ratio for the years 1997 to 1999 was 164.12 per cent, the premium should have been loaded by 120 per cent against which the Company had loaded the premium by 21 per cent only. In addition it allowed 10 per cent group discount instead of 7.5 per cent applicable to the group size under the instant policy. The above factors led to under charging of premium.

Management stated (June 2003) that the standard guidelines of the Group Mediclaim policy were not applicable to the tailor made Group Mediclaim policy, the Board had accorded permission to underwrite Mediclaim portfolio of corporate clients taking into account the overall profitability of the client's portfolio.

The reply is not tenable as only prescribed deviations were permitted from the terms and conditions of the standard policy. The loading and group discount did not fall under this category and the overall profitability criterion was not permitted in the guidelines. In any case the Board's permission was obtained in October 2002 and would not apply to the policy issued in 2000.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

CHAPTER 9: DEPARTMENT OF BANKING

BOB Capital Market Limited

9.1.1 Loss of Rs.5.68 crore due to imprudent underwriting

Company incurred loss of Rs.5.68 crore due to imprudent underwriting support to M/s. Krishna Filaments Limited for their 'Public Issue of Optionally Fully Convertible Discounted Debentures.

The Company incurred a loss of Rs.5.68 crore in March 2001 due to underwriting of public issue of 3.75 lakh Optionally Fully Convertible Discounted Debentures (OFCDDs) valuing Rs.6 crore of M/s. Krishna Filament Limited (KFL) ignoring the then prevailing depressed market condition and apprehensions that issue might not be subscribed fully.

With a view to finance its project expansion KFL proposed to issue 33.45 lakh numbers of 19 per cent OFCDDs of the face value of Rs.200 at Rs.160 per OFCDD to the public. The Company, ignoring the shortcomings like sharp decline in share price of the Company from Rs.170/175 in June 1996 to Rs.107 as on 30 January 1997 and in the present market scenario, an amount of Rs.4000 on application and Rs.12000 on allotment i.e. minimum investment of Rs.16000 might not evoke favourable response from small investors to fully subscribe the issue, decided (February 1997) to underwrite the issue to the extent of 3.75 lakh OFCDDs valuing Rs.6 crore.

The response to the public issue closed on 9 May 1997 was very poor, as Company procured subscription only for 700 OFCDDs out of 375000 OFCDDs to be underwritten by it. After taking into account credit available for 19000 OFCDDs due to excess subscription by other underwriters and subscription received directly from public, KFL as per terms of underwriting agreement asked (May 1997) the Company to contribute for 355300 OFCDDs (value: Rs.5.68 crore).

Subsequently, the Company in July 1997 subscribed for 355300 OFCDDs at a discounted value of Rs.160 (value: Rs.5.68 crore) and obtained NCD certificates of the face value of Rs.200 each to be redeemed in three equal installments from November 2000. However, KFL defaulted in the payment of half-yearly interest right from the first term of May 1999 onwards to debenture holders.

The Industrial Development Bank of India (IDBI) as a trustee, after getting no response to the recall notice to KLF for redemption of principal along with interest filed (April 2000) a suit in Mumbai High Court enforcing the security created and the Court appointed (August 2000) a Court Receiver. Further, proceeding in the matter of disposal of securitised assets of KFL by Court Receiver were in progress (February 2003).

The Company in view of non-recovery of principal and interest on due dates from KFL treated the amount as doubtful of recovery and decided (March 2001) to write off the entire amount of Rs.5.68 crore (cost price of debentures) in three equal installment. Thus, imprudent underwriting of issue despite apprehension that it would not be subscribed fully, resulted in loss of Rs.5.68 crore.

In reply Management stated (November 2002) that the underwriting commitment was a business decision and risks involved in all merchant-banking businesses were high as they were market related. The above contention of the Management is not tenable because had the Company keeping in view the depressed market conditions and apprehension that the issue would not be subscribed fully, decided not to underwrite the OFCDD issue, the above loss could have been avoided.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Industrial Investment Bank of India Limited

9.2.1 Loss due to sanction of loan to a promoter without verifying his competence

The Company's failure to observe normal commercial practice in appraising the project independently and disbursement of loan by relaxing pre-disbursement conditions resulted in non recovery of the loan of Rs.7 crore besides interest thereon.

The Industrial Investment Bank of India (Company) sanctioned a term loan under its Project Financing Scheme in participation with Industrial Development Bank of India (IDBI), the lead bank for financing the project of Oriental Cotex Limited (loanee) for setting up a process house for dyeing and knitting of cotton knitted fabrics. The project was appraised by IDBI at a cost of Rs.23.50 crore to be financed by Promoter's equity of Rs.9.5 crore and loan of Rs.14 crore which was shared between IDBI and the Company to the extent of Rs.7 crore each. The Company's loan carrying an interest at the rate of 19 per cent was to be recovered in 24 equal quarterly instalments starting from 15 August 1999. In line with the disbursement of Rs.2.80 crore made by IDBI, the Company also disbursed (November 1997) an amount of Rs.2.77 crore by relaxing pre-disbursement conditions of (i) obtaining necessary clearance from Pollution Control Board and other Government Authorities and (ii) promoters bringing in 50 per cent equity contribution.

Scrutiny revealed that the loanee did not complete the basic formalities and instead of utilising the loan in the project diverted the funds to other Companies as Inter Corporate Deposits. The Company decided to take legal action for recovery of its loan, later on agreed (July 1998) in line with the views of IDBI for change over of the Management of loanee which finally took effect on 1 April 1999 with its merger with the Company of one of the promoters Ruia Cotex Limited (RCL). On an earlier occasion also, the Company has defaulted in this area when a loan of Rs.6.21 crore was disbursed to another party by relaxing pre-disbursement conditions against mortgage of non-existent

assets. The default of the loanee Company reported in November 1998 was under investigation by Central Bureau of Investigation/Central Vigilance Commission.

Despite the above experience and the fate of its first disbursement due to poor performance of the project the Company further disbursed the balance loan of Rs.4.23 crore from September 1998 to July 1999 by once again relaxing the pre-disbursement conditions. Even then the project did not materialise and the loanee requested for a further loan of Rs.4.09 crore due to cost overrun to enable them to start production and pay the interest on Company's loan to which the Company did not agree. In view of the non-recovery of any amount (principal or interest) from the loanee the Company gave its consent (September 2002) to IDBI under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Act, 2002 and IDBI had taken inventory of plant and machinery/equipment of the loanee. The Company, however, has done nothing independently so far to recover its own loan.

Management/Ministry stated (April/July 2002) that the Company shared the information available with IDBI the lead bank. However, they admitted that certain relaxation was granted to avoid delay in project implementation. It was further stated that after detection of irregularities, the Company took timely action for change of Management.

Ministry/Management's contention is not tenable as (i) the Company should have observed the prudent commercial practice by appraising/assessing independently the creditability of the new loanee for safeguarding its financial interest for which IDBI was not responsible, (ii) relaxation of pre-disbursement conditions was done repeatedly even though it did not help as envisaged at the time of first relaxation and (iii) poor performance of the new promoter viz. RCL in respect of another loan to one of the Group Companies was already known to the Company.

Thus due to (i) non appraisal of the project and non-assessment of the credibility of a new client inspite of having knowledge of their poor performance in respect of another loan and (ii) relaxing pre-disbursement conditions, the Company faces the risk of potential loss due to non-recovery of loan of Rs.7 crore besides interest thereon.

9.2.2 Loss of Rs.4 crore due to non-recovery of loan

Due to extending undue favour to a private party in the disbursement of loan without any security, the Company faces the risk of potential loss due to non-recovery of loan of Rs.4 crore besides interest thereon.

In order to extend a medium term working capital loan to M/s. S&S Industries and Enterprises Limited (loanee), the Industrial Investment Bank of India Limited (Company) disbursed a loan of Rs.4 crore which remained un-recovered even after a lapse of five years ending on 31 March 2003. It, thus faces a risk of potential loss due to non-availability of adequate security and the fact that the loanee has also been referred to the Board of Industrial and Financial Reconstruction in November 2000.

In terms of the sanction, a loan of Rs.5 crore was granted to the loanee which was to be secured by first charge on its fixed assets alongwith existing charge holders and disbursement be made after creation of charge. The loan carrying interest at the rate of 18 per cent was to be recovered in 3 equal instalments at the end of third, fourth and fifth year of its disbursement. Surprisingly the Company disbursed Rs.4 crore simply on an undertaking that the consent letter from the existing charge holders would be furnished and mortgage created in favour of the Company within 30 days from the date of disbursement, which the loanee not only failed to honour but also defaulted the interest payment as per agreed schedule. The Company recalled the loan (October 1999) and being unable to recover any amount (principal /interest) filed a suit in Debt Recovery Tribunal in February 2000. Any recovery through DRT is further subject to availability of security of assets which is not available with the Company.

Management stated (March 2003) that they had relied entirely on the facts and figures furnished by the client and as soon as it is suspected the veracity of the data, decided to recall the loan and initiated legal proceedings. Management also stated that they had no confidence regarding prospect of viability of the loanee.

The reply of the Management is not tenable as the fact that the loanee had failed (i) to honour its letter of credit and (ii) to pay interest dues to the existing charge holders was already known.

Thus, the Company showed undue favour to a private party as disbursement of loan without any security to a party having poor creditability and further waiving pre-disbursement conditions was against all the cannons of commercial/financial prudence and that too in the financing business.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Karnataka Agri Development Finance Company Limited

9.3.1 Non-achievement of objective and resultant unfruitful expenditure

The Company failed to achieve its main objective as envisaged in Memorandum of Association resulting in incurring of unfruitful expenditure of Rs.69.11 lakh since inception.

Karnataka Agri Development Finance Company Limited (Company) was incorporated on 25 February 1997. The main objective of the Company is to carry on and transact business of providing credit and other facilities to enterprises engaged in agriculture and other allied activities of agriculture in the State of Karnataka. National Bank for Agriculture and Rural Development (NABARD), the chief promoter of the Company held 82.41 per cent of the Company's paid up capital (March 2003).

After 18 months of its incorporation, the Company approached in September 1998, the Government of Karnataka for notifying it as a financial institution to qualify itself as a lender against security of agricultural land and got notified as such in March 1999. However, even after six years of its incorporation, the Company has not started any lending business. The Company invested its surplus funds in fixed deposits in banks, inter corporate deposits etc. and earned Rs.3.43 crore up to 31 March 2003 and incurred Rs.69.11 lakh towards salaries and other administrative expenditure.

Management stated (July 2002 and February 2003) that:

- the high-tech and commercial agriculture sector was passing through a very difficult phase in Karnataka and the loan proposals received did not meet the lending requirements in full;
- leading banks were approached for co-financing and financing under consortium arrangement;
- Board of Directors of the Company had decided (August 2002) to increase the area of operation and scope of activities by altering the Memorandum of Association; and
- Company has been making efforts to commence lending operations at the earliest.

Management's reply is not tenable due to the following:

- Arrangements with other banks for co-financing and consortium lending have not succeeded so far;
- Increase in the area of operation outside Karnataka may not help, as apart from various banks, similar companies promoted by NABARD are also in existence in Andhra Pradesh and Tamil Nadu. Moreover, NABARD itself has entered into direct financing in the agricultural sector from February 2001; and
- Non receipt of a single viable loan application and sanctioning of loan during the last six years indicated that the Company was incorporated in haste and without proper feasibility analysis.

Thus, the Company has completely failed to achieve its main objective even after 6 years of its incorporation and has incurred unfruitful expenditure of Rs.69.11 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

CHAPTER 10: MINISTRY OF HEALTH AND FAMILY WELFARE

Hindustan Latex Limited

10.1.1 Non-realisation of sales dues of Rs.54.02 lakh

The Company suffered a loss of Rs.54.02 lakh due to poor implementation of the credit policy and laxity in debt recovery.

Hindustan Latex Limited (Company) could not recover (March 2003) sales dues from its three distributors[♣] for more than eight years due to poor implementation of the credit policy and laxity in debt recovery. This resulted in a loss of Rs.54.02 lakh.

The Company had extended credit of 45 days to its distributors on payment of rolling advance of Rs.25000. The distributors were allowed to submit post-dated cheques at the time of despatch of goods to be presented by the Company to the bank on 45th day of the despatch. However, scrutiny revealed that the Company invoiced goods frequently in excess of advance, even by over Rs.5 lakh without approval of the competent authority. Though, the post-dated cheques submitted by the distributors were dishonoured by the banks, the Company initiated legal action for recovery of sales dues belatedly after two to three years. While the Company was awarded a favourable decree against one of the distributors, it failed to recover the outstanding amount because the distributor could not be traced for more than four years (May 2003). A criminal case filed against another distributor was dismissed since the Company failed to produce the original cheque before the Court, yet another civil case was still pending (May 2003) and the Company had no knowledge of the whereabouts of the distributor. The cases against the third distributor were also pending till date (May 2003).

The Company's acceptance (May 2003) of its failure to trace whereabouts of the distributors reflected poor monitoring and follow up of the debtors. Despite initiating legal action, the Company failed to recover the dues and as such chances of recovery are remote.

The matter was referred to the Ministry in June 2002; their reply was awaited (August 2003).

[♣] *M/s. Medisys Chennai, M/s. Mehboob Enterprises, Delhi and M/s. A. B. Rubber industries, Delhi*

CHAPTER 11: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

11.1.1 Extra expenditure of Rs.13.06 crore

The Company accepted an order on firm price basis without preparing proper estimates and finalising design details. As a result, it incurred extra expenditure of Rs.13.06 crore due to design changes, increase in consultation charges and delay in execution of the work.

Bharat Heavy Electricals Limited (Company) incurred extra expenditure of Rs.13.06 crore due to accepting order on firm price basis without preparing proper estimates and finalising engineering and design details.

The Company accepted (September 1995 and July 1996) letters of intent from M/s. Gujarat Industries Power Company Limited for commissioning two steam generators at a firm price of R.29.90 crore. Though the Company was executing such an order for the first time, it accepted the work on firm price without finalising the design and engineering details. The work scheduled to be completed by May 1998 was actually completed in January 2000 at a total cost of Rs.45.56 crore against the realisation of Rs.32.50 crore. Accordingly, the Company incurred an extra expenditure of Rs.13.06 crore in execution of this contract.

Increase in the cost was mainly attributed to abnormal increase of more than 41 per cent in erected weight of CFBC[♣] boilers as compared to the estimated design weight, non-inclusion of the total estimated amount of consultation fee payable to a foreign collaborator in the bid amount, extra expenditure due to the time overrun. As the Company was executing such work for the first time, greater care was needed in finalising the design, estimating the cost and quoting the lump-sum price.

While accepting that the offer was submitted without carrying out detailed engineering, the Management stated (October 2001/February 2003) that the order was bagged against stiff competition with a view to achieve new technologies.

The reply is not acceptable, as the Company should have prepared estimates properly and protected its financial interests by keeping adequate contractual safeguards particularly when the order was accepted on firm price basis.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

[♣] *Circulating fludised bed combustion*

11.1.2 Blocking of capital amounting to Rs.3.29 crore and loss of interest of Rs.1.57 crore

Due to commencement of the manufacturing of motors without receipt of advance payment and delay in putting 'hold', the Company blocked its capital amounting to Rs.3.29 crore and incurred loss of interest of Rs.1.57 crore thereon.

Bharat Heavy Electricals Limited (Company) blocked its capital to the extent of Rs.3.29 crore and incurred loss of interest amounting to Rs.1.57 crore thereon due to manufacturing of AC motors (10 number) for M/s. Essar Projects Limited (customer) without receipt of the advance payment and owing to delay in putting hold on the manufacturing activities. The motors have not been collected by the customer so far (May 2003).

Based on an internal order (June 1998) of its Industry Sector (IS), Heavy Electricals Equipment Plant (HEEP) proceeded with production of the motors immediately without receipt of the advance payment from the customer. When the IS failed to get the advance payment in terms of the purchase order (PO) for more than three months, it informed (October 1998) the customer that the Company was putting the manufacturing activities on hold and would resume the work only after receipt of the advance. However, the IS actually put 'hold' only in December 1998. By this time, all the material had already been inducted at the shop floor of the HEEP and the Company was left with no option but to complete the manufacturing of the motors at a total factory cost of Rs.3.74 crore. While the Company could recover a sum of Rs.45.44 lakh in May 2000, there was no change in status of the motors thereafter and all the motors have been lying with the HEEP for more than four years. Nonetheless, the Company has not initiated any legal action against the customer for not lifting of the motors.

While accepting that manufacturing activity was immediately initiated without receipt of the advance owing to short delivery of the motors, the Ministry contended (October 2002) that it was a calculated risk to remain in the business. They also stated that possibilities were being explored to divert these motors against any suitable requirement from other customers/projects.

The reply is not acceptable, as the Company should have followed prudent commercial practice by protecting its financial interest before commencing the manufacture of motors. Further, chances of disposal of these motors are very bleak as these were specially designed for the customer and the Company was unable to find any alternative customer for more than four years.

11.1.3 Loss of Rs.4.27 crore due to delay in completion of works

The Company could not complete three works within the contractual schedule due to improper planning and inaccurate estimates. This has resulted in loss of Rs.4.27 crore against the estimated profit of Rs.3.12 crore.

Bharat Heavy Electricals Limited (Company) had to incur loss of Rs.4.27 crore against the estimated profit of Rs.3.12 crore on execution of three works due to improper

planning and inaccurate estimates. The Company could not complete these works within the contractual schedule committed to customers, with delays ranging from 10 months to 17 months. This has resulted not only in extra expenditure of Rs.2.37 crore, but levy of liquidated damages (LD) by the customers to the extent of Rs.1.90 crore. These three cases are discussed below:

Case (A)

The Company completed (June 1998) the work of commissioning of 80 TPH[♦] boiler for Cochin Refinery Limited (CRL) after a delay of 17 months at a cost of Rs.16.48 crore, by incurring extra expenditure of Rs.1.01 crore. It is observed that the Company had underestimated weight of the boiler by more than 30 per cent and had not considered all the requirements of CRL /its consultant at the time of preparation of the estimates. Besides, manufacturing shops were engaged in several other short-term contracts and some additional work was also done. All this resulted in delay in execution of the work and increase in the cost. Owing to delay in commissioning of the boiler, CRL deducted a sum of Rs.76.07 lakh towards LD in terms of the contract. As a result, the Company suffered loss of Rs.1.77 crore on execution of this work.

While admitting the abnormal variation in erected weight of the boiler, the Management stated (April 2003) that appropriate action has been initiated to protect interest of the Company for increase in the cost due to change in design during contract execution stage.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Case (B)

According to an order placed by Kirloskar Brothers Limited (KBL), the Company was required to supply 4 number of AC motors during the period from November 1997 to February 1998. A stamping press, required for carrying out the notching operation on the motor blanks, remained under continuous breakdown and only after lapse of the contractual delivery period of February 1998, alternative arrangements were made to carry out the requisite operation. The Company also took considerable time in solving problems of high vibration and noise in the motors. As such, the motors could be supplied to KBL during August 1998 to December 1998 after an overall delay of 10 months, at a cost of Rs.3.61 crore by incurring extra expenditure of Rs.1.03 crore. Further, efficiency of these motors was found to be 95.77 per cent against 96 per cent as committed in the contract. Accordingly, KBL deducted a sum of Rs.60.35 lakh towards LD for delay in supplies and shortfall in efficiency of motors in terms of the contract. As a result, the Company suffered an overall loss of Rs.1.63 crore.

While accepting that the delays were due to non-restoration of the stamping press, the Ministry stated (November 2002) that the motors were developed for the first time and

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[♦] ***tonne per hour***

detailed study was carried out to evolve corrective action when the first motor had developed deficiency.

The fact, however, remains that the Company had to incur loss of Rs.1.63 crore due to inordinate time taken in carrying out notching operation and not meeting the efficiency parameters.

Case (C)

The Company completed (May 1998) commissioning of a 140 TPD[♥] boiler for Hindustan Newsprint Limited (HNL) with a delay of 11 months at a cost of Rs.11.29 crore by incurring extra expenditure of Rs.32.78 lakh. There was major delay on account of abnormal time (five months) taken by the Company in finalising a sub-contractor for the work of erection. Besides, there was non-sequential delivery of erection materials with respect to the schedule. Accordingly, HNL deducted a sum of Rs.54.33 lakh towards LD in terms of the contract. As a result, the Company suffered loss of Rs.87.11 lakh.

While accepting the delay in appointment of the sub-contractor, the Management attributed (March 2003) the delays in supplies to execution of other short-term contracts.

The reply is indicative of serious managerial problems at shop floor planning.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Thus, lack of proper planning in arranging the requisite machine and finalising sub-contractor, problems in shop floor planning and inaccurate estimates resulted in loss of Rs.4.27 crore in execution of these three works against the envisaged profit of Rs.3.12 crore. Management's contention that there was a contribution of Rs.1.89 crore after excluding the fixed expenditure of Rs.3.84 crore is not tenable, as the Company could have gainfully utilised these fixed expenditure in other works.

11.1.4 Loss due to inaccurate estimates and accepting orders at un-remunerative prices

The Company not only failed in estimating the workable cost, but it did not ensure recovery of cost of material due to accepting orders from a private party at un-remunerative prices by not adhering to its pricing policy. As a result, it incurred loss of Rs.2.63 crore.

Due to heavy competition in transformer manufacturing industry, Jhansi unit (Unit) of Bharat Heavy Electricals Limited (Company) adopted (May 1999) a strategy for pricing of transformers, which, *inter alia*, provided that ratio of the overall sale price to the cost

[♥] *tonne per day*

of material would be 1.85, i.e. cost of material should be in the range of 54 per cent of the sale value.

A scrutiny of records in audit, however, revealed that the unit did not adhere to its pricing policy and accepted (March 2000) two orders from M/s. BSES Limited for design, manufacture and supply of one 110 MVA steam turbine generator transformer and two 16 MVA station transformers at sale prices of Rs.1.67 crore and Rs.1.25 crore against the estimated factory cost of Rs.1.75 crore and Rs.1.53 crore respectively. In accordance with the pricing strategy of the unit, the accepted sale prices in these cases should not have been less than Rs.2.33 crore and Rs.1.68 crore, based on the estimated cost of material amounting to Rs.1.26 crore and Rs.91.06 lakh.

During execution of the works, the unit had to incur actual expenditure to the extent of Rs.3.42 crore and Rs.2.13 crore (actual factory cost of Rs.3.09 crore and Rs.1.93 crore) respectively, indicating that the estimated costs were completely inaccurate and unrealistic.

Thus, the unit not only failed in estimating the workable cost, it did not ensure recovery of cost of the material. This resulted in loss of Rs.2.63 crore to the unit as it realised Rs.2.92 crore only against the actual expenditure of Rs.5.55 crore.

Management stated (November 2001 and August 2002) that:

- While accepting the orders, it was ensured that the direct estimated expenses have been fully recovered and due to industrial recession and stiff competition, rock bottom prices were necessary to stay in the market.

- Estimates were reviewed and final estimated costs were worked out to Rs.1.35 crore and Rs.1.04 crore, which included the material cost of Rs.1.17 crore and Rs.90.80 lakh.

- Huge difference between the estimated and actual costs was due to cross booking of costs towards materials and labour amongst various work orders and action has been initiated to rectify the present system to avoid such cross booking.

Management's reply is not tenable as indicated below:

- The Company had not ensured the recovery of cost of material as the actual material cost amounting to Rs.3.30 crore exceeded the total sales realisation of Rs.2.92 crore.

- Even if the revised estimated costs were taken into account, the sale prices should not have been less than Rs.2.16 crore and Rs.1.68 crore against which the Company accepted to execute orders at prices of Rs.1.67 crore and Rs.1.25 crore respectively.

- In terms of the cost accounts manual of the Company, the unit was required to carry out cost investigation in cases where there has been variation of more than 10 per cent between the estimated and actual cost. However, the unit has not conducted any such investigation for control and remedial action.

Thus, the Company incurred loss of Rs.2.63 crore due to accepting the orders at un-remunerative prices by not adhering to its pricing policy as well as failure in estimating the workable cost.

The matter was referred to the Ministry in May 2003; their reply was awaited (August 2003).

11.1.5 Failure to enter into a power purchase agreement with APTRANSCO for selling power generated in the Company's windmill at Kadavakallu resulting in loss of Rs.1.96 crore

The Company could neither utilise the entire power generated by its windmill nor could it sell surplus power to APTRANSCO/third party in the absence of power Purchase Agreement. This resulted in a loss of Rs.1.96 crore besides a potential loss of Rs.1.72 crore.

As per Government of Andhra Pradesh order dated 18 November 1997, plants generating power from renewable energy sources are eligible for incentives such as banking and/or third party sale of power with 2 per cent banking charges and purchase of power at Rs.2.25/ KWH with 5 per cent escalation every year. These incentives were allowable only if the plants, have entered into specific agreements with the AP State Electricity Board {its successor Transmission Corporation of Andhra Pradesh Limited (APTRANSCO)} for availing these incentives.

Bharat Heavy Electricals Limited (Company) set up a windmill of 4 MW (16x250 KW) capacity at Kadavakallu for captive use by its Hyderabad unit. It entered (March 1999) into a Power Wheeling Agreement with APTRANSCO for wheeling the power generated at the windmill to the Company's Unit at Hyderabad. In term of the Agreement, the Company was to deliver the power to APTRANSCO at the intersection point and the unutilised portion of power so delivered could be carried over by banking it for an energy year (August to July). It was required that such banked energy was to be utilised latest by the end of the following energy year, failing which it would lapse.

The windmill constructed at a cost of Rs.14.12 crore started operations effective from 23 September 1999. Of the 14.43 MU[♥] generated till July 2002, the Company could utilise only 2.4 MU till July 2001 and retain 5.43 MU under the banked energy to be utilised before July 2003 leaving 6.6 MU to lapse. The underutilisation was due to the fact that Hyderabad Unit, which was expected to utilise the entire power generated by the windmill (approximately 5.8 MU per year), could not do so as it received sufficient power from the contracted power supply of 2.21 MU per month from

[♥] *million units*

APTRANSCO/APGPCL[♣]. The Company could not sell the surplus power to APTRANSCO or to any third party in the absence of a Power Purchase Agreement (PPA). As a result the Company had suffered a loss of Rs.1.96 crore, besides a potential loss of Rs.1.72 crore being the sale value of 5.43 MU of power banked during the energy year 2001-02 which could not be utilised before July 2003.

The Company had, however, finally entered into (July 2002) a Power Purchase and Captive Wheeling Agreement with APTRANSCO. In terms of this agreement, the Company can sell 2.55 MW (approximately 3.8 MU) per year to APTRANSCO at a price of Rs.2.25/KWH escalated @ 5 per cent per annum from the base year 1994-95.

Management contended (March 2003) that matter regarding sale of banked energy for 1999-2000 together with the bill raised for 2000-01 was being pursued with APTRANSCO. As for the utilisation of 5.43 MU before July 2003, it felt that the same could be utilised by its Research and Development unit in Hyderabad or could be sold to APTRANSCO.

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

- APTRANSCO has already rejected (August 2001) the request of the Company regarding the purchase of banked energy from September 1999 to July 2000.

- The bill raised for sale of 45 lakh units pertaining to August 2000 to July 2001 has no legal basis in the absence of PPA. There is no reason to expect that APTRANSCO would treat it differently.

- The Company has not been able to utilise so far (June 2003) the power (5.43 MU) banked with APTRANSCO. Further, as the agreement entered into in July 2002 with APTRANSCO does not cover sale of already banked energy, the possibility of selling it to APTRANSCO does not arise.

Thus, due to failure of the Management to enter into a PPA with APTRANCO till July 2002 despite the directions from Non-conventional Energy Development Corporation of Andhra Pradesh Limited as early as February 1999, the Company had suffered a loss of Rs.1.96 crore. Besides there is a potential loss of Rs.1.72 crore being the value of 5.43 MU banked power which could not be utilised before July 2003.

The matter was referred to the Ministry in May 2003; their reply was awaited (August 2003).

[♣] ***Andhra Pradesh Gas Power Corporation Limited***

11.1.6 Avoidable expenditure of Rs.1.92 crore due to failure to take advantage of price reduction

Failure of the Company to take note of the reduction in prices in subsequent orders and negotiate with supplier for matching prices resulted in extra expenditure of Rs.1.92 crore.

HPEP* (the Unit) of BHEL failed to seek price reduction for the first order of supply of grinding roll in line with the negotiated price for second order and as such incurred an additional expenditure of Rs.1.92 crore on the 445 grinding rolls delivered by M/s. AIA Engineering Limited. Ahmedabad (supplier) from August 2001 to May 2003.

The Unit placed an order in August 2000 for procurement of 618 grinding rolls @ Rs.3 lakh on the supplier on single tender basis required for NTPC-Talcher Project. The original delivery schedule was between December 2000 and February 2003. However, actual deliveries commenced only in August 2001. The order was amended in December 2001 and December 2002 revising the delivery schedule to June 2003. The Unit placed two more orders in March 2001 on the same supplier for 30 grinding rolls @ Rs.2.57 lakh for NTPC – Korba and Ramagundam Project. Thus, the second order for grinding rolls on the same supplier was at a lower price, which is objectionable particularly when the supplies against first order which were for a larger quantity at higher price had not been commenced by then.

Management stated (July 2003) that the supplier was the only single proprietary and approved source for supply of improved version of grinding rolls in tune with the requirements of NTPC. As per the negotiations held with AIA, the rate should remain firm till the complete execution of the order and no price variation clause was applicable. Hence there was no scope to the Company to seek further reduction in the rate. Further in 'Original Equipment Orders', the price with the supplier was settled on negotiated basis resulting in variations in margins where as a supply to 'Replacement Orders' was governed by MOU settled with the supplier.

The reply of the Management is not tenable due to the following:

(i) Placing the orders @ Rs.2.57 lakh in March 2001 as against the rate of Rs.3 lakh per piece in August 2000 for the same material from the same supplier and for the same customer, proves that there is sufficient scope for reduction in price.

(ii) Company cannot have different pricing arrangements while procuring identical item (grinding roll) on account of 'Original Equipment Orders' and 'Replacement Orders'. By continuing such arrangement, the supplier was allowed to enjoy undue benefit in the form of higher price.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

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* ***Heavy Power Equipment Plant, Hyderabad***

11.1.7 Avoidable loss of Rs.1.18 crore due to delayed and defective manufacturing

The failure on the part of the Management in complying with the time schedule in importing of materials and using of inputs in the process of manufacturing resulted in a loss of Rs.1.18 crore to the Company.

The Hyundai Engineering Corporation Limited (HEC) placed (April 1998) an order on Tiruchy Unit of BHEL (Unit) for procurement of 6 sets of reactors, 9 sets of heat exchangers and 1 set of emergency hydrogen drum for a price of Rs.3.68 crore on behalf of Hindustan Petroleum Corporation Limited (HPCL). As per the terms of the purchase order, the Unit was to supply the equipment before 17 March 1999. In case of delay in supply, liquidated damages (LD) were to be levied at one per cent of the purchase value per week, subject to a maximum of ten per cent. The equipment was to be guaranteed for a period of `13 months after issuance of plant acceptance certificate or 24 months after delivery whichever was earlier.

After having accepted the delivery schedule and being aware of the LD for delayed supplies, the Unit placed orders for import of the equipment belatedly after 16 weeks against 36 days prescribed internally for short term delivery contracts. As a result, the Unit supplied the equipment only in April-June 1999. In view of the delay, the customer recovered LD amounting to Rs.32.86 lakh.

One reactor failed during the start up (January 2000) of the Hydrogen Generation Unit at site. Further investigation revealed that there were cracks in the weld zone of the reactor caused due to improper weld metal composition i.e. usage of SS electrodes. The Unit's contention that the failure of the reactor might have been due to exposure to extremely high temperatures during the start-up operation was rejected by HPCL's consultants viz. Engineers India Limited. Accordingly, it recommended (July 2000) that HPCL get the vessel replaced as it was under warranty. When HPCL decided (July 2000) to deduct the cost of replacement of the reactor from its contractor viz. HEC, it in turn invoked (May 2001) the bank guarantee for Rs.36.78 lakh furnished by the Unit. The failed reactor was, however, replaced by the Unit incurring direct cost of Rs.48.04 lakh.

Management while accepting that there was mix up of a few electrodes stated (May 2003) that the failure of vessel was due to its exposure to extremely high temperature beyond the design temperature. In support of this argument the Management cited the reported evidence of high density oxide scales inside top dome area and recrystallization of structure due to the exposure to very high temperature as revealed by a metallurgical investigation carried out by a third party.

Reply of the Management does not explain why it failed (a) to convince EIL/HPCL of the above, particularly when it had third party investigation reports and other evidence; and (b) to seek arbitration when it was so certain that there was no defect in manufacture of the reactor and it was all the fault of high temperature to which the vessel was exposed during the start up operation.

Thus, due to delay in procurement of materials with consequent delay in supply of the equipment and Management's inability to effectively counter the customer contention, the Unit suffered a loss of Rs.1.18 crore.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

11.1.8 Blocking of capital

Due to lack of proper co-ordination amongst its units and not taking into consideration the customer's financial capability, the Company has manufactured the motors, which remained un-disposed of for more than four years, resulting in blocking of capital to the extent of Rs.1.03 crore.

Heavy Electricals Equipment Plant (HEEP), Hardwar of Bharat Heavy Electricals Limited (Company) received (February 1997) a work order from its Industry Sector (IS), New Delhi, for manufacturing two AC motors. This was part of a composite order received from M/s. Usha Ispat Limited (UIL) for supply of two boilers, which was to be executed by Trichy unit of the Company. HEEP also received (November 1997) another order from IS for supply of two DC motors to UIL.

HEEP commenced the production of AC motors in April 1997. Subsequently, on being informed (November 1997) by Trichy unit regarding stoppage of manufacturing activities as the project was under hold by UIL, HEEP immediately took up the matter with IS for clarification. Though the Company was aware of the adverse financial position of UIL*, no urgency was shown by the IS, which confirmed the hold in May 1998 after a period of more than five months. By this time, the HEEP had already manufactured the AC motors at a cost of Rs.41.76 lakh. The motors were not collected by UIL and have been lying with the HEEP for more than five years.

Despite the above developments, IS did not take any action for stoppage of manufacturing activities in respect of DC motors. Consequently, the DC motors were manufactured by the HEEP in March 1999 at a total cost of Rs.80.69 lakh. These motors were also not collected by UIL and have been lying with the HEEP for more than four years.

As a whole, the Company has incurred a total expenditure of Rs.2.52 crore, against which a sum of Rs.1.49 crore was received as advance from UIL. Nonetheless, the Company has not initiated any legal action against UIL for lifting of the motors.

Thus, due to lack of proper co-ordination amongst its units and not taking into consideration the customer's financial capability, the Company manufactured motors, which remained un-disposed of for more than four years, resulting in blocking of capital to the extent of Rs.1.03 crore.

* ***UIL has not released payment of Rs.16.45 lakh in respect of a motor dispatched in July 1997***

While endorsing the Management's reply (July 2002), the Ministry stated (July 2003) that there was a possibility of diversion of motors after slight modifications and advance of Rs.1.49 crore would be sufficient to cover the cost of inventories.

The reply is not acceptable as the expenditure incurred by the Company exceeded the available advance by Rs.1.03 crore and chances of disposal of the motors are very bleak as the motors were specially designed for UIL and the Company was unable to find any alternative customer for more than four years.

11.1.9 Avoidable expenditure of Rs.62.66 lakh due to delay in placement of purchase order for rotors

failure of the Management to release the purchase order within validity period resulted in additional expenditure of Rs.62.66 lakh.

HPEP[•] (Unit) called for (April 2001) quotations for procurement of four generator rotors required for manufacture of Frame-9 Gas Turbine and Generators (GTG). M/s. Edelstahlwerke Buderus, Germany (L1) (supplier) quoted (May 2001) a price of Rs.44.06 lakh per piece for an order of two pieces and Rs.42.62 lakh per piece if four pieces were ordered. The delivery schedule was committed at 9 months from the date of letter of intent (LOI) for the first two rotors and thereafter two rotors per month. The prices were valid till 30 May 2001. The Unit did not release the purchase order within the validity period. Thereafter the supplier increased (31 May 2001) the price to Rs.46.33 lakh per piece for both the initial as well as the subsequent deliveries and also revised the delivery schedule between March to August 2002 and again between October 2002 to April 2003. Surprisingly, the Company could not release LOI for either quantity within the validity period though the approval for advanced manufacturing action (AMA) was available for two rotors.

The Unit then sent fresh enquiries (November 2001) to M/s. Saarschmide, Germany (L2) and M/s. Societa, Italy (L3). Since the delivery schedules committed by the L3 party i.e. June 2002 to October 2002 met the Unit's requirements, the Unit placed purchase order (3 December 2001) on the L3 party at a substantially higher cost of Rs.64.95 lakh per piece. The three rotors ordered were received between June and November 2002. Of these only one rotor has been issued to a project and two rotors are still lying in inventory. Since the Unit placed order on the L3 party because of the favourable delivery schedule offered by them, the Unit should have processed the bids received in response to first quotation within the vlidity period as it would have also ensured timely delivery. Failure of the Management to release the purchase order within the delivery period resulted in additional expenditure of Rs.62.66 lakh. Further, two rotors are still lying idle.

Management stated (July 2003) that despite best efforts to convince the vendor of the reasons for the delay in ordering all the rotors simultaneously the vendor did not accept the same. In view of the requirement of rotors to meet the equipment delivery schedule of Australia/Iraq, order was placed on L3.

[•] ***Heavy Power Equipment Plant, Hyderabad***

Management's contention is not tenable as there was no recorded proof of such efforts. Further the manufacturer indicated that there was no official reaction regarding placing of purchase order from BHEL and as such delay in placement of purchase order lacks justification.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

Bharat Heavy Plate and Vessels Limited

11.2.1 Avoidable expenditure of Rs.1.61 crore due to delay in taking/implementing decision to buy oxygen and nitrogen rather make them in house

The delay in taking the decision/commissioning the storage facilities of oxygen and nitrogen resulted in an avoidable expenditure of Rs.1.61 crore to the Company

The Company has a captive oxygen plant for producing oxygen and liquid nitrogen required by the production shops. The requirement/consumption of oxygen decreased steadily over the years rendering the running of the plant uneconomical. At the same time, cost of the plant's maintenance had also increased due to aging. Although a study conducted (June 1997) by the Works Engineering Department revealed that both oxygen and nitrogen were available locally at competitive prices and proposed that the Company obtain these gases from the market. But the proposal did not move further without any recorded reasons. In March 2000, a Committee, appointed to analyse the merits of buying these gases vis à vis making them recommended (April 2000) buying as economical at the estimated cost of Rs.35 lakh. The estimates were subsequently revised downwards (May 2000) to Rs.12 lakh only with a pay back period of less than one year as major quantity of fabrication material was available with the Company and the required tanks were to be fabricated in-house. These tanks scheduled for commission by November 2000 were, however, commissioned on 24 February 2002 and since then the Company has been buying the oxygen/nitrogen locally.

During the 5 years period ending February 2002 (till the date of discontinuation of in-house production), the total cost of production of oxygen and nitrogen ranged from Rs.14,550 per MT to Rs.34,644 per MT of which the variable costs ranged from Rs.10,637 per MT to Rs.26,808 per MT as against the cost of buying which ranged from Rs.6,090 per MT to Rs.6,944 per MT. As a result, the Company incurred additional expenditure of Rs.1.61 crore (being the differential between buying price and variable costs in making) on 1899 MT of oxygen/nitrogen that was produced in-house during 1997-98 to 2001-02.

Management stated (May 2003) that the proposal (June 1997) for buying of oxygen/nitrogen was not pursued as it was considered not desirable in view of the huge capital investment for developing the storage facilities and constant power consumption pattern. In view of drastic increase in power consumption in 2000, it decided to establish

storage facilities. Approval for in house fabrication of this storage and distribution system was obtained in June 2000, work order released in December 2000, civil works completed in March 2001 and the entire system commissioned in February 2002. Therefore, there was no delay in taking a decision to buy the oxygen/nitrogen from outside agency or in implementation of the same.

Management reply is, however, not tenable in view of the following:

- The Works Engineering Department's proposal (June 1997) recommending buying in preference to making was based on detailed study of the economics of working of the aging Plant. The proposed capital investment for creating storage facilities was only Rs.31.27 lakh. Management should have compared the investment with the resultant savings before taking a decision. Further the power consumption pattern which was stated to be constant during 1997-2000, was also increased from 3.03 units per cubic metre in 1996-97 to 5.14 units per cubic metre in 2000-2001.

- Besides when it did finally decide to buy rather than make, the Company took 21 months to commission the storage facility.

Thus, the delay in taking the decision and, thereafter, in commissioning the storage facilities resulted in avoidable expenditure of Rs.1.61 crore.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Bharat Ophthalmic Glass Limited

11.3.1 Unauthorised payment to the employees

Sanction of 31.5 per cent of the salary as *ad hoc* advance without the approval of its Board or controlling Ministry led to an unauthorised payment of Rs.1.44 crore to its employees including 36 employees who opted for VSS.

Bharat Ophthalmic Glass Limited (Company) sanctioned (April 2000) *ad hoc* advance equivalent to 13.5 per cent of the pay drawn on 1 April 2000 and further enhanced it to 31.5 per cent with effect from 1 February 2001. This was sanctioned to compensate the non-implementation of the two successive pay revisions after 1987, granted by the Government in 1992 and 1997, due to the sick status of the Company and Government's specific directives with regard to sick companies.

The Company sanctioned these advances not only without the approval of the administrative Ministry but also without the Board's approval and made an unauthorised payment of Rs.93.10 lakh to its employees on account of *ad hoc* advance up to March 2003. It continues to incur unauthorised expenditure of Rs.2.95 lakh on a monthly basis on this account.

Meanwhile Government of India declared (5 May 2000) Voluntary Separation Scheme (VSS) for Public Sector Enterprises (PSEs) offering *ex gratia* equivalent to variant number of days salary for profit making and non-profit making PSEs but in all cases salary would constitute basic pay and dearness allowance only.

The Company contravened the above Government directives by extending the benefit of unauthorised sanction of advance by including it in working out the *ex gratia* to 36 employees (under industrial dearness allowance pattern) who opted for VSS introduced by the Company in December 2000 and made excess payment of *ex gratia* amounting to Rs.32.91 lakh. Besides terminal benefits to the VSS employees also included an unauthorised payment of Rs.17.52 lakh.

Although Management contended (April 2002) that it was in the nature of additional dearness allowance compensation and not an *ad hoc* advance, it agreed that the same was not ratified/authenticated by the controlling Ministry.

The contention of the Management is not tenable in view of the fact that the first sanction of 13.5 per cent was termed as *ad hoc* advance and (ii) the second sanction of 18 per cent was made after the introduction of VSS in December 2000 and the entire 31.5 per cent increase was termed as additional dearness allowance compensation specifically with the intention to extend benefit to the VSS employees. Further, irrespective of its nature the increase was (i) unauthorised and (ii) subject to adjustment against future pay revision, which could not be anticipated as the Company was under reference to the Board for Industrial and Financial Reconstruction since May 1992.

As such the Company made an unauthorised payment of Rs.1.44 crore not only to its existing employees (Rs.93.41 lakh up to March 2003) but also to VSS employees as enhanced *ex gratia* (Rs.32.91 lakh) and enhanced terminal benefits (Rs.17.52 lakh). Besides, unauthorised expenditure of Rs.2.95 lakh on a monthly basis continues to be paid to the existing employees.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Bharat Wagon and Engineering Company Limited

11.4.1 Loss of Rs.1.83 crore due to improper production planning

The Company suffered a loss of Rs.1.83 crore during the period up to June 2001 on account of reduction of prices of wagons by Ministry of Railways due to delay in supply of wagons.

The Company received an order from Ministry of Railways for supply of 489 BRNA♥ and 140 BCNA♣ wagons to be delivered by 31 March 2000. Even after reduction of quantity to 389 BRNA wagons, the Company could not adhere to delivery schedule and suffered a loss of Rs.1.83 crore on account of reduction of prices by Railways for delay in delivery.

The Company received orders from Government of India, Ministry of Railways (Railway Board) in July 1999 for manufacture and supply of 489 BRNA and 140 BCNA wagons to be supplied by 31 March 2000 at the rate of Rs.4.92 lakh and at the rate of Rs.5.55 lakh per wagon respectively. The contract provided that the purchaser shall have the right to increase/decrease the order quantity up to 30 per cent with in the currency of the contract.

Since the progress of manufacturing of BRNA wagon was slow, the Railway Board indicated in January/February 2000 its intention to curtail the ordered quantity to 272 BRNA wagons and 98 BCNA wagons in terms of purchasers option clause. However, the Railway Board, at the instance of the Company did not reduce the order quantity but reduced the rates to Rs.4.60 lakh and Rs.4.84 lakh respectively. The delivery schedule was also extended to 30 September 2000. The Company finally supplied 287 BRNA wagons and 42 BCNA wagons by June 2001 resulting in loss of Rs.1.22 crore (Rs.0.92 crore on 287 BRNA wagons and Rs.0.30 crore on 42 BCNA wagons) besides loss of Rs.40.66 lakh towards liquidated damages imposed by the Railways. The Company could not claim escalation amounting to Rs.20.53 lakh due to pegging of delivery date in the contract for the purpose of escalation.

Ministry stated (May 2003) that since production of BOXN♠ wagons at the plant was continuing, the manufacturing of BRNA wagons simultaneously was not possible due to space constraints and efforts were made at another unit of the Company to manufacture the wagons within the delivery schedule inspite of non receipt of matching components, irregular supply of power etc. by resorting over time hours, the order was finally completed in June 2001.

Ministry's reply is not tenable in view of the fact that the Management was aware of the space capacities within the factory premises before giving acceptance to the order.

Engineering Projects (India) Limited

11.5.1 Excess payment due to encashment of half-pay leave in contravention of DPE guidelines

The Company made irregular payment of Rs.63.94 lakh towards encashment of half pay leave to employees retired under voluntary retirement scheme in contravention of DPE guidelines and without approval of the Government of India.

♥ ***Broad Gauge Rail (carrying flat car) with Pneumatic Air Brake System***

♣ ***Broad Gauge Covered (water tight) with Pneumatic Control Air Brake System***

As per the guidelines issued (October 1988/May 2000) by the Department of Public Enterprises (DPE), the terminal benefits available to an employee who seeks voluntary retirement do not include the encashment of half-pay leave (HPL). It also stipulated (November 2001) that the salary for VRS should be calculated on the basis of 30 days in a month and not 26 days.

Contrary to these guidelines, Engineering Projects (India) Limited (Company) introduced (February 2002) a VRS scheme which provided for (i) encashment of half-pay leave balances in the account of its employees on the date of their voluntary retirement subject to a maximum limit of 240 days of half-pay leave and (ii) reckoning of 26 days as one month instead of 30 days for computation of encashment of earned leave. This has resulted in excess payment of Rs.63.94 lakh to 150 employees who had taken voluntary retirement in April/May 2002.

Management stated (April 2003) that encashment of half pay leave and reckoning of a month as 26 days for leave encashment was introduced by the Company with the approval of the Board and there was no bar in this regard in DPE guidelines.

The contention of the Management is not tenable as DPE vide its OM dated 5 October 1988 clearly stipulated that cash equivalent of accumulated earned leave can only be paid and guidelines of DPE dated 6 November 2001 also stipulated that the salary for VRS/ VSS[♣] should be calculated on the basis of 30 days in a month and not 26 days. Further, the Company has introduced encashment of half pay leave and adoption of 26 days as one month without the approval of the administrative Ministry.

Thus, the Company made irregular payment of Rs.63.94 lakh under voluntary retirement scheme in contravention of DPE guidelines and without approval of the Government of India.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Hindustan Cables Limited

11.6.1 Idle investment in a project

Delay in taking up the project for commissioning and further delay in approaching the Government for plan assistance led the viability of the project under doubt and investment of Rs.19.42 crore on the project remained idle since February 2001.

Hindustan Cables Limited (Company) commissioned (October 2000) a plant for the manufacture of coiled and straight cords at a capitalised cost of Rs.19.42 crore with an installed capacity of 1 million pair of telephone cords and 1.5 million pieces of computer

[♠] *Box Type with Pneumatic Control*
[♣] *Voluntary Separation Scheme*

and various other types of cords. The project which suffered a time overrun of about 11 years and cost over run of Rs.15.33 crore from the original projections could not commence (September 2002) commercial production even after a lapse of 20 months from the date it became ready for commercial production (February 2001). The Company was still in the process of producing small quantities for trial orders, which could not be followed by any bulk order.

The idea of setting up the plant was conceived way back in March, 1988 when, in view of the emerging demand for telephone instruments, the Company identified the area of manufacturing coiled and straight cords. The project was scheduled to be completed in 18 months from the date of approval (March 1988) i.e. by September 1989 with an estimated cost of Rs.4.09 crore. However, after a delay of about 78 months from the date of approval, the Company entered (December 1994) into an agreement with foreign supplier for commissioning and supply of the Plant and Machinery (P&M) with a provision of buy back guarantee of 50 per cent of finished products for three years by the supplier. Though, reasons for delay as attributed by the Management (April 2000) was the change in business scenario as it had to put its entire efforts for conversion of its Dry Core facilities to Jelly filled manufacturing facilities the same was, however, not supported by facts as according to the note submitted by the Company to the Ministry seeking funds for the project, it took a long period of 78 months for negotiating of loan, tendering/re-tendering, tender evaluation and approval by the Board etc.

Meanwhile the project was re-appraised (August 1997) and it was felt that there was sufficient market for Telephone as well as electronic equipment cords and the production capacity was enhanced by adding 1.5 million pieces of computer and other cords. The revised project report was approved by the Board in September 1997 with revised cost of Rs.14 crore and revised schedule of completion by December 1997. The optimism regarding sufficient market for telephone as well as electronic equipment cords, was not based on facts as no market survey was carried out to explore the competitive market avenues.

Even this time schedule could not be adhered to as the Company de-bonded and shifted the P&M to site during December to January 1998 after the Government released a plan assistance of Rs.5.05 crore.

Thus, due to (i) delay of about 78 months (March 1988 to December 1994) in placing the order for unexplained reasons and (ii) delay of about 12 months (from August 1995 to July 1996) in approaching the Government for releasing the funds, not only was the cost of the project increased tremendously, but the Company also lost the opportunity of guaranteed sale of 50 per cent of its finished products.

Management contended (April 2000) that though the project was cleared by the Board in March 1988, it was taken up on a later date, as the Company had put its entire efforts for conversion of its Dry Core facilities to Jelly filled manufacturing facilities due to change in the business scenario. The reply is more in the nature of an afterthought as this reason

for delay in taking up the project was not brought to the notice of the Board at the time of seeking approval of the Revised Project Report in September 1997.

The Company, therefore, could not derive the desired results and the entire investment of Rs.19.42 crore remained idle since February 2001. Though the Company claimed (September 2002) that the project is viable its future viability is especially uncertain after losing the contractual obligation of buy back of 50 per cent of finished products by the supplier of P&M and non-availability of confirmed bulk orders.

The matter was referred to the Ministry in April 2000; their reply was awaited (August 2003).

Hindustan Paper Corporation Limited

11.7.1 Avoidable expenditure due to delay in decision making

Due to delay in disposal of slow/non-moving stocks the Company had to incur inventory carrying cost of Rs.3.11 crore besides loss of interest of Rs.5.51 crore on blocked funds.

In the normal course of their business of manufacture and export/sale of paper, the Hindustan Paper Corporation Limited (Company) is in the process of generating slow/non-moving stocks. As the Company had not laid down any prescribed policy for its disposal, a quantity of 6406 MT of such stocks was built up by 31 March 1998 which was produced during the earlier three years.

In September 1998, the Company for the first time started making efforts to liquidate their slow/non-moving stocks, when the Pricing Committee took a decision to dispose of these stocks by December 1998 by offering special discount of 10 per cent and additional cash discount of 2 per cent. Even this decision could not be implemented due to non-achievement of unanimity in approach with regard to the process to be adopted for its disposal.

These stocks were, however, disposed of during the period from December 2000 to March 2002 by which time the Company had already incurred an avoidable expenditure of Rs.3.11 crore on inventory carrying cost (godown rent and insurance) for the period from January 1999 to March 2002 besides loss of interest of Rs.5.51 crore on blocked funds relating to cost of inventory amounting to Rs.14.74 crore for the above period.

Although the Management has accepted (April 2003) the Audit comment, it has justified the delay by stating that, the delay was not totally avoidable as a consensus decision in a public sector undertaking like HPCL did not come about speedily, especially when the financial stake involved was substantial.

The justification for delay is not tenable and convincing, as failure of the Management in arriving at a quick decision is an admission of poor management prejudicial to the financial interest of the Company. This can in no way justify the delay, causing losses for known reasons.

The matter was referred to the Ministry in July 2002; their reply was awaited (August 2003).

HMT Machine Tools Limited

11.8.1 Non-supply of machine within delivery schedule resulting in cancellation of order

Failure of the Company to supply the machine due to non-procurement of imported components resulted in cancellation of the order by the customer leading to blocking up of funds of Rs.1.31 crore and loss of interest of Rs.61.16 lakh.

HMT Machine Tools Limited (Company) received (October 1999) an order from M/s. Flenders Limited, Kharagpur (Customer) for the manufacture and supply of floor type horizontal boring machine (machine) for Rs.1.35 crore by February 2000. The manufacture of the machine was completed by the Company at a cost of Rs.1.31 crore in March 2000 except fitment of certain imported components. The Company could not procure the imported components worth Rs.20.27 lakh (including customs duty of Rs.7.68 lakh) required for the machine due to non-establishment of letter of credit (LC) in favour of the supplier. The Company requested the customer for extension of delivery up to October 2000.

The Company could not establish valid LC as such could not procure imported components even within the extended delivery date of October 2000. The customer thereupon cancelled (October 2000) the order. The original machine manufactured in March 2000 remained in stock till date (June 2003).

Management stated (June 2002) that:

- during the year 1999-2000 the Hyderabad Unit which was responsible for manufacture of machine and opening of LC faced severe liquidity problem and the operation of bank accounts had become irregular with the result it could not establish LC on time; and

- although the above machine was designed and built to the specific requirement of the customer there was a possibility of identifying an alternate buyer.

The reply is not acceptable because:

- the landed cost of foreign components ordered was only Rs.20.27 lakh and was not substantial compared to Rs.1.31 crore already spent on the machine. Moreover, the Unit's total receipts and payments amounted to Rs.17.21 crore and Rs.16.54 crore respectively during the period from April 2000 to September 2000 and by giving

priority to procurement of components the cancellation of order of Rs.1.35 crore could have been avoided.

- as the machine was designed and built to the specific requirement of customer, the Company's efforts to identify alternate buyer have not met with success so far (June 2003).

Thus, failure to supply the machine due to non-procurement of imported components resulted in cancellation of the order by the customer leading to blocking up of funds of Rs.1.31 crore and loss of interest of Rs.61.16 lakh from April 2000 to June 2003.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

11.8.2 Loss due to improper management of funds

Failure of the Company to manage funds through centralised cash credit account resulted in avoidable loss of Rs.65.58 lakh.

HMT Machine Tools Limited (Company) maintains individual current accounts for each division/unit of the Company spread across the country. The Company is meeting its working capital requirements through cash credit facility extended by UCO Bank (Bank) at Bangalore. Based on the requirements, the Corporate Office of the Company transfers funds to current accounts of the concerned units/divisions. The Bank charges interest on debit balances in cash credit account of the Company at Bangalore.

Some of the units of the Company were having credit balances in the current accounts and these did not earn any interest. The Company was, thus, paying interest on credit facilities availed on the one hand and was not earning any interest for the credit balances in some of the current accounts on the other hand. The Company did not take adequate action to have a centralised cash credit facility or to create a facility for setting off of credit balances in the current account with that of debit balance in the cash credit account. As a result it incurred loss of interest Rs.65.58 lakh from April 2000 to May 2003.

Management stated (May 2003) that the credit balances held were below the average monthly expenditure incurred by three units and the current accounts of these units were converted into cash credit accounts during November 2002. The balances in the other two accounts were sales realisations held for transfer to the cash credit accounts of respective units and in view of the large volume of transactions the monthly balances could not be construed as abnormal.

Reply of the Management is not tenable as:

- The funds for operations could have been transferred on need/priority basis to units through centralised cash credit facility. The cash credit accounts opened during

November 2002, were only an allocation of cash credit limit to the units concerned, from the existing credit limit sanctioned by the Bank for the Company as a whole.

- Considering the financial crisis faced by the Company, it could have reduced interest costs by managing funds through centralised cash credit facility.

Thus, failure to manage funds through centralised cash credit facility/ to avail set-off facility resulted in avoidable loss of Rs.65.58 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Instrumentation Limited

11.9.1 Loss of Rs.3.61 crore due to delay in execution of purchase orders

Delay in supply of equipment by the Company due to delay in placement of order and receipt of supplies from the vendors resulted in a loss of Rs.3.61 crore by way of liquidated damages up to March 2002.

Instrumentation Limited (Company) paid Rs.3.61 crore on account of liquidated damages (LD) deducted by the Department of Telecommunications/Bharat Sanchar Nigam Limited up to March 2002 due to delayed supply of exchange equipment[♣] along with accessories and spares beyond the contracted date of delivery by 2 months to 16 months.

Instrumentation Limited (Company) has in-house production capability of Rs.100 crore per annum. Accordingly, it accepted five purchase orders worth Rs.73.73 crore from Department of Telecommunications (DOT)[♦] for the supply of exchange equipment along with accessories and spares. The delivery was to be completed by the Company between February 1999 and April 2000 so as to avoid payment of liquidated damages. As per the stipulation of the purchase order the Company was liable to pay LD which ranged between 0.5 per cent and 0.7 per cent of the value of delayed supply for each week of the delay or part thereof subject to a maximum of 5 per cent of the value of delayed supply. As the Company could not adhere to the stipulated time schedule to execute the purchase order, Department of Telecommunications/Bharat Sanchar Nigam Limited deducted Rs.3.61 crore towards LD from the Company. A request of the Company to Bharat Sanchar Nigam Limited to release the LD in line with the recommendation of the Standing Committee of Parliament has not yielded any positive result.

Management stated (May 2003) that liquidity crunch of the Company was the primary reason for delayed supply. It has also been added that the sources specified by the technology provider (C-Dot) could not meet delivery commitments due to source overbooking, obsolescence, design changes etc.

[♣] ***SBM/RAX, MAX/L, MAX/XL***

[♦] ***Taken over by Bharat Sanchar Nigam Limited (BSNL) from 15 September 2000***

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

NEPA Limited

11.10.1 Loss of Rs.96.05 lakh

Relying on pre-shipment inspection carried out by the agency hired by the supplier, the Company received two consignments of material not conforming to the specifications and suffered a loss of Rs.96.05 lakh.

NEPA Limited (Company) relied on pre-shipment inspection carried out by an agency selected by the supplier, which facilitated the supplier to ship materials not conforming to the specifications and get immediate payment. This has resulted in a loss of Rs.96.05 lakh to the Company.

According to a purchase order (PO) placed (March 1998) on M/s. Akkerman International BV, Netherlands (supplier) for supply of waste papers, i.e., over issue news paper (OINP), the Company had a right to carry out inspection of all shipments at any stage before or after delivery. However, the Company did not appoint its inspection agency and relied on the inspection carried out by an agency selected by the supplier. Further, certificate of inspection was also addressed to the supplier, even though charges for the inspection were borne by the Company. Further, terms of the letter of credit (LC) for US$ 0.155 million was amended by the Company at the request of the supplier for inclusion of sight payment instead of payment after 180 days of bill of lading as indicated in the PO.

In September 1998, the supplier shipped two consignments of material (1367.560 MT) and received payment of US$ 0.141 million (equivalent to Rs.60.22 lakh) against the LC. The consignments were, however, not found to be conforming to the specifications and the Company got the same inspected through another inspection agency, which confirmed that the quantity of OINP in the material was nil. As a result, the Company rejected the entire material and incurred a total loss of Rs.96.05 lakh (including other incidental expenses of Rs.35.83 lakh). Though the supplier had agreed (December 1998) to pay compensation, no payment was received so far and the Company has initiated legal action against the supplier.

While contending that the pre-shipment inspection was carried out, the Management accepted (July/August 2002) that inspection agency was hired by the supplier.

The reply is not acceptable as by accepting the inspection agency hired by the seller, the Company had not exercised its contractual right of carrying out the pre-shipment inspection independently so as to ensure quality of the material as per the specifications.

The matter was referred to the Ministry in May 2002; their reply was awaited (August 2003).

Scooters India Limited

11.11.1 Blockade of Rs.1.63 crore due to extension of undue credit

The Company extended credit to its dealer in relaxation of terms of agreement, and its own credit policy leading to non-recovery of sale proceeds during July 2000 to March 2003 which had accumulated to Rs.1.63 crore.

The Company extended undue credit to M/s. Amousi Motors Limited (Dealer) in relaxation of terms of agreement and the credit policy. The outstanding dues accumulated to Rs.1.63 crore since July 2000 with very remote chances of recovery.

As per terms of agreement with the dealer for selling and distribution of vehicles and spare parts manufactured by the Company, all despatches to the dealer were to be made against irrevocable letter of credit or bank draft for an amount covering full value of vehicles and spare parts despatched.

In violation of the terms of the agreement, the Company extended credit to the dealer without obtaining the letter of credit or the bank draft. In doing so it also did not follow its own credit policy which allowed a credit of only 30 days to the dealers. Due to extension of undue credit the outstanding dues increased from Rs.49.95 lakh in March 2000 to Rs.86.36 lakh in June 2001 when two cheques of Rs.25 lakh each tendered by the dealer bounced (July 2000). The Company did not take any action against the dealer under the Negotiable Instruments Act or any other law. The company instead continued to extend credit to the dealer even after bouncing of cheques and the outstanding dues increased to Rs.1.83 crore in July 2001.

In order to liquidate the outstanding dues the Company entered into (July 2001) a supplementary agreement with the dealer which *inter alia* provided that the properties valuing Rs.72.50 lakh of the dealer were to be sold within 30 to 90 days and an additional recovery of Rs.2500 from the sale proceeds of each vehicle sold by the dealer thereafter was to be made.

Though the balance as on March 2003 came down to Rs.1.63 crore due to recovery made by the Company, the chances of the further recovery are remote as it has been linked to the sales effected by the dealer which have diminished over the last three years. The properties indicated in the agreement have also not been sold despite lapse of over three years. Due to extension of unauthorised credit an amount of Rs.1.63 crore was, thus, blocked.

Management stated (March 2003) that the performance of the dealer during previous years had given them adequate comfort regarding his commitment and credit worthiness.

The outstanding was under control and as per credit policy till 1999-2000 but it jumped in 2001-02. Alarmed at the bouncing of cheques the Company went into the details of the functioning of the dealer and noticed certain misappropriation of funds at their dealership. Management also stated that the Company had either to forego the entire amount and allow the dealer to declare itself insolvent or assist them in their operations to recover the amount gradually and at the same time achieve maximum possible sales of the vehicles with their assistance. The Company decided to adopt the latter.

The reply of the Management is indicative of the complacency in their dealings with the dealer. The reply is more about their effort to salvage the situation once it has gone out of their control. It does not explain the failure of the Management in the first instance as the credit given to the dealer was in violation of the terms of the agreement, the credit policy and was without the approval of Chairman cum Managing Director/Board of Directors.

Thus, non-adherence of the terms of agreement and credit policy resulted in extension of unauthorised credit to a dealer and consequent blocking of funds amounting to Rs.1.63 crore.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Tungabhadra Steel Products Limited

11.12.1 Injudicious engagement of liaison agent

Despite the knowledge that the Company's tender had already been accepted by the Narmada Valley Development Authority, the Management engaged a private party to liaise for securing the order and committed an avoidable payment of service charge of Rs.37.83 lakh.

Tungabhadra Steel Products Limited (Company) quoted in January 2001 in response to tender invited in November 2000 by the Narmada Valley Development Authority (NVDA), Department of Water Resources, Madhya Pradesh, for the work of design, drawing, fabrication, transportation, supply, erection and commissioning radial gates for Man Irrigation Project. The bid of the Company was valid for a period of 6 months i.e. July 2001.

The tender was opened in January 2001 and the Company stood lowest. NVDA sought in August 2001 and November 2001 extension of validity of tender offer up to 31st October 2001 and 31st March 2002 respectively on the ground that the tender was under process at Government level. NVDA accepted the tender in November 2001 with the stipulation that the work shall be completed by June 2002. This was not accepted by the Company on the ground that the tender notification had prescribed the date of completion as 15 months from the date of issue of work order.

Meanwhile, M/s. Supriya Enterprises, Bangalore (SPE), liaison agents, came forward in December 2001 stating, *inter alia*, that even though the lowest price was quoted by the Company it would not be feasible to secure order from a Government Department in Madhya Pradesh without liaison and follow-up. SPE in a meeting with the Management in January 2002 agreed to do liaison at a service charge of 5 per cent of order value. An order on SPE for providing liaison at a service charge of Rs.37.83 lakh was issued followed by an agreement in January 2002. NVDA subsequently issued work order in January 2002 stipulating completion in 15 months, as laid down in the tender notification.

Management stated (March/May 2003) that they apprehended entrustment of this work to other agency by NVDA and therefore felt it essential to avail the services of a liaison agent. Management also claimed that the order with delivery period as per the tender was placed only after the liaison agency was pushed into operation.

The reply of the Management is not acceptable as the Company's offer had already been accepted in November 2001, though with a reduced time frame of execution. It was also open to the Company to seek the help of the Administrative Ministry in the matter which was not done.

Thus, engaging the services of SPE to liaise for securing order despite the acceptance of Company's tender by NVDA was not only improper but also injudicious as it resulted in committing an avoidable payment of service charge of Rs.37.83 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

CHAPTER 12: MINISTRY OF HUMAN RESOURCES DEVELOPMENT

Educational Consultants India Limited

12.1.1 Infructuous expenditure of Rs.60.43 lakh on development of software

The Company incurred an infructuous expenditure of Rs.60.43 lakh up to June 2001 on software development that are of no use to the Company.

Educational Consultants India Limited (Company) incurred an infructuous expenditure of Rs.60.43 lakh up to June 2001 on development of software for financial accounting, costing, payroll system, project management etc. and also for creation of Portal[•] relating to higher education as the Software Development Company[♠] (vendor) could not develop the Software and the Portal to suit the requirement of the Company. However, Information Technology (IT) Action Plan of the Company remained unimplemented.

The Company started leveraging of IT for business transformation in March 1999 and paid Rs.6 lakh to the vendor in April 1999. The job involved, *inter alia*, IT requirement analysis, IT solutions and outlining an IT road map including the training plan. On submission of Strategic Information Technology Plan (SITP) by the vendor, the Company awarded (November 1999) the contract to the same vendor at a cost of Rs.40 lakh for development and implementation of SITP. Although the project was to be completed by December 2000 and the Company has already paid Rs.29.43 lakh to the vendor, various modules are yet to function. Consequently, no integration of the activities has been done.

With a view to enhancing the share of business of the Company from the then market share of 1 per cent to 33 per cent with business opportunity of Rs.100 crore over next five years, the same vendor was entrusted in September 2000 another contract for creation of Portal relating to higher education at a cost of Rs.53.72 lakh. The work was entrusted even before satisfactory completion of SITP that too without the approval of the Board of Directors like the first contract. In this case also the Company paid Rs.35.44 lakh though the Portal was not functioning on regular basis.

[•] ***Details of education system in India, including online enquiry counseling, course catalogue/application form and other professional inputs to parents/teachers***

[♠] ***M/s Satyam Renaissance Consulting Limited***

The Company has encashed two bank guarantees of Rs.10.44 lakh furnished by the vendor, infructuous expenditure has been worked out at Rs.60.43 lakh out of Rs.70.87 lakh* paid to the vendor for the development of systems.

Management stated (January/May 2003) that the Ministry had referred the case to Central Bureau of Investigation for further investigation since charges of vendor were exorbitant on both the projects and disciplinary proceedings were on against three officials.

Failure of the top Management to monitor the expenditure is clearly indicated.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003)

Including Rs.6 lakh paid in April 1999 to assess the requirements of Information Technology

CHAPTER 13: MINISTRY OF MINES

National Aluminium Company Limited

13.1.1 Avoidable payment of higher interest on Debentures

Due to non-inclusion of exit option in Non-Convertible Debentures of March 1999 the Company failed to take advantage of lower interest rate which resulted in avoidable liability of interest of Rs.85.46 crore.

In order to reduce their large paid up equity base of Rs.1288.62 crore, so as to achieve higher market price per share through enhancement in earning per share, National Aluminium Company Limited (Company) with the approval of the Government converted (March 1999) fifty per cent of its paid up equity (Rs.643.58 crore) into Non-convertible Redeemable Secured Debentures (NCDs) carrying interest rate of 14.5 per cent. While approving the proposal (February 1999) of capital reduction through issue of debt instruments the Government left it to the Company's Board to consider provision of exit option for buy back of converted debt instruments.

Subsequently to meet its working capital requirement, the Company raised (November 2001) Rs.210 crore by issue of Debentures at an interest rate of 8.60 per cent per annum. As the Company did not consider the exit option at the time of issue of 'is Debenture in March 1999, it could not avail the benefit of call back of Debentures in the event of lowering of interest rate (November 2001) by raising more funds through issue of fresh NCDs at a lower rate (presumably 9 per cent) to discharge its liability due to early redemption in order to save interest.

The Company had therefore to bear an avoidable liability of Rs.85.46 crore because of higher interest rate for the period from November 2001 to March 2005 which could have been avoided had the Company exercised the exit option in its Debentures of March 1999.

The Management/Ministry stated (June/September 2002) that the capital restructuring exercise should not be compared with an usual public issue of debentures and fine tuning of Company's NCDs could also have resulted in not so enthusiastic a response.

The reply of the Ministry/Management is not acceptable since at the time of approval of the capital restructuring by the Government, the issue regarding provision of exit option for buy back of converted debt instruments was left to the Company's Board. Further, financial interest of the Company should also be considered while going for fine tuning and enthusiastic response for selling its converted debts through private placement.

CHAPTER 14: MINISTRY OF PETROLEUM AND NATURAL GAS

Bongaigaon Refinery and Petrochemicals Limited

14.1.1 Loss of Rs.41.21 crore in processing imported crude

Decision of the Management to process imported crude without assessing its overall economics has led the Company to sustain a loss of Rs.41.21 crore.

Bongaigaon Refinery and Petrochemicals Limited (Company) receives its requirement of indigenous crude from the north-eastern oil fields. With the coming up of Numaligarh Refinery, allocation of Assam crude to the Company's refinery was restricted to 1.2 MMTPA[♣] against its requirement of 2.7 MMTPA. To overcome the situation, the Company decided to switch over to imported crude for the balance quantity. It, however, did not work out the overall economics of processing the imported crude and sustained a loss of Rs.41.21 crore in processing 0.401 MMT of imported crude from February 2001 to December 2001.

In order to implement the decision of processing imported crude with a view to maintain the capacity utilisation of its refinery, the Company made arrangements with Indian Oil Corporation Limited (IOCL) and Oil India Limited (OIL), according to which IOCL would make available imported crude and transport it to Barauni by augmenting its Haldia-Barauni Pipeline whereas OIL would transport it to Bongaigaon Refinery by reverse pumping through its existing crude pipeline. Accordingly the shipment started in December 2000 and the Company received a total 161497.26 MT of imported crude by March 2001.

However, in August 2001, Company, on the advice of its Board of Directors, worked out the economics of processing imported crude and realised that landed cost of imported crude at Haldia Port was much higher than the price realisation of finished products through controlled price mechanism resulting in negative contribution in the processing of imported crude. By the time, the Company stopped taking imported crude, already a quantity of 0.467 MMT was received and 0.401 MT was processed during the period from February 2001 to December 2001 by incurring a loss of Rs.41.21 crore[•].

Management, while accepting (June 2003) the loss, put the onus on volatility in crude prices in international market without commensurate increase in produce prices besides higher landed cost at Haldia Port due to draft limitation. It, however, did not explain its failure *ab-initio* in assessing the overall economics of processing imported crude, as these

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[♣] ***Million metric tonne per annum***

[•] ***Rs.33.55 crore for negative contribution, Rs.3.98 crore on account of demurrage and Rs.3.68 crore due to non-recovery of freight and other levies.***

factors were anticipated and could have been given consideration at the time of taking the decision of switching over to imported crude.

The matter was referred to the Ministry in June 2003, their reply was awaited (August 2003).

14.1.2 Loss due to short lifting of Mono Ethylene Glycol

The Company incurred an avoidable expenditure of Rs.1.01 crore in the procurement of Mono Ethylene Glycol due to non lifting of the entire quantity ordered under the purchase order of April 1999 and subsequently procuring the remaining quantity at a higher rate despite the fact that increasing trend in its prices was known to the Management in May 1999.

Mono Ethylene Glycol (MEG) is one of the basic raw materials used in the manufacture of Polyester Staple Fibre (PSF). For an annual production of 30000 MT of PSF 1000 MT of MEG is required per month on a regular basis. In order to cater its requirement for the quarter April-June 1999, tender committee of Bongaigaon Refinery and Petrochemicals Limited (Company) decided to procure 3000 MT of MEG. Accordingly, the Company placed an order (April 1999) on M/s. Indian Petrochemicals Corporation Limited (IPCL) for the procurement of 3000 MT of the material at a landed cost of Rs.20152 PMT after giving effect of discount on slab system as under: -

Quantity (in MT)	**Discount (in Rupees PMT)**
1500	500
2000	1000
2500	1500

Though the increasing trend in the price of MEG was anticipated by the Company in May 1999 itself, it, however, lifted only 2450.785 MT of MEG during the quarter leaving out a balance of 549.215 MT without assigning any reason on record for the short lifting. The Company had to procure the remaining quantity in the next month at a higher landed cost of Rs.36245.78 PMT by incurring an extra expenditure of Rs.88.39 lakh. Besides, the Company had foregone the benefit of higher discount amounting to Rs.12.74 lakh on the material lifted during the quarter April-June 1999 which was available in the purchase order of April 1999, as it failed to reach the target of lifting of 2500 MT by a slim margin of 49.215 MT due to which the landed cost of the lifted material increased from Rs.20152.20 to Rs.20672.20 PMT.

Management stated (April 2002) that (i) decision of lifting the material was taken as per the prevailing business conditions and requirement, and (ii) had the Company lifted the entire quantity, it would have unnecessarily blocked its limited capital for a period of two months, losing opportunity cost of capital as well as inventory carrying cost.

Management's contention is not tenable in view of the following:

- the decision for procuring lesser quantity was not on record;
- MEG being a primary raw material, the Company placed letter of intent immediately on 7 July 1999 for supply of 700 MT; and
- the Company was having sufficient working capital during the year 1999-2000. It would not have been blocked, had the Company availed the credit facility for 60 days with interest at the rate of 14 per cent in terms of the purchase order of April 1999. The amount of interest involved/inventory carrying cost would also have been negligible as compared to savings. Further, safety stock was also to be kept for the ensuing rainy season.

Thus, the Company incurred an avoidable expenditure of Rs.1.01 crore due to non lifting of the entire quantity of MEG in terms of purchase order of April 1999 and subsequently procuring the remaining quantity at a higher rate, despite the fact that increasing trend in the prices of MEG was in the knowledge of the Company in May 1999 itself.

The matter was referred to the Ministry in May 2002; their reply was awaited (August 2003).

Chennai Petroleum Corporation Limited

14.2.1 Avoidable payment due to belated remittance of statutory dues

Chennai Petroleum Corporation Limited delayed the remittance of contribution to Employee State Insurance, which resulted in avoidable payment of damages and interest amounting to Rs.44.61 lakh.

Chennai Petroleum Corporation Limited (Company) paid a sum of Rs.44.61 lakh to Employees State Insurance Corporation (ESI) on account of damages and interest on delayed payments, when its request for exemption of applicability of the provisions of the ESI Act was rejected in April 1999.

Provisions of Employees' State Insurance Corporation Act, 1948 are applicable to the Chennai Petroleum Corporation Limited (Company). The Company was contributing regularly to the ESI up to March 1994 but stopped the remittance of contribution from April 1994. The reasons advanced by the Company to defer the payment towards ESI contributions in respect of covered employees were: (i) its own medical scheme was superior to that of ESI, (ii) its employees did not avail the medical scheme offered by ESI and (iii) it assumed that the exemption granted to other oil sector marketing companies like IOCL, HPCL and BPCL would also be granted to the Company.

ESI authorities issued show cause notices (December 1999) to the Company for levy of damages for Rs.27.85 lakh and interest of Rs.16.76 lakh for default in making payments

of contributions within the stipulated time prescribed in the ESI Regulations, 1950. The Company's request for waiver of damages (January and February 2000) were rejected (August 2000) by ESI authorities and it paid damages of Rs.27.85 lakh and interest of Rs.16.76 lakh during February 2000 to October 2000.

The Company stated (May 2003) that the payment towards ESI contributions was not remitted in anticipation of favourable consideration of its application seeking exemption from provisions of ESI Act by the Ministry of Labour.

The reply is not tenable as payment of contribution within the stipulated time and in the manner prescribed under ESI Regulations is a statutory requirement. The Company made a belated reference after a period of three years from the date of stopping the payment in 1994. Unless applied for, no favourable consideration could have been anticipated. The Company chose not only to make a belated reference for exemption but delayed payment for a further period of over 2 years on the strength of a mere reference to Ministry of Labour, which was not acceded to.

Thus, violation of statutory provisions resulted in avoidable payment of Rs.44.61 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Gas Authority of India Limited

14.3.1 Infructuous expenditure on the abandoned work of despatch terminal

The Company incurred an infructuous expenditure of Rs.1.87 crore for despatch terminal and connected pipelines to transport gas from a refinery which was not coming up due to damage by a cyclone.

The Company awarded (December 1999) work for construction of a despatch terminal and connected pipelines for an upcoming refinery of M/s. Essar Oil Limited at Jamnagar at a contract value of Rs.4.51 crore for transporting LPG[♣] through its Jamnagar –Loni LPG pipeline.

At the time of awarding the work, the construction activities of the Refinery had already been delayed consequent upon the damages caused by the cyclonic storm in June 1998. Since work was at a standstill with no further expectation of any improvement in the near future, the Company decided (January 2001) to foreclose the work of despatch terminal. At the time of foreclosure of the work, the contractors had already laid 7 KM (out of total 23 KM) pipeline costing Rs.93.37 lakh and had been paid Rs.37.94 lakh for laying this pipeline. The contractors were also paid Rs.52.03 lakh for civil structure completed by them and Rs.3.20 lakh as compensation for foreclosure in terms of the agreement.

[♣] ***liquified petroleum gas***

Management stated (March 2003) that the project was approved by CCEA[♣] and as per the approval received the execution of the project was taken and the pipeline system was designed and implemented. The civil structure made at despatch terminal of Essar Oil Limited was being used for storage of material lying unutilised at the site. Management further stated that the investment made by the Company would not go waste as the refinery would come up in future once the financial package for the revival of the refinery would be finalised and implemented.

The contention of the Management is not tenable. At the time of award of work the Management should have taken into account the fact that the refinery for which the despatch terminal was being constructed had been damaged a year and half ago. The storage of material at the despatch terminal does not bail out the Company as the expenditure was not intended for this purpose. Further, the refinery is not likely to come up in near future as its construction is beset with financial constraints. Even after 5 years of the cyclonic storm, some conditions in the financial package for the revival of refinery were yet to be met by Essar Oil Limited before the same could be implemented.

Therefore, the hasty decision to lay the pipeline and construct despatch terminal without taking into account the impact of the damage on the refinery of Essar Oil Limited rendered the expenditure of Rs.1.87 crore infructuous.

The matter was referred to the Ministry in April 2003; their reply was awaited (August 2003).

Hindustan Petroleum Corporation Limited

14.4.1 Infructuous expenditure of Rs.6.52 crore in acquiring land

The Company incurred infructuous expenditure of Rs.6.52 crore in acquiring 34.10 acres of land in coastal regulation zone at Haldia and subsequent delay of about eight years in surrendering it.

Hindustan Petroleum Corporation Limited (Company) sustained a loss of Rs.6.52 crore due to acquiring 34.10 acres of land in Coastal Regulation Zone (CRZ) where industrial activities were restricted under the Environment (Protection) Act, 1986 and subsequent delay of about eight years up to the date of surrendering it on 7 July 2001.

Based on the survey report conducted by RITES Limited, the Company acquired an additional plot measuring 34.10 acres in January 1993 for construction of additional tankage at the proposed terminal with tank wagon loading facility at Haldia. The Company, however, did not consider the fact as indicated in the survey report that the plot was under the CRZ where the industrial activities were restricted in accordance with the Environment (Protection) Act, 1986 and acquired the land on lease from Calcutta Port Trust (CPT) at a non refundable premium of Rs.1.66 crore. The Company also continued to pay monthly lease rent totalling Rs.4.37 crore for eight years till July 2001, when it

[♣] ***Cabinet Committee on Economic Affairs***

surrendered the land. Amount of Rs.48 lakh incurred on construction of boundary wall thereon also became infructuous.

Management while admitting the facts contended (May 2003) that 34.10 acres of land was retained since another plot of 12.5 acres meant for entry of railway track to the siding allotted earlier (1992) by CPT could not be handed over to the Company pending litigation with third parties. Pending handing over of this plot, 34.10 acres land could not be surrendered. It further added that CPT handed over 12.5 acres of plot in July 2000 and 34.10 acres of land was surrendered in July 2001. Management's reply is, however, not clear as to how the surrender of 34.10 acres of land could be linked with the possession of 12.5 acres plot especially when it was falling in CRZ where no industrial activity could be carried out. Besides, it also did not explain (i) the reasons for acquiring the land in CRZ initially and (ii) further delay of one year in surrendering 34.10 acres of land in July 2001 after having possession of 12.5 acres of plot in July 2000.

The matter was referred to the Ministry in June 2003, there reply was awaited (August 2003).

14.4.2 Avoidable payment of Rs.3.45 crore towards power factor surcharge due to delay in installation of capacitors

Due to non-installation of the capacitors in time, the Company incurred an avoidable payment of surcharge of Rs.3.45 crore on account of low power factor.

The power requirement of Visakha Refinery is met from Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) at contracted maximum demand of 13000 KVA[•] through 132 KV[♠] transmission line and from its Captive Power Plant (CPP). The power received from APTRANSCO at two 132 KV/11KV transformers and the power generated by CPP is run parallel and fed into power evacuation centre at CPP. As the power supply from APTRANSCO had become unreliable and the grid disturbances were pulling down the CPP generators causing frequent power failures, the Company decided to meet the Refinery load exclusively by internal generation (CPP) and started running its generators in isolation from 17 April 1999. The power supply from APTRANSCO was retained as standby by keeping the 132KV/11 KV transformers in charged condition so as to draw the power if the need arose.

In terms of clause 6 of the Tariff Regulations of APTRANSCO, the power factor of consumers' installation shall not be less than 0.90. If the power factor falls below 0.90 during any month, the consumer shall pay a surcharge @ 1 to 3 per cent of current consumption charges of that month depending upon low power factor range below 0.75 to 0.90. In order to maintain power factor at 0.90, the Company did not install the capacitors as required and the power factor in the absence of the capacitors dropped below the stipulated level of 0.90. As a result, the Refinery had to pay Rs.3.45 crore as penalty towards low power factor in the monthly bills for the period from April 1997 to December 2000. The Refinery finally decided to install the capacitors in November

[•] *Kilo Volt Ampere*
[♠] *Kilo Volt*

1999. This was to be done within a time-bound schedule by placing the order in January 2000 and commissioning the capacitors by June 2000. However, the order for procurement of capacitors was placed only in March 2000 and they were commissioned in October/November 2000.

Management stated (January/December 2001) that:

- The highly unreliable supply of power by APTRANSCO and the failure of its grids caused frequent power failure to Refinery loads, which also caused crash shutdown of process units resulting in huge financial loss due to down time of units and risk of fire etc. Considering the safety of the units and production loss, it was decided to run the Company's generators in isolation, which resulted in recording low or poor power factor on 132 KV side transformers.

- There was no choice except to install power factor correction equipment on 132 KV side at a cost of Rs.45 lakh to improve the power factor and avoid power factor surcharge penalty.

The reply of the Management confirms the audit observation that the Company although being aware of the need for installation of capacitors to maintain power factor did not take timely action for their installation. The Company started running its generators in isolation from April 1999 while the low power factor on 132 KV Transformer was recorded much earlier i.e. April 1997. Thus, it is the non-installation of the capacitors that resulted in the incidence of low power factor between April 1997 to December 2000 which is also evident from the fact that there was no incidence of low power factor after commissioning of the capacitors in November 2000 and its stabilisation by December 2000. Hence, the delay on the part of the Management in the installation of capacitors costing Rs.45 lakh resulted in an avoidable expenditure of Rs.3.45 crore.

The matter was referred to the Ministry in March 2003; their reply was awaited (August 2003).

14.4.3 Loss due to non recovery of sales dues

Allowing of unsecured credit to a customer resulted in non-realisation of sale proceeds amounting to Rs.2.27 crore by Hindustan Petroleum Corporation Limited.

Hindustan Petroleum Corporation Limited (Company) supplied (December 2000 to June 2001) 10839 KL furnace oil (FO) against post dated cheques (PDCs) with 30 days interest free period to M/s Ispat Alloys Limited (Buyer). However, the PDCs were dishonoured (August 2001) on the instructions of the buyer. Though the Company recovered a portion of dues by encashing Bank Guarantee (BG) and adjustment of discounts, the balance Rs.2.27 crore remained un-recovered for about two years (May 2003).

The buyer had approached (November 1999) the Company for supply of FO as Indian Oil Corporation Limited (IOCL) had stopped supplying due to non-recovery of their outstanding dues. The Company, despite being aware of the poor record of credit

worthiness of the buyer, agreed to supply FO (November 1999). The Company had not signed any agreement or Memorandum of Understanding (MOU) in this regard, however, as per the arrangement, the supplies were to be made against PDCs with 30 days credit and 15 days advance Letter of Credit (LC). As soon as the buyer would open the LC, the Company would return the PDCs. Though the buyer did not open LC, the Company supplied 16037.5 KL of FO against PDCs and stopped (June 2000) further supplies due to accumulation of outstanding dues to the extent of Rs.5.12 crore.

Without observing norms of commercial prudence, relating to safeguard of its financial interest and verifying the credit worthiness of the party, the Company, on partial liquidation of its earlier dues, resumed supplies in December 2000. This time also, the Company supplied without any LC, 10839 KL of FO against PDCs and stopped further supplies in June 2001 after the outstandings accumulated to Rs.4.55 crore. Out of this, an amount of Rs.2.27 crore remained unrealised as in the absence of any LC, the PDCs presented to bank were dishonoured (August 2001) on the instructions of buyer. The Company has initiated legal action against the buyer.

While admitting the facts (May 2003), the Management stated that the particular transaction should be seen in the perspective of a business decision for supply of fuels to a large steel plant and it was the buyer who failed to meet the contractual obligations. The Management however failed to explain as to how the particular decision met the parameters of commercial prudence when it involved supplies to a customer whose reputation was that of a defaulter not only with IOCL but with the Company itself.

The matter was referred to the Ministry in June 2003; there reply was awaited (August 2003).

Indian Oil Corporation Limited

14.5.1 Non-realisation of sale proceeds due to extension of undue credit

Company extended interest-free credit without any financial security to a private company in relaxation of terms of agreement, its credit policy and Ministry's instructions leading to non-recovery of sale proceeds of Rs.77.19 crore.

As per terms of agreement with M/s. Duncans Industries Limited (DIL) for supply of Naphtha/POL[♣] products, all supplies of Naphtha made by Indian Oil Corporation Limited (Company) through pipeline were to be on 'cash and carry' basis or as mutually agreed upon by the parties. Supplies made through rail were to be paid by three provisional installments within that month with the shortfall/excess to be adjusted in the first provisional installment next month. Delayed payments would attract an interest of 1 per cent over and above the borrowing rate of the Company.

[♣] *petroleum, oil and lubricants*

In violation of the terms of the agreement, the Company, on DIL's insistence, extended interest-free credit to them without any security. In doing so, it also disregarded specific instructions (September 2000) of Ministry to extend credit only on the bank rate of interest with proper safeguards. As per its own credit policy (February 2001), credit was to be extended only to the customers with credit rating of C1/C2. Credit was to be extended to C3-rated customers only in exceptional circumstances. The policy did not envisage any credit to customers rated below C3. The credit was to be against security and with interest for delayed payments barring exceptional circumstances.

DIL was extended interest-free credit of 60 days with effect from April 2001 to December 2001 even though their credit rating was grade 4 (equivalent to C 4) in June 2001. Northern Regional Office of Company generally accorded *ex-post facto* approval for extension of interest-free credit to DIL. It did not obtain approval of Head office or the Board of Directors of the Company.

Due to extension of credit, a balance of Rs.46.75 crore was outstanding from DIL as of December 2001. Despite payment of Rs.12.38 crore only in January 2002 and no payment in February 2002, the Company supplied to DIL Naphtha worth Rs.27.32 crore in January 2002 and Rs.24.60 crore in February 2002 on credit. It also released additional supplies of Mixed Run Naphtha worth Rs.2.38 crore in January 2002 and Rs.1.13 crore in February 2002 to DIL on 150 days' credit. Extension of undue credit resulted in an unrealised outstanding balance of Rs.77.19 crore in March 2003. The chances of recovery are remote as DIL has shut down since 25 March 2002 in view of serious cash crunch faced by them.

Management stated (May 2003) that the credit was necessitated by the market conditions and that DIL was an old customer who had been making payment as per agreed terms on due dates. Interest-free credit was extended to DIL due to the working capital problem faced by them. There was also a possibility of losing the customer to other oil Companies/Reliance in view of the deregulated regime with effect from April 1998, which could have resulted in containment problem in the refineries of the Company. Further, the fertiliser companies had shown their inability to provide financial security by way of bank guarantee/ irrevocable letter of credit/ post-dated cheque. The Company had filed a case in Delhi High Court and obtained a stay restraining DIL from alienating their properties.

The reply is not tenable as the Company extended interest-free credit to DIL for 30/60/150 days without taking any security cover ignoring the terms of agreement, credit policy of the Company and instructions of the Ministry. It also failed to seek approval of the Board to relax the conditions of the agreement. Further, the threat of competition does not imply that the Company should compromise on the basic financial security measures that could affect the very recovery of the credit. The Company should have devised a strategy to respond to the threat, as they must have resorted to after closure of the DIL. The amount stands provided in the books of the Company as doubtful of recovery as on March 2003.

Thus, due to extension of undue credit, the recovery of Rs.77.19 crore has been rendered doubtful.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

14.5.2 Infructuous expenditure on up-gradation of virtual jetty

Defective planning and lack of foresight of the IOCL Management resulted in infructuous expenditure of Rs.35.77 crore on upgrading of a virtual jetty into a permanent jetty at Kandla Port.

Ministry of Petroleum and Natural Gas constituted (November 1996) an Industry working group to study the infrastructure requirements at Kandla Port. The working group recommended creation of permanent jetty facilities at Kandla, which could handle 18 MMTPA[*] to meet the POL demand during 1997-98 and 1998-99. At that point of time the total available handling capacity of all jetties together at the port was 17.4 MMTPA including one jetty with a capacity of (3.6 MMTPA) which was under construction and one jetty (3.6 MMTPA) which handled non POL traffic.

In October 1997, the Indian Oil Corporation Limited (IOCL) in line with the recommendations of the working group decided to upgrade and convert its 2 MMTPA capacity virtual jetty at Kandla port into a permanent jetty. The virtual jetty had been commissioned in May 1996 at a cost of Rs.16.51 crore as a temporary measure for next five years (up to March 2001). The upgadation of virtual jetty into permanent jetty was decided to be done jointly with Bharat Petroleum Corporation Limited (BPCL) on cost sharing basis for which IOCL was to act as Nodal agency for execution of the work.

The decision to upgrade the virtual jetty was taken by IOCL despite negative assessment reports submitted by the project appraisal group; sub group on demand projections (September 1997) and shipping department of IOCL who had undertaken the study of various aspects of the proposed project including existing jetties at Kandla Port. These groups apprised Management about the risk factors and expected low utilisation of the jetties in future at the Kandla port. They also specifically indicated that utilisation of jetties at the port shall not exceed 4-6 MMTPA of POL beyond the year 2001-02 onwards. Planning department of the Company had also indicated that the existing berths at Kandla were sufficient to cater the requirement of oil Industry as a whole in future. The assessment of all these groups was based on the anticipated commissioning of the Reliance, Panipat and Essar refineries in the near future. Besides, expansion of Gujarat refinery and commissioning of Jamnagar-Kandla pipeline was one of the main reasons cited by one of the groups.

The upgradation of the virtual jetty into permanent jetty was completed in March 2001 by the IOCL at a cost of Rs.35.76 crore which was borne by IOCL and BPCL equally (Rs.17.88 crore each).

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[*] ***million metric tonnes per annum***

As against the quantity of 18 MMT per year estimated to be handled during 1997-98 onwards, the actual quantity handled from Kandla port was 9.342 and 8.536 MMT during 1997-98 and 1998-99 respectively and thereafter it came drastically down to 0.118 and 0.103 MMT during the years 1999-2000 and 2000-2001.

Management in its reply (May 2002) admitted that due to lower materialisation of the demand, coupled with RPL refinery capacity of 27 MMTPA and commissioning of Vadinar Kandla Pipeline (VKPL) and its hook up directly to Kandla-Batinda Pipeline reduced the utilisation of the jetty at Kandla to minimum. It also defended the construction of permanent jetty stating that much of the construction activity and enhancement of capacity of Reliance Refinery took place at the same time when the permanent jetty was being planned, approved and set up.

The reply of the Management is not tenable in view of the fact that it failed to take cognisance of the risks of the various groups which had examined the project and foreseen (September 1997) well in time the under-utilisation of the jetties in future. This is also evident from the fact that the existing facilities at Kandla Port before upgrading the virtual jetty by IOCL were more than sufficient to handle the petroleum products during 1997-98 and 1998-99. This resulted in the idling of the entire capacity of the jetties at the Kandla Port and infructuous expenditure on the upgrading of virtual jetty into permanent jetty.

Thus, the defective planning and lack of foresight of the Management has resulted in an infructuous expenditure of Rs.35.77 crore (Rs.17.88 crore borne by BPCL).

The matter was referred to the Ministry in January 2003; their reply was awaited (August 2003).

14.5.3 Undue benefit to the employees under Voluntary Separation Scheme

Implementation of Voluntary Separation Scheme by the Company in variance to the DPE's guidelines, led to an avoidable extra financial liability of Rs.30.78 crore.

Indian Oil Corporation Limited (Company) introduced on 6 May 2000 one time voluntary separation scheme (OVSS), offering the employees of various age groups, additional monthly benefit (AMB) ranging from 90-105 per cent of the basic pay for a period equivalent to the services rendered or till notional date of superannuation which ever was less in addition to the benefits of existing Voluntary Retirement Scheme (VRS).

In the meantime, the Government of India announced on 5 May 2000 revised VRS for Public Sector Enterprises (PSEs) to rationalise their surplus manpower under which financially sound PSEs were allowed to devise and implement variants of the existing VRS but in no case the compensation would exceed 60 days salary (basic pay and dearness allowance) for each completed year of service or the salary for the balance period of service left, whichever was less.

Ignoring the above orders of the Government, the Eastern Region of the Company released 390 employees under OVSS by paying *ex-gratia* of Rs.25.81 crore and created a future liability of Rs.34.25 crore for AMB totalling the burden of Rs.60.06 crore, which should have been a maximum of Rs.29.28 crore in terms of the Government orders. The Company, thus, put an additional burden of Rs.30.78 crore on its funds. In further contravention of the Government orders the Company included special pay for computing compensation leading to an additional payment of Rs.57 lakh in the *ex-gratia* amount.

Management on one hand stated (May 2002) that guidelines dated 5 May 2000 did not mention that the schemes introduced prior to it should be reconsidered/amended etc. whereas on the other hand claimed protection of its Navratna PSU status.

The contention of the Management is not tenable as DPE guidelines dated 5 May 2000 clearly specified that it was in suppersession of OM dated 5 October 1988 and subsequent circulars on the subject. Moreover, Cabinet's approval of VRS with enhanced *ex-gratia* for profit making PSUs was in the knowledge of the Board while approving the OVSS on 2 May 2000.

Thus, the Company had to bear an additional financial burden by extending undue benefit of Rs.30.78 crore to the employees separated under OVSS (Eastern Region) implemented in total contravention of the Government orders.

The matter was referred to the Ministry in July 2002; their reply was awaited (August 2003).

14.5.4 Blockage of funds of Rs.13.33 crore

Failure of the Company to synchronise its purpose and area of land required therefor resulted into blockage of funds of Rs.13.33 crore.

Indian Oil Corporation Limited (Company) could not crystallise its requirement of land during the last ten years ending March 2003, due to frequent changes of decision in planning from crude oil terminal to marketing terminal and further reduction in its capacity. This indecisiveness of the Company has led to a blockage of its funds of Rs.13.33[*] crore from May 1993/March 2000 without bearing any interest.

The Company, first proposed to acquire 150 acres of land from Paradeep Port Trust (PPT) for construction of a crude oil terminal for their eastern sector refinery and paid Rs.6.27 crore in May 1993 as cost of land including security equivalent to 3 years ground rent. This proposal was later dropped in March 1996 as the need of proposed separate crude oil terminal was eliminated since the refinery would be located near to Paradeep Port. The existing proposal for acquiring of land was then replaced by another proposal (June 1997) of developing 577 TKL[♦] Tankage and other facilities and future expansion

[*] ***(Rs.6.27 crore + Rs.8.28 crore Rs.1.22 crore =Rs.13.33 crore)***

[♦] ***Thousand Kilo Litre***

for which 340 acres of land was recommended for acquisition from PPT. By this time, the Company was in possession of only 10 acres of land allotted by PPT in June 1995 where it had constructed railway siding at their existing lighterage terminal. PPT, finally approved (January 1997) allotment of 100 acres (including 10 acres for railway siding) of land for construction of oil terminal. The Company also scaled down its tankage requirement from 577 TKL to 372 TKL and accordingly Board of Directors of the Company felt that 100 acres offered by PPT would be sufficient for the reduced requirement and approved acquiring 110[♠] acres of land and made payment of Rs.8.28 crore in March 2000. PPT, however, made allotment of 89[♥] acres of land in two plots. The Company again re-assessed (August 2001) its requirement of land and felt that togetherwith 30 acres surplus land of lighterage terminal already under its possession, 55 acres would be sufficient for accommodating 372 TKL tankage and allied facilities and requested PPT to refund the cost of 35 acres of land. The Company has also not acquired 54.82 acre of land yet despite request from PPT in April 2002.

Management while admitting the facts (May 2003) stated that conscious decision had been taken at regular intervals to assess the requirement of land depending on subsequent developments. It, however, did not explain the reasons for not acquiring the 54.82 acres of land allotted in 1997 despite further request from PPT for its advance possession in April 2002 and further scaling down its requirement of land from 100 acres to 54.82 acres only, which could have been assessed earlier as 30 acres of land was already lying surplus.

The matter was referred to the Ministry in June 2003, there reply was awaited (August 2003).

14.5.5 Avoidable expenditure due to delayed testing of equipment

The Company could not test and operate an equipment within the validity period of its performance bank guarantee. The equipment when subsequently tested was found damaged and had to be replaced at a cost of Rs.7.73 crore.

The Company purchased a welded plate heat exchanger for its Panipat Refinery from M/s. Ziemann–Secathen, France at a landed cost of Rs.3.64 crore. The heat exchanger received in May 1996 was covered up to 30 September 1997 by a performance bank guarantee of 10 per cent of the value of purchase order.

The performance test run of the heat exchanger could not be conducted within the validity of the performance bank guarantee. Subsequent test run (March 1999) in association with IFP, the process licensor, disclosed abnormal pressure drop in the effluent side of the heat exchanger. The matter was taken up (April 1999) with the suppliers but there was no response as they had already closed down their operations and were no longer in the business of welded plate heat exchangers.

[♠] *This included 10 acres of land for railway siding already in possession since July 1995*

[♥] *After adjusting 10 acres of land for railway siding already in possession since July 1995*

In order to rectify the problem, the Company under the advice of the process licensors took (November 2000) the service of M/s. Packinox to clean and repair the exchanger at a cost of Rs.23.85 lakh. They expressed their inability to repair the exchanger completely due to a major leakage/damage at an unapproachable location.

Company felt (April 2001) it operationally necessary to replace the heat exchanger because increase in the leakage levels would have led to shut down of the unit and consequently the continuous operation of the refinery could not be sustained.

It, therefore, placed (October 2002) a purchase order valuing Euro 1.098 million (equivalent to Rs.4.72 crore) on M/s. Packinox, France for supply of welded plate heat exchanger with delivery scheduled in July 2003. The landed cost of the unit worked out to Rs.7.73 crore.

Management stated (May 2003) that the commissioning of continuous catalytic reforming unit (CCRU) of Refinery and heat exchanger was delayed due to delay in various construction activities but the performance test run of unit conducted in March 1999 was within the stipulated time of 90 days of the commissioning of the unit (December 1998). Management added that the performance of the unit during test run was satisfactory with respect to Reformate Research Octane Number at guaranteed value of 98. Therefore, it could not be concluded that defective heat exchanger was installed initially.

The reply of the Management is not tenable because testing the equipment within 90 days of commissioning of CCRU does not alter the fact that the equipment could not be tested within the validity of the performance bank guarantee. Moreover, the contention that the performance of the unit was satisfactory during test run is also not completely valid when seen in the light of Company's unsuccessful attempts to take up with the original supplier and to get it repaired by another party.

Thus, due to delay in testing and operating the equipment within the validity of the performance bank guarantee, the Company was saddled with an expenditure of Rs.7.97 crore for its repair and replacement.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

14.5.6 Loss of Rs.5.75 crore on acquisition of land for a project subsequently abandoned

The Company failed to finalise the proposal for setting up LPG import and storage facilities at Kakinada and decided (April 2001) to surrender the unutilised land resulting in avoidable loss of Rs.5.75 crore besides possession of redundant property valuing Rs.3.28 crore for more than seven years.

Indian Oil Corporation Limited (Company) decided (April 2001) to surrender 107 acres of unutilised land to M/s. Andhra Pradesh Industrial Infrastructure Corporation Limited

(APIIC) which resulted in avoidable loss of Rs.5.75[♣] crore besides blocking up of funds to the tune of Rs.3.28 crore due to possession of redundant property for more than seven years as on 31 March 2003.

In view of the decision of Industry sub-group to set up Liquified Petroleum Gas (LPG) import facilities at Kakinada, the Company approved (January 1995) the proposal to acquire land for the project. The Company paid Rs.4.61 crore to APPIIC by March 1995 and took possession of 144.16 acres of land in February 1996 without preparing the Detailed Feasibility Report (DFR) of the project. The Company, however, could utilise only 37 acres of land by constructing POL[♦] terminal whereas the remaining 107 acres of land remained unutilised as the project was later abandoned. As the projections made in the DFR (March 1998) of growth in the all India demand-supply gap anticipated during the years 1997-98 to 2006-07 were proved wrong, the Company decided to abandon the project due to stated reasons i.e., decrease in per capita LPG consumption in urban sector, enhancement of LPG capacity at Haldia from 400 to 600 TMTPA[♥] and increase in the capacity of HPCL[•] import terminal at Vizag. The reasons are not sustainable as there has been increase in the consumption, it would not be economical to move the product from Haldia to Southern Region and work on HPCL import facilities started in 1995, which should have been considered before taking possession of the land.

The Company decided (April 2001) to surrender 107 acres land after incurring expenditure of Rs.2.60 crore on account of land development, construction of boundary wall (March 1999) and interest on delayed payments to APIIC. The registration of the land was still pending (April 2002).

APIIC while agreeing (March 2002) to take back the surplus land at the rate adopted for allotment, rejected the Company's claim for the cost incurred on construction of boundary wall on surplus land and land development. The land was yet to be surrendered (June 2003).

Management stated (July 2002) that land was procured with specific utilisation plan, which could not be implemented due to non-materialisation of the projected demand for the reasons beyond its control.

The reply is not tenable as, the Company acquired the land without conducting any feasibility study and the DFR was prepared after three years from the date of decision to procure land. Further, against the actual shortfall of 2.31, 2.586 and 2.915 MMTPA[♠] during the years 1995-96, 1996-97 and 1997-98 respectively, the Company projected

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[♣] ***This includes expenditure on land development Rs.67 lakh, avoidable interest on belated payments to APIIC Rs.18 lakh, construction of boundary wall on unregistered land Rs.1.75 crore and interest on blocked funds on unutilised land Rs. 3.15 crore.***

[♦] ***Petroleum, Oil and Lubricants***

[♥] ***Thousand Metric Tonnes Per Annum***

[•] ***Hindustan Petroleum Corporatio Limited***

[♠] ***Million Metric Tonne Per Annum***

shortfall of 4.44, 4.72 and 4.71 MMTPA during the years 1997-98, 1998-99 and 1999-00 respectively which was not based on past record.

The matter was referred to the Ministry in May 2002; their reply was awaited (August 2003).

14.5.7 Avoidable loss on account of irrecoverable excise duty

The Company availed excise duty exemption for agriculture spray oil claiming it as a fungicide resulting in avoidable loss of Rs.2.18 crore on account of irrecoverable excise duty, interest on belated payment and penalty imposed by Central Excise authorities.

Indian Oil Corporation Limited, Welligton Island Terminal (Company) manufactured agriculture spray oil called "IOC Rubber Spray Oil". Although this product did not have any fungicidal properties and could not be termed as pesticide, the Company by deliberate misdeclaration of the product as pesticide/fungicide wrongly availed of exemption from payment of excise duty.

On detection by the Central Excise Department in 1994 that the Company had cleared the product suppressing the fact that IOC Rubber Spray Oil was only a petroleum product used as a dilutent oil for spraying, the Commissioner of Central Excise, Cochin issued an order (March 1996) demanding excise duty of Rs.1.43 crore towards 7194.060 KL of Rubber Spray Oil cleared and sold by the Company during the period from March 1990 to June 1994. Further, a penalty of Rs.25 lakh was also levied for mis-declaration/mis-statement with an intent of evasion of excise duty payment. The Company filed an appeal (August 1996) against this order before the Customs Excise and Gold (Control) Appellate Tribunal (CEGAT) through Committee on Disputes which had, however, been rejected by the Committee in February 1998.

The Central Excise Department accordingly directed (March 1998) the Company to remit the amount demanded in their order of March 1996 along with interest @ 20 per cent per annum. The Company paid (March 1998 and January 2000) Rs.2.18 crore towards excise duty demand (Rs.1.43 crore), penalty (Rs.25 lakh) and interest (Rs.50 lakh) for belated payment of excise duty.

Management stated (January 2003) that the product had fungicidal properties and the Excise authorities took the decision on classification much against their own past approvals and applied the same retrospectively and, therefore, the Company had no recourse to collect the said levy from their customers. The Ministry endorsed (August 2003) the views of the Management.

The reply of the Management is not tenable as the Company was very much aware as early as from the year 1982 that they were selling only a petroleum product as a carrier medium for the fungicide which was to be added by the buyer.

Thus, by filing a positively misleading report stating that the said product was a fungicide, the Company did not pay excise duty and also sold the product to customers without charging excise duty. This had resulted in avoidable loss of Rs.2.18 crore to the Company as excise duty (Rs.1.43 crore) had to be borne by the Company, since recovery from the customers was not possible, penalty (Rs.25 lakh) for mis-declaration/mis-statement and interest (Rs.50 lakh) for belated payment of excise duty.

Oil and Natural Gas Corporation Limited

14.6.1 Unnecessary investment on creation of excess gas lift compression facility

ONGC created excess gas lift compression facility in Ankleshwar Project, rendering the investment of Rs.25.09 crore infructuous.

To obtain optimum production from the wells of Ankleshwar Project, ONGC had approached the Institute of Oil and Gas Production Technology (IOGPT), Panvel, to undertake a study to suggest necessary measures. IOGPT suggested immediate artificial lift in 35 wells around Group Gathering Station (GGS) I, II, III and V in Gandhar field and GGS IV in Pakhajan field. It also indicated gas lift requirement within 2 to 3 years time in 19 other wells.

Gas lift requirement (immediate and near future) anticipated by IOGPT was 50.25 lakh M^3/day[♣] for which one compressor of 3.5 lakh M^3/day capacity with an additional standby compressor of 1.5 lakh M^3/day capacity for central processing facilities (CPF) Gandhar (GGS I, II, III and V), and compressor of 2 lakh M^3/day capacity with an additional standby compressor of 0.80 lakh M^3/day capacity for GGS IV was recommended. The Board of Directors approved the proposed gas lift scheme in September 1996.

Contrary to the recommendations, ONGC installed and commissioned (July 1999) 3 gas compressors each of 3.5 lakh M^3/day capacity at a cost of Rs.32.27 crore at CPF, Gandhar and 3 gas compressors each of 2.2 lakh M^3/day capacity at a cost of Rs.43 crore (March 2000) at GGS-IV respectively.

Even after considering generous allowance for standby capacity, at least one compressor each of 3.5 lakh M^3/day and 2.2 lakh M^3/day capacity at CPF, Gandhar and at GGS IV were surplus. This was due to the fact that ONGC had installed gas compression facilities far in excess of the immediate and near future requirements.

Management stated (October 1999/June 2002) that it was not economical to implement the scheme in phases. Had the projects operated all the gas lift wells during the period, the installed capacity could have been utilised. However, all the wells were not operational due to various reasons like conserving high pressure gas by closing down wells with high water cut etc.

[♣] *cubic metres per day*

The reply is not tenable in view of the fact that after commissioning of compressors, maximum gas compressed on any single day till June 2002 was only 3.60 lakh M^3/day and 2.71 lakh M^3/day at CPF, Gandhar and GGS IV respectively. This also confirms the relevance of the IOGPT's suggestion that it was difficult to predict future artificial lift requirement as such only (i) creating basic facilities for 14.75 lakh M^3/day gas lift line sizing[♣] and (ii) immediate and near future requirement of compressors was suggested, so that at a later stage additional compressors could be added as and when required.

Thus, due to the injudicious decision, ONGC installed 2 extra compressors (3.5 and 2.2 lakh M^3/day capacity each) costing Rs.25.09 crore in Ankleshwar Project which were lying idle. This resulted in infructuous investment.

The matter was referred to the Ministry in December 2002; their reply was awaited (August 2003).

14.6.2 Avoidable expenditure on re-drilling

ONGC undertook re-drilling of an previously declared non-commercial exploratory well despite specific recommendations of an expert agency that this well should not be re-drilled for at least three years and that too after thorough analysis of seismic survey data to be carried out. Similar conclusions were derived from re-drilling rendering expenditure of Rs.24.71 crore infructuous.

ONGC engaged an outside agency (M/s. John Kingston) to review the geo-scientific data of Bengal Basin, which recommended (1995-96) carrying out further 3D surveys in the area. They also indicated that drilling should not be taken up for at least three years before larger sampling of Oligocene sand bodies in 72 square KM of south west of the Ichapur 3D seismic survey block were analysed and showed convincing prospects.

However, Executive Committee (EC) of ONGC, on the recommendation of Directorate General Hydrocarbons (DGH), approved (December 1996) re-drilling 'Ichapur I'. They made this decision without carrying out any 3D seismic survey or collecting data as had been recommended by the expert agency earlier. The objective of re-drilling was to re-test the Oligocene prospect by sidetracking through the existing hole.

To explore the hydrocarbon potential of 'Ichapur I' in Bengal Basin, ONGC had already drilled an exploratory well in November 1990 at a cost of Rs.28.48 crore. Production testing carried out in October 1993 had shown presence of liquid and gaseous hydrocarbons in Oligocene sand. However only 5.56 M^3 of liquid hydrocarbon was produced @ 1.5 to 2.4 M^3/day and, therefore, the well was abandoned in October 1993 declaring it as 'a non-commercial oil and gas well'.

Operations for re-drilling of 'Ichapur I' commenced on 27 September 1997. After recording the logs, the well was handed over for production testing. During the entire period of testing only 10 to 11 $M^3$of oil was recovered from the well. Testing concluded

[♣] ***Determining the size of the gas lift line pipes***

in December 1998 and ONGC declared this well as "Oil well with poor productivity". The Region finally abandoned the well after having incurred additional cost of Rs.24.71 crore and having utilised 325 days (as against revised estimate of Rs.8.09 crore and 239 days).

Management in its reply (May 2002) stated that decision for re-testing of Ichapur- 1 well was arrived at after thorough analysis of geo-scientific testing wherein it was brought out that there were reasons to surmise that the testing of Ichapur could be inconclusive.

The reply is not convincing as the outside agency had recommended drilling after three years only if convincing good prospects emerges from further analysis of data which was to be collected from 72 square KM survey area. The decision of re-drilling the well warranted a cautious approach by the EC in December 1996 since the well completion report of 1993 had already indicated the well as "non-commercial."

Thus, ONGC incurred an infructuous expenditure of Rs.24.71 crore on re-drilling a well without any fruitful results and arrived at conclusions as were already known since 1993.

The matter was referred to the Ministry in January 2003; their reply was awaited (August 2003).

14.6.3 Extra expenditure of Rs.15.52 crore due to hiring of higher capacity drilling rig

ONGC hired higher capacity rig for Extended Reach Drilling of wells but utilised same for drilling of other directional wells between August 1998 and July 2000. This resulted in extra avoidable expenditure of Rs.15.52 crore.

Mumbai Regional Business Center (MRBC) of ONGC hired ED-Holt rig capable of drilling high drift high angle with inclination of 60°–90° high angle wells of Extended Reach Drilling (ERD), but in the absence of such high angle wells available for drilling, the rig was actually used by MRBC between August 1998 and July 2000 to drill wells which were having inclination in the range of 29° to 48° only. As drilling of wells, having lesser inclination could have been carried out by rigs with lower hiring charges than the ED-Holt, ONGC incurred an extra expenditure of Rs.15.52 crore on account of higher hiring charges on ED-Holt rig, which was avoidable.

ONGC invited (October 1996) tender for hiring of 10 jack up and cantilever type rigs for offshore drilling classified under category I, and II on the basis of their specifications. The category-I rigs were capable of drilling exploratory, development and work over wells including directional* and high angle wells and the category-II rigs in addition to having capabilities of category-I rig could also drill ERD wells. The Executive Purchase Committee (EPC) of the Board of Directors of ONGC had approved use of Category-II rigs only when there was a specific requirement for drilling the ERD wells, which involved more difficult operations. As the Category-II rig was meant for drilling ERD wells, the hiring rates for rig "ED-Holt" (a Category-II specified rig) were also higher as

* *Wells having inclination from the vertical*

compared to Category-I rigs. After hiring (March 1998) rig ED-Holt, ONGC dropped proposed drilling of ERD wells thereby deviating from the approved plan.

The reasons for this deviation in planned drilling are not known, as no such proposal was made to the Board of Directors; nor any papers produced to audit which could throw light on the rationale of this decision.

Ministry replied (October 2002) that the deployment of ED Holt rigs for drilling high angle Basin (B-55) wells was the only technically viable option to enhance oil production which resulted in savings by drilling wells at much faster pace. The experience of using ED-Holt rigs was so successful that ONGC had decided to hire only rigs equipped with Top Drive System♣ (TDS) in future.

Reply is untenable because, versatility of ED-Holt rigs did not justify the ONGC's decision to deviate from planned drilling of ERD wells. Also B-55 wells were exclusively gas bearing hence use of ED-Holt rigs in drilling these wells could not have resulted in enhanced oil production as mentioned in the reply. It is also pertinent to note that the cost of hiring category-I rigs and installing TDS thereon in order to enhance commercial speed of the rigs would have been lesser than the cost of hiring a category-II rig. Had this option been explored before hiring category-II rigs, due flexibility could have been achieved without going for an expensive rig and extra expenditure of Rs.15.52 crore avoided.

14.6.4 Avoidable expenditure of Rs.5.06 crore in hiring of a production Logging Unit

ONGC incurred an avoidable expenditure of Rs.5.06 crore up to November 2000 in hiring a production logging unit for an extended period because of delay in procuring the stack tools of lesser value for making a departmental production logging unit operational.

Delay in procuring stack tools for its own damaged production logging unit (PLU) compelled the Ankleshwar Project Management of ONGC to extend the contract period for the hired PLU for a further period of one year up to November 2000 at a cost of Rs.5.06 crore which was avoidable.

The Ankleshwar Project of ONGC had noted (April/December 1997) that after May 1998 it would not require any hired PLU to support its operations. This position was, however, subject to the 'stack tools' of one PLU, which had got damaged (May 1997) being replaced. But the proposal initiated in September 1997 for purchase of a new set of tools from OEM♣ on an emergency basis was approved only in May 1998. However, the purchase order for stack tools from the OEM was actually placed in January 2000, and tools valuing Rs.75.96 lakh were received in June 2000. Due to delay in placement of order ONGC was compelled to extend, the contract period for the hired PLU for a further period of one year up to November 2000 at a cost of Rs.5.06 crore.

♣ ***Electrical device while drilling use to rotate the drill stem***

♣ ***Original equipment manufacturer***

Management in its reply admitted (January 2003) some delay in processing the case and in obtaining requisite approval. However, major part of delay was attributed to structural changes in the Western Region under their Organisational Transformation Project (OTP) in terms of which budgeting and procurement functions were decentralised. It stated that hiring of PLU from outside and extension of that arrangement was justified keeping in view the operational exigency to sustain production from ageing fields. It also stated that maximum production logging jobs were carried out by the contractual unit during the period under reference, and that it had also helped in liquidating sick wells.

The reply is not tenable in view of the following:

Since the tools were to be procured from the OEM on an emergency basis the Director (Finance) had directed (May 1998) that the expenditure be managed from the Region's overall budget through re-appropriation. Thus, the Management's argument that structural changes in the Western Region under OTP had impacted the procurement of stack tools does not hold good. Thus, there was undue delay in procurement of the tools costing only Rs.76 lakh because of which ONGC incurred an avoidable expenditure of Rs.5.06 crore in extending the hiring contract of PLU.

The matter was referred to the Ministry in January 2003; their reply was awaited (August 2003).

14.6.5 Unfruitful expenditure of Rs.3.50 crore due to delay in finalisation of drilling contracts

Due to the inordinate delay in finalising the 2 Short hole-drilling contracts during 2001-02 field season, ONGC had to incur unfruitful expenditure of Rs.3.50 crore.

Due to the inordinate delay in placing the indents, issue of tenders and finalisation of contracts for short hole drilling during 2001-02 by ONGC, two of its Geophysical parties (GPs) in aggregate lost 273 days of the working season due to idling of men and equipment which resulted in unfruitful expenditure of Rs.3.50 crore.

The field season in Frontier Basin (previously called Northern Regional Business Centre) of ONGC commences each year from 1 November and ends on 30 June next year. To collect seismic data with the objective of detailing the structural leads and delineation of possible structural prospectus two Geophysical parties viz. GP-91 and GP-83 were deployed during the working season 2000-2001 at two locations in Northern region, namely Satpura Basin in Madhya Pradesh and Mandi Jogindernagar area in Himachal Pradesh. The performance of GPs was contingent on the availability of shot hole drilling services to be provided by the private contractors. Considering the stipulated time schedule for the above activities, the indents were to be dealt with least possible delay and tenders issued within 47 days after the receipt and finalised within 88 days after it was issued. It was observed during audit that indent for procuring Short hole drilling services which should have been placed latest by 27 May 2000 were actually placed on 3 August 2000. Similarly, the contracts that should have been finalised latest by 10 October 2000 for ensuring availability of drilling services by 2nd November 2000 were actually

finalised late on 27 January 2001 in respect of GP-91 and on 20 March 2001 in respect of GP-83. Thereafter, the two parties commenced the fieldwork on 22 February 2001 and 1 April 2001 respectively. Thus, the men and the equipment of GP-91 and GP-83 remained idle for 113 days and 160 days, respectively, which resulted in unfruitful expenditure aggregating Rs.3.50 crore.

The Management admitted delay in the case of GP-91 stating (August 2002) that strict instructions had been issued to avoid such delays in future. The Ministry added (April 2003) that no individual section or department could be held responsible for avoiding such delays. In the case of GP-83 the Management stated (July 2003) that the delay was due to the ambiguity in the entitlement of bidders to import required equipment on concession rate of customs duty and the resultant impact on the comparative value of different bids. Consequently, when the ambiguity was cleared contract was awarded. This explanation of the delay is, however, not acceptable because it was well within the power of the Management to get the correct position clarified from the concerned Government agency[♦] before hand and, thus, avoid delay in finalisation of the contract.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

14.6.6 Avoidable payment of customs duty

ONGC failed to avail exemptions available under customs Act, 1962 on import of spares for its foreign going vessel resulting in avoidable expenditure of Rs.2.26 crore.

ONGC placed an order (May 1997) for import of 'buoyancy module with thrust collars' for use on its offshore drill ship 'Sagar Vijay' which was a foreign going vessel. The material arrived at Cochin in November 1997 and was cleared on payment of customs duty amounting to Rs.2.26 crore and installed on the ship in February 1998.

As per the Customs Act, 1962 materials procured for use on a foreign going vessel were exempt from duty if imported as under:

- Through Customs bonded warehouse under section 85 of Customs Act and transferred on board the vessel by filing export shipping bill under section 69 or imported through transshipment permit under section 86 (2).
- The goods were to be consigned to the master of the vessel and the import general manifest was required to specify that the goods are ship spares/stores and for transshipment.

[♦] ***Directorate General of Hydrocarbons***

ONGC paid Rs.2.26 crore as customs duty as it did not apply for custom duty exemption available under section 86 of the Customs Act, 1962 at the time of placing the order for import.

Ministry in its reply stated (January 2003) that the payment of duty was a result of taking precaution in terms of not violating any customs duty regulation in view of the fact that the rig was at Cochin Shipyard unlike non-designated area.

Ministry's reply is not tenable in the light of the subsequent import of anchor and anchor shackles in May 1999 for the same drill ship (Sagar Vijay) at 'NIL' customs duty by following the prescribed procedure. The reply is also not acceptable because ONGC in reply to a similar audit observation earlier had stated (March 2002) that no detailed study of customs duty rules and procedures was carried out till 1998. This clearly indicates that Management was not abreast and aware of the customs benefits available in that period which led to the avoidable expenditure of Rs.2.26 crore.

14.6.7 Infructuous expenditure of Rs.88 lakh due to improper planning

Due to delay in procuring ground equipment by ONGC, its Geophysical party could not obtain the targeted seismic data during 1999-2000 thereby rendering Rs.88 lakh infructuous.

Procurement of upgraded equipment for use in seismic data collection by Geophysical field party was delayed by ONGC at various stages of approval, placement of order, opening of letter of credit and placing of equipment at site during 1999-2000 which resulted in infructuous expenditure of Rs.88 lakh due to idling of the field party.

To conduct 3D seismic survey in the Lakwa-Lakhmani area in Assam it was decided by ONGC to upgrade an existing 2D equipment (SN 388) to 3D(640/1000 channels) by procuring additional ground electronic equipment through proprietary purchase from OEM in July 1996, which was approved only in August 1999. The field season for Geophysical parties (GPs) being 1 November to 30 June, the equipment was to be provided to the party before November 1999 for the field-working season 1999-2000. But ONGC placed order by fax on 27 December 1999. The delivery date was two months from the date of issue of firm order or opening of LC. Firm order was issued by ONGC on 3 February 2000 and LC opened on 16 March 2000. Meanwhile, in anticipation of arrival of the equipment, ONGC deployed (12 April 2000) the GP-88 in the field. The equipment arrived at Calcutta Port in the second week of June 2000 and took one month to reach the final destination. By this time the field season had come to an end. The field party, however, continued to remain on site till mid August 2000. The only work that could be done during the above period was field-testing of equipment (8 August 2000) and very limited groundwork (0.650 GLK) on 10 and 11 August 2000. The expenditure of Rs.88 lakh on deployment of GP 88 for the field season 1999-2000 including pay and allowances, payment to contractor for interface works, depreciation on other equipment deployed etc. was thereby rendered largely infructuous.

The Management in its reply stated (February 2003) that in the entire process of procurement of additional equipment, the major delay was mainly on account of non-availability of budget and also due to non-traceability of relevant file, which necessitated initiation of the case afresh in May 1998. It also stated that while waiting for receipt of additional ground electronics, party personnel were deputed to other field parties.

The reply of the Management is not tenable as the redeployment of GP party personnel was for a relatively short period of 9 to 16 days and hence is not material to the conclusions drawn by audit. Also, the Management did not offer any comments on the aspect of delay after placement of order. While the fax order was placed on 27 December 1999, regular order was placed only on 3 February 2000 (after 38 days). The LC was established on 16 March 2000 (after 42 days). The amended LC was also issued after two month's time. After receipt of the equipment at Calcutta Port in the second week of June 2000, the same was shipped to Assam only on 10 July 2000 i.e. after a month.

The matter was referred to the Ministry in January 2003; their reply was awaited (August 2003).

14.6.8 Idle investment in Condensate Metering Facility

The Condensate handling and metering facility installed in January 1997 in Ankleshwar project at a cost of Rs.78 lakh remained completely idle resulting in infructuous expenditure.

As a part of Gandhar Oil field development scheme (Phase-II), the Ankleshwar Project of ONGC (Company) commissioned in January 1997 a Crude Stabilisation Unit (CSU) at a cost of Rs.117.21 crore. The CSU also included a facility (costing Rs.78 lakh) for handling and measuring sale of Condensate[*] to the then proposed LPG plant of Gas Authority of India Limited (GAIL).

Gandhar Oil field, being a Retrograde Gas Condensate field, did not contain adequate Propane and Butane (C3 C4) required to produce LPG. In the absence C3 C4, in condensate, there was no occasion for the Company to handle and sell same to GAIL, as the latter had installed a gas-based plant in March 2001 as a result, measuring facility could not be put to use since installation till date (June 2003).

Management in its reply stated (June 2002) that Gandhar is mainly a Retrograde Gas Condensate field. The condensate meters were purchased to measure condensate production and sale to GAIL or any outside agency. GAIL had, however, installed a gas based LPG plant.

Ministry endorsed (May 2003) Management's views and stated that facility is now planned to be used in the process network to effectively monitor the functioning of fractionating column and material balance purpose.

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[*] ***Liquid hydrocarbons produced with natural gas, which are separated from the gas by cooling or some other method***

The reply is not tenable due to the fact that limited availability of C3 C4 in the Gandhar fields was known to ONGC well before GAIL's, the gas based, LPG plant came up. In fact, ONGC itself gave the information about future available projections of LPG in Gandhar field to the Ministry and to GAIL, who accordingly changed the proposed condensate fractionation unit and put up a solely gas based LPG plant instead.

The fact remains that the condensate metering facility was lying idle since 1997 thereby, proving the investment of Rs.78 lakh as infructuous.

Oil India Limited

14.7.1 Idle investment of Rs.5.43 crore in Scope Minar Complex

Oil India Limited booked an office space in the Scope in March 1991 and subsequently, purchased (January 1992) a plot at NOIDA for construction of an office premises with a view to surrender or sell office space booked with the Scope. However, the Company could neither surrender nor occupy the space resulting in blocking of funds of Rs.5.43 crore besides annual maintenance and rent charges amounting to Rs.2.07 crore from January 2002.

Oil India Limited had booked an office floor in the Scope Minar Complex, Lakshminagar (Scope), Delhi at a cost of Rs.6.75 crore in March 1991. The payments of Rs.4.97 crore were released up to 1995 and final balance of Rs.46 lakh was paid in May 2002 to the Scope Minar Constituent Society (SMCC) against the revised cost of Rs.5.43 crore.

On the other hand, the Management had also accorded approval to the purchase of a plot in NOIDA for the office building (January 1992) and decided that the space booked in Scope may be relinquished to SMCC or alternatively the space may be disposed of to another PSU. The land at NOIDA was purchased at a cost of Rs.1.60 crore in 1995 for construction of the office building and is expected to be completed by June 2003 at an estimated cost of Rs.15.28 crore. While deliberating (September 1995) the proposal for purchasing the land at NOIDA, the Chairman of the Company reiterated that it was not possible to off-load the office space of Scope to other PSUs as there was no demand.

The office space in the Scope was ready from January 2002 onwards but the Management did not take possession of the premises and continued using the hired office premises.

Management stated (June 2003) that the decision to purchase a plot at NOIDA was taken apprehending delay in construction of the Scope and further that the location of the building could not have been developed as envisaged at the time of booking due to inconvenience in liasioning with various Government departments including the administrative Ministry.

Management's contention is not tenable, as the Company booked office space in March 1991 and decided to go in for land at NOIDA as early as January 1992. It is indeed

surprising that it could visualize delays in execution of the Scope project, at that early stage. Further, the problems in liasioning with various Government departments including the administrative Ministry would remain unchanged since the geographical location of NOIDA also comes under the Trans-Yumana area and it is no where near to Central Delhi.

Thus, the decision of the Management to book the floor space at Scope was injudicious, since it could neither relinquish the space at the Scope nor find a tenant during the last 11 years. The Company has to bear the annual maintenance charges of Rs.37.13 lakh for the Scope and rent for all the hired office premises amounting to Rs.1.70 crore per annum. Apart from the above recurring revenue expenditure, the Company is sustaining loss of interest on the idle investment of Rs.5.43 crore made for office space in the Scope.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

14.7.2 Blocking up of Rs.2.75 crore due to non-utilisation of casing pipes

Oil India Limited received reports from surveyor/drilling department (September/ December 1999) for non-destructive test and necessary treatment on rusted casing pipes to make them usable. However, the test was completed in May 2002 and the part portion of casing could only be used in December 2002 and March 2003. This resulted in blocking of funds worth Rs.2.75 crore.

Oil India Limited received a quantity of 887 numbers of casing pipes (126 nos of P-110 and 761 nos of N-80 grade) for use in drilling job in three wells in May 1999. Since these pipes were in a rusted condition, a formal claim of Rs.2.75 crore was lodged with the National Insurance Company Limited (NIC) in July 1999. The surveyor of NIC opined (September 1999) that the materials could be used after carrying out non-destructive (ND) test and necessary treatment, and similar views were endorsed (December 1999) by the drilling department of the Company.

The contract for ND test was awarded in February 2002 and test completed in May 2002. In the meanwhile two wells out of 3 wells were drilled with some other casings of different grade from the existing stock.

Thus, delayed action in the ND test has resulted in blocking up funds amounting to Rs.2.75 crore for a period of more than three years.

Management stated (May 2003) that one well was drilled with different specification of casing due to change in geological considerations. The other well was drilled with 7" casing of different specifications out of surplus and other stock available in various areas. Further, stock worth Rs.1.40 crore was issued in December 2002 and March 2003 and the balance stock would be issued as and when required.

Management's reply is not tenable as the requirement of various casings is finalised after considering the geological conditions of various areas. Further the requisition for the casings was placed without taking into account the other specifications of casings available and the possibility of utilising those casings in the proposed wells.

Thus, the unplanned procurement of the casing pipes coupled with belated action in carrying the ND test resulted in blocking up funds amounting to Rs.2.75 crore for more than 3 years and casing pipes worth of Rs.1.35 crore were still lying in stock (July 2003).

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

CHAPTER 15: MINISTRY OF POWER

National Thermal Power Corporation Limited

15.1.1 Avoidable payment

The Company did not reassess requirement of water, despite allocation of reduced quantity of gas and approval to only one stage of project. This resulted in avoidable payment of fixed charges amounting to Rs.1.31 crore on account of reserved quantity of water.

National Thermal Power Corporation Limited (Company) paid (February 1998 and July 1999) fixed charges of Rs.1.49 crore on reserved quantity of 65 cusecs of water for its Jhanor-Gandhar Gas Power Project (JGGPP) for the period from September 1994 to March 1997.

The Company had originally assessed daily requirement of 65 cusecs of water for two stages (650 MW each) of JGGPP and made an arrangement (November 1989) with the State Government for availability of the same. Even though Government of India subsequently allocated (September 1990) only 46 per cent of projected requirement (3.28 MCMD) of gas to run a single stage of 650 MW and accorded (February 1992) approval for setting up of only one stage of JGGPP, the Company did not reassess requirement of water till May 1997, when it reduced the reserved quantity to 7.85 cusecs.

In fact, JGGPP had not drawn water till August 1994 and maximum consumption on any day from September 1994 to March 1997 was 6.33 cusecs. Had timely action been taken to curtail the reserved quantity, the Company would have paid only Rs.18.09 lakh against the actual payment of Rs.1.49 crore.

Management/Ministry contended (July 2000/June 2001) that when JGGPP was conceived, not much data was available to assess requirement of water and it was known only during 1997 that 1.2 MCMD of gas would be available. They also contended (August 2002) that there was no provision for payment of fixed charges in the State Government's letter of November 1989 or draft agreement of February 1994.

The contentions of the Management/Ministry are not tenable as non-availability of full quantity of gas was known to the Company in 1990-91 and there was a provision in the State Government resolution dated 22 May 1990 for payment of fixed charges on the reserved quantity of water.

Thus, delay on the part of the Management in curtailing the reserved quantity of water resulted in avoidable payment of Rs.1.31 crore.

Power Finance Corporation Limited

15.2.1 Irregular disbursement of loans of Rs.99.32 crore to a private party

The Company disbursed loans amounting to Rs.99.32 crore to a private party without ensuring fulfillment of pre-disbursement conditions. As the work has been held up for more than two years, the Company faces risk of potential loss of Rs.99.32 crore, besides loss of interest amounting to Rs.39.54 crore.

Power Finance Corporation Limited (Company) disbursed loans amounting to Rs.99.32 crore[♦] to Shree Maheshwar Hydel Power Corporation Limited (party) during the period from February 1999 to July 2000 for financing construction of a hydel power station under consortium financing, without ensuring the party's compliance to pre-disbursement conditions as stipulated in the loan agreements, which was irregular and the Company faces risk of potential loss of Rs.99.32 crore, besides loss of interest amounting to Rs.39.54 crore (till 31 March 2003).

While approving the loan to the party promoted by S. Kumars Group, Board of Directors (BOD) had directed that the Company's financing would be released only after the promoters bring in equity as committed by them. Despite the pre-disbursement conditions not being fulfilled, the Company released Rs.99.32 crore. The party, however, started defaulting in payment of interest from October 2000 and did not pay interest amounting to Rs.39.54 crore till 31 March 2003. Implementation of the project has been held up since February 2001 due to promoters' inability to bring in further equity, backing out of the foreign collaborators and non-release of further disbursements of the loans by the other financial institutions owing to default by the party.

The Management stated (July 2003) that the Company has been following the same pre-disbursement conditions as of the lead financial institution of the consortium in accordance with its policy and relaxed the conditions in line with the dispensation made by the lead institution. They also stated that efforts were being made to restart the project.

The reply is not acceptable, as according to its policy, the Company could stipulate additional terms and conditions or procedures. In view of the reservations of its BOD about the financial position of the promoter group as regards its capability to invest in equity, the Company should have safeguarded its financial interest by ensuring compliance of the pre-disbursement conditions, for which the lead institution was not responsible. Further, there has been no progress towards tie up of requisite funds with financial institutions to restart the project and the work has been held up for more than two years.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

[♦] ***Rupee Term Loan of Rs.54.63 crore and Foreign Currency Loan of Rs.44.69 crore (US$ 9.95 million)***

15.2.2 Avoidable payment of extra interest due to not exercising call option

The Company did not exercise call option for early redemption of the bonds despite the fact that there was downward trend in rate of interest. As a result, it incurred avoidable liability of extra interest amounting to Rs.3.88 crore.

Power Finance Corporation Limited (Company) issued 10.50 per cent bonds (seventh series) worth Rs.145.14 crore, Rs.97.64 crore and Rs.62.22 crore, which were redeemable in February, March and April 2004 respectively. According to terms and conditions of the issue, the Company had a right to 'call' the entire amount of the bonds in the year 2002. For early redemption of the bonds, the Company was required to notify its intention in newspapers at least two months before the due dates (i.e., in December 2001, January and February 2002 respectively).

Scrutiny in audit revealed that the Company did not exercise the call option in respect of the first two tranches of the bonds[♣] so as to redeem the same in February/March 2002, despite the fact that there was downward trend in rate of interest and funds could be arranged by taking loans from banks or by issuing fresh bonds at lower rate of interest. The Company, as such, has foregone an opportunity to reduce its interest burden and remained liable to pay interest on the bonds worth Rs.242.76 crore[♦] at the rate of 10.50 per cent against the prevailing lower rate of 9.70 per cent[♠] for two years till their redemption in the year 2004.

Thus, the Company had to incur avoidable liability for payment of extra interest to the extent of Rs.3.88 crore due to not exercising the call option for early redemption of the bonds.

While stating that main thrust during the last quarter of the year was on making disbursements, the Management contended (May 2003) that funds amounting to Rs.1713.47 crore were already raised from the market during the last two months of 2001-02 and had the call option been exercised, it would have approached the same investors (banks, financial institutions, mutual funds). They also contended that the rates were ruling high on the dates on which such option could have been exercised.

The contention is not tenable as the Company could avail/issue short-term loans/bonds during the period October 2001 to March 2002 at the rates ranging between 8.50 per cent and 9.70 per cent. Besides, its bonds issue of Rs.200 crore at 9.25 per cent was oversubscribed by Rs.574.97 crore in February 2002. As such, there was no problem in arranging the requisite funds from the market at lower rate of interest.

The matter was referred to the Ministry in May 2003; their reply was awaited (August 2003).

[♣] ***Company exercised (February 2002) call option for redemption of the third tranche of the bonds worth Rs.62.22 crore***

[♦] ***Bond holders encashed bonds worth Rs.2 lakh***

[♠] ***Company allotted bonds in November 2001 at a rate of 9.70 per cent***

Power Grid Corporation of India Limited

15.3.1 Extra expenditure in construction of Kishenpur - Moga Transmission System

Due to avoidable delay of 30 months attributable to inexperience of a foreign contractor, the Company incurred extra expenditure of Rs.217.22 crore on execution of a transmission system. Further, excess capacity created at expenditure of Rs.433.81 crore would remain grossly underutilized in near future owing to non-execution of generation projects.

Power Grid Corporation of India Limited (Company) commissioned (January 2001) Kishenpur - Moga transmission system (KMTS) having two lines of 800 kV each at a total cost of Rs.847.91 crore with an overall cost overrun of Rs.430.20 crore and time overrun of 34 months. Out of this, delay of 30 months was attributable to inexperience of a foreign contractor, which resulted in extra expenditure of Rs.217.22 crore. Besides, excess capacity of 800 kV created at an additional expenditure of Rs.433.81 crore would remain grossly under-utilised for years to come due to non materialisation of expected generation of power as most of the identified generation projects were not taken up for implementation. A review of execution and implementation of the KMTS revealed the following:

Government of India sanctioned (May 1993) the scheme of KMTS at an estimated cost of Rs.417.71 crore with the completion schedule of March 1998. The scheme was conceived to transfer power from various generation projects (Jammu and Kashmir) to the load centre at Moga (Punjab). The Company invited (May 1993) global tenders for pre-qualification and issued (March 1994) tender documents for price bids to six qualified bidders, out of which five bidders submitted their price bids, which were opened in May 1994.

M/s. Cobra* emerged lowest for both the lines of KMTS. Based on pre-qualification and evaluation of bidders, the Company had assessed that M/s. Cobra would not be able to execute both the lines in view of the tower material required for both the lines and 800 kV lines being constructed for the first time in India. Accordingly, the Company recommended award of work for only one line to M/s. Cobra, which was, however, not accepted by the World Bank. So, contracts for construction of both the lines were awarded to M/s. Cobra in February 1995 with the completion schedule of 39 months, i.e., by May 1998.

It is observed that M/s. Cobra had no experience of execution of projects of 800 kV lines and had passed the pre-qualification and bid evaluation stage because no technical scrutiny was made by the Company with respect to weight of the tower. Consequently, there were repeated failures in design and testing of towers, resulting in avoidable delay of 23 months. Further, due to increase in weight of the tested towers up to 46 per cent over the estimated weight, M/s. Cobra demanded compensation for the increase in cost, which led to delay of 7 months. This resulted in total avoidable delay of 30 months in

* *M/s. Cobra Instalactiones Y Servicios, Spain*

completion of KMTS, which increased the project cost by Rs.217.22 crore on account of interest on borrowed funds and escalation in price including exchange rate variation.

Both the lines were commissioned in May 2000 and January 2001 respectively. However, as no generation project except Dulhasti and Chamera (stage II) was taken up for execution, KMTS could not be put to use at its rated capacity and chances for evacuation of power at 800 kV level in near future were remote. In fact, the KMTS was initially to be operated at 400 kV and transmission of power at 800 kV was required only after commissioning of Sawalkot, Baghlihar, Ratle, Dulhasti and Chamera (stage II) generation projects. A World Bank supervision mission had suggested (July 1993) construction of two 400 kV double circuit lines initially instead of two 800 kV lines, so as to defer the 800 kV conversion investment till 2015-20. Nonetheless, the Company went ahead with the construction of two 800 kV transmission lines on the grounds of difficulties in acquiring right of way and prolonged government clearance procedure. Additional cost of construction of two 800 kV lines as compared to two 400 kV lines worked out to Rs.433.81 crore.

The Management stated (May 2002) that no technical compromise was made in adopting qualifying requirement for selection of M/s. Cobra and the delay was not attributable to its inexperience, but to actual failure of towers during testing and limited availability of test beds in India. The Ministry added that overall cost overrun was contributed to factors like change in debt-equity ratio, escalation in price index, etc. Further, while stating that construction of 800 kV lines was a prudent decision in view of severe right of way problem and was not linked to commissioning of all the generation projects, they endorsed the Management's reply that KMTS has improved reliability of the Northorn region grid and as such should be viewed as a system improvement project.

The reply is not tenable as the Central Electricity Authority (CEA) while reviewing the cost and time overrun had, *inter alia*, observed (July 2001) that original design of the firm was substantially below the required level and the firm passed the pre-qualification stage because no technical scrutiny regarding design of the towers was undertaken by the Company. Abnormal increase in the weight of the tested towers was considered by the CEA as the main reason for failure in design. As regards considering KMTS as a system improvement project, benefit stream of KMTS had deviated from the originally envisaged benefit for the investment, as observed by Public Investment Board.

15.3.2 Construction of transmission system much ahead of generation project

Construction of a transmission system much ahead of an associated generation project resulted in idling of the transmission system involving blocking of funds amounting to Rs.148.79 crore and extra expenditure of Rs.17.05 crore.

Power Grid Corporation of India Limited (Company) constructed Ranganadi -Balipara Transmission System (RBTS) much ahead of an associated generation project due to not assessing the anticipated schedule of completion of Ranganadi Hydroelectric Project (RHEP) before awarding work of the transmission system. This has resulted in idling of the transmission system involving blocking of funds amounting to Rs.148.79 crore for

more than four years since August 1998. In addition, the Company had to incur extra expenditure of Rs.15.38 crore on account of interest on borrowed funds, besides expenditure of Rs.1.67 crore towards operation and maintenance of the system during the period from September 1998 to November 2002. Moreover, the Company was also not able to earn revenue during the idle period.

The Company, without assessing status of ground work relating to construction of RHEP, had awarded (October 1992) the work for construction of RBTS. After nine months of the placement of the award, it assessed (July 1993) status of ongoing work of RHEP and noticed that the same would not be commissioned before March 1999. Accordingly, the Company postponed (August 1993) the completion schedule of the RBTS till August 1998. However, as the RHEP could be commissioned in December 2002, the RBTS could not be put to use for more than four years.

The Management stated (May 2003) that they finalised the contract so as to ensure the commissioning of the transmission system matching with that of the generation project as originally planned by NEEPCO*. They also contended that it was not possible to assess the anticipated commissioning schedule of the generation project as data on progress or hindrances in execution thereof was only available with the generation project.

The reply is not acceptable, as the Company could have ascertained the physical progress of work relating to the generation project before placement of letter of award instead of ascertaining the same after nine months of the award. Further, there was a need to share the information with the generation company so as to minimise the mismatch between the transmission and generation projects.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

15.3.3 Irregular payment of ex gratia/special incentive of Rs.17.44 crore

The Company effected irregular payment of *ex gratia*/special incentive amounting to Rs.17.44 crore to its employees whose salary exceeded the limit as stipulated under the Payment of Bonus Act.

Power Grid Corporation of India Limited (Company) paid *ex gratia* amounting to Rs.17.44 crore in the form of special incentive during the last ten years ending 2000-01 to its employees whose salary/wage exceeded the limit prescribed under the Payment of Bonus Act, 1965 (Act), in addition to payment of incentive under the transmission system incentive scheme since April 1994.

According to provisions of the Act and instructions of the DPE, no *ex gratia*/bonus was to be paid by the Public Sector Enterprises to their employees, who were not entitled to payment of bonus/*ex gratia* under provisions of the Act on account of their wage/salary

* ***North Eastern Power Corporation Limited***

exceeding Rs.3500[*] per mensem, unless otherwise authorised under the duly approved incentive scheme.

Thus, the payment of *ex gratia*/special incentives amounting to Rs.17.44 crore to the ineligible employees was irregular and inconsistent with the provisions of the Act as well as the instructions of the DPE.

Ministry, while endorsing reply of the Management, contended (December 2002) that the DPE had concurred with the Company's approach paper[♥] which *inter alia* stipulated that *ex gratia*/special incentive as approved by the Government for employees of NTPC[•] would be applicable to its employees.

The contention is not tenable, as, while approving the approach paper, the DPE had not referred to payment of *ex gratia*. Further, the Act and the DPE's instructions did not permit payment of *ex gratia*/special incentives to the ineligible employees.

Satluj Jal Vidyut Nigam Limited

15.4.1 Avoidable loss due to not insuring infrastructure assets

The Company suffered losses of Rs.3.03 crore due to non-insurance of its infrastructure assets relating to hydroelectric power project.

Satluj Jal Vidyut Nigam Limited, formerly Naptha Jhakri Power Corporation Limited, (Company) has suffered net losses of Rs.3.03 crore due to non-insurance of its infrastructure assets relating to 1500 MW hydroelectric power project being executed on the Satluj river in Himachal Pradesh.

Though hydroelectric power projects are prone to floods and landslides and the Company had started suffering losses due to natural calamities since August 1992, it decided (1994) that there would not be any advantage in insuring its infrastructure assets such as project roads, bridges and buildings. Due to heavy rains and flash floods causing landslides and floods in 1992, 1997 and 2000, the Company suffered extensive damages to its infrastructure assets valuing Rs.5.83 crore. Had the Company taken insurance cover for these assets, it could have minimised loss of Rs.5.83 crore by claiming the same from an insurance company. For insurance of these assets, the Company would have to pay premium of Rs.2.80 crore during the last 15 years ended March 2003. Thus, the Company could have avoided a loss of Rs.3.03 crore by insuring these assets.

[*] ***Rs.2500 prior to 30 August 1995***

[♥] ***The approach paper related to pay-fixation of the employees who joined the Company from the other PSUs.***

[•] ***National Thermal Power Corporation Limited***

The Management stated (May 2002) that the Company took a conscious decision of not taking the insurance policy based on practices adopted by other Public Sector Undertakings after taking into account financial cost of payment of insurance premium and the fact that hardly 50 per cent of the claims lodged by the major contractors of the project were admitted by the insurance companies. Ministry, while endorsing the Management reply, advised (October 2002) the Company to review the need for acquiring insurance cover for specific infrastructure assets from time to time.

Reply of the Management is not acceptable, as notwithstanding the practice in other PSUs, the Company should have relied on its own experience of encountering heavy rains and flash floods, especially when chances of losses due to such eventualities are more in the hydroelectric power projects. Further, it cannot be generalised that only 50 per cent of the amount of claims would be admitted by the insurance company, as the claims are settled on merit.

Tehri Hydro Development Corporation Limited

15.5.1 Blockade of funds

The Company purchased land in 1990 for Rs.40 lakh to construct their office complex. Twelve years later, its utilisation is still to be done with no plans for future use also. Resultantly Rs.40 lakh stands blocked with consequential loss of interest of Rs.74.77 lakh up to March 2003.

Board of Directors of the Company approved (August 1989) a proposal for the purchase of a plot of land near Delhi for construction of liaison office of the Company in order to have liaison with Ministries/Departments of Central Government located in New Delhi. Accordingly a plot measuring 748.08 square metre in Kaushambi Commercial Area was purchased from Ghaziabad Development Authority (GDA) for Rs.33 lakh and possession was taken in August 1990. The Company further spent Rs.7 lakh towards registration charges, erection of temporary structure and preparation of structural drawings to be submitted to GDA. As per the terms of lease deed, the Company should have completed the construction by August 1993 which was extended up to 15 May 1994. Further the Company can neither dispose of the land nor utilise the same for any other purpose.

The Company, however, did not construct its liaison office even after the expiry of 12 years (September 2002). The Company continues (September 2002) to operate its liaison office from the Corporate Office at Noida which is in a rented building.

Ministry stated (November 2002) that it purchased the land with a view to construct its own office but could not complete due to non-availability of infrastructure viz. road, telephone, electricity, etc. and also due to non approval of the layout and building plans by GDA.

The reply of the Ministry is not only an afterthought but also not tenable because as early as in June 1996 in an internal note while soliciting administrative approval for the construction of building, the Company stated that such infrastructure facilities were already existing in the area and also in view of the development of nearby sites by GDA

chances of further improvement in the complex as well as nearby areas was quite bright. It was also expected by the Company that within a period of one year (by which time the Company may be able to complete the construction) all the infrastructural/support facilities would be available in the complex/nearby areas. As far as the approval of the layout and building plans by GDA, the Company has not pursued the matter with GDA. It was only after the matter was pointed out by Audit in July 2002, the Management constituted a committee consisting of executives to assess the feasibility of construction of building for office purpose and/or use of the plot for any other purpose. The Company should have taken this decision before purchasing the plot.

Thus, purchase of land without visualising its utility and without having any plan for future use resulted in blocking up of funds of the Company amounting to Rs.40 lakh with consequential loss of interest amounting to Rs.74.77 lakh up to March 2003.

CHAPTER 16: DEPARTMENT OF PUBLIC ENTERPRISES

16.1.1 Irregular expenditure of Rs.16.96 crore on foreign travel

Failure of seven Companies to regulate foreign travel claims of the employees in accordance with the instructions of the Department of Public Enterprises resulted in irregular payment of Rs.16.96 crore to the employees.

With a view to bringing about economy in expenditure on foreign travel by the officers of the Public Sector Undertakings (PSUs), the Department of Public Enterprises (DPE) issued (September 1995) instructions according to which the consolidated amount paid in respect of foreign travel as per the guidelines of the Reserve Bank of India (RBI) was to cover room rent, taxi charges, entertainment, official telephone calls and other contingent expenditure apart from daily allowance. This consolidated amount was only an upper limit of foreign exchange one could draw and was not one's entitlement. On return from tour, the officials were required to render accounts for all items of expenditure other than daily allowance (DA) prescribed by the Ministry of External Affairs.

A scrutiny of foreign travel cases of the officials of seven Companies• for the period from October 1995 to March 2003 revealed that these Companies admitted claims amounting to Rs.16.96 crore without supporting vouchers in contravention of DPE instructions as detailed below:

(Rs. in crore)

Name of the Company	Irregular expenditure on foreign travel admitted by the Companies in contravention of DPE instructions	Period of claim by the Officials
ITPO	8.49	September 1995 to March 2003
SCI	1.90	May 1997 to March 2003
IRCON	1.77	April 1997 to March 2002
HAL	2.32	April 1998 to March 2003
PEC	0.98	April 1999 to March 2003
BEML	0.81	October 1995 to June 2002
BEL	0.69	October 1995 to December 2002
Total	**16.96**	

• ***India Trade promotion Organisation (ITPO), Shipping Corporation of India Limited (SCI), IRCON International Limited (IRCON), Hindustan Aeronautics Limited (HAL), PEC Limited (PEC), Bharat Earth Movers Limited (BEML) and Bharat Electronics Limited (BEL)***

Management of ITPO admitted (February 2000) that it had not complied with DPE guidelines. Ministry of Commerce stated (November 2001) that the Company allowed reimbursement of charges of conveyance, telephone etc. on the basis of self-authentication of the officers as employees faced difficulty in obtaining supporting bills/vouchers. Contention of the Ministry overlooks the fact that difficulty to obtain vouchers to support a claim should not lead to circumvention of the requirement altogether.

In case of SCI the Ministry of Shipping in their reply (September 2002) confirmed the payment of taxi fares and telephone calls on the basis of certification by the employees.

Management of IRCON stated (April and June 2002) that it was not practicable to obtain vouchers for all the items and accordingly a simplified system of giving declaration by the employees was adopted. They further contended that strict economy was maintained in foreign travel allowances, as the rates of DA allowed were lower than those of the RBI. The reply is not tenable as allowing the expenses without insisting upon rendering of vouchers was against the spirit of the DPE's instructions as well as established accounting principles. Further, the RBI had only prescribed the maximum ceiling limit up to which foreign currency could be released to an officer on business tour and the foreign travel allowances to the officials of the Company were governed by the DPE's instructions. The matter was referred to the Ministry of Railways in May 2002; their reply was awaited (August 2003).

In case of HAL the Ministry of Defence stated (July 2002) that DPE instructions of September 1995 addressed to Secretaries were not referred to the Company by the Ministry and the Company framed rules on DA for foreign tour abroad within the framework of RBI guidelines. The reply is not tenable as the Ministry had failed to refer DPE instructions to the Company for compliance. Besides, RBI instructions envisage the procedure for release of foreign exchange. The claims of the officials on foreign tour are, however, to be regulated as per instructions of the DPE.

Management of PEC stated (January 2003) that the basic objective of DPE instructions was to bring about transparency in the total expenditure incurred by the officials of the PSUs, the only requirement of these instructions being to put down the expenditure incurred by the officials in writing. They also contended that the office order issued by the Company in this regard was in accordance with the instructions of the DPE and production of vouchers was, thus, not insisted upon. The reply of the Management is not tenable as the Company in all cases paid remaining amount over and above the entitled amount towards official calls, faxes, entertainment, local conveyence etc. without any further details and thus, violated the instructions of the DPE. The matter was referred to the Ministry of Commerce in June 2003; their reply was awaited (August 2003).

Management of BEML stated (June 2003) that there was no contradiction of DPE instructions as officials on return were filing certified expenses reports and rates of daily allowance fixed were within limits prescribed by the RBI. As per DPE instructions officials have to render accounts only and not to produce supporting vouchers. The reply

of the Management is not acceptable as the Company revised (June 2003) its foreign travel rules in accordance with DPE instructions which implied that the claims earlier admitted by the Company were in violations of the DPE instructions. The matter was referred to the Ministry of Defence in July 2002; their reply was awaited (August 2003).

Management of BEL stated (August 2002) that although RBI guidelines provide for consolidated payment up to US$ 500 in respect of foreign travel, the Company had fixed lower rates ranging from US$ 210 to US$ 350 for different categories of officials. It further added that the Company insisted on the expenditure on accommodation to be supported by vouchers to the extent of 40 per cent and out of the balance 60 per cent, the officials were to meet their food charges, local transportation etc. In addition, Management also stated that the DPE instructions did not insist on submission of vouchers and expressed the practical difficulty in obtaining vouchers for other expenses. Ministry of Defence while endorsing the views of the Management stated (August 2003) that the Company was instructed (May 2002) to revise the guidelines in confirmity of DPE instructions.

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

- the RBI instructions envisage the procedure for release of foreign exchange for travel abroad and maximum quantum of foreign exchange that could be drawn per day;
- the rates allowed by the Company were higher than MEA rates as such vouchers should have been obtained for excess amount paid in comparison to MEA rates; and
- DPE instructions clearly stipulate that employees should render account on return from tour for all items (other than DA at MEA rates) which tantamount to submission of vouchers in support of expenses incurred.

16.1.2 Extra financial burden on non-viable Companies of Rs.16.68 crore due to increase in age of retirement

Six Companies had had to bear an extra financial burden of Rs.16.68 crore due to enhancement of retirement age from 58 years to 60 years during the period from May 1998 to February 2002.

Department of Public Enterprises (DPE) announced (May 1998) enhancement in the retirement age of employees of Public Sector Enterprises (PSE) from 58 years to 60 years. DPE further directed (August 1998) that in case any administrative Ministry or PSE did not want to increase the age of retirement of its employees specific exemption

from the operation of the decision would be necessary. Six Companies[♣] enhanced the age of retirement from 58 years to 60 years with effect from 30 May 1998[•]

Prior to the enhancement in retirement age the Companies (except HDPEL) had become sick and Board for Industrial and Financial Reconstruction (BIFR) had approved a rehabilitation scheme which *inter alia* provided for rationalisation of surplus manpower by introducing Voluntary Retirement Scheme (VRS). All the six Companies already had a VRS scheme in operation with an objective of reducing the surplus manpower. Despite this, they did not approach the Government for seeking an exemption from the enhancement in the retirement age even after the Government clarification of August 1998.

The Companies had to incur an avoidable expenditure of Rs.16.68 crore (Rs.13.44 crore towards additional retirement benefits to its employees who opted for VRS and Rs.3.24 crore as additional two years' salary to employees who did not opt for VRS) as per details given below:

(Rs. in crore)

Name of the Company	Additional benefits to the employees who opted VRS	Additional two years salary to the employees who did not opt VRS	Total
TSL	6.97	0.38	7.35
BP and CL	2.51	0.61	3.12
HDPEL	1.58	0.15	1.73
BCPL	1.34	0.29	1.63
SIL	0.92	0.62	1.54
BIL	0.12	1.19	1.31
Total	**13.44**	**3.24**	**16.68**

The extra financial burden was incurred by the six Companies as under:

Name of the Company	Period of incurring extra financial burden
TSL	May 1998 to April 2001
BP and CL	May 1998 to April 2001
HDPEL	July 1998 to August 2001
BCPL	June 1998 to January 2001
SIL	June 1998 to February 2002
BIL	June 1998 to July 2001

[♣] ***Bengal Chemicals & Pharmaceuticals Limited (BCPL), Bengal Immunity Limited (BIL), Bharat Pumps and Compressors Limited (BP and CL), Hooghly Dock & Port Engineers Limited (HDPEL), Scooters India Limited (SIL) and Triveni Structurals Limited (TSL).***

[•] ***June 1998 in case of SIL***

However, belatedly the Companies rolled back the retirement age from 60 years to 58 years.

In case of TSL and 'BP and CL' the Ministry of Heavy Industries stated (October 2002) that the decision of Government of India was for strict compliance by the Company and it had no option but to carry out the same. The reply is not tenable because the Company being financially sick, its turnaround strategy largely depended on reduction of surplus manpower and related costs. The Company/Ministry should have sought specific exemption from the application of enhanced retirement age for the employees of the Company at least on receipt of clarification from DPE in August 1998.

Management of HDPEL stated (May 2003) that they could not implement such a vital decision of roll back of retirement age without the consent of the Administrative Ministry whereas the Ministry of Shipping accepted (June 2003) that the Company did not take any action on the DPE's order dated 21 August 2003.

Management of BCPL /Ministry of Chemicals and Fertilizers stated (April/July 2003) that the Company had merely implemented increase in age of retirement as per policy decision of the Government. The reply is not tenable because the Company being financially sick, its turnaround strategy largely depended on reduction of surplus manpower and related costs.

In case of SIL the Ministry of Heavy Industries stated (August 2002) that the Company had after the implementation of the BIFR sanctioned scheme turned around and had been earning profit since 1996-97. The retirement age was enhanced as per general decision applicable to all PSUs and no discretion was available with the Company at that time. The reply is not tenable because the profit after the enhancement of retirement age in 1998-99 had reduced to almost half of that earned in 1997-98. Moreover, the production level has not been achieved as envisaged in the scheme. The Company / Ministry should have, therefore, sought specific exemption from the application of enhanced retirement age for the employees of the Company at least on receipt of clarification from DPE in August 1998.

Management of BIL /Ministry of Chemicals and Fertilizers stated (April/June 2003) that the Company had merely implemented increase in age of retirement as per policy decision of the Government. Besides this, the Company stated that it did not receive the August 1998 communication of DPE advising to seek exemption from the operation of higher retirement age. The reply is not tenable because the Company being financially sick, its turnaround strategy largely depended on reduction of surplus manpower and related costs. The Company has also been advised to offer Voluntary Separation Scheme (VSS) to its employees, as the Government has decided (June 2003) to close the Company.

16.1.3 Excess payment of Rs.5.33 crore due to incorrect regulation of leave encashment

Three Companies made excess payment of Rs.5.33 crore due to adoption of 26 days as a month instead of 30 days for the computation of encashment of earned leave.

As per the instructions issued by the Department of Public Enterprises (DPE)* any individual public enterprise may frame leave rules for its employees keeping the broad parameters of the policy guidelines laid down in this regard by the Government. Accordingly, the State Trading Corporation of India Limited, PEC Limited and MMTC Limited enhanced the ceiling of accumulation of earned leaves from 180 days to 240 days in 1986 and to 300 days in 1998 in line with the Central Civil Services (Leave Rules) 1972.

Although no such provision existed in the Central Civil Services (Leave Rules) 1972, Management of these Companies adopted 26 days as a month for encashment of leave instead of 30 days without the specific approval of their Board of Directors. Adoption of 26 days as a month allowed the employees the monetary benefit of encashment of leave equivalent to 346 days instead of 300 days. Thus, the Management of these Companies violated the instruction of the DPE in both letter and spirit. Consequently, three Companies made an excess payment of Rs.5.33 crore as detailed below.

(Rs.in crore)

Sl. No.	Name of the Company	Amount of irregular expenditure	Period of irregular expenditure
1.	MMTC Limited	1.80	April 1999 to March 2002.
2.	The State Trading Corporation of India Limited	2.95	July 1993 to March 2003.
3.	PEC Limited	0.58	July 1993 to March 2003
	Total	**5.33**	

Management of the Companies stated (February/March/June 2003) that they had changed the method of computation because (i) in the computation of gratuity as 26 days is reckoned as a month, (ii) other PSUs also follow similar practice and (iii) to make VRS more attractive.

Contention of the Managements is not tenable, as separate set of rules exists for encashment of leave, which is different from the Gratuity Act, 1972 Managements should not have departed from the extant practice without a considered decision of the Board. Further, while DPE has allowed PSUs to frame rules to make VRS attractive with the approval of the administrative Ministries, Managements' decision to allow encashment of leave with additional benefit not contemplated in the overall policy of the Government, for serving as well as superannuating employees was unwarranted.

* *Issued in April 1987*

Thus, change in the method of computation of the encashment of earned leave resulted in irregular payment of Rs.5.33 crore.

The matter was referred to the Ministry of Commerce in June 2003; their reply was awaited (August 2003) in respect of The State Trading Corporation of India Limited and PEC Limited. In respect of MMTC Limited, the Ministry endorsed (August 2003) the reply of the Management.

CHAPTER 17: MINISTRY OF RAILWAYS

IRCON International Limited

17.1.1 Irregular and extra payment of compensation

The Company paid compensation to the extent of 75/90 days to its employees opting for VRS against the ceiling of 60 days salary as fixed by the DPE. This resulted in an irregular and extra payment of compensation to the extent of Rs.2.83 crore.

IRCON International Limited (Company) adopted (April 2000) a Voluntary Resignation Scheme applicable to regular as well as *ad hoc* employees for payment of compensation up to 150 day's salary for each year of service rendered or salary for number of months of service left, whichever is less. The scheme was, however, implemented by granting compensation up to 75 days salary because of non-availability of income tax exemption for 150 days.

In the meantime, Government of India, Department of Public Enterprises (DPE) announced (5 May 2000) a revised Voluntary Retirement Scheme (VRS) for Public Sector Undertakings (PSUs), which allowed financially sound enterprises to devise and implement variants of their VRS. The DPE, however, made it clear that in no case would the compensation exceed 60 days salary for each completed year of service or salary for the number of months of service left, which ever is less. While the PSUs were required to implement the VRS with the approval of the administrative Ministry, the latter has to ensure that the same was strictly in accordance with the DPE's instructions *ibid.*

However, Board of Directors (BOD) of the Company decided (July 2000/October 2001) not to adopt the DPE's instructions of May 2000 by stating that it did not affect its Voluntary Resignation Scheme, as the Company, having been conferred a mini-ratna status, could structure and implement its VRS, without the approval of the administrative Ministry. In fact, it further increased (June 2002) the amount of compensation to 90 days salary for each completed year of service.

Accordingly, the Company paid compensation of Rs.9.03 crore (based on 75/90 days salary) to its employees who availed VRS during the period from May 2000 to December 2002 against the maximum admissible compensation of Rs.6.20 crore (based on the ceiling of 60 days).

Management contended (September 2002) that decision for payment of higher compensation was taken by the BOD after taking into consideration the enhanced autonomy granted to the profit-making PSUs vide the DPE's OM dated 9 October 1997.

The contention is not tenable as the DPE's instructions of May 2000 were applicable to all the PSUs including financially sound enterprises. Notwithstanding its mini-ratna status, the Company was required to frame its VRS in accordance with the provisions specified therein and implement the same with the approval of the Ministry.

Thus, the Company made an irregular and extra payment of compensation to the extent of Rs.2.83 crore in contravention of the DPE's instructions.

The matter was referred to the Ministry in March 2003; their reply was awaited (August 2003).

CHAPTER 18:MINISTRY OF SHIPPING

Cochin Shipyard Limited

18.1.1 Avoidable loss due to payment of excess liquidated damages

The Company did not take due care at the time of finalisation of the agreement in inclusion of the liquidated damages clause on weekly basis, which resulted in excess payment of liquidated damages of Rs.1.40 crore.

Cochin Shipyard Limited (Company) completed the major lay-up repairs job to Jack Up Rig 'SAGAR GAURAV' (Rig) of M/s. Oil and Natural Gas Corporation Limited (ONGC) by 15 February 1999 against the scheduled date of 30 November 1998. The job was completed after a delay of 77 days and at a total cost of Rs.51.92 crore, which included Rs.31.25 crore for value of repairs. ONGC recovered liquidated damages (LD) of Rs.3.12 crore in accordance with contractual terms, which provided payment of LD for delay at the rate of ½ per cent per day, subject to a maximum of 10 per cent of the total value of the contract.

Scrutiny of similar contracts entered into with ONGC revealed that the LD leviable was ½ per cent per week instead of per day as was agreed to in this particular agreement. Had the Company taken due care at the time of finalisation of the agreement as to the inclusion of the LD clause on weekly basis as per prevalent practice it would have paid only Rs.1.72 crore against Rs.3.12 crore, which resulted in avoidable loss of Rs.1.40 crore.

Management stated (May 2003) that all the clauses in the contract were drawn and drafted by the ship owners (ONGC in the instant case) and usually concurred by it. It further contended that the amount recovered by ONGC as LD was less than the ceiling amount payable as per the contract.

The reply is in itself an acceptance of the lackadaisical attitude of the Management in signing the high value contracts. The fact remains that inclusion of LD clause in the agreement based on weekly basis would have reduced the burden to a great extent. In a reference (May 2000) to ONGC for waiver of LD, the Company accepted that wrongly worded LD clause of ½ per cent per day instead of per week was included in the agreement by oversight, however, the ONGC declined (July 2000) to deviate from the terms of the agreement.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

Dredging Corporation of India Limited

18.2.1 Infructuous expenditure of Rs.129.72 crore in procurement of dredger-XVI and XVII

The failure of the Company for not considering the competitive offer of IHC, Holland of November 1996, resulted in an extra avoidable expenditure of Rs.129.72 crore.

The Company placed (April 1999) two orders on IHC Holland at a total price of Rs.338.92 crore for supply of dredgers-XVI (Rs.173.23 crore) and XVII (Rs.165.69 crore) both with Shore Pumping Arrangement (SPA). The dredgers were delivered in February 2001 (dredger-XVI) and July 2001 (dredger-XVII). Earlier, the Company had placed (December 1996) an order for supply of one Trailer Suction dredger (TSD) with hopper capacity of 7,400 cubic metre (dredger-XV) at a price of Rs.141.33 crore on the same firm. The price included an element of 40 per cent grant from Government of Netherlands provided to the Company through Government of India. The order became effective on payment of first stage payment in June 1997 and the dredger was delivered as per schedule in April 1999.

The Board of Directors had approved (August 1996) procurement of two more dredgers viz. XVI and XVII and IHC, Holland also approached (November 1996) the Company (through the Ministry of Surface Transport) with an expression of interest to supply one or two dredgers of similar capacity at the same price of dredger-XV with 40 per cent grant element. The Company, however, did not consider placement of the order for dredgers-XVI and XVII along with the order placed (December 1996) for the dredger-XV on IHC, Holland. Instead, it initiated (May 1997) separate procurement action and decided (August 1997) to go for SPA for both the dredgers. The price bid of IHC, Holland was again the lowest technically acceptable bidder.

But this time the price bid of the supplier was substantially high. Even after excluding the price of the two SPA, the price of the two dredgers XVI and XVII worked out to Rs.299.32 crore (Rs.338.92 crore minus Rs.39.60 crore), as compared to the initial offer made (August 1996) by IHC, Holland at Rs.282.66 crore. Further, as the Government of Netherlands withdrew the terms for release of grant in 1998, 40 per cent grant was also not available anymore. Thus, the Company incurred avoidable expenditure of Rs.129.72 crore (in higher price of Rs.16.66 crore and in foregoing 40 per cent grant of Rs.113.06 crore) due to its decision to ignore the offer of IHC, Holland of November 1996.

Management stated (May 2003) that the market price of the dredger was required to be established through global tendering because (a) the acquisition of dredger XV was based on single tender and (b) procurement of dredgers XVI and XVII involved double the quantity of earlier purchase with additional specification and consequent higher financial implications. As for the grant, it was not certain whether Government would pass on the benefit of grant to the Company.

Management's reply is, however, not tenable due to following:

- Company's contention that IHC's offer for dredger XV itself was a single tender is not correct as seven bids were received against the global tender enquiry.

- Supplier's offer of November 1996 was a competitive bid and it was willing to supply two more dredgers at the prices and terms already established through an international competitive bidding process. As for additional scope, SPA is an add-on facility and did not enhance the scope of supply.

- As regards transfer of grant from the Government of India to the Company, there was no basis to assume that the Government would not transfer the grant. Even in case the grant received by the Government was not passed on to the Company, it would have been availed by the Government of India and as such the Company and/or the Government of India would have not been deprived of the external assistance in the form of grant.

Thus, the decision of the Management in not considering the competitive offer of IHC resulted in the Company incurring avoidable expenditure of Rs.129.72 crore.

The matter was referred to the Ministry in June 2003; their reply was awaited (August 2003).

18.2.2 Avoidable expenditure of Rs.2.88 crore in dry-docking of dredger-XI

The failure of the Management to carryout basic cost benefit analysis before placing the order for repair of dredger-XI resulted in avoidable expenditure of Rs.2.88 crore.

The Company incurred additional expenditure of Rs.50.51 lakh on the repair of dredger-XI and sustained a loss of Rs.2.37 crore due to idling of the dredger for 11 days at Goa and Cochin and additional 15 days taken for repairs during the period from September to December 1998. The ratification of the lapse was, however, obtained from the Board in April 2000.

Dredger-XI was due for repairs by May 1998. The Director General, Shipping gave extension up to end of September 1998. The Company placed (10 September 1998) a firm order for the repair of dredger-XI on M/s. Western India Shipping Limited (WISL), Goa on the basis of totality of costs i.e. costs including loss of revenue due to voyage and repair periods. The repair work was to be completed within 40 days from the berthing of the dredger at a price of Rs.4.06 crore. Any delay in completion attracted liquidated damages (LD). The dredger-XI was berthed at WISL's yard on 15 September 1998. The Company, however instructed (17 September 1998) the master of the dredger to box up the machinery already dismantled and shifted the dredger to Marmugoa Port (MGPT) for carrying out maintenance dredging work. It intimated (18 September 1998) WISL not to take any action against their work order until further instructions. The dredging work at MGPT started on 21 September and, as such the dredger was idle for 5 days from 16 September to 20 September 1998.

The Company requested (17 September 1998) Cochin Shipyard Ltd (CSL) to submit their time and cost estimates for dry-docking the dredger-XI for which CSL quoted Rs.5.27 crore with a completion period of 75 days commencing from 12 October 1998. It also expressed its inability to accept the unlimited LD clause. WISL offered (25 September 1998) to allot dry dock slot from 14 October 1998. The Company, however, placed order on CSL ignoring its price element which was higher by 30 per cent and completion time which was more by 35 days as compared to that of WISL. The Company berthed the dredger-XI at CSL yard at Cochin on 6 October 1998 by sailing from MGPT although slot was allotted from 12 October 1998. As a result the dredger remained idle for 6 days at Cochin from 6 October to 11 October 1998. The Company decided to restrict the repair work to 50 per cent of the ordered scope due to labour unrest at CSL's yard. This reduced repair work was completed by CSL in 55 repair days from 14 October 1998 to 7 December 1998 against the completion period of 40 days for the entire scope work as agreed to by WISL. Thus, the Company suffered an avoidable loss of Rs.2.88 crore in dry docking of dredger-XI.

The Management in its reply (July 2003) confirmed the above facts.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

18.2.3 Avoidable loss of Rs.2.85 crore due to short billing on the dredgers deployed with Kolkata Port Trust

The failure of the Company in raising the supplementary bills for difference between the old rates and new rates for the dredgers deployed in April/May 2000 resulted in avoidable loss of Rs.2.85 crore.

Company deployed dredgers in April and May 2000 and billed Kolkata Port Trust (KPT) for Rs.27.29 crore at day rates agreed in the minutes of the meeting (MOM) for 1998-2000 and Rs.2.79 crore towards fuel escalations charges. The Company, however, did not raise supplementary bills for the difference between the old rates and the new rates resulting in short billing of Rs.2.85 crore.

Company has been deploying four to five dredgers for KPT. The rates for deployment of dredgers and other terms and conditions were decided by mutual agreement and recorded in MOM which had the force of a contract. If the MOM is not signed before the expiry of the contract period, the Company raises provisional bills at rates provided in the previous MOM and subsequently raised supplementary bills for the differential amount based on the new rates signed in subsequent MOM. The Company signed (October 1998) a MOM with KPT for the two years period from 1 April 1998 to 31 March 2000 which stipulated day rates for dredgers. The Company signed (May 2000) the MOM for the following two year period i.e., 1 April 2000 to 31 March 2002, which provided dredging rates based on cubic meters (unit rate) and day rates for emergency deployment of dredgers. The unit rates were effective from 1 June 2000.

Management stated (March/July 2003) that the MOM with unit rates became effective from June 2000 and the deployment of dredgers in April – May 2000 was in continuation of deployment as per earlier contract viz. 1998-2000, which provided for escalations taking the base date as 1 April 1998 and the daily rates for possible emergency use of dredgers indicated in the MOM for 2000-02 cannot be treated as daily hire charges for raising the bills of April and May 2000.

The contention of the Management is not tenable in view of the following:

- Though the unit rates were effective from 1 June 2000, in terms of the MOM the rates for 2000-2002 were effective from 1 April 2000.

- There was no extension of the earlier contract.

- While deploying the dredgers beyond the contractual period of 1999-2000, the Company clearly indicated to KPT (April 2000) that the dredging work being continued beyond 1 April 2000 at the rates of 1998-2000 would be subject to raising differential dredging charges as and when finalised.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

18.2.4 Avoidable expenditure of Rs.2.41 crore on borrowing of funds

The failure of the Company for borrowing the funds without assessing its surplus funds invested in term deposit at lower interest rate resulted in an additional expenditure of Rs.2.41 crore.

The Company contracted (October 2000) a term loan of Rs.85.50 crore carrying interest of 12 per cent per annum for part funding the dredger-XVII procurement without considering its own funds amounting Rs.115.63 crore held in term deposits carrying interest @ 6.5 to 12 per cent per annum. Of this, the Company drew Rs.60 crore (16 November 2000) and Rs.12 crore (17 April 2001) restricting the loan availed to Rs.72 crore. In terms of the loan agreement, the loan was repayable in 17 equated semi annual instalments. The company paid two instalments of principal of Rs.8.48 crore (due on 31 December 2001 and 30 June 2002) and interest of Rs.13.22 crore as per term of the contract. However, taking into consideration the low interest rates on deposits, it decided (June 2002) to short close the loan and accordingly repaid (2 July 2002) balance of Rs.63.52 crore loan outstanding as at 30 June 2002 by mobilising Rs.64 crore through premature closure of the term deposits.

Management on one front, failed to factor in payment for dredger XVII while assessing the surplus funds in October/November 2000 and paid interest on loan taken for dredger XVII at 12 per cent, while it earned interest @ 6.5 to 12 per cent on the "surplus" funds it held in term deposits. On the other hand, it contravened Government of India's guidelines issued (December 1994) for investment of surplus funds, which stipulate that such

investment decision should be based on sound commercial judgement, and that a PSE should not invest funds while it resorts to borrowing at an equal or higher rate of interest for its requirements during the same period of time. Resultantly, the Company incurred a loss of Rs.2.41 crore, being the difference of interest paid on term loan as compared to average yield on its term deposits for the period from November 2000 to July 2002.

Management stated (July 2003) that if the Company had not drawn the loan of Rs.60 crore during November 2000, it might have been forced to resort to short tem borrowing to meet the working capital requirement and such cost of funding would have been higher than 12 per cent per annum.

Management's reply is, however, not tenable due to the following:

- The contention that not drawing loan of Rs.60 crore would have necessitated short term financing at interest rates higher than 12 per cent is incorrect as the amounts held in term deposits were the surplus funds arrived at after considering all the projected short term and working capital requirements.

- As per Company's records, during the entire period from 16 November 2000 to 2 July 2002, the surplus funds held in term deposits were much higher than Rs.60 crore and interest earned on such deposits ranged between 6.50 per cent to 12 per cent as against the interest rate of 12 per cent paid on the term loan.

Thus, the Company incurred an additional expenditure of Rs.2.41 crore by part financing purchase of dredger-XVII from funds borrowed at higher interest rate while its own surplus funds were invested in term deposits at lower interest rate.

The matter was referred to the Ministry in July 2003; their reply was awaited (August 2003).

The Shipping Corporation of India Limited

18.3.1 Loss on conversion of a vessel and its idling

Conversion of a Very Large Crude Carrier as Floating Product Storage Tanker without any written agreement for its employment by Oil Co-ordination Committee and its subsequent idling resulted in avoidable expenditure of Rs.5.49 crore.

Company's vessel MT Kanchanjunga, a Very Large Crude Carrier (VLCC), was in service with Oil Co-ordination Committee (OCC) on time charter at US$ 25,000 per day. On an enquiry from OCC in November 1997, the Company offered (January 1998) to convert the VLCC as a Floating Product Storage Tanker (FPST) at Kandla. Although no written acceptance was received from OCC, Company converted (March 1998) the VLCC as a FPST at a cost of Rs.2.27 crore (including Rs.1.24 crore as standing charges).

As OCC did not accept the vessel immediately either as FPST or as crude carrier, it idled for 40 days until 2 May 1998 entailing further standing charges of Rs.3.22 crore.

The Company's claim of Rs.2.27 crore towards cost of conversion and Rs.3.22 crore towards standing charges was disallowed by OCC/IOCL.

Thus, conversion of the VLCC as FPST without any written agreement for its employment by OCC and its subsequent idling resulted in avoidable expenditure of Rs.5.49 crore.

In response the Ministry stated (August 2002) that:

- OCC had suggested to SCI that it may charter M T Kanchanjunga for floating storage of HSD[♣] off Kandla Vadinar, subject to negotiation of rates and they had also agreed to charter the VLCC for a period up to five years.

- Nowhere did OCC take a stand that the conversion was done by the Company without their authorisation and the cost would be reimbursed.

- Being a commercial undertaking, the Company had to undertake some amount of prudent risks and consider various alternatives available to it in order to optimise their profits.

The reply of the Ministry is not tenable as:

- The Company before converting the VLCC, as FPST should have obtained firm written commitment from OCC because that would have given the Company legal right to claim the amount lost from OCC on the latter's backing out.

- The contention of the Ministry that nowhere had OCC taken a stand that conversion was done without their authorisation is not tenable as Company's claim of Rs.2.27 crore towards cost of conversion and Rs.3.22 crore towards standing charges was disallowed by OCC/IOC.

- Deviation from extant procedures, which protect the Company's financial interest, cannot be justified on the premise of maximising profits.

[♣] ***High Speed Diesel***

CHAPTER 19: MINISTRY OF SMALL SCALE INDUSTRIES AND AGRO AND RURAL INDUSTRIES

Andaman and Nicobar Islands Integrated Development Corporation Limited.

19.1.1 Idle investment of Rs.34.83 lakh

Decision of the Company to develop cold storage at a disadvantageous location without having the facility of an attached ice plant led to an idle investment of Rs.34.83 lakh.

Andaman and Nicobar Islands Integrated Development Corporation Limited (Company), constructed a cold storage at Wandoor in December 1998 at a total cost of Rs.34.83 lakh, which could not be utilised till 31 March 2003 due to locational disadvantage and non availability of an ice plant at convenient distance.

Based on the feasibility report conducted by the Marine Products Export Development Authority (MPEDA) the Company constructed the cold storage with a view to develop small scale fisheries in the islands. The objective was to create a transit chilled storage facility of 5 MT in order to procure the fish at Wandoor and its subsequent processing by Andaman Fisheries Limited (AFL), a subsidiary of the Company. Being unable to utilise the cold storage, the Company leased it out to AFL in July 1999 at the rate of Re.1 for every Kilogram of fish product processing and stored in the cold storage. It, however, remained unutilised due to locational disadvantage and non-availability of ice plant, rendering the entire expenditure of Rs.34.83 lakh idle.

Management/Ministry while accepting (June/July 2003) the audit comment tried to blame the defective techno economic survey conducted by MPEDA but failed to explain why a cold storage plant site was chosen both far from the fish landing site and from an ice procurement plant which itself was 10 km away.

CHAPTER 20: MINISTRY OF URBAN AFFAIRS & POVERTY ALLEVIATION

Delhi Metro Rail Corporation Limited

20.1.1 Non-preparation of detailed estimates

In the absence of detailed estimates, the Company did not carry out an item-wise analysis so as to ensure reasonableness of rates. A comparison of the rates allowed to the contractor with those for similar contracts awarded subsequently revealed that the former were higher to an extent of Rs.10.91 crore.

Delhi Metro Rail Corporation Limited (Company) estimated a cost of Rs.35 crore for construction of a portion of viaduct on Shahdara-Tis Hazari section, based on design developed by its consultant and assumptions made in detailed project report. However, the Company did not prepare detailed estimates for analysing and evaluating the rates quoted by the bidders.

Accordingly, an item-wise analysis of the bids received from three bidders was not carried out so as to ensure reasonableness of rates and to arrive at a fair conclusion on award of the work. The Company awarded (November 1998) the work to M/s. Larsen & Tubro Limited (L&T) at a cost of Rs.36.20 crore.

A comparison of the rates for major items of work allowed to L&T with those for similar contracts subsequently awarded in February 2000 and January 2001 revealed that the item rates accepted were higher, which has total impact of Rs.10.91 crore.

Thus, due to non-preparation of detailed estimates and critical analysis of item-wise cost of the work involved, the Company failed to adjudge properly the rates allowed to L&T.

While admitting that detailed estimates were not prepared and rate-wise analysis was not carried out, the Management stated (March 2002) that reasonableness of the rates was examined before finalising the tender. Ministry added (July 2002) that preparation of estimates would in no way influence the outcome of tender.

The contention of the Management/Ministry is not tenable as detailed estimates serves as a tool for ensuring reasonableness and competitiveness of the rates to be paid. Further, in the absence of item-wise estimated rates, as acknowledged by the Management, reasonableness of the accepted rates itself could not be ascertained.

National Buildings Constructions Corporation Limited

20.2.1 Avoidable payment of guarantee fee

Failure of the Company to realistically estimate the guarantee to be taken from Government led to an avoidable payment of guarantee fee to the extent of Rs.1.48 crore.

With a view to reducing the time lag between the issue of specific guarantee by the bank and the corresponding counter guarantee of the Government of India (GOI) for the overseas construction contracts, National Buildings Construction Corporation Limited (Company) obtained (May 1997) an omnibus guarantee from Government of India for an amount of Rs.50 crore (25 per cent of the estimated overseas contracts worth Rs.200 crore). The guarantee was initially taken for a period of three years carrying a guarantee fee @ 1 per cent per annum on the total amount. The same was got extended (October 1999) for another three years up to May 2003 with an annual liability of Rs 50 lakh.

However, the Company participated in 15 contracts valued at Rs.631.40 crore but managed to win only three contracts worth Rs.34.78 crore during the period of six years from 1997-98 to 2002-03. As a result the Company could utilise guarantee only to the extent of Rs.12.20 crore♣. Considering the gross under-utilisation of the omnibus guarantee, GOI renewed (March 2003) the same for one year by reducing the guarantee cover to Rs.25 crore.

Thus, over-estimation of the guarantee required to be taken from GOI resulted in avoidable payment of guarantee fee of Rs.1.48♦ crore.

Management stated (September 2002) that though efforts were made with the Ministry to charge guarantee fee on actual utilisation, the Ministry did not agree. They also stated that they did not want to reduce the amount of guarantee already taken, as (i) there was tremendous scope and profitability in overseas contracts and (ii) the Company needed a long time to obtain sanction of Government for obtaining guarantee cover. Ministry endorsed (July 2003) the reply of the Management.

Contention of the Management/Ministry is not tenable as the Company failed to foresee the requirement of guarantee with reference to the maximum guarantee to be provided at any point of time for a project. Further, the Company should have reviewed the requirement of guarantee cover before renewing (October 1999) it for a further period of three years.

Thus, failure of the Company to make a proper estimate for the amount of guarantee required to be taken or even review it at the time of its subsequent renewal led to avoidable payment of guarantee fee of Rs.1.48 crore.

♣ ***Rs.4.61 crore in 1997-98, Rs.1.72 crore in 1998-99, Rs.2.54 crore in 1999-2000, Rs.2.55 crore in 2000-01, Rs.0.78 crore in 2001-02 and Rs. nil in 2002-03***

♦ ***Excluding Rs.1.48 crore payable on guarantee of Rs.25 crore***

CHAPTER 21

Follow up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes, (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the 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 paragarphs/appraisals which were not selected by the Committee on Public Sector 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.

In the Follow up Action on the Reports of the C&AG of India (Commercial) the COPU in its 1st Report (1999-2000 – Thirteenth Lok Sabha) has reiterated its earlier recommendation that Department of Public Enterprises (DPE) should set up a separate Monitoring Cell in the DPE itself to monitor the follow-up action by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings.

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 the various Ministries, as detailed in Appendix, have not been forwarded to Audit for vetting.

Out of 314 paragraphs contained in the last 5 years Audit Reports on which ATNs are still awaited, 6, 27, 53, 80 and 148 are awaited for Audit Reports (Commercial) of 1998, 1999, 2000, 2001 and 2002 respectively. 546 ATNs are awaited for Audit Reports (Commercial) of 2003, which were presented to Parliament in April/May 2003.

Out of 314 paragraphs on which ATNs are awaited, 59 paragraphs related to Ministry of Petroleum and Natural Gas and 65 paragraphs related to Ministry of Finance, Banking Division.

Sudha Rajagopalan

(SUDHA RAJAGOPALAN)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
The 16th December 2003

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

New Delhi
The 22nd December 2003

APPENDIX

(Referred to in Chapter 21)

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes are pending as on 18 August 2003

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Agriculture		
1. No. 3 of 2001	Transaction Audit Observations	Para 1.1.1
2. No.2 of 2003	Comments on Accounts	Paras 2.2.1, 2.4.1 and 2.6.1
3. No.3 of 2003	Transaction Audit Observations	Para 1.1.1
Department of Atomic Energy		
1. No. 2 of 2003	Comments on Accounts	Paras 1.2.1, 2.1.1, 2.2.2, 2.4.2, 2.4.3 and 2.5.1
2.No.3 of 2003	Transaction Audit Observations	Para 2.1.1
Department of Bio-Technology		
1. No. 2 of 2000	Comments on Accounts	Paras 2.1.32 and 2.5.1
2. No. 2 of 2001	Comments on Accounts	Para 2.1.35
3. No.2 of 2002	Comments on Accounts	Paras 1.4.1, 2.1.1, 2.1.2, 2.2.1, 2.3.2, 2.3.3, 2.4.2, 2.5.1, 2.6.1 and 2.8.1
4. No.2 of 2003	Comments on Accounts	Paras 2.1.2, 2.2.3, 2.3.1, 2.4.4, 2.5.2 and 2.6.3
Department of Chemicals & Petro-chemicals		
1. No. 2 of 1999	Comments on Accounts	Para 2.4.2
2. No. 2 of 2000	Comments on Accounts	Para 2.5.2
3. No. 6 of 2000	Appraisal on Hindustan Antiboitics Limited	
4 No.2 of 2002	Comments on Accounts	Paras 2.4.5 and 2.5.2
5. No.2 of 2003	Comments on Accounts	Paras 1.3.2, 1.4.1, 2.1.3, 2.2.4, 2.2.5, 2.3.2, 2.4.5, 2.4.6 and 2.8.1
6. No.3 of 2003	Transaction Audit Observations	Para 3.1.1

No. and Year of Report	Name of the Report	Para No., if any
Department of Fertilizers		
1. No. 2 of 2002	Comments on Accounts	Para 1.4.8
2.No.2 of 2003	Comments on Accounts	Paras 1.2.3, 1.2.4, 1.3.3, 1.3.4, 1.3.5, 1.3.6, 1.4.2, 1.4.3, 2.1.4, 2.2.6, 2.2.8, 2.4.7, 2.5.3, 2.5.4 and 2.6.5
3. No.3 of 2003	Transaction Audit Observations	Paras 10.1.1, 10.2.1, 10.2.2 and 10.3.1
Ministry of Civil Aviation		
1. No. 4 of 2000	Review on Indian Airlines	
2. No. 3 of 2001	Transaction Audit Observations	Paras 4.2.2, 4.2.3 and 4.2.4
3. No.2 of 2002	Comments on Accounts	Para 1.2.8
4. No.3 of 2002	Transaction Audit Observations	Paras 3.1.1,3.1.3, 3.2.1, 3.2.2, 3.2.3 and 3.3.2
5. No. 4 of 2002	Review on Revenue Management in AAI	Chapter 1 of Audit Report
6. No.2 of 2003	Comments on Accounts	Paras 1.2.5, 1.2.6 and 2.1.8
7. No.3 of 2003	Transaction Audit Observations	Paras 4.1.2, 4.1.3, 4.1.4, 4.1.5, 4.1.6, 4.1.7,4.2.1, 4.2.2, 4.2.3
8. No.4 of 2003	Revenue Management in Indian Airlines Limited	Para 1.2
Ministry of Coal & Mines		
Department of Coal		
1. No. 7 of 2000	Appraisal on Eastern Coalfields Limited	
2. No. 3 of 2001	Transaction Audit Observations	Para 15.3.1
3.No. 2 of 2002	Comments on Accounts	Para 2.2.7, 2.4.13 and 2.5.4,
4. No.3 of 2002	Transaction Audit Observations	Paras 4.1.2, 4.1.3, 4.3.1, 4.5.1, 4.6.1 and 4.7.1
5. No. 4 of 2002	Review on foreign travel by officials of CIL	Chapter 2 of Audit Report

No. and Year of Report	Name of the Report	Para No., if any
6. No. 2 of 2003	Comments on Accounts	Paras 1.2.7, 1.3.7, 1.3.8, 1.3.9, 1.3.10, 1.3.11, 1.3.12, 1.3.13, 1.4.4, 1.4.5, 2.1.9, 2.1.10, 2.1.11, 2.1.12, 2.1.13, 2.2.9, 2.4.10, 2.4.11, 2.4.12, 2.4.13, 2.4.14, 2.4.15, 2.4.16, 2.5.5, 2.5.6, 2.6.6, 2.6.7, 2.6.8, 2.6.9 and 2.8.3
8.No.3 of 2003	Transaction Audit Observations	Paras 5.1.1, 5.1.2, 5.1.3, 5.1.4, 5.1.5, 5.2.1, 5.2.2, 5.3.1, 5.4.1, 5.4.2., 5.4.3, 5.4.4 and 5.5.1

Ministry of Coal and Mines

Department of Mines

1.No. 8 of 2000	Appraisal on National Aluminium Company Ltd.	
2 No.2 of 2002	Comments on Accounts	Para 1.2.15
3. No.2 of 2003	Comments on Accounts	Paras 1.4.6, 2.1.14, 2.4.17, 2.4.19, 2.5.7, 2.6.10 and 2.6.11
4. No.3 of 2003	Transaction Audit Observations	Paras 15.1.1 and 15.1.2

Ministry of Commerce & Industry

1. No. 2 of 2001	Comments on Accounts	Para 2.1.7
2. No. 4 of 2001	Review on Oil Extraction Operation by STC	Chapter 2- Being examined by COPU
3. No. 2 of 2002	Comments on Accounts	Para 1.2.16
4. No. 3 of 2002	Transaction Audit Observations	Paras 5.2.1, 5.2.3, 5.2.5, 5.2.6 and 5.2.7
5. No. 2 of 2003	Comments on Accounts	Paras 1.2.8, 1.2.9, 2.1.15, 2.1.16, 2.2.10, 2.2.11, 2.2.12, 2.3.4, 2.4.20, 2.4.21, 2.6.14, 2.6.16 and 2.8.5
6. No.3 of 2003	Transaction Audit Observations	Paras 6.1.1, 6.2.1, 6.2.2, 6.3.1, 6.4.1, 6.4.2, 6.4.3, 6.4.4 and 6.4.5

Ministry of Consumer Affairs Food & Public Distribution

1. No. 3 of 2001	Transaction Audit Observations	Paras 7.1.1, 7.1.2, 7.1.5 and 7.1.6
2.No.2 of 2002	Comments on Accounts	Para 1.4.6

No. and Year of Report	Name of the Report	Para No., if any
3. No.3 of 2002	Transaction Audit Observations	Paras 7.1.1, 7.2.1, 7.2.3, 7.2.7 and 7.2.8
4. No. 2 of 2003	Comments on Accounts	Para 1.2.12
5. No.3 of 2003	Transaction Audit Observations	Paras 7.1.1, 7.1.2, 7.1.3, 7.1.4 and 7.1.5
6. No.4 of 2003	Fraud Control in FCI	Para 2.1
	Internal Audit System in FCI	Para 2.2

Department of Defence Production and Supplies

1. No. 2 of 2000	Comments on Accounts	Para 2.5.14
2. No.3 of 2002	Transaction Audit Observations	Para 8.1.1
3. No. 2 of 2003	Comments on Accounts	Paras 1.2.13, 1.2.14, 1.3.15, 1.3.16, 1.3.17, 1.3.18, 1.3.19, 1.4.8, 1.4.9, 1.4.10, 2.1.17, 2.1.18, 2.1.19,2.1.20, 2.1.21, 2.2.13, 2.2.14, 2.2.15, 2.4.22, 2.4.23, 2.5.8, 2.5.9, 2.5.10, 2.6.18, 2.6.19, 2.6.20, 2.8.6, 2.8.7, 2.8.8 and 2.8.9
4. No.3 of 2003	Transaction Audit Observations	Paras 8.1.1, 8.2.1, 8.3.1 and 8.4.1

Department of North Eastern Region

1. No. 2 of 2002	Comments on Accounts	Paras 2.3.23 and 2.6.73
2. No. 2 of 2003	Comments on Accounts	Paras 1.2.15, 1.4.11, 2.3.16 and 2.6.75
3.No. 3 of 2003	Transaction Audit Observations	Para 9.1.1

Ministry of Environment & Forest

1. No. 2 of 1996	Comments on Accounts	Para 2.7.3
2. No. 2 of 1997	Comments on Accounts	Paras 2.2.18, 2.2.23, 2.4.17 and 2.5.13
3. No. 2 of 1999	Comments on Accounts	Paras 2.5.9 and 2.6.13
4. No.2 of 2002	Comments on Accounts	Paras 2.4.19, 2.5.7 and 2.6.22

Ministry of Finance (Banking Division)

1. No. 2 of 1998	Comments on Accounts	Paras 1.2.26, 2.2.8, 2.6.12 and 2.8.8
2. No. 2 of 1999	Comments on Accounts	Paras 1.2.28, 1.2.29, 1.2.30, 1.2.31, 1.2.32, 1.2.33 and 1.2.34
3. No. 3 of 1999	Transaction Audit Observations	Paras 8.1 and 8.4

No. and Year of Report	Name of the Report	Para No., if any
4. No. 2 of 2000	Comments on Accounts	Paras 1.2.24, 1.2.25, 1.2.26, 1.2.27, 1.2.28, 1.2.29, 2.1.17, 2.2.22, 2.5.21, 2.6.19, 2.6.20, 2.6.21, 2.6.23, 2.6.26 and 2.6.27
5. No. 3 of 2000	Transaction Audit Observations	Paras 10.1.1, 10.1.2 and 10.1.3
6. No. 2 of 2001	Comments on Accounts	Paras 1.2.22, 1.2.23, 1.2.24, 1.2.25, 1.2.26, 1.2.27, 2.1.21, 2.1.22, 2.2.18, 2.2.19, 2.6.13, 2.6.14, and 2.6.16
7.No. 3 of 2001	Transaction Audit Observations	Paras 11.1.1, 11.2.1 and 11.3.1
8.No.2 of 2002	Comments on Accounts	Paras 1.2.24, 1.2.25, 1.2.26, 1.2.27, 2.1.14, 2.2.15, 2.2.16, 2.2.17, 2.2.18, 2.2.20, 2.6.23, 2.6.24, 2.6.25 and 2.6.27
9. No.3 of 2002	Transaction Audit Observations	Paras 11.1.1, 11.2.1, 11.3.1 and 11.4.1
10. No. 2 of 2003	Comments on Accounts	Paras 1.2.16, 1.2.17, 1.2.18, 1.4.12, 1.4.13, 2.1.22, 2.1.23, 2.1.24,2.3.5, 2.3.6, 2.6.21, 2.6.22, 2.6.23, 2.6.24, 2.6.25, 2.6.26, 2.6.27, 2.6.28, 2.8.10, 2.8.11, 2.8.12 and 2.8.13

Ministry of Finance (Insurance Division)

1. No.2 of 1999	Comments on Accounts	Para 2.1.14
2. No. 2 of 2000	Comments on Accounts	Paras 1.3.20 and 2.8.7
3. No. 3 of 2000	Transaction Audit Observations	Para 9.3.3
4. No. 2 of 2001	Comments on Accounts	Para 1.3.23
5.No.2 of 2002	Comments on Accounts	Para 1.3.21
6. No. 2 of 2003	Comments on Accounts	Paras 1.2.19, 1.2.20, 1.2.21, 1.2.22, 1.3.20, 1.3.21, 2.1.25, 2.1.26, 2.1.27, 2.2.16, 2.2.17, 2.6.29, 2.6.30, 2.6.31, 2.8.14 and 2.8.15
7. No.3 of 2003	Transaction Audit Observations	Paras 11.1.1,11.1.2, 11.3.1, 11.3.2, 11.3.3, 11.3.4 and 11.3.5

Ministry of Health & Family Welfare

1. No. 2 of 1999	Comments on Accounts	Paras 2.2.10 and 2.4.14
2. No. 2 of 2000	Comments on Accounts	Paras 2.6.28 and 2.8.8
3. No. 2 of 2001	Comments on Accounts	Para 2.1.35

No. and Year of Report	Name of the Report	Para No., if any
4. No.2 of 2002	Comments on Accounts	Paras 2.1.15, 2.2.27 and 2.4.20
5. No.3 of 2002	Transaction Audit Observations	Para 12.1.1
6. No. 2 of 2003	Comments on Accounts	Para 2.6.32
7. No.3 of 2003	Transaction Audit Observations	Para 12.1.1

Ministry of Home Affairs

1. No.2 of 2002	Comments on Accounts	Paras 2.2.28, 2.6.40 and 2.6.41
2. No. 2 of 2003	Comments on Accounts	Paras 2.6.46 and 2.8.24

Ministry of Human Resource Development

1. No.2 of 1999	Comments on Accounts	Para 1.2.36
2. No. 2 of 2000	Comments on Accounts	Paras 1.2.43, 2.6.49 and 2.8.16
3. No. 2 of 2001	Comments on Accounts	Paras 2.1.34, 2.2.30 and 2.6.31

Ministry of Human Resources & Science Technology

1. No.2 of 2002	Comments on Accounts	Paras 2.1.21 and 2.6.42
2. No. 2 of 2003	Comments on Accounts	Para 2.2.26

Ministry of Heavy Industry & Public Enterprises

1. No. 3 of 2001	Transaction Audit Observations	Para 12.2.1 and 12.4.2
2. No. 4 of 2001	Review on working of Crane Division of Jessop & Co.	Chapter 5.2 (5.2.1 received)
3. No.2 of 2002	Comments on Accounts	Para 2.1.36.
4. No. 2 of 2003	Comments on Accounts	Paras 1.2.25, 1.3.22, 1.3.23, 1.3.24, 1.3.26, 1.3.27, 1.4.14, 1.4.17, 1.4.19, 1.4.20, 1.4.21, 2.1.28, 2.1.29, 2.1.30, 2.1.31, 2.1.33, 2.1.34, 2.1.35, 2.1.36, 2.1.37, 2.1.38, 2.2.18, 2.2.19, 2.2.21, 2.2.22, 2.2.23, 2.2.24, 2.2.25, 2.3.7, 2.3.8, 2.3.9, 2.3.13, 2.4.24, 2.4.25, 2.4.26, 2.4.27, 2.4.28, 2.4.29, 2.4.30, 2.4.31 2.4.32, 2.4.33, 2.4.34, 2.5.11, 2.5.12, 2.5.13, 2.5.14, 2.5.15, 2.5.16, 2.5.17, 2.5.18, 2.6.33, 2.6.34, 2.6.35, 2.6.36, 2.6.37, 2.6.38, 2.6.40, 2.6.42, 2.6.43, 2.6.44, 2.6.45, 2.8.16,

No. and Year of Report	Name of the Report	Para No., if any
		2.8.17, 2.8.18, 2.8.20, 2.8.21, 2.8.22 and 2.8.23
5. No. 3 of 2003	Transaction Audit Observations	Paras 13.1.1, 13.1.2, 13.2.1, 13.2.2,13.2.3, 13.2.4, 13.2.5, 13.2.6, 13.2.7, 13.2.8, 13.2.9, 13.2.10, 13.2.11, 13.2.12, 13.2.13, 13.3.1, 13.4.1, and 13.7.1

Ministry of Information Technology (Department of Electronics)

1. No. 2 of 2003	Comments on Accounts	Paras 1.2.26, 2.4.36, 2.6.47, 2.2.27, 2.2.28, and 2.5.19
2.No.3 of 2003	Transaction Audit Observations	Paras 14.1.1, and 14.2.1

Ministry of Information & Broadcasting

1. No. 2 of 2001	Comments on Accounts	Para 1.3.33
2. No. 3 of 2001	Transaction Audit Observations	Para 13.1.1
3. No.2 of 2002	Comments on Accounts	Para 1.3.33
4. No.3 of 2002	Transaction Audit Observations	Para 14.1.1

Ministry of Non Conventional Energy Sources

1.No. 3 of 2003	Transaction Audit Observations	Para 16.1.1

Ministry of Petroleum and Natural Gas

1. No. 2 of 1996	Comments on Accounts	Para 2.4.43
2. No. 5 of 1996	Private participation in production of Crude Oil-JVs	
3. No. 2 of 1997	Comments on Accounts	Para 2.4.38
4. No. 2 of 1998	Comments on Accounts	Para 2.2.24
5. No. 2 of 1999	Comments on Accounts	Paras 1.2.53, 1.2.56 and 2.4.27
6. No. 3 of 1999	Transaction Audit Observations	Para 12.6
7. No. 2 of 2000	Comments on Accounts	Paras 1.2.48, 1.2.52 and 2.1.44
8. No. 3 of 2000	Transaction Audit Observations	Paras 16.1.1, 16.1.3, 16.2, 16.3.3, 16.3.5 and 16.5.4
9. No. 2 of 2001	Comments on Accounts	Paras 1.2.50, 1.3.37, 1.3.38, 1.3.43, 2.2.41, 2.4.26, 2.4.28, 2.5.20, 2.6.44 and 2.6.45
10. No. 3 of 2001	Transaction Audit Observations	Paras 17.2.1, 17.2.2, 17.3.1, 17.4.2, 17.6.2, 17.6.3, 17.6.4, 17.6.6,

No. and Year of Report	Name of the Report	Para No., if any
		17.7.1, 17.8.2 and 17.9.1
11. No. 4 of 2001	Review on creation of excess capacity by ONGC Ltd.	Chapter 6
12. No.2 of 2002	Comments on Accounts	Paras 1.2.36, 1.2.39, 1.2.40, 1.3.39, 1.3.42, 2.1.23, 2.2.33, 2.3.16 and 2.6.51
13. No.3 of 2002	Transaction Audit Observations	Paras 16.1.1, 16.1.4, 16.4.1, 16.5.1,16.6.2, 16.6.3, 16.6.4, 16.6.7, 16.7.3 and 16.7.4
		Chapter 4
14. No. 4 of 2002	Review on MLSS in ONGC	
15. No. 2 of 2003	Comments on Accounts	Paras 1.2.27, 1.2.28, 1.2.29, 1.2.30, 1.2.31, 1.2.32, 1.2.33, 1.2.34, 1.2.35, 1.3.28, 1.3.29, 1.3.30, 1.3.31, 1.3.32, 2.1.39, 2.1.40, 2.1.41, 2.1.42, 2.2.29, 2.2.30, 2.4.36, 2.5.20, 2.5.21, 2.6.48, 2.6.49, 2.6.50, 2.6.51 and 2.6.52
16. No.3 of 2003	Transaction Audit Observations	Paras 17.1.1, 17.1.2, 17.2.1, 17.2.2, 17.3.1, 17.4.1, 17.4.2, 17.4.3, 17.4.4, 17.5.1, 17.6.1, 17.6.2, 17.6.3, 17.6.4, 17.6.5, 17.6.6, 17.7.1, 17.7.2, 17.7.3, 17.7.4, 17.7.5, 17.7.6, 17.7.7 and 17.7.8

Ministry of Power

No. and Year of Report	Name of the Report	Para No., if any
1. No. 3 of 1999	Transaction Audit Observations	Paras 13.1.2, and 13.3.2
2. No. 2 of 2000	Comments on Accounts	Paras 1.2.62, 2.1.49, 2.2.59, and 2.6.67
3. No. 3 of 2000	Transaction Audit Observations	Para 17.2
4. No. 2 of 2001	Comments on Accounts	Paras 1.3.45 and 2.2.43
5. No.2 of 2002	Comments on Accounts	Paras 1.2.44, 1.3.43, 2.1.26, 2.1.27, 2.6.56, 2.6.57 and 2.8.19
6. No.4 of 2002	Review on implementation of Rehabilitation Plan by THDC	Chapter 5
7. No. 2 of 2003	Comments on Accounts	Paras 1.2.36, 1.2.37, 1.2.38, 1.2.39, 1.3.33, 2.1.43, 2.1.44, 2.2.31, 2.2.32, 2.2.33, 2.2.34, 2.6.53,

No. and Year of Report	Name of the Report	Para No., if any
		2.6.54, 2.6.55, 2.6.56, 2.6.57, 2.6.58, 2.8.25, 2.8.26, 2.8.27 and 2.8.28
8. No.3 of 2003	Transaction Audit Observations	Paras 18.1.1, 18.2.2, 18.3.1, 18.3.2, 18.3.3, 18.3.4 and 18.4.1

Department of Public Enterprises

1. No.4 of 2003	Reviews on some of the activities of selected PSUs	Para 5.1

Ministry of Railways

1. No. 2 of 2003	Comments on Accounts	Paras 1.2.40, 1.2.41, 1.2.42, 1.2.43, 1.3.34, 2.1.45, 2.1.46, 2.1.47, 2.1.48, 2.1.49, 2.2.35, 2.2.36, 2.2.37, 2.2.38, 2.2.39, 2.6.59, 2.6.60, 2.6.61 and 2.8.29
2. No.3 of 2003	Transaction Audit Observations	Para 19.1.1

Ministry of Road Transport and Highways

1. No.3 of 2003	Transaction Audit Observations	Paras 20.1.1, 20.1.2, 20.1.3, 20.1.4 and 20.1.5

Department of Small Scale Industries & Agro and Rural Industries

1. No. 3 of 2000	Transaction Audit Observations	Para 19.1
2. No.2 of 2002	Comments on Accounts	Para 2.3.17
3. No. 2 of 2003	Comments on Accounts	Paras 1.2.44, 2.1.51, 2.2.40. 2.4.37, 2.6.62, 2.8.30, 2.8.31, 2.8.32 and 2.8.33
4. No.3 of 2003	Transaction Audit Observations	Para 22.1.1

Ministry of Social Justice & Empowerment (Department of Welfare)

1. No. 2 of 1997	Comments on Accounts	Paras 1.3.43 and 2.3.52.
2. No. 2 of 1998	Comments on Accounts	Para 1.2.75
3. No. 2 of 1999	Comments on Accounts	Para 2.1.54
4. No. 2 of 2000	Comments on Accounts	Paras 2.1.56 and 2.2.64
5. No. 3 of 2000	Transaction Audit Observations	Para 24.2
6. No. 2 of 2001	Comments on Accounts	Paras 2.1.50

No. and Year of Report	Name of the Report	Para No., if any
7. No.2 of 2002	Comments on Accounts	Paras 2.1.34, 2.2.43 and 2.6.63
8. No.3 of 2002	Transaction Audit Observations	Para 20.1.1
9. No. 2 of 2003	Comments on Accounts	Paras 2.1.52, 2.1.53, 2.2.41, 2.2.42, 2.2.43, 2.3.15, 2.4.38, 2.4.39, 2.5.22, 2.6.63 and 2.6.64

Ministry of Steel

No. and Year of Report	Name of the Report	Para No., if any
1. No. 3 of 1999	Transaction Audit Observations	Paras 16.4.1
2. No. 6 of 1999	Review on some of the important activities of SAIL	
3. No. 2 of 2001	Comments on Accounts	Paras 2.5.25 and 2.8.19
4. No. 3 of 2001	Transaction Audit Observations	Paras 21.3.2, 21.4.5, 21.4.6 and 21.4.7
5. No. 4 of 2001	Review on Execution of CCP of Rourkela Steel Plant by MECON	Chapter 7
6. No.2 of 2002	Comments on Accounts	Paras 1.2.54, 2.1.37 and 2.6.12
7. No.3 of 2002	Transaction Audit Observations	Paras 21.1.1, 21.2.1, 21.4.1, 21.5.1, 21.5.2, 21.6.1, 21.6.2, 21.7.1, 21.7.9 and 21.7.10
		Chapter 6.1
8. No. 4 of 2002	Review on Modernization of BSP-SAIL	Chapter 6.2
	Review on Township Management in SAIL	Chapter 6.3
	Review on R&D Centre for Iron & Steel-SAIL	
9. No. 2 of 2003	Comments on Accounts	Paras 1.2.45, 1.2.46, 1.2.47, 1.2.48, 1.2.49, 1.2.50, 1.2.51, 1.3.35, 1.3.36, 1.3.37, 1.3.38, 1.3.39, 1.4.24, 1.4.25, 1.4.26, 2.1.54, 2.1.55, 2.2.44, 2.2.45, 2.4.40, 2.4.41, 2.4.42, 2.4.43, 2.5.23, 2.5.24, 2.6.65, 2.6.66, 2.6.67, 2.6.68, 2.6.69, 2.6.70, 2.8.34 and 2.8.35

No. and Year of Report	Name of the Report	Para No., if any
10. No. 3 of 2003	Transaction Audit Observations	Paras 23.1.1, 23.2.1, 23.2.2, 23.2.3, 23.3.1, 23.5.1, 23.5.2, 23.5.3, 23.5.4, 23.5.5, 23.6.1, 23.6.2,23.6.3, 23.6.4, 23.6.5, 23.6.6, 23.6.7, and 23.6.8
11. No.4 of 2003	Business Restructuring Plan of SAIL	Para 3.1
	Rail and Structural Mill of Bhilai Steel Plant of SAIL	Para 3.2

Ministry of Shipping

1. No.2 of 2002	Comments on Accounts	Paras 2.1.30, 2.3.18, 2.6.65 and 2.8.25
2. No. 2 of 2003	Comments on Accounts	Paras 1.2.52, 1.4.23 and 2.1.50
2. No.3 of 2003	Transaction Audit Observations	Para 21.1.1

Ministry of Surface Transport

1. No.2 of 2002	Comments on Accounts	Paras, 2.6.65 and 2.8.25
2. No.3 of 2002	Transaction Audit Observations	Paras 22.1.1 and 22.1.2
3. No.4 of 2003	Working of River Service Division of Central Inland Water Transport Corporation Limited	Para 4.1

Ministry of Textiles

1. No. 2 of 2003	Comments on Accounts	Paras 1.2.53, 1.3.42, 1.3.43, 1.3.44, 1.4.28, 1.4.29, 1.4.30, 1.4.31, 2.1.57, 2.1.58, 2.1.59, 2.2.46, 2.4.44, 2.4.45, 2.5.25, 2.5.26, 2.5.27, 2.6.71, 2.6.72, 2.6.73, 2.6.74, 2.8.36, 2.8.37 and 2.8.38

Ministry of Tourism

1. No. 2 of 1999	Comments on Accounts	Paras 2.4.49 and 2.6.51
2. No. 2 of 2000	Comments on Accounts	Paras 2.1.68 and 2.6.83
3. No. 2 of 2001	Comments on Accounts	Paras 2.1.60, 2.2.60 and 2.6.61
4. No.2 of 2002	Comments on Accounts	Paras 2.1.44, 2.2.49, 2.2.50, 2.4.38, and 2.6.74
5. No.3 of 2002	Transaction Audit Observations	Para 23.1.1

No. and Year of Report	Name of the Report	Para No., if any
6. No. 2 of 2003	Comments on Accounts	Paras 2.2.47, 2.2.48 and 2.6.76
7. No.3 of 2003	Transaction Audit Observations	Paras 24.1.1 and 24.1.2

Ministry of Urban Development and Poverty Alleviation

1. No. 2 of 2001	Comments on Accounts	Paras 1.2.65, 1.2.66, 2.1.61, 2.2.61, 2.6.62 and 2.8.25
2.No. 3 of 2001	Transaction Audit Observations	Para 24.1.1
3. No.2 of 2002	Comments on Accounts	Para 1.2.61
4. No. 2 of 2003	Comments on Accounts	Paras 1.2.54, 2.1.60, 2.2.49, 2.3.17, 2.4.46 and 2.6.77

GLOSSARY

AAI	Airports Authority of India
AAY	Antyodaya Anna Yojana
AFL	Andaman Fisheries Limited
AIEG	Air India Employees Guild
AIL	Air India Limited
ALP	Aluminium Phosphide
AMB	Additional Monthly Benefit
APGPCL	Andhra Pradesh Gas Power Corporation Limited
APSEB	Andhra Pradesh State Electricity Board
APTRANSCO	Transmission Corporation of Andhra Pradesh Limited
B&C	Briquetting and Carbonisation
BCCL	Bharat Coking Coal Limited
BCPL	Bengal Chemicals and Pharmaceuticals Limited
BEL	Bharat Electronics Limited
BEML	Bharat Earth Movers Limited
BG	Bank Guarantee
BHC	Benzene Hexa Chloride
BHPL	Batra Hospitality Private Limited
BIFR	Bureau of Industrial and Financial Reconstruction
BIL	Bengal Immunity Limited
BP and CL	Bharat Pumps and Compressors Limited
BPCL	Bharat Petroleum Corporation Limited
BSEB	Bihar State Electricity Board
C&FFO	Cost and Freight Free Out
CBI	Central Bureau of Investigation
CCEA	Cabinet Committee on Economics Affairs
CCL	Central Coalfields Limited
CEA	Central Electricity Authority
CEGAT	Custom Excise and Gold (Control) Appellate Tribunal
CHP	Coal Handling Plant
CIDCO	City and Industrial Development Corporation of Maharashtra Limited
CPO	crude palm oil
CPP	Captive Power Plant
CPT	Calcutta Port Trust
CRL	Cochin Refinery Limited
CRZ	Coastal Regulation Zone
CSL	Cochin Shipyard Limited
CSU	Crude Stabilisation Unit
DA	Daily Allowance
DDCS	Distributed Digital Control System
DFR	Detailed Feasibility Report
DGH	Directorate General Hydrocarbons
DO	Divisional Office
DOT	Department of Telecommunications
DPE	Department of Public Enterprises
DRT	Debt Recovery Tribunal
DVC	Damodar Valley Corporation
EC	Executive Committee
ECL	Eastern Coalfields Limited
EMD	Earnest Money Deposit
EPC	Executive Purchase Committee
ERD	Extended Reach Drilling
ESI	Employees State Insurance Corporation
ESP	Electro Static Precipitators
ESPs	Electrostatic Precipitators

FFW	Food for Work Programme
FO	Furnace Oil
FPQ	Fixed Price Quotation
FPST	Floating Product Storage Tanker
FSD	Food Storage Depot
FSPL	M/s. Flaminco Services Private Limited
GAIL	Gas Authority of India Limited
GDA	Ghaziabad Development Authority
GIAL	M/s. GIA International Limited
GIC	General Insurance Corporation of India
GIF	Gujarat Insurance Fund
GIIC	Gujarat Industrial Investment Corporation Limited
GJPAP	Group Janata Personal Accident Policy
GSFC	Gujarat State Financial Corporation
GST	Goods and Services Tax
GTR	Guaranteed Test Run
HAL	Hindustan Aeronautics Limited
HCI	Hotel Corporation of India
HDPEL	Hooghly Dock and Port Engineers Limited
HEC	Hyundai Engineering Corporation Limited
HEEP	Heavy Electricals Equipment Plant
HPEP	Heavy Power Equipment Plant, Hyderabad
HNL	Hindustan Newsprint Limited
HPL	Half Pay Leave
HSD	High Speed Diesel
IA/PV	Internal Audit/Physical Verification
IAF	Indian Air Force
IATA	International Air Transport Association
IDBI	Industrial Development bank of India
IDPL	Indian Drugs and Pharmaceuticals Limited
IFSD	In-flight Services Department
IOCL	Indian Oil Corporation Limited
IOGPT	Institute of Oil and Gas Production Technology
IPCL	Indian Petrochemicals Corporation Limited
IRCON	IRCON International Limited
IS	Industry Sector
IT	Information Technology
ITPO	Indian Trade Promotion Organisation
JGGPP	Jhanor Gandhar Gas Power Project
JKSRTC	Jammu and Kashmir State Road Transport Corporation
kmph	Kilometre per hour
KMS	Khariff Marketing Season
KMTS	Kishenpur - Moga Transmission System
KPT	Kolkata Port Trust
KV	Kilo Volt
KVA	Kilo Volt Ampere
LC	Letter of Credit
LD	Liquidated Damages
LOI	Letter of Intent
LOP	Loss of Profit
LPG	Liquified Petroleum Gas
M^3/Day	Cubic metres per day
MCW	Micro Crystalline Wax
MDC	Multi-Disciplinary Committee
MECL	Mineral Exploration Corporation Limited
MEG	Mono Ethylene Glycol
MGPT	Dredger to Marmugoa Port
MLL	M/s. Mercator Lines Limited
MMS	Material Management Section
MMTPA	Million Metric Tonne Per Annum

MOA	Memorandum of Agreement
MOD	Modification
MOU	Memorandum of Understanding
MPEDA	Marine Products Export Development Authority
MRBC	Mumbai Regional Business Centre
MRLF	Minimum Reserve Licence Fee
MSR	Medium Sized Risk
MTPA	Metric Tonne Per annum
MU	Million Units
NABARD	National Bank for Agricultural and Rural Development
NCCF	National Consumer Cooperative Federation
NCDs	Non-Convertible Redeemable Secured Debentures
ND	Non-destructive
NEEPCO	North Eastern Electric Power Corporation Limited
NEF	North East Frontier
NIC	National Insurance Company Limited
NIT	Notice Inviting Tender
NTB	New Terminal Building
NTPC	National Thermal Power Corporation Limited
NVDA	Narmada Valley Department Authority
OCC	Oil Co-ordination Committee
OCP	Open Cast Project
OFCDDs	Optionally Fully Convertible Discounted Debentures
OIL	Oil India Limited
OINP	Over Issue News Paper
OVSS	One time Voluntary Separation Scheme
P&M	Plant and Machinery
PDCs	Post Dated Cheques
PEC	PEC Limited
PML	Probable Maximum Loss
PO	Purchase Order
POL	Petroleum, Oil and Lubricants
PPT	Paradeep Port Trust
PSE	Public Sector Enterprise
PSEB	Punjab State Electricity Board
PSF	Polyster Staple Fibre
PSP	Process Steam Plant
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RBTS	Ranganadi-Balipara Transmission System
RCL	Ruia Cotex Limited
ReAC	Reinsurance Australia Corporation
RH	Right Hand
RHEP	Ranganadi Hydroelectric Project
RIL	M/s. Rallis Limited
SAPL	M/s. Softline Advertising Private Limited
SBLC	Stand-by Letter of Credit
SCI	Shipping Corporation of India Limited
SGRY	Sampoorna Grameen Rozgar Yojana
SIL	Scooter India Limited
SITP	Strategic Information Technology Plan
SPC	Sales and Purchase Committee
TAC	Tariff Advisory Committee
TDS	Top Drive System
TKL	Thousand Kilo litre
TMTPA	Thousand Metric Tonnes Per Annum
TPD	Tonne Per Day`
TPH	Tonne Per Hour

TPS	Thermal Power Station
TSL	Triveni Structurals Limited
UIIC	United India Insurance Company Limited
UTIC	M/s. UTI Construction Inc., Delaware
VLCC	Very Large Crude Carrier
VRS	Voluntary Retirement Scheme
VSS	Voluntary Separation Scheme
WISL	M/s. Western India Shipping Limited

50