Report of the
Comptroller and Auditor General
of India

for the year ended March 1998

Union Government (Commercial)
Transaction Audit Observations
No.3 of 1999

CONTENTS

PREFACE

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

2. The statutes governing some corporations and authorities require their accounts to be audited by CAG and reports given by him. In respect of Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India and Damodar Valley Corporation, CAG is the sole auditor under the relevant statutes. In respect of Central Warehousing Corporation and Food Corporation of India, CAG has the right to conduct audit independently of the audit conducted by the Chartered Accountants appointed under the statutes governing the two Corporations.

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

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

'Report No. 1 (Commercial) - 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 (Commercial)-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 (Commercial)- Transactions Audit Observations' contains the observations on individual topics of interest noticed in the course of audit of the Companies and Corporations and short reviews on aspects of their working.

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), 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.

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 1996-97 and 1997-98 as well as those which came to notice in earlier years but could not be covered in previous years.

OVERVIEW

I. Introduction

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

2. This Report includes 138 paragraphs in respect of 67 PSUs and one Review on the working of Hindustan Photofilms Manufacturing Company Ltd. The draft paragraphs / review were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working for furnishing replies/comments within 6 weeks. However, replies to 44 paragraphs have not been received as of December 1998. In fact, in respect of three paragraphs, even the management of the concerned PSU failed to respond despite repeated persuation.

3. 138 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	No. of Paragraphs/review	Financial Implication (Rs.in Crore)
1. Petroleum & Natural Gas	22	362.10
2. Civil Aviation	8	43.54
3. Steel	16	33.84
4. Power	8	28.47
5. Commerce	5	25.22
6. Heavy Industry	12	18.77
7. Telecommunications	9	11.80
8. Coal	9	11.32
9. Chemical and Fertilizers	10	10.34
10. Defence Production & Supplies	11	8.19
11. Eight Other Ministries/ Departments	28	53.38
Total	**138**	**606.97**

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

- Delay in realisation/non-realisation of debts, non-enforcement of clauses of contracts, thefts, storage losses, etc, leading to a loss of **Rs.294.91 crore** in **28 cases**.
- Unproductive expenditure amounting to **Rs.142.55 crore** in **43 cases** on avoidable purchase of machinery, equipment, material, etc. not required by the PSUs resulting in blockade of funds or rendering the expenditure infructuous.
- Loss of **Rs.46.16 crore** suffered by **8 PSUs** on account of undue favours granted to private parties like undue financial assistance, non-enforcement of terms and conditions of contracts, etc.
- Extra expenditure of **Rs.59.32 crore** incurred in **30 cases** due to delay in finalisation of tenders, excess settlement of claims, splitting up of contracts, injudicious rejection of bids, lack of supervision, etc.
- Avoidable payments of **Rs.23.87 crore** in **17 cases** on account of power charges, penal interest, custom duty, commitment charges on loans, transportation charges, foreign travel, etc.
- Excess payments of **Rs.18.02 crore** in **6 cases** made to staff of PSUs on account of bonus, conveyance allowance, ex-gratia, professional charges.
- Loss of **Rs.17.22 crore** suffered by **5 insurance companies** due to application of faulty tariff provisions, levy of lower tariff rates, acceptance of risks beyond the terms of agreements, etc.
- **Hindustan Photo Films Manufacturing Company Limited's** financial position deteriorated rapidly from 1992-93 leading to complete erosion of it's net worth as it's accumulated loss as on 31 March 1997 stood at **Rs.382.36 crore**. In the two major diversification projects undertaken by the Company the cost overrun was to the extent of **Rs.537.89 crore**.

II. Highlights

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

Fertilizer Corporation of India Limited repeatedly procured materials from a foreign supplier ignoring the lower rates of proven indigenous suppliers and thereby incurred avoidable expenditure of **Rs.1.35 crore.**

(Para 1.2.1)

Import and sale on High Seas of Di-Ammonium Phosphates (DAP) without any definite requirement by **National Fertilizers Limited** resulted in a loss of **Rs.2.21 crore.**

(Para 1.2.3.1)

Fertilisers and Chemicals Travancore Limited (FACT) incurred avoidable extra expenditure of **Rs.3.15 crore** in paying compensation to a transport contractor due to its inability to fulfill contractual obligations on account of inadequate planning.

(Para 1.2.4.1)

Implementation of a scheme by **FACT** without assessing its viability resulted in infructuous expenditure of **Rs.31.31 lakh** and creation of further liability of **Rs.76.18 lakh.** The scheme had to be abandoned finally as it was found to be economically non-viable.

(Para 1.2.4.2)

Laxity on the part of **Airports Authority of India** and intervention by the Ministry of Civil Aviation in bestowing undue favour to M/s. East West Airlines had the effect of non-recovery of dues of **Rs.14.19 crore.**

(Para 2.1.1)

Airports Authority of India incurred a loss of **Rs.8.20 crore** by providing undue benefits to a Hotel Company.

(Para 2.1.2)

Air India Limited incurred a total expenditure of **£ 23.96 lakh (Rs.14.14 crore)** on a piece of land taken on lease in London without utilising it for the purpose for which it was procured. The land was finally surrendered in April 1994.

(Para 2.2.1)

Lack of planning and ad-hoc approach in occupying a building acquired for relocating the offices of **Air-India Limited** in London led to the building remaining under utilised leading to a loss of **£ 5.14 lakh (Rs.3.04 crore).**

(Para 2.2.2)

Non-observance of the rules by **Indian Airlines Limited** regarding taking over and handing over of life jackets resulted in losses amounting to **Rs.1.07 crore** due to theft.

(Para 2.3.1)

Indian Airlines Limited incurred infructuous expenditure of **Rs.98.25 lakh** to acquire land/building at Srinagar, which it could not utilise without the necessary approval of the Central Government It also incurred loss of interest amounting to **Rs.1.69 crore.**

(Para 2.3.2)

An injudicious decision to install a Box Wagon Tippler at Bhojudih Coal Washery without keeping in view the decision of the Railways to introduce Bottom Discharge Wagons system resulted in infructuous expenditure of **Rs.1.38 crore** by **Bharat Coking Coal Limited.**

(Para 3.1.1.)

Failure to assess the ground realities by **Central Coalfields Limited** resulted in blocking up of **Rs.4.67 crore** incurred towards development of Magadh Open Cast Project (OCP) as the Super Thermal Power Project of National Thermal Power Corporation, to which the OCP was linked, had been abandoned.

(Para 3.2)

Lack of proper coordination and inventory control led to idle investment of **Rs.1.26 crore** by **Eastern Coalfields Limited.**

(Para 3.4)

An injudicious investment decision of constructing a Coal Handling Plant at Lajkura Open Cast Mine project by **Mahanadi Coalfields Limited** led to a wasteful expenditure of **Rs.1.45 crore** as the plant had to be abandoned, being economically unviable.

(Para 3.5)

Adoption of a higher exchange rate than the applicable rate by **Export Credit Guarantee Corporation of India Limited** resulted in excess settlement of claim by **Rs.1.13 crore.**

(Para 4.1.1.)

India Trade Promotion Organisation sustained a loss of **Rs.1.63 crore** due to defective agreement with a marketing agency and its failure to exercise control over expenditure in organising a film fair.

(Para 4.2)

Granting of advances to a potentially sick company resulted in avoidable loss of **Rs.7.48 crore** to **State Trading Corporation of India Limited** besides making it liable for payment of **Rs.8 crore** towards customs duty etc.

(Para 4.3.1)

State Trading Corporation of India Limited incurred an avoidable expenditure of **Rs.4.21 crore** on hiring office accommodation in New York.

(Para 4.3.2)

Delay on the part of the **HTL Limited** in taking up the matter of non-payment of dues and injudicious follow-up resulted in avoidable loss of interest of **Rs.2.10 crore** on borrowed funds.

(Para 5.1)

ITI Limited incurred a loss of **Rs.2.44 crore** due to placement of purchase orders in 1996 for the supply of hydraulic presses required for the Rotary Telephone Project even though as early as in 1985 the Company was aware of the impending switchover by DOT to Electronic Push Botton Telephones.

(Para 5.2.1)

Due to rejection of valid escalation claims by Department of Telecommunications circles which were not referred to arbitration as per terms of the agreement, the **ITI Limited** lost an amount of **Rs.1.56 crore.**

(Para 5.2.2.)

ITI Limited procured equipment for fabrication and testing of mixed signal devices, which were not put to use resulting in infructuous purchase of equipment worth **Rs.1.74 crore.**

(Para 5.2.4)

ITI Limited procured telecom equipment even before the finalisation of draft specifications of the equipment by Department of Telecommunications, which resulted in infructuous expenditure of **Rs.1.05 crore.**

(Para 5.2.5)

Lack of pursuance and non-closure of a purchase order of telex exchange equipment by **Mahanagar Telephone Nigam Limited** despite a sharp decline in demand and expiry of the delivery period had made recovery of **Rs.1.05 crore** from the supplier very doubtful.

(Para 5.3)

Due to non-enforcement of clause of agreement, **Videsh Sanchar Nigam Limited** had suffered a loss of interest of **Rs.2.30 crore** on the outstanding dues recovered after the due dates of payments alongwith non recovery of outstanding dues to the tune of **Rs.83.38 lakh.**

(Para 5.4)

Bharat Dynamic Limited procured certain spares without any firm commitment from the customers. These were rendered surplus resulting in a loss of **Rs.1.11 crore.**

(Para 6.1)

Delay on the part of the **Hindustan Aeronautics Limited** in claiming advance from a customer in March 1997 instead of April 1993 as per the terms of purchase order resulted in interest loss of **Rs.2.12 crore.**

(Para 6.4.1)

IndBank Merchant Banking Services Limited, a subsidiary of India Bank made an avoidable payment of **Rs.1.62 crore** as professional charges for services of officers borrowed from it despite paying the officers deputation allowances as per service rule of the lending Bank

(Para 8.1)

The New India Assurance Company Limited (NIA) suffered a loss of **£ 2.6 million (Rs.14.34 crore)** due to acceptance of risk without due diligence and prudence.

(Para 8.2.1.)

Failure of **NIA** to adhere to the tariff provisions and omission to collect premium for additional transits and intermediate storage, led to a loss of premium of **Rs.1 crore.**

(Para 8.2.2)

Acceptance of foodgrains below specification, its improper storage and deterioration in quality during transit caused **Food Corporation of India** a loss of **Rs.2.60 crore**.

(Para 9.2.1)

By going beyond the orders of the Court, **Food Corporation of India** incurred an avoidable expenditure of **Rs.1.53 crore.** In the same case, an additional financial burden of **Rs.1.51 crore** in the form of unproductive wage payments was borne by the Corporation owing to defective procedure adopted for retrenchment of surplus labour.

(Para 9.2.2)

Heavy despatches of stocks to depots having acute labour problems/space constraints etc, and lack of coordination at the level of Zonal and Corporate Headquarter of **Food Corporation of India** resulted in incurrence of avoidable demurrage amounting to **Rs.1.28 crore.**

(Para 9.2.3)

A sum of **Rs.1.06 crore** was reimbursed by the **Food Corporation of India** to Uttar Pradesh Cooperative Federation on account of differential in retailers margin on levy sugar without ensuring transfer of benefit to the retailers who were the intended beneficiaries of the reimbursement.

(Para 9.2.4)

An avoidable loss of **Rs.1.11 crore** was incurred by **Hindustan Latex Limited** on commissioning of its Gloves plant project due to defective machinery supplied by a foreign firm, besides incurring an avoidable expenditure of **Rs.10.72 lakh** as a consequence.

(Para 10.1)

Purchase of a Quality Improvement Equipment by **Bharat Heavy Electricals Limited** without any specific requirement and its inability to commission the same for more than six years since receiving it resulted in infructuous expenditure of **Rs.3.29 crore**.

(Para 11.1.1)

On consideration of an unrealistic income tax relief of **Rs.2.74 crore, Hindustan Cables Limited** placed a purchase order with a foreign firm (PKI) for marketing their products in India without obtaining any corresponding confirmed sale order. As a consequence of this injudicious import, the Company suffered a loss of **Rs.3 crore.**

(Para 11.4.1)

Hindustan Cables Limited suffered a loss of **Rs.1.56 crore** due to execution of a supply order on provisional price basis without ensuring incorporation of a corresponding clause in the purchase order placed with a foreign firm (PKI) for marketing their product in India.

(Para 11.4.2.)

Hindustan Cables Limited imported certain equipment by Air without adequate arrangement of fund. As the Company could not clear the equipment from the Airport it became liable to pay an avoidable additional amount of **Rs.1.34 crore** towards interest on custom duty and port rent charges.

(Para 11.4.3)

Hindustan Photo Films Manufacturing Company Limited was incorporated in 1960. Till the year 1991-92, the Company was wholly owned by the Government of India. Presently 90 per cent equity of the Company is held by the Government of India and the rest by General Insurance Company and its subsidiaries.

(Para 11.6.1.1)

The Company earned profits up to 1991-92, after which its financial position deteriorated rapidly leading to complete erosion of its net worth. Company's sales came down from **Rs.238.24 crore** in 1991-92 to only **Rs.21.05 crore** in 1996-97 and it had been continuously registering losses since 1992-93. The accumulated loss as on March 1997 was **Rs.382.36 crore.** The major factors, which contributed to the losses of the Company, were underutilisation of its Cellulose-Tri-Acetate Plant and the shortage of working capital, besides its dependence on borrowings and the heavy debt burden carried by it. The Company was heavily dependent on borrowed funds in order to meet its day to day working capital requirements. Recurring losses incurred in the last few years had crippled the Company's capacity to honour even the interest commitments on borrowed funds. As of March 1997, a sum of **Rs.406.22 crore** (including interest) was outstanding on working capital loans.

(Paras 11.6.4, 11.6.5 and 11.6.6)

The Polyester Base X-ray Project was approved by Government in March 1986 with an estimated cost of **Rs.168.12 crore** and a time schedule of 66 months. The cost of the project shot up to **Rs.680.05 crore** and the plant was commissioned only in March 1997 after a delay of 65 months. The Company had borrowed huge funds for the Project (a sum of **Rs.515.27 crore** was outstanding as on 31 March 1997). As much as 62 per cent of the cost escalation was solely due to interest charges.

(Paras 11.6.9.1 to 11.6.14.1)

The Magnetic Tape plant set up by the Company as a diversification project for manufacturing audio, video and computer tapes as well as magnetic sound recording films could achieve a maximum production of only 18 per cent of installed capacity in 1991-92. This further declined to less than 1 per cent of the enhanced installed capacity in 1996-97.

(Para 11.6.15.2 to 11.6.15.7)

Serious irregularities were noticed in purchase and accounting procedures and practices of the Company. In the purchase of machinery and spares, there were excess payments, receipt of machinery in defective condition, acceptance of unserviceable machinery and spares etc. Machinery were shown as received though these were not physically available. As against a single Board approval, two purchases of the same set of equipment were effected resulting in extra expenditure of **Rs.1.98 crore** on this count alone. Colour papers imported at a CIF cost of **Rs.2.13 crore** were abandoned after lying for 3 years at the port because of unsustainable prices and lack of demand in the market.

(Paras 11.6.16.1, 11.6.17 and 11.6.19.1)

Due to inadequacy of the inventory control system, the Company, had to write off **Rs.20.56 crore** being the quantum of inflation in the valuation of work-in-progress in the earlier years. The Company conferred undue favour to stockists by paying them service charges and discounts worth **Rs.46 lakh** without obtaining any tangible benefit. It distributed free samples to stockists worth **Rs.51 lakh** after the launch of its cine positive film with polyester base. It appointed stockists flouting Government instructions and without informing the Board.

(Paras 11.6.20.1 to 11.6.20.3 and 11.6.21.2 to 11.6.21.8)

A High Level Committee came to the conclusion (September 1994) that HPF could not be expected to perform satisfactorily while remaining in the Public Sector in view of the funds constraints, loss of domestic market and the need to export substantial quantities in order to remain viable. The Company was referred to the Board for Industrial and Financial Reconstruction (BIFR) in October 1995. No worthwhile proposal had so far been formulated. (March 1998)

(Paras 11.6.22.2 to 11.6.22.7)

NEPA Limited diverted plan funds amounting to **Rs.4.88 crore,** meant for meeting its capital expenditure needs to clear its non-plan and recurring trade liabilities.

(Para 11.7)

Due to an imprudent investment decision to invest surplus fund with **Canbank Financial Services Limited,** in contravention of instructions issued (December 1987) by the Government of India, Bongaigaon Refinery & Petrochemicals Limited faced a potential loss of **Rs.55.55 crore** being the non-recovery of deposits.

(Para 12.2)

For its failure to observe the prescribed procedure while removing excisable goods of Residual Crude Oil from its Gujarat Refinery, **Indian Oil Corporation Limited** had to make avoidable payment of excise duty and interest thereon amounting to **Rs.1.55 crore.**

(Para 12.3.1)

The extra payment of **Rs.2.26 crore** made by **Oil India Limited** to a contractor for early completion of a project proved to be infructuous because the project was completed late. The Company also did not recover the stipulated liquidated damages of **Rs.4.51 crore** from the contractor.

(Para 12.4.1)

Oil and Natural Gas Corporation Limited (ONGC) incurred an avoidable expenditure of **Rs.9.55 crore** in creating excess capacity in the Central Desalter Plant set up at Navagam (Gujarat) for improving the quality of crude being produced from North Gujarat Oil fields.

(Para 12.5.1)

Negligence in preparation of bid documents by **ONGC** and their failure to avail the benefit of the duty exemption available under the custom notification resulted in avoidable payment of customs duty of **Rs.7.61 crore**.

(Para 12.5.2)

ONGC lost cost advantage of **US$ 3,042,036 (Rs.5.26 crore)** by dividing the work between two firms which were individually competing for total value of contracts and were prepared to reduce rates if contract for more than half of the total number of work units was awarded to either of the two.

(Para 12.5.3)

By ignoring the interest on advances and also by considering the post tender modification of only one party, **ONGC** gave an unwarranted price preference to one bidder which amounted to showing him undue favour and incurred a loss of **US$ 2.16 million (equivalent to Rs.2.69 crore)** in the process.

(Para 12.5.4)

ONGC suffered a loss of **Rs.1.95 crore** by way of 191 days of computer down time in 1993-94 as it avoided, in 1991, acquisition of an additional Uninterrupted Power Supply (UPS) unit as a standby to a malfunctioning UPS unit supporting the computer system in its Regional Computer Centre at Calcutta.

(Para 12.5.5)

Delay by **ONGC** in assessment of correct amount of forex finance resulted in avoidable payment of **Rs.1.37 crore** on commitment charges.

(Para 12.5.6)

ONGC failed to provide adequate escape (safety) device on its drilling rig in time, causing Director General of Mines Safety (DGMS) to suspend rig operations for 90 working days, worth **Rs.1.28 crore** in idling costs.

(Para 12.5.7)

Delay in taking appropriate decision by the Government of India on the matter relating to recovery of sales tax on supply of Aviation Turbine Fuel to international airlines resulted in non-recovery of **Rs.267.02 crore** by three national oil companies **(IOC, HPCL and BPCL)** from international airlines.

(Para 12.6)

Due to injudicious linking of two independent tenders and rejection of the lowest technically-accepted bid, **Nathpa Jhakri Power Corporation Limited** denied itself an opportunity of saving **Rs.17.25 crore** in the award of a contract.

(Para 13.1.1)

National Hydroelectric Power Corporation Limited (NHPC) failed to enforce the contract provisions for supervision of work on a holiday which resulted in indiscreet unloading of counter-weight by the labourers thereby causing a bridge under construction to collapse. The accident resulted in the death of 16 labourers and additional expenditure of **Rs.2.24 crore** on its re-erection and strengthening.

(Para 13.2.1)

NHPC paid higher brokerage charges than prescribed by the Government resulting in excess payment of **Rs.1.72 crore.**

(Para 13.2.2)

Due to its failure to ensure timely supply of work fronts, drawings, materials, etc. **National Thermal Power Corporation Limited** had to pay **Rs.1.37 crore** on account of compensation and escalation charges to the contractor.

(Para 13.3.1)

Incorrect computation of replacement value of HVDC System resulted in excess payment of Insurance premium to the tune of **Rs.4.80 crore** by **Power Grid Corporation of India Limited.**

(Para 13.4)

Award of work on a single tender basis instead of executing the work departmentally/through piece-rated workers (PRWs) by **Hindustan Steelworks Construction Limited** resulted in an avoidable expenditure of **Rs.7.10 crore**.

(Para 16.1.1)

Non-utilisation of counter guarantee limit and absence of control mechanism to constantly monitor funds requirement resulted in an avoidable expenditure of **Rs.1.47 crore.**

(Para 16.1.2)

National Mineral Development Corporation Limited made irregular payment of **Rs.13.52 crore** as ex-gratia to its employees from the year 1989-90 to 1996-97 in contravention of the guidelines issued by the Department of Public Enterprises (DPE).

(Para 16.4.1)

National Mineral Development Corporation Limited paid Death-cum-Retirement Gratuity at an enhanced rate, contrary to the instructions issued by the Bureau of Public Enterprises, which resulted in an avoidable expenditure of **Rs.1.73 crore.**

(Para 16.4.2)

An expenditure of **Rs.1.28 crore** towards import of Composition Adjustment by Sealed (CAS), Argon Bubbling and Oxygen Blowing (OB) technology from Japan by **Steel Authority of India Limited** proved to be infructuous as the said technology being unsuitable could not be utilised in any steel plant in India.

(Para 16.5.1)

Injudicious decision of the **Steel Authority of India Limited** to go in for a stamp charged battery without assessing the actual requirement of plant and availability of funds led to an infructuous expenditure of **Rs.1.19 crore.**

(Para 16.5.2)

In clear violation of BPE Guidelines incorporating COPU recommendations, **Salem Steel Plant** supplied materials worth **Rs.5.68 crore** to two private firms against signed and blank post-dated cheques which bounced subsequently, resulting in loss to the Company as well as avoidable litigation.

(Para 16.5.9)

Violation of customs law by **Indian Road Construction Corporation Limited** and its failure to pursue the matter with appropriate authorities resulted in avoidable imposition of penalty amounting to **Rs.1.03 crore.**

(Para 17.2)

Injudicious decision of **Shipping Corporation of India (SCI)** to repair an old vessel, which had already completed 18 of its 20 years of economic life, after a fire accident led to an unproductive expenditure of **Rs.9.03 crore.**

(Para 17.3.1)

Unnecessary delay in completion of a revised feasibility report by **SCI** relating to a vessel resulted in avoidable payment of standing charges of **Rs.1.71 crore.**

(Para 17.3.2)

CHAPTER 1 : MINISTRY OF CHEMICALS & FERTILIZERS

1.1 Department of Chemicals and Petrochemicals

Hindustan Insecticides Limited

1.1.1 Avoidable loss on purchase of Chloral

Hindustan Insecticides Limited (HIL) incurred a loss of Rs. 54.19 lakh due to unjustified purchase of Chloral from a private supplier despite a long-term contract for purchase of chlorine from TCC, a State Government Company. Consequently, the HIL's own plant for production of chloral also remained under-utilised.

Hindustan Insecticides Limited (HIL), Udyogmandal Division, entered (February 1995) into a long-term contract, with M/s Travancore Cochin Chemicals Limited (TCC), a Kerala Government Company located adjacent to the division, for uninterrupted supply of chlorine required for the production of chloral used in the manufacture of DDT. The contract with M/s TCC envisaged supply of dry compressed gaseous chlorine @ 4000 MT per year through pipeline served and maintained by TCC. It also precluded HIL from purchase of chlorine from any other source.

During April 1996 to March 1997, HIL purchased only 996 MT of Chlorine from TCC, which was only 6.8% of the total production of TCC during the period but at the same time (February to December 1996), HIL resorted to purchase 220 Kilo Litres (KL) of chloral from a private firm in Gujarat @ Rs.93,890 per KL, for which production cost of HIL would have been only Rs.69,256 per KL using chlorine supplied by TCC. Purchase of chloral from private source thus resulted in avoidable extra expenditure of Rs. 54.19 lakh.

The Ministry justified (January 1999) the purchase of chloral from outside agency on the grounds of restricted supply of chlorine from TCC due to power cuts. The reply is not tenable as TCC was holding an average stock of 200 MT of chlorine per month during the period which was sufficient for production of 588 KL of chloral. Further, TCC had to sustain a loss of Rs. 34.61 lakh during 1996-97 on distress sale of 2957 MT of chlorine at reduced rates due to non-drawal by HIL. Thus, resorting to purchase outside the contract by HIL had resulted in avoidable loss of Rs. 54.19 lakh.

Hindustan Organic Chemicals Limited

1.1.2 Non-recovery of Excess Bonus paid to employees.

The Company had made excess payment of bonus to the extent of Rs.19.58 lakh which it was unable to recover due to non-inclusion of a suitable recovery clause in the memorandum of settlement entered into with the employees.

The Company paid Rs.1.59 crore as bonus to its employees during 1988-89 to 1991-92 under the payment of Bonus Act, 1965. Subsequently, in pursuance of a Memorandum of Settlement reached (February 1992) between the Company and its employees, the pay scales allowances, advances etc. were revised retrospectively with effect from 1 April 1988. Consequently, some employees who had already received bonus during 1988-89 to 1991-92 became ineligible and bonus aggregating to Rs.55.02 lakh became recoverable from them. However, if adjustment is made towards payment of production incentive, to which the employees of the Company whose wages were in excess of the limit under the payment of Bonus Act were entitled after retrospective revision, the net amount recoverable works out to Rs.19.58 lakh.

The Company did not make any recovery and the amount due from the employees had since been written off (February 1996). The Management stated (November 1997) that this had been done in order to maintain industrial peace. Subsequently, the Company on retrospective revision of pay scales with effect from 1 April 1992 recovered the excess bonus paid to employees for the years 1992-93 to 1995-96 by incorporating a specific clause towards such recovery in the Memorandum of Settlement. Excess bonus paid to employees during 1988-89 to 1991-92 could also have been recovered in a similar manner.

Thus, non-inclusion of a specific clause towards recovery of any excess bonus paid in the Memorandum of settlement entered into with the employees resulted in excess payment of Rs.19.58 lakh.

The Ministry stated that the question of recoverability of bonus once paid was being examined in consultation with the Ministry of Law, Justice and Company Affairs. The result of the examination was awaited (December 1998).

Indian Petrochemicals Corporation Limited

1.1.3 Avoidable payment of power factor adjustment charges

The Corporation had to incur an avoidable expenditure of Rs.86.84 lakh to Gujarat Electricity Board (GEB) by way of power factor adjustment charges as the required power factor could not be maintained during the period from July 1996 to March 1997 in Gandhar phase-I project comprising VCMs, PVC and Chlor Alkali Plants.

The tariff schedule governing supply of electricity to Gandhar Complex of the Company with effect from November 1990, provided for levy of power factor adjustment charges (penalty) by the GEB in the event of average power factor falling below 0.90 in any month. The actual power factor ranged between 0.743 and 0.880. During this period and pending operation of a regular transmission line of higher capacity (220 KV), the power requirement was being met through a low capacity power transmission line (66 KV) which had been established in 1993 to meet relatively limited power requirement (1.6 MVA) during the construction period and was enhanced with the installation of an 8 MVA transformer (June 1996) to receive additional power. Though, owing to dispute about commercial terms delay in operation of regular power transmission line (220KV) was anticipated, the project Management failed to act judiciously and maintain the required load factor by installing an appropriate device (capacitor bank) costing a relatively smaller sum of money (Rs.12.96 lakh).

The Ministry stated (February 1998) that since the 8 MVA transformer was commissioned only for a definite period of 5 to 6 months to take care of uncertainty of normal power supply from GEB, no capacitor bank was installed. It was also stated that GEB was supposed to complete the 220 KV line by August 1996 but they actually completed the work in March 1997.

The reply of the Ministry is not tenable because investment on the capacitor bank was relatively insignificant. Moreover, the capacitor bank could have been utilised even after permanent power supply of 220 KV was in place. Further, it was mandatory for customers of GEB to install capacitors to maintain power factor under the tariff. The Company failed to appreciate that power factor adjustment charges would be far higher than the cost of the capacitor bank.

Thus, payment of power factor adjustment charges of Rs.86.84 lakh by the Company was clearly avoidable.

1.2 Department of Fertilizers

Fertilizer Corporation of India Limited

1.2.1 Avoidable extra expenditure on injudicious procurement of materials

The Company repeatedly procured materials from a foreign supplier ignoring the lower rates of proven indigenous suppliers and thereby incurred avoidable expenditure of Rs.1.35 crore.

1. Against requisition (February 1990) for replacement of existing spindle and cylinder rows as a measure of regular maintenance of turbo generator sets in Sindri unit of Fertilizer Corporation of India Limited, the Company floated tender enquiries to one overseas supplier and to two indigenous suppliers in June 1990. But before receipt of offers from indigenous suppliers the Company asked (July 1990) the foreign supplier to quote for the same items once again with improved delivery period. The foreign supplier quoted (July 1990) a rate higher than that offered in June 1990 for emergency supply within four and half months against 12 months quoted earlier. The Company placed the

order on foreign supplier in September 1990 (after 7 months from the date of requisition) without giving any cognizance to lowest offer of Rs.19.50 lakh by an indigenous supplier who had supplied the same materials earlier. The supply of materials was completed at a landed cost of Rs.45.49 lakh in the first week of May 1991 as against the stipulated delivery within first week of February 1991. The Company, thus, incurred an extra expenditure of Rs.25.99 lakh on this purchase. Management's contention that procurement was for emergent requirement is not convincing since it is evident that apart from considerable delay in procurement action by the Management, the foreign supplier also failed to adhere to the delivery schedule.

2. The Company procured two sets of 54 Spindle Rows in August 1994 from the same foreign supplier at a cost of Rs.66.94 lakh as against indigenous available price of Rs.44 lakh on the ground of urgency. The materials although air freighted were still lying in stores unused (December 1997). In the instant case too the Company incurred avoidable extra expenditure of Rs.22.94 lakh.

3. In September 1994, the Company placed another order for 16 sets of Spindle Row Blades at a cost of Rs.7.28 crore on the same foreign supplier. 5 sets single Blade type out of 16 sets so required were indigenously available at a lower price (Rs.1.24 crore). The Company incurred extra expenditure of Rs.86.38 lakh due to non-acceptance of the indigenous offer.

The Company could have saved Rs. 1.35 crore (Rs. 25.99 lakh + Rs. 22.94 lakh + Rs. 86.38 lakh) by procuring the material indigenously apart from giving an impetus to the domestic industry.

The Ministry/Management in their reply (March 1998/September 1997), inter-alia, contended that exercise by FCI to procure Spindle Row Blade in 1990 from indigenous sources proved to be time consuming and the trial orders proved to be undependable from quality considerations. The Ministry further stated that it was not correct to state that a loss had been incurred in procuring Spindle Row Blades etc. from foreign suppliers instead of indigenous suppliers, especially since even one break-down of turbo-generating sets in Power House might result in stoppage of production and financial loss to the Company of about Rs.2.00 crore (Rs.20 lakh per day x 10 days) unless availability of stand-by generator sets was ensured for which availability of the insurance spares was imperative. The contention of the Ministry/Management is not tenable because of the following reasons:-

(i) While processing the procurement action, quality of Spindle Row Blades supplied by the indigenous suppliers was certified by the plant Management as satisfactory (June 1990 and February 1997). The Tender Committee also recommended indigenous procurement.

(ii) The alleged delay on the part of the indigenous suppliers took place mainly due to (a) inordinate delay in making advance payment by the Management; (b) delay of about 2 years in supply of sample, and (c) delay by the Management in lifting material from supplier's works by 2 years.

(iii) The contention of the Management that one break-down of turbo generating set may result in stoppage of production and financial loss of Rs.2.00 crore is hypothetical as more than 26 Nos. of breakdowns ranging from 13 days to 505 days during the period from September 1991 to March 1995 were noticed for which no production loss was suffered as stated by the Management (December 1997). Moreover, the Company is getting regular power supply from DVC through firm supply line for a couple of years.

(iv) There was considerable delay in supply by the foreign supplier and even after delivery some of the materials were lying in port for two years and thus, the urgency of procurement was also not based on facts.

Hindustan Fertilizer Corporation Limited

1.2.2.1 Loss due to delayed submission of returns to a Bank.

Delay in submission of returns by the Company to a Bank resulted in avoidable payment of Rs.39.33 lakh as penal interest.

The Company maintained two cash credit accounts with State Bank of India, Industrial Finance Branch, New Delhi. As per working capital consortium agreement with Bank, the Company had to furnish the Quarterly Information System return within the stipulated time, failing which the Bank would charge penal interest in addition to normal cash credit interest. The Bank charged in April 1993 a penal interest of Rs.39.33 lakh for delayed submission of quarterly returns for the quarters ending June 1991, September 1991 and March 1992.

The Company's request for waiver made in October 1993 was not agreed to (April 1994) by the Bank on the plea that the penal interest had been charged as per instructions of RBI. Accordingly, provision for the same was made by the Company in the accounts for 1994-95.

The Ministry while confirming the facts and figures of the case stated (March 1998) that despite vigorous follow up by the Company, the Bank did not agree for waiver of penal interest charges.

Thus, the Company suffered a loss of Rs. 39.33 lakh due to delay in submission of returns to Bank as per the provision of the agreement.

1.2.2.2 Infructuous Expenditure on Import of Material

Import of outlet pigtails in March 1991 without assessing the condition of complimentary equipment resulted in blockage of Rs.27 lakh for a period of over seven years.

The Namrup Unit of the Company procured (March 1991) 200 Nos. of outlet pigtails at a cost of Rs.27 lakh from M/s. James Greaves & Co. of UK for replacement of the complete set of outlet pigtails of Primary Reformer of Ammonia-II Plant. The entire material had been lying in stock since its procurement and no action had been taken towards its utilization. The reason for non-utilization of the pigtails being that these could only be used alongwith catalyst tubes, condition of which had deteriorated by the time pigtails were procured and no action had been taken towards its procurement.

The Ministry/Management while admitting the fact of non-utilization stated (January 1998/October 1997) that the items procured could not be utilized on account of shut down of production operations of Namrup Unit since October 1994 and that outlet pigtails would be utilized after completion of revamping scheme of Namrup –II unit approved in October 1997. The contention of the Management/Ministry is not acceptable since the revamp work at Namrup-II unit is at a very preliminary stage. Although, Management had not been able to categorically state the average life of outlet pigtails, from the performance reports it was seen that their expected life was around 5-6 years. In view of this the chances that these outlet pigtails, which were procured more than seven years ago, would be utilized in Namrup-II unit are extremely remote.

Thus, decision to import outlet pigtails, without assessing the condition of the catalyst tubes with which these were to be fitted reflects lack of planning and co-ordination and had resulted in blockage of funds amounting to Rs. 27 lakh for more than 7 years.

National Fertilizers Limited

1.2.3.1 Loss on excess import and sale of DAP

Due to import of decontrolled Di-Ammonium Phosphates (DAP) without any definite requirement and its subsequent sale on high seas, the Company suffered a loss of Rs.2.21 crore.

The Company signed a contract with M/s. Pyrites, Phosphates and Chemicals Limited (PPCL) on 20 June 1995 to purchase 1 lakh MT of DAP @ US $ 244.50 per MT (C&F) due to be delivered to PPCL in the coming months. The delivery of first consignment of 36,122 MT was taken by the Company on 22 August 1995. The delivery of second consignment of 52,225 MT, which arrived at JNPT, Mumbai on 9 October 1995, was not taken. Instead, the ship was allowed to wait at the port till 29 November 1995 when the consignment was sold to a foreign party at US $ 244 per MT. In the process the Company suffered a loss of Rs.3.62 crore including interest paid to PPCL on account of delay in making payment (Rs.2.33 crore), demurrage (Rs.1.20 crore) and price variation (Rs.0.09 crore) which, after adjusting gain on foreign exchange variation (Rs.1.34 crore), rebate of US$ 2 per MT received from PPCL on 27,550 MT (Rs.0.20 crore) and recovery of bank charges on Letter of Credit and stamp duty fee from PPCL (Rs.0.16 crore), worked out to a net loss of Rs.1.92 crore.

In a similar manner, the Company had resold on 3 November 1995, a consignment of 36,300 MT of DAP received at JNPT, Mumbai from a foreign supplier against a global tender for 1 lakh MT and suffered a loss of Rs.0.29 crore on account of foreign exchange variation during the intervening period.

From the facts indicated above, it is evident that procurement of additional 1 lakh MT of DAP from PPCL on high seas basis was not based on actual requirement in the country. Thus, by procuring DAP without any correlation to requirements, the Company had suffered an aggregate loss of Rs.2.21 crore.

In their reply (May 1998) the Ministry justified the procurement of 2 LMT by NFL by stating that as against the requirement of 40 LMT during 1995-96, opening stock of DAP in the country was 7 LMT. Taking into account the likely indigenous production of 23 LMT a gap of 10 LMT of DAP was envisaged. This argument is not tenable in view of the fact that NFL was not the sole procuring agency because DAP could be imported against an open general license and that PPCL had already entered into a contract for importing DAP.

Justifying sale of DAP by NFL, the Ministry stated that the demand and sale of DAP in the country had been actually hampered on account of steep increase in its selling price due to exchange rate fluctuation during 1995-96. Consequently, with the onset of Rabi 1995-96 the availability of DAP in the country was more than adequate.

However, the fact remains that there was no justification for NFL to purchase DAP as indicated above because the consumption of this fertilizer in the country had been falling continuously since 1991-92 and had declined from 45.18 lakh MT in 1991-92 to 35.08 lakh MT in 1994-95.

1.2.3.2 Avoidable expenditure on a foreign project

The Company incurred avoidable expenditure of Rs. 28.01 lakh on foreign travel etc. in connection with a fertilizer project which was ultimately given up due to basic premise i.e. price of feed stock underlying its viability turning out to be unfavourable.

The Company sent a joint delegation to Syria in November 1994 alongwith two private parties, to explore the possibility of setting up a joint venture fertilizer complex with natural gas available in that country as feed stock. The visit was undertaken as a follow up to the visit of Union Agriculture Minister to Syria in January 1994. The Government had identified the Company as the implementing agency as it did not have any project abroad though it had large investible surplus funds. The Company sent its teams to Syria on two more occasions in March and November 1995.

The viability of the contemplated project was primarily dependent upon the price of gas to be used as feed stock. But on this critical parameter no definite indication was obtained from the Government of Syria during the first visit. Consequently, one of the private parties which had accompanied the delegation to Syria in the first round, considered any further expenditure on preparation of Techno Economic Feasibility Report (TEFR) as imprudent and disassociated itself from the exercise. The Company, however, went ahead and appointed a consultant in February 1995 to prepare the TEFR at the cost of Rs. 17.50 lakh and deputed two more delegations of its officers to Syria in March/November 1995 at an expense of Rs.10.51 lakh.

When, in December 1995, the Syrian authorities indicated that gas would be made available for the project at US$ 1.95 per million BTU, the Company decided (May 1995) to abandon the project because it would have been unviable at the price quoted. Had the Company acted realistically and ascertained the price of gas during the very initial visit to Syria, the expenditure of Rs.28.01 lakh incurred on the subsequent two visits and on preparation of TEFR could have been avoided.

The Ministry contended (September 1998) that the expenditure being exploratory in nature could not be treated as infructuous.

The contention of the Ministry is not tenable as two out of three visits and expense on preparing a TEFR was clearly avoidable.

The Fertilisers and Chemicals Travancore Limited

1.2.4.1 Avoidable extra expenditure

Fertilizers and Chemicals Travancore Limited (FACT) incurred avoidable extra expenditure of Rs 3.15 crore in paying compensation to a transport contractor due to its inability to fulfil contractual obligations on account of inadequate planning.

The Caprolactum plant of FACT at Udyogmandal (commissioned in March 1991) required 62000 TPA of ammonia annually to maintain production at 80% of capacity, which was to be met by importing ammonia till the Company's own ammonia plant came up. The imported ammonia required transportation from Willington Island shore tank to the Company's own plant at Udyogmandal. In the absence of any other convenient mode of transportation, the Company entered (December1987) into a 10-year contract commencing on December 1989 with a private contractor, M/s Ardeshir B Cursetjee & Sons Pvt. Ltd, for transportation of imported ammonia through 14 kms of waterway from Willington to Udyogmandal by barge.

The contractor was guaranteed an annual transportation of 80000 tons at the rate of Rs 390 per ton with 2 per cent escalation in the rate for every succeeding year. Also, rate for additional quantity upto 60,000 MTs, if offered, for transportation was fixed at Rs 200 per MT. For any shortfall in guaranteed quantity of 80,000 MT, Company was to compensate the contractor at the rate of Rs. 360 per MT. The Contractor was also paid an interest free mobilisation advance of Rs 3.00 crore for fabrication of container /barges which was recoverable in 114 monthly instalments.

The actual transportation of Ammonia commenced from December 1990. During 1990-91 to 1993-94, the Company paid Rs 3.15 crore as compensation for not providing the minimum guaranteed quantity of ammonia to the contractor for transportation.

The Ministry stated (September 1998) that the shortfall in ammonia transportation was due to restricted production at Caprolactum plant. The capacity utilisation in the plant was assumed to be 80% and it was expected that it would go upto 100% within a short period after start of, as the process was a well-proven one. But during 1991-92 to 1993-

94, the actual capacity utilisation in the plant ranged between 50% and 77%. The shortfall, according to the Ministry, was due to reasons that could not be foreseen at the time of entering into the contract, e.g. shortages of other raw materials like benzene etc, besides process and operational as well as equipment problems.

The reply of the Ministry is not tenable as it indicated lack of co-ordination and planning on the part of the Company in ensuring continued supply of other raw materials. Besides, since the capacity utilisation in the plant was initially restricted to the requirement of 62000 TPA of ammonia, it was not prudent to agree to a compensation clause which assumed full capacity utilisation at 80,000 TPA of ammonia. Similarly, the process, equipment and operational problems also should have been anticipated or handled in a speedier manner, especially since the process was a well-proven one as the Management itself had stated.

1.2.4.2 Wasteful expenditure on an abandoned project

Implementation of a scheme without assessing its viability resulted in infructuous expenditure of Rs.31.31 lakh and creation of further liability of Rs.76.18 lakh. The scheme had to be abandoned finally as it was found to be economically non-viable.

The Board of Directors of the Company approved, (May1988) a retrofit project for improving the performance of one of its Ammonia Plants which included an improved vetrocoke process scheme for reducing the energy consumption at an estimated cost of Rs.2.10 crore which was about 11 per cent of the total revised cost of Rs.18.71 crore (March 1989) for the project of which the foreign exchange component was equivalent to Rs 3.41 crore.

The estimated investment on vetrocoke process of Rs.2.10 crore which had a pay back period of 1.4 years was based on a study report prepared by a consultant appointed for plant study. It was only a budgetary cost under European condition based on 1988 index without any detailed engineering. The Company without properly analysing the study report and making a realistic assessment of estimates entered into an agreement (June 1991) with the licence owner of the process at a lumpsum fee of DM 375,000 towards licence know-how. Out of this, DM 150,000 (Rs.31.31 lakh including Rs.8.03 lakh Income tax and R&D cess) were paid towards 40 per cent of the fee for basic engineering data and technical consultation for installation of the process. However, on receipt of the basic design data from the firm, the revised cost based on detailed engineering and cost of equipment and materials for the process worked out to Rs.18.69 crore with a pay back period of 8 years and even after attempting certain modifications the cost and pay back period could not be reduced below Rs.9.35 crore and 5.7 years respectively compared to the original cost of Rs.2.10 crore and 1.4 years respectively. As this was considered to be economically non-viable, the scheme was altogether dropped from the scope of the retrofit project (April 1993).

The Ministry stated (October 1995) that the scheme had to be dropped as it was no longer economically viable but contended that Company was able to gainfully utilise a part of the technical information provided by the firm. The reply of the Ministry is not tenable since without payment of the agreed fee, utilisation of information would end up in violation of basic principles of the agreement. Also on the basis of audit observation and opinion of the Department of Legal Affairs which was obtained by the Ministry after the matter was referred to them by RBI when the Company had sought its permission to remit the balance of the fee amounting to DM 225,000, the Ministry directed (January 1997) the Company to take up the matter with the firm on the difficulties in making further payments under the contract and also to assure them that the engineering package already obtained by the Company would not be utilised without their prior approval. Further, the overseas firm had not agreed to the Company's request for withdrawal of the claim (October 1997).

The Company's action for implementation of a scheme without assessing the viability had resulted in infructuous payment of Rs.31.31 lakh and creation of further liability of Rs.76.18 lakh (exchange rate of September 1998) for the balance 60% of the agreed fee including Rs.19.75 lakh as Income tax and R&D cess.

CHAPTER 2 : MINISTRY OF CIVIL AVIATION

Department of Civil Aviation

Airports Authority of India

2.1.1 Undue benefit to a private Airline

Laxity on the part of Management and intervention by the Ministry of Civil Aviation in bestowing undue favour to M/s East West Airlines had the effect of non-recovery of dues of the Authority to the tune of Rs.14.19 crore.

Consequent upon the enunciation of the Open Sky Policy by the Government of India in April 1990, a private Air Taxi Operator (ATO) viz. M/s East West Airlines (EWA) commenced operations at Mumbai airport in February 1992. A security deposit of Rs.9.60 lakh was obtained from EWA by the Authority and it was extended credit facility for payment of charges towards landing, parking and other facilities to be utilised by EWA at the airports of the Authority. Subsequently, EWA extended its operations from other airports in Chennai, Calcutta, Delhi and Thiruvananthpuram. Though, the security deposit, as per policy of the Authority, was to be obtained equivalent to three months' estimated charges, the deposit obtained was not sufficient even to meet one month's charges.

From the outset, EWA defaulted in payment of the dues to the Authority and overdues continued to mount. During the period between April 1992 and June 1995, 51 cheques given by the party in favour of the Authority for Rs.5.39 crore towards payment of dues were dishonoured by the bankers. No action was taken by the Authority against EWA under Negotiable Instrument Act for dishonoured cheques. In March 1994, however, when the dues against the party had piled up to Rs.1.12 crore, the Authority decided to stop the operations of the party without any notice, in case it failed to pay Rs.25 lakh within one week and Rs.25 lakh every week thereafter to liquidate the outstanding dues. The weekly payments were not made by the party. However, the party made an adhoc payment of Rs.60 lakh when the Authority tried to invoke the party's bank guarantee of Rs.50 lakh.

The Minister for Civil Aviation was informed (January 1995) that action had to be taken against EWA as dues against the party were increasing. The Minister was again informed (June 1995) that the outstanding dues from EWA had mounted to Rs.7.37 crore and it was proposed to stop the flights of EWA but the Authority was asked by the Minister to defer the decision for stoppage of EWA's operations. On 14 July 1995, the Authority decided in consultation with the representatives of EWA that the bank guarantee of Rs.50 lakh would be increased by the latter to Rs.1 crore by the end of the month and to Rs.1.50 crore by 15 August 1995. The party did not furnish the requisite bank guarantee. Even though EWA did not make the required payments/bank guarantees and did not clear the old dues, it was allowed to continue using the landing, parking and other facilities at the airports of the Authority. However, the bank guarantee of the party for Rs.50 lakh was invoked in September 1995 due to non-payment of dues.

On a further reference (November 1995) to the Ministry, the Authority was asked to take a lenient view. By 15 January 1996, the outstanding dues against the party had mounted to Rs.9.13 crore and the credit facility was stopped on 30 January 1996. On the next day, the credit facility was again restored to the party on its request for giving it the last chance for clearing the dues. As a sequel of this, EWA paid a meagre amount of Rs. 75 lakh in February 1996 and March 1996 as an ad-hoc payment towards the outstanding dues. On resumption of the credit facility, EWA again did not clear even its current billings and consequently, dues for February 1996 alone went upto Rs.53 lakh. Finally, the Authority decided (July 1996) to stop the flights of the said ATO from midnight of 6 July 1996. Legal action for recovery of dues as well as action to terminate all licences to EWA were also initiated (September 1996). The total amount recoverable from EWA as on March 1997 aggregated to Rs.14.19 crore which had not been recovered so far (October 1998).

The Ministry admitted (July 1998) that EWA tried to evade payment of arrears and current dues on some pretext or the other and did not furnish the requisite bank guarantees also. The reply did not, however, explain the reasons for the intervention of the Ministry to prohibit the Authority from taking appropriate action against the defaulting EWA despite such dubious record of continuous default and dishonouring of its cheques and its failure to honour its commitments.

Thus, due to laxity on the part of the Authority and improper intervention of the Minister. EWA was allowed to enjoy the facilities at the airports without making payments to the Authority. This resulted in an avoidable loss of revenue of Rs.14.19 crore to the Authority, which is not likely to be recovered as EWA had ceased its operations since July 1996.

2.1.2 Loss of revenue due to undue favour shown to a private party.

The Authority incurred a loss of Rs.8.20 crore by providing undue benefits to a Hotel Company.

The Authority allotted (November 1983) a plot of land measuring 11000 square metres (sqm.) to a company viz. Leela Venture Ltd. (LVL), for beautification and recreation. The license was upto August 1987 renewable every five years thereafter.

As there was no laid down policy for allotment of land, the Authority framed (February 1990) a policy for allotment of its land to hotels and private agencies and recovery of licence fees etc. The guidelines stipulated that the Authority should (i) invite tenders for allotment of land; (ii) charge a minimum guaranteed amount as licence fee from the date of allotment, irrespective of turnover, with an escalation of 10 per cent per year, (iii) link the minimum guaranteed amount to the market value of land and (iv) for new commercial allotments, levy licence fee as a percentage of the market value of land as evaluated by Government valuers.

LVL forwarded (July 1994) a proposal to the Authority for construction of a new 5 star deluxe hotel and requested them to allot land measuring 5107.5 sqm. for the purpose. LVL also requested (November 1994) the Authority for conversion of the existing 11000 sqm. of land allotted to them in November 1983 from licence to lease basis in its favour for construction of 150 additional guest rooms in an already constructed hotel in an adjacent piece of land measuring 18000 sqm. allotted to them earlier on lease basis (November 1983).

Without inviting open tenders, the Authority decided (March 1995) that LVL may be allotted 5107.5 sqm. of land for 30 years on lease. It was also decided to convert the 11000 sqm. land from licence to lease basis as requested by LVL. As per the agreements signed in February and March 1996, in respect of 11000 sqm. of land, LVL was to pay as royalty a minimum guaranteed amount which was linked to the projected turnover as specified in the agreement or 7.5 per cent of gross turnover of new hotel block, whichever was higher, in addition to the lease rentals. In respect of 5107.5 sqm. plot, it was to pay as royalty a minimum guaranteed amount which was again linked to the projected turnover or 3.6 per cent of the gross turnover of the hotel, whichever was higher, in addition to lease rentals. Thus, the payments were not linked in any way to the market value of the land. In addition, the Authority allowed (May 1995) a gestation period of 3 years, extendable by one year, during which LVL did not have to pay any royalty to the Authority, for both the pieces of land.

All the above actions were in contravention of the policy guidelines laid down by the Authority in February 1990 which amounted to showing undue favour to this private party. This resulted in the loss of Rs.8.20 crore till March 1998 besides making the Authority liable to recurring losses in future.

The Management stated (September 1997) that as the rates/value of the land assessed by the valuers was meant for outright sale, they were not taken for determining the royalty in respect of land allotted on lease to LVL. The reply of the Management is not tenable as the Authority violated its own laid-down policy which was applicable in respect of allotment of land and not for sale.

The matter was referred to the Ministry in March 1997; their reply was awaited (December 1998).

Air India Limited

2.2.1 Unproductive expenditure on leasing of land

Air India incurred a total expenditure of Rs.14.14 crore on a piece of land taken on lease in London without utilising it for the purpose for which it was procured, i.e. for setting up a maintenance base for Air India in London. The land was finally surrendered in April 1994.

For setting up its maintenance base near Terminal 4 of Heathrow Airport, Air India London (AIL) took 3.508 acres of land on lease from British Airport Authority (BAA) for a period of 61 years commencing from September 1982 at an annual rent of £15,000. According to the agreement executed between AIL and BAA in June 1986, the lease rent was to be revised to £ 22,500 per annum for the period from 1 April 1988 to 31 March 1993 and thereafter as fixed by the BAA on the basis of open market rental value on 31 March 1993 and on 31 March in every fifth year.

Although the land was acquired for setting up the maintenance base, AIL did not formulate any plan for establishing the same. Instead, it invested £ 12.50 lakh to build the necessary infrastructure to utilise the space for car parking, storage of scrap and commissary stores of catering contractor, besides housing the offices of Stores and Purchase, Inflight, Engineering and Communication Departments.

In anticipation of a substantial increase in rent (approximately to £ 7.50 lakh per annum) with effect from 1 April 1993, the Estate Consultant of AIL recommended (March 1992) negotiations with BAA for surrender of the lease in advance of the ensuing rent review date (31 March 1993). In May 1993, BAA offered a capital sum of £ 2.5 lakh in lieu of surrender of the lease by AIL with effect from September 1993 and asked for rent at £ 4.03 lakh per annum from April 1993 till the date of its surrender. BAA subsequently enhanced (August 1993) the capital sum to £ 6.75 lakh on condition that the lease be surrendered by May 1994. This sum was to be reduced by £ 25,000 for every month of advancement of surrender. The lease was finally surrendered on 5 April 1994 against the capital receipt of £ 6.25 lakh from BAA. Besides incurring the expenditure of £ 12.50 lakh on construction of infrastructure at the surrendered land, AIL had paid rent and rates aggregating to £ 17.71 lakh during the period from September 1982 to March 1994.

Thus, the very objective of setting up a maintenance base for which the land was taken on lease could not be accomplished. While AIL had spent £ 30.21 lakh during September 1982 to March 1994 on the land which was not utilised fully, it received only £ 6.25 lakh for surrendering the lease. The total unproductive expenditure was thus £ 23.96 lakh equivalent to Rs.14.14 crore.

Air India stated in July 1997 that the maintenance base could not be started due to disagreement between the Union and the Management. It further stated that land was utilised by them as 1.59 acres of plot was allotted for maintenance work, 0.46 acres for car parking, 13,500 sq. feet for warehouse and stores and 4488 sq. feet were allotted for office (total 2.42 out of 3.508 acres).

The reply of the Management is misleading as according to the Minutes of the meeting of Air India Board held on 7 February 1994, only a small portion of 11,565 sq. feet of land was being utilised by them. In the said Board meeting, Air India had admitted that the "surplus area would not be put to use in the foreseeable future". Besides, given the huge amount spent on the land, a method should have been found to resolve the management-union disagreement.

The matter was referred to the Ministry in April 1997; their reply was awaited (December 1998).

2.2.2 Under-utilisation of office building by Air India office, London

Due to adhoc approach of management in utilisation of its office space the Company could not profitably utilise the surplus space resulting in a loss of Rs.3.04 crore.

In December 1994 the London office of Air India acquired a building named 'The Highway' located about 7 Kms. beyond Heathrow Airport at Colnbrook having a covered area of 24757 square feet and costing £ 2.93 million (equivalent of Rs.14.47 crore) including VAT. The building was meant to re-locate various offices of Air India at the Heathrow Airport and elsewhere in London. The building had, however, not been fully occupied ever since it was acquired and option to let out space surplus to the requirements of Air India was not seriously pursued.

To begin with, only Administrative and Sales departments located at Claredon House, New Bond Street were to be shifted to the new building. At the time of purchase of the building a proposal was mooted also to shift Operations, Engineering Airport Services and Security offices from their existing location at Terminal-3. The Sales and Administrative offices were shifted to the new building in April 1995. But the proposal to shift other offices in their entirety was not found operationally feasible. Consequently, it was decided in February 1996, to surrender only 3817 square feet out of 4985 square feet occupied by these offices at Terminal-3. Even this decision was implemented belatedly and partially, as only 2111 square feet of space was surrendered at Terminal-3 in October 1996. The extra cost borne in needlessly retaining space at Terminal-3 over a period of 18 months between April 1995 to September 1996 was £ 1.21 lakh (equivalent to Rs.71.63 lakh).

Even after October 1996 the building was not fully occupied. The exact area left unoccupied could not be ascertained by audit as the Company could neither indicate the exact requirement of space for the offices shifted to the new building at Colnbrook nor could it confirm that the space occupied by these offices after shifting correlated to the space surrendered at Terminal-3. Incidentally, a parallel proposal had been submitted to Air India Headquarters in June 1996 for letting out 12375 square feet of extra space in the building. Till date no final decision had been taken on this proposal (May 1998). Thus, even on a conservative basis an additional area of 10264 square feet had never been put to any specific use. As per the assessment made by the London office of Air India, this space could have been let out @ £ 20 per square foot. The financial loss in not letting out this space during July 1996 to May 1998 worked out to £ 3.93 lakh (equivalent to Rs.2.32 crore).

Air India accepted the facts of the case (May 1997) and stated that delay in shifting offices other than Sales and Administration was due to unfurnished condition of the building. Shifting of Sales and Administrative offices at an earlier stage was justified as a step taken to avoid additional rental expenditure at Claredon House. The reply is, however, not convincing because the period of five months between December 1994 and April 1995 was sufficiently long for furnishing of the building. Moreover, no reasons had been indicated for not renting out extra space during the last two years. It was evident that there was no well thought-out plan of action for occupying the building in an orderly and economical manner and Mangement's approach in the matter was ad-hoc.

Consequently, the Company suffered an aggregate financial loss of £ 5.14 lakh (equivalent to Rs.3.04 crore).

The matter was referred to the Ministry in April 1997; their reply was awaited (December 1998).

Indian Airlines Limited

2.3.1 Loss due to theft of Life Jackets.

Non-observance of the rules regarding taking over and handing over of life jackets resulted in losses amounting to Rs.1.07 crore due to theft.

According to the Inspection Manual of the Company, suitable arrangements should be made to hand over life jackets to the custody of the flight crew before each flight which crosses water by 50 kms. On return of the flights, the custody of the jackets should be handed over to the engineering staff under delivery receipts.

The Company did not follow the provisions of the Inspection Manual regarding taking over and handing over of life jackets and provided (February 1995) life jackets permanently on all aircraft. As a result, there were continuous theft of the same. The Company had lost 5925 passenger life jackets, 779 crew life jackets and 110 demonstration life jackets costing Rs.1.07 crore between March 1995 and March 1998 due to theft. In order to reduce the theft, the Company obtained (November 1995) the approval of the Director General of Civil Aviation (DGCA) for the use of floatation seat cushions instead of life jackets as the cushions could be placed on aircraft seats, making them less prone to pilferage. However, no action was taken to procure the same.

The Management stated (September 1997) that the decision to put the life jackets permanently on board all the aircraft of the Company was taken due to the various problems faced in installing and removing them every time before and after every flight. As regards the steps taken to avoid loss/theft, a private party viz. M/s Al Wave Radio Agency, Mumbai which supplied a system to prevent theft of life jackets was contacted and the equipment offered by the party was found suitable to detect unauthorised carriage of life jackets. The Management stated that the party had been asked to submit quotation (September 1997).

The reply of the Management is not tenable as the Company had not been following its own Manual which provided for handing over and returning of life jackets by flight crew before and after each flight to prevent pilferage. The Company had also not fixed any responsibility for the loss of life jackets, even in respect of crew life jackets and demonstration jackets, which were handled by crew members only. Further, the Company had neither procured the floatation seat cushions nor the theft prevention system (September 1998).

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

2.3.2 Irregularities in the leasing of land

The Company incurred infructuous expenditure of Rs.98.25 lakh to acquire land/building at Srinagar without the necessary approval of Central Government which it could not utilise. It also incurred loss of interest amounting to Rs.1.69 crore.

The Company decided (October 1986) to acquire an air cargo complex measuring 4342 square yards at Srinagar at a cost of Rs.1.34 crore (cost of land: Rs.86.11 lakh; cost of 11500 sq. feet of structures existing thereon: Rs.47.76 lakh) from the Srinagar Development Authority (SDA) for constructing its own booking office complex, as a substitute for the existing booking office in a rented building in the city. The Company paid (December 1986) Rs.86.11 lakh to SDA towards the agreed cost of land. But it could not take possession of the land as SDA could obtain the approval of the Jammu and Kashmir State Government only in August 1987 for leasing of the land to the Company.

The Company apprised (August 1987) the Central Government of its plan to acquire the said complex on an initial 40 years' lease extendable to a maximum of 99 years. As the Company was not authorised to enter into any agreement for acquisition of any immovable property on lease basis for a period exceeding 10 years without the prior approval of the Central Government in terms of Section 35(b) of the then Air Corporation Act, 1953, it sought the approval in August 1987 much later than payment of the cost of the land to SDA (December 1986).

In September 1987, the Company conveyed its acceptance of the draft lease deed offered by the State Government. The Company's proposal for incorporation of a clause in the lease agreement to the effect that in the event of failure of State Government in handing over complete possession of the structure by 31 October 1987, the latter would pay interest at 15% per annum on the deposits already made by the Company, was not accepted by the State Government.

The Central Government cautioned (December 1987) the Company that this deal might prove to be very expensive in view of the possible increase in lease charges at the time of renewal of lease after 40 years. But, the Company had already signed (October 1987) the lease agreement with the Jammu & Kashmir State Government without obtaining the approval of the Central Government. Besides payment of cost of existing structures, liability for payment of annual ground rent of Rs.100 per marla per annum was accepted by the Company under the lease agreement. By May 1988, the State Government had handed over only 5642 square feet out of 11500 sq. feet of the existing covered area to the Company. The Company paid (May 1988) Rs.11.28 lakh to SDA as part payment towards the cost of existing structure to the extent of possession given by the State Government and also paid Rs.0.86 lakh towards lease rent for 6 years ended 8 October 1993.

As the Company had not been able to take possession of the complete space so far (November 1998), it could not construct its own booking office complex and had to continue its booking office in the rented premises, for which rent amounting to Rs.14.27 lakh had been paid for the period from January 1987 to March 1998.

On the basis of discussions held between the Company and the State Government, the Company claimed interest from SDA at the rate of 15 per cent per annum w.e.f. January 1987 on the cost of land. The amount of interest Rs.1.69 crore (upto September 1998) had not been paid by SDA/State Government so far (November 1998).

The Management stated (February 1997) that the political environment in the Valley started deteriorating and worsened with the passage of time and that since 1989-90, the Company had started incurring losses and faced an acute cash crunch. Owing to this, the Management contended that it was not possible for it to complete the project.

The reply of the Management is not tenable as it went ahead with the signing of lease agreement without obtaining the approval of Government of India.

Thus, the Company incurred infructuous expenditure of Rs.98.25 lakh for acquiring the land and buildings at Srinagar, besides losing interest of Rs.1.69 crore (September 1998).

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

2.3.3 Infructuous expenditure on Ground Cooling Unit

Purchase of a Ground Cooling Unit (GCU) without ensuring compatibility and suitability for the aircraft resulted in infructuous expenditure of Rs.61.17 lakh.

Ground Cooling Units (GCUs) are used for cooling aircraft for providing comfort to passengers, whenever Auxiliary Power Units (APUs) installed in the aircraft become unserviceable.

The Company received (January 1990) an offer from Hindustan Aeronautics Limited (HAL) for supply of indigenously developed ground support equipment including GCUs which could be used as cost effective substitutes for APUs of its A-320 aircraft. Soon after, the Company placed (April 1990) an order with HAL for supply of one GCU consisting of two modules of 1000 cubic feet per minute (CFM) capacity each.

The modules were received (October 1990) at Mumbai airport at a total cost of Rs.61.17 lakh. It was found (March 1991) that it was difficult to position both the modules on A-320 aircraft due to space constraint and congestion. Performance trials were, therefore, conducted (June 1991) by using a single module on A-320 aircraft. As cooling of A-320 aircraft required two modules, the GCU could not be successfully used for passenger comfort for A-320 aircraft. One of the modules was, therefore, transferred (October 1992) to Madras and the other one was transferred (April 1993) to Delhi to explore alternative uses. At Delhi, it was used for cooling the aircraft fuel cell in the Engineering Maintenance Department, but using the module in the fuel cell was not found practicable due to its high noise level, high exhaust smoke level and low cooling rate. At Madras, it was used on different aircrafts, but it developed various defects and did not provide adequate cooling. At Madras, it was also tried on A-320 aircraft, but here again it was found that only a single unit was not suitable for providing appreciable cooling. The Company finally offered back (February 1998) these modules to HAL at Rs.20 lakh each, but HAL regretted (February 1998) to buy them back at this price stating that their cost was high. Thus, the expenditure of Rs. 61.17 lakh was rendered unfruitful. As informed by the Ministry, the Company had already procured one GCU unit for Delhi at a basic cost of US $ 1,38,000 (final cost Rs 99 lakh including 80% customs duty) in 1996 and that it was in the process of importing two similar units for Mumbai and Chennai airports respectively.

The Ministry admitted (August 1998) that the GCU could not be used successfully on aircraft application for passenger comfort. Alternative uses were therefore explored, which were not found practicable. The Ministry further stated that the Company was in the process of taking up with HAL the matter of buying back the GCU at a mutually acceptable price and in case that did not materialise, the two modules would be disposed of as per procedure.

2.3.4 Non-Realisation of Revenue

Failure to comply with the rules in raising bills for items loaned to the Pakistan International Airlines and lack of effective monitoring on the part of the Company rendered its claims time-barred, resulting in non-realisation of revenue of Rs. 34.73 lakh in addition to loss of interest of Rs.25.18 lakh.

The Company loaned two rotable items to M/s Pakistan International Airlines (PIA) in October 1989 and June 1990, which were returned by them in July 1990. A third such item was loaned to PIA in January 1994, which was returned by them in the following month.

As per the Revenue Accounting Manual of the International Air Transport Association, provisions of which are binding on all member airlines (which include Indian Airlines as well as PIA), invoices in respect of services rendered by one airline to another airline must be billed not later than six months from the month in which such transactions are performed. Contrary to this rule, the Company raised a consolidated bill on PIA for all the three items for US$ 117965.85 only in September 1994. PIA rejected (March 1995) the invoice as the time limit for billing had already expired. The Company, explained that the billing had been delayed due to late receipt of the billing advice from its Stores/Engineering Departments and requested (June 1995) PIA to waive the time limit in respect of the bill, the amount of which was revised to US$ 158303.85 due to totalling mistake in the earlier bill. (According to the Stores Manual of the Company, the Stores Department was required to submit periodical statements to the Finance Department regarding items loaned to other airlines for levying appropriate loan charges.) PIA (January 1998) expressed its inability to authorise this payment on the ground that the loaning charges could not be checked due to destruction of relevant records.

Replying to audit, the Management stated (May 1998) that PIA took recourse to a technical point that the billing was outside time limit. It further stated that the Company had resubmitted copies of all supporting documents to PIA for rebuilding the records (February 1998).

The reply is not tenable because PIA had already stated that the payment could not be authorised. Besides, the reply overlooks the fact that the rules regarding billing were not followed and the Company lacked any effective monitoring and co-ordination of its various wings like Stores/Finance etc.

The Ministry, in its interim reply, stated (July 1998) that a meeting was likely to be held shortly with PIA. The meeting with PIA had not taken place till date (September 1998).

Thus, failure in observance of the prescribed rules resulted in non-realisation of revenue of US$ 1,58,303.85 (Rs.34.73 lakh) in addition to loss of interest of Rs.25.18 lakh thereon upto September 1998.

CHAPTER 3 : MINISTRY OF COAL

Bharat Coking Coal Limited

3.1.1 Infructuous expenditure on procurement of Wagon Tippler Equipment

Injudicious decision to install a Box Wagon Tippler (BWT) at Bhojudih Coal Washery (BCW) without keeping in view the decision of the Railways to introduce Bottom Discharge Wagons (BOBR) system resulted in infructuous expenditure of Rs.1.38 crore.

In order to ensure better and quicker unloading of coal from four wheeler and eight wheeler wagons at Bhojudih Coal Washery the Company awarded (December 1989) a contract to M/s Elecon Engineering Limited (the contractor) for supply, erection and commissioning of Box Wagon Tippler (BWT) on a turn-key basis, at a firm price of Rs.4.81 crore. The Tippler was scheduled to be commissioned by March 1992. Despite several extensions allowed from time to time (upto August 1995), the contractor could not commission the BWT due to heavy slippage in completing civil works because of delay in mobilising resources at site, dispute with its sub-contractor and fund crunch resulting from late release of payments by the Company. The contractor was paid Rs.4.35 crore upto March 1996 and Rs.50.31 lakh was due (May 1997) to him.

Meanwhile, anticipating stoppage of Washery for want of raw coal due to further expected delay of at least 3 years in commissioning of the BWT, the Company decided (December 1994) to convert the BWT system to Bottom Discharge Wagon (BOBR) system utilising a portion of the BWT job already completed by the contractor. Railways also confirmed (December 1994) the supply of BOBR wagons. The BOBR system was put into operation from July 1995. Because of this change of system, BWT equipment costing Rs.1.38 crore already received during September 1991 to September 1992 could not be used and were lying idle (December 1997).

It was noticed that Railways, as early as in October 1986 had informed the Company about their decision to introduce BOBR system in future for bulk movement of coal. Ignoring the decision of Railways to introduce BOBR system, the Company decided to sign a contract for BWT without conducting any relative cost benefit analysis of the two alternatives. This injudicious decision of the Company led to infructuous expenditure of Rs.1.38 crore.

The Management stated (May 1997) that:

(i) The possibility of utilisation of BWT equipment in other washeries and areas was being explored.

(ii) Railways letter dated October 1986 was intended for acceptability of BOBR wagons by Power Houses only.

(iii) The decision to install BWT system at the washery was taken as per recommendation of Altekar Committee (October 1986).

(iv) The technical unsuitability of introducing BOBR system was communicated (February 1990) to the Railways and the BWT was taken up for installation with the clearance of Railways (March & June 1991).

Reply of the Management is not tenable because:

(a) The equipment has not been used elsewhere and has been lying idle (December 1997).

(b) A copy of the letter dated October 1986 from Railways was marked to Chairman-cum-Managing Director of the Company and as it dealt with bulk movement of coal was obviously relevant to the Company.

(c) Management's decision to accept recommendations of Altekar Committee without taking into consideration Railways decision to introduce a new type of system for mass movement of coal and without conducting a relative cost benefit analysis of the BWT & BOBR system was injudicious.

(d) The Company communicated to Railways it's unwillingness to introduce BOBR system due to technical difficulties (size of coal) in February 1990 where as the contract for BWT had already been awarded in December 1989. Moreover, the technical constraint was not serious as is evident from the fact that the Company could overcome it and put into operation the BOBR system without any problem in July 1995.

Thus, an injudicious investment decision of the Management led to an infructuous expenditure of Rs.1.38 crore.

The matter was referred to the Ministry in October 1997; their reply was awaited (December 1998).

3.1.2 Loss due to sale of higher grade coal at the price of lower grade coal

In absence of separate stacking arrangement Steel Grade I Coal was mixed with and sold as Steel Grade-II coal during 1992-93 to 1994-95 resulting in a loss of Rs.61.11 lakh.

As per Grade Notification issued prior to 1992-93, coal of XV seam and XVI seam (combined) of Bhagaband colliery of the Company was declared and sold as Steel Grade-II coal. In 1992-93, coal of XV seam was declared as Steel Grade-I, but in the absence of separate stacking arrangements for coal obtained from seam XV and seam XVI, 96,634 MT of Steel Grade-I coal mined from the colliery during the period from 1992-93 to 1994-95 (upto July 1994) got mixed up and sold/transferred as Steel Grade-II coal, to private parties (40,001.52 MT) and to coke ovens, steel plants and washeries (56,632 MT) resulting in a short realization of revenue to the tune of Rs.1.51 crore (including loss of Rs.61.11 lakh against sale to private parties).

The Management stated that realization against sale/transfer to coke ovens, steel plants & washeries was made based on results of sample analysis and therefore, there was no loss due to such mixing. It was further stated that separate stacking arrangement was made from August 1994 and the matter was investigated (September 1994) by the vigilance department and investigation completed in February 1996. Further action on vigilance investigation report was awaited (September 1998).

The reply of the Management is not convincing. Though, the loss was avoided on the quantity of coal transferred to steel plants/washeries, the short realization of Rs.61.11 lakh against sale to private parties was a dead loss for the Company. The delay of over two years in completing the vigilance investigation and absence of any meaningful action thereon till date is indicative of absence of any effective administrative control.

The matter was referred to the Ministry in December 1996; their reply was awaited (December 1998).

Central Coalfields Limited

3.2 Blocking up of Rs.4.67 crore due to deferment of development of Magadh Open Cast Project

Company's failure to assess the ground realities had resulted in blocking up of Rs.4.67 crore incurred towards development of Magadh Open Cast Project (OCP) as the Super Thermal Power Project of National Thermal Power Corporation, to which the OCP was linked, had been abandoned.

The advance action plan for Magadh Open Cast Project (OCP) was sanctioned (July 1989) by the Government of India, Ministry of Coal at a capital cost of Rs.8.10 crore. The Coal from Magadh OCP was planned to be linked with Super Thermal Power Station (STPS) to be set up by National Thermal Power Corporation (NTPC) in North Karanpura field. Without entering into any deed of agreement with the NTPC the Company took up the development work of Magadh OCP and incurred a substantial amount of Rs.4.67 crore till March 1997 despite the fact that during technical evaluation of the Feasibility Report of the STPS project in November 1990, the Ministry of Environment & Forest rejected the proposed location of the STPS in view of it's long term adverse effect on the nearby reserve and protected forests. Besides, Damodar Valley Corporation (DVC), objected to setting up of the project and construction of the dam by Bihar Government for meeting the water requirement of the project as the same was in violation of the D.V.C. Act.

NTPC intimated (June 1993) the Company that the establishment of STPS would not be possible even in the ninth plan. Therefore, the Government of India, Ministry of Coal decided (February 1994) to defer the development of Magadh OCP. The Board of Directors of the Company approved (June 1994) the deferment of the development subject to no write off of any amount.

Thus, Company's failure to assess the ground realities had led to blocking up of precious funds to the tune of Rs.4.67 crore.

Confirming the facts and figures, the Management stated (June 1998) that though the proposed STPS project had been dropped, coal could be evacuated for supply to the power houses of Northern India to bridge the gap between demand and supply when the rail link is established by the Railway department. Negotiations were in progress for establishment of a rail link at an estimated cost of Rs.268.00 crore.

The contention of the Management is not tenable as the Magadh OCP was linked with the STPS project which had been deferred indefinitely. The evacuation of coal for other power houses is an after thought for alternative use of the investment. Moreover, the alternative arrangement for evacuation depends on the establishment of rail link by the Railways which is uncertain as it requires huge additional investment. The fact thus, remains that scarce funds of the Company have been locked up without any benefit for over 2 years and are likely to remain as such for an indefinite period in future.

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

Coal India Limited

3.3 Wasteful expenditure on procurement of environmental telemonitoring system

Procurement of imported equipment by the Company from a firm which had no expertise and infrastructure to commission it led to wasteful expenditure of Rs.23.38 lakh.

With a view to measure and monitor mines environmental parameters like presence of methane, carbon-monoxide, and oxygen in Tipong Colliery of North Eastern Coalfields, an order for procurement of 20 point environmental telemonitoring system (UK make) at a cost of Rs.29.15 lakh was placed (January 1987) on M/s Uptron India Limited (A UP State Government Undertaking). Uptron was required to get the imported equipment approved by Director General of Mine safety (DGMS), provide a performance Bank Guarantee for 15% value of the equipment and supply and commission the equipment within 28 weeks from the date of issue of the order. The system was supplied in batches to the coalfields during July 1987 to June 1988, without obtaining the approval of DGMS. But the system could not be satisfactorily commissioned by the firm (Uptron) as it had no expertise and infrastructure for making the system operational.

Against the contractual price of Rs.29.15 lakh, an amount of Rs.21.88 lakh (after deducting liquidated damages of Rs.1.37 lakh) was paid to Uptron. Efforts of the Company to revive the system in consultation with Central Mine Planning and Designing Institute Limited at an expenditure of Rs.1.50 lakh were also in vain. Thus, the equipment procured in 1987-88 had been lying idle till date (February 1998).The Company also failed to encash the Bank Guarantee of Rs.3.46 lakh even within the extended validity period upto 31 July 1990.

In reply the Management stated (February 1998) that Bank Guarantee could not be encashed as Uptron was making efforts to commission the system at that time. However, Bills amounting to Rs.5.90 lakh of Uptron were still lying unpaid which were higher than the Bank Guarantee of Rs.3.46 lakh.

The reply of the Management is not tenable as the Company had not taken any appropriate action either to get the Bank Guarantee encashed or to get the system commissioned by Uptron. Besides, the withheld amount of Rs.5.90 lakh is towards supply and installation and had no bearing with the encashment of Bank Guarantee.

Thus, due to procurement of imported environmental telemonitoring system from a supplier who had no expertise and infrastructure the very purpose of ensuring mine safety by installing such a system has been defeated and the expenditure of Rs.23.38 lakh incurred on the system has proved to be wasteful.

The matter was referred to the Ministry in November 1997; their reply was awaited (December 1998).

Eastern Coalfields Limited

3.4 Injudicious purchase of Full Locked Coil Winding Ropes

Lack of proper coordination and inventory control led to idle investment of Rs.1.26 crore

Eastern Coalfields Limited (ECL) procured 3510 meters of 39 mm diameter size and 2700 meters of 46 mm diameter size Full Locked Coil Winding Ropes during November 1989 to July 1990 and from December 1993 to June 1994 respectively from M/s. Usha Martin Industries Ltd. for use in it's Jhanjra Project. Out of the above quantity (3510 meters) of 39 mm size Coil Rope, only 840 meters were issued to Satgram Area of the Company and the remaining quantity of 2670 meters valuing Rs.29.34 lakh was lying unused in Jhanjra Project stores. Besides, the entire quantity (2700 meters) of 46 mm size Coil Winding Rope valuing Rs.44.07 lakh had also been lying unused in the Project Stores.

Despite a huge stock of 39 mm and 46 mm size Coil Winding Rope lying at Jhanjra Project Stores, the Company further procured in February 1994 and August 1994 1284 meters of 39 mm size and 2693 meters of 46 mm size Coil Winding Ropes respectively from the same firm for it's Satgram Project. Out of the 2693 meters of 46 mm Coil Winding Rope procured in the second lot, only 443 meters were issued to Satgram Area Stores leaving a balance of 2250 meters valuing Rs.36.72 lakh. The entire quantity of 1284 meters of 39 mm Coil Winding Rope valuing Rs.16.13 lakh remained unused (March 1998).

It is evident from the foregoing facts that the Company procured Full Locked Winding Ropes injudiciously, without assessing the stock position as well as requirement properly. This had resulted in locking up of scarce fund of the Company to the tune of Rs.1.26 crore (Rs.29.34 lakh + Rs.44.07 lakh + Rs.16.13 lakh +Rs.36.72 lakh).

While confirming the facts and figures, the Ministry/Management stated in December 1998/ March 1998 that partial non-utilisation of ropes was due to substantial slippage in Jhanjra, Satgram and J.K. Nagar projects for which the ropes had been procured.

The reply of the Management/Ministry is not convincing in as much as, in view of the slow progress of the project which was known to the Management, the placement of the order for the second lot lacks justification. Proper coordination and inventory control could have avoided such idle investment, especially since the Company had been going through a severe cash crunch in the last six years.

Mahanadi Coalfields Limited

3.5 Infructuous expenditure on construction of Coal Handling Plant

An injudicious investment decision of constructing a Coal Handling Plant at Lajkura Open Cast Mine Project led to a wasteful expenditure of Rs.1.45 crore as the plant had to be abandoned, being economically unviable.

The Lajkura Open Cast Mine Project (LOCP) of the Company was approved by the Government of India in 1983. The Project Report (PR) envisaged production of 10 lakh tonne of coal per year with the provision of increased production upto 18 lakh tonne against a mine reserve of 14.08 million tonne with an investment of Rs.25.79 crore. Though, a Coal Handling Plant (CHP) with loading rate capacity of 1200 tonne per hour was provided in the PR, it was considered separately and approved in June 1987 with a capital outlay of Rs.7.44 crore. The CHP was to provide facilities for crushing, screening, shale picking, storing in bunkers and mechanical loading of coal in the wagons. After incurring an expenditure of Rs.1.45 crore by December 1988 on its construction the usefulness of the CHP became questionable mainly due to higher operating cost and shorter useful life of the mine due to advanced stripping. With a view to utilize the CHP gainfully, Samaleswari Open Cast Project was integrated to it and a PR for integrated CHP at a capital cost of Rs.49.19 crore was approved in 1991. This integrated CHP was also dropped in November 1994 on the grounds of higher investment and operating cost and instead Wharf Wall Loading (WWL) system was adopted which meant loading coal into wagons by engaging 8-10 pay loaders simultaneously on a single loading platform. As the CHP at LOCP was abandoned, the expenditure of Rs.1.45 crore already incurred on it became totally infructuous and was written off during 1996-97. Recovery of salvage value of the abandoned CHP had not yet been ascertained (August 1998).

The Management stated (August 1998) that the operating cost by means of WWL system was found to be cheaper. It was, therefore, prudent to abandon the project.

The contention of the Management is not tenable on the following grounds:

(a) If the operating cost of the WWL system was found to be cheaper in 1993-94 than CHP, investment in CHP as against the conventional WWL system reflects the fact that the Management decided to undertake such a huge investment without taking into account the viability of alternative systems.

(b) The loading rate capacity of the CHP was envisaged as 1200 TPH. Thus it was capable of handling 39.6 lakh tonne per year while availability of coal from Lajkura mine was only 10 lakh tonne per year. This shows that there was a wide mis-match between the capacity of CHP and availability of coal at the planning stage itself.

It is evident that installation of the CHP at LOCP was an ill-planned proposition resulting in an infructuous expenditure of Rs.1.45 crore.

The matter was referred to the Ministry in November 1997 and again in October 1998; their reply was awaited (December 1998).

Neyveli Lignite Corporation Limited

3.6 Extra Expenditure due to delay in finalisation of Tender

Inordinate delay in finalisation of tender resulted in extra avoidable expenditure of Rs.32.63 lakh.

Neyveli Lignite Corporation Limited (NLC) issued (November 1993) a Notice Inviting Tender for purchase of 20 units of 11 KV kiosk required for the operation of borewell pumps in Mine-I expansion scheme. Offers were opened in January 1994 and finally 6 firms were shortlisted (October 1994) after discussions on techno-commercial aspects with the firms, of which M/s. Driescher Panickker Switchgear Pvt.Ltd. (DPSL) had quoted the lowest price of Rs.3.04 lakh towards the basic unit cost besides Rs.1 lakh for type test charges. The offers were valid till December 1994.

But instead of placing the orders with DPSL on the basis of their lowest rates, in October 1994, the Company decided to ask all the six firms to suitably reduce the price on account of budget concessions announced in March 1994, but this was communicated to the firms only in January 1995 after enhancing the requirement to 24 units. At the same time, the scope of the type tests were also reduced by deleting certain tests and the firms were requested to offer reduced rates for the tests. Five of the firms either retained or reduced their original prices quoted earlier, but DPSL increased their price to Rs.4 lakh towards the basic unit cost and Rs.4.65 lakh for the type test charges. The enhanced offer of DPSL was accepted and supply order was issued by the Company (November 1995) on the grounds that even after the enhancement, the offer of DPSL was the lowest.

The Company stated (August 1996) that even though negotiations were conducted with all the firms including DPSL, they were not agreeable to reduce their prices to the extent originally quoted by the lowest tenderer. But the fact remains that the Company took two years to finalise the tender and issue supply order and consequently, could not avail of the benefit of the lowest price originally offered by DPSL in January 1994. Besides the budget concessions announced in March 1994 could have been considered much before October 1994. The Ministry contended (August 1997) that the tender processing time taken by the Company was normal, but even the Board of Directors during their meeting on 30 September, 1995, had observed that there had been considerable delay in this case.

Thus, the Company's failure to place the supply order within the validity period and the inordinate delay in finalisation of tender resulted in an extra expenditure of Rs.32.63 lakh.

South Eastern Coalfields Limited

3.7.1 Avoidable extra Expenditure

Delay on the part of the Company in handing over construction site to the contractor resulted in an extra expenditure of Rs.63.88 lakh towards idle establishment of the contractor.

South Eastern Coalfields Limited awarded (December 1990) the work of construction of 360 quarters for miners including development work for Pinora project at a cost of Rs.2.83 crore to M/s. Tirupati Constructions without possession of the construction site and proper demarcation of the site. The work was to be completed within a period of 18 months which was to be reckoned from the 10 day of issue of Letter of Intent (20.12.90) or from the actual date (4.3.1991) of handing over of site by the Company to the contractor, whichever was later. But the Company handed over the site to the contractor (4.3.1991) even before acquiring possession of the land. The work was, however, started even before the site was handed over to the contractor on 16.2.1991 but was stopped on 20.5.1991 due to obstruction from the land owners disputing the acquisition of land since compensation for the land was not fully paid by the Company. The final deposit for compensation was made by the Company only in March 1992 and final demarcation of the land was done only in October 1992.

Meanwhile the contractor demanded escalation of charges due to delay on the part of the Company in handing over the site, but resumed the work in August 1993. The matter was referred to an arbitrator in October 1993. The arbitrator in his award dated 8.12.1994 pointed out that the Company did not have possession of the land either on date of issue of work order or on the date of commencement of work and a dispute was already existing between the Company and the land owners. The Arbitrator awarded a compensation of Rs.63.88 lakh to the contractor mainly on account of infructuous overhead (Rs.14.14 lakh), loss of turnover (Rs.28.28 lakh), idle plant, machinery and labour (Rs.1.35 lakh), cost of arbitration (Rs.1 lakh) and interest (Rs.18.96 lakh). Incidentally an internal committee appointed by the Board of the Company had also recommended escalation of charges (December 1992) holding the Company responsible for the delay. The Board of Directors approved (May 1995) the implementation of arbitration award and accordingly, the Company paid Rs.63.88 lakh to the contractor in June 1995.

Thus due to issuing the work order and handing over the site to the Contractor without possession of the site and proper demarcation, the Company had to incur an avoidable expenditure of Rs.63.88 lakh as compensation to the contractor.

The matter was referred to the Management/Ministry in July 1998; their replies were awaited (December 1998).

3.7.2 Wasteful expenditure

The Company wasted Rs.74.51 lakh on procurement and installation of machinery which was not suitable for use in the project site.

Coal India Limited, Calcutta, placed an order (October 1976) on M/s. Heavy Engineering Corporation, Ranchi for supply of 14 double drum winders for easy transportation of iron and materials for its various subsidiaries, at a total cost of Rs.7.12 crore. Out of these, one winder valuing Rs.50.89 lakh, procured for Rajgamar project of South Eastern Coalfields Limited (Company) was sent to the project site in March 1980.

After six years of its receipt, the Company placed an order in January 1986 with M/s. Bharat Gold Mines Limited for installation of the winder at a cost of Rs.19.27 lakh. The winder was commissioned in November 1989 at a total installation cost of Rs.23.62 lakh including stores/spares. However, the winder had not been used even after nearly 9 years of its commissioning, rendering the amount of Rs.74.51 lakh incurred on procurement and installation totally infructuous and wasteful.

Accepting the fact of non-utilisation of the winder, the Company stated (September 1998) that the winder was installed with a view to complete a critical milestone envisaged in the project report with the expectation that, with further progress of mining, the geomining conditions would improve. Management further stated that the winder was installed for its proper maintenance and to ensure that it was kept in running condition. The reply is not tenable in view of the fact that the action for installation of the winder was initiated by the Company after six years and the Company had the option to return it to the holding Company to enable the latter to consider its deployment elsewhere. Besides, not using it for almost 9 years after its commissioning indicated extremely poor planning on the part of the Management.

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

CHAPTER 4 : MINISTRY OF COMMERCE

Export Credit Guarantee Corporation Of India Limited

4.1.1 Excess Settlement of Claim

Adoption of higher exchange rate that prevailed at the time of settlement of claim instead of the applicable rate, prevailing at the time of last renewal of the guarantee resulted in excess settlement of claim to the tune of Rs.1.13 crore.

The Company provided (October 1984) guarantee to the State Bank of India, Overseas Branch, Mumbai who had extended a credit to an Indian construction company for undertaking a civil project in Iraq through the State Bank of India's (SBI) Bahrain branch. The guarantee was increased and its validity extended from time to time and stood at Rs.7.15 crore as on 31 December 1987 which was equivalent to US $ 5.3 million at the exchange rate of $=Rs.13.50 prevalent at the time of last renewal of guarantee viz. 31 December 1987. The maximum liability of the Company was Rs.6.44 crore being 90 per cent of the guaranteed amount.

As repayment was not received from the exporter, SBI Bahrain branch invoked (December 1987) the guarantee given by their Overseas Branch in Mumbai. SBI Overseas branch, Mumbai paid an amount of Rs.10.18 crore (comprising Rs.5.56 crore towards principal and Rs.4.62 crore towards interest) equivalent to US $ 6.01 million to their Bahrain branch in December 1989 and March 1990.

SBI Overseas branch, Mumbai lodged (March 1989) a claim with the Company for US $ 5.3 million. The claim was admitted (August 1991) by the Company for US $ 3.6 million which in Rupee equivalent was worked out by the Company at Rs.6.18 crore. Maximum liability of the Company being 90 per cent of the above amount, it settled the claim for Rs.5.56 crore. As per ECGC services and guidelines and the normal practice followed by the Company, while converting the liability from US$ to Rupees the Company should have applied the exchange rate of US$ = Rs.13.50, which was prevalent on the date of last renewal of guarantee. By doing so the total liability of the Company would have worked out to Rs.4.43 crore. Instead the Company adopted the exchange rate of Rs.16.9276 per US$ prevailing on the date of remittance made by SBI overseas branch, Mumbai to their Bahrain branch. In doing so the Company made an extra avoidable payment of Rs.1.13 crore (Rs.5.56 crore – Rs.4.43 crore).

Premium charged by the Company is worked out and collected on the basis of maximum liability as worked out at the exchange rate prevailing on the date of granting a cover or renewal of cover. Therefore, while settling the claim also, the liability of the Company should have been restricted to the amount worked out at the exchange rate at which premium was collected. Any increase due to increase in exchange rate that occurs after the last renewal of guarantee is thus not the liability of the Company.

The Ministry stated (July 1997) that the Company had followed the Banking Law and Practice/FERA directives by applying the rate of exchange prevailing at the time of remittance.

The Ministry's reply is not tenable since (i) Banking Law and Practice are not applicable to the Company as it is not a Banking company and essentially deals with insurance of export risks in Indian Rupees, (ii) ECGC guidelines clearly state that " the liability of the corporation under the policy will be in terms of Indian Rupee. If the contract value is expressed in a foreign currency, it shall be converted into Indian Rupee at the rate specified in the policy, the rate being approximately the same as the Bank Buying Rate of Exchange on the date of contract, for the purpose of determining the amount covered and the maximum liability of the Corporation under the policy"; and (iii) the Company is on record to the effect that it does not issue insurance in foreign currency nor does it cover exchange fluctuation risk.

Thus, adoption of higher exchange rate which was prevalent at the time of remittance instead of the exchange rate applicable on the date of last renewal of the guarantee resulted in excess settlement of claim by Rs.1.13 crore.

4.1.2 Avoidable payment of claims

Export Credit Guarantee Corporation (ECGC) made an avoidable payment of Rs.66.72 lakh towards settlement of two claims (A and B) under Whole Turnover Packing Credit Guarantee and Post Shipment Export Credit Guarantee by condoning serious lapses on the part of the insured.

A. Whole Turnover Packing Credit Guarantee (WTPCG):

Based on a proposal (August 1990) from the Bank of Baroda (BOB), ECGC renewed (30 January 1991) a WTPCG covering the period from 1 April 1990 to 31 March 1991 for a maximum liability of Rs.125 crore.

A branch of BOB in Mumbai had advanced a Packing Credit of Rs.63.75 lakh to Omega (Private) Limited on 25 October 1990. The advance, due for repayment on 25 January 1991, was not repaid. BOB (Mumbai Branch) preferred a claim on the Corporation for settlement of the defaulted advance of Rs.63.75 lakh. The claim was settled by the Corporation in December 1996 for Rs.47.81 lakh, being 75 per cent of Rs.63.75 lakh, despite the fact that BOB (Mumbai Branch) neither furnished the declarations, required under the terms of the guarantee, nor remitted any premium to ECGC for the period December 1990 to March 1991. It was only in April 1993 i.e. after the occurrence of the loss that BOB remitted the premium in respect of the above period. There was thus no justification for settling the claim especially in view of the fact that there was a delay of 23 months in lodging the claim.

B. Post Shipment Export Credit Guarantee (PSECG):

Similarly, the Corporation issued (November 1993) a Post Shipment Export Credit Guarantee (PSECG) to State Bank of India (SBI) against advances to be made to a garment exporter covering a period from 2 November 1993 to 30 November 1994 for a liability of 75 per cent of the loss subject to a maximum liability of Rs.21.75 lakh. The premium for the Guarantee was payable on a monthly basis on the highest amount outstanding on any day during the month. SBI was also required to send a declaration of outstandings against the exporter to the Corporation, every month.

Thirteen advances totaling Rs.60.21 lakh were granted by SBI to an exporter for exports to UAE, USA during the period, December 1993 to October 1994. The advances were against Bills of Exchange payable within 90 days from the date of acceptance. It was observed that SBI granted advances even when earlier advances were in default. By November 1994, all the thirteen advances were defaulted.

During the aforesaid period, SBI neither furnished the monthly declarations nor remitted any premium to the Corporation. Premium for the entire policy period amounting to Rs.0.29 lakh was remitted in March 1995, alongwith the monthly declarations.

In January 1996, SBI lodged a claim with the Corporation for Rs.21.75 lakh being the maximum liability under the Guarantee against the remaining outstanding dues of Rs.25.21 lakh after receipt/adjustment of payments.

The claim was initially rejected by the Corporation in March 1996 on grounds of non-submission of declarations and non-payment of premium in time. However, at the request of SBI, the claim was reconsidered and settled in October 1996 for Rs.18.91 lakh being 75 per cent of the loss of Rs.25.21 lakh.

Timely receipt of premium is the essence of an insurance contract and the Guarantee issued to Banks specifically provided that due payment of premium was a condition precedent to any liability of the Corporation. Delayed remittance of premium, especially after the occurrence of loss was clearly uncondonable and thus payment of Rs.18.91 lakh was totally unjustified.

The Management stated (June 1998) that:-

i. delayed remittance was not uncommon among banks;

ii. late payment of premium was not intentional; and

iii. payment of claim was made with recourse and any recovery effected is to be shared with the Corporation.

The Ministry while endorsing the views of Management, further stated (September 1998) that due to administrative reasons there were delays on the part of banks in remitting the premium in time and the Corporation had been in a position to receive full premium due from banks with delay. Therefore, the delay in payment of premium in banks was not taken into account seriously by the Corporation and claims were settled accordingly.

The reply is not tenable for the following reasons:

i. relaxation of terms and conditions of guarantee to enable settlement of claims in favour of Banks tends to discourage Banks to adhere to them. Further, as Banks are the major customers of the Corporation, the general rule that no liability accrues to the insurer unless premium is paid in advance should be equally applicable to them since the corporation ought to run on professional lines.

ii. whether the delay in payment of premium by the Bank was unintentional is irrelevant. In any case it had the effect of taking over a bad debt instead of a legitimate risk,

iii. recovery from the exporter is usually uncertain, which is why the Banks took a guarantee in the first place.

Thus, there was an avoidable settlement of two claims amounting to Rs.66.72 lakh where premium was realised only after occurrence of default.

India Trade Promotion Organisation

4.2 Loss in organising a film fair

The Company sustained a loss of Rs.1.63 crore due to defective agreement with a marketing agency and its failure to exercise effective control over expenditure in organising a film fair.

(a) The Company decided (October 1996) to hold a film fair at Pragati Maidan, New Delhi in August 1997. The Management found (January 1997) it expedient to engage a marketing agency for promoting the fair and marketing the space for the purpose instead of undertaking the job by itself. The Company projected to allot 10,000 square metres of space in the fair to earn an estimated revenue of Rs.2.85 crore from rent and various other activities in the fair and appointed M/s. Insight, a Chennai-based agency, for the purpose. According to the agreement signed (February 1997) between the Company and the agency, the latter was to allot 10,000 square metres of space on behalf of the Company on rent to the participants in the fair to generate a minimum guaranteed revenue of Rs.2.85 crore. The agency was entitled to a commission of 15 per cent of the revenue generated. For safeguarding its interest against any possible failure on the part of the agency in allotting the space, the Company did not incorporate any provision in the agreement making it obligatory on the part of the agency to underwrite the minimum guaranteed revenue. However, the agency was liable to pay a penalty at the rate of 2 per cent of the total targeted revenue less its commission in case of its failure to generate the requisite revenue. No security/earnest money deposit was obtained by the Company from the agency.

The agency could manage allotment of only 180 square metres of space by the end of May 1997. The credibility and capability of the agency was not verified by the Company at the time of awarding the contract. The agency did not publicise the event adequately and also did not have adequate facilities for promoting the fair abroad, as realised later by the Company (June 1997). It appointed a clearing and forwarding agent in Germany dealing in freight related matters with no background in marketing for the purpose of foreign liaison work. Due to the extremely poor performance of the agency, the Company decided (June 1997) to market and promote the fair by itself. Even after spending

Rs.52.79 lakh on publicity, the Company was able to rent out only 1900 square metres out of a total 10000 sq. metres of available space. Thus, as against the estimated total revenue of Rs.2.97 crore, the Company could generate only Rs.90.68 lakh (including sundry debtors of Rs.20.96 lakh) leading to a non-realisation of revenue to the extent of Rs.2.06 crore. In the absence of any provision in the agreement, the Company could not recover its loss from the agency. A claim of Rs.4.84 lakh towards penalty was, however, lodged (January 1998) by the Company against the agency as per provision of the agreement. The agency had not paid the penalty so far (July 1998).

(b) Whereas on the one hand, the Company failed to realise the projected income from organising the fair, on the other, the actual expenditure far exceeded the estimates due to erroneous estimation as well as the failure of the Company to exercise any effective control over expenditure as revealed from the comparison of some of the items shown below:

Sl. No	Item	Estimated	Actual	Shortfall(-)/ Excess(+)
1.	Area to be let out	10,000 sq.mts.	1900 sq.mts.	(-) 8100 sq.mts.
2.	Construction, Decoration, Electricity and Air-conditioning charges	Rs.50.00 lakh	Rs 66.38 lakh	(+) Rs.16.38 lakh
3.	Expenditure on Protocol, Entertainment and Inaugural Function	Rs.10.00 lakh	Rs.88.17 lakh	(+) Rs.78.17 lakh
4.	Total Expenditure	Rs.196.00 lakh	Rs.254.10 lakh	(+) Rs.58.10 lakh
5.	Total Income	Rs 297.00 lakh	Rs 90.68 lakh	(-) Rs 206.32 lakh
6.	**Profit(+)/Loss(-)**	**(+) Rs.101 lakh**	**(-) Rs.163.42 lakh**	**(-) Rs.264.42 lakh**

The total loss of the Company was thus Rs 1.63 crore as shown above instead of an estimated profit of Rs 1.01 crore. Management admitted (July 1998) that the Company had not provided for expenditure on account of the inaugural function in the budget estimates and the decision to have a formal inauguration of the film fair as well as holding of a 'Star Studded Show' on the opening day was taken subsequent to preparation of the estimates of expenditure. The total expenditure on account of Protocol, Entertainment and Inaugural Function was Rs.88.17 lakh as against the estimate of Rs.10 lakh only. The fact that of this Rs.88.17 lakh, as much as Rs.84 lakh were spent only on the inaugural events is a clear indication of the fact that the Company had failed to exercise any effective control over expenditure.

The Management stated in its reply (July 1998) that it was an important event in the calendar of events for the celebration of the golden jubilee of our country's independence and this being the first such event, perhaps one could live with the loss incurred. The Management further stated that they had spent 'too much money' on the events to project the fair as an event to be held periodically. The Management also informed that the

Company had initiated action to blacklist the agency and had held back payment of Rs.1.88 lakh due to the agency on account of other assignments undertaken by them for the Company.

The Ministry stated (October 1998) that they did not interfere when the Company organised such events and that Film Fair 1997 appeared to be more of an image building exercise than a commercial event and, therefore, the monetary advantages could not be assessed instantly in this case.

The replies of the Management and the Ministry are not entirely to the point as audit had not questioned the holding of the event. The loss of Rs.1.63 crore was clearly due to the failure of the Company to incorporate appropriate clause(s) in the agreement to guard itself against any possible loss due to lapse on the part of the agency and to exercise effective control over expenditure.

The State Trading Corporation of India Limited

4.3.1 Avoidable loss in providing financial assistance to a private company

Granting of advances to a potentially sick company resulted in avoidable loss of Rs.7.48 crore to the Company besides making it liable for payment of Rs.8.00 crore towards customs duty etc.

In order to gain entry into the export market of polypropylene woven sacks, the Company issued an advertisement in the Press (February 1989), offering financial assistance to export-oriented small and medium entrepreneurs in that field. In response to the advertisement, M/s. Kamath Packaging Pvt. Ltd. (KPPL), Bangalore approached the Company with a proposal for booking their export orders through them and for financial assistance.

The Company reckoned that KPPL had export orders worth Rs.4.15 crore but was unable to execute them in view of their accumulated losses of Rs.1.40 crore as on 30 June 1988 and inadequate packing credit to finance the procurement of their raw material. The Company decided (May 1989) to extend financial assistance to KPPL by providing imported raw material and working capital for its operations.

The Company provided (August 1989) financial assistance of Rs.3.05 crore to KPPL by way of packing credit out of the Export Packing Credit (EPC) limit of Rs.3.15 crore, against hypothecation of stock (Value:Rs.2.27 crore) which included slow moving stock of Rs.95 lakh. Besides, working capital loan at the rate of Rs.15 lakh per month was also provided (January 1990) to KPPL. Their EPC limit was increased (February 1990) to Rs.4.00 crore on the ground that there was substantial increase in the volume of export orders. The Company also gave (February 1990) a term loan of Rs.19 lakh to KPPL for the purchase of baling/sewing machines, which was further increased (July 1990) to Rs.35 lakh for the import of welding machines for thermoplastics. It may be mentioned that till October 1990, there was no guideline framed by the Company for allowing the EPC limits. The only financial safeguard taken by the Company in the transaction was a performance bank guarantee worth only Rs.16 lakh against a limit of Rs.3.05 crore and hypothecation of stock. No further bank guarantee was taken after the EPC limit was enhanced to Rs.4.00 crore.

Despite the fact that accumulated losses of KPPL had risen to Rs.5.50 crore (March 1991) as against its paid up capital and reserves aggregating Rs.40 lakh, working capital loan to KPPL was increased (August 1991) to Rs.17 lakh per month. In the meantime, while reviewing (June 1991) their transactions with KPPL, the Company decided that the advances including interest thereon should not exceed Rs.4 crore at any point of time. However, it was observed by audit that even the principal amounts outstanding ranged from Rs.4.18 crore (June 1991) to Rs.4.91 crore (June 1992). Although the Company regularly adjusted the entire export proceeds towards the outstanding dues, it was observed that the export proceeds realised by them were always grossly inadequate to cover the loan amounts.

The Board for Industrial and Financial Reconstruction declared (April 1993) KPPL as sick and ordered its winding up under the Sick Industrial Companies Act. It was noticed that an amount of Rs.7.60 crore (including interest) was recoverable by the Company from KPPL as on March 1993.

It was further observed by audit (January 1995) that KPPL had failed to discharge its export obligations fully in respect of exporting the sacks for which the Company had imported raw material at concessional rates of duty, as a result of which it became liable for the payment of penalties etc. amounting to Rs.8.00 crore to Customs and other licencing authorities. The Company had paid Rs.1.90 crore on this account so far (September 1998). Dues of KPPL amounting to Rs.7.48 crore were provided for in the accounts of the Company in 1995-96.

The Management stated (February 1998) that the main reason for not executing the export orders within the agreed time frame was KPPL's having slow moving stock which was not envisaged earlier. This resulted in non-recovery of packing credit advanced to KPPL. The reply of the Management is not tenable as the existence of slow moving stock was known to them at the time of granting the advance to KPPL. The Company advanced huge sums of money to KPPL in spite of being fully aware of its financial position and the quality of the stock hypothecated to it, as a result of which it had to sustain avoidable loss of Rs.7.48 crore and also had to incur additional liability of Rs.8 crore.

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

4.3.2 Infructuous expenditure on hiring of office accommodation

The Company incurred an avoidable expenditure of Rs.4.21 crore on hiring office accommodation in New York.

The Ministry of Commerce decided (August 1977) that Indian commercial offices including Public Sector Undertakings viz. the Company, India Investment Centre (IIC), Trade Development Authority of India (TDA), Tea Board of India (TBI) and Indian Jute Industries (IJI) in New York should be housed under one roof so that they could share common services and have closer co-ordination with each other. The Company finalised

(September 1978) a lease agreement for hiring office accommodation covering 8573 sq.ft. for all the five organisations including itself and accepted liability as a principal tenant for payment of rent at the rate of US$ 13.50 per sq.ft per annum for a period of 10 years and 2 months, i.e. upto 14 November 1988. It did not obtain any legal undertaking/assurance from the other 4 organisations for reimbursement of the rent.

After retaining an area of 2034 square feet for itself, the Company apportioned (November 1978) the remaining area among rest of the four commercial organisations. One of the organisations viz. Indian Jute Industries did not occupy the space allotted to it till the expiry of this lease agreement. The remaining three organisations also occupied their respective spaces after a delay of more than 4 months. The Company also inducted a new organisation, the Indo-American Chamber of Commerce (IACC) w.e.f. 1 September 1980. Thus, during the currency of the lease agreement, the Company had to keep extra space varying between 1188 sq.ft. to 6539 sq. ft. (over and above 2034 sq. ft. it earmarked for itself) and paid avoidable rent of US$ 194394 upto 14 November 1988 without realising these amounts from the organisations which did not occupy their allotted spaces as there was no formal agreement between the Company and these defaulting organisations.

Despite this, the Company renewed (December 1988) the lease agreement upto May 1998 for the entire space at an enhanced rent of US $ 42.58 per sq.ft. per annum, but this time signed a sub-lease agreement (April 1989) with the organisations which were to pay the rentals till the expiry of the extended lease period. However, two organisations viz. IACC and IIC vacated their space 7 years 9 months and 6 years 11 months respectively prior to expiry of the agreed lease period. In the meantime, the vacated area was allotted to another 2 organisations viz. Peak Tea and MMTC for varying periods. As a result, the Company was burdened with extra space between 1188 sq.ft. and 3384 sq.ft during the period from November 1988 to May 1998 and had to pay avoidable rent of US$ 944743 which was not recovered from the defaulting organisations despite provisions of the sub-lease agreement. The system of recovery of dues was not effective as an amount US$ 738255 recoverable from IIC had been written off by the Company during 1996-97 at the instance of the Ministry of Finance. In addition to this, IACC had not paid the rent of US$ 39464 so far (October 1998) even for the period of its actual possession of the space.

As per norms prescribed by the Company for hiring accommodation for its own foreign offices, it could hire a maximum of 1000 sq.ft area for its New York office. Thus, the space occupied by the Company in the hired building was in excess of its norms by as much as 1034 sq.ft. which resulted in avoidable payment of rent of US$ 561915 between September 1978 and May 1998. From June 1998, the Company shifted its office to another rented building and occupied 813 sq.ft. area there.

Thus, due to non-occupation, delayed occupation, premature vacation of the rented space by the organisations, occupation of the space in excess of the norms and its failure to recover rentals due from the defaulters either for want of formal agreement, or non-implementation of such an arrangement, the Company had to sustain avoidable expenditure on rentals to the extent of US$ 1701274 (Rs.4.21 crore).

The Management stated (May 1998) that hiring of accommodation for its New York office was duly approved by the Board of Directors in its meeting held on 20 September

1978 and as such, it should not be construed as a violation of the prescribed norms. The reply of the Management is not tenable as the Government of India never stipulated that the Company should step into the role of principal tenant and owe liability for payment of rent for whole of the rented space for and on behalf of the organisations. At the time of obtaining approval of the Board, the Company had not also apprised the Board of the fact that its foreign office would be occupying space more than that admissible under the norms.

The Ministry declined (September 1998) to offer any specific comments on the issue stating that it had no role in the Company's day to day business transactions except policy matters. The reply is not tenable as the decision for bringing the said commercial organisations including the Company under one roof in New York was taken by the Ministry only.

CHAPTER 5 : MINISTRY OF COMMUNICATIONS

DEPARTMENT OF TELECOMMUNICATIONS

HTL Limited.

5.1 Loss due to delayed receipt of sales dues

Delay on the part of the Company in taking up the matter of non-payment of dues and injudicious follow-up resulted in avoidable loss of interest of Rs.2.10 crore on borrowed funds.

On getting a Letter of Intent (LOI) in July 1994 from the Department of Telecommunications (DOT) for the supply of 100000 lines of Digital Local Exchange Equipment, HTL, even before getting any confirmed purchase order from DOT, placed orders with M/s Siemens, Germany, for supply of the equipment. Funds for the import were arranged by the Company through commercial borrowings carrying an interest rate of 17 to 18 per cent.

As confirmatory purchase order from the buyer department was not received by the Company, the matter was taken up (March 1995) by the Company with Telecom Commission which assured immediate release of purchase orders and payment for supplies by 31 March 1995 through a lease partner of DOT. The Company was further assured that in case DOT could not find a lease partner before 31 March 1995, DOT would itself pay to the Company latest by 30 April 1995. In accordance with DOT's delivery instructions, HTL completed the supplies during March/April 1995 valuing Rs.27.48 crore.

Though the DOT's latest committed date of payment was 30 April 1995 no payment was received by that date, the Company took up the matter of non-payment only in June 1995 and received part payment of Rs 7.69 crore from DOT in September 1995. Instead of insisting on immediate direct payment of the balance dues Rs.19.79 crore with interest thereon from DOT, the Company entered into a tripartite lease arrangement (September 1995) with DOT's lease partner, M/s Punjab Communications Ltd (PCL) and DOT. Under this arrangement, HTL agreed to collect Rs 17.95 crore from PCL within 30 days. The Company could realise the amount only in December 1995 (Rs 4.63 crore) and January 1996 (Rs 13.32 crore). The balance of Rs.1.84 crore was realised from DOT during the period from January 1996 to November 1996.

Delay in taking up the matter initially by the Company and its injudicious decision to enter into a tripartite agreement in September 1995, resulted in consequent delay in the realisation of the sale proceeds. Due to this, the Company was faced with serious funds constraint affecting repayment of the commercial borrowings. An interest burden to the tune of Rs.3.32 crore was incurred till January 1996.

The Company decided in January 1997 to lodge a claim on DOT for the interest loss of Rs.3.32.crore, of which a sum of Rs.2.29 crore related to sales dues realised under the tripartite agreement. On the basis of recommendations made by a High Power Committee constituted for the purpose, DOT compensated the Company only up to Rs.97 lakh towards interest burden on supplies made under the agreement since September 1995 and compensation for another Rs 25 lakh was under process (September 1998). The interest relating to the period prior to the date of tripartite agreement was not compensated by DOT.

The tripartite agreement entered into by the Company much after the committed date of payment thus had the effect of precluding the Company from claiming interest for the period 30 April 1995 to 27 September 1995 on delayed payments, resulting in avoidable loss to the Company for Rs 2.10 crore.

The Ministry confirmed the above facts (October 1998).

ITI Limited

5.2.1 Loss due to cancellation of purchase orders

Despite having prior knowledge of impending switch over to Electronic Production Technology by DOT, the Company placed purchase orders for supply of equipment for rotary telephone project which had to be cancelled subsequently, leading to avoidable loss of Rs.2.44 crore.

The Company signed a collaboration agreement (October 1983) with M/s FACE Standard, Italy, for implementation of rotary telephone project. Though the Company was aware of the plans of Department of Telecommunications (DOT) to switch over to electronic push button telephones in 1985, the Company placed (May/June 1986) purchase orders on M/s Machinenfabrik Muller Weingarten, AG West Germany, (MMW) for the supply of hydraulic presses for rotary telephone project required for Naini and Bangalore Units of the Company. These orders were cancelled in September 1986/March 1987, as the Company had dropped the project of manufacturing Rotary Dial Telephones.

Consequently, MMW issued (December 1987) a legal notice to the Company claiming compensation for cancellation of these orders. The matter was referred to arbitration and the Company was asked (February 1992) to pay DM 9,08,225 (Rs.1.45 crore approximately), Rs.4.00 lakh towards legal fees and 16% interest on DM 5,76,725 (Rs.92.28 lakh approximately), from the date of the award till the payment of the amount to MMW.

The Company filed (March 1992) a suit for setting aside the award as a strategy to force MMW to a negotiated settlement. Finally on the intervention of Finance Ministry and Telecom Commission, the Company paid (December 1995) DM 9,93,225 and Rs.4 lakh i.e. Rs.2.44 crore to MMW in full and final settlement of the case and withdrew the case filed. Due to the delay in settlement of the award the Company had to pay an extra amount of Rs.94.94 lakh (Rs.2.44 crore - Rs.1.49 crore) as interest and exchange rate variation.

The Company had thus incurred a loss of Rs.2.44 crore due to placement of purchase orders for the Rotary Telephone Project even though as early as in 1985 the Company was aware of the impending switch over by DOT to Electronic Push Button Telephones.

The Ministry stated (November 1998) that the plans of DOT to switch over to electronic push button telephones from 1985 were not firmed up and as a first step towards progressive change over to electronic push button telephones, Government approved a product mix of rotary and electronic push button telephones to be manufactured by the Company in September 1996. The reply is not acceptable as in March 1985 itself, DOE selected three foreign collaborators for transfer of technology for manufacture of electronic push button telephones. Without waiting for Government's approval for its rotary and electronic telephone project, the Company placed the orders in May/June 1986 and almost immediately afterwards (October 1986) cancelled the orders.

5.2.2 Loss due to failure in honouring contractual obligations by the DOT

Due to rejection of valid escalation claims by Department of Telecommunications (DOT) circles which were not referred to arbitration as per terms of the agreement, the Company lost an amount of Rs.1.56 crore.

The Company received purchase orders for supply of certain switching equipment ('ILT', 'MILT' and 'DATE 36') from various 'DOT circles' during the years 1991-92 and 1992-93. The purchase order specified that the supplies, delivery and payment of bills etc., would be according to the DOT-ITI price agreement.

The price agreement entered into (February 1987) between the Company and DOT governing the selling prices of equipment, spares and other articles supplied by the Company to DOT included an escalation clause according to which claims for escalation computed according to an agreed formula were to be submitted once in four months. In March 1993, DOT Hqrs. decided to pay an increase of 7.5% on the prices as on 31.03.91. While escalation claims submitted by the Company in respect of orders received directly from DOT Hqrs. were admitted, the claims for price escalation were not paid by 'DOT circles' on the ground that the Company was not eligible for any escalation payment as orders were placed directly by the circles. The purchase orders placed by 'DOT circles' clearly stated that prices shall be as per price agreement made between DOT and ITI and thus the Company was eligible for price escalation as stipulated in the agreement mentioned earlier. In response to the Company's claim for escalation, DOT stated that the purchase orders issued by circles with tender terms and conditions differed from other purchase orders including escalation, and escalation as per DOT-ITI agreement was not justified. However, it was seen that, the purchase orders in question were not issued against tenders as there were no competitors for these equipment which were ITI developed products. Besides, the terms and conditions of purchase orders issued by the DOT Hqrs. and DOT Circles also did not differ except for the paying authority who was the Chief Pay and Accounts Officer for the DOT Hqrs. and Accounts Officers in case of DOT Circles. DOT circles being part of the DOT establishment, the price escalation as per the price agreement was applicable uniformly to DOT Hqrs. as well as to the DOT Circles. Hence, the arguments of DOT were not tenable at all.

Even though the Company took up the matter at various levels upto the Member, Telecom Commission, the escalation claims were not admitted and an amount of Rs.1.56 crore remained outstanding from 'DOT circles' on this account since 1993-94. Though the agreement provided for arbitration in cases of disputes arising from the terms and conditions of the agreement, the rejection of escalation claims was not referred to arbitration by the Company. The reply of the Management that the Company could not go in for arbitration against its Administrative Ministry is not acceptable as in that case, there was no need to have the arbitration clause at all. The provision of safety clause of arbitration in the agreement was thus defeated and the Company denied itself the chance of recovering the outstanding dues.

The Company made provision of Rs.1.56 crore in the accounts for the year 1996-97 as bad and doubtful debts. Thus due to the failure of the DOT Circles to honour contractual provision which were binding upon them as well the failure of the Company to take recourse to arbitration as provided in the agreement, the Company suffered a loss of Rs.1.56 crore.

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

5.2.3 Failure to avail of MODVAT benefit

Delay in filing statutory declarations resulted in MODVAT benefit of Rs.60.83 lakh being lost by the Company.

Under Modified Value Added Tax (MODVAT) scheme, the central excise duty and the additional duty of customs (i.e. countervailing duty) paid on capital goods can be adjusted against the excise duty payable on the final product. To avail of MODVAT benefit, the purchaser has to file within one month of receipt of goods a declaration with the Excise Authorities indicating the particulars of capital goods, description of final products etc.

During the period from April 1994 to July 1995 Manakpur unit of the Company received 61 different lots of capital goods from different parties and paid Rs.43.93 lakh as excise duty /countervailing duty but filed declaration in respect of these consignments for availing MODVAT benefit one year after receipt of the last consignment. Since the Company had not observed the statutory time limit in filing these declarations it could not avail MODVAT benefit of Rs.43.93 lakh. The request of the Company (May 1996) for one time condonation of the delay in filing the declarations was turned down by the Assistant Commissioner of Central Excise in August 1996. An appeal filed in November 1996 with the Commissioner (Appeals) was rejected in March 1997.

Similarly, MODVAT benefit amounting to Rs.16.90 lakh also remained unavailed during the period from March 1994 to December 1995 in respect of capital goods procured by the Naini unit of the Company.

The Ministry stated (October 1998) that the Company had been instructed to be more careful and vigilant so that such lapses might not recur in future.

5.2.4 Infructuous purchase of equipment - Loss of Rs.1.74 crore

ITI Limited procured equipment for fabrication and testing of mixed signal devices, which were not put to use resulting in infructuous purchase of equipment worth Rs.1.74 crore.

The Company decided (July 1992) to procure five equipment at a cost of Rs.1.78 crore for fabrication and testing of Double Level Metal (DLM) devices based on 2 Micron technology and Double Poly devices based on 5 micron technology by updating single metal and single poly devices being manufactured by it. The Company had worked out the cost benefit analysis on the above investment and projected a margin of Rs.2.03 crore per year on the investment from second year onwards, but no assessment of market demand was made before venturing into manufacture of new products.

The Purchase Orders were placed on 3 foreign firms (M/s. California Micro Devices Corporation, USA, (M/s CMD), M/s Tempress Systems INC, Netherlands and M/s. Felcon Ltd., England) between January 1993 to March 1994 after technical and commercial evaluation of the offers. The equipment were received by the Company (September 93 to July 95) at a cost of Rs.1.85 crore. The main testing equipment (LTX 77 Mixed Signal Tester) supplied by M/s. CMD, USA at a cost of Rs.1.08 crore was installed in April 1994. However, other equipment could not be installed and put to use either due to non-receipt of certain items or due to technical defects in the items received. The main testing equipment also developed defects immediately after installation and remained non-functional. Though the Company took up the matter with the suppliers, there was no response from them. No legal action was initiated against the supplier (M/s. CMD) for their failure in fulfilling contractual obligations regarding non-installation of the equipment.

Even though the main testing equipment (i.e. LTX-77 Mixed Signal Tester) was not functional, the Company procured (February 1995) one LSI/VLSI tester which was only a hardware update for the main tester by incurring an expenditure of Rs.22.96 lakh. This equipment could not be installed and interfaced with the main tester since the main tester itself was non-functional.

The Ministry stated (November 1998) that two of the equipment (CVD Nitride Passivator costing Rs.27.93 lakh and Chemical Etching System costing Rs.5.89 lakh) were subsequently installed and used, but not for the purpose for which these were procured. The Ministry further stated that the Company was making efforts to utilise the machines purchased and had also succeeded to a greater extent in its efforts. The Company was unlikely to succeed in its efforts to utilise these equipment in view of the fact that the present world trend is to produce 0.65 micron devices and the Company also proposed to manufacture devices of 0.80 micron category.

Thus the expenditure of Rs.1.74 crore incurred on the purchase of these equipment for producing 2 and 5 Micron chips became infructuous.

5.2.5 Injudicious procurement of telecom equipment

ITI Ltd. (Company), procured telecom equipment even before the finalisation of draft specifications of the equipment by Department of Telecommunications (DOT), which resulted in infructuous expenditure of Rs.1.05 crore.

A. Based on certain projections from DOT, ITI Limited envisaged a good market for Digital Cross Connect Systems and procured 4 sets of the equipment from a firm in Israel at a cost of Rs.58.86 lakh in May 1994 even before the specifications were finalised by the DOT. DOT finalised the draft specifications only in May 1995 and the model procured did not meet these specifications. As a result, the Company could not sell these equipment to DOT.

B. In a similar case, the Company procured 2 sets Wireless Local Loops from the same firm in Israel at a cost of Rs.40.46 lakh in March 1996 for Telecom Rural Network with Digital Wireless Connectivity. But the tender for the Network was actually floated by the DOT in October 1996. Again the equipment procured did not conform to the specifications of DOT. DOT eventually cancelled the tender in December 1997.

These equipment were procured on sale or return basis with an option to return the equipment within 6 months from the date of receipt. The Company did not take any action to return the equipment within the stipulated period and the equipment were still lying undisposed (September 1998).

The Company had already made provision for Rs.1.05 crore (including Excise Duty paid Rs.5.38 lakh) in the accounts for the year 1997-98 as the marketability of these equipment was doubtful. Thus injudicious action of the Company in procuring 4 Digital Cross Connect systems and 2 sets Wireless Local Loops without any specific orders from DOT resulted in infructuous expenditure of Rs.1.05 crore.

The Ministry while replying to the Draft para (September 1998) stated that though ITI should have taken action to return the equipment within six months to the supplier, it had not done so with a hope that they might get business in DOT. Ministry further stated that ITI envisaged the market potential of Telecom Equipment not exclusively for the DOT but also for non-DOT customers and that there was every chance of selling the equipment to non-DOT customers. However the above reply is not acceptable as these equipment were procured based on certain projections made by DOT. Thus possibility of finding a non-DOT customer for the equipment was minimal. The Company had itself admitted this while making provision for the amount. Besides, it does not address the main question as to why such costly equipment was procured without any specific order from the customer. Exploring the possibility of marketing the equipment to non-DOT customer was an afterthought. Also, Company's efforts to sell the equipment to non-DOT customers had not succeeded so far (October 1998).

5.2.6 Loss due to erroneous payment of excise duty

Erroneous payment of excise duty of Rs.1.11 crore on imported items and subsequent adjustment thereof resulted in blocking of funds with consequential loss of interest of Rs.21.64 lakh.

The Naini Unit of the Company imported 90 terminals of transmission equipment from Denmark on 18 August 1994 in semi-knocked down condition. As these transmission equipment did not require any manufacturing activity, no excise duty was payable on these items. However, the Unit made erroneous entries in the excise records meant for excisable goods and paid excise duty amounting to Rs.1.11 crore on 60 terminals despatched to customers during October 1994 to January 1995. As per the orders of the Assistant Commissioner of Central Excise dated 9 November 1995, the Company was allowed adjustment of Rs.0.99 crore through MODVAT Account and refunded Rs.0.12 crore in March 1998.

Thus erroneous payment of excise duty resulted in blockade of funds of Rs.1.11 crore leading to a loss of interest of Rs.21.64 lakh.

While confirming the facts and figures, the Ministry stated (October 1998) that there was a lapse on the part of the Company which had occurred due to negligence of the concerned officers/officials. The Ministry also added that instructions had since been issued to the Company to instruct all concerned to exercise utmost care and vigil so as to avoid such lapses in future.

Mahanagar Telephone Nigam Limited

5.3 Non-Recovery of unadjusted amount of purchase advance

Lack of pursuance and non-closure of a purchase order of telex exchange equipment despite a sharp decline in demand and expiry of the delivery period had made recovery of Rs.1.05 crore from the supplier very doubtful.

Mahanagar Telephone Nigam Limited (MTNL) placed a purchase order (PO) in June 1991 on M/s Electronic Corporation of India Limited (ECIL) for supply of various telex exchange equipment worth Rs.3.62 crore for installation at Mumbai. In May 1992, the MTNL revised the value of PO to Rs.4.63 crore due to increase in the ordered quantity thereof. As per terms of PO, 50 per cent of value of the equipment ordered was to be paid as interest free advance to ECIL and the supply was to be completed within 12 months from the date of receipt of advance or 15 months from issue of PO which ever was later. In case ECIL failed to deliver the equipment within the prescribed delivery period MTNL was entitled to recover liquidated damages (LD) at the rate of half per cent of the value of undelivered equipment for each week of delay or part thereof subject to a maximum of 5 per cent of the value of equipment ordered.

MTNL, Mumbai unit paid an advance of Rs.2.31 crore on 22 and 29 September 1992 (in two instalments) against the above PO to be adjusted without levy of interest, if the supply was received within the scheduled delivery date i.e. by 28 September 1993, otherwise interest was to be charged at the rate of 21 per cent per annum on the amount of advance adjusted after the expiry of scheduled delivery date or the amount of advance remaining unadjusted thereafter.

Audit scrutiny revealed the following irregularities:

- MTNL received the supply of equipment worth Rs.0.25 crore during April 1992 and the balance equipment worth Rs.3.19 crore were received during March 1993 and January 1994 against the scheduled delivery date of September 1993, but it failed to recover the LD charges amounting to Rs.3.00 lakh for belated supply thereof and interest of Rs.52.00 lakh for the amount of advance adjusted/remaining unadjusted after the expiry of the scheduled delivery date.

- Out of the advance of Rs.2.31 crore MTNL could adjust Rs.1.81 crore against the above supply thus, leaving unadjusted amount of Rs.50.00 lakh.

- In November 1993 MTNL, Mumbai unit directed ECIL to withhold further supply as it was not in need of these equipment due to sharp decline in the demand for new telex connections, but the Mumbai unit of MTNL failed to take up the case with its corporate office either for cancellation of the respective PO or ask it to divert the remaining equipment to other needy units of Department of Telecommunications (DOT). MTNL, Mumbai unit took up this case with its corporate office only in January 1995.

- In January 1994 ECIL approached MTNL for diversion of the remaining equipment to DOT'S unit at Ambala and sought former's instructions for the said diversion, but MTNL failed to take any action on the said proposal. MTNL closed the said PO finally in January 1997 without recovering the LD charges of Rs.3.00 lakh, outstanding amount of advance of Rs.50.00 lakh and interest of Rs.52.00 lakh. In all, an amount of Rs.1.05 crore was due from ECIL (October 1998).

The Management stated (April 1997) that the MTNL was not bound to accept the delivery of the equipment as the scheduled delivery period was already over in September 1993 and ECIL was approached (December 1996) for refund of outstanding purchase advance alongwith interest. However, due to short closing of PO, liquidated damages were not applied.

The reply is not tenable, as there was no short closure of the purchase order. The purchase order was closed in January 1997 although the scheduled delivery date was September 1993. Thus, the argument that liquidated damages were not levied due to short closure of the purchase order is not convincing. In view of the sharp decline in telex traffic MTNL should have closed the PO in October 1993 immediately after the expiry of the delivery date. Moreover, no amount has been recovered so far and as MTNL failed to pursue the case further after December 1996, the chances of recovery of dues of Rs.1.05 crore from ECIL have become very dim.

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

Videsh Sanchar Nigam Limited

5.4 Loss on account of non-recovery of interest for delayed payments

Due to non-enforcement of the relevant clause of agreement, the Company suffered loss of interest of Rs.2.30 crore on the outstanding dues alongwith non-recovery of outstanding dues to the tune of Rs.83.38 lakh.

As per clause 10(a) of the agreement between Videsh Sanchar Nigam Limited (VSNL) and International Private Leased Line Services, in the event of failure on the part of customer to pay in advance quarter/annual rental on lines provided to them by the Videsh Sanchar Nigam Limited (VSNL), VSNL was entitled to terminate the connections by giving 7 days notice in writing or allow the customer to continue the use of the channel subject to levy of interest at the rate of 2 per cent per month or part thereof, for the period of delay in making payments of advance rental to it.

However, audit scrutiny during January and September 1997 revealed that VSNL had failed to recover dues/rentals amounting to Rs.83.38 lakh for the period from 1982-83 to 1993-94 from 30 customers who were availing of International Private Leased Line Services. It was further observed that in 645 cases there was a delay of one to 18 months in recovery of dues against the bills issued during March 1994 to March 1997. But, in both the cases VSNL units (at Calcutta, Chennai, Delhi and Mumbai) neither disconnected the connections of the defaulting customers nor charged any interest for non-payment/delay in payment of dues/rentals.

Besides, non-recovery of outstanding amount of dues/rentals of Rs.83.38 lakh from 1982-83 to October 1998, VSNL failed to impose interest of Rs.2.30 crore on the outstanding amount of dues or dues/rental received late during May 1994 to August 1997 i.e. after the expiry of due dates of payments as per the clause ibid.

The Ministry/Management stated (April/August/September/December 1998) that clause 10(a) in the agreement was included as a pressure tactics as being a common practice in all Public Sector Undertakings and hence, no provision for charging of interest on delayed payment was made. It further stated that efforts were being made to recover the outstanding amount of dues.

The contention of the Ministry/Management that the interest clause was included in the agreement as a pressure tactics is not acceptable as it had charged interest on belated receipt of payments in case of another service i.e. Lease of Transponder Services. Moreover, it failed even to serve 7 days notice to the defaulting customers to put pressure on them to make timely payment of dues. Thus, by not enforcing a clause in the agreement, the Management had extended undue benefit to these customers in the form of non-recovery/delay in recovery of dues from them. Being a commercial organisation, the Management should have strictly enforced the relevant clause of the agreement to discipline the customers.

The Management's action which was contrary to normal commercial practices and detrimental to the interest of the Company resulted in non-recovery of dues/rental of 83.38 lakh besides loss of interest of Rs.2.30 crore.

CHAPTER 6 : MINISTRY OF DEFENCE

DEPARTMENT OF DEFENCE PRODUCTION & SUPPLIES

Bharat Dynamics Limited

6.1 Wasteful Expenditure of Rs.1.11 crore on pre-mature procurement of spares

The Company procured certain spares without any firm commitment from the customers. These were rendered surplus subsequently which resulted in a loss of Rs.1.11 crore.

The Company received two orders during March, 1990 for supply of 162 numbers and 185 numbers of product 'X' to Army and Ordinance Factory Project, Medak (OFPM) respectively. Much before the receipt of a firm order from the customer the Company procured (during March 1989 and January 1990) 48 Nos. of A and 8 Nos. of B maintenance spares at a cost of the Rs.3.07 crore from the collaborator. The Company could sell 45 Nos. of A and 4 Nos. of B spares and the balance quantity of 3 Nos. of A and 4 Nos. of B were rendered surplus and the company made a provision of Rs.1.11 crore during 1994-95 towards redundancy.

The Ministry stated (March 1998) that (i) the spares were procured as per the specifications laid down by the collaborator and on the basis of the letter of intent (LOI) received from the customers for the main product and (ii) advance action was taken based on the discussion held with the user, pending receipt of firm orders to avoid imposition of liquidated damages due to delay in supplies.

The reply of the Ministry is not tenable since (i) the procurement was not backed by a firm commitment from the customer (ii) the quantity of spares procured was nor based on the LOI for the main product (iii) even the actual order for the main product did not indicate the quantum of maintenance spares required and (iv) discussion held with the customer were not on record.

Thus unplanned and premature procurement of spares by the company resulted in a loss of Rs.1.11 crore.

Bharat Earth Movers Limited

6.2 Utilisation of Helicopter

Due to the rejection of the offers for sale of a helicopter maintained at high cost, the Company lost the opportunity not only of saving an annual maintenance cost of Rs.45 to Rs.50 lakh, but also of making a margin of Rs.34 lakh.

The Company purchased (June 1984) a Chetak helicopter VT-EIL from M/s. Hindustan Aeronautics Ltd. at a price of Rs.88.04 lakh for the purpose of taking dignitaries, foreign delegates, customers, senior Government officials etc. to its factories located at Kolar Gold Fields (KGF), Mysore and Tarikere. The following table indicates the respective distances of the factories from the Headquarters of the Company at Bangalore alongwith the relative time taken and relative cost as calculated by the Company.

Factory Location	Distance from Bangalore in Kms.	Time taken by		Cost in Rs. by	
		Road	Helicopter	Road	Helicopter
KGF	100	2 hrs 15 min	25 min	1750	40300
Mysore	140	3 hrs 30 min	45 min	2800	72600
Tarikere	256	5 hrs 30 min	1 hr 35 min	5250	145200

The Management informed (August 1992) the Board that the Company was incurring heavy fixed and operating expenses amounting to Rs.45 to 50 lakh per annum in the maintenance of helicopter on an average utilisation of 85 hours per year and sought the Board's approval for its disposal. The Board approved (August 1992) the proposal for disposal of the helicopter.

A tender was floated (September 1992) for the sale of helicopter in response to which an offer was received (October 1992) from M/s. Pawan Hans Limited, a Government of India Undertaking, New Delhi, for its purchase at Rs.55 lakh. The offer was rejected (November 1992) by the Company on the ground that the price was too low. The Company then decided to retain the helicopter and started lending it for commercial use from October 1992. While considering the above decision of the Management in the meeting of Board of Directors (May 1993), the Chairman held that helicopter could be sold if it would fetch at least Rs.2 crore considering the 'current value and flying hours recorded by the helicopter'.

Meanwhile (November 1995), Hindustan Aeronautics Limited (HAL) enquired whether the Company would consider disposal of the helicopter, at an expected sale price of Rs.1.92 crore to a UK firm, for which a fresh certificate of air worthiness after overhauling was required. The offer was turned down by the Company as it expected a minimum of Rs.2.5 crore, on a replacement cost basis and considering the maintenance cost incurred till then. The helicopter underwent major overhaul between June and December 1996, at a cost of Rs.1.58 crore. During the four years ended March 1997, the

Company earned an income of only Rs.64.87 lakh as hire charges against an expenditure of Rs.1.59 crore incurred on its maintenance. However, during the three years ended March 1998, the helicopter was used for the intended purpose only for 80.05 flying hours.

Keeping in mind the fact that it was not the intention of the Company to replace the helicopter but to sell it, the rejection of the offer of HAL was not prudent because even after considering the written down value (Re.1/-) as on the date of the offer and further costs viz. Rs.1.58 crore to be incurred for overhauling to put the helicopter in saleable condition, the Company would have retained a margin of Rs.34 lakh. Even considering that the original cost of the helicopter procured in 1984 was Rs.88.04 lakh, the offer of Pawan Hans for Rs.55 lakh in 1992 was attractive enough. But the Company availed of neither opportunity to sell the helicopter as per its own decision. Further, considering the distances between the factories and the Corporate Office of the Company, the time taken for each trip by alternate means of transport, the number of trips made and the huge cost difference between transport by helicopter and transport by road, the procurement of the helicopter itself seems to lack any justification, let alone its retention. Besides, the utilisation of the helicopter for about 70 hours in a year does not also support its retention on any pretext.

The Management/ Ministry stated (January 1998) that since there was no response or counter offer from HAL, it was presumed that they could not get any better deal and that as their efforts for disposal did not yield the desired result, it was decided not to dispose of the helicopter.

The reply of the Ministry is not acceptable because the Company had lost the opportunity to sell the helicopter at a price of Rs.1.92 crore in November 1995.

Bharat Electronics Limited

6.3.1 Blocking up of funds and consequential loss of interest

The failure of the Company to follow the terms and conditions of a purchase agreement resulted in blocking up of 90 per cent of the value of consignments amounting to Rs.65.33 lakh, besides entailing avoidable interest burden of Rs.64.82 lakh.

The Company received an order in March 1993 from M/S Instrumentation Limited, Kota, a Government of India Undertaking under the Department of Heavy Industry, Ministry of Industry, for the supply of 5000 LCC Card Assemblies for use in exchanges supplied by the Department of Telecommunications (DOT) at a total cost of Rs.3.75 crore. According to the purchase order, 90 per cent of the payment was to be made by customer through bank against despatch of documents and 10 per cent within 30 days after acceptance.

In violation of these terms and conditions, the Company supplied the material between March 1993 and July 1993 directly to the customer in respect of one consignment valued at Rs.22.65 lakh by oversight, while in respect of three consignments valued at Rs.61.36

lakh, even though the bills were submitted through bank, the materials were delivered directly to the customer. Documents pertaining to two of these three consignments were released by the bank to the customer as advised by the Company without receipt of payment, while in respect of third consignment, the bank returned the documents to the Company as the customer failed to collect it.

In response to the Company's letter to the Ministry of Industry, Department of Heavy Industry, on realisation of the outstanding payments, the Ministry stated (May 1994) that the customer was facing severe financial difficulties and they could clear the outstanding payments only when they obtained payments from DOT. However, the customer promised (September 1994) to make payments progressively and paid Rs.10.00 lakh (Rs.5 lakh each in August 1997 and May 1998) against the total outstanding of Rs.84.01 lakh (July 1997)

The Management stated (January 1998) that the consignments were supplied directly to the customer on specific request and assurance of the customer which was a Government of India Undertaking and also in the interest of long uninterrupted business relationship.

While admitting the lapse of the Company, the Ministry stated (May 1998) that:

i. The Company should not supply the materials on the basis of assurance alone from the customer and it should strictly follow the terms and conditions of the purchase order;

ii. The customer could not link the payment to the Company with placement of order/ payment from DOT, and,

iii. The Company had assured that the necessary steps had been taken to ensure that future contracts were made legally and financially foolproof to safeguard the Company's interest to prevent such a recurrence in future and that the payment terms incorporated in the indent/sale order would be strictly adhered to in future.

iv. The Company was hopeful to realise the remaining money in due course.

Thus due to the lapse on the part of the Company in following the terms and conditions of the purchase order, funds totalling to Rs.65.33 lakh got blocked with consequent loss of interest of Rs.64.82 lakh (May 1998).

6.3.2 Loss due to non-encashment of bank guarantees

Failure to encash the bank guarantees within the validity period resulted in unnecessary litigations and loss of interest amounting to Rs.20.84 lakh on the blocked funds besides an avoidable expenditure of Rs.2.99 lakh towards legal costs.

The Company supplied components worth Rs.4.68 lakh in November/December 1989 and Rs.5.22 lakh in November 1991 to M/s Lotus Televisions (P) Ltd. and M/s Ralectronics Ltd. Bangalore (Customers) respectively. The Company also supplied (February 1989) components worth Rs.6.10 lakh on loan basis to M/s Fenovision Pvt.

Ltd., Hyderabad. The above supplies were executed against bank guarantees furnished as security.

The Company failed to encash the bank guarantees within their validity period though the customers defaulted in effecting payments and the loanee also failed to return the goods. The Company initiated legal proceedings against the customers/loanee and incurred Rs.2.99 lakh towards legal expenses. Although the Company obtained (December 1996) a decree in its favour in the suit filed against the loanee, the decree could not be executed as the assets were seized by other creditors of the loanee. Further developments as regards the suit filed against the customers were awaited (October 1998).

The table below indicates the details of principal amount, legal expenses incurred, loss of interest and the period upto which the bank guarantees were valid.

S.No.	Particulars	Fenovision Pvt. Ltd. Hyderabad	Ralectronics Ltd. Bangalore	Lotus Television (P) Ltd. Thane
1.	Amount defaulted (Rs. in lakh)	6.10	5.22	4.68
2.	Validity of the Bank Guarantee upto	31.10.89	18.10.92	7.2.90
3.	Expenses incurred (Rs. in lakh)	1.86	0.63	0.50
4.	Interest lost upto December 1997	8.69	5.57	6.58

The Management stated (October 1997 and June 1998) that bank guarantees were not invoked due to periodic promises by the customers/loanee to effect payment and the Company's reluctance to strain long standing business relation. However, the Ministry stated (October 1998) that the Company's reply did not conform to prudent business practices and that the rational for executing bank guarantee as security would be lost if those were not to be invoked in case of default of contractual obligations.

Thus, failure to encash bank guarantees within their validity period resulted in unnecessary litigations and loss of interest of Rs.20.84 lakh on the blocked funds, besides avoidable expenditure of Rs.2.99 lakh toward legal costs upto December 1997.

6.3.3 Loss of interest due to excess payment of advance income tax

The Company paid excess advance income tax of Rs.13.04 crore for the assessment year 1994-95 due to incorrect estimate of income which resulted in additional interest burden of Rs.50.86 lakh.

Bharat Electronics Limited paid advance tax of Rs.11.98 crore for the year 1990-91, besides Rs.2.58 crore being the tax deducted at source. However, the actual profit for the year was substantially higher than the estimates made while effecting payment of advance tax with the result that the tax liability was assessed as Rs.18.76 crore and the Company had to pay interest amounting to Rs.88.93 lakh on the shortfall in payment of advance tax. This was reported in para 6.2.2 of the Report of the Comptroller and Auditor General of India No.3 (Commercial) of 1996. The Management stated (February 1993) that action had been taken to pay the self-assessment tax on estimated basis at an early date to avoid payment of interest on delayed payment. The Ministry informed (July 1995) that remedial measures taken subsequently to avoid payment of interest on account of belated payment of advance tax had ensured that no such payment of interest occurred relating to financial years 1992-93 and 1993-94.

A review of the advance tax payments made by the Company for the assessment year 1994-95 and tax refund obtained subsequently, revealed that, as against the assessed tax of Rs.3.49 crore, the Company paid advance tax amounting to Rs.17.73 crore which was more than five times its actual tax liability.

The Management stated (December 1997) that income was estimated based on the information available at that point of time. The reply is not tenable as it was noticed that the excess payment of advance tax was mainly on account of not reckoning all the admissible expenses and deductible allowances and adopting figures as envisaged in the budget estimates prepared in November 1992 instead of taking the adjusted figures based on revised estimates (December 1993) for 1993-94. The Company failed to reckon correctly the admissible deductions like technical know-how fees, depreciation and R&D expenses etc. For example, in estimating inadmissible depreciation, adoption of figures which were much higher than actual resulted in inflating the income by Rs.14.84 crore. Similarly, in respect of capital expenditure on R&D, wrong estimation inflated the surplus taxable income by Rs.3.10 crore. In respect of technical information fee also, the Company claimed lesser deduction by Rs.2.73 crore.

Allowing a margin of 25 per cent over the assessed tax liability for variation, the excess payment of advance tax for the assessment year 1994-95 amounted to Rs.13.04 crore, resulting in additional interest burden to the extent of Rs.50.86 lakh.

While admitting that the Company's estimates of allowances etc. were not very accurate at the time of payment of advance tax, the Ministry stated (May 1998) that the Company had been advised to take corrective steps to avoid recurrence of such excess payments, and that the Company was planning to engage the services of a tax consultant more frequently. The Ministry also suggested that the resultant loss needed to be viewed as loss due to temporary contribution to the National Exchequer. However, the Ministry's view was not consistent with prudent commercial practice.

Hindustan Aeronautics Limited

6.4.1 Loss of interest due to delay in collection of advance

Hindustan Aeronautics Ltd. received an amount of Rs.3.55 crore in August 1997 as second stage advance in respect of orders placed by M/s. Garden Reach Ship Builders & Engineers Ltd. (GRSE), Calcutta, a Defence Public Sector Undertaking. The advance which ought to have been claimed in April 1993 was finally claimed as late as March 1997 after audit pointed out the lapse in January 1997, resulting in loss of interest of Rs.2.12 crore.

The Company received an order from M/s Garden Reach Ship Builders & Engineers Ltd (GRSE), Calcutta in June 1988 for supply of Allen Auxiliaries for a value of Rs.6.65 crore, Rs.6.75 crore and Rs.7.00 crore totalling Rs.20.40 crore. (revised in May 1991 to Rs.6.65 crore, Rs.7.00 crore and Rs.7.20 crore totalling to Rs.20.85 crore).

The payment terms in respect of all the three orders were as follows:

Stage I	25% of the value of the order as advance along with order
Stage II	25% of the value of the order on Regional Inspectorate of Warship Equipment (RIWE) Certification of consumption of 75% of advance received.
Stage III	25% of the value of the order on RIWE Inspection and acceptance of Alternator.
Stage IV	15% of the value of equipment on successful completion of testing of equipment at Stem Test House at Mumbai.
Stage V	Balance on receipt and acceptance of material at GRSE.

The initial advance of 25% of the value of the total order (25% of Rs.20.40 crore) amounting to Rs.5.10 crore was claimed in March 1988 and received in April 1988. Later the second stage advance of 25% of the value of the first order (Rs.6.65 crore) amounting to Rs.1.66 crore also was claimed in November 1990 and received in February 1991, after incurring an expenditure of Rs.1.41 crore (i.e. more than 75% of initial advance in respect of the first order). However, the second stage advances amounting to Rs.3.55 crore in respect of second and third revised orders (25% of Rs.7.00 crore and Rs.7.20 crore) were not claimed even after consumption of 75% of first stage advances in April 1993 in respect of these two orders. The advances were finally claimed only in March 1997 after audit had pointed out these lapse in January 1997. The delay on the part of the Company from April 1993 to March 1997 to claim the advance as per the terms of purchase orders resulted in interest loss of Rs.2.12 crore. The advance was finally received in August 1997.

The Company confirmed (May 1998) the delay in claiming the advance but stated that before determining the due date for claiming the Stage II advance, expenditure for GRSE could not be clearly established. The reply which was endorsed by the Ministry in August

1998 is not acceptable, as the Company had an established costing system and the fact that it had claimed the Stage II advance for the first order after consuming 75% of the first advance for which the expenditure could be established and had also received the same proved that it would not have been difficult for the Company to identify the expenditure pertaining to the other orders also. Thus, delay of 48 months in determining the expenditure pertaining to GRSE and interest loss of Rs.2.12 crore was not justifiable.

6.4.2 *Failure to obtain Customs Duty Drawback*

Laxity of the Company in following the prescribed procedures for claiming the customs duty drawback resulted in losses amounting to Rs.84.39 lakh.

Between March 1987 to December 1988, Hindustan Aeronautics Limited received materials from M/s. Garrette Turbine Corporation, USA (GTC) for fabrication of Aero-Engine parts which were to be exported to them under a buy-back agreement finalised in December 1986. These materials could have been cleared without payment of customs duty by obtaining advance licence under the provisions of the Customs Act, 1962. The Company could not obtain advance licence by March 1987 when the initial consignments had arrived, as GTC did not send in advance the details/value of materials despatched. The Company cleared the initial consignments by paying customs duty to avoid and minimise the demurrage/wharfage. Though, the Company could finally obtain the advance licence by May 1988, the consignments received after May 1988 were also cleared by paying customs duty. The total amount of customs duty paid by the Company on the consignments amounted to Rs.84.39 lakh.

On being pointed out by audit (April 1992), the Company assured (July 1992) that action would be taken for refund of customs duty after fixation of rates of drawback (brand rates). However, it did not submit the required statements to Drawback Directorate, Delhi and also to the Collectorate at Bangalore, for verification, which was a prerequisite for claiming the duty drawback. Besides, it did not effectively follow up the claims with the Customs authorities. In 1996, the Drawback Directorate, Delhi closed all the brand rate application files pertaining to the years upto 1992 and the Company eventually had to write off the amount for Rs.84.39 lakh in the accounts for the year 1995-96.

Thus, the lackadaisical attitude of the Company and its failure to follow the prescribed procedure led to a loss of Rs.84.39 lakh.

The Ministry stated (May 1998) that Drawback rates were not approved by Drawback Directorate for a long time for reasons not known to the Company. The reply of the Ministry is not acceptable as the Company failed to follow the prescribed procedure for claiming duty drawback which had resulted in the loss.

6.4.3 *Loss due to non-adherence to terms of agreement*

The failure of the Company to adhere to the conditions agreed upon with M/s. East West Airlines resulted in a loss of Rs.42.67 lakh.

The Company entered (July 1992) into a Memorandum of Agreement (MOA) with East West Airlines (EWA) for providing its landing and parking facilities at Bangalore

Airport. As per the MOA, EWA was required to pay landing, parking, service/maintenance charges to the Company in advance, i.e. on or before 1 and 16 of every month computed for a fortnight or part thereof. In addition to the above, EWA was also required to pay to the Company a refundable security deposit equivalent to 90 days of landing, parking, service/maintenance charges.

Although EWA defaulted in making the advance payment from November 1995 onwards, the Company continued to offer the parking and landing facilities to EWA. The dues from EWA on this account for the period from November 1995 to June 1996 worked out to Rs.34.44 lakh. The use of the landing and parking facilities was eventually discontinued from June 1996.

As per another agreement dated 5 January 1995, the Company also agreed to perform the standard maintenance checks called 'C' checks of various aircraft of EWA. The agreement inter-alia specified that the Company would claim advance equivalent to 50% of the estimated maintenance work before the work was taken up and obtain the remaining 50% of the work bills within 30 days of issue of invoice. In accordance with the above agreement, the Company undertook 'C' checks of two aircraft in November-December 1995 and February 1996 respectively. While in respect of first aircraft, the advance and part of the payment due were collected belatedly (March 1996 and April 1996), in respect of the second, neither the advance was collected nor the final payment was obtained for performing 'C' checks. The dues to be collected from EWA on this account amounted to Rs.15.79 lakh since April 1996.

The Company made a provision of Rs.42.67 lakh in respect of the above during 1996-97 (after adjusting the security deposit of Rs.7.56 lakh). It served legal notices on EWA in January 1997 for recovery of the dues and in January 1998 for appropriation of the balance inventory.

The Management stated (June 1998) in its reply that M/s. EWA was one of the primary Air taxi operators and this Airline was the launch customer for civil aircraft maintenance business of HAL and that EWA was also being considered a prospective partner for formation of a joint venture Company for civil aircraft maintenance. The Management further stated that EWA had been settling their dues though slightly delayed. As regards advance for carrying out 'C' checks on the second aircraft, the Management stated that the earlier MOU with EWA had lapsed in January 1995 and discussions for review of the same were in progress and therefore no advance was collected. The Ministry also endorsed the reply of the Management (July 1998).

The reply is not tenable because as admitted by the Management itself, there were delays in realising the due from EWA. EWA had been defaulting in making payment for more than six months and this was enough reason for the Management to be more careful and vigilant in demanding the advance as per terms of the agreement. Entering into any collaboration with a Company with such dubious record was itself fraught with dangerous consequences and citing that as a reason for showing leniency could not be justified. As regards the 'C' checks, when the amount due on the first aircraft itself was not cleared as per terms of the agreement, undertaking of the checks without advance for the second aircraft ought not to have been taken. Thus as a result of showing undue favour to the customer the Company had to sustain a loss of Rs.42.67 lakh.

6.4.4 Infructuous expenditure due to premature procurement of material

The Lucknow Division of the Company incurred infructuous expenditure of Rs.94.05 lakh in procuring material for manufacturing of Power Supply and Air-conditioning (PAC) Vehicles on behalf of Indian Air Force even before the performance of the prototype could be successfully demonstrated.

The Division received an order from Air Force in April 1984 for supply of 8 PAC Vehicles meant to provide ground support to an aircraft at the rate of Rs.23.04 lakh each. The first piece of equipment consisting of ground power unit and a cooling system was to be delivered in April 1985 and the remaining at the rate of one vehicle per month thereafter.

The prototype of the PAC Vehicle developed by the Division by the middle of 1985 did not perform as per the requirement of customer. Consequently, the job was bifurcated into two parts and the part relating to development of cooling system was transferred to Nasik Division in May 1992 because that Division had already developed a cooling technology in 1989. During the period 1984 to 1988 the Lucknow Division had, however, already procured engines and material worth Rs.108.39 lakh for developing all the 8 PAC Vehicles in expectation of demonstrating the performance of the prototype successfully. Though material worth Rs.95.05 lakh meant for development of cooling system was transferred to Nasik Division (May 1992), it could utilise only material worth Rs.1 lakh. The balance material worth. Rs.94.05 lakh was declared redundant by the Company and provision for its write off was made during 1992-93 and 1995-96. Thus, by procuring material prematurely in expectation of successful prototype development, the Company was put to loss.

The Ministry stated (May 1998) that the material was procured in stages as the work progressed. The contention of the Ministry is not tenable as there was no need to procure sets of engines and its accessories before the satisfactory demonstration of the prototype of the PAC Vehicles to the customer.

Mazagon Dock Limited

6.5 Avoidable payment of interest on cash credit account

Mazagon Dock Limited (MDL) suffered a loss of Rs.45.78 lakh while resorting to borrowing at a higher rate of interest despite having surplus funds of Rs.15 crore placed in Inter Corporate Deposits (ICDs) with Bharat Petroleum Corporation Limited (BPCL) during the same period.

According to Reserve Bank of India (RBI) guidelines issued in November 1996 for regulating the loan delivery system, withdrawal in excess of cash credit limit even for a day, would automatically be converted into Working Capital Demand Loan (WCDL) which is repayable with interest for six months, on the specified day.

Mazagon Dock Limited was operating a cash credit account with State bank of India (SBI), Mumbai with an overall withdrawal limit of Rs.19.25 crore. As on 1 January 1997, the withdrawals in cash credit account reached Rs.26.41 crore. SBI, in the light of RBI guidelines, immediately converted a sum of Rs.7.00 crore as WCDL for six months and charged interest at the rate of 16.5 per cent from 1 January 1997 to 15 April 1997 and 16 per cent per annum thereafter. The Company paid a sum of Rs.55.91 lakh to SBI as interest on WC DL upto 30 June 1997.

The Company, while reviewing the fund position, placed a sum of Rs.15 crore on 21 December 1996 (out of Rs.16.29 crore received against maturity of deposits) in ICDs with BPCL, despite having known that:

i. Funds position on 20 December 1996 showed a balance of only Rs.2.83 crore.

ii. Shipments made by the supplier in November 1996 were expected to arrive during December 1996 for which LC was opened and payments were due.

The ICDs which were for a period of 30 days, carrying interest at 14.5 per cent per annum were prematurely withdrawn after 17 days to maintain the cash credit limit. The Company earned Rs.10.13 lakh as interest on ICDs during this period.

Thus, due to poor financial management the Company suffered a loss of Rs.45.78 lakh (i.e. Rs.55.91 lakh – Rs.10.13 lakh).

The Ministry stated (December 1998) that:-

i. the investment of the Company for six months earned apprroximately Rs.52.50 lakh and hence the actual loss was approximately Rs.3.41 lakh only;

ii. as funds were already overdue from the Navy and as the same could be utilised for payment for Russian consignment, the surplus funds were invested;

iii. it was a commercial decision taken by the Company in the best interest on the consideration that dues from the customer would flow based on past trends; and

iv. there existed a system of properly assessing the sums available for short term investments.

The reply is not tenable in view of the following:

i. with proper financial planning of cash credit balances, amounts would still have been available for investment without availing of WCDL.

ii. by having to keep equivalent amount of WCDL invested so as to reduce the loss of interest, the Company lost the benefit of alternative uses of the funds.

iii. by allowing the bank advances to slip into the WCDL segment the Company lost the benefit of using the cash credit at normal rate of interest as and when required.

iv. the investment was also in violation of Government of India guidelines issued in December 1994 which stipulated that funds should not be invested by Public Sector Enterprise (PSE) at a particular rate of interest for a particular period of time while the PSE was resorting to borrowing at an equal or higher rate of interest for its requirement for the same period of time.

Mishra Dhatu Nigam Limited

6.6 Loss in supply of an alloy

The Company suffered a loss of Rs.44.95 lakh including cash loss of Rs.21.00 lakh in execution of supply orders for alloy, due to failure to obtain optimum yield in its production.

The Company received from four customers supply orders for 10,444 KGs of Superni 80-A metal (alloy) of different sizes valuing Rs.1.17 crore. In execution of the orders, the Company undertook 20 heats (process) during the years 1990-91 and 1991-92 and incurred an expenditure of Rs.1.75 crore. The Company supplied 8760 KGs. of alloy valued Rs.1.16 crore during 1990-91 to 1993-94 to various customers and used 3150 KGs of alloy valued Rs.13.77 lakh for its captive consumption. 306 KGs of alloy produced without order was lying as scrap and was valued at Rs.0.70 lakh (March 1998). The Company thus realised only Rs.1.30 crore (including captive consumption) against the total expenditure of Rs.1.75 crore and thereby suffered a loss of Rs.44.95 lakh in the manufacture of the alloy.

The Company initially anticipated a substantial profit but could not even realise the Direct Cost (Rs.1.51 crore) viz. Raw Material (Rs.1.33 crore) and variable overheads (Rs.18.43 lakh) and consequently suffered cash loss of Rs.21.00 lakh.

The Management stated (April 1997) that:

i. the know-how that was purchased from the collaborator did not include all the processes that were required to produce different products economically with the available facilities, for example, for making rings of Superni –80A, the rings had to be made through an improvised device involving heavy machining which led to poor yield.

ii. the know-how and engineering advice covers upto rolled products but the customers specifications stipulated close tolerance necessitating centreless grinding

The Ministry stated (January 1998) that the Company is operating in a buyer's market and had to take a calculated risk in accepting the orders and losses incurred must be considered as legitimate business loss.

The reply of Management /Ministry is not tenable as (1) the Company has been in the line of production of Superni 80 A alloy since 1988 and was well aware of the complexities involved in production before accepting the orders; (2) the Company anticipated a profit margin and therefore, no calculated risk was taken by the Company.

The Company thus, failed to obtain the optimum yield in production of alloy mainly due to undertaking production without acquiring the required facilities/know-how to produce different sizes of products economically and suffered a loss of Rs.44.95 lakh, which included cash loss of Rs.21.00 lakh in the execution of various orders received from customers.

CHAPTER 7 : DEPARTMENT OF ELECTRONICS

CMC Limited

7.1 Avoidable loss

Company's failure to incorporate a suitable clause in the agreement regarding the date of handing over the Source Code to the client led to a loss of revenue of Rs.72.65 lakh.

The Company entered (March 1992) into an agreement with M/s. IDBI for development of corporate database. The project cost of Rs.1.68 crore was to be executed in four phases, each of which was made up of several application modules. All the four phases were to be integrated and completed by January 1993.

Terms of payment envisaged an advance of Rs.33.60 lakh on placement of order and signing of contract, and the balance in accordance with agreed stages. Only 70 per cent of the software development was completed and ready for acceptance by the end of first quarter of 1994-95. At this point, IDBI insisted on the Source Code and denied Acceptance Test without the possession of Source Code. As this was not acceptable to the Company, IDBI withdrew (August 1994) the development facility resulting in abandonment of the project.

At this stage revenue accrued and due to the Company amounted to Rs.1.21 crore against which the Company had received only Rs.48.60 lakh. The balance amount of Rs.72.65 lakh could not be recovered and was written off in March 1997.

It was observed that the contract signed between CMC and IDBI contained a clause that Source Code would be given to the client but was silent about the date on which Source Code would be handed over by the former to the latter. Since passing over the right of property regarding source code was so crucial CMC should have ensured enough safeguards in this regard while signing the agreement. Company's failure to incorporate adequate safeguards in the agreement in this regard and consequent decision not to initiate arbitration proceedings against IDBI resulted in loss of revenue of Rs.72.65 lakh.

The Management stated (October 1998) that:-

i. The arbitration proceedings against IDBI would have resulted in loss of potential business in the Finance Sector, in which the Company had invested heavily.

ii. As the time elapsed and with the gradual withdrawals/resignations of team members, it became increasingly difficult to prove/implement the work done due to erosion of the acquired knowledge base.

iii. Due to rapid changes in technology/economy, the utility of the work done by the Company for IDBI diminished very fast.

Above reply is not acceptable in view of the fact that the agreement between the Company and IDBI provided that in the event of termination of the agreement IDBI was liable to pay the Company charges for the work done. The agreement also provided for arbitration in the event of any dispute or difference relating to the agreement and so the Company should have taken proper action as per the Agreement to protect its financial interests.

Thus, lack of care while framing an agreement and failure of the Company to enforce it's rights under the same resulted in loss of Rs.72.65 lakh.

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

CHAPTER 8 : MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

IndBank Merchant Banking Services Limited

8.1 Avoidable Payment of Professional Charges

IndBank Merchant Banking Services Limited, a subsidiary of Indian Bank made an avoidable payment of Rs.1.62 crore as professional charges for services of officers borrowed from it despite paying the officers deputation allowances as per service rules of the lending Bank.

Since its inception (August 1989), IndBank Merchant Banking Services Limited (IndBank), a Subsidiary of Indian bank, had been availing the services of the officers of Indian Bank on deputation basis as per Indian Bank Officers' Service Regulations 1979, whereby an officer deputed to serve outside the bank might opt to receive either the emoluments attached to the post to which he was deputed, or alternatively, deputation allowances in addition to the pay and other allowances applicable to the parent cadre.

During March 1995, Indian Bank claimed Rs.16 lakh per month from IndBank as professional charges for services of 31 officers for the year 1994-95. After adjusting the payment made to the deputationists during the same period, the Company paid an amount of Rs.1.62 crore in March 1995 on this account, though there was no agreement between the Company and Indian Bank for payment of these charges.

The Company confirmed (October 1996) that there was no specific agreement with Indian Bank for payment of professional charges. It further stated that the payment of Rs.1.62 crore made to the holding Company in addition to the salary of the deputationists was reasonable and justified, since key employees were drawn on deputation and continued availability of qualified and experienced man power was a pre-requisite of service industry. Indian Bank, the institution holding majority shares to whom Audit observation was referred stated (February 1997) that professional charges were recovered considering the nature of services to be rendered by its officers and taking into account the current trends in the salary structure in the industry. However, their reply also stated that they had taken note of the audit observations and were taking steps to review their stand on the issue.

The Ministry endorsed (August 1998) the replies of Indian Bank and further stated that no professional charges had been levied since April 1995.

Thus, the payment of Rs.1.62 crore to Indian Bank towards professional charges lacked justification as IndBank was expected to meet only the expenditure towards pay and allowances of the deputationists and to pay dividend to Indian Bank, its holding Company.

The New India Assurance Company Limited

8.2.1 Avoidable loss of £ 2.6 million (Rs.14.34 crore)

The Company suffered a loss of £ 2.6 million (Rs.14.34 crore) due to acceptance of a risk without due diligence and prudence.

The London office of the New India Assurance Company Limited (NIA) accepted (27 July 1990) a reinsurance from Lloyd's Syndicate through a broker named Heath Fielding Insurance Broking Limited against cost of providing supplementary teachers in case the employed teachers were unable to work as a result of accident or illness. The reinsurance covered a period of 12 months starting from 1 July 1990. In August 1990, the Company accepted a change in the period of reinsurance to cover risk that would arise during the period of 12 months from 1 April 1990. The date of commencement of the period of risk was changed to coincide with the main insurance cover. The reinsurance was to cover an unlimited liability in excess of £ 7,50,000 and NIA was to get 30 per cent of the gross premium received by Lloyd's Syndicate. The Company was informed by the broker on 27 July 1990 and 8 August 1990 that there were no pending claims. The premium income from reinsurance was estimated at £ 15,00,000 being 30 per cent of the total estimated premium of £ 50,00,000.

It transpired that contrary to the information furnished by the broker, claims had in fact started cropping up against the cover by the end of June 1990 making a total claims of £6,94,307.43 by August 1990. The fact was brought to the notice of the Company on 27/28 September 1990. However, at this stage the Company did not raise any objection and accepted the claims.

In May 1991, the Company contested the claim on the ground that the broker had made misrepresentation at the time of issue of cover and again at the time of amendment to the effect that there had been no claims against the original insurance. But the Court ruled (June 1994) against the Company on the grounds that the Company had failed to countermand within a reasonable time the endorsement when it came to know about the claims on 28 September 1990, rather it elected to affirm the contract. The Company had to finally settle (June 1996) a sum of £ 2.6 million (Rs.14.34 crore) including £ 1.14 million representing costs.

The Management stated (August 1998) that:

i. The London Branch accepted the business on the principle of utmost good faith based on the information furnished by the broker, who was expected to mention all the favourable and risk factors; and

ii. In the highly competitive environment in which the London office was operating and considering the very specialised nature of insurance business a risk cannot be classified into an avoidable loss or otherwise in advance.

Management's reply is not tenable on the following grounds:

(a) It is evident that the nature of the risk was not properly ascertained by the London office. Although the intention of the Company was that only the cost incurred in engaging supplementary teachers to replace teachers who were absent owing to accident or illness would be indemnified, the Company had to extend benefit in all cases where an employed teacher was unable to work, regardless of whether another teacher was engaged. The Company should have clearly ascertained its liability before accepting the risk.

(b) At the time of issue (27 July 1990) of the cover from 1 July 1990 or while extending (8 August 1990) the cover retrospectively from 1 April 1990 the actual premium or claims received till that date should have been properly ascertained. The Company failed to do so as there were 820 claims upto July 1990 with a total value of £ 2,20,105.23.

(c) It is also apparent that the Company failed to correctly assess the total premium by the original underwriters and the possible exposure of the Company because as against the anticipated premium income of £ 15,00,000, the actual premium income was merely £1,18,415.56.

(d) When it was known by 28 September 1990 that there were claims in July and August 1990, immediate action was not initiated to rescind the policy in case it was felt that there had been misrepresentation by the broker earlier.

(e) The liability being unlimited no arrangements were sought for retrocession.

Thus, acceptance of risk without due diligence and prudence resulted in a loss of £ 2.6 million (Rs.14.34 crore) to the Company.

The matter was referred to the Ministry in November 1998; their reply was awaited (December1998).

8.2.2 Loss of premium in transit cover

Due to failure to adhere to the tariff provisions and omission to collect premium for additional transits and intermediate storage, the company suffered a loss of premium of Rs.1 crore.

According to Marine cum Erection (MCE) tariff, where the insured does not opt for the facility for cover of additional transits at the inception of policy, the risk during additional transit can be covered only separately for each lot of materials as may be declared from time to time by charging additional premium at the rate of Rs.2.50 per mille separately for each such declaration for additional transit.

A Mumbai divisional office of the Company insured the augmentation of transmission and distribution projects covering marine cum storage cum erection of cables, switchgears, transformers, etc of an electric supply company for the period 8 November 1990 to 7 November 1992. The three main centres for the execution of the project were Grant Road, Dharavi and Salsette. The insured requested (December 1991) for extension of the policy to cover consignments valued at Rs.75 crore for transits from place to place with additional storage cover and deletion of the provision of the time limit of the Institute Cargo Clause (ICC). The insured also intimated that it was not possible to advise in specific terms all the transit and storage points pertaining to such consignments. The divisional office covered the transits from 3 February 1992 to 6 December 1996 collecting premium for one additional transit @ Rs.2.50 per mille. The issue of cover for multiple transits by collecting premium for one transit and without insisting on declaration of individual transits was in violation of the provisions of MCE tariff.

As according to the insured the activities were confined to the three main locations, premium for a minimum of two additional transits should have been collected by the divisional office for covering the transits between locations. This has resulted in a loss of premium of Rs.64.29 lakh.

The insured had also requested for storage cover at intermediate points and exemption from ICC. The policy was issued by collecting premium only for deletion of ICC but premium for intermediate storage @ Rs.0.30 per mille per month was not charged resulting in a loss of premium of Rs.36 lakh.

The Ministry stated (October 1998) that there was only one additional transit involved as the consignment from the supplier was stored at one location for intermediate storage and thereafter transported directly to the site of erection. It was further stated that the rates charged for intermediate storage were those decided by TAC. The reply is not tenable as the insured had clearly indicated at the time of issue of the cover that consignments were required to be transported from place to place. The divisional office also had not maintained details of the transits to find out whether any additional transits were involved. But on the basis of information provided by the insured that activities would be mainly confined to three places premium for two additional transits were leviable. The rates quoted by the Ministry to have been charged are infact leviable because of the deletion of the time limit of the ICC and not for intermediate storage. The fact is that no additional charge was levied for intermediate storage.

Thus, failure to adhere to the tariff provisions and omission to collect premium for additional transits and intermediate storage resulted in a loss of premium of Rs.one crore.

8.2.3 Loss of premium due to inadequate loading

Non-loading of premium as per the recommendations of the Tariff Advisory Committee (TAC) has resulted in loss of premium of Rs.15.28 lakh.

According to the provisions of the circular dated 18 March 1991 of the Tariff Advisory Committee, in cases of marine open policies existing prior to 1 April 1991, where the loss ratio for the past three years (excluding the immediately preceding year) exceeded 60 percent, the total premium rate for the renewed policy was to be so loaded that the loss ratio did not exceed 60 per cent on the loaded rate.

A Chennai divisional office of the Company issued an annual marine open policy to Tamil Nadu Chemical Products Limited, Chennai from 1989-90 onwards, covering the transit of their products between places anywhere in India. The average incurred claims experience of the insured for the three years prior to renewal for 1992-93 was 284.78 per cent which required a loading of premium of 374.63 per cent. But the Company applied loading of premium of only 64 per cent resulting in a loss of premium of Rs.15.28 lakh.

The divisional office of the company expressed (July 1997) their inability to recover the premium as the insured had refused to pay the additional premium and transferred his business to another insurance Company.

Thus, violation of the recommendation of the Tariff Advisory Committee resulted in a loss of premium of Rs.15.28 lakh to the Company.

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

Oriental Insurance Company Limited

8.3 Short levy of premium

Non-adoption of the rates of premium as decided unanimously by the subsidiaries of the General Insurance Corporation of India resulted in short levy of premium of Rs.74.08 lakh.

Marine cargo business was detariffed with effect from 1 April 1994. In order to avoid undercutting of rates of premium by the subsidiaries of the General Insurance Corporation of India (GIC), Public Sector Business Co-ordination Committee (PSBCC) which is an Inter Company Co-ordination Committee of the subsidiaries of GIC decides on rates and terms of any Marine Business proposal emanating from Public Sector clients. PSBCC in its meeting held on 16 February 1994 decided the marine rates to be charged in respect of imports made by the Railway Board.

A Delhi based divisional office of the Company while issuing a marine cover for locomotive, plant and machinery, wheel sets, etc. to be imported by the Railway Board for the period from 1 April 1994 to 31 March 1995 charged rates lower than those decided at the meeting which resulted in short levy of premium of Rs.74.08 lakh.

The Management stated (July 1998) that:-

1. the PSBCC's rates and terms would be binding on the insurers only as a self-imposed gentlemen's agreement and did not have any legal sanctity;

2. the Ministry of Railways had felt that the rates agreed to in the PSBCC were on the higher side and had insisted on revised quotation from the companies. Other companies did not choose to abide by the agreed rates. This Company was, thus compelled to deal with the matter on merit;

3. since no company was following PSBCC rates, there would not be any case of this Company violating PSBCC rates;

4. claim ratio worked out to 69 per cent; and
5. business from the Railways was expected to increase and thereby increase premium income.

The contention of the Management is not tenable as:-

i. the low rates stated to have been quoted by one of the subsidiaries of GIC was quoted on 11 February 1994 i.e. before the PSBCC rates were finalised;

ii. the entire purpose of PSBCC meeting would be defeated if the rates decided are not honoured on the technical ground that the same do not have legal sanctity;

iii. ideal claim ratio should be less than 60 per cent, whereas the claim ratio was higher in the case of Railways; and

iv. charging lower rates of premium than decided earlier in anticipation of increase in future business is not a commercially sound policy.

Thus, the Company lost premium income of Rs.74.08 lakh due to rating the risks downwardly than initially agreed upon among the subsidiaries of GIC.

The Ministry stated (October 1998) that shortly after the PSBCC meeting marine portfolio was de-tariffed enabling insurance companies to quote their rates freely and the concessions were considered by insurance companies based on overall business placed by the clients.

The reply is not tenable as the need for a PSBCC arises more in the case of detariffed portfolios and GIC directive envisages that after a matter had been decided in PSBCC, the insurance companies quote for the risk on a uniform basis.

PNB Asset Management Company Limited

8.4 Avoidable loss in the re-purchase of units of premium plus 1991 scheme

The Company incurred an avoidable loss of Rs.98.78 lakh by deliberately ignoring the terms of agreement on the plea of earning goodwill of the investors.

The PNB Asset Management Company Limited, a wholly owned subsidiary of the Punjab National Bank, was incorporated in March 1994 with the objective of acting as investment manager to PNB Mutual Fund. The Company entered into an agreement with the Fund in April 1994 which provided that the Company would manage the assets of the Fund with effect from the date of agreement and for the services rendered by the Company, the Fund would pay managerial fee to the Company annually. The agreement further provided that the Company would not be liable to the Fund or its investors for losses, if any, sustained by them.

The PNB Mutual Fund had earlier floated a scheme called Premium Plus 1991 in November 1991, the management of which was transferred to the Company in April 1994 as per the Agreement. In the offer document of the scheme, the Fund had promised to repurchase the units from the buyers at par or above the face value of the units after 16 January 1995. In pursuance of this assurance, in March 1995, the Fund decided to repurchase the units at their NAV-related price. The net assets value (NAV) of the units under the scheme, however, had dropped below the face value of Rs.10 from November 1995 onwards, but the Company, on behalf of the Fund, continued to repurchase the units at par till 15 October, 1996, thereby incurring an avoidable loss of Rs.99.78 lakh since the repurchase of units at loss was done by the Company on its own.

The Ministry stated (December 1998) that in view of the commitment made in the offer document for repurchase of the units at par or above the face value of the units and in order to earn the goodwill of unit-holders, it was decided that the Company would keep purchasing the units at their face value. As the Company was not in a position to bear the shortfall, the Punjab National Bank, being the sponsor bank and principal trustee of the Fund, decided to infuse Rs.24 crore as equity capital in the Company to enable it to bear the shortfall. The Ministry further stated that the shortfall of Rs.99.78 lakh might not be the actual loss because in future if the market conditions improved, the Company would have the option of offloading the securities at an opportune moment.

The reply furnished by the Ministry is not tenable since no loss could be compensated by a mere injection of additional equity. The reply is also misleading because the sponsor bank had intimated (July 1996) the PNB Mutual Fund that none was liable to make good the loss and that the Company had taken upon itself to bear the loss for its goodwill. Besides, this was not a normal business loss as the Company was not liable to the Fund or its investors for any loss sustained by them. As regards earning goodwill, the cost of public expenditure at which it was to be earned ought to have been the primary consideration.

CHAPTER 9 : MINISTRY OF FOOD & CONSUMER AFFAIRS

Central Warehousing Corporation

9.1 Irregular enhancement of conveyance allowance

Conveyance allowance sanctioned retrospectively was increased beyond the ceiling fixed by the Department of Public Enterprises resulting in recurring excess payment to employees.

On the recommendation of a High Power Pay Committee, the Department of Public Enterprises (DPE) directed (June 1990) the Managements of public sector enterprises following the Central Dearness Allowance pattern, to discontinue the reimbursement of conveyance expenditure and instead, to take a decision for payment of conveyance allowance to their executives and employees, owning and maintaining conveyances and using them for official purposes and transport subsidy to those not maintaining any vehicle. The payment was subject to ceilings which ranged from Rs.40 to Rs.450 per month for 'A' class cities and Rs.40 to Rs.400 per month for other cities.

Payment of conveyance allowance/transport subsidy was accordingly sanctioned (December 1990) by the Corporation to its executives and employees w.e.f.1.12.1988.

Subsequently, however, the Corporation enhanced, with the approval of its Board of Directors (September 1994), the rates of the conveyance allowance/transport subsidy w.e.f. 1.10.94. The enhanced rates, introduced without obtaining prior approval of DPE as required, ranged from Rs.80 to Rs.900 per month for 'A' class cities and Rs.75 to Rs.800 per month for other cities.

The above decision of the Board was based on the plea of similar enhancement of rates by the Food Corporation of India (FCI) due to increase in the prices of petrol, lubricants, accessories etc. It was, however, seen that DPE had already rejected (August 1992) a proposal of FCI to that effect.

The irregular enhancement of conveyance allowance/transport subsidy had resulted in a recurring excess payment of Rs.75,000 per month, as assessed (September 1994) by the Corporation itself, and had already amounted to Rs.35.25 lakh (August 1998).

The Ministry stated (October 1997) that vide para 9.3.1 of DPE's O.M. dated 12.6.1990, the Board of Directors have been allowed to decide the question of introduction of conveyance allowance. The reply was not acceptable as DPE had only permitted the PSEs to introduce conveyance allowances within the prescribed ceilings but had not authorised them to enhance the quantum of such allowances beyond the prescribed ceilings.

Food Corporation of India

9.2.1 Loss due to acceptance of below specification foodgrains, improper storage and deterioration in quality during transit.

Deviation from the prescribed procedure for procurement, storage and despatch of foodgrains from one place to another caused the Corporation a loss of Rs.2.60 crore.

As per instructions issued by the Government of India and the Corporation from time to time, foodgrains are required to be checked thoroughly by the quality control officials of the Corporation and only such stocks as conform to prescribed specifications are to be procured and despatched to other stations. In cases where stocks which do not conform to specifications, have been procured, responsibility is required to be fixed and loss recovered from the delinquent officials. For this purpose stocks received from other stations are analysed on receipt by the consignee and in cases where stocks are found below specification, quality control officials of the consignor and the consignee are required to conduct joint inspection after receipt of complaint from the consignee and responsibility is required to be fixed upon the delinquent officials for recovery of loss. Damaged stocks are required to be disposed of expeditiously after confirmation of a quality related complaint by the District Complaint Committee (DCC) and the Regional Complaint Committee (RCC) so that no further loss is incurred even if joint inspection is not conducted. After procurement, foodgrains are required to be stored & preserved properly. To avoid deterioration of food stock during storage, its speedy turn over on a first in, first out (FIFO) basis is desirable.

In the cases detailed below, the aforesaid instuctions were not followed and the Corporation was put to a loss of Rs.2.60 crore which instead of being recovered from the delinquent officials, wherever possible, was added to subsidy claimable from the Government of India.

A. In District Office Chandigarh, 6104 MT rice superfine of crop year 1992-93(2690 MT) and 1993-94 (3414 MT) was declared beyond rejection level (BRL)* by the DCC (between June & September 1994) and the RCC (December 1994) because the stocks contained excessive per centage of broken and discoloured rice. The above committees recommended replacement of stock by millers from whom it was received and in case of non-replacement by millers, early disposal through auction. Since the stocks were not replaced by millers, a quantity of 233.890 MT was issued through normal channel of public distibution system, 4855.836 MT (economic cost† Rs.4.12 crore) was sold through tender (March 1996 to March 1997) for Rs.2.80 crore and 709.570 MT was still (Feb 1998) to be disposed of. The balance quantity of 304.645 MT (economic cost Rs.25.85 lakh) was treated as storage loss.

Thus acceptance of BRL rice from the millers and its late disposal resulted in loss of Rs.1.32 crore which was likely to increase on the disposal of the remaining stock.

* BRL : Beyond Rejection level-Stocks which do not conform to prescribed specified and are unfit for Public Distribution.

† Economic Cost : Includes (i) Procurement price, (ii) Procurement costs & (iii) Distribution costs.

While two technical assistants held responsible for procuring BRL rice were initially removed from service, they were reinstated after imposing minor penalties like stoppage of increments and recovery of one year's basic pay. The other two delinquent officials were subjected to penalty of reduction in pay and reduction in rank leaving the pecuniary loss sustained by the Corporation unrecovered.

The Management stated (December 1998) that on the basis of Central Issue Price, the loss worked out to only Rs.34.38 lakh. It also stated that in respect of two officials responsible for the loss, penalty had been enhanced. The fact, however, remains that the loss should have been worked out on the basis of economic cost. Moreover, the loss even as worked out by the Management remained unrecovered.

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

B. 1299 MT indigenous wheat of crop year 1990-91 and 1991-92 received in February 1994 (1234 MT) and August 1995 (65 MT) ex- Punjab, was stored in Central Warehouse Corporation (CWC) godown at Kandla. Though, the Kandla warehouse was not fit for prolonged storage of foodgrains because it was being regularly inundated by tidal waters, the stocks were not moved to other place despite the advice of the Assistant Manager of the Corporation to the effect that the stocks needed quick turn over and the repeated requests to that effect from the Warehouse Manager of CWC.

Consequently DCC & RCC downgraded the stocks which were A category at the time of receipt to D category during September and October 1996 respectively, and disposed it of (February 1997) through a tender for Rs.48.76 lakh as against its economic cost of Rs.83.15 lakh. Due to improper storage, the Corporation thus suffered a loss of Rs.34.39 lakh. The Zonal Manager of the Corporation accepted (July 1997) deterioration of stock but put the blame on CWC. However, the CWC refused (January 1997 and September 1997) to accept the responsibility.

The Management (November 1998), while accepting the facts, stated that the matter had been taken up with CWC for recovery of the losses.

The Ministry (December 1998) while forwarding the reply of CWC, stated that CWC could not be held responsible for the loss and that the claim of FCI was not tenable.

C. Food Storage Depot (FSD), Zira (District Ferozpur, Punjab) despatched by rail 19961 bags containing 1884 MT raw rice superfine of B category to FSD, Rishikesh (District Dehradun, U.P) against which only 19932 bags (19639 bags in May 1994 and 293 bags in June 1994) containing 1825.26 MT rice were received/ unloaded at Rishikesh. In the process transit loss of 58.74 MT was sustained by the Corporation. Immediately after their receipt at Rishikesh, stocks were analysed and found to be BRL and hence unfit for distribution under Public Distribution System (PDS). Though Assistant Manager, Rishikesh requested (May 1994) FSD, Zira, to immediately depute its quality control officials for joint inspection, the officials of FSD, Zira who visited Rishikesh on 21.7.1994, left Rishikesh on 23.7.1994 without signing the joint inspection report on the plea that the staff at Rishikesh was not cooperating. The charge was, however, refuted (August 1994) by D.M. Ferozpur. Against the receipt of above quantity, 18.47 MT rice was issued through normal channel of PDS, 1783.56 M.T rice was disposed of through tenders for Rs.86.58 lakh against economic cost of Rs.1.36 crore and the balance 23.23 MT was a storage loss.

The Management neither investigated the reasons for receipt of BRL rice against despatch of B category rice nor fixed responsibility for not conducting joint inspection as well as the consequent loss of Rs.49.42 lakh to the Corporation.

The Management stated (December 1998) that SRM Punjab had identified one class II and three class III employees as responsible for the loss and disciplinary action was under progress. The Ministry stated (January 1999) that they had nothing to add to the reply already sent by FCI.

D. A special rake containing 1949 MT raw rice superfine of B category despatched from Safidon (District Rohtak, Haryana) on 28.8.1995 was received at Richhai (Jabalpur) on 7.9.1995. The stock was inspected by the Assistant Manager (Q.C), Jabalpur on 15.9.1995 and 1806 MT rice was found BRL and was categorised D category. Although the consignee requested (September 1995) the consignor to depute his quality control officials for joint inspection, the same was not conducted, which is a failure for which no reasons were on record. Finally on the recommendations of the Zonal Committee, 149 MT rice was issued through normal channel of PDS, 1761 MT was disposed of through tender between July 1996 and January 1997 for Rs.99.59 lakh against economic cost of Rs.1.44 crore and the remaining 39 MT was a storage loss.

Thus conversion of B category rice into D category in transit within a period of 11 days and subsequent disposal thereof resulted in a loss of Rs.44.41 lakh to the Corporation.

The Management stated (November 1998) that disciplinary proceedings against four officials were in process since April/June 1997. It further stated that the loss worked out to Rs.14.52 lakh as it was to be calculated with reference to Central Issue Price (CIP) and not economic price because the difference of CIP and economic price was reimbursed by the Government of India in the shape of subsidy.

This contention of the Management is not acceptable because the loss is required to be calculated with reference to economic price. Moreover, any claim for subsidy is sustainable only if the foodgrains are distributed through PDS. The loss sustained by the Corporation is recoverable from the defaulting officials and not Government as subsidy.

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

9.2.2 Avoidable payment to surplus labour due to non-observance of provisions of Industrial Disputes Act

By going beyond the orders of the Court, the Corporation incurred an avoidable expenditure of Rs.1.53 crore besides having to bear unproductive wages of Rs.1.51 crore owing to defective procedure adopted for retrenchment of surplus labour.

Calcutta Regional Office of the Corporation had hired four godowns from Central Warehousing Corporation (CWC) which were dehired in September 1990 (Belur and Ghusuri) and March 1991 (Shyam Nagar and Rishra). Consequently labourers employed by CWC in these godowns on behalf of the Corporation were retrenched under Section 25F of Industrial Disputes Act (IDA), 1947 which is not relevant to establishments like Food Corporation of India (FCI) or CWC. Between June 1991 and June 1992, the affected labourers were paid retrenchment benefits amounting to Rs.1.53 crore.

On a writ petition filed (April 1991) by the aggrieved workmen through their Union, the Calcutta High Court set aside (May 1992) the retrenchment orders on the ground that neither the principle of "last come, first go" as enunciated in Section 25G, nor the conditions precedent to retrenchment of workmen as laid down in Section 25N of IDA (which were actually relevant to FCI/CWC) viz. three months notice and Government's prior approval to the proposed retrenchment, were complied with. The Court ordered the Corporation (i) to pay to the labourers emoluments (Rs.1.24 crore) for the retrenchment period after deducting retrenchment benefits paid earlier (ii) to evolve a scheme for absorption of the labourers in other godowns of the Corporation as far as practicable and (iii) to comply with the provisions of Section 25G and 25N ibid if retrenchment became inevitable.

The Corporation went in appeal before the Division bench of the Calcutta High Court (June 1992) on the ground that the Corporation was facing problem of surplus departmental labour. During the pendency of appeal, the Corporation paid an interim salary of Rs.26.76 lakh (September 1992 and October 1993) to the labourers as per the orders of the Appellate Court. However, without awaiting the final orders of the Appellate Court, Management, as a "goodwill gesture", reached an agreement (June 1994) with the Workers Union in accordance with which Management not only agreed to implement the orders of the High Court but also waived the recovery of compensation amount (Rs.1.53 crore) and interim relief (Rs.26.76 lakh) deductible from the arrears of wages payable to the workers.

Thus, by going beyond the orders of the Court, the Corporation incurred an avoidable expenditure of Rs.1.53 crore. Besides, it had to bear unproductive wages amounting to Rs.1.51 crore due to defective procedure adopted by it for retrenchment of surplus labour.

The matter was referred to Management and the Ministry in May 1998 and October 1998 respectively; their replies were awaited (December 1998).

9.2.3 Avoidable payment of demurrage

Heavy despatches of stocks to depots having acute labour problems/space constraints etc, due to lack of coordination at the level of Zonal and Corporate Headquarters, resulted in incurrence of heavy demurrage.

During the period from January 1993 to April 1995, demurrage amounting to Rs.77.76 lakh was borne by the Corporation on account of slow handling of stocks at Krishnarajapuram and Whitefield depots. The handling problems were attributable to labour problems, non-functioning of Krishnarajapuram depot (21 February 1994 to 26 April 1995) and consequent placement of extra wagons at Whitefield depot, bunching of rakes on a single day due to heavy arrivals and storage space constraints. A large part of the demurrage paid (Rs.62.32 lakh) related to the period from January 1993 to March 1994 during which period supplies had continued to arrive despite Regional Office of the Corporation at Bangalore having sent 37 telex/SOS messages to the Headquarter as well as to Zonal Office, Madras to stop or defer despatches in view of problems encountered at the two aforestated depots. While the Zonal Office had simply passed on the requests of Regional Office to Headquarter without revising despatch instructions, the Headquarter failed to take appropriate action for want of suitable recommendations of Zonal Office for stoppage/deferment of despatches.

An investigation by the Vigilance Squad from the Corporate Headquarter into the matter had been initiated during the currency of the above situation. Though the report submitted by the Squad indicated that these demurrages could have been avoided through proper coordination and liaison at various levels of Management, no effective action had been taken so far (October 1998) on its recommendations which called for taking up the matter at higher level with the Railways to obtain maximum waiver and for analysing the reasons of incurring heavy demurrages. Instead these recommendations were passed on to Regional Office, Bangalore which was for obvious reasons, not in a position to take any concrete action in the matter because the default had taken at higher level.

Besides the above, an additional demurrage of Rs.51.06 lakh was attributable to contractor from whom only a sum of Rs.0.42 lakh had been recovered till October 1998.

Thus due to lack of proper coordination at various levels of Management, the Corporation had to bear avoidable demurrage amounting to Rs.1.28 crore.

The Ministry stated (June 1998) that because of dynamics of operations, it was not possible and in some cases, not expedient to act on the restriction messages received from the regions. The reply is not tenable because the constraints being faced by the regions/depots should have been considered to avoid such losses.

9.2.4 Avoidable loss of interest of Rs.33.52 lakh due to irregular payment

Reimbursement of differential in retailers margin on levy sugar to UPCF without ensuring transfer of benefit to the retailers resulted in loss of Rs.33.52 lakh to the FCI by way of avoidable interest on equivalent cash credit used by the Corporation.

Government of India enhanced (April 1988) the retailers margin on levy sugar with effect from 1 November 1987. The differential in the margin for the period November 1987 to April 1988 (past period) was required to be reimbursed to retailers through Co-operative Sugar Federations out of Sugar Price Equalisation Fund after ensuring that these bodies had actually passed on the benefit to the retailers.

Acting contrary to above stipulation, the Regional Office, Food Corporation of India, Lucknow, paid (July 1990) Rs.1.06 crore to Uttar Pradesh Co-operative Federation (UPCF) on account of differential in margin for the past period, on the basis of merely an assurance from UPCF that it would pass on the benefit to the concerned dealers. The Federation actually reimbursed Rs.38.63 lakh to the retailers and retained the balance amount of Rs.67.62 lakh with itself till the whole amount paid earlier was recovered by Food Corporation of India in February 1996, after having been pointed out (July 1995) by Audit.

Thus, while an amount of Rs.67.62 lakh remained blocked from July 1990 to February 1996, the Corporation managed its affairs on borrowed funds. On the excess amount of Rs.67.62 lakh (Rs.106.25 lakh less Rs.38.63 lakh) the interest borne by the Corporation at cash credit rate during the period from July 1990 to February 1996 amounted to Rs.72.15 lakh. Adjusting the excess amount recovered from UPCF (Rs.38.63 lakh) the net avoidable interest paid by the Corporation worked out to Rs.33.52 lakh.

The Management, while confirming (August 1998) the facts, intimated that the Regional Office, Uttar Pradesh was being advised to recover the amount of Rs.33.52 lakh together with interest till recovery. The Ministry also endorsed (September 1998) the reply of the Management.

9.2.5 Avoidable expenditure on rebooking of stock

Instead of direct booking of wheat stock ex-North to Mumbai, wheat was sent via Nagpur resulting in avoidable expenditure of Rs.63 lakh.

Sixteen rakes of indigenous wheat (29316 MT) were despatched ex-North to various depots in Nagpur District of Maharashtra during March 1995 to January 1996 by incurring an expenditure of Rs.1.46 crore. Before unloading, these rakes were rebooked to Mumbai after incurring an additional expenditure of Rs.80.97 lakh. The total expenditure on railway freight aggregated to Rs.2.27 crore. Had these rakes been booked directly to Mumbai, the Corporation would have incurred only Rs.1.64 crore on railway freight. An expenditure of Rs.63 lakh was thus clearly avoidable.

The Management stated (November 1998) that rebooking was necessitated by paucity of storage space in Nagpur District, shortage of wheat for Public Distribution System (PDS) in Mumbai and movement constraints ex-North to Mumbai. The Ministry also endorsed (January 1999) the view point of the Management.

The reply is not acceptable because these constraints did not crop up all of a sudden but were known to Management from the beginning because despatch of foodgrains to different parts of the country is discussed well in advance, fortnightly movement planning meetings are held by the Corporation with the representatives of the State Governments and the railway authorities and day to day watch on loading by railways is maintained. Thus all the constraints cited by the Management could have been overcome through better planning and effective coordination.

9.2.6 Avoidable expenditure of Rs.60.11 lakh on movement of foodgrains

The Corporation spent Rs.60.11 lakh in unnecessarily transporting rice from Barielly to Gorakhpur wherefrom it was despatched to Nepal even though under the agreements with Nepal Food Corporation, the consignments could have been despatched from Barielly as well.

Under three agreements executed between May 1992 and February 1995 with Nepal Food Corporation, the Corporation was required to despatch 90000 tonnes of rice from any of its depots/districts in Uttar Pradesh. During the years 1992-93 to 1994-95, a total quantity of 20031.522 tonnes of rice superfine was despatched by the Corporation to Nepal ex Gorakhpur after incurring an expenditure of Rs.60.11 lakh on its handling and transportation from godowns in Barielly district of Uttar Pradesh. Since the consignments of rice transported from Barielly were specifically meant for export to Nepal, its transportation to Gorakhpur and expenditure thereon was avoidable under the agreements ibid.

The Management stated (September 1998) that it would not have been appropriate to expect the buyer (Nepal Food Corporation) to lift the stocks at any of the other centres which were not specified in the draft agreement or any other mutually agreed centres once the freight component had been included while determining the sale price. The reply of the management was not tenable because the relevant agreement specifically and unambiguously provided that the buyer was to lift the stocks from any of the godowns of sellers/CWC/SWC situated in the Regions of Uttar Pradesh and Bihar and did not mention the names of the godowns or the districts from where the stocks were to be lifted.

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

9.2.7 Loss due to avoidable litigation

Non-acceptance of an offer for out of court settlement by the Corporation as advised by the Solicitors resulted in a loss of Rs.49.32 lakh to the Corporation.

The Corporation engaged two vessels "Petros Hajikyriakos" and "Harriett" owned by M/s Achilles Halcoussis Shipping Limited and M/s Zannis Company Naviera SA in August and September 1975, respectively, for carrying cargo of wheat. The Solicitors engaged by the Corporation to advise it in disputes which arose in both the above transactions in regard to freight and demurrage payable to owners of the vessels, advised (March 1989) the Corporation to go for an out of court settlement which required payment of 35,000 pounds within two weeks followed by withdrawal of appeal against verdict given by a London court in favour of the vessel owners. The advice was based on the Solicitors assessment that Corporation's cases had no merit and it would not be in its interest to pursue these further.

The Headquarter of the Corporation did not accept the offer in time. But in May 1993, apprehending attachment of any commercial property of the State of India, which included aircraft of Air India, on the plea of vessel owners, it deposited a sum of 90528.41 pounds in the current account of High Commission of India, London for discharging Corporation's liability under awards and court order. The amount was actually paid in April 1996 when a settlement was successfully negotiated through court for payment of a sum of 90500 pounds to the vessel owners.

Had the offer of out of court settlement been accepted by the Corporation in 1989 itself, it would have avoided additional expenditure of Rs.49.32 lakh. This included loss of interest of Rs.15.47 lakh at 12 per cent per annum on Rs.43.89 lakh from 13 May 1993 to 18 April 1996 during which period the money remained in current account and Rs.4.76 lakh paid to the Solicitors for pleading the cases between April 1989 and April 1996.

The Management stated (September 1998) that the offer of out of court settlement could not be accepted for the fear that it would affect the Corporation's interest in other similar placed shipping claims pending with the Arbitrator or the Court and that during the time span of just two weeks allowed for accepting the offer, it was not possible to review all the pending cases to take a final view in the matter. Regarding money deposited with the High Commission of India, London in May 1993, the Management stated that it was done to save the country from embarrassment on account of attachment of properties in the name of the President of India in London. The Ministry also endorsed (October 1998) the reply of the Management.

The reply was not acceptable because the Solicitors had advised the Corporation in February 1989 that offer could be accepted and appeal withdrawn without prejudicing the position of the Corporation in other cases because the claimants were different. Had the Corporation accepted the offer, subsequent events like depositing of money, loss of interest and payment to Solicitors beyond March 1989 would not have taken place.

9.2.8 Excess expenditure of Rs.32.06 lakh on transportation of stock

By overlooking an economical method of calculating the rate of transportation, the Corporation was put to loss of Rs.32.06 lakh on transportation of 24664.136 MT of food stocks from Mokameh to Dimapur between December 1994 and November 1995.

The supply of food stocks to North Eastern States is made from various depots of the Corporation in Bihar. The rates for transportation of stocks by road are fixed from time to time on the basis of open tenders.

Keeping in view the interruption of food supplies to North Eastern region in the preceding 3-4 months, Zonal Manager of the Corporation decided (November 1994) to despatch supplies from Mokameh (Bihar) to Dimapur on immediate basis. Since no specific rate for transportation of foodgrains between these two stations had been fixed and since inviting fresh tenders for this purpose would delay supplies, the Zonal Manager worked out the rate at Rs.1853 per MT by adopting per Kilometer average rate (Rs.1.585) of carrying foodgrains between Mokameh and Imphal (distance 1388 Kms), approved earlier in October 1994, and multiplying the same by the distance between Mokameh and Dimapur (1169 Kms). The rate thus derived was Rs.130 per MT higher than that which could have been derived by adding approved rate of Rs.1035 per MT between Mokameh and Guwahati and pro-rata rate between Guwahati and Dimapur (Rs.688.248 per MT), worked out by multiplying distance involved (316 Kms) by average rate per Km (Rs.2.178) between Guwahati and Imphal.

Thus by overlooking an economical method of calculating the rate of transportation, the Corporation was put to loss of Rs.32.06 lakh on transportation of 24664.136 MT of food stocks from Mokameh to Dimapur between December 1994 and November 1995.

The Management stated (November 1998) that they had decided to go in for further detailed investigations and take action against the officials found responsible for extra expenditure as the same was avoidable.

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

9.2.9 Injudicious hiring of storage space

Injudicious hiring of additional storage space and consequent creation of incidental infrastructure facilities even though there was no requirement of additional storage space because of decrease in the inflow of stocks resulted in infructuous expenditure of Rs.28.41 lakh by the FCI.

In early 1994, the Corporation planned to move some of the wheat stocks from North India, due to insufficient storage capacity in the region. Due to paucity of existing storage space even in South India, the Corporation proposed to resort to Covered and Plinth (CAP) storage in the southern States. The flow of stocks from the North India, however, started slowing down from the middle of 1994.

In spite of lower inflow of wheat, the Senior Regional Manager, Andhra Pradesh on the recommendations (July 1994) of a Committee constituted by him for the purpose and with the approval (August 1994) of the Chairman of the Corporation, hired (January 1995) the Badangi airstrip in Andhra Pradesh belonging to Defence authorities for storage of wheat to the extent of 2 lakh MT for a period of 2 years. To create the necessary infrastructure for storage, besides the purchase of casuarina poles for Rs.16.99 lakh, the Corporation incurred an expenditure of Rs.31.23 lakh on capital works.

The facility at Badangi was utilised only for five months, from August 1995 to December 1995. However, by December 1995, when the stock level had dwindled down to only 351 MT from 17,943 MT in August 1995, the Corporation reviewed the arrangement and in view of its very low utilisation, decided to give up the space and handed it over to Defence authorities in April 1996. The maximum stock during the period was only 18,194 MT as against a capacity of 200,000 MT. Besides, the stock at Badangi throughout the entire period could easily have been accommodated at Tadepalligudem airstrip which was conveniently placed for receipt and despatch.

Thus, injudicious hiring of storage space and consequent creation of incidental infrastructure facilities, when the actual requirement of storage space had already come down due to poor rate of inflow of stocks from the North, resulted in infructuous expenditure of Rs.28.41 lakh, after taking into account the charges of Rs.8.53 lakh that would have been required to be paid for alternative storage arrangements and salvage value realised on disposal of material and casuarina poles used in the capital works.

The Ministry stated (March 1998) that had there been despatch of wheat stocks to the extent of two lakh tonnes ex-North as planned, the airstrip could have been utilised to optimum level. The reply is not tenable as a review of the position during June 1994 itself would have revealed that the receipts of wheat stock ex-North had declined.

9.2.10 Avoidable expenditure of Rs.25.64 lakh on handling and transportation

Delay in finalising a contract for handling and transportation resulted in avoidable expenditure of Rs.25.64 lakh.

As per procedure laid down by the Corporation, tenders for regular contracts for handling and transportation (H&T) should be invited four months before the expiry of existing contracts. Contracts are required to be finalised within two months from the date of floating the tenders. In this manner, the Corporation comes to know the trend of the rates two months before the expiry of existing contract. In case, grant of extension to the existing contractor becomes necessary due to non-finalisation of fresh contract within the stipulated period, payment to the existing contractor for the period of extension is required to be made on the existing rates or the rates which may come after finalisation of tender enquiry, whichever is lower.

The contract of H&T contractor at Karnal centre appointed on 11.11.1991 for a period of two years was to expire on 10.11.1993. Though fresh tender enquiry was required to be floated in July 1993, the Regional Office floated tender in October 1994 and finalised the contract in September 1995. During the intervening period, the existing H&T contractor at Karnal was allowed to work and was paid at the existing rate (85 per cent above

Schedule of Rates) which was higher than the fresh rate (43 per cent above Schedule of Rate).

Had the Management at the Karnal centre of the Corporation adhered to the prescribed procedure, it could have avoided continuance of the services of the existing contractor at higher rates. This resulted in avoidable expenditure of Rs.25.64 lakh during the period 11 November 1993 to 15 September 1995.

The delay in finalising the fresh contract was attributed (February 1996 and November 1998) by the Management to pendency of litigation launched (May 1993) by Karnal Railhead Workers Cooperative Labour and Construction Society (Karnal Cooperative Society) against the Corporation for seeking direct allotment of handling and transportation contract on the ground that for carrying out such work at the depots, preference was to be given to cooperative society formed of workers as per the policy of the Corporation. However, the argument of Management was not tenable because the Company was not under any injunction from the Court prohibiting it from floating tenders and awarding the work. Besides, Management did not take a decision even after direction of the Punjab and Haryana High Court (December 1993) to decide the matter within one month. The case was finally disposed of by the High Court in July 1994 against the Karnal Cooperative Society.

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

CHAPTER 10 : MINISTRY OF HEALTH AND FAMILY WELFARE

Hindustan Latex Limited

10.1 Loss due to defective agreement

An avoidable loss of Rs.1.11 crore was incurred by M/s Hindustan Latex Limited (HLL) on commissioning of its Gloves plant project due to defective machinery supplied by a foreign firm, besides incurring an avoidable expenditure of Rs.10.72 lakh as a consequence.

The Company invited Global Tenders (January 1989) for supply of Technology, plant and Machinery for setting up of the latex Gloves Manufacturing unit with an installed capacity of 50 million pieces per annum on a turnkey basis and signed a Memorandum of understanding (MOU) (August 1989) with M/S Handee Engineering and Consultancy Services, a firm based in Malayasia. The MOU provided a lumpsum fee of US$ 4,28,000 payable to the supplier through Letter of credit (LC) for:

i) supply of plant machinery with a capacity to produce minimum 36 million pieces annually (5000 pieces of Gloves per hour);

ii) detailed design and drawings, technical specifications of raw materials, chemicals etc. and layout for the proposed plant;

iii) specifications and drawings for indigenous equipment;

iv) commitment to buy back 30% of the production for 5 years, and

v) installation and commissioning of plant.

90 per cent of the invoice value (Rs.74.86 lakh) was payable upon presenting evidence of preshipment inspection report by HLL for the complete order and proof of shipment and the remaining 10 percent within six months against certificate of the buyer for successful commissioning within 120 days from the date of opening of LC.

The supply order for machinery was placed with the vendor (March 1990) with simultaneous opening of LC (April 1990) for full value. However, the machinery was made available for pre despatch inspection by the seller only in September 1990 and shipment was made in February 1991. In March 1991, the vendor obtained payment of Rs.74.86 lakh, being 90% of the total value.

On arrival of machinery at Cochin port in February 1991, about 50 percent of the major items were found short supplied which were subsequently supplied in July 1991, except for equipment worth US $ 15426 including a 5 HP variable speed motor which subsequently the company had to buy locally at the cost of Rs.3.04 lakh.

The seller failed to commission the plant even after 8 months (March 1992) from the arrival of second shipment due to numerous mechanical and electrical defects. The MOU included a guarantee that the supplier will modify any defect at their cost within one year of commissioning, but there was no provision of penalty for violating the guarantee. The Company subsequently cancelled the MOU and started running the plant (March 1992) with in-house expertise.

A technical evaluation of the machinery conducted (December 1992) by the Industry expert (Rubber Board, Kottayam) revealed (October 1993) that the machinery was capable of producing only 4000 pieces per hour at optimum capacity as against 5000 pieces guaranteed by the supplier. The Company filed a suit against the supplier with Kerala High Court (March 1994) for compensation on account of breach of contract and the Court awarded, ex-parte, a decree of Rs.45.38 lakh in favour of the Company (August 1996), but even after 18 months (February 1998) the Company could not obtain even a copy of the decree and the compensation granted by the Court was yet to be recovered.

The plant was operated only upto 50 per cent, 46 percent and 39 per cent respectively during the three years from 1992-93 to 1994-95 and thereafter all production was abandoned since June 1995 because of high production cost and low level of operations, which were attributed by the Management (February 1998) to poor performance of the plant due to deficiencies in design and other teething technical problems encountered during its operations.

Thus, in the whole process, it can be seen that the Company:

- did not incorporate damages and arbitration clauses in the MOU binding the supplier;
- did not insist on furnishing of drawings and complete technical details as per the MOU;
- did not ensure adherence to delivery and commissioning schedules by including suitable penalty provisions;
- did not exercise effective control over the full shipment of inspected machines and equipment; and
- did not exert itself adequately for recovery of the compensation amount decreed by the court.

All these resulted in an avoidable loss to the extent of Rs.1.11 crore including the cost of machine and equipment (Rs.74.86 lakh), besides a loss of (Rs.35.79 lakh) being the damaged inventory of raw material and finished gloves for which provisions had already been made by the Company in its accounts for the year 1996-97.

Besides, the Company was on the look out (September 1998) for a joint venture partner for operation of this plant on which already Rs.10.72 lakh had been spent by the Company without any success.

The Ministry (March 1998) agreed with the reasons given by the Company for failure of the project.

CHAPTER 11 : MINISTRY OF INDUSTRY

DEPARTMENT OF HEAVY INDUSTRY

Bharat Heavy Electricals Limited

11.1.1 Infructuous Expenditure on the Purchase of Quality Improvement Equipment

Purchase of a Quality Improvement Equipment by the Company without any specific requirement and its inability to commission the same for more than six years since receiving it resulted in infructuous expenditure of Rs.3.29 crore.

Bharat Heavy Electricals Limited placed an order on 19 January 1990 on M/s. Smachtin Machin Tools Company, Germany, for supply of a second-hand 9000T forge press along with associated equipment at a cost of DM 6.37 million equivalent to Rs.6.38 crore including agency commission of DM 0.06 million. The supplier showed his inability to supply an associated equipment, viz manipulator, which was an integral part of the forge press and essential for its satisfactory functioning and offered in lieu thereof another second-hand Quality Improvement Equipment (QIE) on 14 January 1991. The latter was not directly connected with the running of the forge press unlike the form equipment and was meant for improving the quality of steel forgings for applications in nuclear, space and defence sectors.

The Company eventually procured the manipulator from an alternate source and the extra cost of Rs.51.45 lakh incurred in procuring the same had not been recovered till date. Report No 3 (Commercial) of the Comptroller and Auditor General of India, 1998 had already featured a paragraph on this aspect of the transaction).

Inability of the supplier to supply the manipulator, as also some other items of equipment, resulted in availability of sufficient funds under the import licence. To make use of the available foreign exchange against this import licence, a proposal for procurement of QIE at a cost of DM 13.5 lakh equivalent to Rs.1.71 crore was approved by the Chairman and Managing Director on 15 January 1991 and the original purchase order was amended partially to this effect in February 1991. The Board was, however, apprised of the matter only in March 1993.

The original project report for procurement and installation of the second-hand forge press did not envisage purchase of any QIE. A committee constituted by the Company in September 1989 to review the proposed facilities in the feasibility report had examined in detail the requirement of items of equipment to be imported and those that would be fabricated indigenously for the facility. The review committee also did not recommend procurement of QIE. In this background it is clear that procurement of QIE was prompted by the reason of availability of funds in the import licence rather than its requirement for the facility.

The QIE was purchased by deferring the procurement of the manipulator within the foreign exchange released by Government of India under the same import licence with a landed cost of Rs.3.29 crore. Though it was received in November 1991 and was erected on 28 February 1995 after a delay of more than three years, it could not be put to use due to some technical problems which were under rectification (April 1998).

The Management replied (July 1998) that the equipment was formally commissioned in February 1995 and 13 melts had been taken. The reply is not tenable as the 13 melts taken during trial run between 4.9.1994 and 27.6.1998 were unsuccessful. Management's claim that the equipment would enable the press to enhance its capability is not convincing as the equipment has not commenced commercial production as yet (November 1998).

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

11.1.2 Loss of Rs.67.03 lakh due to incorrect computation of estimated cost

Failure of the Company to properly assess the cost of production in respect of heat exchangers resulted in loss of Rs.67.03 lakh.

Against an enquiry (January 1995) of Reliance Industries Limited for supply of 13 heat exchangers of eight different varieties, Bharat Heavy Electricals Limited quoted (March 1995) for supply of all the 13 heat exchangers for Rs.1.19 crore. While quoting for the heat exchangers, the Company had overlooked the fact that, out of eight varieties, one variety of five heat exchangers needed monel metal, an alloy of nickel and copper, in place of carbon steel required by the others for the channel assembly. The Estimated Factory Cost (EFC) of five heat exchangers which required monel metal was Rs.38.39 lakh. The customer however restricted its order for supply to just five heat exchangers of monel metal variety, the EFC of which was substantially under-pitched by the Company in the absence of complete cost data.

Subsequently, on realisation of the mistake, the Company revised its EFC in April 1995 from Rs.38.39 lakh to Rs.64.43 lakh and it was mutually agreed (May 1995) that the Company would supply five heat exchangers to the customer at a sale price of Rs.93.26 lakh. Accordingly, the customer placed order on the Company (May 1995) for supply of five heat exchangers by end of March 1996.

After commencement of production, the Company noticed that even the revised cost of the heat exchangers was grossly under-estimated. The EFC was revised for the second time to Rs.1.11 crore (October 1995) on account of the following reasons:-

i) the Company had no previous experience of using monel metal for production of heat exchangers and did not have any idea about its price. In April 1995, it did not have the time to ascertain the price nor could it scout for locating a prospective supplier of monel metal;

ii) cost of carbon steel tubes, its bending charges and direct labour cost had gone up substantially; and

iii) cost of direct labour and factory expenses were grossly underestimated.

The customer however, agreed (January 1996) to pay only Rs.1.06 crore. The delivery of heat exchangers was completed in February 1997 and the actual factory cost turned out to be Rs.1.73 crore, far more than even the revised estimate made by the Company. This resulted in a loss of Rs.67.03 lakh due to incorrect computation of the estimated cost. It was noticed in audit that the Company had spent 42,726 labour hours as against the estimated 7,800 hours which was the main reason for increase in the cost.

The Management admitted (March 1998) that at the time of estimating the cost of the five exchangers, the Company had overlooked the fact that monel metal was needed for the channel assembly instead of carbon steel. The mistake had come to their notice in April 1995 whereupon a revised cost estimate was prepared which was again revised subsequently in October 1995.

The Management further stated (October 1998) that a cost investigation committee had pointed out (January 1998) that the actual factory cost of production was Rs.1.06 crore as against the estimated factory cost of Rs.1.11 crore (October 1995) and the difference of Rs.67.22 lakh was on account of wrong booking of labour hours by the Company. It was further stated that after adjusting the wrong booking of labour hours, there was no loss with reference to the actual factory cost.

The reply of the Management seems to be an afterthought. If the cost investigation committee had noticed the wrong booking of labour hours in January 1998, adjustments in this respect should have been carried out in the accounts of 1997-98. It was verified by Audit that no such adjustment was made (November 1998). The Company also could not produce any documentary evidence in support of its claim for wrong booking. The Company had evidently failed to exercise abundant care and precaution to guard itself against any possible loss in estimating the cost of production of heat exchangers.

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

11.1.3 Avoidable expenditure on airlifting of equipment

Delay in procurement of equipment due to discrepancies in the letter of credit necessitated air lifting of the equipment, leading to an avoidable extra expenditure of Rs.63.78 lakh.

Bharat Heavy Electricals Limited placed a purchase order on M/s. Ecodyne MRM Inc., Ohio USA in August 1995 for supply of a Cooling Water Module and an Air Blast Oil Cooler at a price of US$ 3,60,840 for execution of a turnkey contract awarded by the Government of Oman. The delivery terms as per the purchase order, quoted by the supplier, stipulated inter-alia (i) delivery of the equipment Free Carrier (FCA) USA port by December 1995 (ii) transport of equipment by ship and (iii) Mina-Qaboos in Oman as the port of discharge. The Company opened an irrecoverable Letter of Credit in August 1995. The supplier asked the Company to amend the LC while pointing out the foilowing discrepancies between the purchase order and the LC.

(i) Though the supplier indicated FCA USA port (Baltimore Packing point) in his quotation, the Company mentioned Freight on Board (FOB) terms in their LC.

(ii) The price of US$ 360840 for which the LC was opened was sufficient to cover only the FCA USA Port price and not the FOB price.

Revised LC was opened by the Company only in December 1995. Accordingly, the Company also amended (December 1995) the purchase order to reflect the change in terms of delivery as FOB port of Baltimore instead of FCA USA port at a price addition of US$ 7200 to cover the FOB charges. Delivery Schedule was changed from December 1995 to March 1996.

But as a result of the postponement of the delivery schedule of essential equipment by three months, the Company faced the possibility of delay in completion of its turnkey project at Oman and consequent imposition of liquidated damages to the tune of Rs.2.05 crore. To meet the customer's delivery schedule, the Company airlifted the equipment by a chartered aircraft in April/May 1996. Further the Company had to engage a consultant for coordinating and expediting the supplies of equipment and also in getting them airlifted in time. The Company incurred an expenditure of Rs.83.78 lakh (US$ 236047) towards air-freight and service charges of the consultant as against the prevailing sea freight of Rs.20 lakh only. Thus due to failure to take cognizance of the delivery terms quoted by the supplier in the supply order while opening the LC the Company had to incur an avoidable expenditure of Rs.63.78 lakh (Rs.83.78 lakh - Rs.20 lakh).

While confirming the contention of audit, Management has stated (March 1998), inter-alia, that had airlifting not been resorted to, BHEL would have been liable to penalty levied by the customer to the extent of Rs.2.05 crore and by adhering to the time schedule in execution of the order, BHEL established its credentials in the export market.

The fact however remains that the Company could have saved the extra expenditure of Rs.63.78 lakh and still avoided the liquidated damages and maintained it's credentials by issuing the original LC in line with the terms and conditions specified in the original purchase order.

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

Bharat Pumps and Compressors Limited

11.2 Infructuous expenditure on procurement of material

Injudicious import of spares for a piece of equipment which was intended to be disposed of resulted in wasteful expenditure by way of interest of Rs.10.47 lakh paid on money blocked in the material (November 1998) and liability for payment of customs duty of Rs.17 lakh.

An irrevocable Letter of Credit for DM 51,216 (Rs.10.05 lakh) was opened by the Company on 5 January 1993 to back up an order placed by it (February 1992) on a German firm for supply of 24 Nos. taper roller bearings for revamping the Piercing and Draw Press operated by its Gas Cylinder Division. The Board of Directors in its meeting held just a day after the Letter of Credit was opened, accorded its approval to a proposal for submission of a rehabilitation package to the Board for Industrial and Financial Reconstruction (BIFR) a rehabilitation package in terms of which Press Complex was to be declared as economically unviable and was therefore, to be disposed of. Inappropriateness of the decision to open the Letter of Credit is also underlined by the fact that despite having been projected by the Gas Cylinder Division on "most immediate" basis the requirement had already been kept pending over a period of one year. The decision to incur the expenditure was, besides, not backed by the approval of the Managing Director as was required under the rules and was not prudent under the circumstances of the case. Reasons for not approaching the Supplier immediately for cancellation of the supply order and waiting in the matter until April 1993, were not available on records.

The material arrived at Mumbai Port in April 1993 and was paid for on 16 April 1993. Since the material was no longer required, the customs clearance had been kept in abeyance. The supplier who was approached (April 1993) to take back the material did not accept the proposal as the 'bearings' had been manufactured to Company's specifications and could not be disposed of to any other party. Efforts to locate other indigenous users of the material (which was lying uncleared at Mumbai Port) also proved fruitless (November 1998).

The purchase of the material was thus injudicious and also involved deferment of liability towards customs duty (Rs.17 lakh) as well as demurrage charges.

The Ministry stated in January 1998 that the Company was continuing to make efforts for the disposal of Press complex and had invited offers from prospective buyers to get a reasonable price for the same.

However, the fact remains that the material is still lying at the port (November 1998).

HMT Limited

11.3 Infructuous expenditure on purchase of Quartz watch components

The Company incurred an expenditure of Rs.27.13 lakh towards the FOB value, freight and insurance for the purchase of components and batteries for its "Astra" brand of quartz digital watches which became infructuous since the consignments of the materials which were received at Madras Airport in November 1992 had not been cleared so far (July 1998).

Based on the projection of demand for its "Astra" brand of electronic quartz digital/ combinational watches according to the operating plan, the Watch Factory of the Company at Bangalore placed two orders (August 1992) valued at US $ 3.01 lakh on M/s Xonix Electronic Watch Enterprise Company, Taiwan for the supply of components and batteries required for the manufacture of 90,000 "Astra" watches. According to the purchase orders, the components were to be supplied in 4 monthly consignments starting from September 1992. Against this, the unit opened an irrevocable letter of credit (September 1992) for US $ 0.80 lakh for supply of components required for the manufacture of 25,000 ASTRA watches initially. The consignments sent by the supplier reached Madras Airport in November 1992 but were yet to be cleared from customs (July 1998). The unit incurred a total expenditure of Rs.27.13 lakh (Rs.25.83 lakh towards the FOB value, Rs.0.92 lakh towards freight and Rs.0.38 lakh towards insurance) on the consignments.

The production of ASTRA watches had been stopped from 1992-93 (the year in which orders were placed for the import of these components) on the grounds of insufficient in-house capacity and very high cost of in-house assembling of these watches. In the same year (1992-93), the unit had an opening stock of 71,533 Astra watches. Even if the Company got the consignments cleared now, it would not be able to use these components profitably for production of the watches in the absence of market demand for these. During 1995-96 and 1996-97, the total number of these watches sold were only 307 and 9020 respectively, which were only 0.27% and 6.94% of the stocks in the respective years. As on 31 March 1997, the unit had accumulated a stock of 1,18,846 Astra watches. A scheme was introduced (August 1997) in 3 show rooms of the Company according to which one Astra watch was to be given free of cost on every purchase of slow moving models of certain quartz watches. Thus there was no scope for any further production as the unit was finding it difficult to sell the available stock itself.

The Management stated (January 1998) that the consignment had not been cleared from Customs as Marketing Division of the company was not able to sell the available stock. It further stated that only when the available stock was sold and working capital made available for payment of customs duty/demurrage charges etc., they would be able to take a decision for clearance of these consignments from customs for using these components as spare parts for use in the defective watches lying at their Show Room/Clearing and Forwarding Agents. But the fact remains that clearance of the imported components would be uneconomical as the Unit has to incur a further expenditure of Rs.24 lakh towards customs duty and Rs.17.21 lakh towards demurrage charges.

The Ministry endorsed the reply of the Management (January 1998).

Thus injudicious decision of the Unit to import components without any necessity led to an infructuous expenditure of Rs.27.13 lakh.

Hindustan Cables Limited

11.4.1 Loss due to injudicious purchase

On consideration of an unrealistic income-tax relief of Rs.2.74 crore, the Company placed a purchase order with a foreign firm (PKI) for marketing their products in India without obtaining any corresponding confirmed sale order. As a consequence of this injudicious import, the Company suffered a loss of Rs.3.00 crore.

With the intention of marketing initially and subsequent development/manufacture of Fibre Optic Transmission systems including PDH/SDH equipment in India, the Company signed a memorandum of undertaking (MOU) with Philips Kommunikation Industrie (PKI) of Germany in May 1993. PKI refused to sign the MOU until they received an order from the Company for one set of Synchronous Digital Hierarchy (SDH) system for installation in one of the routes to be allocated by Mahanagar Telephone Nigam Limited (MTNL). The Company issued (June 1993) a letter of intent (LOI) on PKI, who signed the MOU in July 1993, for supply of one SDH system without having any assurance from MTNL for allocation of a trial route for SDH system. Formal purchase order for the system at FOB value of DM 10,97,647 alongwith order for documentation and engineering at a cost of DM 65000 was placed with PKI in July 1993. The order was placed with an anticipated initial loss of Rs.1.74 crore. The system arrived in India in June 1994.

Meanwhile, MTNL allocated (April 1994) to HCL-PKI combine a route for point to point STM-4-SDH equipment at Mumbai purely on experimental basis for field trial with the following terms & conditions:

- The equipment would be supplied free of cost but it might or might not be retained even after successful field trial.
- No payment would be made for provision of this equipment in the system.
- If the system is found acceptable, the price would be fixed through a tendering process.

The Company installed, commissioned and tested SDH system jointly with PKI in March 1995 at a cost of Rs.4.94 crore. The system was put to commercial traffic in March 1995. After successful field trial operation, MTNL's Mumbai office recommended (August 1995) to their corporate office, New Delhi for retaining the system in MTNL. The Company raised (January 1996) a provisional invoice on MTNL amounting to Rs.5.67 crore towards supply, installation, commissioning and field trial of STM-4 SDH system but failed to get a formal purchase order and the fixation of price. The Company, however, received (June 1997) an amount of Rs.1.27 crore as adhoc advance from MTNL against reimbursement of statutory duties amounting to Rs.1.94 crore. The Company expected to get full reimbursement of statutory duties.

Thus, as a result of placement of a purchase order on a foreign firm for marketing their product in India without having any corresponding confirmed sale order, the Company suffered a loss of Rs.3.00 crore (Rs.4.94 crore -Rs.1.94 crore).

The Management stated (May 1998) that the anticipated loss of Rs.1.74 crore was intended to be covered by availing income-tax relief of Rs.2.74 crore, at an accelerated rate, on expenditure on research & development activities. It was, however, observed that the expectation of income-tax relief was unrealistic because the Company was not paying income tax since 1990-91 due to absence of any taxable income. Further, the accelerated income-tax relief @ 125% was available under section 35(2 AA) of Income Tax Act only in case of any payment made to a National Laboratory for carrying out a particular programme of scientific research approved by an appropriate authority. Thus no deduction was available under the Income Tax Act for this type of purchase.

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

11.4.2 Loss due to supply at provisional price

The Company suffered a loss of Rs.1.56 crore due to execution of a supply order on provisional price basis without a similar clause in the purchase order placed with a foreign firm (PKI) for marketing their product in India.

The Company signed (May 1993) a Memorandum of Understanding (MOU) with Philips Kommunikations Industrie AG, Germany (PKI) to explore the possibilities of forming a collaboration with the object of marketing of fibre optic transmission products in India and development of mutually beneficial long term business relations.

Based on the MOU, the Company participated (May 1993) in a tender enquiry of Mahanagar Telephone Nigam Limited (MTNL) for supply of 140-Mbps Optical Fibre System and secured an order in July 1994 for 21 nos. of the system at a provisional price of Rs.4.09 crore i.e. @ Rs.19.47 lakh per system excluding excise duty and freight. The final price was to be determined on the basis of lowest rate against tender enquiry of Department of Telecommunication (DOT) opened in October 1993 or MTNL's provisional rate, whichever was lower.

Against the order placed by MTNL, the Company placed a purchase order on PKI in June 1994 for one system at a price of DM 71940. Subsequently, another purchase order was placed on PKI in September 1994 for supply of balance 20 systems @ DM 50380 excluding certain components which were procured indigenously. Though the price offered by MTNL was provisional, the purchase order placed by the Company on PKI did not contain any clause for back to back fixation of purchase price depending upon MTNL's final price. The Company supplied 20 such system to MTNL by March 1995 and balance one system was supplied in September 1995.

In September 1995 MTNL finalised the price of the system at Rs.16.01 lakh per system inclusive of excise duty based on price finalised against DOT's tender enquiry. Against the total sale value of Rs.3.36 crore for 21 systems, the Company incurred an expenditure of Rs. 4.92 crore (including liquidated damages of Rs.8.16 lakh) in executing the order and thereby sustained a loss of Rs.1.56 crore.

While admitting the facts, the Management stated (May 1998) that the price was revised by MTNL after 6 months of the completion of supplies and after more than one year of the placement of order on PKI. The Management further stated that lowering of price by 31 per cent was totally unexpected.

The fact, however, remained that the loss due to subsequent reduction in price by MTNL could have been avoided had the Company inserted a similar provisional price clause in the purchase order placed with PKI.

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

11.4.3 Non-clearance of imported equipment from Airport

Non-clearance of equipment from Airport resulted in an avoidable additional liability of Rs.1.34 crore towards interest on custom duty and port rent charges

To create facility for production of Foam Skin Insulated Cables for supply to the Department of Telecommunications (DOT) against an order in hand, the Rupnarainpur unit of the Company placed (September 1990) a purchase order with a foreign firm for urgent supply of certain equipment by air. The equipment arrived at Calcutta Airport in April 1991 and the Company paid a total sum of Rs.47.49 lakh towards the cost of the equipment. But the Company has neither cleared the equipment nor made any arrangements to get it bonded till date (April 1998). The equipment is lying at Calcutta airport unattended and the Company had become liable to pay, apart from the custom duty of Rs.1.02 crore, an avoidable amount of Rs.1.34 crore towards interest on custom duty (Rs.1.21 crore) and port rent (Rs.13.15 lakh) for the period upto 30.4.1998.

The Management stated (November 1996) that the equipment could not be cleared from the Airport due to paucity of fund, adding further that the demand for Foam Skin Insulated Cables existed and that the equipment would be cleared as soon as the fund crunch situation was over.

The fact, however, remains that due to poor financial planning of the management and procurement of equipment without proper adequate funding the Company has become liable to pay an avoidable sum of Rs.1.34 crore. Besides, a sum of Rs.47.49 lakh has remained blocked for a period of over 7 (seven) years when the Company is facing a financial crunch.

The matter was referred to the Ministry in November 1996; their reply was awaited (December 1998).

11.4.4 Failure in clearance of imported material

The Company suffered a loss of Rs.69.00 lakh due to delay in clearance of material from port and auction of the material by port authorities.

Following an agreement entered into by the Company with MMTC Limited in January 1995 for import of cc rods, the Company placed (February 1995) a purchase order on MMTC for supply of 210 MT of cc rods at a total price of Rs.2.14 crore CIF High Seas ex-Mumbai port. In terms of the agreement, the Company was responsible for clearance of the material from port after payment of custom duty, handling charges, demurrage charges etc.

The consignment containing 212.598 MT cc rods landed at Mumbai port on 10 March 1995. MMTC had endorsed the original documents i.e. Bill of Lading dated 21 February 1995 in favour of the Company on 2 March 1995 for clearance of the material from Mumbai port in terms of the agreement. With the passing of the documents to the Company, the sale was complete in terms of the agreement in so far as MMTC was concerned. However, no action was taken by the Company either to clear the material or to intimate the port authorities in the matter of delay in clearance and the date by which it would take delivery of the material. In the meantime, the port authorities issued notices to MMTC for auction of the material as the consignment pertained to MMTC as per records of port authorities. MMTC communicated to the Company from time to time (upto July 1995) urging for early clearance of the material to avoid the auction. No action was, however, taken by the Company and the material was ultimately auctioned on 7 September 1995 by the port authorities to a private party. It was only on 14 September 1995 that the Company requested the port authorities not to deliver the cargo to the buyer by which time the buyer had already taken delivery of 106.156 MT of the cc rods. The balance quantity of 106.442 MT of cc rods was cleared by the Company on 29 September 1995 from the port and kept in bonded warehouse after payment of Rs.24.94 lakh as demurrage charges for delay in clearance of the material. The CC rods were cleared from the bonded warehouse in December 1995 after payment of custom duty (Rs.68.03 lakh) and other charges (Rs.3.03 lakh). The sale proceeds of 106.156 MT cc rods by auction were Rs.64.20 lakh against its CIF value of Rs.1.08 crore resulting in a loss of Rs.44.06 lakh to the Company.

Thus, the Company suffered a loss of Rs.69.00 lakh (44.06 + 24.94) due to delay in clearance of the material from the port.

The Management stated (December 1996) that the loss was due to tight liquidity position and delay in receipt of final auction notice. The fact, however, remains that the Company had sustained the loss due to import of material without funding arrangement and failure to take timely action to clear the material from the port.

The matter was referred to the Ministry in November 1996; their reply was awaited (December 1998).

Hindustan Paper Corporation Limited

11.5 Loss in export deal

The Company sustained a loss of Rs.92.37 lakh on export of paper to Bangladesh due to deficient contractual provisions and submission of discrepant documents to the bank.

The Company could not export 1992 MT of paper to certain buyers in Bangladesh during 1994-95 due to shortage in production and priority given to meet pressing demand of domestic market, though the Letters of Credit (LCs) were established with validity upto 31 December 1994. For supply of pending order quantity, the Company entered into an export contract with its agent M/s Popular International Trading Company, Bangladesh in June 1995 with revalidation of LCs. The main provisions contained in the contract/LCs were, inter-alia, as follows:

(i) Material to be delivered within the validity period of LCs (September 1995).

(ii) Payment by LC opening Bank was subject to production of invoices duly passed and certified by Bangladesh Customs evidencing arrival of goods at Bangladesh alongwith shipping documents.

(iii) Material at Customs godown in Bangladesh was to be insured by the buyers.

No provision relating to delayed delivery in circumstances beyond control was, however, incorporated in the contract.

Even after further extension of the validity period (ranging from 20 November 1995 to 31 December 1995) the Company could export only 876 MT within the validity period of LCs. The Company delivered (between 29 November 1995 and 7 February 1995) a further 352 MT beyond the delivery schedule without execution of an amendment in the contract/LCs for extension of delivery period. It was stated that the delivery was delayed due to congestion at Indo-Bangladesh border. Thus, of the total contracted quantity, delivery of 694 MT (1922 MT-876 MT-352 MT) was not executed.

Out of 876 MT of paper exported, a sum of Rs.29.05 lakh being the value of 95 MT was subsequently re-claimed by the LC opening Bank (the bank which had released the payment earlier) on the ground of submission of discrepant documents by the Company violating specific clause of LCs. The amount was recovered from the Company and was stated to have been retained by the Company's Banker as the dispute had not been settled.

For realisation of sale proceeds of 352 MT of paper which could not be delivered within the validity period of LCs, the Company sent related documents on collection basis through normal banking channel. As the international price of paper came down considerably, the buyers, excepting one who lifted 70 MT of paper, neither accepted the material nor insured the goods at Customs godown. As a result, 282 MT of paper remained un-insured in Customs godown in Bangladesh for around 3 to 4 months.

In March 1996, out of 282 MT, 71 MT of paper valuing Rs.21.81 lakh was destroyed in a fire in Customs godown. The Company had to re-sell 81 MT of paper at a lower price suffering a loss of Rs.4.80 lakh. The Bangladesh Customs Authorities auctioned 36 MT of paper valued at Rs.10.95 lakh in order to recover godown rent. Against the balance 94 MT (282 MT-71 MT-81 MT-36 MT) valued at Rs.28.56 lakh, payment of only Rs.2.80 lakh was received. The Company filed (January 1997) legal suits against the buyers in Hon'ble High Court, Calcutta. The summons issued by the court to buyers were returned (July 1997) undelivered.

In this export deal the Company failed on three counts: (i) the Company did not incorporate a standard force majure clause in the contract which would have covered the delay in delivery on account of unavoidable circumstances, (ii) before delivery of 352 MT after the lapse of the scheduled period, the Company did not take steps to have an amendment executed for further extension of delivery period, and (iii) the Company did not submit documents correctly to the Bank. All these failures resulted in an avoidable loss of Rs.92.37 lakh (Rs.29.05 lakh + Rs.21.81 lakh + Rs.4.80 lakh + Rs.10.95 lakh + Rs.28.56 lakh – Rs.2.80 lakh). For this export deal the Company created a provision for loss of Rs.87.57 lakh and charged off the balance loss of Rs.4.80 lakh in its Accounts.

While admitting the above facts, the Management stated (September 1998) that Company had taken adequate care to stop recurrence of such type of aberrations in future.

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

Hindustan Photo Films Manufacturing Company Limited

11.6 Review on the working of Hindustan Photo Films Manufacturing Company Limited

11.6.1 Introduction

11.6.1.1 Hindustan Photo Films Manufacturing Company Limited (HPF) Udhagamandalam, Tamilnadu, was incorporated in 1960 for achieving self sufficiency in the field of photographic products and to cater primarily to the health care, education, entertainment and defence needs of the country. Till the year 1991-92, the Company was wholly owned by the Government of India. As a sequel to Government's decision to disinvest 20 per cent of its equity in selected PSUs in favour of mutual funds, financial and investment institutions, the Government sold (January 1992) 1,91,90,400 shares each valuing Rs.10/- with aggregate value of Rs.19.19 crore to General Insurance Company and its subsidiaries. The transfer was effected during 1992-93. The present shareholding pattern comprises Rs.175.25 crore (90 per cent of equity) by Government of India and Rs.19.19 crore (10 per cent of equity) by other shareholders, viz. General Insurance Company and its subsidiaries.

11.6.1.2 The manufacturing facilities established at the time of incorporation were for Black and White Photo Films, Medical and Industrial X-ray Films with Cellulose Tri Acetate (CTA) base. The Company later entered into conversion operations of imported colour jumbos for retail sale in the Indian market. During the eighties, the Company had embarked on certain diversification schemes in the field of Automatic Photo Dispensing Units, Magnetic Tapes and Polyester Base X-ray Films.

11.6.1.3 Around 1975-76, the Company established its market for "INDU" brand photographic film products in the country and started earning profits. The Company retained its top position in the industry and was making profits throughout its operations till 1991-92. However, the Company turned into a loss making entity from 1992-93 onwards.

11.6.2 Scope of Review

11.6.2.1 The working of the Company up to 1990-91 was reviewed in the Report of the Comptroller and Auditor General of India, Union Government, No.17 (Commercial) of 1991. The present Report covers the period from 1991-92 to 1996-97.

11.6.3 Organisational Set up

11.6.3.1 Originally, the post of Chairman cum Managing Director (CMD) was held by an individual for almost 16 years till his superannuation in September 1992. During the period from September 1992 to January 1993 and from June 1995 to November 1997, there was no regular CMD. The post of CMD was bifurcated (June 1995) and Director (Finance) had been looking after the work of Managing Director, while the Joint Secretary in the Department of Heavy Industry was acting as Chairman (June 1995 - November 1997).

11.6.3.2 A regular CMD took over charge of the Company in November 1997 only. The Board of Directors of the Company comprised the Chairman-cum-Managing Director, Director (Finance) and ten part-time Directors representing the Government and financial institutions (December 1998).

11.6.4 Financial Position

11.6.4.1 The financial position of the Company during the last six year period ended March 1997 was shown below:-

Table -1

(Rupees in lakh)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Liabilities						
A. Paid up Capital including Share Capital Deposit	14518.00	15318.00	15318.00	17386.00	19136.00	19444.00
B. Reserves & Surplus						
i) Free Reserves & Surplus	1727.77	73.47	73.47	32.47	17.32	17.02
ii) Committed Reserves	2211.21	2211.21	2211.21	2211.21	2211.21	2211.21
C. Borrowings						
i) From HPF bonds	12766.87	127730.38	127718.41	12107.03	12107.03	12111.03
ii) From Govt. of India	189.33	189.33	1389.33	3375.33	4815.33	8073.33
iii) From Banks	12490.94	24389.79	31519.90	33015.39	36332.55	41187.88
iv) From others	3400.00	4480.56	4511.57	4485.47	4461.31	4460.98
v) Interest accrued & due	594.20	2274.27	2470.20	7177.06	16296.43	26319.40
D. Current Liabilities and Provisions	13253.60	8575.53	7297.87	6441.22	6379.96	6607.72
Total	**61951.92**	**70242.54**	**77509.96**	**86231.18**	**101757.14**	**120432.57**
Assets						
E. Gross Block	5165.76	5286.14	5340.00	5339.74	5349.04	5349.39
F. Less : Depreciation	1760.31	1944.15	2159.30	2359.93	2561.97	2760.57
G. Net Block	3405.45	3341.99	3180.70	2979.81	2787.07	2588.82
H. Capital WIP	28432.53	40534.01	44655.95	49799.33	58367.98	68031.77
I. Investments	0.06	0.06	0.06	0.06	0.06	0.06
J. Current Assets, Loans & Advances	28607.58	14997.69	11135.39	9520.08	9662.47	9432.61
K. Deferred Revenue Exp.	1506.30	1292.16	2580.00	2329.40	2264.48	2143.36
L. Accumulated Loss	--	10076.63	15957.86	21602.50	28675.08	38235.95
Total	**61951.92**	**70242.54**	**77509.96**	**86231.18**	**101757.14**	**120432.57**
M. Capital employed (G+J-C(v) & D)	18165.23	7489.88	4548.02	(1118.39)	(10226.85)	(20905.69)
N. Net worth (A+B(i)-K & L)	15539.47	4022.68	(-)3146.39	(-)6513.43	(-)11786.24	(-)20918.29

The accumulated loss of the Company stood at Rs.382.36 crore as on 31 March 1997, indicating complete erosion of the Company's equity base (including Reserves of Rs.22.28 crore).

11.6.5 Working Results

11.6.5.1 The working results of the Company during the last six years were as under:-

Table - 2

(Rupees in lakh)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Income						
Sales Less Returns	23824.11	17481.36	9249.54	5425.79	4107.94	2104.88
Increase/Decrease in stock	4625.50	(-)6250.01	(-)2286.91	(-)223.06	(-)577.14	(-)646.39
Other income	814.56	306.16	715.51	1114.26	655.52	854.37
Total	**29264.17**	**11537.51**	**7678.14**	**6316.99**	**4186.32**	**2312.86**
Expenditure (Net)						
Material Cost	21733.48	12018.38	5513.51	4228.91	2525.88	1411.06
Employee Cost	1534.84	2035.90	1824.48	1912.71	1840.88	2189.09
Other Cost	2205.11	5053.79	1480.92	1428.73	1368.17	1199.45
Interest	3375.57	3983.79	4525.99	4227.69	5504.21	6639.40
Depreciation	124.67	176.58	214.47	204.59	201.44	198.12
Total	**28973.67**	**23268.44**	**13559.37**	**12002.63**	**11440.58**	**11637.12**
Profit/Loss during the year	290.50	(-)11730.93	(-)5881.23	(-)5685.64	(-)7254.26	(-)9324.26

11.6.5.2 Value of sales have declined to Rs.21.05 crore in 1996-97 from Rs.238.24 crore in 1991-92. The Company had been registering losses since 1992-93 arising from decreased value of sales coupled with mounting fixed costs.

11.6.5.3 Declining share in market and underutilisation of plant

The operating level of major production lines rapidly decreased from year to year as indicated below:-

Table -3

(In million sq. mtrs for items 1 to 4 & in million running mtrs for item 5)

Sl. No.	Product	Installed capacity	1991-92 Prodn.	%	1992-93 Prodn.	%	1993-94 Prodn.	%	1994-95 Prodn.	%	1995-96 Prodn.	%	1996-97 Prodn.	%
1.	Cine Films	9.03	9.22	102	4.45	49	2.04	22	2.64	29	1.70	19	1.33	14.73
2.	X-ray Films	4.16	3.20	77	1.82	43	1.40	33	1.39	33	0.73	18	0.42	10.10
3.	Roll Films	1.13	0.21	19	0.10	9	0.10	9	0.06	5	0.05	4	0.04	3.54
4.	Graphic Arts	0.75	0.71	95	0.22	29	0.20	27	0.21	28	0.10	13	0.00	-
5.	Magnetic Tapes	1300.00*	228..96	18	-	-	-	-	-	-	-	-	-	-
		1500.00	-	-	81.56	5	58.57	4	64.6	4	16.82	1	11.21	0.75

Note: (*) 1300 up to 1991-92 and 1500 from 1992-93.

Correspondingly, the turnover in respect of the major production lines also came down as indicated below:

Table -4

(Rs. in lakh)

Sl. No.	Product	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
1.	Cine Films	7535	5187	1786	616	588	222
2.	X-ray Films	6708	5896	4377	2955	1915	1092
3.	Roll Films	1036	778	750	198	254	198
4.	Graphic Arts	1191	935	635	297	186	10
5.	Magnetic Tapes	294	258	210	246	137	90

The market study conducted by Industrial Credit and Investment Corporation of India (ICICI) in October 1994 identified domestic market size of 5.5 million square meters (MSM) for Medical X-ray films for 1995-96. According to this study, HPF's share was identified as 0.9 MSM which was 16 per cent of market with a potential of 5 per cent growth rate.

The turnover of the Company for this product during 1995-96 was 0.9 MSM which was 21.62 per cent of the installed capacity and 16.36 per cent of the market share. It came down to 0.5 MSM in 1996-97 which was only 11.80 per cent of installed capacity and 8.91 per cent of market size.

11.6.5.4 The Company attributed its losses leading to its sickness to the following factors:

- Enhanced competition due to dumping by Multinational Companies;
- Sales tax differential of 8 per cent vis-à-vis the SSI Conversion Units operating from tax-free zones;
- Gross working capital diversion of Rs.48.86 crore from the main existing plant during April 1992 to November 1995 to the ongoing Polyester Base X-ray Project, which in turn had adversely affected the viability of the main plant;
- Irrational customs duty structure with reference to finished goods, work-in-progress and raw materials;
- Lower capacity utilisation which dropped from 80 per cent in 1991-92 to 15 per cent in 1995-96;
- Shortage of working capital;
- High interest burden on working capital borrowings;
- Impounding of 50 per cent sales receipts by the bankers from October 1992 till October 1994, as the Company had failed to repay their loans;
- Refusal by bankers to open Letters of Credit or to issue deferred payment guarantees;
- Increase in input cost in respect of power tariff by 71 per cent between 1992-93 and 1995-96.

11.6.5.5 The Company also listed (January 1996) a number of steps taken by way of remedial action, out of which the following were significant:

(a) Increase in capacity utilisation by resorting to job order works.

(b) Cost reduction in major areas and control over rejection levels.

(c) Market oriented production planning.

(d) Putting a stop to borrowings from banks.

(e) Inventory reduction and elimination of loss making products.

(f) Manpower reduction.

(g) New product development.

(h) Restructuring of marketing network by appointing new stockists and dealers.

With reference to the reasons for losses cited by the Company and the remedial steps stated to have been taken by it, the following observations are made:

The Company was unable to face the competition from multinationals operating through traders/converters in tax-free zones in as much as it failed to match this phenomenon with its own product-line owing to delay in commissioning of its plants. (Refer para 11.6.9.1). Further, resorting to job orders could not prevent the drastic fall in capacity utilisation in respect of all the products.

Gross working capital diversion from the main plant to an on-going Project destabilised financial management of the Company. Also, in the absence of any significant level of production which came down from 80 per cent in 1991-92 to 15 per cent in 1995-96 coupled with the lack of working capital which depleted from Rs.153.54 crore in 1991-92 to Rs.28.25 crore in 1996-97, high and unproductive fixed costs and burden of interest-payments which increased from Rs.33.76 crore in 1991-92 to Rs.66.39 crore in 1996-97, there was not much scope for cost reduction on these accounts.

Regarding the Company's claim of market oriented production planning and new product development, it is seen that the Company's production was mostly restricted to products with assured market. No new market area was gained nor could new products be developed.

With regard to restructuring of marketing network, the Ministry concurred with audit observations on the need to avoid stockist's involvement in Government transactions (discussed in paragraph 11.6.21). Further, almost half of the sundry debtors of the Company were considered doubtful (para 11.6.6.2).

Rise in input costs, mainly power tariff, affects all the players in the market and as such the Company had a level playing field in this area.

11.6.5.6 The reasons for losses, as analysed by Audit, were as follows:

(i) Underutilisation of existing CTA Plant;

(ii) Shortage of working capital and heavy dependence on borrowing as well as heavy debt burden.

The Ministry stated (December 1996) that the poor performance was because of shifting of the market from CTA to polyester base and from black and white products to coloured products for its main items. However, the fact remains that the Company took an inordinately long time to complete the Polyester Base Project and even after commissioning of the project in March 1997, the Company's share in the market had been showing a downward trend.

11.6.6 Borrowings

11.6.6.1 The Company borrowed funds in order to meet working capital requirements and also for completion of the Polyester Base X-ray Project. Recurring losses incurred in the last few years had virtually crippled the Company's capacity even to honour the interest commitments on borrowed funds. As of March 1997, a sum of Rs.921.49 crore (including interest of Rs.379.59 crore) was outstanding as indicated below:-

(i) Working Capital Loans : A sum of Rs.406.22 crore (including interest of Rs.162.25 crore) was outstanding against the working capital loans as indicated below:-

Table - 5

(Rs. in lakh)

Source	**Loan**	**Interest**
Cash credit loan from banks	15853.96	11389.13
Letters of credit	1866.78	1399.27
Inter corporate borrowings	3607.00	3355.74
Government loans	3069.33	80.75
Total	**24397.07**	**16224.89**

(ii) Project Loans : The Company had borrowed huge funds for the Polyester Base X-ray Project. A sum of Rs.515.27 crore (including interest of Rs.217.34 crore) was outstanding on this account as of March 1997 as shown below :-

Table - 6

(Rs. in lakh)

Source	**Loan**	**Interest**
Cash Credit loans from Banks	3756.23	3493.93
Government loans	5004.00	1826.63
HPF Bonds	12111.03	4270.08
UTI Funded Interest loan	853.98	503.87
Bridge loan from Banks	5200.00	9118.39
SBI DPG loan	1785.31	1404.82
Canara Bank Bond interest loan	86.48	122.37
SBI Bond interest loan	996.09	993.62
Total	**29793.12**	**21733.71**

11.6.6.2 One of the reasons for the dismal performance of the Company was lack of internal control in debt servicing as well as in debt collections. The Company was supposed to allow credit sales subject to bank guarantee limits, but credit sales in fact exceeded bank guarantee limits and dues were not settled within the credit period. The Marketing and Finance Divisions which were responsible for safeguarding the interests of the Company failed in this regard. The debtor position of the Company was also not monitored properly from time to time. As of 31 March 1997, sundry debtors of the Company stood at Rs.16.46 crore which included Rs.11.59 crore from private parties out of which only Rs.2.10 crore were outstanding for less than 6 months. The balance amounts were not supported by confirmation from respective debtors. Out of this balance, Rs.7.46 crore were considered doubtful and provided for in the accounts.

11.6.7 Cash Management

11.6.7.1 The practice by the Company of diverting funds freely from the cash credit facility meant for the main plant to project implementation inflated the share of financing charges in the project cost to very high and unrealistic levels. The financing charges amounted to Rs.334.99 crore out of the actual cost of Rs.680.05 crore in respect of the Polyester Base X-ray Project. The revised project estimates (January 1996) had envisaged IRR of 10.45 per cent (Annexure-I) as against the originally envisaged IRR of 28.62 per cent (March 1986). Keeping in view the fact that the financing cost had gone up from the estimated Rs.199.40 crore (January 1996) to Rs.334.99 crore on the outstanding project borrowings of Rs.297.93 crore as on March 1997, it is evident that even the reduced IRR of 10.45 per cent cannot be achieved, thereby raising doubts on the financial viability of the project. In the case of its Magnetic Tape Project also, the financing charges actually incurred were as much as Rs.6.40 crore as against Rs.73 lakh only as envisaged in the project estimates.

11.6.7.2 There was a wide variation between the estimates made by the Company and the actual results achieved in other areas also. Thus in March 1992, the Company invited applications for public deposits in order to mobilise an estimated amount of Rs 49.50 crore. An expenditure of Rs.31.75 lakh was incurred on advertisement, publicity etc. for the scheme. However, the maximum deposit collected under the scheme was a paltry Rs.25.56 lakh. The expenditure made for the scheme was disproportionately high and as such reflected the Company's failure to properly assess the public response to the scheme. Even when the scheme was floated, the financial results of the Company were showing a clear declining trend as reflected in the documents released to the public for attracting the deposits. The disproportionately high expenditure and the wide gap between the Company's estimates and achievement were indicative of the unrealistic expectation of the Company, especially in view of its own declining financial position.

11.6.8 Non-Payment of Dues

11.6.8.1 As of March 1997, the Company had not been able to make statutory payments of the Employees' Contributory Provident Fund deductions (Rs.4.07 crore), the Gratuity premium (Rs.1.73 crore) and the income tax deducted at source (Rs.7.70 crore) as well as payment of the contractors' bills etc. (Rs.1.72 crore). The Company had approached the Government for budgetary support for clearing the above dues amounting to Rs.15.22 crore.

11.6.8.2 The Company defaulted in repaying the inter-corporate loans obtained from M/s. Maruti Udyog Limited (MUL). Against the 'winding up petition' filed by the Creditor Company, a Court decree was passed (November 1995) in favour of the petitioner (MUL) with a direction that the Company should pay a sum of Rs.4.21 crore with interest thereon at 15 per cent per annum with effect from 1 April 1993. Subsequently, in view of the proceedings pending before the Board for Industrial and Financial Reconstruction (BIFR), the Hon'ble High Court, Chennai had stayed (February 1996) further proceedings in the above case.

11.6.9 Project Implementation

11.6.9.1 The following paragraphs deal with the diversification schemes in the projects of Polyester Base X-ray Films, Magnetic Tapes, Automatic Photo Dispensing Units and conversion operation of imported colour jumbos for retail sales embarked on by the Company.

11.6.10 Polyester Base X-Ray Project

11.6.10.1 The Medical X-ray films being manufactured in the existing plant of the Company were of Cellulose Tri Acetate (CTA) base. The processing time for these films was longer compared to X-ray films with polyester base. CTA base films were also of inferior quality compared to the polyester-based films. In order to update their X-ray film technology, the Company undertook a project in collaboration with M/s. Du Pont, USA, for manufacture of 12 MSM (million square metres) per annum of Polyester Base X-ray Films. The project was approved in March 1986 at a cost of Rs.168.12 crore which envisaged a fifty per cent budgetary support from the Government and the balance was to be met by borrowed funds. The project was envisaged to have a time schedule of 66 months i.e. up to October 1991 (as per details in Annexure-I).

The project was completed in March 1997 after a delay of 65 months from scheduled date of completion. The execution of the project was delayed mainly on account of:

(a) initial delay in getting the site clearance from the Tamil Nadu State Government Forest Department;

(b) delay in receipt of technical package and detailed specifications from the foreign Collaborators;

(c) non-preparation of detailed Project Report which resulted in delay in awarding of contracts for various packages;

(d) funds constraints; and

(e) initial acquisition of 210 seconds emulsion formulation technology in 1986 from the collaborators instead of the cheaper and quicker 90 seconds technology which ultimately had to be procured in 1996. (Refer paragraph 11.6.11.)

Consequently the cost of the project shot up to Rs.680.05 crore (March 1997) which included Rs.334.99 crore by way of interest charges. The cost variance analysis revealed that 61.96 per cent of total escalation over the original cost was due to interest charges alone (Annexure-II).

11.6.10.2 While seeking the approval of the Cabinet Committee on Economic Affairs for Revised Cost Estimates-II (Annexure-II), the Ministry noted (January 1996) that the cost escalation of Rs.243.75 crore over the Revised Cost Estimate-I was mainly due to an increase of 33.7 per cent on cost of Plant and Machinery, 16.5 per cent in payment to M/s. Du Pont and 387.2 per cent in financing cost, etc. Even at that time the most significant factor of cost overrun was the rise in financing charges which alone accounted for over 66 per cent of the increase of Rs.243.75 crore over the Revised Cost Estimates-I. This was again due to the inordinate delay in implementation of the project. The IRR for the project which was reduced from the original estimate of 28.62% (March 1986) to 15.50% in the Revised Cost Estimates-I (May 1989) and finally to 10.45% in the Revised Cost Estimates II (January 1996) is also unlikely to be achieved in view of the exorbitant rise in financing costs.

11.6.10.3 The Ministry admitted (January 1996) that though Rs.223.09 crore were made available for the project during the 7th Five Year Plan Period (1985-1990) itself against the originally approved cost of Rs.168.12 crore, the project could not be completed within the 7th Plan Period as stipulated, due to various problems faced in the initial stages of the project.

11.6.11 Technical know-how

11.6.11.1 The Feasibility Report of the project did not indicate whether the technical know-how obtained from M/s. Du Pont was for processing X-ray film in 90 seconds cycle or in 210 seconds cycle. With the 90 seconds cycle formulations, the cost of production of Medical X-ray films would fall significantly due to reduced usage of silver. While the collaboration agreement envisaged the Silver Nitrate coating weight of 12.4 gms/sq.metre, the 90 seconds cycle formulation film would require only 7.5 gms/sq.metre. However the technology obtained by the Company in 1986 from M/s. Du Pont was in respect of formulation for manufacture of Medical X-ray films with the capability of being processed in 210 seconds cycle. The Management was not in a position to state the reasons for opting for the 210 seconds technology instead of the state-of-art 90 seconds film which was universally adopted in the overseas markets. The Company subsequently became aware of the need to improve the processing time to 90 seconds cycle since the export market as well as domestic market were only for quick processing films. Subsequently, by September 1994, the 90 seconds emulsion formulation was developed by the Research and Development Division of HPF, which was however not acceptable to the collaborators. It was only during May 1996, that the Company could make the collaborators agree to transfer the 90 seconds emulsion formulation technology to HPF without additional costs. Thus, the Company failed to acquire the state of the art technology of 90 seconds cycle formulation in March 1986 itself without valid reasons. This delay in acquiring the advanced technology had also caused corresponding delay in completion of the project.

11.6.12 Import of coating machines

11.6.12.1 Coating machines for the Polyester Base X-ray Project were imported from M/s. Du Pont in February 1991. A stores receipt cum inspection note was prepared without conducting a detailed inspection. The packages were opened in August 1992 and mere visual inspection was conducted instead of verification with reference to specifications and drawings. Only when the assembly operation was taken up in May 1993, it was first noticed that the supplies included two die bodies (a part of the coating machine) valued at Rs.80 lakh that did not conform to specifications and drawings. An investigation team appointed (February 1994) by the Management reported that both the die bodies were once-used items and more than 30 years old belonging to a first generation design. Subsequently, the Company lodged (March/June 1994) claims with M/s. Du Pont for re-negotiation of the price for die bodies. In the mean time, disputes arose between HPF and M/s. Du Pont leading to certain claims and counter-claims including that relating to die bodies. The claim and counter claims were stated to have been withdrawn on the basis of opinion expressed verbally by the Attorney-General which were communicated to the Company, again verbally, by their Solicitor. The fact remains that no responsibility had been fixed for accepting old die bodies and for not conducting inspection of the equipment at appropriate time.

11.6.13 Import of diesel generating sets

11.6.13.1 Power requirement of Polyester Base X-ray Plant had been estimated as 8000 KVA. To meet the power requirement in case of power cuts (assumed up to 40 per cent on the basis of past records of power cuts experienced in the state), it was decided to purchase 2 Diesel Generating Sets (DG sets) of 2140 KVA each which were imported in April 1992 under concessional import duty at a total cost of Rs.94.28 lakh each. Later, in October 1993, the actual power requirement based on connected loads was reassessed and it was found that the power requirement would not exceed 5000 KVA. To meet the power requirement in case of power cuts, up to 40 per cent, it was assessed that one DG set was sufficient. Therefore, the second DG set was declared surplus. As the Company was facing severe funds crunch, it disposed of the surplus DG set for which an amount of Rs.1.05 crore was realised. The other DG set was kept idle because there was no progress in the implementation of the Polyester Base X-ray Project till March 1997, due to financial crunch.

As the DG set was not used for the purpose for which it was imported, the Company was forced to pay differential customs duty of Rs.25.77 lakh to the Customs Department. Even the other DG set retained by the Company was not commissioned (March 1998). Necessity for the DG set had not arisen so far because of lower production level. The DG set had not been operated for more than six years now (March 1998).

In addition, the Company had to pay a sum of Rs.14.17 lakh to Tamil Nadu Electricity Board (TNEB) towards capital cost for effecting reduction in contracted demand from 8000 to 5000 KVA. With regard to the excess demand initially contracted with TNEB, the Management stated (December 1995) that the Company had acted on the recommendations of the design consultants. No legal action was initiated against the consultants. The net infructuous expenditure incurred on the DG set thus came to Rs 29.22 lakh.

11.6.14 Present status of the project

11.6.14.1 As per the revised commissioning schedule (April 1996), the Polyester Base X-ray Project was expected to be commissioned by July 1996. However, Industrial X-ray Unit of the project was commissioned in November 1996 and Medical X-ray Unit and Graphic Arts Film Unit were commissioned in March 1997 involving a total expenditure of Rs.680.05 crore (March 1998). With regard to the bottlenecks encountered in the commissioning of the plant, the Ministry stated (December 1996) that the plant could not be completed by July 1996 because of the delay in (a) release of funds and (b) non-availability of 90 seconds emulsion formulation. It may however be mentioned here that delay was also due to reasons as stated in para 11.6.10.1 which were mostly controllable factors.

Commercial production of Medical X-ray film was started in April 1997. The overall domestic market size for Medical X-ray film and market acceptance of the Company's product were the main factors for eventual determination of the viability of the plant. A demand survey conducted in 1980 by M/s. Kirloskar Consultants before taking up the project indicated an estimated total demand of 11.61 MSM for Medical X-ray film in 1994-95. Later, in May 1992, the administrative ministry (Ministry of Industries) concluded that the demand at that time was of the order of 7 to 8 MSM. According to a detailed market survey conducted (October 1994) by ICICI - Market Research Department, the domestic market size for Medical X-ray films stood at 5 MSM during 1993-94 with 5 per cent annual growth rate whereas the capacity of the plant was 17.79 MSM. With regard to the above gap in built-in capacity vis-a-vis market size, the Planning Commission which had examined the proposal for giving budgetary support had observed as early as in December 1993 that there was absolutely no possibility of exporting the product to the overseas market as the X-ray films produced by the Company would be technologically inferior to that available in the international market. The Group of Ministers (GOM) had also observed (April 1995) that the viability of the project had become doubtful even before its commissioning, particularly due to non-materialisation of anticipated market demand and that the prospects of exports were also not very bright, in view of the fact that the Company's past performance had not generated any confidence. The Company thus created unwarranted excess capacity and is now saddled with a project which is commercially unviable in the present market scenario despite making huge investments of the order of Rs 680 crore on it.

11.6.15 Magnetic Tape Project

11.6.15.1 Plant Performance

11.6.15.2 The Company set up a Magnetic Tape Plant as a diversification project to manufacture magnetic media consisting of 1300 million running meters (MRM) of Audio Cassettes, Magnetic Sound Recording (MSR) films and Computer Tapes and 200 MRM of video tapes. The Feasibility Report for the project prepared in November 1983 envisaged a total coating capacity of 1500 MRM for the above four products. The Feasibility Report which envisaged a total capital requirement of Rs.9.75 crore was approved by the Government of India for Rs. 9.25 crore (July 1985). Agreement with M/s. MAGNA, Berlin for licence and technology was concluded in November, 1995. However, it had been observed that process know-how and technology transfer for the coating and drying of video tapes Unit (200 MRM capacity) were specifically excluded from the agreement, thus restricting it to finishing, packing and testing only. Reasons for the exclusions were not forthcoming.

11.6.15.3 As against the original estimate of Rs.9.25 crore, the actual expenditure, however, was Rs.35.21 crore for which the Company did not seek the necessary Government approval. The excess expenditure classified under major categories indicated that there was an excess of 777 per cent on financing costs followed by 262 per cent on technical know-how, 236 per cent in respect of machinery purchases and 25 per cent in respect of land and buildings as shown below :-

Table - 7

(Rs. in lakh)

Sl. No.	Details	Government Approval	Actual Expenditure	Cost Overrun	Percentage of Excess
1.	Land and Buildings	76.00	95.00	19.00	25
2.	Machinery	686.00	2307.52	1621.52	236
3.	Technical Know-how	61.00	221.00	160.00	262
4.	Financing Cost	73.00	640.00	567.00	777
	Total	**925.00**	**3521.51**	**2596.52**	**281**

The increase in financing cost was due to borrowing high cost funds through inter-corporate deposits as the funding pattern originally envisaged to mobilise resources on the basis of debt equity ratio of 1:2 did not materialise. The increase in machinery and technical know-how fee was on account of exchange rate variation and scope changes (spare parts, etc.) and also on account of certain machineries which were not received but were paid for.

While confirming the total expenditure of Rs.35.21 crore on the Project, the Ministry (August 1995) stated that there was nothing on the Company's record to show as to why the Government's approval for the revised cost estimates was not obtained. It was stated that the agreement for transfer of technology was restricted to finishing, packing and testing only and not for the manufacturing of video tapes which required technology for coating etc. Failure of the Company in acquiring complete technology had rendered infructuous the infrastructure created for 200 MRM of video tapes. Eventually, the Company had to abandon the production of video tapes (July 1994). The Management stated (May 1998) that only Rs.1.77 crore had been paid as technical know-how fee as against Rs.2.21 crore confirmed by the Ministry (August 1995). The Company/Ministry was unable to reconcile the figures in absence of relevant records stated to have been confiscated by the CBI. The Company maintained that the last instalment of technical know-how fee of DM 400,000 was an excess payment, for which a claim had been lodged with the collaborator (discussed in para 11.6.15.6)

11.6.15.4 The project work was taken up in November 1986 with a time schedule of two years. According to the Feasibility Report, the plant was expected to reach up to 1300 MRM capacity within 3 years from commencement of commercial production. The remaining 200 MRM was set apart for video tapes to be taken up at a later date. The plant was partially commissioned in May 1989. During that year, the Company could produce only 53.46 MRM of magnetic tapes. The project was fully commissioned with installed capacity of 1500 MRM only in 1992-93. The performance of the plant during the last six years was as shown in the table below:-

Table – 8

(in MRM)

Year	**Installed Capacity**	**Production**	**Production as a Percentage of Installed Capacity**
1991-92	1300	228.96	17.61
1992-93	1500	81.56	5.44
1993-94	1500	58.57	3.90
1994-95	1500	64.60	4.31
1995-96	1500	16.82	1.12
1996-97	1500	11.21	0.75

Thus the plant remained underutilised throughout. It was mainly due to outdated technology and defective machinery. However, the Company maintained (April 1994) that against an installed capacity of 1300 MRM/1500 MRM, the maximum capacity actually attainable was only 650 MRM as assessed by them.

There were serious discrepancies in the supply of plant, machinery and equipment (discussed in para 11.6.16.1). Also, the performance of the equipment was unsatisfactory. Though the Company lodged claims on the collaborators for DM 7.347 million (including DM 400,000 mentioned in para 11.6.15.3), it was not in a position to recover any compensation for the loss suffered on this account. No progress could be achieved because of pending investigation report of CBI which was stated to be necessary for taking up the matter with the International Council of Arbitration. However, Management had informed the Board (October 1998) that the case for recovery of DM 7.347 million was legally very weak.

11.6.15.5 The indigenous demand for Magnetic Sound Recording films was assessed (November 1993) at 40 MRM. But the Company created an abnormally high production capacity of 450 MRM, more than 11 times the assessed demand, hoping that the bulk production would cover a buy back arrangement envisaged with the collaborator. The buy back arrangement did not materialise at all. Further, even the raw material needed for the product was not available in the country. The production facilities therefore remained idle. Thus creation of production capacity far in excess of domestic demand without identifying indigenous sources of raw materials had resulted in idling of the facility created. The Ministry confirmed these observations in August 1995. On the whole, it reflected an extremely poor project planning and management on the part of the Company at every stage.

11.6.15.6 As required under article VI of the collaboration agreement, performance tests were required to be carried out and a protocol to be signed between the Company and the Collaborator confirming completion of performance tests before the Company could release final payment of technical know-how fee. However, the Memorandum of Performance and Satisfaction signed on 22 June 1990 did not cover this aspect of the agreement and the Company released Rs.82.08 lakh (DM 400,000) as final payment in July, 1992. Ministry stated (August 1995) that the Company released the third and final instalment of DM 400,000 to the collaborators on the strength of a certificate issued by the General Manager of the plant and similar certificate issued by a chartered accountant to the effect that all necessary performance tests were satisfactorily completed. The General Manager (Tapes) was dismissed from service in June, 1996. A case was pending against him with the CBI (September 1998). However, no action was taken (September 1998) against the chartered accountant for which no reasons were given by the Company. The Company lodged (April 1994) a claim on M/s. MAGNA for refund of the amount but at the same time created a provision for it in the accounts of 1992-93, implying that the Company considered its recovery to be doubtful.

11.6.15.7 The Ministry stated (August 1995) that the performance of the plant was less than the production envisaged in the feasibility report mainly because of production and marketing constraints. With regard to production constraints, the Ministry was of the view that (i) the technology acquired by the Company was of the first generation category and (ii) equipment supplied by M/s. MAGNA were not in accordance with the agreement with them. However, Management was not in a position to explain the failure to obtain the latest technology.

11.6.16 Irregularities in Purchase of Equipment and Spares

11.6.16.1 As per the Collaboration Agreement (November 1985) for technical know-how, purchase orders were placed involving payment of DM 70,91,800 for supply of equipment and DM 86,000 for supply of spares. The actual payments made were DM 69,97,300 for equipment and DM 8,65,968 for spares resulting in excess payment of DM 7,79,968 (Rs.60.41 lakh) in the purchase of spares. Payment for spares was more than 10 times the amount mentioned in the purchase order. An Enquiry Committee appointed by the Ministry of Industry to look into irregularities in the project reported (March 1994) that detailed description and rates of individual equipment were not given in the contract. The Company had to accept and pay even for certain general equipment which were locally available, like stop-clock, microscope, nylon tubes, etc, which were imported at prices much higher than the prevailing local prices. It appeared that equipment shipped by M/s. MAGNA were entered in the books without reference to the supply order and rates charged by M/s. MAGNA were paid by the Company without any verification of claims. The following were the major discrepancies in the purchases:

Table - 9

Discrepancies	**DM**	**FOB Cost (Rs. in lakh)**
(i) Machinery shown as received but not physically available (Audio Line)	549640	45.53
(ii) Machinery shown as received but not physically available (Video Line)	2296816	254.48
(iii)Machinery received in defective condition	468000	41.19
(iv)Parts of machinery invoiced as spares	92170	7.02
(v) Spares received in unserviceable and incomplete condition	311415	24.09
(vi) Spares shown as received but not physically available	38855	3.42
Total	**3756896**	**375.73**

11.6.16.2 The Company made (April 1994) claims on M/s. MAGNA for Rs.4.43 crore (including 'excess' payment of DM 400000) pertaining to the above machinery and spares. The Company, however, made a provision for the entire amount which was considered doubtful of recovery in its accounts for 1992-93 adopted in September 1994.

11.6.16.3 The Company in May 1994, identified certain video and computer tapes manufacturing equipment belonging to the Magnetic Tape Project that were either not being operated or were defective or incomplete and decided that unproductive machineries had to be disposed of along with equipment in the audio tape line which were not viable. A sub-committee which was constituted for the purpose identified machineries worth Rs.3.41 crore procured for the project as redundant. Since the Company had been referred to BIFR, no action for disposal of the above machineries could be taken by the Company. All these machinery were lying idle with the Company (December 1998).

11.6.17 Infructuous expenditure on Video Line

11.6.17.1 The Board of Directors approved (June 1989) the purchase of 2 equipment viz. calendering systems with rollers and a magnetic-tape-coating machine with accessories at a total cost of Rs.81 lakh. The equipment was received in March 1990 at an actual cost of Rs.1.58 crore. Surprisingly, against the same Board approval, the Company placed (October 1990) another order for the same set of equipment, but this time without accessories, which was received in June 1991 at a cost of Rs.1.98 crore. The Ministry stated (August 1995) that the records available with the Company did not reveal the exact reasons for release of two purchase orders for the same equipment. In addition, the Company also acquired special milling equipment and testing equipment for Rs.4.35 crore against Board approval for Rs.74.50 lakh for milling equipment and Rs.64.40 lakh for testing equipment. The total cost thus worked out to Rs.7.90 crore against Board's approval of Rs.2.20 crore. The Ministry stated (August 1995) that there were no records revealing the basis on which the estimates were projected by the Company at the time of seeking the Board's approval and hence the reasons for exceeding the original cost were not available. The Ministry further stated that there were no recorded reasons for the failure of the Company to obtain Board's approval for the cost overrun.

11.6.17.2 In March 1994, it was found machines and equipment valuing Rs.6.75 crore and shown in the books of Magnetic Tape Project did not exist at all. These machines and equipment were written off on the basis of a physical verification report and the Company had lodged (April 1994) claim on M/s. MAGNA towards the cost of the machines and equipment. The Company had not been compensated for the loss so far (September 1998). The Company was not in a position to clarify how non-existing assets were entered into the books of accounts by the project authorities.

11.6.17.3 The equipment for video tape manufacturing was installed in 1992, but its performance was not found to be satisfactory even after many trials. Even in the presence of the representatives of the Collaborator, video tapes of acceptable quality or finish could not be manufactured. The Company explained (January 1994 and November 1998) that the operationalisation of the video line would require external assistance, additional calendering machines and improved formulations.

11.6.17.4 The video line equipment included two video loaders supplied by the collaborator for conversion of imported jumbo rolls into video cassettes. Even conversion of imported jumbo rolls could not be taken up till September 1992, as the video loaders supplied by the collaborator in November 1989 at a cost of Rs.19.64 lakh did not function at all. Consequently, video jumbos and associated cassettes etc. valued at Rs.1.82 crore imported in June/October 1988 remained unutilised and were ultimately sold by 31 March 1997, at a loss of Rs.93.19 lakh. The Company had since stopped conversion of jumbo rolls to cassettes for selling in the market. The video loaders were also yet to be disposed of (December 1998).

11.6.17.5 Certain machinery belonging to the magnetic tape project were received by the Company and were physically available with it, but were not brought into the books of its accounts till 1991-92. Values of 11 of these machines were not ascertainable which included one more video loader, in addition to the two mentioned above. The Company in its accounts for 1992-93 had taken these machines as a total value of Rs 11 @ Re 1/ per machine. No details like date of procurement, cost at which procured etc. in respect of any of these machines were available with the Company.

11.6.18 Loss in setting up of Automatic Photo Dispensing Units

11.6.18.1 A reference is invited to Paragraph 5.4 of the Report of the Comptroller and Auditor General of India - Union Government - No.17 (Commercial) of 1991 in which the Photo Dispenser Booths Project of the Company was discussed. During the period from July 1986 to May 1992, the Company paid to the foreign Collaborators, M/s. Photo-Me International (PMI), UK, a know-how fee amounting to Rs.90.40 lakh (excluding Rs 43.00 lakh paid on account of taxes and fees) for transfer of technology to the Company under a technical collaboration agreement concluded in November 1985 for manufacture of photo dispenser systems, photographic reversal papers and developer chemicals. However, the technology was not transferred by the collaborator and the project could not materialise as envisaged.

11.6.18.2 As pointed out in the Report of the Comptroller and Auditor General of India *ibid*, the Company was to start manufacturing these booths indigenously from 1988-89 onwards. But as the technology was not acquired and as the market for black and white films also started dwindling in favour of the colour films, the indigenous manufacture could not be undertaken.

11.6.18.3 The Collaborators on their part absolved themselves of the contractual obligations by stating (June 1993) that they had lost the opportunity in the black and white film market, but were willing to enter into a new contract for supply of colour photo machines. The Company, however, maintained (July 1993) that the collaborators were yet to transfer the technology in full. The dispute remained unsettled (March 1997). Due to failure of the project, the expenditure of Rs.1.33 crore incurred on acquisition of know-how had also become infructuous, apart from the loss of Rs.38 lakh incurred on the sale of 76 photo dispenser booths imported from the collaborator as mentioned in the Report of the Comptroller and Auditor General *ibid*.

11.6.18.4 The Company was holding (November 1998) an inventory of 125 machines procured at a cost of Rs.3.65 lakh per machine on which a total loss of Rs3 crore was estimated on the basis of prevailing market price of Rs.1.25 lakh per machine.

11.6.19 Improper procurement of Colour Paper

11.6.19.1 During the year 1992, the Company imported 140 jumbo rolls of Agfa colour paper at a CIF value of Rs.2.13 crore. The material was kept at the Chennai Port for more than 3 years due to financial crisis faced by the Company as well as lack of demand in the market. As the normal expiry period of the material was around 18 months, the Company became apprehensive about the deterioration in quality during the prolonged storage. Moreover, it felt that the stockists, distributors and customers were also aware of this consignment which was lying in the port for months and hence it 'was difficult to convince them of the quality'.

11.6.19.2 The customs duty on this item was reduced by 20 per cent during the year 1994-95. In spite of this reduction, the Company could not clear the material due to difficulties perceived in selling the product. Meanwhile, the shipping agents sued the Company for recovery of their dues. In accordance with the directives of the Court, the

Company was left with the option of either clearing the cargo or abandoning it for selling by the shipping agents through public auction. In the event of clearing it from the port after such a long passage of time, the Company was faced with a liability of Rs.1.73 crore on customs duty and also Rs.52.57 lakh to the Port Trust towards demurrage charges, in addition to Rs.79.11 lakh on maintenance charges payable to the steamer agents.

11.6.19.3 The liability to the steamer agents could not be discharged. The Company approached the Chennai Port Trust for waiver of the demurrage charges, but the Port Trust authorities indicated that the proposal required clearance by the Ministry as it involved a substantial amount. The Company also approached the Central Board of Excise and Customs for the waiver of interest on customs duty/countervailing duty. The Customs authorities did not concede the request made by the Company. As the product did not have market potential, the Company was not in favour of incurring further expenditure on this consignment. The Board of Directors of the Company, therefore, unanimously decided (June 1995) to abandon the consignment.

11.6.19.4 In the mean time, the Port Authorities attempted public auction of the material thrice but were not successful. In April 1996, the Hon'ble Madras High Court authorised the Customs Authorities to auction the material after observing necessary formalities. Further developments in this regard were not known (December 1998).

11.6.19.5 The entire losses incurred by the Company were primarily due to its failure to conduct a proper demand survey before going in for imports on such a large scale. The Management accepted (September 1994) that not only the quantities were considerably excessive but even costs also were unsustainable in Indian market. Import of excess material without any demand assessment at unsustainable costs thus resulted in loss of Rs.2.13 crore.

11.6.20 Irregularities in Accounting of Production Records

11.6.20.1 The Company maintains a silver nitrate plant and a silver sludge recovery unit for the production of silver nitrate and recovery of silver sludge respectively. Based on the investigations conducted during 1992-93, silver sludge valued at Rs.2.75 crore, shown under current assets in 1991-92 accounts, was written off in the next year. The Company stated that it was wrongly included in the closing stock of the earlier year. The Director's Report for 1992-93 also admitted that there was window-dressing of financial statements by inflating the silver sludge stock. This clearly established the inadequacy of the inventory control system in the Company.

11.6.20.2 The inventory as stated in the audited accounts for the year 1991-92 also included Rs.17.81 crore under 'Recut materials'. This was found to be fictitious when the Company conducted an investigation next year and the amount was therefore written off. The Company brought this to the notice of shareholders in the 32nd meeting in September, 1994 and classified the loss under 'Inflated valuation of work-in-progress'. Thus manipulation of accounts by resorting to window-dressing rendered unreliable the physical verification reports/certificates on the inventory and its valuation prior to 1992-93. With regard to the circumstances under which the inventory of recut materials was fictitiously inflated in earlier years' financial statements, it was observed that the system of accounting for work-in-progress, including that for recut materials, required that the year-end inventory should have been valued and accounted for in the books of accounts. During investigations, it was found that no recut material was available in stock and the inventory valued at Rs.17.81 crore was written off by the Board in 1992-93 accounts. No responsibility had so far been fixed for the loss (December 1998).

11.6.20.3 A committee appointed (November 1995) to review the standards for Silver Nitrate Plant, Silver Sludge Recovery Plant, etc. had fixed (August 1996) the standards for recovery of silver in these Plants. Based on the standard fixed by the Committee, the performance of Silver Nitrate Plant and Silver Sludge Recovery Plant during the years 1992-93 to 1996-97 has been depicted in the table below:

Table - 10

Performance of Silver Sludge Recovery Plant

(in Kgs.)

Year	Input	Silver Recovery		Loss
		Standard	Actual	
1992-93	8759.17	8041.04	7708.12	1051.05
1993-94	4488.55	4186.64	3786.76	701.89
1994-95	4674.57	4288.23	4016.32	658.25
1995-96	2973.78	2739.55	2528.22	445.56
1996-97	2339.17	2149.79	1969.92	369.25

The abnormal loss continuously reported in the Silver Sludge Recovery Plant was indicative of the poor performance in silver recovery, which was attributed (May 1998) by the Company to the reason that recovery of material was being done at wet stage and conversion subsequently was made in dried condition. The reply of the Company is not convincing as production processes are kept in view while fixing the standards.

11.6.21 Marketing and Distribution

11.6.21.1 Marketing

11.6.21.2 Pursuant to the recommendations made by the Committee on Public Undertakings (COPU), the Company took over direct distribution of Medical X-ray films to hospitals run by Government and Statutory Bodies from July 1978. However, a large share of Government supplies continued to be routed through stockists who were paid discounts on orders procured by them from Government sources. The Ministry, while concurring with audit observations on the need to avoid stockists' involvement in Government transactions, stated (June 1995) that the State Governments and Statutory Bodies were required to co-operate by avoiding stockists in their transactions with the Company. The Company however flouted these norms and embarked on a scheme of appointing selected stockists as retainers for marketing services connected with

Government transactions. The stockists thus appointed were paid remuneration as service charges ranging between 3.5 and 5.0 per cent of sales value in consideration for procurement of orders, collection of dues, etc. from Government agencies. The Ministry later justified the appointment of stockists as retainers, stating (January 1997) that the arrangement was necessary "for obtaining orders for other services like collection of materials, transportation, delivery at the respective place and ensuring timely collection of bills within the credit period of 30 days." The Ministry was also of the view that competition became very severe both on quality and price front, particularly with the advent of private companies into the Medical X-ray business during the year 1985. However, the fact remains that the involvement of middlemen in government to government transactions was questionable. It was noted that in case of Delhi Municipal Corporation, despite its willingness to lift the requirements direct from the Company, the Management availed of services of the stockists for the region from August 1990 up to March 1992.

11.6.21.3 The Board of Directors, the authority vested with powers in the matter of appointment of stockists, was not informed of the decisions taken by the Chief Executive of the Company in the matter of payment of service charges to stockists for transactions with Government Hospitals during the period 1991-92 and 1992-93, after which this was discontinued.

11.6.21.4 For the purpose of establishing a branch office at Pondicherry, the Company took the premises of a stockist on lease in September, 1990 from where he also operated as a stockist, with the intention of attracting more business due to lower sales tax rates at Pondicherry as compared to the other States. The said stockist was paid service charges at 1 per cent of the product value up to Rs.10 lakh and 0.5 per cent thereafter. A sum of Rs.27.17 lakh was released by way of service charges alone to this stockist during the period from September 1990 to July 1993. In addition to this, he was allowed additional discount of 10 per cent on the product value amounting to Rs 18.87 lakh on sale of roll films of 125 ASA/Bromide Paper (January- March, 1992). There was no specific reason on record for payment of the additional discount. The stockist neither rendered any sales promotion service, nor did he contribute directly towards any increase in the turnover of the Company. Charges paid to the stockists thus amounted clearly to undue favour shown to him by the Company.

11.6.21.5 In April 1992, the Company introduced a new product in the market. This was an upgraded version of the cine positive films with polyester base as compared to the films with CTA base in the earlier product mix. After introducing the product, the Company distributed materials worth Rs.51.08 lakh in September 1992 to six of the stockists by way of free samples. The distribution of free samples after the product launch was objected to by Audit in June 1993. The Company stated (March 1994) that the exact facts and circumstances of the case were best known to the then top Management and that the matter had been referred to the CBI. The Company was not in a position to furnish the sales volumes of the product achieved by these six stockists.

11.6.21.6 In April 1992, goods worth Rs.6.07 lakh were sent from Ooty to Delhi. The Company did not keep track of the consignment for the next six months. In January 1993, it came to know that the Northern Railway had auctioned the consignment as unclaimed property. As the loss was not due to accidental damage, it was not compensated by the Insurance Company. The Company could realise only Rs.7,000/- from the Railways. Interestingly, the Marketing Headquarters at Ooty attempted to reconcile the stock transfers made to depots in April 1992 only in November, 1992.

11.6.21.7 In respect of trade debts outstanding for over two to three years, the Company had initiated legal actions (March 1995) against 2 of the stockists for recovery of outstanding dues amounting to Rs 4.81 crore from them. The Company had also initiated legal proceedings against one of the stockists' bankers for their failure to honour the invocation of bank guarantee. In respect of yet another stockist, the Company had obtained a bank guarantee for Rs.60 lakh, whereas the outstanding payments due from the stockist stood much higher at Rs.1.49 crore. The Company clearly failed in monitoring the credit sales to the stockist as the dues substantially exceeded the amount of bank guarantee. The Company could not realise the dues even to the extent covered by the bank guarantee and provided for the balance amounting to Rs.88 lakh as doubtful debt in its accounts for the year 1992-93. The Company stated that the bank guarantee had been invoked but the amount was yet to be realised (March 1997).

11.6.21.8 Thus, as in the management of projects, irregularities and disregard of financial interests of the Company and absence of proper monitoring were evident in the marketing and distribution of its products also. All this contributed towards its present sickness.

11.6.22 Present status of the company

11.6.22.1 Present status

11.6.22.2 The cost and time overruns in completion and commissioning of the Polyester Base X-ray Project raised questions about the future of the Company. The Government of India constituted a High Level Committee in June, 1994 under the Chairmanship of Shri J.S. Baijal, former Secretary, Planning Commission to evaluate the various options regarding the future of the Polyester Base X-ray Project and the related questions on the Company's future. The committee came to the conclusion (September 1994) that the Company could not be expected to perform satisfactorily while remaining in the public sector, given the funds constraints, loss of domestic market and the need to export substantial quantities in order to remain viable. The committee felt that the Polyester Base X-ray Project should not be looked at in isolation and that an integrated view should be taken of both the old and the new plants. The committee, therefore, recommended that the Government should find an entrepreneur for the entire Company rather than for the new polyester based X-ray plant alone, as otherwise the Government might be left holding a sick Company with redundant labour and huge liabilities. While making the above recommendations, the committee emphasised the need for taking quick and effective follow up actions to avoid further loss.

11.6.22.3 The question of rehabilitating the Company was considered (March 1995) by the Group of Ministers (GOM). A decision in favour of conversion of the Company into a joint venture Company/Companies with private Partner(s) was approved (April 1995) by the GOM in recognition of the need to take urgent follow-up actions. While giving the approval to the conversion of HPF into a joint venture Company in principle, the GOM approved (April 1995) the proposal of the Department of Heavy Industries for providing HPF with a plan assistance of Rs.35 crore for commissioning of the new plant. As against the expected release of funds in April 1995 i.e. just after the GOM decision, Rs.15 crore were released to HPF by way of first instalment in November 1995 and the balance amount in April 1996. The Ministry averred (December 1996) that the delay in release of funds to HPF had resulted in difficulties in co-operation from M/s. Du Pont for deployment of their experts to assist HPF in completion/commissioning of the project. As a sequel to the above, the project commissioning was delayed till March, 1997.

11.6.22.4 Meanwhile, the Company was also referred to the Board for Industrial and Financial Reconstruction (BIFR) in October 1995. The BIFR in turn appointed ICICI as the Operating Agency (OA) to suggest a restructuring plan for revival of the Company. BIFR also directed (December 1997) the Ministry and ICICI to explore all possible avenues for alternate use of equipment installed in the Company.

11.6.22.5 However, no worthwhile proposal for consideration by the BIFR could be worked out by ICICI till December 1997. ICICI expressed (December 1997) that since there was no concrete proposal for revival of the Company, they were not in a position to prepare a viable OA-Report. ICICI also proposed that in view of the current scenario, Government should give the Company necessary financial/ policy support. On the other hand, the Ministry of Heavy Industry maintained (December 1997) that it was not feasible for the Government of India to infuse any further funds in the Company for its revival.

11.6.22.6 In February, 1998, the Company appointed M/s Coopers & Lybrand, a Mumbai based consultancy firm, for finding out a suitable joint venture partner. Apart from a fixed fee of Rs 7.5 lakh, 1% success fee (on the amount of shares sold) was payable to the firm in the event of its being able to locate a partner. The terms of appointment included (i) identification of potential partners (ii) evaluation of bids and (iii) negotiation with bidders. Even this arrangement did not guarantee the competitiveness among the prospective bidders, since the consultant's method of finding a joint venture partner did not provide for issue of any advertisement through the press but solely relied on contacts with the corporate sector in India and abroad.

11.6.22.7 Till March 1998, the Company had not been able to find out a suitable joint venture partner. Consequently, the GOM's intention to provide urgent relief measures to the Company had not been realised.

11.6.23 Conclusion

- Due to the inordinate delay in commissioning of new medical X-ray plant, the market demand earlier enjoyed by the Company has been captured by other players in the market.

- Due to excessive cost of production and other overhead costs there is no scope for turning around of the Company in present scenario.

- The turnover of the Company has came down to Rs.21.05 crore in 1996-97 from Rs.238.24 crore in 1991-92.

- Operating agency (ICICI) appointed by BIFR has not been able to propose any revival plan for the Company, nor the Company has been able to locate any joint venture partner. Government of India also maintains that it is not feasible to infuse any further funds into the Company.

In view of the above, wisdom of continuance of the Government with the Company needs to be examined.

NEPA Limited

11.7 Diversion of funds

Company diverted funds amounting to Rs.4.88 crore released by Government of India and meant for meeting its capital expenditure needs for improvement in plant performance towards meeting its non-plan and recurring trade liabilities.

The Company engaged the services of two reputed consultants, viz., Tata Economic Consultancy Services and SPB Project Consultancy Limited in June 1993 and September 1994 respectively for conducting detailed study of the mills and undertaking technical audit of its plant and machinery and to suggest ways to improve its production levels and quality standards. On the basis of their suggestions, a Rs.55 crore proposal for 7 schemes was prepared which was considered by the Board (October 1995) and submitted to the Ministry of Industry. The latter desired prioritisation of the schemes, keeping requirement of funds to the barest minimum for consideration of the proposal by the Ministry of Finance and other concerned Ministries.

The Company finally submitted proposal for release of Rs.10 crore for executing four schemes within a period of three years which was approved by the Government of India in March 1996. Accordingly, the Ministry released (March 1996) a sum of Rs.5 crore (Rs.2.5 crore as equity and Rs.2.5 crore as loans) of Plan funds for meeting the capital expenditure on certain crucial balancing facilities and equipment under the schemes. But instead of utilising the funds for the purposes for which these were sanctioned, the Company utilised Rs.4.88 crore out of this amount of Rs.5.00 crore for meeting its recurring trade liabilities like payment to Madhya Pradesh State Electricity Board (Rs.2.50 crore), payment for CC Roll documents and customs duty (Rs.2.20 crore) and payment against supply and erection of cooling tower (Rs.0.18 crore) without informing the Ministry. The objective of improving the plant performance and improving the quality standards was thus completely defeated. Besides, the diversion of funds from capital to revenue heads was also irregular and against all norms of expenditure of public funds.

The Company sought (August 1996) post facto approval of the Ministry for the expenditure towards CC Roll documents out of the sanctioned funds which was turned down by the Ministry (December 1996). The Company again submitted a proposal (July 1997) seeking post facto approval for Rs.4.88 crore which was yet to be approved by the Ministry.

The Management in its reply (November 1998) stated that they had submitted a proposal to the Ministry for approval of diversion of funds and that the proposal was under active consideration of the Ministry.

The reply is not at all tenable since diversion of Plan funds meant for capital expenditure towards meeting non-plan and recurring trade liabilities cannot be justified on any ground. Besides, the Ministry had already rejected the earlier proposal of the Company for diversion of funds for expenditure on CC rolls.

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

Praga Tools Limited

11.8 Idle inventory due to improper material management

The Company imported certain components worth Rs.89.61 lakh during 1989-90 to 1992-93 without receipt of any firm order and kept them in Bonded Warehouse. Out of the above, items worth Rs.38.03 lakh are still lying in the Warehouse incurring liability of Rs.85.19 lakh on demurrages, unpaid custom duty and interest on the unpaid custom duty as on December 1998.

In anticipation of orders from Bulgaria, Russia etc. the Company imported certain components valued Rs.89.61 lakh (FOB) during the years 1989-90 to 1992-93 and kept them in Bonded Warehouse. The Company cleared components worth Rs.43.76 lakh in March 1995, 42 Nos. of L&M Guides valued Rs.7.54 lakh in August 1997 and 50 Nos. of Nilos Rings valued Rs.0.28 lakh in March 1997. Some of the components cleared are yet to be fully utilised as on date. Components worth Rs.38.03 lakh are still lying (December 1998) in the Bonded Warehouse and incurring liability (Rs.85.19 lakh as on 31.12.98) on account of demurrage, unpaid custom duty and interest on the unpaid custom duty. Moreover no documentary evidence is available to indicate the physical availability of the goods at the Warehouse.

The Management stated (July 1998) that the components, which were ordered against anticipated export/ pending orders from Bulgaria, Russia etc. could not be utilised due to drastic change in market. The Management's reply is not acceptable since the uncertainty of getting export orders was known during 1990-91 itself and therefore the procurement could have been avoided especially when the Company was facing financial crunch and had to depend on cash credit for its working capital requirement.

Advance procurement of the components, without receipt of any firm orders, indicates improper material management and financial planning which has resulted in locking up of working capital fund worth Rs.38.03 lakh in the form of idle inventory for a period of over five years. This apart, the Company incurred avoidable liability of Rs.85.19 lakh (approx.) on account of unpaid custom duty (Rs.29.66 lakh); interest on unpaid custom duty (Rs.32.72 lakh) and Warehouse charges (Rs.22.81 lakh) as at the end of December 1998.

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

CHAPTER 12 : MINISTRY OF PETROLEUM AND NATURAL GAS

Balmer Lawrie and Company Limited

12.1 Loss on export deal

The Company's failure to adopt financial safeguard in an export deal led to a loss of Rs.95.87 lakh.

The Company received (1993) an order for supply of 550 MT of tea to an Indian firm, Apollo International Enterprises Pvt. Limited (AIEPL). AIEPL was exporting the tea to Russia. AIEPL took delivery of 430 MT of tea but refused to take delivery of the balance 120 MT on the grounds that it had not received Letter of Credit (LC) from its customers in Russia.

On the suggestion of AIEPL, to dispose of the remaining tea, the Company entered (November 1993) into an export contract with M/s Valentinus Garments (VG), a wholly owned foreign subsidiary of AIEPL in Russia, for export of 126 MT of tea at a contract value of US$ 289800 CIF Hamburg without obtaining a LC as a financial safeguard. As per the contract, 36.072 MT of tea in two containers was to be shipped immediately and balance in part-shipment after specific advice from VG, every 20 days. Payments were to be made in US Dollar within 90 days from receipt of shipping documents by the banker of VG.

In December 1993, the Company shipped 110.352 MT of tea (six containers) in one lot without any specific advice from VG which was in contravention of the terms of contract. Despite the faulty despatch, VG accepted 74.280 MT of tea (four containers) leaving 36.072 MT in two containers in the warehouse at Hamburg with the request to the Company to re-transport the same to Calcutta after meeting warehouse and demurrage charges.

Quality of tea having deteriorated and expiry date (June 1995) being near, the Company had to give a discount of US$ 17084 (equivalent to Rs.5.37 lakh @ US$=Rs.31.44) to VG, being 10 per cent of the sale value of US$ 170844 for 74.280 MT of tea. The Company had also to agree to a revised schedule of payment in four equal instalments between May 1995 and August 1995 which was beyond the provisions of the contract. Against the total dues of US$ 153760 (US$ 170844 less discount of US$ 17084) for the accepted quantity of tea (74.280 MT), the Company received the first instalment of US$ 38425 (Rs.12.08 lakh) on 24 July 1995 leaving a balance of US$ 115335 (equivalent to Rs.36.26 lakh @ US$=Rs.31.44) unrecovered. The Company had to avail of post-shipment export finance due to non-receipt of the payment against the export. The Company did not re-transport 36.072 MT of tea from Hamburg to Calcutta due to expiry of the shelf life of the tea in June 1995 and involvement of cost towards warehouse charges, demurrage etc.

Thus, the Company suffered a loss of Rs.95.87 lakh towards (i) non-recovery of the balance dues of Rs.36.26 lakh on the accepted quantity of tea due to absence of a LC, (ii) discount of Rs.5.37 lakh beyond the terms of contract, (iii) value of 36.072 MT of tea (Rs.26.20 lakh) not accepted by VG due to the shipment in contravention of the terms of contract and (iv) interest of Rs.28.04 lakh paid on post shipment bank loan which had to be availed of during May 1994 to October 1996 due to non-receipt of payment from VG.

The Management stated (August 1997) that disintegration of erstwhile USSR led to a situation where bankers in CIS countries were either reluctant or not in a position to open a LC for payment in US Dollar. The Company had to agree to enter into an export contract with VG without back-up LC as the tea was already packed in the brand name of AIEPL. The Ministry endorsed (October 1997) the views of the Management. The contention of the Management/ Ministry is not tenable because when AIEPL did not enter into any contract with its Russian customers in the absence of a LC and refused to take delivery of the tea from the Company in violation of the contract, the Company should have insisted upon lifting of the remaining tea by AIEPL by enforcing the relevant clauses of the contract with them instead of entering into a contract with its subsidiary (VG) without a LC.

The Mangement further stated (August 1997) that the Company had fair chances of recovering the dues alongwith interest through a court case filed in Hon'ble High Court, Calcutta against AIEPL and VG as the Company possessed documentary proof that AIEPL at Delhi received US$ 173900 from VG against the tea exported by the Company. However, the Management also admitted (July 1998) that the suit filed by the Company in March 1996 had not yet been listed. The balance dues remained unrecovered (November 1998).

Bongaigaon Refinery & Petrochemicals Limited

12.2 Loss on Investment of surplus fund

Due to an imprudent investment decision, in contravention of instructions issued (December 1987) by the Government of India, the Company faced a potential loss of Rs.55.55 crore.

Despite the instructions issued by the Government of India in December 1987 which inter-alia stipulated that surplus funds of PSUs should be invested in public sector bonds, government treasury bills or kept as deposit with the Government, the Company invested a sum of Rs.159.09 crore in short term deposit with Canbank Financial Services Limited (Canfina) between October 1991 and July 1992. The investment was justified by the Management on the basis of higher rates of interest and in view of Canfina being a subsidiary of Canara Bank. The security aspect, which was inherent in the form of investment recommended by the Government was ignored.

Canfina repaid Rs.127.51 crore with interest but due to financial problems defaulted in payment of principal amount and interest thereon in respect of investment that matured on 4 August 1992 when the outstanding investment with Canfina was Rs.31.58 crore. Subsequently, during September 1992 to October 1994, Canfina could repay Rs.7.50 crore leaving an outstanding balance of principal amount of Rs.24.08 crore. Overdue amount of principal and interest thereon worked out to Rs.55.55 crore as on 31 March 1998. Though the matter was taken up at various levels including the level of Finance Secretary, Government of India, nothing tangible emerged.

The Management stated (June 1997) that it was decided in May 1996 to refer the matter to the Committee of Secretaries on Disputes (the Government of India) seeking clearance for taking legal action against Canfina. The Committee did not permit (August 1996) the Company to take any legal action as the matter of settlement was pending with the Government. It was observed that in the present case there was in fact no dispute as it was a simple case of non-payment dues by one PSU to another. Therefore, audit does not agree either with the Company's decision to refer the matter to the Committee of Secretaries on Disputes or with the Committee's directives to the Company for not taking any legal action in the matter. No further action has been taken to recover the amount (July 1998).

Thus, as a result of a financially imprudent decision to invest surplus fund in Canfina in contravention of the Government's instructions, the Company faces a situation of non-recovery of an overdue amount of Rs.55.55 crore.

The matter was referred to the Ministry in May 1997; their reply was awaited (December 1998).

Indian Oil Corporation Limited

12.3.1 Loss due to procedural lapse

For its failure to observe the prescribed procedure while removing excisable goods of Residual Crude Oil from its Gujarat Refinery, the Corporation had to make avoidable payment of excise duty and interest thereon amounting to Rs.1.55 crore.

As per Notification No.75/84-CE dated 1 March 1984 as amended from time to time, concessional/nil rate of excise duty was leviable on certain items falling under Chapter XXVII of Central Excise Tariff Act, 1985, on fulfilment of certain specified conditions. In order to avail the benefit of concessional rate of duty, the re-warehousing certificates were to be obtained from the customers and submitted to the excise authorities within 90 days of removal of such goods for intended use to the customers.

Gujarat Refinery of the Indian Oil Corporation Limited manufactured Residual Crude Oil (RCO), a product covered under this notification. The Corporation despatched 146 consignments of RCO during the period from June 1993 to August 1993, to various consumers. Refinery, however, did not submit re-warehousing certificates to the excise authorities within 90 days of clearance as prescribed. Demands at higher rate of duty amounting to Rs.1.14 crore were therefore raised (October/December 1993) by the

Excise Department on the Refinery. The demands were subsequently confirmed by the Commissioner of Customs and Central Excise, Vadodara (November 1995).

The Corporation took up the issue with the Committee of Secretaries for grant of permission to pursue the case with CEGAT which was refused on the ground that undue delay in producing re-warehousing certificate had to be discouraged. The Refinery, therefore, had to pay the entire amount of duty, along with interest of Rs.9.58 lakh, to the Excise Department (August 1996). It applied to the Excise Department for refund of the duty paid with proof of re-warehousing of the consignments (November 1996) which was turned down (April 1997). The Corporation filed an appeal with the Commissioner of Central Excise (Appeals) in July 1997 which was pending (March 1998).

The Management stated (May 1998) that the duty paid could not be recovered from the customers as they had already submitted the proof of re-warehousing of the goods.

In yet another case, the Refinery had cleared the consignments of RCO to an industrial consumer viz. M/s. Ahmedabad Electricity Company Limited, without ensuring the validity of necessary documents. Based on CT2 certificate furnished by the consumer, Refinery used to avail of the benefit of exemption under the provisions of the excise notification mentioned earlier for whole of the excise duty on consignments intended for use in the generation of electricity. However, during the period from 1 January 1996 to 26 June 1996 before loading 6734.841 MT of RCO, the Corporation did not ensure renewal/validity of CT2 certificate of the consumer, which had expired on 31 December 1995. Consequently, on demand raised by the excise authorities, the Refinery had to pay Rs.32.35 lakh (July 1996). It applied for refund of duty (March 1997) which was rejected (March 1997). The Corporation filed (May 1997) an appeal with the Commissioner, Central Excise (Appeals) whose decision was awaited (March 1998).

The Management stated (May 1998) that the system of monitoring the expiry of CT2 certificate and to initiate action for revalidation of the documents was introduced since August 1996. It further stated that if the refund claim was not sanctioned by the Excise Department, the claim amount along with interest thereon would be recovered from the customer. This reply, however, did not address the question why the Refinery had not recovered the differential excise duty from the customer instead of lodging the refund claim on the Excise Department.

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

12.3.2 Loss due to non-observance of financial safeguards

Advances were released to a contractor without adequate normal financial safeguards in the shape of bank guarantee. As a result, when the contractor defaulted in execution of the order, the advance of Rs.27.93 lakh could not be recovered by the Company.

Assam Oil Division of the Company placed (March 1992) a work order on BVG Equipment and Vessels Pvt. Limited, Mumbai for design, supply, fabrication and erection of four bullets of 150 MT each for its LPG bottling plant at Guwahati at a total cost of

Rs.2 crore. The work was to be completed by July 1993 (subsequently extended upto December 1993). An advance of Rs.42.82 lakh was paid to the contractor in phases between November 1992 and April 1993 without obtaining any bank guarantee as a financial safeguard against the normal practice followed by the Division. There was no recorded reason for excluding bank guarantee clause in this particular case. An indemnity bond for Rs.70 lakh was, however, obtained against advance for procurement of steel. The Division came to know (May 1993) that (1) the contractor did not have any steel plates and advance was taken by submitting a certificate of an inspection agency appointed by the Company and (2) the contractor's factory at Mumbai was shut down due to labour problem. The Division terminated the work order in October 1993 and a legal notice/demand was served in June 1994 for refund of the advance alongwith a claim of Rs.1.20 crore towards value of indemnity bond (Rs.70 lakh) and damages for breach of contract (Rs.50 lakh).

The contractor's firm went into liquidation from October 1994. The Company could not get refund of advance from the contractor (October 1998). The inspection agency could not be held responsible as at the time of inspection, the materials were physically available at the premises of the contractor. However, there was enough scope for manipulation by the contractor after the inspection of material due to absence of any financial safeguard against the material lying in the contractor's premises.

The bottling plant was, however, commissioned in February 1995 with three second hand bullets procured from outside at a total cost of Rs.1.56 crore.

Thus, due to non-observance of proper financial safeguard, the Company failed to recover the advance of Rs.42.82 lakh and suffered a loss of Rs.27.93 lakh after adjustment of cost of work done (Rs.6.61 lakh) and security deposit (Rs.8.28 lakh).

While admitting the facts, the Management stated (May 1998) that acceptance of indemnity bond against advance payment had been discontinued and also the power for granting advance without bank guarantee had been restricted with effect from April 1997. The Ministry endorsed (August 1998) the views of the Management.

Oil India Limited

12.4.1 Infructuous expenditure on setting up of gas processing facilities

The extra payment of Rs.2.26 crore made by the Company to a contractor for early completion of a project proved to be infructuous because the project was completed late. The Company also did not recover the stipulated liquidated damages of Rs.4.51 crore from the contractor.

The natural gas discovered by the Company in two gas fields in the Jaisalmer district of Rajasthan was intended to be supplied to Rajasthan State Electricity Board (RSEB) from the first quarter of 1995. For the supply, erection and commissioning of the gas processing facilities, on turnkey basis, the Company issued (September 1994) a global tender under single stage two bid system. The project was to be completed within 14 months from the date of issue of Letter of Intent (LOI).

Seven out of the eleven offers received in response to the tender were found technically acceptable. On commercial evaluation (June 1995), the bid submitted by a consortium comprising an American Company and two Indian Companies for Rs.44.91 crore, was found lowest. The work could not, however, be awarded to the lowest bidder because the next lowest bidder M/s. Punj Lloyd Limited which had quoted Rs.45.16 crore (evaluated price Rs.45.91 crore), disputed the ranking of the Indo-American Consortium arguing that being a foreign bidder, its offered price should have been loaded by a margin of 10 per cent. Even though on the basis of its indigenous component, the Consortium was eligible for consideration at par with the other domestic bidders, the Company did not turn down the objection of the M/s Punj Llyod Limited. Instead the project requirement itself was revised leading to fresh bids being called from all the seven bidders to commission a part facility capable of producing and supplying 0.35 MMSCMD of gas within 5 months (phase I) and the rest of the project work (phase II) in 14 months from the date of issue of LOI. Only 3 bidders responded to the revised bid invitation. As M/s. Punj Lloyd Limited was the lowest bidder, the work was awarded to it on 11 September 1995 at a total cost of Rs.47.42 crore (including FE component of US$ 36,45,600). Their revised bid of Rs.47.42 crore was higher than their original bid (Rs.45.16 crore) by Rs.2.26 crore.

Contrary to expectation, the phase-I was completed on 19 October 1996 and the phase -II on 31 March 1997 i.e. after registering delay of 36 weeks and 20 weeks respectively. Thus, the objective of revising the project requirements and making consequential extra payment of Rs.2.26 crore could not be achieved.

For the delay in completion of the work relating to phase I and phase II, the contractor was liable to pay liquidated damages of Rs.4.74 crore as well as additional penalty of Rs.72 lakh for phase-I. But, the Company recovered only the latter amount, besides a sum of Rs.23 lakh as opportunity cost for phase-II, thus allowing an undue financial benefit of Rs.4.51 crore to the contractor.

The Management stated (January 1998) that the reasons for delay in completion of the contract were beyond the control of the contractor and the Company because approval of various drawings, vendor selection, statutory approval, providing site facilities etc required time. The reply of the Management is not tenable in view of the fact that project schedule was expected to take into consideration all these factors. Besides, major equipment required for the project was more or less brought to site by the contractor after the expiry of scheduled date of completion of Project. Hence delay in approvals etc alone could not have resulted in delaying the project.

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

12.4.2 Avoidable extra expenditure on lease rent

Due to a decision to dehire a leased accommodation without firming up any alternative space to relocate its offices, the Company incurred an extra expenditure of Rs.58.62 lakh on lease rent paid to the lessor over a period of four years.

Offices of Senior Geo Technical Adviser and Director (Vigilance) of the Company were functioning from a leased accommodation of 9569 sq. feet at New Friends Colony. When the Lease agreement was due for renewal from July 1994, the lessor offered in May 1994 to continue the lease for another spell of three years at a rent of Rs.25 per sq. foot per month. In response to this offer, the Company requested (June 1994) the landlord to extend the lease by only two months with effect from July 1994.The lessor was subsequently informed (September 1994) that the accommodation would be vacated in December 1994. But, the notice for vacation of the premises was given before finalising any alternative accommodation. Based on response to its advertisement (November 1994) for renting 5000 sq. ft. of office accommodation in or around Connaught Place/Central Delhi, Director (Personnel) of the Company decided to hire 4000 sq. feet of space in Sapru House at the rent of Rs.59 per sq. ft. per month. The Company was also given an understanding that an additional space of 2000 sq. ft. would also be made available to it within three months of occupation on the same terms and conditions. Though a lease deed for hiring 4000 sq.feet was signed on 24 March 1995, actual possession of the new rented space could not be taken because the lessor failed to arrange the requisite "No Objection Certificate" from Municipal Authorities for modifications like partitions to make the premises fit for occupation by the Company. Thereafter, the Management again approached the original lessor who after negotiations (August 1995) agreed to extend the lease period from July 1994 to August 1998 at the lease rent of Rs.35 per sq. foot per month and the condition that the Company must accept an additional space of 872 sq.feet from the date of taking possession. The additional space of 872 sq.feet was taken over from September 1995.

Thus, by deciding to dehire existing leased accommodation even before firming up any alternative accommodation, the Company had to incur an extra expenditure of Rs.58.62 lakh for the period from July 1994 to August 1998 over additional space thrust upon it and additional Rs.10 per sq.foot towards rent.

The Ministry stated (August 1997) that the additional space of 872 sq.feet was required to provide accommodation to new officers and that the revised rate of Rs.35 per sq.foot was cheaper than that of Rs.59 per sq.foot for the Sapru House space.

The reply of the Ministry about the requirement of additional space is not tenable. The space of 9569 sq.feet originally on lease was adequate because as per advertisement and arrangement with Sapru House, the Company was ready to locate its offices with an area of 4000–6000 sq.feet. As to the rent actually paid in New Friends Colony being more economical, the comparison with the rent payable for Sapru House space is inappropriate. It would be more valid to compare this rent with what would have been payable if the Company had agreed to accept the initial offer of the same landlord for extension of lease without any enhancement in rent.

Oil and Natural Gas Corporation Limited

12.5.1 Avoidable expenditure in creating excess capacity

ONGC incurred an avoidable expenditure of Rs.9.55 crore in creating excess capacity in the Central Desalter Plant set up at Navagam (Gujarat) for improving the quality of crude being produced from North Gujarat oil fields, at an overall cost of Rs.46.08 crore.

Since the entire crude production from North Gujarat passes through Navagam, the capacity of the Desalter Plant was determined on the basis of expected production of 4.86 million metric tonnes of crude per annum (MMTPA) in the first year (1990-91) of the eigth five year plan and 5.93 MMTPA in the last year (1994-95) of the same plan. At the end of the ninth plan (1999-2000), the production was expected to touch 6.10 MMTPA. Accordingly, the corporation set up the plant with a capacity of 6.7 MMTPA. For this purpose, three identical sets of equipment called "trains", each capable of possessing 2.23 MMTPA crude, were procured and installed between October 1992 and April 1995.

Audit scrutiny of the case indicated that production of crude during the seventh Five-Year plan averaged 3.26 MMTPA. This included the peak production level of 4.27 MMTPA during 1989-90 which remained unsurpassed upto 1996-97. In fact, production after 1990-91 had stagnated between 3.86 MMTPA and 3.70 MMTPA and indicated a declining trend. Also, ONGC's own Long term Oil Production Potential Profile of North Gujarat fields had placed projections of the crude production in the range of 3.54 to 1.31 MMTPA during the period from 1995-96 to 2009-10. For this level of production, a Desalter plant comprising two trains each having a capacity of 2.23 MMTPA of crude would have been sufficient.

In 1986, when the proposal was first mooted, the Corporation had actually sought approval of the Government of India for setting up a 5 MMTPA Desalter Plant with three trains each having a processing capacity of 1.67 MMTPA. Since production of crude in the seventh Five-Year Plan (1990-91 to 1995-96) was expected to be higher, the capacity of the plant was proposed to be enhanced to 6.7 MMTPA. But, while the proposal was under consideration with the Government, financial powers of the Board of Directors of the Corporation were enhanced. Using the enhanced powers delegated to it, the Board, in 1990, sanctioned the project. In taking this decision the Board failed to take note of declining levels of production of crude. Consequently, the actual capacity utilisation of the Plant was merely 55 per cent in 1995-96 and 52 per cent in 1996-97.

The Management stated (June 1997) that they could not envisage decline in crude production during 1995-96 and 1996-97 prior to start of the execution of work. They also stated that the third train of the plant was a standby. The Ministry had agreed with the Management's reply (July 1998).

The contention of the Management is not tenable because it was well aware of the declining production of North Gujarat oilfields before the project was approved. Moreover, Management's assertion that the third train was a standby is an afterthought because in October 1989, the CMD of the Corporation had stated that a standby train was not necessary.

12.5.2 Avoidable loss of Rs.7.61 crore due to negligence in the preparation of tender documents.

Negligence in preparation of bid documents by ONGC and their failure to avail the benefit of the duty exemption available under the custom notification resulted in avoidable payment of Rs.7.61 crore of customs duty.

Under Government of India Notification No. 208/92-Customs dated 21 May 1992, raw materials and components used in the manufacture (in bond) of goods to be supplied in connection with the purpose of offshore oil exploration were exempt from the whole of the customs duty and the additional customs duty leviable thereon.

The tenders floated by ONGC during 1994-95 for purchase of casing pipes and drill pipes including pipes meant for exclusive offshore use, however, made no mention of customs duty exemption notification of May 1992 in respect of the pipes meant for exclusive offshore use. However, in February 1995, the management realised their mistake and in tenders floated during 1995-96 for pipes for both on-shore and off-shore use, advised the bidders to quote their rates after taking into account the customs duty exemption available in respect of goods for offshore exploration purposes, but again failed to specify the quantity of casing pipes and drill pipes required exclusively for offshore use. Thus, the bids were finalised, supply orders were issued and payments were made by ONGC without availing of the benefit of customs duty exemption due to the flaw in bid notification. During the period from November 1994 to May 1996, ONGC purchased 1,30,100 metres of different size of casing pipes and 12,100 metres of 5"OD drill pipes and made an avoidable payment of Rs.7.61 crore towards customs duty @ 30% of the value of imports through the suppliers.

The Ministry endorsed (July 1998) ONGC's reply the gist of which was as follows:

(i) Since the indigenous manufacturers were not having the facilities for manufacture of casing pipes in bond from duty free import of raw material, they were not able to avail of the benefit of customs exemption notification.

(ii) So far ONGC had been availing concessional customs duty for import of plain end pipes for onshore and offshore use by certifying that goods under imports were not raw material/components. Plain end pipes not being raw material were not eligible for zero customs duty.

(iii) ONGC did not avail the offer because of its inability to certify plain end pipes as raw material.

The reply is not tenable in view of the following:

(i) Indigenous firm did indeed offer to avail themselves of the benefit of customs duty exemption notification of May 1992 subject to ONGC agreeing to make necessary arrangements for it. The indigenous firm had also indicated that they had ascertained from the concerned authority that benefits of the Customs Notification of May 1992 could be availed .

(ii) Finished product of one unit becomes the raw material for another unit in the manufacturing process. Plain End (PE) pipes are not useable form of pipes in the oil industry, till the pipes are threaded and end-finished after heat treatment. Notification of May 1992 allowed exemption from customs duty leviable in respect of import of raw materials and components used in the manufacture of goods. Since PE pipes were finished products for the overseas supplier but raw material for ONGC, the custom duty benefit could have been availed of by ONGC.

Thus, ONGC's negligence in preparation of bid documents and their failure to impress upon the bidders to quote the rates after considering the duty exemption benefit available under the custom notification resulted in avoidable payment of Rs.7.61 crore of customs duty.

12.5.3 Unwarranted split up of the contract

The Corporation lost cost advantage of US $ 3,042,036 (Rs.5.26 crore) by dividing the work between two firms which were individually competing for total value of contracts and were prepared to reduce rates if contract for more than half the total number of work units was awarded to either of the two.

The contracts awarded to the two firms viz. M/s. Halliburton Offshore Services Incorporated (HOSI) and M/s Schlumberger Asia Services Limited (SASL), in August 1988 at an aggregate cost of US$ 40.52 million related to hiring of electrologging and perforation services in regard to exploratory and developmental wells of Mumbai and Calcutta offshore areas. Validity period of the contract reckonable with effect from 1 September 1988 to 31 March 1990, was further extended to 31 March 1991.

For the 11 units of work in respect of developmental wells that constituted one of the four groups* for which a global tender had been floated in October 1987, HOSI and SASL had quoted rates on a sliding scale as indicated below :

	Bidders	**Evaluated cost per unit/per month US $**		
		11 Units	*6 Units*	*5 Units*
1.	Schlumberger/ Asia Services Limited (SASL)	55,721	75437	77152
2.	Halliburton Offshore Services Incorporated (HOSI)	56,528	73602	74525

* Group III

By awarding all the units of work to one of the two bidders, it was possible for the Corporation to reduce the overall cost of the work to 75 per cent in the case of HOSI and 74 per cent in the case of SASL. Audit examination of the case revealed that contrary to the above logic as well as the fact that SASL was the lowest bidder, the Tender

Committee, the Purchase Committee and the Steering Committee of the Corporation had in their deliberations, shown marked inclination for awarding some units of work to HOSI on the plea that it would impart an element of competition in the performance of the contracts. This was evident from the following:

Name of the Committee	No. of units recommended for M/s. HOSI	No. of units recommended for M/s. SASL	Remarks
Tender Committee	5	6	
Purchase Committee	5	NIL	It also recommended that in case the requirement of more units came up, M/s. SASL and M/s. HOSI might be given order for the remaining units based on financial implications and availability of units.
Steering Committee			
Option-I	11	NIL	Provided M/s. HOSI matched the lowest rates of M/s.SASL.
Option-II	5	6	If M/s. HOSI did not match the lowest rate of M/s. SASL.

Based on the Steering Committee's recommendation and subsequent negotiations held with HOSI, the Management forwarded to the Ministry of Petroleum and Natural Gas (MOPNG) a proposal for releasing foreign exchange (USD 10,586,990) in favour of HOSI in respect of all the 11 units of work for the period from 1 September 1988 to 31 March 1990. Though HOSI did not match this price to that of SASI as required by the recommendation of the Steering Committee. By this proposal, the Corporation not only overlooked the cost advantage of USD 3,042,036 in awarding the contract to SASL but also acted contrary to the views of its own Chairman. While approving the minutes of Steering Committee meeting held on 27 April 1988, Chairman ONGC had recorded his emphatic opposition to the idea of overlooking the lowest bidder or splitting the work between the higher and the lower bidder. The fact that HOSI matched SASL rates for only the 10th and 11th units was also ignored by the Management.

The Ministry of Petroleum and Natural Gas instead of accepting or rejecting the proposal recommended by the Steering Committee (on which its own nominee was also represented), released foreign exchange aggregating USD 10,269,380 in favour of HOSI as well as SASL, thus splitting 11 units of work under group III between the two competitive firms in the ratio of 5:6. After releasing additional foreign exchange relating to this contract, the Ministry admitted (August 1990) that the aspect of loss of discounts due to the splitting up of units of works was not brought up specifically before the

Steering Committee or the Government at the time of initial release of foreign exchange. This was confirmed by the Enquiry Committee constituted by CMD, ONGC (October 1994), to enquire into the case after audit raised the issue in November 1993. It also confirmed that splitting of award of work in deviation to the recommendations of Steering Committee and sanction by the Government was not brought to the notice of Steering Committee or CMD before award of work. An internal circular was issued by the Corporation in April 1996, enjoining on all concerned that the Tender Committee deliberations in the case of competitive bidding, the financial implications of each scenario with corresponding advantages and disadvantages should be adequately brought to the notice of the Government through the Steering Committee's note.

The Ministry endorsed (July 1998) the reply of the Management that there was no extra cash outflow due to splitting, and if all the units were awarded to SASL, the Corporation would have incurred an extra expenditure in importing and mobilisation.

The Ministry's reply may be viewed in the light of the following :

(i) The Management in its reply (June 1994) admitted that the extra expenditure on account of split of 6+5 units between HOSI and SASL in group III had been estimated to be US$ 3420606.42. The fact of incurring extra expenditure to the tune of US$ 3.5 million on account of splitting of contracts was also highlighted (February 1995) by the Enquiry Committee.

(ii) While working out customs duty on additional units if any imported by SASL for Group III, the Ministry had not considered the element of duty drawback thereon.

12.5.4 Extra expenditure of Rs.2.69 crore due to undue favour shown to a contractor

By ignoring the interest on advances and also by considering the post tender modification of only one party, ONGC gave an unwarranted price preference to one bidder which amounted to showing him undue favour and incurred a loss of US$ 2.16 million (equivalent to Rs.2.69 crore) in the process.

With a view to implement its Water Injection Pipeline and Platform Modification (WIPPM) Project for additional oil recovery from Bombay High South, ONGC invited global tenders in December 1985. Seven parties including one indigenous party, viz. M/s Essar Constructions Limited submitted their bids on March 4, 1986 out of which the bid of M/s. Essar was found technically unacceptable by M/s. Engineers India Ltd. (EIL), consultants of ONGC for this project, as they did not possess adequate experience in the areas of project management, coordination, procurement, fabrication, assembly and offshore installations. The Tender Committee (TC) accepted (June 1986) EIL's recommendations, but when the case was submitted to the Chairman, ONGC on June 21, 1986, he appointed a committee consisting of senior executives of ONGC and EIL to conduct final discussions with M/s. Essar. Chairman also desired that if satisfactory assurance on supplementing Essar's technical capability and acceptance of liquidated damages at enhanced rate of 15% could be obtained from Essar, they might be shortlisted. A further evaluation of the offer was done by EIL after obtaining certain clarifications from Essar, but it was still found to be weak in certain areas and EIL apprehended that there could be substantial cost and time overruns in case the work was awarded to Essar. EIL, however, opined that the work could still be awarded to them subject to categorical confirmation of certain issues in respect of which the proposal was found to be ambiguous. The Committee recommended for Essar's technical short-listing against their assurance to complete the work to the satisfaction of ONGC. Purchase Committee also approved these recommendations on July 3, 1986. Accordingly, price bids of all the seven bidders were opened (4 July 1986).

The lowest offer was from M/s ETPM, France, at an evaluated price of US$29,685,302. The evaluated price of M/s. Essar was US$ 31,845,186 inclusive of a loading of US$ 264,749 on account of interest on advance payments desired by them. As per Government policy, a price preference of 15% over the lowest technically acceptable foreign offer was admissible to indigenous manufacturers of oilfield equipment in case the domestic value addition was more than 20%. Since the domestic value added in case of M/s Essar was calculated at 19.54%, they were not considered eligible for price preference. The Tender Committee therefore recommended (July 5, 1986) award of the work to M/s. ETPM, France being the lowest technically acceptable bidder. The Purchase Committee on 10 July1986 also approved this. But in the meeting of Steering Committee (comprising of representatives from ONGC, the Ministry of Finance and the Ministry of Petroleum and Natural Gas) held on July 15, 1986, the representative of Department of Economic affairs (DEA) observed that the interest on advance payment on M/s. Essar was a notional loading and should only be used for the purpose of evaluation but not for the purpose of calculating the price preference. Steering Committee observed that excluding the loading for interest, the domestic value addition in Essar's offer was 20.21 per cent and hence Essar was eligible for 15% price preference. The Committee, therefore, recommended negotiations with Essar to sort out all inconsistencies and to match their prices with that of ETPM.

While refusing to match the prices, Essar offered (25 July 1986) to increase the rupee component of their prices from 25% to 27% of the contract value. Based on this, ONGC reworked the domestic value addition in Essar's offer as 22.46%. Meanwhile on 22 July 1986, ETPM, the lowest bidder offered to accept 5% of their lump-sum price in Indian currency. While calculating the revised domestic value addition in the offer of Essar, ONGC took into account the post tender modifications made by Essar but not that of ETPM regarding foreign exchange content. The job was awarded to Essar (October 14, 1986) for a price of Rs.39.08 crore. Essar, however, raised a dispute regarding price and absorption of foreign exchange fluctuations and therefore the contract could not be signed between ONGC and Essar. However, they continued the work without formal contract and completed the project (June 30, 1988). ONGC released payments totaling Rs.37.45 crore on the basis of the agreed milestone formula in the absence of any formal contract. Payment disputes raised by Essar, however, could not be resolved and the matter was still pending before the arbitrator (October 1998).

Thus, by not considering the impact of interest on advances and also by considering the post tender modification of only one party, ONGC gave an unwarranted price preference to Essar. In the process it incurred a loss of US$ 2.16 million (equivalent to Rs.2.69 crore) being the difference between the price of M/s Essar and ETPM.

The Ministry replied (October 1994) that the Steering Committee had observed that without the interest on advance, the domestic value addition in Essar's offer was more than 20%. The Ministry also stated that as per the then existing Government guidelines for price preference for supplies to oil sector, in case the extent of domestic value added in indigenous bid was more than 20% and upto 50%, price preference of 15% was admissible. ONGC gave 15% price preference to M/s. Essar as it was falling under this category. Thus, even though ONGC had to incur an extra expenditure of US$ 2.16 million (Rs.2.69 crore) as pointed out by Audit, ONGC saved considerable foreign exchange and this also resulted in indigenisation of supplies to Oil Sector.

Reply of the Ministry is not tenable, as the Steering Committee's observation that interest on advance was a notional loading and should not be considered for calculating domestic value addition was not correct as ONGC was losing the interest on advance given. When all other loadings were considered for calculating domestic value addition, there was no reason why loading on account of interest should not have been considered. Even after excluding the loading on account of interest free advance, Essar was not eligible for price preference if the reduction in import content offered by the other tenderer was considered as in that case domestic value addition would have been less than 20 per cent. Thus, awarding the work to Essar amounted to showing undue favour to them.

Subsequently, after the matter was pointed out by Audit in February 1993, CBI registered a case in July 1993 and filed charge sheet in April 1996 against the then Chairman, ONGC and one of the Directors of M/s. Essar.

12.5.5 Loss through avoidance of a timely decision

The Corporation suffered a loss of Rs.1.95 crore by way of 191 days of computer down time in 1993-94 as it avoided, in 1991, acquisition of an additional UPS unit as a standby to a malfunctioning UPS unit supporting the computer system in its Regional Computer Centre (RCC) at Calcutta. The loss was about eight times more than the estimated cost of UPS (Rs.25 lakh) which was ultimately replaced in August 1994 at a cost of Rs.22.90 lakh.

An UPS had been installed by M/s. Keltron (Trivandrum) at the Regional Computer Centre (RCC), Calcutta in December 1987 at a total cost of Rs.17.14 lakh. There were two comprehensive maintenance contracts: one with M/s. Keltron for maintaining the UPS unit and another with M/s. CMC for maintaining computer system. M/s. Keltron were maintaining the system under the contract which provided for stocking of essential spare parts in order to minimize the down time in case of breakdown of UPS system. The installed cost of the Computer System was Rs.6.08 crore.

Audit scrutiny revealed that even after the computer system remained inoperative for 15 days as a consequence of break down of UPS in June 1991, the Exploration Computers Committee (ECC) in August 1991 turned down the proposal of Eastern region of ONGC for a standby UPS, on the ground that the problem was mainly due to non- availability of spares. In taking this view, the Committee overlooked the fact that the electronic components and spare parts required for upkeep of the UPS were neither available in time nor compatible with original imported components fitted in the UPS.

The Corporation lost 191 days on account of computer downtime upto August 1994 when the old UPS was replaced by a new one. Had the replacement been done in 1991 as proposed by the Eastern Region the Corporation could had avoided a loss of Rs.1.95 crore.

The findings of internal inquiry into the matter which had, inter-alia, identified poor quality of contract management with M/s. Keltron, lack of interaction and coordination at various levels within administration as well as discord amongst senior officers in the RCC were not followed up. The Management stated that the findings of inquiry had not been accepted because these were not factually sustainable.

However, the Management could not furnish the recorded reasons and orders of the competent authority for not accepting the enquiry report.

The Ministry stated (March 1998) that the restoration of the UPS system took time due to non-availability of major spares as the system and electronic components had become outdated.

The reply fails to explain why ECC could not correctly appreciate the situation and why it rejected the proposal for a standby UPS in August 1991 without taking note of the consequences of the computer shut down. Subsequent replacement of the UPS established the fact that ECC had not applied fully its collective mind to the problem brought before it.

12.5.6 Avoidable payment of commitment charges on foreign exchange loan

Delay by ONGC in assessment of correct amount of forex finance resulted in avoidable payment of Rs.1.37 crore on commitment charges.

ONGC entered into a loan agreement with the Export Import Bank of Japan (J-Exim) on 28 July 1993 for a loan of ¥ 22.525 billion (equivalent to US$ 181.8 million) to finance the foreign exchange component of Phase III of its Hazira Terminal Expansion Project. The loan was administered by World Bank. As per the agreement, commitment charges @ 0.5% per annum were payable to J-Exim by ONGC on daily unutilised portion of loan, with effect from 7 February 1994, when the loan became available for disbursement. During December 1993 when ONGC opened the bids for awarding the works under this project, it found the lowest bid to be substantially lower than the estimates prepared by their project consultants M/s. Engineers India Limited (EIL) which formed the basis for arrangement of loan from J-Exim. ONGC, however, requested J-Exim to reduce the amount of loan from US$ 181.8 million to US$ 71 million on 3 August 1994 though the clearance of World Bank for the award of work to the lowest bidder was received by it on 3 March 1994. Of this amount, US$ 23 million was proposed by ONGC for reallocation for an additional scope of work, viz. Phase IIIA of the project. J-Exim agreed (September 1994) to the request of ONGC to calculate commitment charges on the reduced amount on or after 3 August 1994. Subsequently, ONGC could not provide documentation support for the indirect forex expenditure component of the loan included in the Phase III of the project and consequently J-Exim found this component ineligible for loan finance. Accordingly, ONGC again proposed to J-Exim to reduce the loan facility further from US$ 71 million to US$ 59 million on 2 August 1996. J-Exim agreed to their request in

October 1996, and said that commitment charges on the reduced amount would be applicable on and after 2 August 1996. The avoidable delays on the part of ONGC in assessment of correct amount of forex credit finance for the project and its failure to provide the desired documents thus resulted in avoidable payments towards commitment charges amounting to Rs.1.37 crore on loan amount which was never drawn (@ 0.5 % on US$ 110.8 million from 4 March 1994 to 2 August 1994 and on US $ 12 million from 4 March 1994 to 1 August 1996).

The Ministry endorsed (July 1998) ONGC's reply which stated that:

1. There was no provision in the agreement giving a right to the borrower to effect a cancellation at its option;

2. ONGC explored the possibilities to relocate the loan amount for funding other components of the project including US$ 23 million for the Phase IIIA of the project and the cancellation was effected after the requirements could be firmed up after the approval of the Board of Directors which took some time;

3. In view of the difficult forex position prevailing at the time of finalising the loan agreement, surrendering the loan without going through the process would have invited adverse criticism that ONGC acted in haste.

The reply is not tenable because the right to surrender excess amount of loan to avoid payment of commitment charges was implicit in the loan agreement. The Management should have assessed the loan requirement realistically, and surrendered the excess loan expeditiously. The apprehension about adverse repercussion on surrender of excess amount was hypothetical as there was no such repercussion after surrender of the excess amount later. Besides, it did not justify avoidable payment of commitment charges in foreign exchange.

12.5.7 Loss because of avoidable idling of Drilling Rig

ONGC failed to provide adequate escape (safety) device on its drilling rig in time, causing Director General of Mines Safety (DGMS) to suspend rig operations for 90 working days, worth Rs.1.28 crore in idling costs.

A technical audit of the drilling rig 3D-18 deployed at "LTQ" well under Lakwa project of Eastern Regional Business Centre (ERBC) conducted by ONGC's own Institute of Drilling Technology (IDT) pointed out in March 1993 that the Escape (safety) device installed on the rig had become obsolete. It recommended installation of Double Trolley Topman Escape Device (DTTED) to, inter-alia, meet with the technical safety requirements of the Oil Mines Regulations, 1984. Soon afterwards Director General of Mines Safety (DGMS) conducted an inspection, and prohibited the employment of work persons on operations of that rig in June 1993, on the grounds of many violations of Oil Mines Regulations including the non-availability of 'emergency escape device' for workers. That prohibition resulted in suspension of the operations of the rig from 26 June 1993 till 23 September 1993 (90 days). The prohibition was lifted by DGMS after ONGC had installed the recommended device (DTTED). The operational cost of the rig for the relevant period, as worked out by ONGC, was Rs.1.42 lakh per day. ONGC thus lost Rs.1.28 crore on account of avoidable idling of the rig for 90 days.

The Ministry endorsed (September 1998) ONGC's reply, which in the main stated that

(a) ONGC did initiate action to procure DTTED in March 1993, as a follow up of technical audit by IDT. It awaited the performance of the recommended device in Mehsana Project of Western Region, which was using it newly, before placing the order.

(b) Loss pointed out in audit was largely notional. Actual expenditure incurred during idling of the rig would work out to Rs.37.8 lakh @ Rs.0.42 lakh per day, when one excluded notional charges such as allocation of overheads and depreciation towards rig costs.

The reply is not tenable in the light of the following:

(a) ONGC erred in the first place in not ensuring provision of adequate safety measures while deploying the rig for drilling operations. It need not have awaited the findings of technical audit by IDT, and subsequent inspection by DGMS, to do so. The Management's reply that they needed to await results from Mehsana Project before ordering DTTED was apparently an afterthought, as IDT's recommendation for installation of that device was not conditional to any further verification.

(b) Loss pointed out in audit was certainly not notional as overheads and depreciation were indeed added to the cost of the well and expenditure on these accounts had also gone waste without giving any benefit to the ONGC. Overheads and depreciation were indeed part of the cost of production of oil and gas and expenditure on these accounts could not be said to be notional.

12.5.8 Non- compliance of statutory provisions relating to environment protection

ONGC suffered a loss of Rs.93 lakh due to non-compliance of statutory provisions relating to environmental protection and consequent suspension of operations at its drill sites in Assam by the Pollution Control Board.

As per the provisions of Section 25 of Water (Prevention and Control of Pollution) Act 1974, prior clearance was required to be obtained by ONGC from the State Pollution Control Board (PCB) before commencement of drilling operations at the drill sites. In respect of two wells, viz., GCF and GKAA in Geleki area of Assam, ONGC however, carried out drilling operations without obtaining the prescribed clearance from PCB. The untreated effluents at these drill sites were also allowed to flow from the waste pit into the nearby agricultural land and river. In the meeting of Advisory Committee on Environment (April 1995), PCB had pointed out that in the fields of ONGC in the Eastern region there were several deficiencies e.g. the earthen pits meant for storing the effluents were not scientifically constructed; these did not have adequate capacity; height of the bundh was low and the sites were located in low lying flood prone areas. Subsequently, during a joint inspection of drill sites carried out by the officers of PCB in May 1995 alongwith officers of ONGC, it was further observed that the construction of waste pits was not being properly done with brick compartments and polythene sheet lining. Besides, the effluents were being produced at an average rate of 500 cubic metres as against the treatment capacity of 200 cubic metres of the Effluent Treatment Plant (ETP). Consequently, PCB had ordered stoppage of drilling operations at these two well sites for 24 days and 21 days w.e.f. 10 May 1995 and 13 July 1995 respectively.

Similarly, operations at another drill site GBWA in Geleki area had also remained suspended under the orders of PCB for 17 days w.e.f.10 July 1995 due to adoption of unscientific methods for storing drill site effluents. Thus, drilling operations remained suspended at these three drill sites for 62 days due to violation of the statutory provisions relating to pollution control and norms and directives of the PCB which resulted in loss of Rs.93 lakh.

The Regional Management in their reply (June 1996) admitted the loss of 62 rigdays and stated that remedial steps like increasing the volume of waste pits, improving their specifications and installation of mobile Effluent Treatment Plants had since been taken. The Management however, stated that excessive rainfall during 1995 flooded the drill sites resulting in pollution of the area.

The Ministry endorsed (September 1998) ONGC's reply, which in the main stated as follows:

(i) Practice of obtaining no objection certificate (NOC) for every drill site was not emphasized by State PCB before 1995-96. The operation of drill site GCF was stopped even without circulating the minutes of Advisory Committee on Environment meeting held in April 1995.

(ii) Unprecedented rains in Upper Assam Project especially in Geleki area was the main reason for breaching of drill site bundh and it caused flow of rainwater to nearby areas, which compelled PCB to stop operations at the three drill sites.

The reply is not tenable because

(i) While imposing the condition that ONGC should apply for NOC before starting drilling operations irrespective of sites, PCB had, during 1992, directed ONGC to stop drilling operations at one site (Lakwa)

(ii) Meeting of the Advisory Committee on Environment was chaired by ONGC's Director (Tech) and minutes of the meeting were sent to the concerned Regional Director on 1 May 1995. The Management failed to take timely action and subsequently PCB had to order stoppage of operations.

(iii) The waste pits had inadequate capacity and height of the bundhs being less than the prescribed 1 metre above the Highest Flood Level of the area. Those pits were thus more prone to floods. Had ONGC constructed the waste pits of adequate capacity and with appropriate heights as per the directives of PCB, the overflow of effluents due to floods, a normal feature in Assam during the rainy seasons, could have been avoided.

12.5.9. Loss due to failure to take adequate precautions with a new supplier

The Company lost Rs.81.22 lakh due to import of defective material from a technically non-acceptable party.

Dehradun office of the Corporation placed an order in September 1987 for supply of 28.5 kms of seamless production tubings costing Rs.71.14 lakh on M/s.Das & Taucher (M/s. D&T), a German firm.

This was the first purchase from the firm. Though it was noted by one member of the committee constituted for evaluation of the tenders that the tender of the firm was not technically acceptable, the work was awarded to M/s. D&T in September 1987. The firm failed to supply the material within the stipulated period (February 1988) and subsequently when the material was supplied in Jan/Feb 1989, it was found that the materials supplied did not conform to the specifications and requirements of the supply order. The firm however obtained part payment of DM 4,05,681 (Rs.31.67 lakh) through letter of credit from State Bank of India, Dehradun (January 1989) which made the payment without checking the shipping documents with reference to the conditions stipulated in the LC and supply order. ONGC took up the matter with the bank as late as in December 1991. The bank stated (February 1992) that it was a very belated query and advised that taking up the matter with the foreign counterpart after a lapse of considerable time would not serve any purpose. The firm subsequently (May 1989) admitted the supply of defective materials, but did not replace the materials.

Meanwhile, in February 1988, the Central Regional Business Centre of ONGC placed another order on the same firm for supply of 12 Kms. of seamless production tubings of different specifications for Rs.14.90 lakh. Though the credibility of the supplier was not established with the ONGC through any previous purchase from the firm and pre-despatch inspection was allowed under terms of the contract, ONGC did not arrange for such pre-despatch inspection.

The supplier shipped the material in August 1988 and obtained full payment amounting to DM 209,522 (equivalent to Rs.14.90 lakh) released from the State Bank of India, Calcutta (September 1988) through a letter of credit without submitting the appropriate documents. ONGC detected that the materials did not conform to the specifications only in January 1989, but failed to take up the matter with the bank. The firm subsequently (March 1989) admitted the supply of defective materials but did not replace them.

As the defective tubings were lying unutilised, ONGC appointed (June 1991) an arbitrator. The Arbitrator gave (December 1991) two ex-parte awards for a total amount of DM 615,203 towards the cost of tubings plus Rs.34.65 lakh towards insurance, freight, customs etc. in favour of ONGC along with interest of 21% per annum. However, ONGC could not effect any recovery from the supplier (September 1998) despite obtaining a decree as the supplier had filed application for bankruptcy proceedings in July 1990.

The Ministry (December 1997) admitted the fraud but claimed that ONGC could not anticipate the fraudulent acts on the part of the supplier at the time of placing the order. It further assured that ONGC had issued a guideline in November 1997 for taking necessary precautions with new suppliers and for curbing any fraudulent submission of bids by the suppliers.

The contention of the Ministry is not tenable as the Management ought to have taken adequate precautions in this case in view of the fact that the supplier was a new supplier. Option of pre-despatch inspection available was not exercised; besides the matter of payment by the bank in contravention of the terms of the letter of credit was also not taken up with the authorities at appropriate times.

Thus, placement of an order on a new firm without taking adequate precautions resulted in a loss of Rs.46.57 lakh to the Corporation, apart from the customs duty and other incidental expenses amounting to Rs.34.65 lakh.

12.5.10 Infructuous expenditure on equipment for an abandoned Project

The Company procured materials worth Rs.67.09 lakh for a project which could not be utilised for the intended purpose due to its failure to properly assess the technical feasibility of the project. The project had to be abandoned eventually.

In order to enhance recovery of oil in block-II TS-VA of Geleki field, Assam, Institute of Reservoir Studies (IRS) Ahmedabad of ONGC, conducted in April 1981 a pilot study in injection of LPG into a core containing oil for a proposed project of Enhanced Oil Recovery (EOR). The laboratory tests in the pilot study were conducted by IRS at a pressure level of 250 Kg/ cm^2. The study anticipated that during the implementation of the scheme, the reservoir pressure would be maintained at around 240 kg/cm^2 through different pressure maintenance programmes. Though reservoir pressure, which was around 297 kg/cm^2 at the time of pilot study, had been declining continuously and had already dropped to 218 KG/cm^2 by 1983-84, ONGC approved the project at a cost of Rs.638.31 lakh in December 1984.

Due to delayed implementation of pressure maintenance program, which, according to the Management (May 1997), was beyond the control of ONGC, the average reservoir pressure further dropped from 218 kg/cm^2 in 1983-84 to 202 kg/cm^2 in 1987-88. Nevertheless, ONGC had placed purchase orders with suppliers for 10 LPG bullets and other equipment for the project at a total cost of Rs.67.09 lakh between July 1988 and January 1989. By March 1989, the pressure had further dropped to 162 Kg/Cm^2. ONGC received the LPG bullets in November 1989 and other equipment between May 1990 and August 1990.

Since the reservoir pressure was not likely to go up to 240 Kg/cm^2 in foreseeable future, ONGC decided to abandon the EOR project in May 1995 on the recommendation of IRS. While it diverted materials worth Rs.35.59 lakh to other projects, materials costing Rs.31.50 lakh could not be utilised so far (August 1998).

In reply, the Ministry endorsed (March 1998) ONGC's reply that ONGC had placed purchase orders for long lead items, and that these were absolutely necessary for the project. It further stated that all other actions like procurement of compressor etc. which would have required major investments were kept on hold. The Management conceded that the equipment did not serve the intended end use, but stated that the same were utilised in other operations.

The reply overlooks the fact that procurement of materials and equipment worth Rs.67.09 lakh could have been avoided if ONGC had properly assessed the technical feasibility of the project for which sufficient grounds of apprehension existed at the time of placing of the orders since the reservoir pressure had been declining continuously and had already dropped down to a level much below that envisaged in the pilot study. As for the equipment being utilised elsewhere, no evidence could be produced before audit regarding the actual utilisation of the equipment.

12.5.11 Extra expenditure due to non-exercise of the repeat order option

The Corporation incurred an extra expenditure of Rs.60.23 lakh as it did not exercise the repeat order option available to it to purchase drill pipes at a cheaper rate.

The Corporation placed a purchase order for 38,480 metres of drill pipes (3 types) in May 1995 at the rate of US$ 7842.24 to US$ 7844.89 per 100 metres on M/s Oil Country Tubulars Limited (OCTL), a Hyderabad based firm. As per the conditions of the purchase order, the Corporation had a right to place repeat order upto 25% of the quantity of the original order, i.e. 9620 metres at the same rates within the delivery period, including any extension thereof or within six months from the purchase order whichever was earlier. The repeat order option was valid till 3 November 1995.

OCTL, while seeking extension of delivery schedule in respect of first Purchase Order, intimated (October 1995) that the rates offered by them were rock bottom and the trend in the international market had gone up by 30 to 40%. ONGC also admitted (November 1995) this fact while approving the extension and further observed that the rates lower than the ordered rates were not expected to prevail in the market. Thus, in November 1995 itself ONGC was aware of the upward market trend.

The Corporation consolidated the requirement of drill pipes (44720 metres) for the year 1996-97 and also finalised the procurement proposals in the first week September 1995, but it did not exercise the repeat order option. Instead, in May 1996, purchase orders for drill pipes for the entire quantity were placed at rates ranging from US$ 9352 to US$ 9761 for 100 metres on the same supplier, which were significantly higher than the earlier rates. Had the Corporation exercised the repeat order option at appropriate time, it could have procured 9620 metres out of the total order for 44720 metres at much cheaper rates. In the process, the Corporation incurred an avoidable extra expenditure of Rs.60.23 lakh.

In reply (May 1997) the Management stated that as the market was unpredictable because of open competitive bidding system, repeat order was always placed only after fully satisfying that the market trend was on the higher side after tender opening, and that repeat order option, if available, was exercised at that point of time and not before that. In this case, it was not possible to avail of the benefit of repeat order option during the validity period because as per the prescribed time-schedule for tender, 62 days were required from the date of receipt of indent to the date of tender opening. Indent was received on 22 September 95 and therefore it was not possible to open the tender before 3 November 95 upto which date the repeat order option was available. Tender was actually opened on 26 December 95. The Ministry endorsed the reply of the Management (July 1998).

The contention of the Management is not tenable as OCTL, while seeking extension of the delivery schedule, intimated in October 1995 that international prices had gone up by as much as 30-40%. ONGC had also noted this fact while approving extension of the delivery schedule (November 1995). It further noted that lower rates than those ordered were unlikely to prevail in the market. In order to avail of the repeat order option, ONGC could have verified the upward market trend as pointed out by OCTL in October 1995 itself. The prescribed procedure should not have prevented the Corporation from acting faster so as to avail the cheaper rates by exercising repeat order option.

12.5.12 Infructuous expenditure on hiring of logging tools

Hiring of special logging tools by ONGC which were not required resulted in an infructuous expenditure of Rs.53.91 lakh.

In August 1992, ONGC issued a letter of intent to M/s. HLS India Ltd., a Delhi based firm, for hiring and mobilising of two logging units along with standard tools and a set of high temperature and high-tech tools for deployment in its Southern Regional Business Centre (SRBC) and Western Regional Business Centre (WRBC) for logging the wells. After formal agreement was signed in March 1993, the contractor deployed the crew and equipment for operation at the Ankleshwar base under WRBC in May 1993.

To discuss the deployment of high tech and high temperature tools, an internal management meeting was held in June 1993 and it was noted that high temperature and high-tech tools were required neither in WRBC where only standard tools were required, nor in SRBC where the rig-count had gone down. Despite this, ONGC asked the contractor to transfer those tools along with spares and accessories from Ankleshwar (WRBC) to Rajahmundry (SRBC) in June 1993. SRBC received the high-tech and high temperature tools for logging in August 1993 and November 1993 respectively. SRBC, however, never utilised the high temperature tools for field operation, only high-tech tools were used on two wells. Though the high temperature tools were not required, SRBC decided to dehire these tools only in January 1994 and advised the contractor (February 1994) to re-export them. The contractor did so in July/September 1994. Thus, the continued unnecessary hiring of high temperature tools which were never utilised resulted in an infructuous expenditure of Rs.53.91 lakh (rental Rs.27.48 lakh plus net custom duty after availing drawback Rs.16.84 lakh and mobilisation charges Rs.9.59 lakh).

In their reply (April 1998) the Ministry endorsed ONGC's stand that after placement of LOI and mobilisation of equipment, the rig count of the intended location (SRBC) was reduced and it was mobilised to WRBC. ONGC had further stated that the supplier firm had allowed special allowance for use of the tools which had a financial bearing on the decision making and that besides, it wanted to cross-check the performance of the HLS (India)'s tools vis-à-vis the tools of its existing contractor (M/S. SASL) for inducting competition and to get better rates in future.

The contention of the Ministry/ONGC is not tenable because the Corporation was aware of the reduction in the rig count in SRBC at the time of granting extension for mobilisation of tools to the contractor in April 1993. Thus, it could have reviewed and denied the extension of time for mobilisation of equipment which were not required. Further, ONGC had asked the contractor to shift the equipment to SRBC in June 1993 knowing well that the rig count had fallen and the equipment was not required there. The equipment could have been dehired to curtail the burden of rental. Moreover, the benefit of special allowance for use of the tools was not relevant as the same were not required. As regards cross checking the performance of the high temperature tools with those of the existing contractor, the purpose could not be served as these tools were never put to use.

12.5.13 Extra expenditure in procuring a Gas Condensate System

The casual attitude of management in procuring a Gas Condensate equipment and its essential accessories had resulted in avoidable extra expenditure of Rs.26.17 lakh. Besides, the equipment along with its accessories costing Rs.78.58 lakh had remained inoperational (September 1997).

In August 1987, ONGC floated a tender for supply of a Gas Condensate Piston Cell equipment for studying the thermodynamic properties of certain hydrocarbon fluids at its Institute of Reservoir Studies (IRS), Ahmedabad. The quotation of M/s ROP France, a French company, was accepted in May 1988, which had also quoted for an associated equipment, a double cylinder pump and an attached constant pressure regulator system, for landed cost of Rs.23.44 lakh along with its offer for the Gas Condensate equipment. The Supplier had emphasised the fact that for the best operation of the equipment, the pump and the attached regulator system were essential. Tender committee, however, recommended procurement of only the Gas Condensate Equipment, sans optional items, on the plea that those were not included in the NIT. In May 1988, ONGC placed the supply order for the equipment at a landed cost of Rs.28.97 lakh and received the equipment in March 1989 at IRS, Ahmedabad. ONGC tried to install the equipment (March 1989 to January 1992) with a double cylinder Ruska pump available at IRS without success as the Ruska pump was not compatible with the Condensate system. It was only in June 1992 that ONGC decided to procure the pump from the supplier of the Gas Condensate equipment. Order was placed in December 1993 based on technical specifications of the earlier offer, though for a different model, at a landed cost of Rs.49.61 lakh instead of Rs.23.44 lakh, which was quoted earlier by the supplier. The pump was received in March 1995, when it was noticed that the Condensate equipment was defective and it could not be put into operation so far (September 1997). The Company had not even taken up the matter with the supplier for replacement / return of the equipment. The total value of the equipment along with its accessories was Rs.78.58 lakh.

In their reply (August 1997), the Management had quoted a number of reasons such as: (i) the criticality of the pump for the functioning of the equipment had not been emphasised by the supplier; (ii) the user (i.e. IRS) had not made any specific recommendation for procurement of the aforesaid items; (iii) non-procurement of these optional items had led to saving of substantial foreign exchange; (v) the bidder misled the user by quoting the item under the head 'optional' etc. The Management, however, concluded w'th the statement that all concerned had been advised to be more careful in such cases in future. The Ministry endorsed the reply of the Management (July 1998).

The Management's reply is not tenable because the supplier had categorically stated the importance of the items for the best operation of the system. Besides, the user (IRS) had wanted to buy the complete system which was also noted by the tender committee. The reply of the Management is also vague and self-contradictory, as saving in foreign exchange was not the objective of procuring the system and as for being misled by the supplier, ONGC ought to have taken abundant precaution for ensuring the efficient functioning of the system procured at such a high cost, especially when the supplier had pointed out the essentiality of the accessories at the outset.

12.5.14 Loss due to lack of coordination in the receipt of an imported equipment

An insurance claim of Rs.20.35 lakh lodged by the ONGC on 19 July 1988 on account of damage to laboratory equipment was rejected by the Insurance Company on 3 June 1992, because at the time of lodging the claim the Policy had expired.

The equipment had been ordered by the Company in January 1986 from M/s. Select Oil Tool Limited, Canada for their use in the Chemistry Section of its Sibsagar Project. The equipment was to be supplied within 4 months from the receipt of the order. In November of the same year the supplier airfreighted the equipment after a specific authorization by ONGC (August 1986). The equipment arrived at Calcutta on 24 November 1986 at a landed cost of Rs.18.15 lakh. The Transport and Shipping Office (T&S) of ONGC cleared the consignment on 1 December 1986 and airfreighted it to Jorhat on 8 December 1986. But the T&S office sent the Air Way Bill and Air Freight documents erroneously to Additional Director (Stores & Purchase), Drilling Business Group (DBG), Jorhat instead of Stores & Purchase Officer, Exploration Business Group (EBG), Sibsagar. Consequently, the equipment was collected by the latter, the intended consignee, in unusable condition on 2 March 1987 i.e. 3 months after it was airlifted from Calcutta. The equipment was covered by insurance against damage in transit only upto 30 days after its reaching the final port of discharge i.e. Jorhat. This period had expired on 6 January 1987, well before the equipment reached the actual user and was found to be unusable.

No reasons were given by the Management for AW Bill and other documents being kept by the Drilling Business Group for more than 3 months and for the inaction on the part of Exploration Business Group in ascertaining the whereabouts of the equipment.

Thus, due to initial error on the part of T&S, Calcutta coupled with lack of co-ordination between DBG and EBG, ONGC suffered a pecuniary loss of Rs.20.35 lakh (including port charges, inland freight etc).

The matter was brought to the notice of the Ministry in January 1998. The Ministry endorsed (June1998) ONGC's reply that a Committee had been constituted in the matter for fixing responsibility.

12.5.15 Equipment lying idle

Due to the failure of ONGC to assess the capacity and capability of the supplier of cranes, the Corporation could not install two cranes on trucks resulting in idling of equipment worth Rs.16.34 lakh for more than 5 years.

To augment transportation of materials between the drill tools yards and the drill sites, the Tripura Project of the Corporation decided (May 1989) to procure two hydraulic cranes and two truck chassis. The cranes were to be mounted on truck chassis.

Purchase order for supply of two hydraulic cranes was placed in March 1990 with M/s. Usha Atlas Hydraulic Equipment, a firm based in Calcutta and these were received in June 1990. The Corporation paid Rs.9.59 lakh to the supplier for these cranes. Order for supply of trucks chassis on which these cranes were to be mounted was, however, placed only in March 1991. The Corporation attributed this delay to late receipt of quotations. The trucks were finally received in February 1992 at a total cost of Rs.7.18 lakh. One of these trucks was, however, used as replacement for an old truck of one lorry loader for which an order was already placed also in March 1991. The second truck required for mounting to crane was received in December 1992.

The supplier of the cranes failed to erect and commission the cranes. In February 1994, the Corporation forfeited the security deposit of the supplier for Rs.42,750. The Corporation's efforts to get the cranes installed through in-house efforts also did not succeed. Consequently, the equipment for which the Corporation had paid Rs.16.34 lakh had been lying idle since June 1990.

In an internal circular issued in December 1997, the Corporation stated that the commissioning could not be done for want of spares/accessories and that the capability of the supplier for commissioning and erection was not properly assessed before placement of the order. In the same circular, the Corporation issued instructions for assessing the capacity and capability of the supplier thoroughly before placement of orders in future.

The Ministry, in its reply (January 1998), agreed with the management and stated that action was being taken to get the cranes assembled and commissioned. Thus, failure on the part of the Corporation to assess the supplier's capability at the outset resulted in blocking of funds as well as loss of interest thereon.

Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited and Indian Oil Corporation Limited

12.6 Non-recovery of sales tax from international airlines

Delay in taking appropriate decision by the Government of India on the matter relating to recovery of sales tax on supply of Aviation Turbine Fuel to international airlines resulted in non-recovery of Rs.267.02 crore by three national oil companies (IOC, HPCL and BPCL) from international airlines.

Government of Maharashtra had exempted the international airlines from the payment of sales tax on supply of Aviation Turbine Fuel (ATF) to them by oil companies till November 1994. However, with effect from 1 December 1994, this exemption was withdrawn and the sales tax was imposed @ 30% (reduced to 20% with effect from 15 March 1995) by Government of Maharashtra on the supply of ATF to international airlines. During 1994-95, Governments of West Bengal, Delhi and Tamil Nadu had also imposed sales tax on the supply of ATF to international airlines. Due to levy of sales tax by the State Governments, the three oil companies viz. Indian Oil Corporation (IOC), Bharat Petroleum Corporation (BPCL) and Hindustan Petroleum Corporation (HPCL) had to pay sales tax on the ATF supplied by them to international airlines while they could not recover the same from the international airlines. The international airlines argued that they had already represented to the Ministry of Civil Aviation as well as to the Ministry of Finance for exemption of sales tax on supply of fuel to them and that they were exempt from the payment of such taxes under the bilateral agreement with the Government of India.

Though payment of sales tax was not specifically exempted under their bilateral agreements with Government of India, international airlines continued to refuse the payment of sales tax. In view of the deadlock, the matter was taken up by the Ministry of Petroleum & Natural Gas with the Ministry of Civil Aviation and the Ministry of Finance (June 1995) indicating that oil companies would have to resort to suspension of supplies to the international airlines as all their efforts to persuade the international airlines to pay sales tax had failed. The Ministry of Civil Aviation in turn advised the Ministry of Petroleum & Natural Gas not to take any such precipitative action which might result in disruption of international flights to and from India. The Ministry of Civil Aviation further stated that the matter was being taken up for the consideration of the Cabinet. The issue, however, remained unresolved and the outstanding dues recoverable by oil companies from international airlines on account of sales tax mounted to Rs.267.02 crore (BPCL-Rs.118.86 crore, IOC-Rs.135.00 crore, HPCL-Rs.13.16 crore) as on 30 September 1998. The repeated representations (December 1996 and December 1997) by the oil companies to the Ministry proved futile. No recovery from international airlines could thus be made so far (September 1998).

In their reply (November 1996), IOC while confirming the facts indicated that the amounts were recoverable and the company had not sustained any loss.

The Ministry of Petroleum and Natural Gas in their reply (October 1998) stated that the Ministry of Civil Aviation had proposed to initiate a separate legislation to exempt such airlines from duties and taxes on the fuel and lubricants uplifted by aircrafts operated by the designated airlines of the countries with whom the Government of India had signed bilateral Air Services Agreement and to seek approval of the Cabinet. This reply is only a reiteration of the status prevailing over three years ago. It does not offer any remedy, especially in view of the losses being incurred by national oil companies on account of huge un-recovered dues from international airlines because of delay in taking appropriate decision on the part of the Government.

CHAPTER 13 : MINISTRY OF POWER

Nathpa Jhakri Power Corporation Limited

13.1.1 Injudicious rejection of a bid for gates and hoists

Due to injudicious linking of two independent tenders and rejection of the lowest technically acceptable bid, the Company denied itself an opportunity of saving Rs.17.25 crore in the award of a contract.

Nathpa Jhakri Power Corporation Limited, while inviting (March 1995) tenders for design, fabrication, erection, testing and commissioning of gates and hoists, stipulated in the bid documents, inter-alia, that bidders would provide co-financing to the extent of a minimum of 85 per cent of the contract price, for which letters from their bankers should accompany the technical bids as documentary evidence for co-financing. The Company also clarified in a pre-bid meeting (June 1995) that rupee portion would have to be financed through Indian, and not foreign, financial institutions.

The price bids of the three technically accepted firms were opened in January 1996. The lowest (L1) offer of M/s. IMPSA-CIMMCO, a joint venture of M/s. IMPSA, Argentina and M/s. CIMMCO, India, for Rs.52.12 crore including Indian currency portion of Rs.20.34 crore and excluding taxes and duties was not considered on the plea that it did not contain the co-financing package for Indian currency portion though the other two firms also offered for financing of the rupee portion also in foreign exchange. At the instruction of the Board (February 1996), the lowest bidder was, however, given a time of only 2 days to submit the necessary documents in support of co-financing and its request for 4 weeks' time for the purpose was not considered. The letter of intent was issued in favour of the second lowest bidder M/s. KBL for Rs.70.87 crore (including Indian currency portion of Rs.10.78 crore and excluding duties and taxes) without taking prior approval of the Board on such a major investment decision.

The matter was placed before the Board only in April 1996 for ratification and the action was sought to be justified on the ground that in respect of another tender of the Company for supply of Butterfly Valves, M/s. KBL (L 2) had offered a discount of Rs.6.5 crore to match the lowest bid price of M/s. BHEL, provided that Gates and Hoists package was also awarded to them; in that contract, M/s. KBL had brought down their evaluated price from Rs.40.47 crore to Rs.33.97 crore as against BHEL's Rs.34.60 crore. Linking of tenders for two unrelated works in this way defied all norms of prudence in public expenditure.

It was submitted to the Board that M/s. IMPSA was trying to mislead the Company by misstating certain facts in respect of co-financing by the Jaipur Anchalik Gramin Bank. But this aspect was already deliberated at length by the Board earlier (February 1996), after which the bid of M/s. IMPSA was found both technically and financially responsive and it was given additional time, though only for two days. The time given to the firm for producing the documentary evidence in support of co-financing for the rupee portion was evidently not adequate, especially since the other two firms M/s. KBL, UK and M/s.

VAMCE RIVA ATB also failed to produce such evidence, but the same conditions were not imposed on them.

In pursuance of the Board's direction, further negotiations were carried out with M/s. KBL who offered additional discount of Rs.2.28 crore, while ceiling on price adjustment, reduced earlier to 12 *per cent*, was simultaneously hiked to 20 *per cent*, thereby negating the advantage of additional discount. The Company issued (August 1996) Letter of Award (LOA) to M/s. KBL for Rs.68.08 crore (excluding duties and taxes) and signed the contract in September 1996.

However, contrary to the bidding terms and also against its earlier assurance (June 1995) that rupee portion of the contract would not be financed through foreign currency loans, ultimately the firm (M/S. KBL) arranged for financing of the Company from Barclays Bank Plc, UK in foreign exchange even for the rupee portion of the contract cost, the ground on which the offer of M/s. IMPSA-CIMMCO, the lowest bidder, was earlier rejected.

Thus, not only did the Company incur an extra expenditure of Rs.17.25 crore as a consequence of ignoring the lowest bidder, but linking of two unrelated tenders submitted by the contractor amounted to undue favour shown to him.

The Management in their reply (March 1998) stated that the bid of M/s. IMPSA-CIMMCO was declared as non-responsive as the bidder had misled and misrepresented certain facts and also was not able to arrange the necessary co-financing offer for the Indian portion of the supply. Regarding linking of the two tenders, the Management stated that NJPC had never tried to link the two tenders and that it was a coincidence that M/S KBL finally emerged as the successful bidder for both the projects.

The reply is not tenable since the main reason for rejecting the bid of M/s. IMPSA was the firm's failure to provide necessary co-financing for the Indian rupee portion, though the Company had subsequently availed loan in foreign currency for the same through M/s. KBL. As regards misleading the Company, the reply is not relevant as the Board had considered this aspect before giving the firm additional time and the bid was considered financially and technically responsive. The reply in regard to the linking of two tenders is not borne out by the recommendations of the Committee which negotiated with M/S. KBL, which had clearly linked the two tenders and cited that as a ground for award of the contract to the firm: " the Committee considered it prudent to place the letter of intent on M/S. KBL, UK in view of the overall discount of Rs.7 crore which consists of Rs.6.5 crore (BF Valve package) + 0.5 crore (Gates and Hoists package). Had the letter of intent not been placed on KBL for "Gates and Hoists" on 29.2.96, there was a strong possibility of not accepting the LOI of "Butterfly Valve" also by M/S. KBL on the ground mentioned above." It is pertinent to mention here that when these recommendations were placed before the Board, the award of the LOI was already a *fait accompli*. Besides, the discount of Rs.7 crore obtained by the Company was too inadequate to compensate for the loss of Rs.17.25 crore sustained by the Company.

The matter was referred to the Ministry in October 1997; their reply was awaited (December 1998).

13.1.2 Idle Investment

Injudicious procurement of transformers and failure to cancel the order even when there was no further need for the equipment resulted in idle investment of Rs.57 lakh.

In the approved scheme of providing construction power to the Nathpa Jhakri Power project of the Company, there was provision of 15 numbers of transformers (22/0.4 KV, 1000 KVA) to provide construction power to the contractors at 400 volts. Accordingly HPSEB which was executing the project on behalf of the Company at that time decided (December 1989) to purchase these transformers for providing power to the contractors at 0.4KV. The purchase orders for transformers were placed by HPSEB on two firms viz. 8 nos. on M/s. Voltas Limited, New Delhi (March 1991) and 7 nos. on M/s. Vijay Electricals Limited, Hyderabad (April 1991). After NJPC took over the project in August 1991, the issue of providing construction power to the civil contractors was reviewed by it. The company thought it appropriate to provide supply at 22 KV only instead of at 400 volts to the civil contractors as supplying power at 400 volts would have involved a lot of expenditure and additional manpower for maintenance of the system. Accordingly bidders for civil works of the project were informed in a pre-bid meeting (April 1992) that construction power would be supplied at 22 KV. Thus there was no further need to procure the transformers for stepping down the voltage to 400 Volts.

However, M/s. Voltas Limited had already supplied 8 transformers in March 1992. As per the terms of agreement with M/s. Vijay Electricals Ltd., a prototype was to be offered for inspection by August 1991 and the transformers were to be supplied by January 1992. However, by April 1992, when the Company decided to supply power at 22 KV only, thus making these transformers redundant for the purpose, not even the prototype was offered by M/s. Vijay Electricals. Instead of canceling the order, the company went on pursuing the firm for the supply of the prototype transformers. The prototype transformer was offered for inspection only in November 1992 and all the seven transformers were received by the Company in June 1993 as against January 1992 as per the contract. The Company paid Rs.57 lakh for these transformers (June 1993).

Thus, when it was known in April 1992 itself that the transformers would not be required, the Company did not cancel the order or initiated any step in that direction, but instead went on pursuing with the supplier firm for supply of the prototype. The option to cancel the order was considered by the company only in April 1993 and the case for the cancellation was found to be weak in Company's assessment, since no cancellation was done prior to the call for inspection of the prototype. The Company eventually sold six of the transformers at cost and two transformers were being utilised at its projects. The Company stated (March 1998) that it was planning to utilise the remaining tranformers at its various project sites.

Thus, the Company's failure to cancel the supply order when there was an opportunity available to the Company especially since the firm did not conform to the terms of the agreement resulted in idle investment of Rs.57 lakh.

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

National Hydroelectric Power Corporation Limited

13.2.1 Loss of Lives and Extra expenditure due to lack of supervision

Failure of the Company to enforce the contract provisions for supervision of work on a holiday resulted in indiscreet unloading of counterweight by the labourers thereby causing a bridge under construction to collapse. The accident resulted in the death of 16 labourers and additional expenditure of Rs.2.24 crore on its re-erection and strengthening.

In August 1993, National Hydroelectric Power Corporation Limited awarded the work of a permanent bridge across river Siul at its Chamera project in Chamba district of Himachal Pradesh to M/s. Kishan Singh & Company at a total cost of Rs.1.73 crore. The design, as approved by the Company, envisaged a 120.5-meter long steel truss bridge consisting of two spans – one 53.5 meter and the second 67 meter long.

Fabrication of both the spans was completed by November 1993. By 11 November 1993, 47 meter of the second span had been launched and the remaining portion was scheduled to be launched on 15 December 1993. The contract stipulated that no work would be done on Sundays and other holidays without written permission of the Engineer-in-Charge of the Company. For enforcing this stipulation, the latter was required to establish checkpoints to regulate entry of workers to the construction site. The stipulation for written permission was designed to ensure that if any crucial work at the site was necessary on a holiday, supervision of the same was provided.

On 12 December 1993, a Sunday, the contractor's labourers reached the work site without obtaining written permission of the Engineer-in-Charge for working on a holiday. When the labourers were doing some preparatory work, without any supervision either by the contractor or by the Company's Engineers, entire length of the second span, which was under erection, collapsed into the river below. The accident resulted in the death of 16 labourers and caused injuries to 5 others. The main reasons of the accident was attributed by a departmental committee, constituted by the Company to investigate the reasons for the accident, to the lack of supervision either by the contractor or by the Company's Engineers as well as to the disturbance of equilibrium of the main truss bridge as a result of indiscriminate unloading of counterweight from there. Evidently, if there was effective supervision, the latter would not have taken place.

After the accident, the contractor stopped work. A notice issued to him in February 1994 did not evoke any favourable response. The residual work as well as the work of re-erection and launching of the second span and strengthening of the first was executed through another contractor at a cost of Rs.2.24 crore (Re-erection – Rs.1.65 crore and strengthening of the first span – Rs.59.12 lakh). The bridge was finally completed in November 1994.

Failure of the Company's Engineer-in-Charge to ensure effective vigil at the site, through the checkpoints envisaged in the contract, resulted in the labourers gaining access to the site of construction and working there without any supervision. Stricter enforcement of the contract by the Company would have minimized the possibility of the accident on the fateful day, which resulted in loss of lives as also additional expenditure to the Company on strengthening and re-erection of the bridge.

The Company's claim (March 1994) of Rs.2 crore on the first contractor and the latter's counterclaim (June 1994) for Rs.3.33 crore were pending with arbitrator (October 1998).

While admitting the facts, the Ministry in their reply (November 1998) maintained that the actual quantum of additional expenditure was Rs.199.57 lakh. The Ministry, however, did not give any reasons justifying this figure.

13.2.2 Excess Payment of Brokerage Charges

The Company paid higher brokerage charges than prescribed by the Government, resulting in excess payment of Rs.1.72 crore.

The Ministry of Finance issued instructions to all Companies in May 1985 on the subject of cost of public issues of securities. For private placement of capital issues, the instructions provided for payment of brokerage charges at the rate not exceeding 0.5 *per cent* of the total value of the issue. National Hydroelectric Power Corporation Limited obtained (December 1989) the approval of Controller of Capital Issues to raise 9 per cent tax-free bonds for Rs.150 crore on private placement basis from public financial and other institutions with a condition that at least 20 per cent of the bonds shall be offered to the general public through offer for sale by these institutions. Accordingly, enquiries were floated to 16 nationalised banks and financial institutions out of which, only two parties, viz. Punjab National Bank (PNB) and Canbank Financial Services, responded to the company's enquiry. The Company accepted the offer of PNB which quoted 1.65 per cent of brokerage including management fee compared to 2 per cent quoted by the Canbank Financial Services. The company paid brokerage of Rs.2.47 crore @ 1.65 *per cent* on 9 per cent tax-free bonds (E series) on raising Rs.150 crore in February 1990, as against the maximum admissible brokerage of 0.50 per cent amounting to Rs.75 lakh as per the Government of India instructions mentioned earlier, incurring excess payment of Rs.1.72 crore. No prior approval from the Government was taken for payment of brokerage at rates substantially higher than the approved rates of 0.5 per cent.

The Ministry confirmed the facts (November 1998) and stated that since the rate for brokerage quoted by PNB was lower of the two, the Company accepted the offer, together with other terms and conditions laid down by PNB. This included placement of Rs.140 crore with PNB @ 8 per cent per annum for periods ranging from 61 to 121 days. On maturity of the placements, the Company parked the amount, pending utilisation, in the public deposit account of the Government of India @ 10 per cent per annum, against 9 per cent per annum payable on tax-free bonds issued. The reply was silent on the audit observation regarding payment of brokerage at higher rates. It was also seen that shortly afterwards, the Company had paid brokerage @ 0.2 per cent on its F-series bonds for raising Rs.215 crore in September 1990.

National Thermal Power Corporation Limited

13.3.1 Payment of escalation charges and compensation due to delay in supply of inputs

Due to its failure to ensure timely supply of work fronts, drawings, materials, etc. the company had to pay Rs.1.37 crore on account of compensation and escalation charges to the contractor.

A contract for civil works for Talcher Super Thermal Power Project. Stage-I (2 x 500MW), was awarded by National Thermal Power Corporation Limited in February 1991 to M/s. Bhandari Builders Limited (Contractor) at a total contract value of Rs.8 crore. The work was to be completed within 30 months from February 1991. As per the letter of award (LOA) dated 15 February 1991, price variation was applicable subject to a ceiling of 15 per cent of the contract value i.e. Rs.1.2 crore. The detailed construction drawings, work fronts and other inputs were to be made available by the Company as per requirement during the execution and currency of the contract.

With a view to ensuring timely completion of the work, the contract had provided for a work plan. According to this, the contractor was required to complete 18 per cent, 52 per cent, 89 per cent and cent per cent of the value of work by the end of 8^{th}, 16^{th}, 25^{th}, and 30^{th} months from the date of LOA respectively. Till June 1992, the value of work completed by the contractor was just Rs.65 lakh, against the projected value of Rs.4.16 crore (52 per cent of the total contract value) due to the Company's inability to provide work fronts, drawings and other materials as per the contract. Holding the Company responsible for the delay, the contractor claimed that he had mobilised his resources without being able to execute the work, resulting in heavy financial drain on him. Due to the delay and the resultant under-utilisation of his resources, the contractor preferred two claims amounting to Rs.2.21 crore (Rs.1.08 crore in September 1991 and Rs.1.13 crore in September 1992).

A site level committee was constituted in June 1992 by the Company to examine the claims. The committee recommended a one time payment of Rs.7.92 lakh as compensation to the contractor on account of under-utilisation of equipment, loss of productivity etc. and waiver of interest of Rs.2.45 lakh on mobilisation and equipment advance paid by the Company in addition to price variation on actual monthly values of work done based on the contract formula, subject to the limit of 15 per cent as stated earlier.

Not satisfied with the compensation recommended by the Committee, the contractor represented his case at the corporate level. After detailed discussions, the Company decided (October 1993) to allow the contractor a special compensation at 12 per cent of the balance work, subject to a ceiling of Rs.51.30 lakh on account of loss of productivity and enlargement of the contract period. The Company also withdrew the stipulation of limiting the price variation up to 15 per cent. Escalation charges paid till November 1996 amounted to Rs.2.06 crore. The work was still not complete in all respects (November 1998).

Thus, due to delay in supply of drawings, work fronts etc., the Company made an additional payment of Rs.1.37 crore (Rs.51.30 lakh towards compensation and Rs.85.69 lakh towards price variation over and above the limit of Rs.1.2 crore).

While confirming the facts, the Management stated in November 1998 that a series of delays in the receipt of inputs required for finalising the construction drawings contributed to the delay on the part of the Company in making available the drawings in time to the contractor. The Management further stated that for handing over the work fronts to the contractor, the Company was dependent on other contractors like National Project Construction Corporation Limited and Orissa Construction Corporation Limited. While the former delayed the construction of main plant foundation, the latter delayed the supply of structural steel. The reply is not tenable as the delay in completion of plant foundation and structural work were also due to delay in supplying of drawings etc. to these two agencies. As the Company had set up similar power stations in the past, it should have planned and monitored the project work properly and effectively. Thus, improper planning delayed the handing over of work fronts and drawings to the contractor by the Company and led to the avoidable extra expenditure of Rs.1.37 crore.

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

13.3.2 Infructuous expenditure of Rs.51.89 lakh on civil works

Award of a contract by the Company for piling and foundation works for plant and equipment even before finalising the main contract for supply of the plant and equipment led to infructuous expenditure of Rs.51.89 lakh.

Pending finalisation of a contract for supply of the main plant and equipment by an erstwhile USSR firm for Vindhyachal Super Thermal Power Project (VSTPP) Stage-II, 2 X 500 MW, the Company placed (October 1990) two letter of awards (LOA) for piling and foundation works for those plant and equipment on M/s. Simplex Concrete Piles (India) Limited at a total contract cost of Rs.9.33 crore. The contract envisaged installation of bored piles of diameters 1000 mm, 760 mm and 500 mm.

During execution of the contract, the Company noticed (June-July 1991) that the piles of 760 mm and 1000 mm could not take the required load and decided to use only bored piles of 500 mm diameter for piling and foundation works. The contractor was asked (October 1991) to undertake the work as per the rates applicable for the piles of 500 mm provided in the contract. The contractor asked for revision of the rates for 500 mm piles as the revised scope of work would involve substantial increase in the quantity of work and stopped the work. The contract for piling and foundation was eventually foreclosed (July 1992) by the company as the contract for the main supply equipment with the Russian authorities was yet to be finalised and in view of the overall delays in the project schedule as well the contractual problems due to design changes. The Company had already spent a sum of Rs.31.89 lakh on the works.

The contractor lodged a claim of Rs.2.23 crore for its losses arising from foreclosure of the contract. The Company constituted a committee at the corporate centre to examine the claim and after analysing the claim and conducting negotiations with the contractor, the committee recommended (April 1994) for payment of Rs.20 lakh in full and final settlement of the claims which was adjusted by the contractor after due approval of the competent authority.

A review committee subsequently constituted by the Company to review the expenditure on DPR of Stage-II of VSTPP concluded (May 1996) that the piling and foundation works were no longer useful and that the expenditure of Rs.51.89 lakh on these works had become infructuous.

Thus, before finalisation of the contract for the main plant, without assessing the actual technical requirements, the Company awarded the contract for piling and foundation works which resulted in infructuous expenditure of Rs.51.89 lakh.

Admitting that the expenditure was infructuous, the Management stated in March 1998 that for this, provision had been made by the Company in the accounts for 1996-97 with the approval of competent authority.

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

Power Grid Corporation Of India Limited

13.4 Excess expenditure on insurance premium

Incorrect computation of replacement value of HVDC System resulted in excess payment of insurance premium to the tune of Rs.4.8 crore.

National Thermal Power Corporation (NTPC) commissioned the Rihand Dadri bipole I and II of High Voltage Direct Current (HVDC) system in September 1991 and December 1990 respectively. The system was under insurance cover since its commissioning. With the creation of Power Grid Corporation of India Limited in 1989, NTPC transferred its transmission assets to the Company in 1993. After taking over the HVDC system in October 1993, the Company continued to take insurance cover for the system by following the same policy guidelines as were framed by NTPC for their own assets.

The policy guidelines envisaged insurance cover for the system on the basis of its replacement value, which was to be reckoned with reference to the current price for an identical system. In the event of non-availability of current price, the replacement value was to be worked out by adding escalation @ 12 per cent per annum to the original cost (in rupees) of the asset as per the books of account.

Till 2 July 1995, the Company followed the above policy. Thereafter, it made a departure in computing the replacement value of the system. The Company escalated the original cost in Swiss francs by 12 per cent per annum (since the original equipment was procured from Switzerland) and then applied the exchange rate prevailing at the time of insurance renewal of the system. As the value of rupee had fallen vis-a-vis Swiss franc in the intervening period, there was a sharp rise in the replacement value of the system thus computed. The insurance premium was paid on the replacement value calculated on the revised method.

The Company's action in converting the original cost of the system in rupees to Swiss francs at the rate of exchange prevailing at the time of insurance, in addition to escalating the same @ 12 per cent per annum, was contrary to the Company's own policy. The Company did not ascertain the current cost of the system for the purpose of insurance till January 1998.

In February 1998, the Company approached the supplier of the system, M/s. Asian Brown Boveri Limited, to ascertain the current budgetary offer of the system. The latter intimated in February 1998 that the value of the system was approximately Rs.64.27 crore. Against this, the Company had been erroneously computing the replacement value of each of the system after 2 July 95 for insurance cover which ultimately resulted in extra payment of insurance premium to the extent of Rs.4.80 crore for the above period as detailed in the table given below.

(Rs. in Crore)

(1)	(2)	(3)	(4)	(5)	(6)
HVDC System	**Date upto which Replacement value calculated with 12 per cent escalation on INR**	**Replacement value for which premium was paid till dates mentioned in column (2)**	**Replacement value taken for renewal of insurance after the date mentioned at column (2)**	**Estimated current price**	**Extra premium paid**
Dadri Pole-I	26.2.1996	79.18	116.15	64.27	0.83
Dadri Pole-II	2.7.1995	74.44	98.61	64.27	1.26
Rihand Pole-I	31.12.1995	47.15	121.25	64.27	1.44
Rihand Pole-II	2.7.1995	47.15	98.61	64.27	1.27
Total					**4.80**

Thus, the Company's failure to ascertain the current budgetary offer from the original suppliers and deviation in the method of computation of the replacement value of HVDC system resulted in extra expenditure of Rs.4.80 crore towards insurance premium.

The Ministry stated (October 1998) that the Company, after taking over the HVDC system from NTPC, continued its insurance policy on the same lines as those adopted by NTPC and it had made efforts to ascertain the current replacement cost of the system from the supplier. The reply is not satisfactory as it is silent on the Company's action in making an unwarranted deviation from its own stated policy for computing the replacement value of the system. Besides, any efforts stated to have been made prior to February 1998 in ascertaining the replacement value were also not on record.

Tehri Hydro Development Corporation Limited

13.5 Undue benefits to a private contractor

The Company granted undue benefits to a private contractor by awarding contracts on a non competitive basis, by obviating the approval of Board of Directors and by making payments beyond entitlement.

In the chute spillway portion of the main Tehri dam, 3 lakh cubic metres of rock was to be excavated at an estimated cost of Rs.5.25 crore. As per the delegation of power the contract for works costing more than Rs.5 crore required the approval of the Board of Directors. However, the Additional General Manager in charge of the project awarded the above work to M/s. LANCO of Secunderabad, the contractor of the coffer dam, at his own level in order to compensate it for the loss anticipated due to stoppage of work caused by agitation by Environmentalists between 14 April to 9 May 1995 even though the Management had no contractual obligation to do so. The approval of the Board was obviated by splitting up the work in to two: one for excavating 2 lakh cubic metres of rock at an estimated cost of Rs.3.50 crore awarded in April 1995 and another for excavating 1 lakh cubic metres at an estimated cost of Rs.1.75 crore awarded four months later in September 1995. That the contractor was singled out for extra contractual favour was further corroborated by the fact that another work for removal of 2 lakh cubic metres of top soil from shell burrow of the main dam at an estimated cost of Rs.1 crore was awarded to the same contractor in April 1995 without obtaining competitive rates. Furthermore, in another work related to Coffer dam (Package B) awarded in November 1994, a sum of Rs.53.22 lakh was paid by the Project General Manager to the contractor (January 1997) on account of material lifted for construction purposes from burrow areas falling within lead of 5 kilometres even though the contractor was not entitled to any such payment. Though the contractor had to refund the amount on 31 January 1997, no action had been taken against the General Manager and other officials responsible for this serious breach of financial propriety.

While in the first two cases the Ministry stated (September 1998) that the matter was being looked into, in the third case it replied that CBI was already investigating the matter. It also added that the Company had been advised to issue appropriate instructions to all concerned and that violation of such instructions would be viewed seriously.

CHAPTER 14 : MINISTRY OF RAILWAYS

Konkan Railway Corporation Limited

14.1.1 Extra expenditure due to adoption of higher price of special cement for price variation and revision of unit cost of PSC sleepers.

Adoption of higher price of special cement for price variation and revision of unit cost of PSC sleepers led to an avoidable payment of Rs.74.11 lakh.

The Company awarded a contract to M/s. ISCO Track Sleepers Private Limited, Bombay in December 1991 for manufacture and supply of 3 lakh numbers of monoblock prestressed concrete (PSC) track sleepers. As per clause 13 of the contract, the escalation in the price of special cement and High Tensile Steel (HTS) wire/strand was admissible on the basis of the actual price paid subject to a ceiling on the price fixed by any recognised agency exercising control on the price of the products such as Joint Plant Committee, Cement Corporation etc. Clause 14.3- updation of the contract rates - stipulated that the unit price of sleeper shall be subject to annual revision up/down based on the prevailing market price as admitted of special cement and HTS wire mentioned in clause 13.

The Director (Technical), during his visit to sleeper factory of the contractor at Kudal in June 1992 suggested that preferably L&T brand cement should be used. In response to Company's enquiry, M/s. Larsen & Toubro Limited (L&T) had quoted (October 1993) the rate of Rs.2013 per MT (ex-factory) and also stated that they would supply almost 30,000 MT special cement per month. Their offer was valid upto 7 November 1993. However, the ex-factory price of special cement offered by M/s L&T ranged from Rs.1910 to Rs.2013 and was valid from September 1991 to May 1994.

The contractor claimed variation in the cost of special cement for the period January 1993 to June 1993 on the basis of price of Rs.2480 to Rs.2683 per MT procured from M/s. NCL Industries Limited and M/s Dalmia Cement Limited. KRCL, Kudal admitted the claims of the contractor and paid Rs.33.88 lakh during December 1993 to February 1994 without considering the fact that the quoted price of L&T cement, which was recommended by the Director (Technical), was Rs.2013 per MT. Extra expenditure due to acceptance of claims on account of price variation on the basis of higher procurement price of special cement ranging between Rs.2480 to Rs.2683 per MT as against Rs.2013 per MT of L&T brand of special cement worked out to Rs.23.72 lakh. The contractor also claimed revision of rate for PSC sleeper with effect from December 1993 in terms of clause 14.3 of the contract. The unit cost of the sleeper was also updated in December 1993 from Rs.438 to Rs.652.97 on the basis of procurement price of special cement. Payments were accordingly made during January 1994 to January 1995. However, on the basis of rate of Rs.2013 per MT of L&T brand of special cement, the updated unit cost of PSC sleeper worked out to Rs.624.93 as against Rs.652.97 admitted by the Company. The overpayment on this account worked out to Rs.50.39 lakh.

Thus, there was a total avoidable payment of Rs.74.11 lakh (Rs.23.72 lakh on account of variation in the cost of special cement and Rs.50.39 lakh on account of updation of unit cost of PSC sleeper).

The Management, while accepting (June 1997) the overpayment, had stated (with the approval of Railway Board) that KRCL, Kudal unit had already been advised to effect recoveries to the tune of Rs74.11 lakh from the available bills of the party. Further, instructions had also been issued to avoid recurrence of such cases in future.

The recoveries, however, could not be effected as the party had approached the Court and obtained a stay order. The Company had been making efforts to get the stay vacated so as to enforce recovery.

14.1.2 Avoidable expenditure of Rs.37.70 lakh

Although contract for construction of two major bridges across Zuari and Mandovi rivers covered transportation, a separate contract for fabrication of a Pontoon for transportation of girders was awarded to the same contractor leading to an extra expenditure of Rs.37.70 lakh.

Contracts for construction of two major bridges across the rivers Zuari and Mandovi in Panaji (Goa) Zone of KRCL were awarded in January 1992 to a contractor M/s. Asia Foundations & Construction Limited (AFCONS), for a total contract value of Rs.29.99 crore (Zuari bridge-Rs.15.80 crore and Mandovi bridge Rs.14.19 crore). The stipulated dates of completion were 25 May 1994 and 11 March 1994 respectively. The construction work of the Railway line in a portion of Goa Zone including the location of these two bridges, was suspended by Railway Board for a period of 7 months pending examination of the alternative alignment suggested by National Transportation Planning and Research Centre (NATPAC) from March to October 1993. As per the construction programme, 14 prestressed concrete(PSC) box girders were to be casted at Zuari bridge site where casting bed/stacking jetty facility had been provided. Out of these, 6 girders for Mandovi-I and one for Mandovi-II bridges were to be transported by the contractor with their girders lifting barge which was to pass through sea route.

In order to adhere to the target date of March 1995 fixed for commissioning of the project, the Company proposed (December 1993) fabrication of a special pontoon for transportation of girders during monsoon period from the site of Zuari bridge to the site of Mandovi bridge. Although the finance Member (Dy FA & CAO) opined that transportation of girders was the responsibility of the contractor and nothing was payable for fabrication of the pontoon, the same was not agreed to and the proposal was approved by the Chairman-cum-Managing Director of the Company in April 1994. The contract for fabrication of pontoon was awarded to the same contractor on a single tender basis in June 1994 for a total value of Rs.54.25 lakh (excluding cost of steel, insurance etc. to be borne by the Company) on the grounds that the contractor was having requisite knowledge and experience in the field of pontoons. Although 7 girders were proposed to be transported during monsoon of 1994, the pontoon itself was fabricated and launched only in July 1994 and first girder was transported during September 1994. The remaining girders were transported during October 1994 to March 1995.

In this connection, the following observations are made:

(a) The transportation of girders from Zuari bridge site to Mandovi bridge was the responsibility of the contractor as the accepted rates were inclusive of all such elements. But the Corporation in its anxiety to adhere to the project target date of March 1995 decided to get a pontoon fabricated overruling the observation of associate finance Member. Despite this, the target date of March 1995 could not be achieved.

(b) Reportedly, the pontoon was fabricated for transportation of girders during monsoon of 1994 but pontoon was ready only in July 1994 and first girder was transported on 24 September 1994 by which time the monsoon period was already over. The remaining girders were transported during October 1994 to March 1995.

(c) Apart from the actual expenditure of Rs.44.68 lakh for fabrication of pontoon, an amount of Rs.43.75 lakh was spent towards the cost of stores and insurance (free supply of steel etc.). The pontoon was utilised hardly for 7 months (September 1994 to March 1995) and the same was disposed of in September 1995 for Rs.50.73 lakh. This resulted in extra expenditure of Rs.37.70 lakh (Rs.44.68 lakh + Rs.43.75 lakh – Rs.50.73 lakh).

The Management, while accepting (September 1997) that the transportation of girders was the responsibility of the contractor had contended that extra expenditure of Rs.37.70 lakh was justified taking into account the problems of logistics and safety due to the parallel road bridges in close vicinity on the Mandovi river and the necessity of adhering to the targets, inspite of stoppage of work in Goa Zone. The Management's reply was approved by the Railway Board in March 1998.

Arguments of the Management are not tenable as transportation of girders was the responsibility of the contractor and the close vicinity of parallel road bridges and other related aspects would have been taken into account by the contractor. The work of fabrication of pontoon was awarded to the same contractor.

Rail India Technical and Economic Services Limited

14.2 Avoidable extra expenditure

The Rail India Technical and Economic Services Limited incurred an avoidable extra expenditure of Rs.86.84 lakh on bearing the freight, forwarding and marine insurance charges though these were outside the scope of the contract.

The Company entered into a contract (November 1993) with the Vietnam Railway Import-Export and Supply Material and Equipment Company (VIRASIMEX), Hanoi, for supply of spare parts and material valued at Rs.2.25 crore, FOB Bombay. This was followed (April 1994) by another contract with the same Company for the supply of 10 air-conditioned and 5 ordinary coaches and spare parts valued at Rs.10.75 crore, FOB Madras.

Though not legally bound by the contracts to bear the freight, forwarding and marine insurance charges on supply of the material, the Company incurred on its own an expenditure of Rs.86.84 lakh thereon as shown below, which was not recovered from the buyer:

(Rs.in lakh)

Material	Period of supply	From	To	Freight & forwarding charges	Marine Insurance	Total
Spare parts etc.	Nov.1994 to Dec 1994	Bombay	Hanoi	1.92	0.36	2.28
Coach etc.	Feb 1995 to May 1995	Madras	Hanoi	83.18	1.38	84.56
Total						**86.84**

The Management stated (November 1997) that in view of the business opportunity available in Vietnam and for the satisfaction of the client, it was decided to bear the freight and insurance charges upto Hanoi Port for which sufficient provision was kept in the pricing and the contracts were executed with profit. The Ministry (December 1997), while endorsing the reply of the Management stated that the Company, after meeting all expenditure had made a profit of Rs.1.73 crore, which was about 13.3% of the total value of the contract.

The reply is not tenable as the expenditure of Rs.86.84 lakh on freight and insurance etc. amounted to reduction of over 8 per cent in contract price. The Company has itself admitted that a reduction in the basic price of the coaches and spares parts would adversely affect the profit margin of all the future contracts.

Thus, in addition to the likely adverse impact on the profitability of contracts, the profit on the contracts had been reduced by Rs.86.84 lakh in bearing the extra-contractual liability in respect of freight and insurance charges.

It was further noticed that this concession of Rs.86.84 lakh was extended after the contracts had already been entered into, with the approval of the Managing Director of the Company even though only the Board of Directors was competent to permit such concession.

CHAPTER 15 : MINISTRY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH

Central Electronics Limited

15.1 Injudicious purchase of a tabbing machine

By discarding a tabbing machine five months after its import owing to its malfunctioning/obsolescence, the Company incurred an infructuous expenditure of Rs.57.73 lakh.

To increase the throughput and productivity of the tabbing operations, the Company in October 1994 procured an automatic tabbing machine from M/s. Spire Corporation, USA at the cost of Rs.57.73 lakh. The machine was procured despite the fact that performance of an identical machine which the Company had procured from the same firm in June 1988 at a cost of Rs.40.68 lakh was found to be unsatisfactory.

After using the tabbing machine for five months between November 1994 and March 1995, the Company switched back to manual tabbing in March 1995 because of reported variations in the diameter of the wafer and the required rework. As a result, the machine had to be discarded.

The Management stated (July 1998) that due to standardisation of Solar cells and SPV modules from 1994-95 necessitating production of modules greater than 70 watt per module as against 35 watt per module that could be produced with its help, the tabbing machine had become obsolete. The management also added that at the time of purchasing the machine it could not accurately forecast as to when world-wide breakthrough in technology would occur in respect of Solar photovoltics.

However, the fact remains that the Management opted for a machine knowing fully that it might become obsolete as a better machine was under development and by discarding the machine five months after its use due to its malfunctioning/ obsolescence it had incurred an infructuous expenditure of Rs.57.73 lakh.

CHAPTER 16 : MINISTRY OF STEEL

Hindustan Steelworks Construction Limited

16.1.1 Award of fabrication work at higher rates and poor utilisation of departmental work force.

Award of work on a single tender basis instead of executing the work departmentally/through piece-rated workers (PRWs) resulted in avoidable expenditure of Rs.7.10 crore.

In December 1994, Bokaro unit of the Company received work order from Bokaro Steel Plant (BOSP) for structural work pertaining to Continuous Casting Department and auxiliaries for a sum of Rs.30.16 crore. This work order inter-alia included 16000 metric tonne (MT) of fabrication, supply and erection of building structures at the rate of Rs.15300 per MT valuing Rs.24.48 crore and erection of building structures to the extent of 7150 MT to be supplied by BOSP at the rate of Rs.7215 per MT.

The Company in turn, off loaded (February 1995) 10000 MT fabrication work to a private contractor M/s. Bhakhtawar Singh Balkrishan (Builders) Limited (BSBK) at the rate of Rs.9270 per MT on the basis of a pre-tender tie up and a Memorandum of Understanding. The work was awarded on the basis of a single tender on the grounds that the same was to be executed through a resourceful and competent agency. The other listed parties were not approached either on the ground that they had already been awarded substantial work for modernisation package by BOSP or because they did not have any establishment at Bokaro. The work was to be completed within 18 months (i.e.upto July 1996). The tender committee further decided that balance 6000 MT fabrication and entire erection work would be done deploying departmental resources, piece-rated workers (PRWs). For this balance work, the Management approved (January to July 1995) rate structure for different items and the work was awarded to PRWs during March 1995 to January 1997. The entire work of fabrication (16138.7 MT) and erection (19002 MT) was completed in October 1997.

An examination of the records disclosed the following:

(i) The contention of the tender committee for award of work on a single tender was not tenable in view of the fact that neither any documentary evidence was available in support of the statement that BOSP authorities desired deployment of a resourceful and competent agency nor did BSBK have any past experience of executing fabrication work of the magnitude of 10000 MT. As regards deployment of a resourceful agency, the Company's Management should have satisfied BOSP, that apart from a large work force, qualified and technical experts, they had large number and variety of construction equipment and, therefore, no private agency could be more resourceful than the Company.

(ii) The rates paid to BSBK for fabrication were abnormally high as compared to rates approved to PRWs as may be seen from the details given in the table below:

Sl.No	Description of item	Rate of BSBK (Rs/MT)	Rate of PRWs (Rs/MT)
(i)	Transportation of raw steel from BOSP/HSCL stores to fabrication yard	500.00	134.00
(ii)	Fabrication of steel structures	6900.00	Wt Avge.4556.00
(iii)	Transportaion of fabricated structures including loading and unloading upto erection site	650.00	300.00 (to 438.00)
(iv)	Levelling of fabrication yard construction of office, store	400.00	Included in (ii)
(v)	Return of surplus raw steel and scrap	45.00	Included in (ii)
(vi)	Preparation of detailed "working drawings" and "As made drawings"	325.00	To be prepared by departmental engineers
(vii)	Testing of welded joints	450.00	--
	Total:	**9270.00**	**4990.00**

(iii) The rate allowed to BSBK for fabrication work (Rs.9,270 per MT) was even higher than the rate receivable from BOSP (Rs.8,085 i.e. Rs.15,300 – Rs.7,215 for erection under item-2). As a result, the Company incurred direct loss of Rs.1.12 crore for fabrication of 9474.54 MT. Had fabrication work been executed through PRWs in place of BSBK, the Company could have saved an amount of Rs.4.06 crore which inter-alia, included unjustified excess payments towards transportation of raw steel from store to yard (Rs.34.68 lakh), fabrication of steel structures (Rs.2.22 crore), transportation of fabricated structures from fabrication yard to erection site (Rs.33.16 lakh), leveling of fabrication yard, development of site office, stores and other infrastructure (Rs.37.90 lakh) and preparation of detailed "Working drawings" and "As made drawings" (Rs.30.79 lakh).

(iv) In order to adhere to the construction schedule of 18 months for fabrication and 21 months for erection, execution of 1000 MT per month each of fabrication and erection was required. Taking norm of 1.25 MT and 1.5 MT per man per month for fabrication and erection (gang composition of 75 persons x 11 gangs = 825 for fabrication and 15 persons x 45 gangs =675 for erection), a total of 1500 workers of different categories were required. The actual manpower for fabrication and erection work at Bokaro unit of HSCL was 3568.

It may be seen from above that the Bokaro unit of the Company had more than twice the manpower required for execution of entire work departmentally with minor adjustment of work among workers under helper categories. However, only 919.649 MT fabrication and 3504 MT erection work could be done departmentally which was only 5.7 per cent and 18.4 per cent of total work respectively. The Company could have saved further amount of Rs.3.04 crore towards element of labour cost at the rate of Rs.1000 per MT for fabrication and Rs.802.88 per MT for erection work plus 10 per cent towards contractors profit if the entire work was executed departmentally.

Thus, due to non-execution of the entire work departmentally, the Company incurred total avoidable extra expenditure of Rs.7.10 crore (Rs.4.06 +Rs.3.04)

The Ministry stated (September 1998) that (i) for fabrication of 16000 MT of all sorts of complicated structures and for erection of nearly 23000 MT of structures within 21 months, HSCL did not have the required infrastructure, nor was there any possibility of developing the required skilled manpower with tools, tackles etc. for fabrication and erection of 1000 MT per month, without hampering the work being departmentally carried out at other places, (ii) considering productivity level of employees of HSCL, erection of such voluminous quantity within the prescribed time schedule was difficult and (iii) regarding higher rates allowed to BSBK than what HSCL themselves were due to get from BOSP, the Ministry added that the composite rate was not a simple arithmetical addition of separate rates for different jobs. HSCL had earned a margin of 21 per cent on the total expenditure incurred on fabrication work executed by contractor (BSBK). However, HSCL had already been directed to and were doing their best to execute jobs awarded to them departmentally, to the extent possible.

The contention of the Ministry is not tenable in view of the fact that (a) as per approved norm, 1500 workers of different categories were required to meet the work schedule, against which actual manpower in position under required categories at Bokaro Unit was 3568. On the other hand BSBK had no past experience of executing fabrication work of the magnitude of 10000 MT (b) the exact productivity level of departmental employees was not indicated by the Ministry. During January 1995 to October 1997 productivity level of departmental work worked out to 9 Kgs fabrication and 33 Kgs erection per man per month against approved norm of 1250 Kgs fabrication and 1500 Kgs erection per man per month which showed hardly any deployment of available manpower. The Management did not furnish the details of structural works departmentally carried out at other places though called for and (c) regarding work awarded to BSBK, there was direct loss and the margin indicated by the Ministry was in erection which were executed through PRWs.

16.1.2 Extra expenditure of Rs.1.47 crore due to wrong assessment of requirement of counter guarantee

Non-utilisation of counter guarantee limit and also absence of control mechanism to constantly monitor funds requirement resulted in an avoidable extra expenditure of Rs.1.47 crore.

The Company requested (April 1989) Government of India, Ministry of Steel, for an increase in existing limit of omnibus counter guarantee from Rs.40 crore to Rs.92 crore (Rs.2 crore for cash credit and Rs. 90 crore for bank guarantee limit) required for Modernisation of Durgapur Steel Plant (DSP) and other works. The Government of India approved (May 1989) omnibus counter guarantee to Rs.92 crore in favour of the

Company subject to charging of one per cent per annum of guarantee fee on the total amount irrespective of its utilisation. However, later on (April/July 1993) with the tapering of DSP modernisation work, the above allocation was modified (Rs.12 crore for cash credit and Rs. 80 crore for bank guarantee limit) to cater to the requirement in other areas of work.

During the period 1993-94 to 1997-98, the quantum of counter guarantee obtained from the Ministry of Steel, actual peak utilisation thereagainst from State Bank of India and the margin fee payable on the unavailed amount of counter guarantee is given below:

(Rs. in crore)

Year	Counter guarantee from Govt. of India	Margin fee paid (1 per cent)	Actual peak utilisation	Marginal fee as per actual utilisation	Excess expend iture
1993-94	80	0.80	66	0.66	0.14
1994-95	80	0.80	45	0.45	0.35
1995-96	80	0.80	46	0.46	0.34
1996-97	80	0.80	46	0.46	0.34
1997-98	80	0.80	50	0.50	0.30
				Total	**1.47**

It may be seen from above that actual peak utilisation of bank guarantee was much less (56.25 per cent to 82.50 per cent) than the amount of counter guarantee limit accorded by the Government in all the four years. Further, though the counter guarantee limit was initially valid upto 31 March 1995, the operational facilities of the counter guarantee limit continued to be availed of by the Company through extensions upto 31 March 1999. No effort was made either to re-assess the correct requirement of funds or to reduce the quantum of guarantee limit keeping in view the extra payment involved by way of margin fee every year on the unutilised amount of bank guarantee by incorporating a suitable enabling clause therein.

Thus, due to non-utilisation of counter guarantee limit and also absence of a control mechanism to constantly monitor funds requirement, the Company had to incur an avoidable extra expenditure of Rs.1.47 crore.

The Ministry, while confirming the facts had stated (September 1998) that the Company had been advised to be more careful in future in assessing their counter guarantee requirement.

Indian Iron and Steel Company Limited

16.2 Irregular refund of income tax to employees

Non-observance of the prescribed procedure laid down in the Income Tax Act resulted in irregular payment of Rs.60.29 lakh by the Company.

As per provisions of Income Tax Act, the tax payable by the employee is deducted by the Company at provisional rates from their monthly salary at source and deposited to the Income Tax authority. At the year end, final assessment of taxable income of each employee is made by the Company to determine the actual tax to be recovered and to be paid to the income tax authorities. Accordingly, tax deducted at source is deposited. In case of excess recovery and payment of tax to the income tax authority, refund has to be claimed as per the procedure laid down in Section 237 of the Income Tax Act, 1961 read with Rule 41 of the Income Tax Rules, according to which each individual is required to file a return for claiming the refund in the prescribed proforma to the Assessing Officer.

During the years 1986-87, 1988-89, 1993-94 and 1994-95, IISCO Burnpur made excess deposit of tax to the Income Tax Department over the actual liability to the tune of Rs.52.17 lakh and IISCO Kulti Works for Rs.8.12 lakh during 1991-92 to 1994-95. The Company refunded the entire amount directly to the employees and later on submitted formal claims for refund of excess deposit to the income tax authority in August 1988 and June 1989 for the years 1986-87 and 1988-89 and in May 1994 and August 1995 for the years 1993-94 and 1994-95 respectively. The Company had not received any refund so far (November 1998) from the Income Tax authority though the matter had been taken up several times with them. The claim had been pending due to Company's failure to furnish the requisite details.

The Ministry stated (March 1998) that the excess payment of Income Tax was made due to the practice being followed in IISCO to help the tax paying employees. However, this practice had since been stopped by IISCO with vigorous follow up to get the refund of excess tax already paid from the Income Tax Department.

The fact, however, remains that the Company's failure to adhere to the prescribed procedure laid down in Income Tax Act, 1961 has resulted in an undue benefit to employees and irregular payment of Rs.60.29 lakh.

MECON (India) Limited

16.3 Infructuous expenditure of Rs. 71.88 lakh on import of technology

An expenditure of Rs.71.88 lakh on import of Pulverised Coal Dust Injection (PCI) technology from China proved to be infructuous as the Company failed to introduce the technology even in a single plant in India.

The Company entered into a Licence agreement with CERIS (Biejing Central Engineering and Research Incorporation of Iron & Steel Industry), China in October 1988, thereby obtaining right and licence to use know-how for Pulverised Coal Dust Injection (PCI) technology for introduction in blast furnaces in the Indian steel plants.

The PCI technology was having the following advantages :

(a) Non-coking coal could be used in place of scarce and costlier coke.

(b) 15 to 20 per cent of coke could be replaced by pulverised coal injection. At some places even 25 per cent of coke replacement had been achieved.

(c) Reduces the cost of hot metal as cost of pulverised coal was less as compared to coke.

(d) Pulverised coal injection was more environmental friendly while coke making technology was highly polluting generating wastewater, heat, gas and dust.

(e) Capital cost of pulverised coal preparation was much lower than similar capacity of coke making.

The Licence agreement approved by the Ministry of Steel & Mines (Department of Steel) on 13 September 1989 came into effect from 4 October 1989 and was valid upto 3 October 1999. As per the agreement, a fee of US$ 4 lakh net (in four instalment) was payable to CERIS, China. However, the Company made a payment of US$ 2.40 lakh (Rs.48.15 lakh) upto August 1994, besides an expenditure of Rs.23.73 lakh towards Income Tax (Rs.14.45 lakh), Cess (Rs.3.03 lakh) and bank charges (Rs.6.25 lakh). No further payments were made (September 1998).

The Company had failed to introduce this advance technology anywhere in Indian steel plants in Public sector or Private sector so far (November 1998) despite the fact that it was a proven technology and Tata Steel had introduced German PCI technology successfully in their blast furnaces. Although Steel Authority of India Limited (SAIL) had decided to go ahead with the introduction of PCI technology at its Bhilai unit as well as Bokaro unit, the Company could not convince SAIL to introduce the Chinese PCI technology imported by the Company.

The Ministry/Management stated (September 1996/July 1998) that MECON had been making sustained efforts for commercialising PCI technology in blast furnaces in India over the years. The Rashtriya Ispat Nigam Limited (RINL) had recently issued (July

1998) an enquiry to MECON for introduction of PCI system in their existing blast furnace No.1.

The fact is that the tender invited from MECON against this work by RINL had since been cancelled (July 1998) due to certain reasons. Thus, the expenditure of Rs.71.88 lakh (including foreign exchange of US$ 2.40 lakh) incurred on import of PCI technology from CERIS, China proved to be infructuous.

National Mineral Development Corporation Limited

16.4.1 Irregular payment of ex-gratia

The Company made irregular payment of Rs.13.52 crore as ex-gratia to its employees from the year 1989-90 to 1996-97 in contravention of the guidelines issued by the Department of Public Enterprises (DPE).

The Company has been paying bonus to its employees/workmen as per the provisions of sub-section (1) of Section 20 of the payment of Bonus Act, 1965. The Company is also making incentive payments under an incentive scheme approved by the competent authority, in terms of instructions issued by the DPE in October 1988. In addition, the Company paid during 1989-90 to 1996-97 a sum of Rs.13.52 crore as ex-gratia to its employees who are not covered by the Bonus Act by virtue of drawing wages/salary beyond the limit stipulated therein. Payment of ex-gratia does not have the approval of the Government.

Payment of Rs.13.52 crore as ex-gratia in addition to bonus and incentive payment is irregular and contravenes the provisions of the guidelines issued by the DPE (ibid). These guidelines inter-alia lay down that only in those enterprises where the provisions of payment of Bonus Act, 1965 do not apply due to non-fulfilment of conditions stipulated in Section 20(1) of the Act, an ex-gratia amount should be paid to employees who would have been entitled to get bonus if the concerned enterprise was to fall within the purview of the Bonus Act.

In response, the Ministry stated that NMDC had to pay ex-gratia to maintain cordial and peaceful industrial relations and to motivate the majority of employees who were not covered under the payment of Bonus Act.

The reply of the Ministry is not tenable since for motivating the majority of employees who are not covered under the payment of Bonus Act, the Company already had an Incentive Scheme which envisaged monthly/annual payment linked to performance. Moreover, DPE guidelines stipulate that payment of ex-gratia is only in lieu of bonus. Thus, extension of the benefit to the employees who were not eligible to bonus is totally irregular and goes against the spirit of the Bonus Act besides contravening the DPE Guidelines.

16.4.2 Irregular payment of Death-Cum-Retirement Gratuity

Irregular payment of Death-cum-Retirement Gratuity at an enhanced rate, contrary to the instructions issued by the Department of Public Enterprises, resulted in an avoidable payment of Rs.1.73 crore.

Payment of Death-cum-Retirement Gratuity (DCRG) for the employees of Public Sector Enterprises is governed by the Payment of Gratuity Act, 1972. Government of India, Department of Public Enterprises issued directions (June 1988) stating that gratuity payments made by the Public Enterprises should be strictly in accordance with the provisions of the Payment of Gratuity Act.

The Board of Directors of the Company approved (August 1997) the proposal to enhance (August 1997) the existing maximum limit of DCRG from Rs.1 lakh to Rs.2.5 lakh with retrospective effect i.e. from 1 April 1995, at par with Central Government employees, as notified by the Government of India. This was in contravention of sub-section (3) of Section 4 of Payment of Gratuity Act, 1972 under which the ceiling for payment of Death-cum-Retirement Gratuity had been fixed at Rs.1 lakh with effect from 1 January 1986.

In September 1997, the Payment of Gratuity Act, 1972 was amended increasing the ceiling limit to Rs.2.5 lakh with effect from 24 September 1997, the date of issue of the ordinance. This was brought to the notice of all the Public Sector Undertakings for compliance in October 1997. Disregarding these mandatory instructions, the Company paid in (March/April 1998) DCRG at the enhanced ceiling rate of Rs.2.5 lakh with effect from 1 April 1995, instead of 24 September 1997. Difference in gratuity paid on this account worked out to Rs.1.73 crore. This payment was irregular and contrary to DPE instructions.

The Ministry/Management stated (January 1999/July 1998) that:

- the 'Payment of Gratuity Act' prescribed the minimum eligibility only for payment of gratuity. However, Section 4 (5) of the Act conferred right for an employee to receive better terms of Gratuity under any award or agreement or contract with the employer.

- the Company had adopted better Gratuity terms such as one month's wage for every completed year of service in excess of 30 years as against 15 days wages provided in the 'Payment of Gratuity Act' irrespective of number of years of service.

- keeping in view the clarification given (May 1997) by the Ministry of Labour, the Board of Directors approved (August 1997) the proposal to increase the existing maximum limit of Death-cum-Retirement Gratuity from Rs.1 lakh to Rs.2.5 lakh with retrospective effect from 1 April 1995 to fall in line with other Central Government employees.

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

(i) Sub-section (3) of Section 4 of the Payment of Gratuity Act, 1972 as amended from time to time prescribes the maximum amount payable to an employee and not the minimum as stated by the Management.

(ii) The maximum amount of DCRG should not exceed the ceiling laid down under Section 4(3) of the Act i.e. Rs.1 lakh with effect from 1 January 1986 and Rs.2.5 lakh with effect from 24 September 1997. Section 4 (5) of the Act which confers right on an employee to receive better terms of Gratuity under any award or agreement or contract with the employer is applicable to exceptional cases of individual settlement and can not be interpreted as a general clause. If this clause is invoked by each PSU to determine the terms and conditions of gratuity payment, there would be no sanctity of the Act. Since in this particular case, gratuity ceiling was raised in general and not because of any special award, agreement or contract, the action went against the letter as well as spirit of the Act (ibid).

(iii) The payment of Death-cum-Retirement Gratuity in respect of Central Government employees is governed by CCS (Pension) Rules which are different from provisions of Payment of Gratuity Act and as such cannot be equated.

(iv) The letter (May 1997) of Ministry of Labour was by way of a clarification and not an approval for payment of Gratuity beyond the ceiling limit.

Thus, the Company made an avoidable payment of DCRG amounting to Rs.1.73 crore, which was irregular as well as contrary to mandatory instructions issued by DPE.

Steel Authority of India Limited

16.5.1 Infructuous Expenditure of Rs.1.28 crore.

An expenditure of Rs.1.28 crore towards import of CAS-OB technology from Japan proved to be infructuous as the said technology being unsuitable could not be utilized in any steel plant in India.

Centre for Engineering and Technology (CET), a unit of Steel Authority of India Limited (SAIL) entered into agreement with M/s. Mitsui & Company Limited (MBK), Japan on 29 February 1992 for importing " Composition Adjustment by Sealed" (CAS), Argon Bubbling and 'Oxygen Blowing" (OB) technology with a view to introducing the same in Steel Melting Shop-II (SMS-II) of Bhilai Steel Plant (BSP) and in other steel plants of SAIL including its subsidiaries and to provide or sell such technology and equipment to other steel producers in the country. The technology envisaged secondary metallurgical treatment of molten steel by adopting the CAS-OB process. The advantages envisaged were the improvement in steel quality, saving of ferro-alloy consumption, low investment cost as compared to other refining process and treatment of 90 UTS Rail Steel. The licence and know how fee was agreed to be paid in Japanese currency in three phases viz. Yen 63,745,000 for Ist Project, Yen 30,000,000 for 2nd and Yen 27,000,000 for 3rd and each subsequent CAS-OB project which SAIL or its sub-license decided to instal.

A total payment of two installments of Yen 42,500,000 equivalent to Rs.1.28 crore was made to M/s. MBK upto September 1993. The basic engineering documents received in September 1993 were discussed and some clarifications were sought in October 1993 by the SAIL team which visited Japan. The team observed that due to aluminium pick up during OB operation, it was difficult to achieve the level of aluminium in steel as required by Railways. The technology was found unsuitable for BSP particularly because a large proportion of product-mix was rail steel containing high level of carbon and manganese and low level of aluminium. The CAS-OB technology was also not found suitable in other steel plants of SAIL and accordingly the Board decided (March 1997) to terminate the agreement. Thus, entire cost (Rs.1.28 crore) of importing this technology proved to be infructuous.

The Management stated (July 1998) that product 'Rail' forms a large portion of product mix of BSP (30 per cent) and the Railways revised the specifications for Rails effective from 1 September 1996. According to the revised specifications, the RAIL product obtained as a result of implementation of CAS-OB technology would not be suitable for them (Railways). They further stated that considerable amount of information received on CAS-OB project was made use of in engineering the new facilities.

Reply of the Management is not tenable as the team which visited Japan to discuss the basic engineering document in October 1993, found the proposed technology unsuitable whereas the Railways changed their specification from 1996. Further, the original purpose of importing technology was refining of steel quality and not collecting the information for using it in engineering the new facilities.

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

16.5.2 Infructuous expenditure of Rs.1.19 crore on installation of Stamp Charged Battery

Injudicious decision of the Management to go in for a stamp charged battery without assessing the actual requirement of plant and availability of funds led to an infructuous expenditure of Rs.1.19 crore.

The Company in its Board meeting held on 29 May 1995 approved the proposal for installation of one stamp charged battery in the coke oven complex of Rourkela Steel Plant (RSP) in place of rebuilding of two existing coke oven batteries (No. 4 & 5) at an estimated cost of Rs.320.30 crore. The installation of stamp charged battery was preferred on the ground that the rebuilding of batteries with the existing design is a conventional method more than 35 years old and was not in line with the modern trend which aims at maximizing productivity and improvement in Blast Furnace (BF), coke quality and yield. On the other hand, stamp charged technology is a modern coal making technology being used successfully by TISCO where inferior quality of coal can also be used in the blend.

The Company expected that the new battery would be installed and commissioned within 36 months from the date of approval of the Government. The proposal was sent to the Ministry of Steel on 24 November 1995. However, during pre-Public Investment Board meeting held in July 1995, it was decided that RSP might go ahead with pre-ordering activities, i.e. preparation of technical specifications, inviting tenders without price bids and freezing techno-commercial issues with the parties in advance pending approval of the project to save time. The tenders were issued in April 1996.

However, before the project was approved by the Government, RSP came up with another proposal in December 1996 to rebuild battery No.5 in lieu of stamp charged battery on the grounds that (i) approval of the Government for the stamp charged battery was uncertain and might be delayed further, (ii) deteriorating quality of indigenous coal might lead to greater dependence on imported coal in case of stamp charged battery and (iii) control on expenditure of capital schemes through rescheduling and prioritisation of on-going schemes.

Accordingly, the Company in its Board meeting held on 10 January 1997 approved the proposal for rebuilding of battery No.5 and decided to withdraw the proposal for installation of stamp charged battery in the coke oven complex of RSP. In the meantime, an amount of Rs.1.19 crore (Rs.1.15 crore to Centre for Engineering & Technology (CET) - an organisation within SAIL and Rs.0.4 crore to MECON) had already been spent towards issue of tender documents, consultancy charges etc.

Thus, the injudicious decision of the Management to go in for stamp charged battery without assessing the actual requirement of the plant and availability of funds led to an infructuous expenditure of Rs.1.19 crore.

The Ministry stated (January 1998) that cash crunch, higher demand of imported coal than what was originally envisaged due to availability of inferior quality of indigenous coal leading to negative benefit were the main reasons for abandonment of earlier scheme and going for rebuilding of battery No.5. However, since the consultancy work was got done through CET, no payment was made to any outside agency.

The Ministry's reply is not tenable in view of the facts that (i) the scheme was being used successfully by TISCO having the main facility that inferior quality of coal could be used in the blend, (ii) the scheme was to be financed through commercial borrowings and its availability and impact was well known to the Management, (iii) a sum of Rs.4 lakh was paid to an outside agency i.e. MECON towards preparation of reports and (iv) although an amount of Rs.1.15 crore was paid to CET-an organisation within SAIL, it was still infructuous as the expenditure did not bear any fruit.

16.5.3 Infructuous expenditure of Rs.85.31 lakh

Poor planning and management's failure to correctly assess the availability of funds led to infructuous expenditure of Rs.85.31 lakh on installation of high capacity new batteries.

Bokaro Steel Plant (BOSP), a unit of Steel Authority of India Limited (SAIL) had 8 coke oven batteries to meet the coke requirement for Blast Furnaces (BFs). Batteries No. 1 to 7 were commissioned between 1972 to 1985 and battery No. 8 was commissioned in September 1993 as a reserve battery for revamping/rebuilding of other batteries. With the passage of time, the condition of the existing batteries deteriorated leading to low productivity and a continuous shortfall in the requirement of BF coke. The shortfall in coke requirement was met by transfer from sister plants and through purchases. In order to meet the coke requirement of the blast furnaces, the Board approved (April 1995) a proposal for installation of two new high capacity Coke Oven batteries No. 9 & 10 at a cost of Rs.679.57 crore by replacing the existing four batteries Nos. 1,2,5 and 6. Battery No.9 was scheduled to be commissioned within 42 months and battery No.10 within 78 months from the date of Government's approval.

However, before obtaining Government's approval, BOSP issued work orders to different agencies (M/s. Otto India Limited, Hindustan Steelworks Construction Limited and MECON (India) Limited) during 1995-96 for preparation of feasibility report and technical specifications, soil investigation, coal testing and earth work on which an expenditure of Rs.85.31 lakh was incurred.

In view of the funds constraints, SAIL decided (January 1997) to withdraw the scheme of installation of coke oven batteries No. 9 & 10. The Ministry of Steel also approved (February 1997) withdrawal of the proposal. The Company decided to maintain the requirement of BF coke production by rebuilding of coke oven battery No.5.

Thus, absence of proper analysis of the availability of funds and examination of other alternatives before taking decision for installation of new Batteries resulted in infructuous and unproductive expenditure of Rs.85.31 lakh.

The Management stated (June 1998) that the expenditure, representing only 0.125 per cent of the estimated cost of the project, was incurred mostly on pre-ordering activities which were necessary for taking a decision regarding feasibility/viability of the project. The Management further stated that the expenditure was not wasteful as the technical data generated were useable at a later date whenever the case of installation of new high capacity batteries would be taken up.

Reply of the Management is not acceptable in view of the fact that proposal for installation of batteries No.9 & 10 was withdrawn after detailed review without indicating any further plan for installation of coke oven batteries. Further, there is likelihood of change in technology by the time the Company decides to go in for installation of new batteries.

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

16.5.4 Avoidable expenditure of Rs.80.03 lakh due to Management's negligence

Premature procurement of back up Rolls against which the claims for poor performance could not be lodged within the guarantee period, led to an avoidable expenditure of Rs.80.03 lakh.

The Company placed an order on a firm of West Germany in March 1985 for supply of 13 nos. of back up rolls for Cold Rolling Mill Complex (CRM-II). The rolls were to be supplied in December 1985. Purchase order stipulated inter-alia that in the event of rolls failing prematurely or not giving guaranteed life of 13 lakh tonnage of full usage under normal working condition, the supplier will compensate the purchaser (Bokaro Steel Plant -BOSP) either by way of replacement or by settling the claim on a prorata basis. The guarantee period of rolls was 5 years from the date of Bill of Lading and same was also covered by the performance bank guarantee of 10 percent of ordered value.

The rolls were supplied between May and August 1987. Out of the 13 rolls, 6 rolls the landed cost of which was Rs.80.03 lakh were put into use after a long storage period and gave very poor performance. The dates of putting the rolls to operation vis-a-vis dates of failure and dates of expiry of guarantee period are indicated in the table given below:

Sl.No.	Rolls	Date of putting the rolls to operation	Date of failure	Final tonnage given	Date on which guarantee period expired
1.	31161	3.3. 1992	8.3. 1992	4682	27.5.1992
2.	30736	2.5. 1992	3.5. 1992	5	15.8. 1992
3.	31012	18.4. 1992	19.4. 1992	Nil	15.8. 1992
4.	30737	26.8. 1993	After expiry of the guarantee period	2,88,792	15.8. 1992
5.	31241	1.6. 1995	After expiry of the guarantee period	2,04,486	27.5. 1992
6.	31240	17.5. 1995	After expiry of the guarantee period	3,91,413	27.5. 1992

From the table, it may be seen that the rolls worked for very short period and gave very poor tonnage as compared to the guaranteed tonnage (13 lakh tonne). After failure of the rolls, the Company took up the matter with the supplier for rectification of defects/replacement of rolls in May, August and November 1992 but the said rolls could neither be replaced nor any claim be lodged as the guarantee period of 5 years had already expired. In respect of rolls at Sl.No.1 to 3 for which guarantee period was going to expire between May-August 1992, even the performance bank guarantee was not encashed, though the Company had clear 90 days available for settlement of claims with the supplier. Thus, due to delay in lodging the claims after the failure of rolls, the Company incurred a loss of Rs.80.03 lakh.

The Ministry in their reply (January 1998) admitted that the 13 Nos. back-up rolls for CRM-II Units were procured on the recommendation of M/s. MECON for increased circulation. These 13 Nos. rolls were in addition to 32 Nos. back-up rolls supplied by M/s. MECON with the mill equipment. SAIL (Bokaro Steel Plant) had stock of 45 Nos. back-up rolls, out of which 32 rolls supplied by MECON were put to use first. Need for putting additional back-up rolls in circulation arose only from March 1992 onwards. The claim of 6 nos. of rolls which failed prematurely could not be pursued with supplier as the Research & Control (R&C) laboratory had not clearly attributed the cause of failure entirely to manufacturing defects/manufacturing process. The Ministry added that when the rolls were ordered, it could not be anticipated that these would not be required before March 1992.

The Ministry's reply is not tenable as procurement of 13 back up rolls when the Company was already having 32 back up rolls, supplied with the Mill equipment, lacks justification and is indicative of poor inventory management. The Ministry's contention regarding R&C report is also not convincing since lodging of complaint beyond the guarantee period in case of five out of the six rolls under reference rendered the R&C reports irrelevant.

16.5.5 Avoidable expenditure of Rs.63.00 lakh

Steel Authority of India Limited (SAIL) spent an avoidable sum of Rs.63 lakh on an advertisement, which made only a passing reference to the Company achievements, without assessing potential commercial benefit to be derived from such advertisement.

The Company released in 77 newspapers a full page advertisement with photographs of the then Prime Minister and the then Union Minister of State for Steel titled "Building the Nation with a resolve of Steel" during the month of July-August 1995. The advertisement highlighted the achievements of the Union Government in the four years from 1991-92 to 1994-95 with a passing reference to performance of SAIL during 1994-95.

The advertisement was not need based, it was in fact released at the request of the Minister of Steel who desired that full page advertisement on the completion of four years of the Government be released to the Newspapers on the occasion of the "Independence Day". The Ministry also indicated the name of Newspapers and the rates of advertisement to be given to the Newspapers. Total expenditure incurred on this advertisement amounted to Rs.63.00 lakh.

Highlighting achievements of the Government at the cost of the public sector was not only against the spirit of independent working of public sector but it also violated the established canons of financial propriety.

The Ministy stated (August 1998) that by this advertisement, SAIL wanted to reach each and every citizen of the country and to make them aware of the SAIL's contribution to the national economy.

The reply of the Ministry is not tenable as the advertisement was given at the instance of the Ministry without examining the commercial benefits likely to be derived from it. The advertisement did not have any positive impact on the Company's sales since against a turnover of 87.02 lakh tonne during 1994-95 the Company could achieve a turnover of 85.12 lakh tonne in 1995-96, which further declined to 83.74 lakh tonne in 1996-97. Further, it mainly focused on the achievement of the Government with only a passing reference to SAIL's performance.

16.5.6 Loss of rebate of Rs.76.98 lakh on water cess due to non-adherence of environmental parameters

The Company failed to avail of the rebate on water cess due to non-installation of flow meters for recording water consumption as required by the Pollution Control Board.

The Water (Prevention and Control of Pollution) Cess Act, 1977 provided that any person or local authority may obtain rebate at the rate of 70 per cent of the actual cess on the installation of pollution abatement devices and running them efficiently to the satisfaction of Bihar State Pollution Control Board (BSPCB). The rate of rebate was reduced to 25 per cent with effect from 26 January 1992. The amended Act also specified that a consumer would not be entitled to the rebate if the consumption of water was found in excess of the specified maximum quantity, i.e. 20 cum water/T of finished steel.

The consumption of water per tonne of finished steel remained higher than the norm during the period from 1991-92 to 1993-94, 1997-98 and 1998-99 (upto September 1998). However, though the consumption of water per tonne of finished steel came within the norm during the period from 1994-95 to 1996-97, the BSPCB did not allow any rebate on the cess after September 1990 due to the following reasons:

(i) Non-submission of analysis report.

(ii) Biological oxygen demand, chemical oxygen demand, total sub-standard solids found in excess of prescribed norms during the period from September 1990 to February 1992.

(iii) Provisions of Environment protection Act not followed properly.

(iv) Non-installation of flow meter for measuring and recording water consumption under various categories as prescribed in the Cess Act.

(v) Non-functioning of water meter.

(vi) Leakage of oil from Oil Storage Yard of RMP in the outfall.

Thus, due to non-compliance with the provision of the Cess Act (ibid), the Company failed to get the rebate of Rs.76.98 lakh on water cess (upto September 1998).

The Ministry while accepting the facts stated (May 1998) that the Company was not in a position to press its case of rebate on water cess as the flow meters for recording water consumption as required by the Pollution Control Board could not be installed.

The fact remains that the Company could not avail of the rebate on water cess amounting to Rs.76.98 lakh.

16.5.7 Infructuous expenditure of Rs.35.67 lakh due to improper planning

Improper planning in procurement of equipment by the Company without conducting proper study and finding a suitable location for its installation rendered infructuous an expenditure of Rs.35.67 lakh.

The Company placed an order in February 1993 on M/s. Integrated Process Automation Private Limited, Bangalore for design, manufacture and supply arrangement for addition of ferro alloy and coke breeze into steel teeming ladle in Twin Hearth Furnace (THF)-3 of Steel Melting Shop-I of Bhilai Steel Plant at a cost of Rs.28.80 lakh (including erection, testing, painting and commissioning).

As per the terms of the order, delivery of the item was to be made by 31 May 1993 which was subsequently extended to 30 August 1993. The equipment was supplied in July/September 1993 and erected on 15 January 1994. An amount of Rs.35.67 lakh (including taxes, duties etc.) was incurred towards the procurement of the mechanical structure. The equipment, however, could not be commissioned, as after the erection, when the equipment was to be put under trial, it was hit by a crane and the structure got damaged (between April 1994 and July 1994).

After the incident, the entire working was reviewed to determine the cause of accidental hitting. It was observed that the location of the equipment was unsuitable for commissioning and the scheme was, therefore, found unsuccessful and had to be dropped.

Thus due to improper planning, an amount of Rs.35.67 lakh incurred on the procurement of the mechanical structure became infructuous.

The Management stated (July 1998) that the bunkers were within the swinging distance of the teeming ladle hence accidental hitting could not be ruled out. There was also no other suitable location for installation of the equipment and therefore, the scheme was dropped. The Management added that certain materials of the structure valued at Rs.6.65 lakh would be gainfully utilised by shop and weighbridge department.

The Management's reply is not tenable as the practical difficulties could have been foreseen had a proper study of the location been made before taking the investment decision. Further, no material of structure received in 1993 had so far been utilised (November 1998).

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

16.5.8 Infructuous expenditure of Rs.29 lakh due to re-import of rejected goods originally exported

Export of defective hot rolled stainless steel plates by Alloy Steel Plant resulted in an infructuous expenditure of Rs.29 lakh in bringing back the material in addition to refund of Rs.64.10 lakh on export realisation.

Alloy Steel Plant (ASP) obtained an export order in June 1995 for supply of 180 tonne of hot rolled stainless steel plates to a Malaysian firm at the rate of US$ 2350 per tonne. The supply was subject to pre-shipment inspection by SGS (I) Limited. The Plant supplied 50.772 tonne of plates in August 1995. However, on receipt of the material, the party lodged a complaint about the surface quality of the plates. As a part of final settlement for the quality complaint, the party agreed to accept the material at a discount of US$ 150 per tonne. Further, the Plant supplied 118.950 tonne of plates in September 1995 which contained deep line marks on the surface and hence were not accepted by the customer. A senior officer of the Plant visited Malaysia on 4 and 5 December 1995 for a joint inspection of the material. However, the party agreed to accept only 43.380 tonne and rejected 75.570 tonne being totally unacceptable. As a result, the Plant had to refund a sum of Rs.64.10 lakh (Rs.2.74 lakh towards discount allowed on 50.772 tonne and Rs.61.36 lakh towards value of rejected material). As no buyer could be found for sale of rejected material abroad, the same was brought back to the Plant in June 1996.

Against the above export order, the Plant obtained an advance licence and utilised the same for import of input material. As such, the rejected plates were treated by the Customs authorities as re-import of originally exported material and corresponding customs duty was levied. Total expenditure incurred in bringing back the material amounted to Rs.43 lakh (approx.). However, the Plant availed of MODVAT benefit of Rs.14 lakh on the countervailing duty paid on re-import of the material.

Thus, due to supply of defective material in the international market, the Plant had to incur an infructuous expenditure of Rs 29 lakh (Rs.43 lakh – Rs.14 lakh) in bringing back the material, beside refund of export realisation of Rs.64.10 lakh towards value of rejected material and compensation for quality complaints. The rejected plates were yet to be disposed off (November 1998).

No formal action had been taken either against the surveyor SGS (I) Limited, to whom the Company paid Rs.0.43 lakh for pre-shipment inspection of material, or against any plant official for export of defective material.

The Ministry stated (January 1998) that a consolidated advance licence was issued against the export order and SAIL had availed the proportionate duty benefit of Rs.13.36 lakh on export of 75.570 MT of plates which might be adjusted against the loss suffered on the deal. The Ministry also added that due to poor marketability and sluggish market conditions, the plates could not be disposed off. However, the Plant Management had been making efforts and had taken adequate steps to avoid such type of incidents in the export of material in future.

The contention of the Ministry in regard to the duty benefit of Rs.13.36 lakh is not tenable as bringing back material originally exported amounted to non-fulfilment of export obligation and the benefit availed by the Company would have to be refunded to the Government with penalty as per para 128 of the Handbook of Procedures issued by the Ministry of Commerce.

16.5.9 Undue favour to Private Parties

In clear violation of DPE Guidelines incorporating COPU recommendations, Salem Steel Plant supplied materials worth Rs.5.68 crore to two private firms against signed and blank post-dated cheques which bounced subsequently, resulting in loss to the Company as well as avoidable litigation.

In violation of DPE Guidelines which incorporated the recommendations of the Committee on Public Undertakings (COPU), the Salem Steel Plant (SSP) Management, on the pretext of augmenting its sales in the Northern Region, relaxed its usual credit terms in favour of some of its customers by supplying goods over and above the Letter of Credit/Bank Guarantee limits. Under this arrangement, 354 MT of Stainless Steel materials worth Rs.4.69 crore were sold (August, September and October 1995) on 60/75 days credit to two Delhi based Private firms (M/s. Sunil Engineering Corporation & M/s. Lata Steel Agency). At the time of delivery of goods, SSP accepted several blank cheques and the customers even gave their consent for filling up the amount and date in the cheques at a later date depending upon their instructions as and when given.

When the due date for payment approached, the cheques were not negotiated in order to accommodate the specific requests made by these two parties for withholding their presentation to the Bank. SSP surrendered the cheques to the parties in lieu of a fresh set of cheques, ostensibly to extend the credit period, notwithstanding the fact that the heavy payments remained outstanding without any guarantee or physical security. In addition, a further quantity of 78.654 MT of materials worth Rs.98.87 lakh was also released (December 1995) on credit, again on receipt of post-dated cheques. Total amount for these cheques aggregating to Rs.5.68 crore were dishonoured by the Bank (Rs.504,32,522 from M/s.Lata Steel Agency and Rs.63,34,638 from Sunil Engineering Corporation) on the ground of 'Payment stopped by the Drawer'(October 1996).

When the violation of Government instructions and eventual non-realisation of sale proceeds for over 2 years in the above cases were pointed out by Audit, SSP justified their action (June 1997) by contending that mere dishonour of cheques did not imply that the dues were irrecoverable, although in their affidavit earlier filed with the Court (December 1996), it was declared that the parties had dishonest intentions from the very beginning and thereby had deceived the company.

Thus there were lapses on the part of the Steel Plant Management in

(i) acceptance of blank cheques without any guarantee or security for the amount due;

(ii) non-presentation of cheques on due dates;

(iii) continuance of supply of goods without any guarantee or security despite the parties not settling the old dues and

(iv) acceptance of post-dated cheques in lieu of the earlier ones.

Lapses of the management resulted in

(a) avoidable litigation for recovery of Rs.5.68 crore and

(b) revenue loss by way of interest on outstanding dues to the tune of Rs.2.04 crore calculated at the rate of 18 per cent per annum (January 1998).

SSP Management, while confirming facts of the case, stated (January 1998) that legal action had been taken by filing suits against the parties in Delhi High Court. The Court cases were pending (January 1998). The Ministry concurred with the reply of the Management (February 1998).

16.5.10 Loss in export of materials

SSP exported 200 MT of Steel Coils to a HongKong based firm against an unconfirmed letter of credit, as against a confirmed and irrevocable letter of credit agreed to earlier. The firm refused to lift 160 MT out of the confirmed order seeking further rebate. The material was brought back to India where it was sold at a loss of Rs.48.90 lakh.

Salem Steel Plant (SSP) entered into an agreement with M/s. Tse Yu Hong Metal Limited, a Hong Kong based firm through an Indian agent (M/s. Kirtanlal & Sons, Mumbai) in May 1995 for supply of 200 MT of 304-2 mm coil base at an aggregate CIF Hong Kong cost of US$ 6,22,600. The payment was to be received 100 per cent at sight through an irrevocable and confirmed letter of Credit (LOC). But the foreign customer opened an unconfirmed LOC on 25 May 1995 on a Hong Kong Bank for US$ 6,60,600 with validity upto 21 August 1995. Despite this deviation from the agreement, SSP despatched the materials and preferred (June 1995) invoices aggregating US$ 6,25,158 to the customer. While the foreign customer paid for a quantity of 40 MT (2 Lots), it did not clear the balance quantity worth US$ 5,03,551; it demanded a discount of US$ 300 per MT on the plea that there was a sudden drop in prices in the international market.

As the LOC was not confirmed and the shipping documents showed certain discrepancies in terms of the LOC, the foreign bank refused further payment. SSP could not succeed in persuading the customer through the Indian agent to clear the documents from the bank and take delivery of the materials at the contracted price.

After its efforts to divert the material to other customers had failed, SSP brought back (September 1995) the cargo to India and sold (November 1995 and February 1996) to other customers at an aggregate value of US$ 3,61,476, thereby resulting in loss of US$ 1,42,075 (equivalent to Rs.45.18 lakh at the then prevailing exchange rate). Besides, SSP also incurred avoidable expenditure of Rs.9.45 lakh towards freight and handling charges. SSP accepted a compensation of only Rs.5.73 lakh (US$ 10000, i.e. Rs.3.18 lakh from the Foreign customer and Rs.2.55 lakh from the Indian agent) on the plea that there was no other immediate recourse to recover the entire loss. The total loss thus suffered by the Company worked out to Rs.48.90 lakh.

SSP stated (December 1997) that it did not agree to the demand of the foreign customer for a discount of US$ 300 per MT as this would have set a bad precedent for the future business. It further stated that all its efforts to divert the materials to other customers had failed. According to SSP, it was a commercial decision to bring back the materials to India so that these could be sold at a higher price later. The Ministry concurred (May 1998) with the reply of SSP and stated that there were no errors in invoicing the materials.

The reply overlooks the fact that the loss could have been avoided if the LOC was confirmed as per the agreement between SSP and the foreign customer and if the documents supplied were strictly in accordance with the terms of the sale order. Lapse of the Company in this regard had resulted in the loss of Rs.48.90 lakh. SSP did not also debar the Indian agent.

CHAPTER 17 : MINISTRY OF SURFACE TRANSPORT

Dredging Corporation of India Limited

17.1 Infructuous expenditure on purchase of Second Hand Ancillary Equipment

Expenditure of Rs.7.55 crore on procurement and incidental charges on ancillary equipment Cutter Suction Dredger proved to be infructuous as the equipment was unsuitable for local conditions and remained grossly unutilized.

The Company imported in January 1991 ancillary equipment (crafts) and pipeline valuing Rs.6.41 crore alongwith the second hand Cutter Suction Dredger 'AQUARIUS' for use initially on the Hooghly Fairway Development Project (HFDP) and subsequently for other capital dredging works. It was assessed that the ancillary equipment including pipeline would have a life of 3 years i.e. upto January 1994. M/s. Zenon Ventoep (ZV) Netherland from whom the above ancillaries were procured was also to execute the HFDP work. But due to operational difficulties, ZV could not execute the work and the project was abandoned in March 1991.

The ancillary crafts and pipeline along with the Dredger 'Aquarius' could only be used for a short duration from September 1991 to January 1992 for Haldia Dock Basin work of Calcutta Port Trust.

Thereafter, though the Dredger "Aquarius' was used for other dredging work, the ancillary equipment could not be used as the crafts developed holes and had to be repaired to avoid sinking. The Company incurred a sum of Rs.61.00 lakh towards underwater repairs of crafts in 1992-93. Besides this, the other reasons for non-utilisation of the equipment were its unwieldy size, transport bottleneck etc.

Two foreign dredging companies to whom enquiries were sent for participation in HFDP work, indicated in August/September 1993 that the ancillary crafts would not be suitable for the work. These were kept idle and the Company incurred Rs.33.60 lakh on mooring charges raised by CPT. An amount of Rs.19.83 lakh was also spent on watch and ward as on 31.3.1998.

As such the entire expenditure of Rs.7.55 crore on purchase of second hand ancillary equipment and pipeline and incidental expenditure thereon proved to be largely infructuous as these could be utilised merely for about four months against the expected life of three years.

The Ministry stated that the purchase of these ancillaries was made as a part of the contract executed between DCI Limited and M/s. ZV and so far as purchase of ancillary equipment and pipeline was concerned, DCI did not have any option to pick and choose as M/s. ZV required these for execution of the project. Further the Ministry stated that the main reason for non-utilisation of ancillary crafts and pipeline was failure of HFDP project.

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

(i) The Company was aware that the technical condition of some of the equipment particularly the pipeline was below the acceptance standard even before acquiring the equipment.

(ii) The contract agreement provided for replacement of any equipment which proved to be unsuitable for local conditions, at the expense of the seller. The Company, in fact returned certain spares and obtained price reduction from M/s. ZV which corroborates the fact that the Company had an option to return the equipment under reference or seek its replacement, which it failed to exercise.

(iii) Further even after the failure of the HFDP project, the Company could not utilise the ancillaries in the other capital dredging contracts as projected.

Thus, the purchase of the ancillary equipment and pipelines, without due diligence and proper assessment of their condition, rendered the entire procurement cost and incidental expenditure of Rs.7.55 crore infructuous.

Indian Road Construction Corporation Limited

17.2 Loss due to violation of local customs law

Violation of the local customs law by the Company and its failure to pursue the matter with appropriate authorities resulted in avoidable imposition of penalty amounting to Rs.1.03 crore.

For execution of its various road construction works in Libya, the Indian Road Construction Corporation Limited (Company) had imported into that country crushers and pay loaders for producing aggregates and stones for use in the construction of roads under a temporary import clearance system with exemption from payment of custom duty under the specific condition that the goods so imported would not be used for a purpose other than that for which they were imported.

In violation of the customs law, and also due to financial problems faced by it in Libya, the Company was, however, selling the aggregates produced to local citizens and local authorities, on oral requests from the local Peoples' Committee and the Light Industries Department for construction of schools, mosques etc. This clearly contravened the customs law, as also subsequently confirmed by the Company's Legal Advisor that the law was quite clear and that the Peoples' Committee, etc. were not competent to authorise sale of aggregates and stone to locals/local authorities. On 22 March 1987, the customs authorities visited the Company's site at Zilten when one of its pay loaders was loading aggregates into a local truck and seized the pay loader. The loader was, however, released a week later after the Company had expressed its willingness to settle the matter by compromise.

The Company did not pursue the matter with the customs authorities and Government of Libya and local customs authorities imposed a penalty of LD 1,00,000 (Rs.1.03 crore) in October 1987, which came to the notice of the Company only in January 1989 when the amount was deducted from its pending claims. The Company preferred (December 1989) an appeal with the Directorate of Customs, Tripoli, which was, however, not pressed in view of the possibility of the penalty being enhanced despite legal advisor's view that the violation committed by the Company was not commensurate with such huge fine which was levied without affording any opportunity to the Company to present its case. The Company had also not sought any intervention from Government of India at Government to Government level.

In reply, endorsed (August 1995) by the Ministry, the Management stated (August 1995) that they had no option but to sell the aggregates to local authorities, etc. to avoid any problem which could subsequently be created by them in the execution of the Project. The contention is not tenable as in case the Company had felt that it could not afford not to accede to the requests made to it, it could have taken up the matter immediately with the customs authorities and Government of Libya as also with the Government of India to avoid any legal complications at a later date.

The Shipping Corporation of India Limited

17.3.1 Avoidable expenditure on repair of a vessel

Injudicious decision to repair an old vessel, which had already completed 18 of its 20 years of economic life, after a fire accident led to unproductive expenditure of Rs.9.03 crore.

M.V.Vishva Madhuri, a vessel of the Company suffered (March 1992) extensive damage due to a fire. The vessel was insured for Rs.3.80 crore. The Company had the option of either claiming total loss or getting the cost of repair reimbursed from their reinsurers, both options being subject to a ceiling of Rs.3.74 crore. The Company exercised its option to get the vessel repaired at an estimated cost of Rs.3.65 crore with 90 days repair time.

The fact that the vessel was completing its economic life of 20 years in August 1994 beyond which any operation of the vessel would require extensive renewals in order to pass the special and statutory surveys was ignored.

The repair work was completed in March 1993 at a cost of Rs.8.12 crore due to additional repairs undertaken as per Surveyor's recommendation. Even though the expenditure on repair increased by 123 per cent, the work continued at the verbal instructions of the Director concerned. Neither specific sanction of the Management was obtained for carrying out the additional repairs at the escalated cost nor brought to the notice of the Management till the settlement of the bills. The Company could receive only Rs.3.74 crore from the insurance company being the maximum amount of claim allowable by them.

The vessel was laid up on 16 September 1994, as the cost of further renewal at this stage for enabling the vessel to pass the special/statutory survey was estimated at Rs.5.71 crore. As this heavy expenditure made the option of further service of the vessel economically unviable, the Board of the Company decided (February 1995) to dispose of the vessel. The vessel was sold in April 1995 for Rs.3.41 crore.

Between the accident (March 1992) and disposal (April 1995) of the vessel, the Company incurred a net operational loss of Rs.4.32 crore on account of standing charges, management cost, depreciation and interest besides Rs.8.12 crore spent on repair of the vessel.

Thus, an injudicious decision of getting an old vessel repaired instead of scrapping it combined with poor monitoring of the repair work led to an avoidable expenditure of Rs.9.03 crore (Rs.8.12 crore + Rs.4.32 crore–Rs. 3.41 crore).

The Ministry stated (March 1998) that this case had been handed over to the Central Bureau of Investigation for an indepth probe and further action would be taken after its outcome.

17.3.2 Avoidable payment of standing charges

Unnecessary delay in completion of a revised feasibility report relating to a vessel resulted in avoidable payment of standing charges of Rs.1.71 crore.

The Government guidelines (February 1991) lay down that techno economic study relating to sale or scrapping of the Shipping Corporation Of India's (SCI) vessels which complete their economic life (20 years) and final approval of the sale proposal in this regard by the Board of Directors (Board), should be completed within four months from the date of laying up of the vessel.

M.V. Vishwa Bandhan, a tween decker general cargo vessel (built in 1974) completed 20 years of its operational life on 15 January 1995 and was laid up from 21 April 1995. Thus, in terms of the Government guidelines (ibid), the procedure for disposal of vessel upto confirmation of acceptance offer from successful bidder should have been completed by 20 August 1995 i.e. four months after the date of lay up of the vessel. The Management took a decision (December 1994) that the vessel should be scrapped on the grounds that it was the better alternative to its revival.

However, in view of Government of India Press note dated 29 March 1995 which relaxed the norm regarding economic life of liner vessels from 20 to 25 years, SCI decided (June 1995) to conduct a fresh feasibility study for reviving the same vessel for coastal trade. This revised feasibility study was completed only on 11 October 1995 against the target date of 6 June 1995 i.e., after a delay of four months. SCI Management decided (December 1995) to scrap the vessel based on this feasibility report through a circular resolution dated 29 January 1996 which was approved by the Board on 20 February 1996. The approval of the Board for sale of the vessel was obtained on 22 March 1996. The vessel was finally sold (10 April 1996) for Rs.3.68 crore after incurring an expenditure of Rs.2.82 crore towards standing charges of which Rs.1.71 crore pertained to the period 20 August 1995 (the date by which the case related to disposal of the vessel by way of sale/scrapping should have been completed) to 21 March 1996.

The Company should have taken immediate steps to complete the disposal procedure when they had already decided to scrap the vessel based on the proposal in December 1994 itself. Instead, the Company resorted to another feasibility study in June 1995 which was completed in October 1995 after which it was finally decided (December 1995) to scrap the vessel on similar grounds as decided in December 1994. This avoidable delay had resulted in the payment of standing charges of Rs.1.71 crore.

The Management contended (August 1998) that the decision for scrapping the vessel was taken only on 1 December 1995 and hence the period of four months stipulated in Government guidelines would commence only from that date. The Ministry stated (October 1998) that SCI took a decision as per its best commercial judgement to conduct a fresh techno-economic study to assess whether it could take benefit of the relaxed age norms and operate the vessel further and the fact that it was not feasible to economically operate the vessel further could not have been foreseen before the techno-economic study was completed, and as such, the incurring of the standing charges was unavoidable.

The Ministry's reply is not tenable in view of the following:

(i) The Government of India's decision to relax the norm regarding economic life of liners was issued in March 1995 whereas SCI decided to conduct a fresh feasibility study only in June 1995 i.e. after an avoidable lapse of 2 months

(ii) The Chairman cum Managing Director (CMD) of the Company had clearly directed (1 June 1995) that the revised feasibility study should be completed by 6 June 1995 but against this target date, the study was completed only on 11 October 1995. In view of the fact that a detailed feasibility study already existed which took into account all factors except relaxation in norm regarding economic life of liners, there was no justification for taking more than 4 months for conducting a fresh feasibility report, in violation of CMD's orders to complete it within six days.

(iii) Even after preparation (October 1995) of the revised feasibility report, the Company took another five months to obtain approval of the Board (March 1996) for sale and finally sold the vessel in April 1996.

Thus, lackadaisical attitude of the Management resulted in avoidable payment of standing charges of Rs.1.71 crore.

CHAPTER 18 : MINISTRY OF URBAN AFFAIRS AND EMPLOYMENT

National Buildings Construction Corporation Limited

18.1 Infructuous expenditure on opening of a branch at Abu Dhabi

Opening of a branch office at Abu Dhabi on the basis of unrealistic projections resulted in an infructuous expenditure of Rs.51.45 lakh.

Expecting bright prospects of securing civil construction projects in United Arab Emirates (UAE), the Company submitted (March 1995) a proposal to its Board of Directors for opening an office there. The Company expected to secure projects within 3 months of the registration of the branch and to obtain its first payment within 6 months of opening of the branch. As per local regulations, the branch was required to show a minimum bank balance of Dirhams 10 million (Rs.10 crore, approximately) before it could be registered as a prime contractor to bid for, secure and execute contracts in its own name. In the proposal, however, it was stated that through the influence of a certain local sponsor (M/s. MGE), the registration could be managed with Dirham 1,50,000. The expenditure on establishment of the branch office was estimated at Dirhams 1 million, keeping the minimum bank balance requirement at Dirhams 1,50,000. The Board approved the proposal in April 1995.

The Company entered (April 1995) into a sponsorship agreement with M/s. MGE (Al Mohar Group of Establishments) of UAE at a sponsorship fee of Dirhams 1,20,000 per annum. As per the agreement, the local sponsor was to assist the Company in obtaining all necessary licenses and permits required for establishing and maintaining the branch office.

In order to meet the expenses for opening and maintaining the branch office for an initial period of 6 months, the Reserve Bank of India (RBI) released (August 1995) remittances in foreign exchange equivalent to Rs.17.70 lakh (including Rs.5.40 lakh for sponsorship fee) after the Company indicated (July 1995) to the RBI that it was likely to generate a profit of Rs.7.85 crore within 24 months on 3 projects it was likely to secure in UAE. The Company also informed the RBI that the remittances back to India would commence within 6 months and that the subsequent expenses on maintenance of the office would be met out of project receipts. However, no records were available to indicate if, before opening the office, the Company had apprised the RBI of (a) the requirement of the minimum bank balance of Dirhams 10 million for the branch office to be eligible to secure projects in that country as a prime contractor and (b) the manner in which the Company had made arrangements to fulfil this requirement.

The branch office was opened in September 1995 at Abu Dhabi. In spite of the agreement, its registration could not be managed by the sponsor with Dirhams 1,50,000 as proposed to the Board. The Company, therefore, approached (December 1995) the Bank of Baroda through the bank's branch at Abu Dhabi for a credit line of 10 million dirhams in its favour. As the Bank of Baroda demanded full guarantee of the Government of India and 100 per cent cash margin which the Company was unable to arrange, it approached (July 1996) a local bank at Abu Dhabi (Abu Dhabi Commercial bank Ltd) for a credit line of 5 million dirhams so that the branch office could at least be registered under a lower category, viz. A IInd class prime contractor in UAE. The local bank agreed (September 1996) to provide the facility subject to a margin of 100 per cent security in the form of Government of India bonds. The Ministry did not approve (September 1996) the pledging of Government of India bonds for this purpose.

As the Company could not secure the funds required for classification as a contractor in UAE in any category, the branch office could not secure any project in that country to generate funds as a self-sufficient unit. The branch office was finally closed in December 1996 after incurring a total expenditure of Rs.51.45 lakh, on setting up and maintaining the office, including sponsorship fee and pay and allowances of the staff posted there.

The Management stated (December 1997) that while the Company could not secure business at Abu Dhabi, the period was utilised in settling the claims and dues of a client, settled at Abu Dhabi, for a project in Yemen. It was further stated that after the opening of the branch office, a senior officer of the rank of Chief Project Manager was posted at Abu Dhabi for this purpose as well as for securing business at Abu Dhabi. The reply of the Management is not tenable as activities such as liaisoning for settlement of such claims and dues were not included in the proposal submitted to the Board for the opening of the branch office and these certainly were not the objectives of opening the branch office.

The Ministry admitted (February 1998) that the Company was compelled to wind up its branch at Abu Dhabi on account of its liquidity crunch. They further stated that the Company lost valuable time on meeting the requisite formalities for making its branch office functional and had it acted more promptly, the expenditure incurred on the branch office would have been reduced to a great extent. They also intimated that the Company had been advised to be more careful in future, so as to avoid such financial losses.

Thus, despite having full knowledge of (i) local regulations regarding the minimum bank balance and (ii) its inability to meet the demand in view of the liquidity crunch faced by it, the Company established the branch office in UAE on the basis of unrealistic projections which resulted in an avoidable infructuous expenditure of Rs.51.45 lakh.

CHAPTER 19

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) laid on the table of both the Houses of Parliament. Such notes were required to be submitted even for paragraphs/appraisals which were not selected by the Committee on Public Undertakings for detailed examination.

A review has revealed that inspite of reminders, 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 Ministries, as detailed in Appendix have not been forwarded to Audit for vetting.

A further analysis of the Appendix reveals that particularly in respect of PSU's under the administrative control of the following Ministries ATNs for a very large number of paras have been pending even after many years of the presentation of the Audit Reports in Parliament:

Name of the Ministry/ Department	No. of Paras for which ATNs has not been received			
	More than 3 years	More than 2 years	More than 1 year	Less than 1 year
1. Civil Aviation	7	3	8	4
2. Coal	63	32	25	25
3. Petroleum & Natural Gas	63	20	12	14
4. Railways	11	2	1	7
5. Telecommunications	7	0	15	9

Since remedial action, if any taken by the Government on the audit paras to the Reports of the C&AG of India is watched by Parliament through the COPU on the basis of action taken notes of the Government duly vetted by audit, non-submission of such ATNs has resulted in keeping a large amount of the Government expenditure outside such parliamentary scrutiny.

(A.K. CHAKRABARTI)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
Dated: 12 APR 1999

Countersigned

(V.K.SHUNGLU)
Comptroller and Auditor General of India

New Delhi
Dated: 12 अप्रैल APR 1999

APPENDIX

Statement showing the details of Audit Reports(Commercial) for which Action Taken Notes are pending as on 28 February 1999

No. and Year of Report	Name of the Report	Para No., if any
Department of Bio-Technology		
1. No. 2 of 1997	Comments of Accounts	Paras 2.2.3 and 2.4.3
2. No. 3 of 1998	Audit Observations	Para 2.1
Ministry of Chemicals & Fertilizers		
Department of Chemicals and Petro-Chemicals		
1. No. 2 of 1997	Comments on Accounts	Para 2.5.5.
Department of Fertilizers		
1. No. 3 of 1997	Audit Observations	Para 8.4.1
Department of Civil Aviation		
1. No. 3 of 1993	Audit Observations	Paras 3.7, 3.10 and 3.13
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.3 and 1.3.3
3. No. 3 of 1994	Audit Observations	Paras 2.1 and 2.2
4. No. 3 of 1995	Audit Observations	Paras 3.1 and 3.2
5. No.12 of 1995	Appraisal on Air India Ltd	Selected by COPU for examination.

No. and Year of Report	Name of the Report	Para No., if any
6. No. 3 of 1996	Audit Observations	Para 2.1.1
7. No. 2 of 1997	Comments on Accounts	Para 1.2.14
8. No. 3 of 1997	Audit Observations	Paras 3.1, 3.2.1 to 3.2.3 and 3.3.1 to 3.3.3
9. No. 2 of 1998	Comments on Accounts	Para 2.2.4
10. No. 3 of 1998	Audit Observations	Paras 4.1.1 to 4.1.3

Ministry of Coal

1. No. 3 of 1993	Audit Observations	Paras 5.1 to 5.11
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.9, 1.3.5, 2.1.4 and 2.4.1
3. No. 3 of 1994	Audit Observations	Paras 3.1 to 3.12
4. No. 2 of 1995	Comments on Accounts	Paras 1.2.8, 1.2.9, 1.3.2 to 1.3.4, 2.1.9 to 2.1.11, 2.2.8 to 2.2.10, 2.3.1 to 2.3.5, 2.4.7 to 2.4.12, 2.6.6 and 2.7.2
5. No. 3 of 1995	Audit Observations	Paras 4.1 to 4.11
6. No.10 of 1995	Central Coalfileds Ltd	Selected by COPU for examination.
7. No. 2 of 1996	Comments on Accounts	Paras 1.3.6 to 1.3.8, 2.1.5 to 2.1.8, 2.2.7 to 2.2.12, 2.3.7 to 2.3.12, 2.4.5 to 2.4.10, 2.5.2 and 2.7.2
8. No. 3 of 1996	Audit Observations	Paras 3.1 to 3.5
9. No. 2 of 1997	Comments on Accounts	Paras 1.2.16 to 1.2.23, 1.3.8, 1.3.9, 2.2.11, 2.3.3, 2.3.4, 2.4.8, 2.5.9, 2.5.10 and 2.7.1
10. No 3 of 1997	Audit Observations	Paras 4.1.1, 4.1.2, 4.2.1 to 4.2.3, 4.3, 4.4.1 and 4.4.2

No. and Year of Report	Name of the Report	Para No., if any
11. No. 2 of 1998	Comments on Accounts	Paras 1.2.11, 1.2.12, 1.2.14, 1.2.15, 1.3.6, 1.3.7, 2.1.5 to 2.1.9, 2.2.5, 2.4.5 to 2.4.9, 2.5.6, 2.5.7, 2.5.9, 2.6.5, 2.6.6, 2.8.3 and 2.8.4
12. No 3 of 1998	Audit Observations	Para 5.1

Ministry of Commerce

1. No. 3 of 1994	Audit Observations	Para 4.2
2. No. 3 of 1998	Audit Observations	Para 6.4

Department of Defence Production and Supplies

1. No. 2 of 1996	Comments of Accounts	Paras 1.3.13, 2.1.9, 2.3.14 and 2.4.11
2. No. 3 of 1996	Audit Observations	Para 6.2
3. No. 2 of 1997	Comments on Accounts	Paras 1.2.30, 1.3.11, 2.1.10, 2.2.16, 2.4.11 and 2.4.13
4. No. 3 of 1997	Audit Observations	Paras 7.1.1 and 7.1.2
5. No. 2 of 1998	Comments on Accounts	Paras 1.2.21 to 1.2.24, 1.3.9 to 1.3.11, 2.1.14 to 2.1.16, 2.5.13, 2.5.14 and 2.8.7
6. No. 3 of 1998	Audit Observations	Para 8.1

Ministry of Environment & Forest

1. No. 3 of 1994	Audit Observations	Para 11.1
2. No. 2 of 1995	Comments on Accounts	Paras 2.2.30
3. No.16 of 1995	Andaman & Nicobar Island forest Dev. Corpn. Ltd	
4. No. 2 of 1996	Comments on Accounts	Paras 2.2.16 and 2.7.3

No. and Year of Report	Name of the Report	Para No., if any
5. No. 2 of 1997	Comments on Accounts	Paras 2.2.18, 2.2.23, 2.4.17 and 2.5.13

Department of Electronics

1. No. 2 of 1998	Comments on Accounts	Paras 1.2.25 and 2.6.11
2. No. 3 of 1998	Audit Observations	Para 9.1

Ministry of Finance

Banking Division

1. No. 3 of 1996	Audit Observations	Para 7.1.4
2. No. 2 of 1997	Comments on Accounts	Para 1.3.14
3. 3 of 1997	Audit Observations	Para 9.5
4. No. 2 of 1998	Comments on Accounts	Paras 1.2.26, 1.2.27, 2.1.17, 2.2.8, 2.2.10, 2.6.12, 2.6.13, 2.6.14 and 2.8.8

Ministry of Food

1. No. 3 of 1998	Audit Observations	Para 11.1

Ministry of Health & Family Welfare

1. No. 2 of 1998	Comments on Accounts	Para 2.7.8

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Industry		
Department of Heavy Industry		
1. No. 3 of 1997	Audit Observations	Paras 12.1.3, 12.4.1 and 12.8
2. No. 2 of 1998	Comments on Accounts	Paras 1.2.38, 1.2.39, 1.3.21, 2.1.21, 2.1.22, 2.1.29, 2.1.30, 2.2.12, 2.2.18, 2.3.5, 2.3.7, 2.4.11, 2.4.13, 2.4.16, 2.4.17, 2.5.16, 2.5.17, 2.6.17, 2.6.21, 2.6.22, 2.7.9, 2.7.10, 2.7.13 and 2.8.10
3. No. 3 of 1998	Audit Observations	Paras 12.1.2 to 12.1.5, 12.3, 12.7 and 12.9
Department of Small Industries		
1. No. 2 of 1995	Comments on Accounts	Paras 1.3.34 and 2.2.30
2. No. 3 of 1995	Audit Observations	Paras 12.19
3.No. 2 of 1996	Comments on Accounts	Para 1.3.30
4. No. 2 of 1997	Comments on Accounts	Para 1.2.49
Ministry of Information & Broadcasting		
1. 2 of 1998	Comments on Accounts	Paras 2.2.20 and 2.3.12
Department of Mines		
1. No. 3 of 1994	Audit Observations	Para 12.4
2. No. 2 of 1995	Comments on Accounts	Paras 2.1.30, 2.2.22, 2.4.25, and 2.5.10
3. No. 2 of 1997	Comments on Accounts	Paras 1.2.52, 2.4.36, and 2.7.6
4. No. 3 of 1997	Audit Observations	Para 13.3

No. and Year of Report	Name of the Report	Para No., if any
5. No. 2 of 1998	Comments on Accounts	Paras 1.2.42, 1.3.22, 1.3.24, 2.1.31, 2.1.32, 2.2.21, 2.2.22, 2.4.18, 2.4.19, 2.5.24, 2.5.25, 2.6.29, 2.6.30, 2.7.14, 2.7.15 and 2.8.15
6. No. 5 of 1998	Hindustan Copper Ltd.	Appraisal selected by COPU.

Ministry of Non-Conventional Energy

1. No. 2 of 1998	Comments on Accounts	Para 1.2.43

Ministry of Petroleum and Natural Gas

1. No. 2 of 1993	Comments on Accounts	Paras 1.2.10, 1.2.12, 1.2.13, 1.3.29, 1.3.30, 1.4.30, 2.4.31, 2.5.26 to 2.5.28 and 2.6.3
2. No. 3 of 1993	Audit Observations	Paras 16.4, 16.5, 16.7 and 16.11
3. No. 2 of 1994	Comments on Accounts	Paras 1.3.35, 1.3.39, 2.4.12 and 2.4.13
4. No. 3 of 1994	Audit Observations	Paras 13.1, 13.2, 13.4 and 13.6
5. No. 2 of 1995	Comments on Accounts	Para 1.2.31, 1.2.33, 1.2.36, 1.3.38 to 1.3.40, 2.1.31, 2.2.26, 2.2.27 2.3.31 to 2.3.33, 2.4.26 to 2.4.30, 2.5.11 to 2.5.13 and 2.7.12.
6. No. 3 of 1995	Audit Observations	Paras 14.1 to 14.4, 14.6 to 14.9, 14.11 to 14.14 14.16, 14.18 and 14.23
7. No.20 of 1995	IOC Ltd. (Refinery and Pipelines Divisions)	
8. No.23 of 1995	ONGC Ltd.	
9. No.24 of 1995	IOC Ltd. (Marketing)	

No. and Year of Report	Name of the Report	Para No., if any
10. No. 2 of 1996	Comments on Accounts	Paras 1.2.22, 1.2.24, 1.3.35, 1.3.37, 1.3.38, 2.1.34, 2.2.43, 2.3.46, 2.3.49, 2.4.36 to 2.4.38, 2.4.41, 2.4.43, 2.5.12 and 2.5.13
11. No. 3 of 1996	Audit Observations	Paras 10.1, 10.2 and 10.3.3.
12 No. 5 of 1996	Private participation in production of Crude Oil-JVs	Selected by COPU for examination.
13. No. 2 of 1997	Comments on Accounts	Para 1.2.56, 1.2.57, 1.3.28, 2.1.24, 2.2.41, 2.3.22, 2.3.23, 2.4.38 and 2.5.31
14. No. 3 of 1997	Audit Observations	Paras 14.1, 14.4.2 and 14.5
15. No. 2 of 1998	Comments on Accounts	Paras 1.2.44, 1.2.45, 1.2.48, 1.2.51, 2.1.33, 2.1.34, 2.2.23, 2.2.24, 2.4.20, 2.4.21 and 2.8.16
16. No. 3 of 1998	Audit Observations	Paras 13.2, 13.3 and 13.5.1

Ministry of Power

1. No. 3 of 1998	Audit Observations	Para 14.2.1

Ministry of Railways

1. No. 2 of 1993	Comments on Accounts	Para 1.2.17
2. No. 2 of 1995	Comments on Accounts	Para 1.2.46, 1.2.47, 2.1.35 and 2.7.15
3. No. 3 of 1995	Audit Observations	Paras 16.1 to 16.6
4. No. 2 of 1996	Comments on Accounts	Para 2.2.47

No. and Year of Report	Name of the Report	Para No., if any
5. No.3 of 1997	Audit Observations	Para 16.2
6. No. 2 of 1998	Comments on Accounts	Paras 1.3.28, 2.1.38, 2.6.34 and 2.7.19
7. No. 3 of 1998	Audit Observations	Paras 15.1.1, 15.1.2 and 15.1.3

Department of Science & Technology

1. No. 2 of 1998	Comments on Accounts	Paras 2.1.39, 2.2.25, 2.7.20 and 2.8.19

Ministry of Steel

1. No. 3 of 1995	Audit Observations	Para 17.5
2. No. 21 of 1995	Rourkela Steel Plant	
3. No. 2 of 1996	Comments on Accounts	Para 1.3.43
4. No. 3 of 1998	Audit Observations	Paras 16.2, 16.6.2 and 16.6.5
5. No. 4 of 1998	Durgapur Steel Plant	Selected by COPU for examination.

Ministry of Surface Transport

1. No. 2 of 1998	Comments on Accounts	Para 1.3.38

Department of Telecommunications

1. No. 2 of 1993	Comments on Accounts	Paras 1.4.4 and 2.5.8
2. No. 2 of 1994	Comments on Accounts	Para 1.3.9
3. No. 2 of 1995	Comments on Accounts	Paras 1.2.14, 1.3.11 and 2.5.3
4. No. 3 of 1995	Audit Observations	Para 6.3

No. and Year of Report	Name of the Report	Para No., if any
5. No. 2 of 1997	Comments on Accounts	Paras 1.2.29, 2.1.9, 2.2.14, 2.4.9, 2.5.11 and 2.6.3
6. No. 3 of 1997	Audit Observations	Paras 6.1 and 6.3.1 to 6.3.8
7. No. 2 of 1998	Comments on Accounts	Paras 1.2.20, 2.3.3, 2.5.12, 2.6.10, and 2.7.5
8. No. 3 of 1998	Audit Observations	Paras 7.1.1, 7.1.2, 7.2.1 and 7.2.2

Ministry of Tourism

1. No. 2 of 1998	Comments on Accounts	Para 2.1.4

Ministry of Urban Development and Employment

1. No. 2 of 1997	Comments on Accounts	Paras 1.2.77, 1.3.42, 2.1.38, 2.2.53, 2.4.59, 2.6.29 and 2.6.30
2. No. 2 of 1998	Comments on Accounts	Paras 1.2.72, 1.2.73, 1.3.43, 1.3.44, 2.1.45, 2.2.31, 2.3.14, 2.6.40, 2.7.23 and 2.8.23
3. No. 3 of 1998	Audit Observations	Para 19.1

Ministry of Water Resources

1.No. 3 of 1995	Audit Observations	Para 21.1

Department of Welfare

1. No. 2 of 1997	Comments on Accounts	Paras 1.3.43, 2.1.39, 2.2.54 and 2.3.52.
2. No. 2 of 1998	Comments on Accounts	Paras 1.2.74 and 1.2.75

ANNEXURE - I

Cost estimates of Polyester X-ray Project

(Referred to in Para No. 11.6.10.1)

(Rs. in Lakh)

Sl. No.	Items	Original Estimate (March 1986)	Revised Cost Estimate-I (May 1989)	Revised Cost Estimate- II (January 1996)
1	Capital Cost	16812	29062	53437
2	FE Component	8430	11568	15233
3	IDC	1187	3951	19940
4	Annual Production Capacity(MSM)			
4A	Coating Capacity (MSM)			
i)	Medical X-ray	9.5	9.5	15.03
ii)	Industrial X-ray	0.5	0.5	0.51
iii)	Graphic Arts Film	2.0	2.0	2.25
4B	Conversion Capacity (MSM)	6.0	6.0	6.0
4C	Unit cost of production (Rs./sq. metre)			
i)	Medical X-ray	96.97	139.97	185.53
ii)	Industrial X-ray	410.48	588.05	467.08
iii)	Graphic Arts	72.75	88.82	176.63
5	Gestation Period(months)	66	66	112
6	Manpower	600	600	600
7	Financial IRR %	28.62	15.50	10.45
8	Pay back period	3Y 5M	6Y 3 M	10Y
9	Commissioning Schedule	Oct.91	Oct.91	Aug.96
10	Date of Sanction	March 86	Sept.90	Jan.96

Y=Years; M=Months; MSM=Million Square Metres.

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ANNEXURE - II

(Referred to in Para No. 11.6.10.1)

Comparative statement of project cost stagewise

(Rs. in lakh)

Sl. No.	Items	Original Estimates	RCE-I	RCE-II	Actuals up to 31.3.1997
1	Civil Work	735	1576	1746	1746
2	Plant and Machinery				
i)	Imported	964	2761	4185	4185
ii)	Indigenous	4258	6768	8554	8554
3	Payment to Collaborators				
i)	Licence & technical know-how	6027	7711	9797	9797
ii)	Expatriate service	2672	4702	1149	4911
iii)	Additional requirement	-	679	539	539
4	Indian Consultancy	50	142	175	175
5	Start-up and Trials	300	383	425	425
6	Training	25	25	25	25
7	Financing Cost	1781	3951	19940	33499
8	R&D Cess	---	364	519	519
9	EDC	---	---	1521	2530
10	Working Capital Margin	---	---	1100	1100
	Total	16812	29062	53437	68005

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