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(डॉ० वल्लभभाई कथीरिया)
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New Delhi
राज्य मंत्री भारी उद्योग एवं सार्वजनिक उपक्रम
Minister of State Heavy Industry &
Public Enterprises
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Report of the
Comptroller and Auditor General
of India

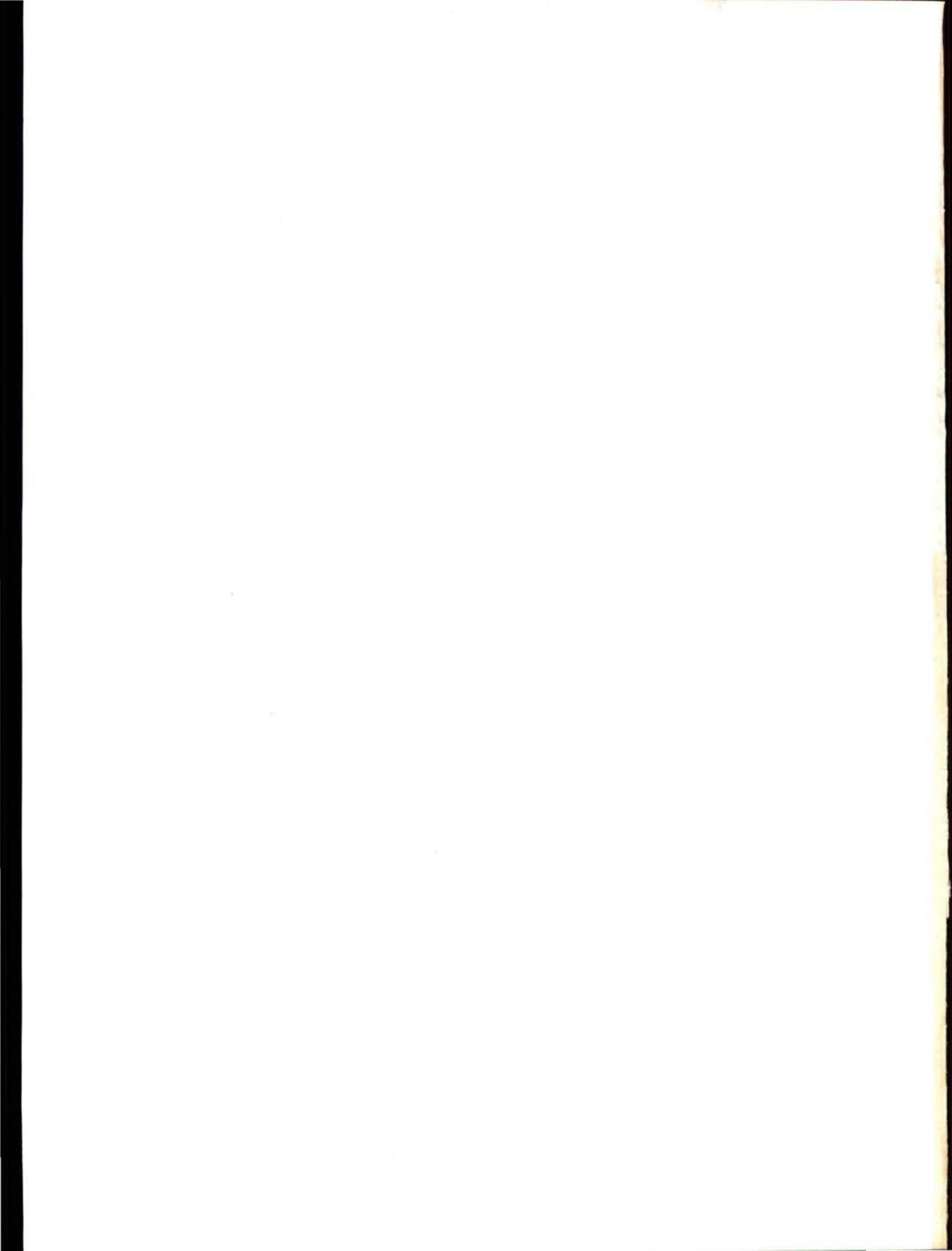
for the year ended March 2000

Union Government (Commercial)

Public Sector Undertakings

Transaction Audit Observations

No. 3 of 2001



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PREFACE

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

2. The statutes governing some Corporations and Authorities require their accounts to be audited by CAG and reports to be given by him. In respect of such Corporations viz. Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India and Damodar Valley Corporation, relevant statutes designate CAG as their sole auditor. During the year Food Corporation Act, 1964 was amended on 2 June 2000 whereby CAG was made the sole auditor for this Corporation also. In respect of 1 Corporation viz. Central Warehousing Corporation, CAG has the right to conduct a supplementary or test audit after audit has been conducted by the Chartered Accountants appointed under the statutes governing the Corporation.

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

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

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

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

'Report No.3 - Transactions Audit Observations' contains the observations on individual topics of interest noticed in the course of audit of the Companies and Corporations and short reviews on aspects of their working. This report also contains results of audit of transactions of Krishak Bharati Cooperative Limited (Co-operative Society) under Section 20(1) and Tariff Advisory Committee under Section 19(2) of the Comptroller and

Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 amended in 1984.

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

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 1998-99 and 1999-2000 as well as those which came to notice in earlier years but could not be covered in previous years.

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

OVERVIEW

I. Introduction

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

2. This Report includes 134 paragraphs in respect of 70 PSUs. The draft paragraphs were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of 6 weeks. Replies to 73 paragraphs were not received even as this report was being finalised in November 2000. In respect of 5 paragraphs, even the Management of the concerned PSU failed to respond despite being repeatedly reminded.

3. 134 paragraphs included in this report relate to the PSUs under the administrative control of the following Ministries/Departments of the Government of India:

Ministry/Department (Total number of PSUs/ **PSUs involved here)**	**No. of Para-graphs**	**Financial Implication under the Paragraphs (Rs. in crore)**	**Number of Paragraphs in respect of which Ministry reply was awaited**
1. Agriculture (5/**1**)	1	0.64	-
2. Atomic Energy (4/**2**)	3	15.26	1
3. Chemicals and Petrochemicals (16/**1**)	2	1.47	1
4. Civil Aviation (7/**5**)	14	216.50	10
5. Commerce (7/**3**)	7	16.81	5
6. Communications (5/**3**)	6	7.08	4
7. Consumer Affairs and Public Distribution (3/**1**)	10	73.86	8
8. Defence (9/**3**)	6	11.88	2
9. Fertilizers (9/**4**)	4	15.52	3
10. Finance (8/**6**)	7	134.73	2
11. Banking (37/**3**)	3	47.09	3
12. Heavy Industries and Public Enterprises (50/**9**)	15	247.59	9

13. Information and Broadcasting (2/**1**)	1	0.94	-
14 Information Technology (3/**1**)	1	1.61	-
15. Coal (10/**3**)	6	26.98	3
16 Mines (6/**2**)	3	17.71	1
17. Petroleum and Natural Gas (17/**9**)	22	224.42	16
18. Power (8/**1**)	1	3.03	1
19. Railways (6/**1**)	1	0.70	-
20. Social Justice and Empowerment (6/**1**)	1	0.74	-
21. Steel (14/**4**)	12	61.46	3
22. Surface Transport (7/**2**)	4	52.42	1
23. Textiles (22/**3**)	3	4.04	-
24. Urban Affairs and Employment (3/**1**)	1	1.90	-
Total	**134**	**1184.38**	**73**

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:

- Excess payment of **Rs.255.80 crore** in **10 cases** was made to staff of PSUs on account of *ex gratia,* bonus, salaries, wages, flying allowance and subsidy. Further in **3 cases** there was extra financial burden of **Rs.11.68 crore** towards salary, wages and retirement benefits due to increase in the age of retirement.

- Loss of **Rs.247.84 crore** suffered in **18 cases** on account of undue favour to parties, unfavourable terms of contract, non-enforcement of terms and conditions of contract, defective agreement terms or extension of credit in violation of agreed terms, unjustified injection of funds to meet shortfall in assured return etc.

- Loss of revenue/ sale proceeds of **Rs.220.68 crore** in **29 cases** due to delay in execution of orders, defective terms of sales contract, avoidable payment of liquidated damages, delay in implementation of revised rates, failure to assess the market demand, non-availing of MODVAT credit, loss in execution of export orders, etc.

- Avoidable payment of **Rs.121.02 crore** in **23 cases** on account of electricity charges, godown charges, demurrages, customs duty, excise duty, interest, income tax, etc.

- Unproductive expenditure/investment amounting to **Rs.106.88 crore** in **20 cases** due to development of un-economic mine, idling of equipment/production facilities, abandoning of projects/works, avoidable purchase of materials and spares etc., resulting in blockade of funds or rendering the expenditure infructuous.

- Avoidable expenditure/loss of **Rs.98.02 crore** in **8 cases** due to use of unproven technology, purchase without assessing condition of the vessel, purchase of lower capacity equipment, hiring defective equipment, etc.

- Insurance companies lost **Rs.86.35 crore** in **5 cases** due to adoption of incorrect tariff, excess settlement of claim and violation of internal instructions.

- Delay in realisation/non-realisation of debts, sale proceeds, electricity charges, interest due on bonds, transport charges, hire charges etc. leading to a loss of **Rs.20.13 crore** in **10 cases.**

- Extra/avoidable expenditure of **Rs.15.98 crore** incurred in **8 cases** due to delay in finalisation of tenders/specifications, overlooking a lowest offer, unfavourable agreement terms, failure to invoke risk purchase clause, etc.

II Highlights

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

Electronics Corporation of India Limited purchased two flats, the utilisation of which was quite uncertain. This led to blocking of **Rs.1.97 crore** with a consequent loss of interest of **Rs.86 lakh** thereon upto July 2000.

(Para 2.1.1)

Indian Rare Earths Limited (IRE) paid interest free advances in lieu of bonus to ineligible employees from 1991-92 to 1998-99 amounting to **Rs.8.75 crore** in violation of Government of India's orders and Payment of Bonus Act, 1965 of which **Rs.1.87 crore** was written off. Loss of interest (upto May 2000) on this unauthorised payment worked out to **Rs.3.22 crore.**

(Para 2.2.1)

Failure of **IRE** to follow rules and procedures resulted in non-utilisation of 15 dwelling units along with other amenities created by it in December 1996. This led to infructuous expenditure of **Rs.1.32 crore**.

(Para 2.2.2)

Due to improper planning of crew rest periods at London, **Air India Limited (AIL)** incurred an avoidable expenditure of **Rs.7.11 crore** on payment of accommodation charges and crew layover allowance.

(Para 4.1.1)

AIL incurred avoidable extra expenditure of **Rs.2.08 crore** on crew accommodation at New York during 1994-95 to 1995-96 by not entering into a contract with the hotel which had quoted the lowest rates.

(Para 4.1.2)

AIL lost **Rs.1.98 crore** due to improper advance payments made to a supplier in New York without safeguarding its interest.

(Para 4.1.3)

Faulty procedure of finalisation of bids for award of a contract for licensing out additional space for running duty free shops at international airports resulted in delay in award of the contract and consequential loss of **Rs.168.75 crore** to **Airports Authority of India (AAI).**

(Para 4.2.1)

AAI did not carry out the cost benefit analysis of an unsolicited offer of a private party and conferred undue favour upon it by awarding it contracts for providing trolley services at 5 international airports. This is likely to result in loss of **Rs.10.64 crore.**

(Para 4.2.2)

Inaction on the part of the **AAI** in implementing a single point metering system for its two electricity feeders resulted in drawl of excess power and consequent avoidable payment of load violation charges of **Rs.5.28 crore** to Delhi Vidyut Board.

(Para 4.2.3)

Delay in award of licence for advertisement rights by the **AAI** resulted in loss of **Rs.1.01 crore.**

(Para 4.2.4)

Hotel Corporation of India Limited paid *ex gratia* and offered gifts amounting to **Rs.2.40 crore** to its employees during the years 1994-95 to 1996-97 in violation of guidelines issued by Department of Public Enterprises.

(Para 4.3.1)

Adoption of old exchange rates by **Indian Airlines Limited (IAL)** while releasing flying allowance to pilots, cabin crew and flight engineers resulted in overpayment of **Rs.4.08 crore** during 1996-97 to 1998-99.

(Para 4.4.1)

IAL made irregular payment of **Rs.3.49 crore,** as *ex gratia* to its employees who retired due to reduction in the age of superannuation from 60 years to 58 years, in contravention of the opinion given by the Additional Solicitor General of India.

(Para 4.4.2)

Purchase of three helicopters by **Pawan Hans Helicopters Limited** despite knowledge of their high operating cost resulted in loss of **Rs.7.44 crore.**

(Para 4.5.1)

Export Credit Guarantee Corporation of India Limited lost **Rs.1.04 crore** on account of retrospective revision in categorisation of a country which was in violation of the tariff policy, the benefit of which had gone to a single exporter.

(Para 5.1.1)

Acceptance of an order for export of rice by **MMTC Limited** without having any assured source of supply, uneconomic purchases in violation of standard tendering practices, lapses in execution of the order and finally uneconomic disposal of stock led to loss of **Rs.7.79 crore.**

(Para 5.2.1)

Venturing into oil-seeds operations with a party having poor financial credibility and doubtful credentials and lapses in exercising adequate controls over the operations by **MMTC Limited** resulted in a loss of **Rs.3.92 crore**.

(Para 5.2.2)

Confirmation of a supply order for export of skimmed milk powder by **The State Trading Corporation of India Limited** without specifically identifying the source of supply resulted in liability of **Rs.1.72 crore.**

(Para 5.3.1)

Irregularities and violation of codal provision by **Mahanagar Telephone Nigam Limited (MTNL)** while hiring a private accommodation led to extra expenditure/liability of **Rs.1.96 crore.**

(Para 6.2.1)

Due to delay in development of billing software by **MTNL** for Integrated Services Digital Network subscribers, there was short/non-billing of revenue to the tune of **Rs.1.30 crore**.

(Para 6.2.2)

Failure to exercise the option to extend the period of rent agreement on due date by **MTNL** resulted in an avoidable expenditure of **Rs.1.26 crore.**

(Para 6.2.3)

Failure of **Videsh Sanchar Nigam Limited** to fully encash the bank guarantee or to switch off transponder services despite continuous default in payment of dues by a television broadcaster, led to loss of revenue of **Rs.1.48 crore.**

(Para 6.3.1)

Due to indecision on the part of Government of India in regard to treatment of moisture gained by wheat stock during storage **Food Corporation of India (FCI)** had to make excess payment of **Rs. 37.11 crore** to various state agencies in Haryana on wheat stocks taken over from these agencies.

(Para 7.1.1)

Rs.8.35 crore has already been paid by **FCI** to labourers engaged under Direct Payment System owing to incorrect revision of rates and it is likely to make an excess payment of **Rs.2.25 crore** per annum for the same reasons.

(Para 7.1.2)

FCI incurred a loss of **Rs.4.16 crore** in Madhya Pradesh by hiring godowns unfit for storage and by unscientific stacking of rice besides which a loss of **Rs.4.17 crore** is likely to be incurred on sale of balance part of damaged rice presently stored in these godowns.

(Para 7.1.3)

Hiring of private godowns by **FCI** despite availability of storage capacity in existing godowns and surplus labour resulted in avoidable expenditure of **Rs.4.59 crore** on account of rent and labour charges.

(Para 7.1.4)

Non-compliance by Field Managers of **FCI** with the procedures prescribed for recovery of differential cost of foodgrains supplied to State Government under Public Distribution System (PDS) resulted in non recovery of **Rs.4.29 crore** from State Governments of Orissa, Assam, Rajasthan and Meghalaya/ Mizoram.

(Para 7.1.5)

Failure of **FCI** to implement the orders of the Government of India for sale of wheat under the Open Market Sale Scheme at revised rate and failure of Government of India to enforce implementation of its own orders resulted in short realisation of **Rs.2.97 crore**.

(Para 7.1.6)

Non compliance of procedure prescribed for avoiding diversion/leakage of food grains earmarked for distribution under Revamped Public Distribution System resulted in short recovery of **Rs.2.73 crore** by **FCI** from the Government of Sikkim.

(Para 7.1.7)

Calculation of element of driage, costs relating to mandi labour and transportation charges by **FCI** which bore no relation to actual driage resulted in excess payment of **Rs.2.42 crore** to the Government of Punjab and its agencies.

(Para 7.1.8)

Non insertion of a suitable clause by **FCI** in agreement with rice millers for ensuring final adjustment of driage allowed to private rice millers, resulted in higher percentage of driage allowance and consequential short recovery of 2399 MT of rice valued at **Rs.1.89 crore** from the millers.

(Para 7.1.9)

Policy of issuing stocks to nominees under PDS from the nearest available depots was not properly followed by **FCI** in Tamil Nadu which resulted in avoidable expenditure of **Rs.1.18 crore** on account of freight paid for replenishment of stock in far off depots.

(Para 7.1.10)

Bharat Earth Movers Limited offered the transmission systems for inspection before the agreed delivery schedule resulting in an avoidable loss of **Rs.1.52 crore.**

(Para 8.1.1)

Failure on the part of **Bharat Electronics Limited** to include appropriate clause to safeguard its interest in the contract entered into with Goa Shipyard Limited resulted in a loss of **Rs.1.68 crore** apart from levy of liquidated damages of **Rs.77.96 lakh** by the latter.

(Para 8.2.1)

Failure of the Koraput Division of **Hindustan Aeronautics Limited (HAL)** to revise the subsidy on electricity charges extended to employees, periodically, resulted in extra expenditure of **Rs.4.62 crore.**

(Para 8.3.1)

Failure on the part of **HAL** to include a clause in the quotations to claim cost of modifications to aircraft supplied during 1995-96 to 1996-97 resulted in loss of **Rs.1.21 crore.**

(Para 8.3.2)

HAL suffered loss of interest of **Rs.1.15 crore** due to ignorance of the provisions of Income Tax Act, 1961.

(Para 8.3.3)

Krishak Bharati Cooperative Limited engaged consultants/architects without fixing any ceiling on their fee. This and lack of proper monitoring resulted in construction of 0.71 lakh sq. ft. of space more than the planned requirement and consequential extra avoidable expenditure of **Rs.1.11 crore.**

(Para 9.3.1)

Injudicious decision of **National Fertilizers Limited (NFL)** to purchase two additional urea strippers after agreeing to release advance payment to the original supplier for similar items resulted in blockage of **Rs.12.76 crore** with consequential annual loss of interest of **Rs.2.36 crore.**

(Para 9.4.1)

Public Sector Insurance Companies lost premium of **Rs.82.81 crore** due to issue of a new Comprehensive Package Policy devised by **Tariff Advisory Committee,** specifically for M/s. Reliance Industries Limited at the latter's initiative, even though it was possible to cover the risks under the existing underwriting procedure.

(Para 10.1.1)

GIC Asset Management Company Limited incurred an avoidable loss of **Rs.46.33 crore** by taking upon itself the liability of the trustees (GIC Mutual Fund).

(Para 10.2.1)

National Insurance Company Limited sustained loss of premium amounting to **Rs.1.52 crore** due to non-loading the basic rate for multi-transit and storage at intermediate points.

(Para 10.3.1)

The New India Assurance Company Limited's failure to pay shortfall in advance tax even when final liability was ascertainable resulted in avoidable payment of interest of **Rs.2.05 crore.**

(Para 10.4.1)

Indfund Management Limited incurred a loss of **Rs.43.59 crore** by having to pay the returns assured by the trustees.

(Para 11.1.1)

Due to non-inclusion of a suitable clause in a loan agreement, the **Industrial Investment Bank of India** failed to recover prepayment premium of **Rs.2.82 crore** against premature repayment of a loan by a borrower.

(Para 11.2.1)

By renouncing its entitlement in right shares of Dishergarh Power Supply Company Limited (DPS) in favour of a private party, **Andrew Yule & Co. Limited** suffered loss of renunciation premium of **Rs.6.50 crore** and DPS lost the status of a deemed Government Company.

(Para 12.1.1)

Bharat Heavy Electricals Limited (BHEL) made irregular payment of **Rs.205.34 crore** as *ex gratia* to its employees in contravention of the guidelines issued by the Department of Public Enterprises during April 1988 and December 1997.

(Para 12.2.1)

Failure of **BHEL** to estimate cost of production of Stoker Fired Boilers as per customer specifications resulted in cash loss of **Rs.4.82 crore.**

(Para 12.2.2)

Allowing departure from the terms of the supply order without safeguarding the interest of **BHEL** resulted in blocking of funds of **Rs.1.30 crore** with consequential interest loss of **Rs.1.04 crore**.

(Para 12.2.3)

BHEL suffered loss of **Rs.1.98 crore** due to delay in execution of an order and consequent increase in Customs and Central Excise duties.

(Para 12.2.4)

BHEL incurred an avoidable expenditure of **Rs.1.34 crore** due to non-finalisation of terms on account of additional specification and non-compliance with contractual provisions for painting.

(Para 12.2.5)

As a consequence of enhancement of retirement age of employees **Burn Standard Company Limited** had to bear an extra expenditure of **Rs.99.12 lakh** towards voluntary retirement benefits (VRS), besides additional salary and wages of **Rs.1.08 crore** for employees not opting for VRS but working beyond the age of 58 years.

(Para 12.3.1)

Failure of **Heavy Engineering Corporation Limited** to safeguard its interest by relaxing the terms and conditions of the contract entered into with a private sector Company, resulted in blocking of revenue of **Rs.2.07 crore** as well as loss of interest thereon to the tune of **Rs.1.27 crore.**

(Para 12.5.1)

Hindustan Paper Corporation Limited failed to recover **Rs.4.93 crore** from a single party due to non-adherence to established marketing guidelines and inadequate supervision of the activities of Delhi depot.

(Para 12.6.1)

As a result of enhancement of retirement age from 58 years to 60 years, **Jessop & Co. Limited** had to bear an additional financial burden of **Rs.1.99 crore** towards extra voluntary retirement benefits besides payment of additional salary and wages of **Rs.4.22 crore** to employees in service beyond the age of 58 years.

(Para 12.7.1)

Non leasing of the vacant floor space by Mumbai unit of **National Bicycle Corporation of India Limited** inspite of instructions of Board of Directors led to the Company losing lease rentals of **Rs.3.02 crore.**

(Para 12.8.1)

As a result of enhancement of retirement age from 58 years to 60 years, **Tyre Corporation of India Limited** had to bear an additional financial burden of **Rs.3.40 crore** towards extra voluntary retirement/separation benefits besides payment of additional salary and wages to employees in service beyond the age of 58 years.

(Para 12.9.1)

CMC Limited's failure to adhere to the procedure and to enter into agreement before taking up additional work in a contract led to loss of revenue of **Rs.1.61 crore.**

(Para 14.1.1)

A plant for production of smokeless coal set up by **Bharat Coking Coal Limited (BCCL)** at a cost of **Rs.7.83 crore** had been lying idle due to market constraints rendering the investment unfruitful.

(Para 15.1.1)

Delay in construction of Froth Floatation Plant by **BCCL** led to an idle investment of **Rs.5.64 crore.**

(Para 15.1.2)

Wagon loading system constructed at a cost of **Rs.7.23 crore** by **Central Coalfields Limited (CCL)** was lying idle as it was found to be unsuitable for loading wagons within the free time of 3 hours allowed by the Railways.

(Para 15.2.1)

Failure to insure a dumper by **CCL** in accordance with the provisions of the loan agreement led to loss of **Rs.2.26 crore** as the dumper was destroyed by fire.

(Para 15.2.2)

Due to non-recovery of electricity charges from the employees, **South Eastern Coalfields Limited** suffered a loss of **Rs.3.37 crore.**

(Para 15.3.1)

Failure of **Hindustan Copper Limited** to adapt to the changed market scenario and to stop the development activities of an uneconomic mine resulted in an avoidable infructuous expenditure of **Rs.1.97 crore.**

(Para 16.1.1)

Hindustan Zinc Limited purchased 11 DG sets with a capacity of 5.047MW each which were not functioning at the rated capacity since installation. Instead of rejecting the DG sets, the Board de-rated the DG sets to 3.5MW each. Thus due to accepting the DG sets of lower capacity, the Company incurred an extra payment of **Rs 14.94 crore.**

(Para 16.2.1)

Balmer Lawrie & Co. Limited suffered an operating loss of **Rs.8 crore** besides a fruitless capital investment of **Rs.6.10 crore** due to implementation of a project with unproven technology and huge expansion thereof without stabilising the existing operation. The project had to be eventually abandoned, as the same was operationally unviable.

(Para 17.1.1)

Bharat Petroleum Corporation Limited (BPCL) suffered loss of **Rs.7.84 crore** on account of extension of credit facilities to a private airline in violation of the terms and conditions of the agreement.

(Para 17.2.1)

Due to delay in revision of prices as effected by the Ministry, **BPCL** lost **Rs. 3.51 crore** to a private party by undercharging for its product.

(Para 17.2.2)

Bongaigaon Refinery & Petrochemicals Limited suffered loss of **Rs.1.05 crore** due to procurement of optical whitener without properly assessing its usability.

(Para 17.3.1)

Non recovery of excise duty paid on the supply of Natural Gas Liquid to Krishak Bharati Co-operative Limited resulted in loss of **Rs. 5.83 crore** to the **Hindustan Petroleum Corporation Limited (HPCL).**

(Para 17.4.1)

HPCL suffered loss of **Rs.1.48 crore** in supply of aviation turbine fuel to private airline by following business practices which violated its own internal rules and procedures.

(Para 17.4.2)

Failure of **IBP Co. Limited** to finalise annual accounts and hold AGM in time and consequent delay in distribution of dividend led to an avoidable payment of **Rs.2.41 crore** towards income-tax.

(Para 17.5.1)

Indian Oil Corporation Limited (IOC) imported 283967 MT of crude oil valuing Rs.199.02 crore for its Panipat Refinery earlier than its requirement. This resulted in purchase being effected at higher price leading to loss of **Rs.97.84 crore** and loss of interest of **Rs.3.57 crore** on blocked funds.

(Para 17.6.1)

For controlling air pollution from Mathura Refinery of **IOC,** which was considered to be detrimental to Taj Mahal and had become subject matter of public interest writ in Supreme Court of India, the Company opted for an unproven indigenous technology upgraded directly from laboratory to commercial scale without first testing it in a pilot plant. The technology failed to deliver expected results. In consequence of this, the expenditure of **Rs.12.54 crore** incurred thereon became infructuous.

(Para 17.6.2)

IOC suffered a loss of **Rs.9.41 crore** on account of extension of credit facilities in supply of aviation fuel to a private airlines in violation of the terms and conditions of the agreement.

(Para 17.6.3)

IOC failed to realise actual transportation charges from Nyveli Lignite Corporation Limited resulting in avoidable loss of **Rs.2.42 crore.**

(Para 17.6.4)

IOC failed to avail MODVAT benefit of **Rs.1.24 crore** due to delay/non-filing of statutory declarations with the excise authorities.

(Para 17.6.5)

Failure of **Kochi Refineries Limited** in procuring material for laying crude pipeline and allowing consultants to do other items of work without obtaining approval from the statutory and local bodies resulted in an avoidable expenditure of **Rs.4.63 crore** on denial of permission by the authorities.

(Para 17.7.1)

Oil and Natural Gas Corporation Limited (ONGC) incurred avoidable expenditure of **Rs.26.10 crore** on installation of pipelines of the capacity higher than what was required,

ignoring its own estimates and also against the advice of their consultant. The pipelines subsequently remained grossly under-utilised due to non availability of sufficient quantity of gas.

(17.8.1)

Lack of perspective planning on the part of **ONGC** in creating the required infrastructure for deployment of a drilling rig at Tripura Project resulted in its idling for 268 days between October 1995 and June 1997 at a cost of **Rs.4.02 crore.**

(Para 17.8.2)

By ignoring an offer of the firm for supply of 1400 MT Pour Point Depressant at lower rate, **ONGC** incurred an extra expenditure of **Rs.1.94 crore** on the purchase of same quantity from other firms at higher rates.

(Para 17.8.3)

Running of compressor by **ONGC** with gas directly obtained from field instead of off gas released at intermediate stage, for which it was designed, caused its failure and consequential repair cost amounting to **Rs.1.85 crore.**

(Para 17.8.4)

Oil India Limited invested **Rs.96.29 crore** for exploiting discovered gas reserves in Rajasthan without adequately ascertaining the viability of the investment and without informing the Board of Directors/Government of India about its full implications. The project earned small revenue of **Rs.20.66 crore** as against the cost of production of **Rs.46.45 crore,** thus, causing a loss of **Rs.25.79 crore** to the Company.

(Para 17.9.1)

Non placement of letter of award within the validity period by **National Thermal Power Corporation Limited** resulted in avoidable expenditure of **Rs.3.03 crore.**

(Para 18.1.1)

There was loss of revenue of **Rs.1.44 crore** on sale of boiler ash/cinder as **Indian Iron and Steel Company Limited** failed to conduct a market survey and review the price of boiler ash/cinder prevailing in other nearby sister steel plants of SAIL.

(Para 21.1.1)

There was avoidable loss of **Rs.1.65 crore** as **MECON (I) Limited** failed to invoke risk purchase clause and to levy liquidated damages on account of delay in completing the work by a private party despite a clear provision of the same in the terms of a contract.

(Para 21.2.1)

National Mineral Development Corporation Limited (NMDC) had to bear demurrage charges amounting to **Rs.31.50 crore** despite discharging its contractual obligations of supply of iron ore, due to prejudicial agreements with MMTC.

(Para 21.3.1)

NMDC made irregular payment of **Rs.11.29 crore** under 'Payment by Result' scheme to its employees during the year 1997-98 to 1999-2000 in contravention of specific direction of the Ministry of Steel.

(Para 21.3.2)

Steel Authority of India Limited (SAIL) made an unproductive investment of **Rs.8.39 crore** on import of technical Know-how for introduction of Galvalume Technology which had been lying idle since 1996 and entailing loss of interest thereon to the extent of **Rs.8.38 crore.**

(Para 21.4.1)

SAIL made an avoidable payment of dead freight of **Rs.2.81 crore** to Railways on account of underloading of hard coke in wagons as compared to railway chargeable weight.

(Para 21.4.2)

Infructuous expenditure of **Rs.1.13 crore** was incurred by **SAIL** on construction of a pipeline as it failed to correctly assess the availability of by-product for supply to its Thermal Power Plant in Bokaro Steel Plant.

(Para 21.4.3)

Acquisition of two second hand vessels by **The Shipping Corporation of India Limited (SCI)** without proper assessment of their condition, probable repair cost and earning capacity led to a loss of **Rs.40 crore.**

(Para 22.2.1)

Failure on the part of **SCI** to provide a suitable vessel as per agreement and unilateral withdrawal of the same resulted in loss of **Rs. 5.78 crore.**

(Para 22.2.2)

Failure on the part of the Government to accord approval to sale of vessels in time resulted in avoidable expenditure on standing charges of **Rs.5.19 crore** and loss of **Rs.72.48 lakh** on retendering by **SCI.**

(Para 22.2.3)

Lack of initiative on the part of Management of **National Jute Manufactures Corporation Limited** to install meters at individual quarters and to recover electricity charges from the employees, led to a loss of **Rs. 2.13 crore.**

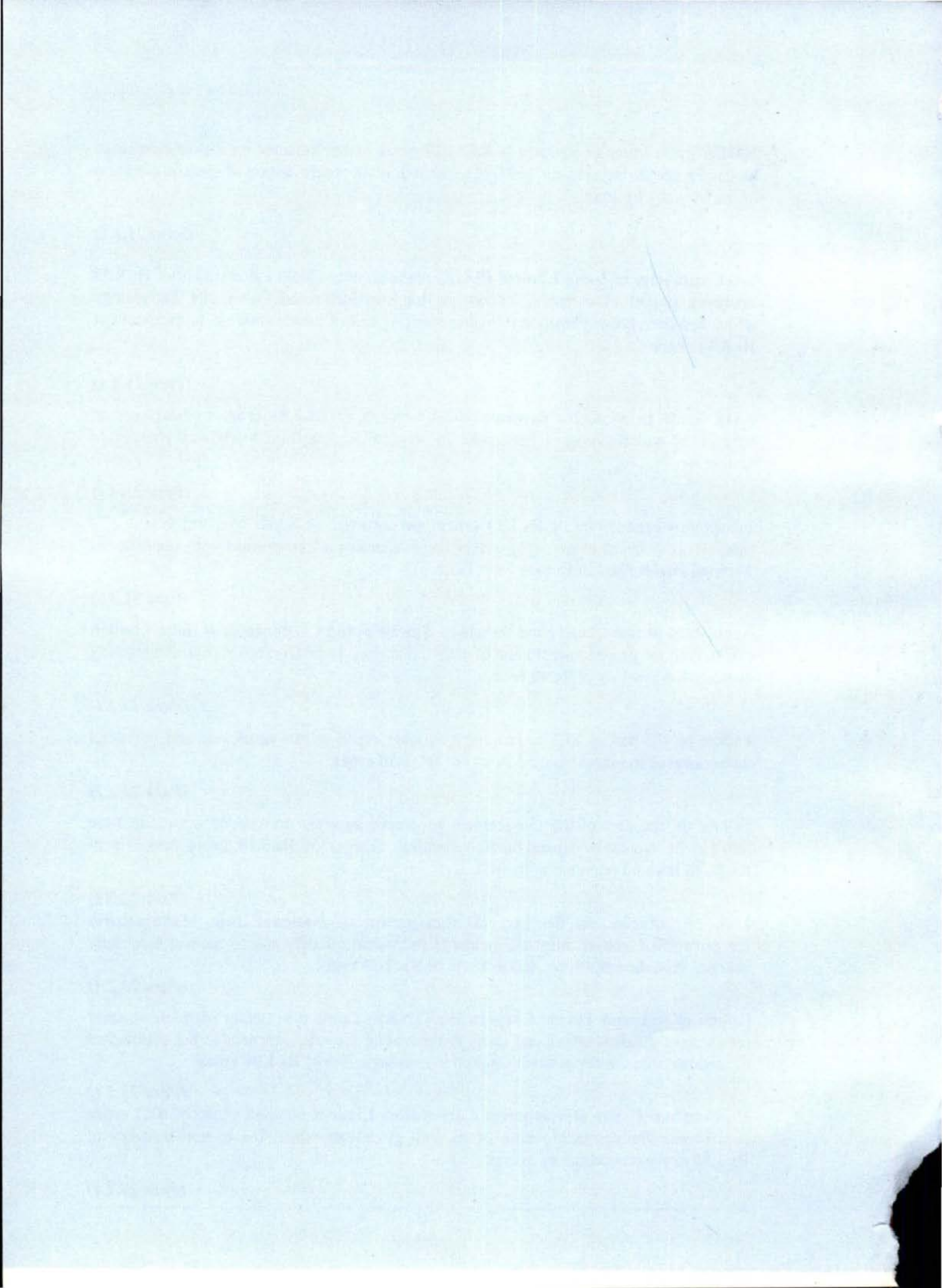
(Para 23.2.1)

Failure of **National Textile Corporation (TN&P) Limited** to obtain adequate security for value of goods supplied and laxity in recovering the sales proceeds as per contractual provisions from the depot agent resulted in avoidable loss of **Rs.1.06 crore.**

(Para 23.3.1)

Housing and Urban Development Corporation Limited released a loan of **Rs.7 crore** to a private builder in violation of its own guidelines which led to non-recovery of **Rs.1.90 crore** on account of interest.

(Para 24.1.1)



CHAPTER 1:MINISTRY OF AGRICULTURE

Lakshadweep Development Corporation limited

1.1.1 Non utilisation of Government grant

Out of total grant aggregating to Rs.1.12 crore disbursed by the Government of India during 1992-93, the Company could spend only Rs.47.28 lakh, that too in the projects which failed to take off due to non availability of raw material and the remaining amount of Rs.64.48 lakh was still lying locked up in the banks.

With a view to accelerate the industrial growth in Lakshadweep, Government of India (GOI), Ministry of Agriculture, established Lakshadweep Development Corporation Limited (LDCL) a commercial venture in the year 1987. To enable the Company to achieve its objective the Government of India invested Rs.4.40 crore by way of equity and Rs.1.12 crore as grants-in-aid in four projects of the Company. The details of grants-in-aid disbursed in respect of each project *vis-a-vis* actual utilisation thereagainst are tabulated below:

Sl. No.	Name of project	Date of disbursement	Amount disbursed	Amount actually spent	Balance kept in the bank
			(Rs. in lakh)		
1	Desiccated Coconut Powder Project (DCPP)	21 September 1992	29.91	5.43	24.48
2	Coconut Milk Project (CMP)	21 September 1992	40.00	--	40.00
3	Tuna Canning Expansion (TCE)	9 March 1993	26.25	26.25	--
4	Fish Meal Project (FMP)	30 April 1992	15.60	15.60	--
	Total		**111.76**	**47.28**	**64.48**

The scrutiny of records relating to these grants revealed as under:

The unutilised portion of the fund, about Rs.64.48 lakh, had not been refunded to GOI though so required under the instructions issued at the time of release of grant. The poor utilisation of fund in the case of coconut based projects (DCPP and CMP) was mainly due to non-availability of raw material and suitable land and machinery. Non-utilisation of grant in case of fish based project (TCE and FMP) was mainly due to non-availability of adequate raw material. Thus, release of grant without any realistic assessment of the availability of raw material, land and machinery resulted in an amount of Rs.64.48 lakh remaining unutilised for 8 years. The fund so far spent (Rs.47.28 lakh) on these projects had also not given any benefit.

CHAPTER 2:DEPARTMENT OF ATOMIC ENERGY

Electronics Corporation of India Limited

2.1.1 Blocking of Rs.1.97 crore

Purchase of two flats, the utilisation of which is quite uncertain, led to blocking up of Rs.1.97 crore with a consequent loss of interest of Rs.86 lakh upto July 2000.

The Company decided (July 1996) to acquire own accommodation at New Delhi to accommodate its Zonal Office (North) as the leased accommodation was to be vacated by 31 October 1998. Accordingly, two flats costing Rs.1.97 crore were purchased from Delhi Development Authority and possession was taken in July 1997/ May 1998.

The Company however, did not shift its Zonal Office (North) to the new accommodation even after the expiry of the lease agreement (31 October 1998) of the rented accommodation. On the contrary, it extended (November 1998) the lease agreement for a further period of 2 years i.e. upto 31 October 2000, at enhanced rent.

Thus, non-occupation of the two flats, the future utilisation of which is also quite uncertain, resulted in unnecessary blocking of funds to the tune of Rs.1.97 crore and loss of interest amounting to Rs.86 lakh (upto July 2000) without any justification.

The Management stated (May 2000) that (a) there were industrial relation problems faced in shifting to the new location and (b) the efforts made to rent out the premises to others were not found feasible as all the parties insisted on longer lease period.

The reply of the Management is not tenable, as the Company had been operating on cash credit accounts involving huge interest (@ 16.5 per cent) burden. Thus, the decision to acquire own accommodation should have been made with due consideration of all problems and eventualities. Moreover even after a lapse of 3 years, the Company was yet to decide how these premises would be used.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Indian Rare Earths Limited

2.2.1 Unauthorised payment of interest free advances in lieu of bonus

Company paid interest free advances in lieu of bonus to ineligible employees from 1991-92 to 1998-99 amounting to Rs.8.75 crore, in violation of Government of India's orders and Payment of Bonus Act, 1965, of which Rs.1.87 crore was written off. Loss of interest (upto May 2000) on this unauthorised payment worked out to Rs.3.22 crore.

Payment of bonus to the employees of the Company is regulated by Payment of Bonus Act, 1965. Employees whose wages/salary did not exceed Rs.2500 per month were entitled to a maximum bonus of Rs.1600 per annum for the years 1991-92 and 1992-93. Though, eligibility criteria and monetary limit of bonus entitlement remained the same for 1993-94 and 1994-95, these were subsequently enhanced to Rs.3500 and Rs.2500, respectively, with retrospective effect, from 1993-94 vide an amendment of Payment of Bonus Act and Ordinance of Government of India dated 9 July 1995 and limits have since remained unchanged (September 2000).

The Company paid interest free advance, in lieu of bonus to such employees who were not eligible for bonus under the Payment of Bonus Act, 1965, ranging between Rs.1200 and Rs.3000 per employee for the years 1991-92 to 1994-95. This according to the Management was done to keep up the morale of the employees and to obviate heartburn and frustration among the employees not eligible for bonus. Advances for the year 1991-92 to 1993-94 were to be recovered in 10 instalments starting from the month of January of the following year and advances for the year 1994-95 were to be recovered in 12 instalments starting from April 1996. Recoveries of advances were, however, not effected. Ultimately, the Company had to write off Rs.1.87 crore of advance paid in lieu of bonus pertaining to years 1991-92 to 1994-95, with the approval of the Board of Directors in March 1996. It was, thus, apparent that payment of interest free advance against bonus to ineligible employees was a method adopted by the Company to circumvent the provisions of Payment of Bonus Act, and related Government of India orders.

The Company continued payment of similar interest free advances in the subsequent years also, in violation of provisions of the Payment of Bonus Act and Government of India's Orders. An amount of Rs.6.88 crore had been released as interest free advance in lieu of bonus to employees who were ineligible for the same during 1995-96 to 1998-99. Though the advances were required to be recovered in 10 to 12 instalments for the years 1995-96 to 1997-98, recovery had not been effected. The Company did not specify any mode of recovery of advances paid to ineligible employees during 1998-99 which showed it had no intention to recover the advances. The Company had in effect paid 'bonus' to ineligible employees under the guise of 'interest free advances', recovery of which was not made.

The Ministry stated (August 2000) that: -

(i) recovery of the advances had not been possible due to stiff opposition from the trade unions;

(ii) in respect of employees who had retired/resigned/separated from the Company, recoveries on account of these advances had been effected before terminal settlements of the employees;

(iii) when the Company took a firm stand earlier, there was agitation leading to loss. The yearly payment was less than the production loss anticipated on such an agitation;

(iv) recovery was being pursued by the Company and was proposed from arrears of future pay revisions.

The reply is not tenable due to the following reasons:

(i) since the Company devised the method to circumvent Payment of Bonus Act, the expectation among the employees was that the advances would not be recovered, especially as part of the advances were written off. It was, therefore, only natural that employees resisted the recovery;

(ii) since the number of employees separating from the Company formed only a small portion of the total work force, this recovery was neither effective nor time bound; and

(iii) the Company had been regularly making advances from 1991-92, it was impossible to resist such demands later which led to stoppage of production;

Failure of the Company in implementing the provisions of Payment of Bonus Act, 1965 and the Government of India's Orders thereon had led to an unauthorised expenditure of Rs.8.75 crore out of which Rs.1.87 crore had been written off by the Company and it was not intentionally recovering the outstanding amount of Rs.6.88 crore pertaining to advances paid for the years 1995-96 to 1998-99. This also resulted in recurring loss of interest per annum due to non-recovery of advances and the amount of interest lost upto May 2000 worked out to Rs.3.22 crore at a minimum interest rate of 16.50 per cent applicable to cash credits during 1994-95 to 1997-98.

2.2.2 Infructuous expenditure on construction of dwelling units in prohibited area

As a result of the Company's failure to follow the rules and procedures, 15 dwelling units created by it in December 1996 along with other amenities could not be utilised, rendering infructuous the expenditure of Rs.1.32 crore incurred thereon.

Since December 1996, the Manavalakurichi Unit of the Company was burdened with a vacant Housing Complex consisting of 15 dwelling units complete with all amenities and constructed at a cost of Rs.1.32 crore. The above situation had arisen because the Company did not follow the rules and procedures to be complied with before commencement of the construction work.

Firstly, the Company failed to submit to the Local Panchayat the Building Plans for its sanction before taking up the work (December 1992). The Plans which were submitted at a later date (June 1993) were rejected (November 1996) by the Panchayat. Secondly, the Housing Complex was created within 500 metres of the High Tide Line, in violation of the Coastal Area Classification and Development Rules notified by the Central Government as early as in 1991. The Company's request (November 1998) for relaxation of rules was not acceded to (April 2000) by the Coastal Management Authorities. Thirdly, the construction was in violation of the interim orders (December 1994) of the Hon'ble Supreme Court of India banning all construction activities within 500 metres of the entire coastal line of the country. The Supreme Court subsequently directed (April 1996) that its interim order banning construction activity in coastal area would continue. With this, the prospects of dwelling units being occupied in future also became bleak.

In the absence of required permission from various authorities, none of the facilities could be put to use so far (July 2000). Thus, 15 dwelling units along with other amenities created by the Company remained unoccupied (December 1996) rendering infructuous the expenditure of Rs.1.32 crore incurred thereon.

The Company admitted (April 2000) that the dwelling units could not be put to use due to its failure to get the necessary clearances.

The Ministry endorsed (August 2000) the reply of the Management.

CHAPTER 3: DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Indian Petrochemicals Corporation Limited

3.1.1 Injudicious purchase of chemical resulting in loss

The Company incurred a loss of Rs.82.39 lakh on the sale of chemical, injudiciously purchased for its plant, which was due for closure.

Government of India approved (December 1992) the proposal of Indian Petrochemicals Corporation Limited (IPCL) for setting up of a grass root Polypropylene Plant (PP-IV) at its Vadodara Complex. Subsequently, in July 1994, Board of Directors of IPCL approved the closure of its existing Polypropylene Plant (PP-I), commissioned in 1978, on completion of new plant (PP-IV). The latter was commissioned in September 1996 and the old plant was closed in January 1997.

In July 1996, IPCL placed a purchase order on a foreign supplier for the import of 700 MT of N-Heptane (chemical) at a total cost of Rs.1.49 crore for its PP-I. The average monthly requirement of this chemical in the plant was approximately 150 MT and at the time of placement of purchase order, its stock was 1043 MT, which was sufficient for seven months' requirement. The supply against the above order was received in October 1996 at Kandla and was stored there in hired tankers.

The chemical so received could not be utilised due to the closure of PP-I in January 1997 after two months of its receipt. On this being pointed out in Audit (January 1998), IPCL disposed off the full quantity of the imported stock for Rs.1.14 crore in January/July 2000. This was done after incurring additional expenditure of Rs.44 lakh on its storage for ten months from October 1996 to August 1997 and Rs.2.86 lakh on its transportation in two lots (November 1996 and August 1997) to Vadodara complex.

Thus, due to injudicious purchase of chemical for its plant, which was decided to be closed in July 1994 and was actually closed after two months of its receipt, IPCL incurred a loss of Rs.82.39 lakh besides loss of interest on the blocked funds over a period of three years.

The Management stated (July 1999) that the plant was running at normal capacity at the time of placing the order and there was no decision then to shut down the plant. It further added that at the time of placement of purchase order, the stock available with them was only 600 MT.

The reply of the Management is not tenable because the Management was well aware of the decision of the Board to close down the old plant on commissioning of the new plant.

The actual stock position at the end of June 1996 was 1043 MT including 447.417 MT lying in the PP-1 plant and not 600 MT as mentioned in the reply which indicated stock position in their tank farm only. Moreover, the available stock was sufficient for seven months' requirement till the closure of the plant in January 1997.

The matter was referred to the Ministry in September 2000; their reply was awaited (October 2000).

3.1.2 Undue benefit to private firms

By allowing repeat performance incentive on quantity off take of Caustic Soda Lye retrospectively, IPCL extended an extra financial benefit amounting to Rs.64.94 lakh in favour of two private firms.

Indian Petrochemicals Corporation Limited (IPCL) commissioned (July 1997) a unit for production of Chlorine at its Gandhar Complex with a view to supply it to its poly vinyl chloride (PVC) plant. Caustic Soda Lye (CSL) a by-product of the unit producing Chlorine was sold by IPCL at uniform basic price with quantity related discount/repeat performance incentive (RPI) as approved by the Management from time to time. On 9 October 1998 IPCL issued a circular introducing two different slabs of RPI on the sale of CSL, effective from 1 October 1998, at the rate of Rs.150 per MT on the minimum off take of 1000 MT per month and Rs.200 per MT on the minimum off take of 1500 MT per month. Subsequently, another circular was issued on 16 December 1998, effective retrospectively from 1 October 1998 introducing a third slab of RPI of Rs.600 per MT admissible on minimum off take of 2000 MT per month or 6000 MT (+/-) 300 MT during October-December 1998.

The main purpose of allowing quantity related discount as announced by the Management from time to time was to increase sales by encouraging customers for bulk purchases. This objective could be achieved by announcing the incentive to all the customers well in advance. The grant of RPI of Rs.600 per MT retrospectively in the instant case was inappropriate because it amounted to rewarding customers who had already purchased CSL upto that level without any expectation of higher incentive. Consequent upon the extension of retrospective benefit only two firms were benefited by the increased slab rate of Rs. 600 per MT, who together lifted a total quantity of 16236 MT during October - December 1998 and availed total RPI of Rs.97.42 lakh. Thus, IPCL extended extra benefit of Rs.64.94 lakh at the rate of Rs.400 per MT in favour of these two firms, which had already lifted the quantity of CSL in view of the earlier incentive as circulated in October 1998.

The Management stated (December 1999) that:

(a) the approval for enhanced RPI was obtained in October 1998 which was communicated telephonically on 28 October 1998 to regional offices to enable them to communicate it further to the customers;

(b) delayed communication by issue of circular was resorted to prevent their competitors from knowing about the strategy of IPCL, thereby avoiding a price war;

(c) increase in RPI was necessitated by accumulation of stock of CSL due to severe competition from other producers; and

(d) unlike other manufacturers IPCL could not cut production of CSL since it was linked with the capacity utilisation of PVC plant.

The Ministry endorsed (July 2000) the reply of the Management.

The reply of the Management/Ministry is not tenable as once the enhanced RPI was telephonically informed to the regional offices/customers, it could not have been held back from the competitors by delaying the issue of circular. The contention of the Management/Ministry that the delayed communication was meant to be a strategy for tackling their competitors is an afterthought. Moreover, scrutiny of records of the IPCL relating to quantity discount, RPI and trade discount etc., over the period from April 1998 to January 2000 indicated that in all such cases concessions were announced prospectively and not retrospectively (except for short delay upto 10 days in issue of circular).

CHAPTER 4: MINISTRY OF CIVIL AVIATION

Air India Limited

4.1.1 Avoidable payments due to improper scheduling

Due to improper planning of crew rest periods at London, Air India Limited incurred an avoidable expenditure equivalent to Rs.7.11 crore on payment of accommodation charges and crew layover allowance.

According to clause 5-2.7 (f) under Chapter 5 of Air India Operations Manual, Part-I, rest period at crew change stations and terminal stations other than base stations were as under:

Flight duty time	Minimum rest period
6 hours or less	9 hours.
Above 6 hours and upto 11 hours	11 hours
Above 11 hours and upto 12 hours	14 hours
Above 12 hours	20 hours

Further, as per the latest regulations (June 1997), the crew were to be paid no layover allowance if the period of rest was within 48 hours of the arrival at that station. Layover allowance was payable only if the layover periods were more than 48 hours at such stations, for periods exceeding 48 hours from the time of arrival.

Test check done by audit in Air India, London (AIL) revealed that for all flights operating into London, the cabin crew were provided layovers in excess of 48 hours by AIL, although the frequency of its transatlantic flights from and to India via London permitted formulation of a faster crew change-over pattern, without compromising the period of minimum rest as provided in the manual. By allowing layovers in excess of 48 hours at London, instead of providing a maximum crew rest period as stipulated under the rules, AIL was incurring avoidable expenditure on hotel accommodation charges for the crew and layover allowances paid to the crew. During the period from February-June 1997 and April-September 1998, the expenditure incurred on these accounts amounted to Rs.7.11 crore*, thus, jeopardising the profitability of Air India's operations on the India-London-USA sectors due to improper planning of crew rest periods.

The Management accepted (December 1998) the audit contention regarding the possibility of a faster crew change-over within 48 hours of arrival at London, but stated that the rest period at London did not come under the purview of the aforesaid clause of the Air India Operations Manual, Part-I. The rest period at London, according to the Management, was governed by the 'Record Note of Understanding' arrived at between

**** £ 0.81 million (equivalent to Rs. 5.12 crore) towards hotel accommodation charges and $ 0.29 million and £ 0.14 million (equivalent to Rs. 1.99 crore) towards crew layover allowance.***

AIL and Air India Cabin Crew Association, according to which the Management would provide the layover of 2 days at London on the onward journey, 2 days in New York and 2 days in London on return journey on the India/UK/USA/India sector. The reply of the Management is not tenable, as there was no justification for entering into a 'Record Note of Understanding', which provided for crew rest periods far in excess of the limit prescribed by the Air India Operations Manual. This was also clearly against the financial interests of an organisation already burdened with recurring losses.

The matter was referred to the Ministry in August 2000; their reply was awaited (October 2000).

4.1.2 Avoidable expenditure on award of hotel accommodation contract

Air India Limited incurred avoidable extra expenditure of Rs.2.08 crore on crew accommodation at New York during 1994-95 to 1995-96.

Air India Limited (AIL) was having 3-year contract for the period from 1 April 1991 to 31 March 1994 with Hotel Lexington, New York for accommodating its operating crew and cabin crew. Before the expiry of this contract on 31 March 1994, New York office of the AIL invited quotations from various hotels in New York in January 1994. Out of total three quotations received bid of Hotel Pennsylvania at the rate of US $ 67.45 per day per room was the lowest, while Hotel Lexington at US $ 92.30 was the highest. The Hotel Committee after visiting these hotels recommended to their head office for acceptance of the lowest bid of Hotel Pennsylvania whose accommodation/facilities were also accepted by the representatives of Indian Pilots Guild (IPG) and Indian Flight Engineers Association (IFEA).

The recommendations of the Committee for two-year contract with Hotel Pennsylvania was approved by the Managing Director (January 1994) and formal notice of termination was served on Hotel Lexington in February 1994. However, the crew continued to be accommodated in Hotel Lexington even after the expiry of the contract on 31 March 1994. It was only later in March 1995, that AIL entered into a fresh contract with Hotel Lexington for 2 years, 1994-95 (retrospective) and 1995-96 at much higher rates of US $ 83.30 and US $ 91.60 per room per day respectively. In the process, AIL incurred loss of Rs.2.08 crore by paying for crew accommodation at rates much above the lowest bid rates of Hotel Pennsylvania during 1994-95 and 1995-96. AIL also extended the contract with Hotel Lexington for the third year (1996-97), without any competitive bidding at the rate of US $ 100.80 per day per room. Avoidable expenditure on account of further extension of accommodation contract for third year could not be ascertained in audit due to non availability of competitive rates.

The matter was referred to the Ministry of Civil Aviation in September 1997 and in September 1998. In response, the Ministry ordered an enquiry (October 1998) whose report was finalised belatedly in May 2000. The report concluded:

(i) the crew wanted to continue staying at Hotel Lexington as they had begun to feel 'at home' there and the issue of lack of security at Hotel Pennsylvania was raised to justify this continuation;

(ii) the Management of AIL did not wish to displease the crew for fear of creating an industrial relations problem;

(iii) the Management finally succeeded in signing a contract with Hotel Pennsylvania for two years with effect from 1 April 1998.

The report, thus, indicates that the Management had reacted weakly to crew's insistence of continuing to stay at Hotel Lexington. The action of the Management was not justified in view of the fact that IPG and IFEA had agreed for the accommodation/facilities at Hotel Pennsylvania subsequently whose bid was the lowest for 1998-99.

Thus, the Management's unjustified action resulted in an avoidable expenditure of Rs.2.08 crore.

4.1.3 Loss due to improper advance payments

Air India lost Rs.1.98 crore due to improper advance payments made to a supplier in New York without any safeguards to protect its interest.

Air India Limited (AIL) placed a purchase order in December 1994 (PO no. AI 2199 dated 21 December 1994) on Pennsylvania Woven Carpet Mills, Philadelphia, USA, (Firm) for supply of 15000 sq. metres of carpet for use in its aircraft at a cost of US$ 0.46 million. As per terms and conditions of the purchase order, the payment was to be made within ten days from the date of invoice and complete delivery was to be made before May 1995. AIL had earlier placed another purchase order (PO no. 1348 dated 2 August 1994) on the same firm, in which no advance payments were envisaged and the supplies were to be completed by December 1994. But even against this purchase order, AIL had released US$ 0.16 million (April 1995) against invoices raised in March/April 1995 without getting delivery of carpets, in violation of the terms of payment which amounted to undue favour shown to the supplier. The firm delivered the carpets only in August 1995, and there was short supply of 2231 sq. meters valuing US$ 0.07 million.

Against the second purchase order no. 2199, AIL released US $ 0.48 million against five invoices submitted by the firm (April to June 1995) for 15,750 sq. meters of carpets between April 1995 and June 1995, without taking delivery of the carpets. The firm never made any supply against these payments. The release of further payments relating to the second purchase order was unjustified without first insisting on completion of supplies against the first order.

Due to absence of regular reconciliation of records between the Accounts Department and Stores & Purchase Department, non-receipt of the ordered quantity of carpets against the second order as well as the short supply made against the first order came to the notice of AIL only in August 1996, when it was found that the supplier firm had already closed down its operations some 9-10 months back. AIL filed a case in December 1996 against the firm in the Supreme Court of New York County for recovery of US $ 0.55 million (US$0.48 million+US$0.07 million) besides interest, cost etc. Thus, by releasing

payment in full without any safeguards to protect its financial interest, AIL had lost US$ 0.55 million equivalent of Rs.1.98 crore[#].

The Management stated (March 1999) that it was incorrect on the part of Regional Store and Purchase Manager, New York, to have authorised payment without confirming the physical receipt of material and that the advance payment was authorised without approval of headquarters. The Management, however, admitted that due to inadequate attention, non-receipt of carpet was not detected for a long time.

The Ministry while endorsing the views of the Management stated (December 1999) that AIL was taking measures to eliminate repetition of such lapses. The Ministry further stated that the matter had also been referred to CBI and that an investigation was in progress (December 1999).

4.1.4 Wasteful expenditure towards hotel room charges

Air India Limited incurred wasteful expenditure of Rs.97.73 lakh towards room rent on unnecessary retention of hotel accommodation at London for its operating crew while they were away on flight duties.

Air India's Operations Central Division, Bombay had been posting its operating crew temporarily in London for a period of about three weeks since July 1997 for operating its flights on UK-USA-UK sector. The operating crew were entitled to hotel accommodation in London on bed and breakfast basis in addition to the outstation allowance as applicable to the station for the total period of their temporary posting in London.

Scrutiny of records of Air India Limited, London (AIL) disclosed that they accommodated the operating crew, posted temporarily in London, for operating the flights on London-Chicago-London and London-New York-London sectors in a hotel in London for the entire period of their posting. AIL retained the hotel rooms at London even during the period the operating crew were away on flight duties, for periods ranging between 4 and 11 days. During flight duties away from London, the crew were accommodated in the hotels at the layover stations of Chicago and New York.

The retention of hotel accommodation at London during the period when the crew were away from London on flight duties was wasteful and resulted in avoidable expenditure to the tune of £0.15 million (equivalent to Rs.97.73 lakh[*]) during the period July 1997 to January 1999. The practice of temporary posting to London had been discontinued from 15 January 1999.

The Management stated (October 1999) that it was a standard industrial practice to retain hotel rooms for crew during the period of posting. It added that since the station of posting became the temporary base, the rooms had to be retained to keep the personal belongings of the crew.

[#] ***At the rate of exchange of 1 US \$ = Rs.36.***

[*] ***At average official rate of exchange during the period July 1997 to January 1999 of £ 1 = Rs. 65.26***

The contention of the Management is not tenable, as standard industry practice can not justify financial imprudence. Air India could have made arrangements to store the personal belongings of the crew, when they were away on duty at other layover stations.

4.1.5 Excess payment to caterers due to incorrect price revision

Due to incorrect adoption of the rates for the revision of food prices and other charges, Air India London had to pay Rs.74.21 lakh in excess to their caterers.

In terms of clause III (2) of the catering agreement of 16 September 1994 between Air India London (AIL) and M/s. Abela & Gate Gourmet Limited, London (AGGL), food prices, aircraft galley handling charges and bond handling charges agreed upon in the original tender of 22 December 1993 were to be increased on 1 April 1996 by applying, a multiplying factor computed as under:

$$\frac{\text{RPI for April 1996}}{\text{RPI for April 1995}} \times \frac{60}{100}$$

The Retail Price Index (RPI) as on April 1995 and April 1996 was 149.0 and 152.6 respectively. Accordingly the price increase percentage should have been 0.61 per cent as shown below

$$\frac{152.6}{149.0} \times \frac{60}{100} = 0.61$$

However, it was noticed in audit that the food prices, charges for galley handling and bond handling were increased by 1.44 per cent by the caterers from 1 April 1996 instead of 0.61 per cent. This resulted in excess payment to the tune of £0.10 million equivalent to Rs.74.21 lakh* during the period from April 1996 to October 1999.

The Management stated in November 1999 that the agreement with the caterers was that the increase in rates effective from April 1996 would be to the extent of 60 per cent of increase in RPI, though the formula incorporated in the catering contract did not adequately reflect this. The Management further stated that if the interpretation of the subject clause was to be considered as per the audit observation, Air India would have to implement price escalation even if there was no change or there was a decline in the RPI for two consecutive years.

The reply of the Management is not tenable as the said clause in the contract dated 16 September 1994 clearly stated that "the price for the year commencing 1 April 1996 shall be increased by applying a multiplying factor" and there was no reference to the increase being linked to the increase in the prices to the 60 per cent of the increase in the RPI. As the said clause was worded, the prices for the year commencing 1 April 1996 were to be revised taking into account the RPI of 1996 and 1995. This has also been concurred by Internal Audit Department of Air India, Mumbai when it directed its London office in October 1999 to initiate action for recovery from the caterers reiterating that the price revision had to be worked out strictly in accordance with the formula specified in the contract.

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* ***At the rate of £1 = Rs.70.99***

The matter was referred to the Ministry in October 2000; their reply was awaited.

Airports Authority of India

4.2.1 Loss due to faulty procedure of inviting bids

Faulty procedure of finalisation of bids for award of a contract for licensing out additional space for running duty free shops at international airports resulted in delay in award of the contract and consequential loss of Rs.168.75 crore to the Authority.

To augment non-traffic revenue, Airports Authority of India (Authority) identified additional space at the existing five international airports as well as Phase-III of Terminal II-C of Mumbai International Airport (under construction). The Authority obtained (March 1995) approval from Government of India to run duty free shops (DFS) themselves in this additional space. Global tenders were invited in July 1995 for appointment of marketing consultants/consolidators for obtaining help in setting up the DFS. The Authority selected 4[#] parties out of 19 parties who responded.

In January 1996, the Authority realised that it did not have sufficient expertise in the running of DFS and decided to run such shops through a selected concessionaire instead of inviting fresh tenders. The Authority asked the 4 parties already selected to submit separate financial bids for running DFS for five years as concessionaire. The bids of M/s. Weitnaur[*] and M/s. Lion City Holding were adjudged the first highest and the second highest respectively. In February 1998, the Management realised that the decision of running duty free shops through a selected concessionaire would be a deviation from the condition of the tenders invited in July 1995 and, therefore, cancelled the initial tender. The Authority invited (February 1999) fresh tenders for running the DFS in the additional area but again cancelled the tender in April 1999 due to administrative reasons. The licence had not been awarded so far (June 2000).

The Management stated (February 2000) that the delay in the finalisation of the contract for duty free shops was due to (i) exchange of correspondence with the bidders, (ii) settlement of objections raised by ITDC, (iii) verification of files by CBI and (iv) the process of privatisation. The Management also stated that the additional space in the terminals was a part of the movement area and no loss could be worked out till the space was commercially used.

The reply is not tenable as the contract could not be awarded due to Management's lapse in inviting bids for running the DFS departmentally without having expertise for the same and obtaining financial bids in an erroneous manner from the existing parties for running the shops as a concessionaire in deviation from the terms of the original tender. Had the

[#] ***In the order of merit: 1st M/s Duty Free Shops, Hongkong; 2nd M/s. Aerrianta International, Bahrain; 3rd M/s. Lion City Holding, Singapore and 4th M/s. Weitnaur Group of Companies, Switzerland.***

[*] ***For the additional space on existing airports, guaranteed licence fee of Rs.30.60 crore, Rs.42.30 crore, Rs.51.30 crore Rs.59.40 crore and Rs.68.40 crore for first five years respectively.***

Authority awarded the contract to the highest of the four parties selected in January 1996, they could have earned a total revenue of Rs.168.75 crore upto June 2000.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

4.2.2 Loss due to undue favour to a private party

The Authority conferred undue favour on a private party by awarding it a contract disadvantageous to the Authority without inviting tenders and without carrying out cost-benefit analysis of an unsolicited offer of the party.

The job of retrieval and maintenance of trolleys at five international airports was entrusted to M/s. TDI International India (P) Ltd. (TDI) and other private parties till the year 1996. Rights for advertisements on the trolleys were conferred on TDI through separate contracts and these contracts were valid till November 1997.

M/s. TDI made an unsolicited offer (August 1995) to supply 12500* trolleys of international standard, free of cost, in return for exclusive advertisement rights on these trolleys for 7 years and this offer excluded liability for retrieval and maintenance of the trolleys. The Authority decided (December 1995) in principle to accept the offer on the basis of telephonic approval of the Chairman of the Authority and entered into (March 1996) five separate agreements with TDI without analysing the financial implications of the offer and also without calling for tenders to select the best offer. The agreements also assigned the job of retrieval and maintenance of the trolleys to TDI despite the fact that a contract for such a job at Mumbai airport assigned to the same party was terminated in June 1995 due to unsatisfactory performance.

As per the terms and conditions of the agreements, the Authority was to bear Rs.12.06 crore towards cost of the retrieval system and security besides Rs.2.43 crore (approximately 35 per cent) of the maintenance expenditure over a period of 7 years while TDI were to invest Rs.5.37 crore on providing the trolleys.

The financial estimates submitted by TDI had indicated a cost of Rs.23.26 crore as against anticipated revenue of Rs.17.48 crore with a net deficit of Rs.5.78 crore in the implementation of the proposal over a period of 7 years. After discussions TDI reduced the cost to Rs.19.98 crore.

A review by audit of the offer made by TDI in August 1995 revealed that even the reduced cost included: (i) capital expenditure of Rs.5.37 crore by inflating the cost per trolley from Rs.3800 (proposed initially) to Rs.4300; (ii) expenditure of Rs.6.94 crore on maintenance of the trolleys which was not to be borne by TDI as per initial offer and (iii) profit element (Rs.2.10 crore). Thus, actual revenue expenditure over a period of 7 years estimated to be borne by TDI worked out to Rs.5.57 crore against revenue receipts of Rs.17.48 crore over the same period. This indicated that the offer of TDI was a losing proposition for the Authority as the former was to earn a net surplus of Rs.6.54 crore

* ***Mumbai 5000, Delhi 4000, Calcutta 1500, Chennai 1500 and Thiruvananthapuram 500***

besides recovering capital cost of Rs.5.37 crore whereas the Authority was to deprive itself of its income from advertisements besides continuing to incur expenditure on retrieval and maintenance of the trolleys.

Further analysis by audit of the new agreements vis-a-vis the existing arrangement revealed that the Authority was likely to forego revenue of Rs.6.67 crore that could have been earned from the award of license for advertisement rights on the trolleys besides incurring additional expenditure of Rs.3.97 crore on retrieval and maintenance of the trolleys till the expiry of existing agreements leading to a loss of Rs.10.64 crore.

The Management, while accepting the facts and figures of the para stated (June 2000) that the offer of TDI was considered viable and it was accepted in order to achieve sound trolley management and that the consolidated contracts for all the international airports were considered necessary for achieving improved passenger facilitation. The Management also intimated that the approval of the then Chairman had been obtained for both the proposals i.e. induction of trolleys at five international airports and retrieval and maintenance of trolleys at the cost of the Authority.

The reply of the Management is not tenable as the Authority neither called for open tenders to establish competitiveness of the offer nor carried out cost benefit analysis before accepting the offer of TDI in principle and simply relied on the data furnished by TDI. Despite cancellation of a previous contract with TDI for retrieval and maintenance of the trolleys at Mumbai airport, the award of the work again to the same party at five airports including Mumbai, was not justified.

The matter was referred to the Ministry in August 2000, their reply was awaited (October 2000).

4.2.3 Avoidable payment of penalty on power consumption

Inaction on the part of the Authority in implementing a single point metering system for its two electricity feeders resulted in drawl of excess power and consequent avoidable payment of load violation charges for Rs.5.28 crore to Delhi Vidyut Board.

Indira Gandhi International Airport under the control of Airports Authority of India (Authority) had been drawing its power requirements from Delhi Vidyut Board (DVB), erstwhile Delhi Electric Supply Undertaking (DESU). The power supply to Terminal-I of the Airport was received through a 11 KV feeder and that to Terminal-II was through a 66 KV feeder. The Authority was to consume power within the sanctioned load separately from each feeder, failing which it was liable to pay load violation charges at the rate of 30 per cent of the power consumption bill.

As the power supply from 11 KV feeder at Terminal-I was not reliable, the Authority obtained permission (April 1994) from DESU for laying its own inter-connector between the two feeders for the purpose of installing a single point metering system. The work of laying the inter-connector was completed in May 1996. However, before commissioning the inter-connector, it was required to obtain clearance from the Electrical Inspector,

Delhi Administration; but without obtaining the requisite clearance from him and without approaching DVB for making the single point metering system functional, the Authority continued to draw its power requirements from the 66 KV feeder. Though the actual power consumption of the Authority was within the total sanctioned load for both the feeders, the power consumption for the period from April 1998 to October 1998 exceeded the sanctioned load for the 66 KV feeder due to which DVB imposed load violation charges of Rs.5.28 crore on the Authority. The Authority's appeal for waiver (May 1998 and July 1998) of this was refused by DVB on the ground that the penalty on excess consumption was in order and as per tariff schedule. Thus, due to its failure in installing a single point metering system, the Authority had to pay load violation charges of Rs.5.28 crore (May 1998 to December 1998).

The reply of the Management (June 1999) was silent about its failure in obtaining the requisite clearance from Delhi Administration and approaching the DVB for installing a single point metering system after laying the inter-connector in May 1996.

The matter was referred to the Ministry in June 1999; their reply was awaited (October 2000).

4.2.4 Avoidable loss due to delay in finalisation of contract

Delay in the award of licence for advertisement rights resulted in a loss of Rs.1.01 crore.

Commercial Manual of the Airports Authority of India (Authority) provides that formalities for award of a fresh licence in case of a running commercial facility should be completed in time so as to make the new licence agreement effective immediately after expiry of the existing agreement. A licence awarded by the Authority to M/s. TDI International India (P) Ltd. (TDI) for display of advertisements at 5 international airports at a licence fee of Rs.47.16 lakh per month was expiring on 23 November 1997. The Authority issued (3 October 1997) a Notice Inviting Tenders (NIT) for award of a fresh licence. The financial bids were to be opened on 29 October 1997, and the NIT also provided for commencement of the agreement within 30 days of the award of the licence. Thus, it was impossible to make the new agreement effective from 24 November 1997. The Authority could not provide tender documents to the bidders till 9 October 1997 and the last date for opening the financial bids was revised to 7 November 1997 on the request of the bidders and this reduced the time further for finalisation and commencement of the new agreement.

The Authority issued (13 November 1997) a letter of award to M/s. TDI, the highest bidder, at a licence fee of Rs.1.72 crore per month with effect from 24 November 1997 and asked them to pay the revised licence fee from the same day. M/s. TDI conveyed (14 November 1997) its acceptance of the award but stated that it would pay the revised licence fee from 14 December 1997 instead of 24 November 1997 on the ground that as per the NIT, a period of 30 days was available to the licensee from the date of the award. For the intervening period of 20 days, the Authority agreed to charge less than the pro-rata amount of existing licence fee by considering only the advertisements on actual display.

Thus, due to belated issuance of NIT, the Authority received a licence fee of Rs.13.38 lakh for this period of 20 days as against Rs.1.14 crore which they would have received if the new licence agreement had come into force on the last day of the earlier agreement, as prescribed in the Manual. This resulted in a revenue loss of Rs.1.01 crore.

The Management, while confirming (June 2000) the above facts, stated that as per the terms and conditions of the NIT, the Authority was required to permit 30 days' time to the successful bidder for completion of formalities and as such, the loss was unavoidable. The Ministry endorsed (October 2000) the reply of the Management and added that there was no delay but only change in the date of receiving financial bids and consequently award date and effective date were changed. The replies of the Management and the Ministry are not tenable as keeping in view the provisions of the Commercial Manual and 30 days' time to be allowed to the successful bidder, there was delay in issuance of NIT, sale of tender documents, opening of bids and award of the licence which resulted in loss to the Authority.

4.2.5 Loss due to delay in finalisation of a contract

Delay in award of a licence on regular basis and consequential continuation of the existing licensee on adhoc basis on lower amount of licence fee resulted in a loss of Rs.52.22 lakh to the Authority.

The Airports Authority of India (Authority) awarded (April 1996) a licence for running car parks at Terminal 1A and 1B and the Cargo complex at Mumbai airport for a period of one year to M/s. Garuda Service Works (GSW). As per the award, GSW was to pay licence fee of Rs.3.81 lakh per month. Commercial Manual of the Authority provides that formalities for award of a fresh licence in case of a running commercial facility should be completed in time so as to commence the new licence agreement immediately after expiry of the existing agreement. Instead, the Authority extended (February 1997) the licence for a further period of 6 months (i.e. upto October 1997) on adhoc basis. The licence was further extended on adhoc basis at a licence fee of Rs.5.40 lakh per month from October 1997 subject to 10 per cent annual compound increase till the award of a new contract.

The Authority invited (August 1997) fresh tenders for award of licence. The highest bidder (M/s. Royal Enterprises) quoted Rs.8.86 lakh per month and the second highest bidder (GSW) quoted Rs.7.78 lakh per month. On finding that the documents submitted by the highest bidder were bogus, the Authority asked GSW to match their offer with the highest offer. However, GSW agreed (December 1997) to increase the license fee to Rs.8.01 lakh per month. As GSW did not match their offer with the highest offer, the Authority decided (July 1998) to call for fresh tenders. Fresh tender was called for only in December 1998 i.e. after a delay of nearly 5 months. Based on this tender, the Authority awarded (April 1999) the licence to M/s. Akthar Enterprises at their quoted licence fee of Rs.9.34 lakh per month for a period of 3 years from the date of commencement of licence i.e. July 1999. In the meantime, GSW continued to pay licence fee at the rate of Rs.5.94 lakh per month.

Thus, due to delay in award of the licence on a regular basis and consequential continuation of the existing licensee on adhoc basis on lower rate of licence fee, the Authority could not earn revenue at higher rates and sustained a loss of Rs.52.22 lakh.

The Management contested (July 2000) the audit observation saying that GSW had agreed to pay licence fee of Rs.8.01 lakh per month if the contract had been awarded for 3 years and that the loss could not be calculated as the contract was not awarded to them. The reply is not tenable since delay in the initiation of action for finalisation of a new contract on regular basis caused the continuation of the existing adhoc contract and despite having obtained better offer in 1997, the Management preferred to extend the existing contract with GSW on adhoc basis at lower rates resulting in loss of revenue to the Authority. As the offer of Rs.8.01 lakh per month was given by GSW for award of the licence for three years and the Authority had also invited the offers for the same period, the offer should have been accepted by the Authority in the interest of earning higher amount of revenue.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Hotel Corporation of India Limited

4.3.1 Irregular expenditure on payment of ex gratia and distribution of gifts

In contravention to the guidelines issued by the Department of Public Enterprises, the Company effected payment of *ex gratia* and offered gifts amounting to Rs.2.40 crore to its employees during the years 1994-95 to 1996-97.

The employees of Hotel Corporation of India Limited (HCI) were eligible for payment of bonus under the Payment of Bonus Act, 1965, as amended from time to time. The Department of Public Enterprises (DPE) issued instructions (March 1996) that from 1993-94 no *ex gratia*/honorarium or reward would be paid by the Public Sector Enterprises under the administrative control of the Central Government to their employees over and above entitlement under the provisions of the Payment of Bonus Act or the executive instructions issued by the DPE in respect of *ex gratia* unless the amount was authorised under the duly approved incentive scheme in accordance with the prescribed procedure.

Ignoring the above instructions of DPE, HCI Management paid *ex gratia*/gifts (in the form of cash, wristwatches and National Saving Certificates) to its employees in addition to the bonus payable under the Payment of Bonus Act, 1965. The total payment made on account of *ex gratia* and distribution of gifts for the period from 1994-95 to 1996-97 amounted to Rs.2.40 crore besides payment of Rs.5.24 crore as bonus during the same period. The Management reported the payments of *ex gratia* and distribution of gifts to the Board of Directors for *ex post facto* approval only. While according *ex post facto* approval for the payments made for the year 1995-96, Board expressed (December 1996) strong reservations on the matter and directed the Managing Director to desist from

making such payments to the employees in future as it was not in tune with the Government's directions. Ignoring the specific directions of the Board, the Management again distributed gifts amounting to Rs.51.59 lakh comprising of wristwatches and National Saving Certificates (face value of Rs. 1000) to each employee for the year 1996-97 which was also regularised by the Board reluctantly by according *ex post facto* approval (April 1998) as a one-time exercise, being *fait accompli*. However, the approval of the Ministry of Civil Aviation on these payments was never sought.

Thus, the payment of *ex gratia* and distribution of gifts to its employees in contravention of the instructions of the DPE, resulted in an irregular payment amounting to Rs.2.40 crore during the years 1994-95 to 1996-97.

The Management stated (August 1999) that *ex gratia* payments and gifts were distributed to the employees to keep better industrial relations as it was a common practice in all commercial establishments specially in a hotel industry to award *ex gratia*/gifts on the eve of Diwali every year and this practice had been discontinued since 1997-98.

The reply of the Management is not tenable as Government's instructions specifically prohibited the PSUs from making such type of payments and incentives. Moreover, the payments could not be justified on the plea of industrial practice unless these were authorised by the Government under the duly approved incentive scheme.

The matter was referred to the Ministry in March 2000; their reply was awaited (October 2000).

Indian Airlines Limited

4.4.1 Overpayment of flying allowance to crew

Adoption of old exchange rates while releasing flying allowance to pilots, cabin crew and flight engineers resulted in overpayment of Rs.4.08 crore during 1996-97 to 1998-99.

Indian Airlines Limited (Company) signed (January 1996 to October 1997) three memoranda of settlement (MOS) with three workers' unions[*] for settlement of certain allowances to its pilots, cabin crew and flight engineers. According to these MOS, flying allowance payable to pilots, flight engineers and cabin crew was fixed in Indian Rupees (INR) for both domestic as well as international flights. Subsequently, the Company issued instructions (between February 1996 and December 1997) according to which 80 per cent of the flying allowance for international flights (involving night stops at foreign stations) was to be made in the local currency of the foreign stations at the exchange rates prevalent in November 1993 in case of pilots and flight engineers, and, December 1997 in case of cabin crew irrespective of the date of flight. No approval of the competent authority i.e. Board of Directors was, however, obtained for this departure from the mode

[*] ***1.Indian Commercial Pilots Association (26 January 1996), 2.Indian Flight Engineers Association (6. June 1996) and 3.Air Corporations Employees' Union (7 October 1997).***

of payment specified in the MOS. According to the revised mode of payment, the flying crew (including flight engineers) received more amount of foreign currency at the foreign station than what they could have received corresponding to their entitlement of flying allowance on the date of flight which resulted in overpayment to these employees. Test check in audit revealed that overpayment to the tune of Rs.4.08 crore had been made to these employees by the Company in its Northern Region alone during 1996-97 to 1998-99. The amount of flying allowance overpaid was not being treated as part of salary of the concerned employees by the Company and tax was not deducted at source.

While the Management did not explain the reasons for departure in the mode of payment in case of cabin crew and flight engineers, they stated (June 2000) that though flying allowance was to be paid to the pilots in INR as per MOS signed with Indian Commercial Pilots Association (ICPA) in January 1996, the deviation was made in view of the past commitment with ICPA for making payment of variable allowances on international routes at par with Air India Limited and, hence, it was decided to use the exchange rates prevalent at the time of the earlier settlement of 1993. The reply of the Management is not tenable as the MOS with ICPA did not contain any clause regarding such commitment. Thus, change in the mode of payment from Indian Rupees to foreign currency and adoption of old exchange rates instead of taking the exchange rate prevailing on the date of entitlement was in violation of the MOS and resulted in the overpayment without deducting tax at source.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

4.4.2 Irregular payment to employees

The Company made irregular payment of Rs.3.49 crore, as *ex gratia* to its employees who retired due to reduction in the age of superannuation from 60 years to 58 years, in contravention of the opinion given by the Additional Solicitor General of India

The Company decided (May 1998), to increase the age of retirement of its employees from 58 years to 60 years based on the directives (May 1998) of the Department of Public Enterprises (DPE). Later, in view of further clarifications issued (August 1998) by DPE, the Company felt the need to reduce the age of retirement from 60 years to 58 years. The Board of Directors of the Company approved (December 1999) the decision to reduce the age of retirement subject to the approval of the Government of India. After receipt of approval (16 February 2000) from the Government, the Company implemented (18 February 2000) the decision with effect from 29 February 2000. The Company decided (18 February 2000) to give *ex gratia* equivalent to three months', two months' and one month's salary to the employees retiring with immediate effect, one month and two months respectively from 29 February 2000 and paid a total amount of Rs.3.49 crore to these employees.

Before any decision by the Board of Directors was taken in this regard, the Company had sought (12 July 1999) the opinion of the Additional Solicitor General of India as to whether it had the power to reduce the age of superannuation from 60 years to 58 years and whether it was required to give notice or pay in lieu thereof to the retiring employees.

The Additional Solicitor General of India opined (16 July 1999) that the Company did have the power to reduce the retirement age and advised that since the retirement age itself was being brought down, there was no requirement for notice or pay in lieu thereof. Inspite of this, the Company decided (18 February 2000) to grant compensation to the retiring employees resulting in extra payment of Rs.3.49 crore.

The Management stated (May 2000) that as per the Company's service regulations, it could retire employees prematurely by giving 3 months' notice or 3 months' salary in lieu thereof. By paying 3 months' salary, they wanted to prevent an interim injunction from the Court in this regard. They further stated that the matter had been referred to their legal advisor for his opinion and as per his opinion, the decision to pay three months' salary was reasonable and would minimise the hardship caused to the employees due to roll back of retirement age.

The reply of the Management is not tenable as these retirements were not in the nature of premature retirements. As these were normal retirements, there was no requirement of any notice or pay in lieu thereof to the employees. This fact was also confirmed by the Additional Solicitor General of India. As far as the opinion of the legal advisor is concerned, it was neither based on the service regulations of the Company nor on any legal mandate.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Pawan Hans Helicopters Limited

4.5.1 Loss due to purchase of Mi-172 helicopters

Purchase of three helicopters despite knowledge of their high operating cost resulted in loss of Rs.7.44 crore.

Pawan Hans Helicopters Limited (Company) entered into (September 1995) a contract with M/s. Aviaexport, Russia (seller) to purchase two Mi-172 helicopters at a total cost of Rs.19.40 crore without making any arrangement for their maintenance. However, as no party quoted for this specific maintenance contract, the Company settled for a negotiated offer from the seller in May 1996 which resulted in increase in total operating cost to Rs.90500 per flying hour against the original projection of Rs.65727 per flying hour presented to the Expenditure Finance Committee (EFC) of the Government in August 1995.

The adverse variation in the maintenance cost was likely to result in an annual loss of Rs.3.60 crore on acquisition of these helicopters. However, the Company presumed that the higher recovery of future charter rates from Oil and Natural Gas Corporation Limited (ONGC), to whom they intended to lease out these helicopters, would reduce the losses. The Company could not lease out the helicopters to ONGC as the rates quoted by it in response to open tenders invited (February 1997) by ONGC were higher than its

competitor. Subsequently, the Company could make ONGC agreeable to take one helicopter on call-out basis from May 1997 and on a firm lease contract from December 1998. Even that helicopter could not be utilised properly since the maintenance of the helicopter by the seller was not upto the required standard. As a result, ONGC recovered an amount of Rs.3.54 crore from the Company towards liquidated damages during the period from January 1997 to December 1999 as against penal recovery of only Rs.85.34 lakh made by the Company from the seller.

Despite above, the Company purchased (April 1998) another Mi-172 helicopter at a cost of Rs.9.83 crore from the Assam Government. At the time of purchase, the Company was aware that (i) the Assam Government had not been able to use the helicopter since its acquisition (1995), (ii) certificate of airworthiness of the helicopter had expired and (iii) the helicopter required extensive maintenance and replacements of vital parts. After spending (August 1999) Rs.1.03 crore, the helicopter was made serviceable but it was again grounded (November 1999) for want of an oil cooler fan and, thus, this helicopter had flown only for 106:35 hours till December 1999. The helicopter was still grounded (September 2000).

It was observed in audit that these three helicopters remained under-utilised as these logged 2453:53 hours from January 1997 to December 1999 as against the normal utilisation of 9300 hours. Consequently, the Company incurred a loss of Rs.7.44 crore in respect of these helicopters during this period.

The Ministry of Civil Aviation, while admitting that the performance of the seller in the maintenance of the helicopters was not of the required standard, stated (May 2000) that the Company had preferred the purchase of Mi-172 helicopters as compared to other options, keeping in view both the technical performance as well as the economic aspect. The Ministry also stated that the Board of Directors of the Company had decided (21 December 1995) that in case the operating loss on the purchase of Mi-172 helicopters was restricted to one or two years of operations, the same could be acceptable as it was not feasible for every new capital project to commence services and start making operating profits from the very first day. The Ministry also stated that the operating loss could be termed as notional as it was due to under-utilisation of helicopters by the customer i.e. ONGC. In respect of the purchase of the helicopter from the Assam Government, the Ministry stated that it was purchased with a view to provide maintenance support for carrying out passengers and cargo of the Arunachal Pradesh Government.

The reply of the Ministry is not tenable as the Company failed to attain in any year the return of 25.22 per cent projected to EFC at the time of obtaining approval for the purchase of the helicopters. The loss on the operation of the helicopters was actual as per performance budget of the helicopters prepared by the Company itself. Moreover, EFC was not apprised that the helicopters were not likely to be viable in the initial years. Further, there was no basis (i) to project to EFC that ONGC would take the helicopters on lease and also (ii) to presume that ONGC would pay higher charter rates. Under-utilisation of the helicopters was due to failure of the Company in securing contract from ONGC as the Company became uncompetitive due to higher cost of operation of the helicopters. The Company purchased the helicopter from the Assam Government, when it

had no firm order for its deployment for the Arunachal Pradesh Government. Moreover, the helicopter remained grounded even after major expenditure on its overhauling.

Thus, the purchase of three Mi-172 helicopters despite knowledge of their high operating cost resulted in the loss of Rs.7.44 crore.

CHAPTER 5: MINISTRY OF COMMERCE

Export Credit Guarantee Corporation of India Limited

5.1.1 Loss of premium of Rs.1.04 crore

Company lost Rs.1.04 crore on account of retrospective revision in categorisation of a country which was in violation of the tariff policy, the benefit of which had gone to a single exporter.

Export Credit Guarantee Corporation of India Limited (Company) agreed (February 1994) to provide cover to a Line of Credit (LOC) for US$ 10 million to be issued by the Export Import Bank of India (Exim Bank) to Government of Ghana. On the date of Company's decision to provide cover, Ghana had been categorised as a country with high risk and placed under Group 'D'. The LOC was signed between Exim Bank and Government of Ghana on 19 July 1995 and the Company quoted (August 1995) a premium rate of 8.64 per cent applicable to countries with high risk rating, categorised in Group D, in accordance with the established procedure.

Mohan Exports (India) Ltd., (Exporter) the sole exporter under the LOC represented (8 November 1995) to the Ministry of Commerce to intervene in the matter and have premium rates reduced to a more realistic and viable level. Later (22 November 1995), the Company, during a routine review, upgraded country rating of Ghana from Group D to Group C (premium rate 6.05 per cent) with effect from 14 November 1995.

Although as per the terms of the cover extended to Exim Bank any subsequent upgradation of countries during the tenure of LOC cover was not to affect the premium rate, the Exim bank and the exporter represented (22 December 1995) to the Company to consider reduction in premium by giving the benefit of upgradation of Ghana to Group 'C'. This was not agreed (February 1996) to by the Company despite a reference from the Ministry of Commerce and recommendation of High Commissioner of India to Ghana.

At this stage, the Ministry of Commerce decided, on its own that as a special case, premium should be charged at the rate applicable to Group 'B' countries (4.15 per cent) and conveyed (13 March 1996) this decision to the Company. This decision was, however, hastily withdrawn (18 March 1996) and instructions were issued to the Company to have the matter examined and to submit comprehensive proposal for consideration of the Ministry.

The instructions of the Ministry to charge the premium rate applicable to Group B countries was not accepted (22 March 1996) by the Board of Directors as they felt that besides resulting in a loss of premium such a deviation on a selective basis without objective criteria would not be proper, especially when the benefit of concession was going to a single exporter. However, in view of the recommendation from the Ministry

and other quarters, the Board decided to extend retrospectively the benefit of reduced premium, for the LOC, on account of upgradation of Ghana from Group 'D' to group 'C' countries. This decision was conveyed (28 March 1996) to the Government of India, Ministry of Commerce for consideration and was approved (22 April 1996) by the Ministry.

The decision to extend the benefit of revised categorisation, retrospectively resulted in loss of premium of Rs.1.04 crore (Rs.3.46 crore minus Rs.2.42 crore). This was not commercially prudent as the Company already had an adverse claim ratio of 500 per cent in this line of business.

In reply the Management stated (February 1998) that:

a) the benefit of upgradation was given after detailed deliberation and in view of Government's policy of promoting exports;

b) special concessions in premium made the export deals more attractive, and

c) strictly speaking the benefit of concession in premium rate went to Exim Bank.

The reply of the Management is not tenable because:

(i) it was the consistent policy of the Company to charge premium at the rate applicable on the date of signing the agreement and subsequent upgradation/ downgradation of countries during the tenure of LOC was not to affect the premium rate.

(ii) in the normal course, the Company would not have reduced the rate of premium quoted. It appears that the Company succumbed to the continuous pressure from the Ministry, Indian High Commissioner to Ghana, Exim Bank and the exporter.

(iii) as Exim Bank was to recover the premium from the exporter it was evident that the exporter would be the ultimate beneficiary of the reduction in premium

The Company is a business entity and should be guided by commercial considerations. Any directive/pressure from the Government runs contrary to the principles of independent corporate governance and tantamounts to interference in the working of the Company.

The matter was referred to the Ministry in May 2000; their reply was awaited (October 2000).

MMTC Limited

5.2.1 Avoidable loss in uneconomic procurement of rice for export

Acceptance of an order for export of rice without having any assured source of supply, uneconomic purchases in violation of standard tendering practices, lapses in execution of the order and finally uneconomic disposal of stock led to a loss of Rs.7.79 crore.

MMTC Limited (Company) received (August 1995) a firm order from its subsidiary viz. MMTC Transnational Pte Limited, Singapore (MTPL) for supply of 50000 metric tonnes (MT) of Indian white rice at the rate of US$ 275 (Rs.8663) per MT on C&FFO basis. It was agreed to supply the first lot of 25000 MT of rice by 30 October 1995 and the balance quantity by 31 December 1995. While accepting the order (September 1995), the Company expected to earn a profit of Rs.56 per MT by procuring it at the rate of Rs.6600 per MT[*] from Food Corporation of India (FCI) though FCI had not given such a commitment.

The Company wasted whole of October 1995 in calling for open tenders and rejected all the offers available without assigning any reason. Finally, the Company procured (November 1995) 32882 MT of rice at Rs.8338 per MT from 5 private parties who had not even quoted against the open advertisement earlier. This procurement of rice was bound to cause a loss of Rs.2.91 crore at the procurement stage itself after taking into account the normal overheads[#].

Due to failure of the Company in procuring rice in time, MTPL extended the last date for shipment to 15 January 1996. The Company lost all opportunities for exports due to:

(i) cancellation (November 1995) of the nominated vessel for want of rice at the designated port of loading (Bedi);

(ii) belated acceptance by Agro Division of the Company (after deadline of 5 January 1996) of another vessel and subsequent cancellation of the vessel even when adequate quantity of rice had been converged at the port of loading (Kandla); and

(iii) lack of co-ordination within the Company in procurement of rice and getting the vessels nominated well in advance for executing the export order.

As the Company failed to export any quantity of rice, MTPL cancelled the order on 17 January 1996. The Company accepted the cancellation of the export order as a *fait accompli* even when 27825 MT of rice was available at the port of loading by that time.

The Company exported (September 1996) 10864 MT of rice to the Czech Republic for Rs.9.87 crore. After a year, it ignored an offer (September 1997) of a buyer viz. M/s. Raunaq Industries Corporation Limited (RICL) for purchase of rice at Rs.6948 per MT.

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[*] *excluding overheads of Rs.2007 per MT*

[#] *overheads: Rs.1209 per MT*

Finally, the Company sold (December 1997) 19200 MT of rice to Maharashtra State Co-operative Consumer Federation (MSCCF) at Rs.6110 per MT for Rs.11.70 crore. Of this, 12000 MT of rice purchased by two private parties from MSCCF through another co-operative unit, was exported to Bangladesh at a profit of Rs.2.58 crore whereas MMTC suffered a loss of Rs.4.45 crore on domestic sale of the same quantity.

In aggregate, the Company realised Rs.22.40 crore against the procurement cost of Rs.30.19 crore and, thus, suffered a loss of Rs.Rs.7.79 crore. This included a net loss (after adjustment of insurance claim received) on account of shortage of 2800 MT (approximately) of rice valued at Rs.1.56 crore. The Vigilance Division of the Company was reportedly investigating the reasons for shortage. Further, had the Company accepted the offer of M/s. RICL in September 1997, it could have reduced the loss by Rs.2.20 crore.

The Management stated (March 2000) that as on 10 January 1996, a quantity of 27825 MT i.e. almost 85 per cent of the rice purchased had been delivered at Kandla by the suppliers and contended that had Transchart nominated a vessel in time, at least 25000 MT could have been shipped by 15 January 1996. The Ministry added (September 2000) that the offer of M/s. RICL was put up to the Committee of Directors in October 1997 for approval but was withdrawn later on as the Director (Agro) and the then CMD had already approved the disposal of rice in the domestic market through tender. The reply of the Management is not tenable as the Company failed to accept the vessel offered by Transchart within the stipulated time. The Company accepted the cancellation of the contract by the subsidiary without taking up the matter with them about the availability of rice at the port. Further the decision not to accept the offer of M/s. RICL was not justified as the latter had accepted all the conditions of the Company and sale to them would have reduced the losses of the Company as stated above.

Thus, acceptance of an order for export of rice without having any assured source of supply, uneconomic purchases in violation of standard tendering practices, lapses in execution of the order and finally uneconomic disposal of stock led to a loss of Rs.7.79 crore to the Company.

5.2.2 Loss due to lapses in entering into an agreement

Venturing into oil-seeds operations with a party having poor financial credibility and doubtful credentials and lapses in exercising adequate controls over the operations resulted in loss of Rs.3.92 crore to the Company.

M/s. Raghunath Cotton and Oil Products Limited (Unit), Ongole, Andhra Pradesh sought (November 1993) association of MMTC Limited (Company) for processing of oil-seeds and rice bran. The Company entered into an agreement with the Unit on 31 January 1994* for 4 months on the basis of a verbal approval of its Chairman-cum-Managing Director (CMD) without verifying the financial credentials of the Unit though financial position of the Unit was not sound and the proposal was not favourable to the Company. Despite knowing that the financial standing of the Unit was poor, the Company did not obtain any bank guarantee to safeguard its financial interest.

* ***Actual Operations under the agreement commenced in March 1994.***

Prior to actual implementation of the agreement, the Company received information on 11 February 1994 that the Managing Director of the Unit had cheated Andhra Bank, Andhra Pradesh State Financial Corporation and Pondicherry Finance Corporation to the tune of Rs.4 crore. However, at the time of obtaining *ex-post facto* approval, the Committee of Directors (COD) of the Company was informed that there were no dues against the Managing Director of the Unit. While according the approval, COD directed that the maximum investment in the purchase of raw material should not exceed Rs.5 crore. The Unit purchased 10,284 MT of oil seeds for Rs.11 crore, far exceeding the limit of Rs.5 crore authorised by COD. The Company did not exercise adequate control and allowed the Unit to effect purchases and sales on behalf of the Company in their own name in violation of the agreement.

The Unit sold the processed products for Rs.12.09 crore. The Company could realise only Rs.9.30 crore, leaving an outstanding balance of Rs.2.79 crore. No recovery could be made as some parties to whom the material was reported to have been sold by the Unit were found missing/fictitious and some had already made payments to the Unit which had not been passed on to the Company. On pursuance, the Unit furnished (November 1994) two cheques for Rs.1.35 crore to the Company, which were dishonoured (December 1994) by the bank on presentation. A criminal case filed in June 1995 and arbitration proceedings initiated in June 1997 against the Unit were pending (September 2000).

The Company suffered a total loss of Rs.3.92 crore (including trading loss: Rs.12.55 lakh, short realisation of sale proceeds by the Unit: Rs.18.32 lakh, interest on the working capital: Rs.81.38 lakh till April 1996 and outstanding debts: Rs.2.79 crore)

The Management, while confirming the facts, stated (February and May 2000) that the Company had not sustained the loss so far since the matter was sub-judice and it was not correct to observe that MMTC did not verify the antecedents of the Unit as actual operations commenced in March 1994 after getting clearance from SBI, Ongole with whom it had working capital arrangements. Further, all the purchases and the sales were conducted by the Unit in consultation with the Company.

The reply of the Management is not tenable as the Company had treated the dues as doubtful of recovery and made full provision in its accounts for the year 1995-96. Moreover, BIFR had also directed the winding up of the Unit. Further, the Company did not wait for the conclusion of the investigation of the complaint by its Vigilance Division which, revealed (May 1994) that the Unit had drawn funds from the Andhra Bank by inflating the value of the available stocks and defaulted in payment of the dues before allowing the Unit to commence the operations.

The matter was referred to the Ministry in March 2000; their reply was awaited (October 2000).

The State Trading Corporation of India Limited

5.3.1 Avoidable loss in export of skimmed milk powder

Confirmation of a supply order without specifically identifying the source of supply resulted in incurring a liability of Rs. 1.72 crore.

As per the delegation of powers a Branch Manager was competent to conclude business upto Rs.1 crore in each case on the basis of back up offers from associates. In order to circumvent the limitations imposed by the delegation of powers, the Calcutta branch of the Company entered into 6 contracts each below Rs.1 crore, between 29 November and 9 December 1994 with M/s. Apollo Melkprodukten B.V., Netherlands, Austria (buyer), for the export of 250 tonnes of Skimmed Milk Powder (SMP) per contract, totalling 1500 tonnes, for delivery during January to March 1995 at Rs. 39595 per tonne FOB. Even before finalising the back to back arrangements, the Company confirmed the quantities and delivery schedules and received (13 December 1994) a letter of credit from the buyer. The Company entered (26 December and 28 December 1994) into a back to back arrangement with M/s. Spillers. Green Limited (SGL) for 500 tonnes of SMP and an arrangement with M/s. Friends Trade Link Pvt. Limited (FTL) for 1000 tonnes of SMP (without a formal agreement) respectively.

The Company could not ship even the first 500 tonnes of SMP scheduled for delivery in January 1995 despite nomination of vessels, as the Indian Associates did not supply the SMP. As the Company could not fulfill its obligation, the buyer filed (September 1995) a suit demanding compensation of Rs.4.31 crore from the Company and later proposed (January 1997) an out of court settlement for Rs.2.74 crore but the Company did not agree and instead made (April 1997) a counter-offer of Rs. 48.33 lakh. However, the buyer did not accept this offer, saying that this did not present an alternative to commercial deals. The Company filed (January 1998) a suit against the Indian Associates with the Indian Council of Arbitration after a lapse of three years. In the meantime, the buyer got a Company's bank account for Rs.70 lakh attached at Frankfurt. The buyer, on the basis of a request from the Company for a reasonable offer, again proposed (August 1999) an out of court settlement for Rs.2.58 crore but the Company did not accept this offer. The cases filed by and against the Company were still (July 2000) pending.

The Company did not choose to obtain any bank guarantee to safeguard its financial interests even from M/s. SGL where a formal agreement was made. It was also observed that as per the opinion given by the Attorney General of India (Attorney General) there was breach of contract by the Company. The Attorney General took the price of SMP prevailing in India at the time of breach of contract into account and indicated that the liability of the Company would be around Rs.1.72 crore.

Thus, the confirmation of a supply order without specifically identifying the source of supply resulted in the incurrence of a liability of Rs.1.72 crore.

The Management stated (July 1998) that the 6 contracts signed by the branch were within the powers of the Branch Manager. They further stated that the main reason for non-supply of SMP was the steep increase in its prices and the Maharashtra Government's decision to suspend supplies for export to meet local demands. The Management further

stated (June 2000) that it was contesting the suit filed by the buyer on the plea that the court had no jurisdiction to decide the case as there was already a clause in the foreign contract for arbitration in Vienna. They also stated that the arbitration proceedings were also going on against the local suppliers and as such there was no loss to the Company.

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

1. While replying (May 1997) to a Parliament question on this case, the Company had stated that certain irregularities had taken place viz. circumvention of the delegation of powers, failure to take adequate care in selection of associates and waiver of earnest money deposit without concurrence of Finance.

2. After an enquiry into this deal, the Director (Marketing) held (June 1996) that the Company had suffered due to malafide intention.

3. As regards the Maharashtra Government's decision, it has been observed in audit that whilst the agreement entered into with M/s. SGL did not specify the SMP from Maharashtra, the Company did not enter into a formal agreement with M/s. FTL at all. Further, the Attorney General had clearly stated in his opinion that this plea of the Company was factually untenable.

4. In respect of the clause regarding arbitration at Vienna, the Attorney General had stated that the plea of the Company was not convincing as there was no Court of justice in Vienna which could be regarded as an arbitral tribunal. The Attorney General had also stated that the chances of recovery of any amount from the suppliers were remote.

The matter was referred to the Ministry in November 1997; their reply was awaited (October 2000).

5.3.2 Avoidable loss in the export of sugar to Pakistan

Acceptance of an order with inadequate delivery schedule for export of sugar to Pakistan and despatch of part quantity at the fag end without a mutually agreed date of delivery resulted in a loss of Rs.90.58 lakh.

M/s. Trading Corporation of Pakistan Limited, Karachi (TCP) floated a tender enquiry (12 December 1996) for import of 50000 metric tonnes (MT) of sugar by sea route for delivery at Karachi port by 11 January 1997. The State Trading Corporation of India Limited (Company) offered (20 December 1996) to supply 25000 MT of Indian sugar through railway rakes FOR Attari/Wagah border by the end of January 1997 subject to, *inter alia*, opening of a Letter of Credit (LC) in favour of the Company.

TCP placed (24 December 1996) an order on the Company for supply of 25000 MT of sugar by 11 January 1997 i.e. within 18 days. It would not have been possible for the Company to execute the order within this short span of time as: (i) no arrangement for procuring sugar from an Indian suppliers had been made, (ii) TCP had not opened an LC for commencing despatches of sugar, and (iii) Pakistan Railways was not accepting more

than 7 rakes per month, and thus, (iv) supply of 25000 MT of sugar to Pakistan in 15 rakes required more than 2 months' time. Instead of deciding a mutually agreed reasonable delivery period with TCP or to express an explicit inability in executing the order, the Company accepted (26 December 1996) the execution of the order in a further reduced time of 16 days by 11 January 1997 subject to availability of rakes by Indian Railways and acceptance of the same by Pakistan Railways.

On 4 January 1997, TCP established an LC negotiable upto 26 January 1997 allowing despatches of sugar between 4 January 1997 and 11 January 1997 and, thus, reduced the delivery period to just 8 days. On the request of the Company to allow despatches upto 31 January 1997, TCP agreed (8 January 1997) to extend the delivery period only upto 21 January 1997, thereby allowing 18 days for the despatch of sugar.

The Company commenced the export only two days before the last date of delivery schedule allowed by TCP and despatched two rakes containing a total quantity of 3643 MT of sugar on 19 and 20 January 1997. The Pakistani authorities accepted the rakes on 2 and 5 February 1997. By this time, the last date for LC negotiation had expired and the Company sent the documents to the bank in Pakistan on collection basis on 10 February 1997. TCP released (March 1997) the payment after deducting, as per terms and conditions of the LC, an amount of US$252,449 (Rs.90.58 lakh) towards late delivery penalty, claim for undelivered quantity, proportionate LC charges for undelivered quantity and value of the shortages noticed in one of the rakes. Despite continued requests by the Company, TCP did not release the amount deducted by them.

The Management stated (May 2000) that their offer to TCP indicated that this was subject to acceptance of 15 rakes by the Pakistan authorities by 11 January 1997 and that trial shipment of one or two rakes only was a conscious decision. The reply is not tenable as the Company was well aware that (i) 15 rakes were required to supply 25000 MT of sugar to Pakistan, (ii) Pakistan Railways was not accepting more than seven rakes in a month. As such, it would not have been possible for them to supply the entire quantity of 25000 MT even upto 31 January 1997. Moreover, despatch of two rakes without arriving at a mutually agreed date of delivery with TCP and without getting any extension in the date of LC negotiation was not justified.

Thus, acceptance of an order with an impossible delivery schedule for export of sugar to Pakistan and despatch of part quantity without a mutually agreed delivery schedule resulted in a loss of Rs.90.58 lakh.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

5.3.3 Avoidable extra expenditure in hiring of storage tanks

Hiring of storage tanks at exorbitant rates without inviting tenders resulted in an extra expenditure of Rs. 74.70 lakh.

The Chennai branch of the Company entered into (September 1996) an agreement with M/s. AVR & Co. (private party) for hiring of storage tanks to stock RBD[#] Palmolein at Visakhapatnam for a period of three years from July 1996 without inviting tenders. The branch agreed to pay basic operating charges at Rs.185 per kiloliter (KL[•]) per month, besides delivery charges of Rs.10 per metric tonne (MT), Rs.15 per MT and Rs. 20 per MT for the 1st, 2nd and 3rd year of operation respectively. The branch also agreed to pay additional charges on account of pigging[@] at Rs.6000 per shipment, weighing charges at Rs.30 per tank lorry and overtime at Rs.200 per hour. The agreement was entered into by the branch despite the facts that:

(i) the Company had not been paying the additional charges in respect of such hiring agreements earlier;

(ii) prior to finalisation of the agreement, the Corporate Office of the Company had asked (July 1996) the branch to avoid payment of such charges;

(iii) the Visakhapatnam branch had finalised a short-term hiring agreement with the same private party at a much lower and consolidated rate of Rs.163 per KL during the same period; and

(iv) the branch had come to know(June 1996) that the same private party had hired out their tanks to other parties at much lower rates and that the Visakhapatnam branch had advised that agreement by the Chennai branch should be finalised at a consolidated rate of around Rs.130 per KL;

It was also observed that in May 1999, the Company invited tenders for hiring of storage space and entered into (July 1999) an agreement with the same private party for a further period of 3 years at half the rate i.e.Rs.108.70 per KL of the instant agreement.

Thus, finalisation of the agreement with a private party without inviting tenders resulted in an avoidable extra expenditure of Rs.74.70 lakh.

The Management stated (May 2000) that due to the monopolistic position of the private party, it was not possible to follow the procedure of inviting tenders and that the Company, on account of their weak bargaining power, had to agree to the terms and conditions as demanded by the private party. The Management further stated that the rates of short-term hiring in the last quarter of 1997 should not be reckoned, as the situation was different to that of the time when the instant agreement was finalised by the Chennai branch. The Ministry, while stating that they had no role in the day to day business/commercial activities of the Company, endorsed (August 2000) the views of the Company which had stated that changing the strategy to include the tank owners in Kakinada also in the subsequent tender resulted in the reduction of rates by the private party in 1999.

Reply of the Management endorsed by the Ministry is not tenable, as the branch should have made an attempt to find out the availability of other parties through open tendering system. When the Corporate Office subsequently invited tenders for hiring the tanks at

[#] ***RBD Palmolein: Refined, Bleached and De-odorised Palmolein***

[•] ***1 KL =0.92 MT***

[@] ***Pigging is a process of cleaning oil delivery pipes.***

Visakhapatnam port, it could hire them at half the rates agreed for the previous agreement. Further, if the branch had adopted the strategy of including Kakinada for the period 1996-99 also, it could have reduced the exorbitant rates fixed for the period 1996-99 to a much lower scale.

5.3.4 Non-recovery of dues owing to defective agreements

Due to exclusion of vital clauses in the agreements for extending financial assistance, the Company failed to recover Rs.67.71 lakh on account of principal, interest, service charges and damages from the defaulting associates to whom such assistance was given by the Company.

With a view to increasing export of finished leather goods 'on account STC' through its associates, The State Trading Corporation of India Limited (Company) introduced (February 1987) a scheme for extending financial assistance in the form of supply of imported machines to associates preferably engaged in the production of leather goods. The terms and conditions for extending the financial assistance under the scheme included, *inter alia*, that:

1. the machines delivered to the associates after import by the Company were to be hypothecated by the former in favour of the latter; and
2. in the event of default by the associate(s) either in timely payment of dues of the Company or in fulfilment of any of the export obligations, the Company could:

(i) take possession of the machines to re-sell the same for recovery of its dues at the risk and cost of the associate(s) and,

(ii) impose damages to the extent of 3 per cent of the shortfall in fulfillment of the export obligation.

Between May 1990 to August 1991, the Company extended financial assistance of Rs.18.42 lakh to three associates which was recoverable between May 1997 and February 1999 under agreements signed with each of them. It was observed in audit that none of the agreements contained clauses in accordance with the vital conditions of the scheme mentioned above in order to protect the financial interest of the Company. As a result, none of the associates hypothecated the machines in favour of the Company.

The Company could not recover its dues totalling to Rs.20.23 lakh (Principal: Rs.10.79 lakh and Interest: Rs.9.44 lakh) as on 31 March 2000 from two of the associates. Besides, for the purpose of payment of service charges to the Company, the associates were required to furnish the details of their annual export turnover to the Company but these were not furnished regularly. As against the service charges of Rs.33.41 lakh determined on the basis of details of export turnover furnished by associates, the Company could realise only Rs.0.74 lakh from them.

As the Company could not recover the dues from these associates, legal cases were filed (October 1994 and June 1997) against two of them, and the Company was pursuing the third associate for recovery of the service charges. Legal cases were still pending (March 2000). In the absence of a suitable clause in the agreements, the Company could not take

possession of and sell the machines to recover their dues also. Thus, due to lapses on the part of the Company in excluding the vital clauses in the agreements signed with the associates, the Company could not recover Rs.67.71 lakh on account of principal and interest on the outstanding amount of financial assistance, service charges as well as damages from the defaulting associates*.

While confirming the facts, the Management stated (July 1999) that it had tried to get the machines hypothecated but the parties did not turn up and had stopped payment of the instalments. Reply of the Management is not tenable, as in the absence of the clause in the agreements for hypothecation of the machines; the efforts of the Management in recovering the dues from the defaulting associates were bound to be futile.

The matter was referred to the Ministry in June 1999; their reply was awaited (October 2000).

* ***(i) Outstanding amount of principal: Rs.10.79 lakh, (ii) interest: Rs.9.15 lakh (till 31.12.1999) on the unrecovered amount of financial assistance, (iii) service charges: Rs.32.67 lakh, (iv) damages from the defaulting assosicates: Rs.14.81 lakh.***

CHAPTER 6: MINISTRY OF COMMUNICATIONS

Department of Telecommunications

ITI Limited

6.1.1 Loss due to poor production planning

Poor production planning and failure to make optimum use of production capacity resulted in short closure of order valuing Rs. 2 crore and loss of contribution of Rs. 58.03 lakh.

ITI Limited (Company) received (September 1996) an order from Department of Telecommunications (DOT) for supply of 143600 Electronic Push Button Instruments (units) at Rs.426 each. Confirming (November 1996) the purchase order, DOT indicated that the supply was to be completed in four months i.e. by March 1997. The price per unit was amended (January 1997) to Rs. 471.15. In order to meet the delivery schedule, the Company allotted 73600 and 70000 units to Telephone Plant, Bangalore and Naini respectively.

Bangalore Plant could supply 31000 units by March 1997. Against the production capacity of 5 lakh units and planned production of 4.20 lakh units during the year 1996-97, the actual production was only 3.77 lakh units due to poor production planning. The Company requested (March 1997) DOT to extend the delivery date. Reasons for seeking extension were not available. Inspite of repeated requests, the Management had not produced the reasons. DOT extended (April 1997) the delivery date upto May 1997 subject to levy of liquidated damages and short closure of the order in the event of non-adherence to the revised delivery schedule. However, no supplies were made allowing the balance order of 42600 units, valued at Rs. 2 crore to be short closed thereby causing loss of contribution of Rs. 58.03 lakh to the Company.

The Company stated (May 2000) that execution of orders for units with old specifications where slippages had already occurred were given priority and also value-added products were manufactured to minimise the loss. The reply is not acceptable because due to faulty production planning there were slippages even in the orders received earlier with old specifications which resulted in payment of liquidated damages of Rs.32.05 lakh. Moreover, the value of production during 1996-97 was only Rs.21.77 crore as against Rs.28.90 crore in 1995-96. Further with production capacity of 35000 units per month, on an average only 31424 units were produced during 1996-97.

Thus, poor production planning and failure to make optimum use of the production capacity resulted in short closure of order valuing Rs. 2 crore and loss of contribution of Rs. 58.03 lakh apart from payment of liquidated damages of Rs.32.05 lakh.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

Mahanagar Telephone Nigam Limited

6.2.1 Extra liability of Rs. 1.96 crore

Irregularities and violation of codal provision while hiring a private accommodation led to extra expenditure/liability of Rs. 1.96 crore.

Mahanagar Telephone Nigam Limited (MTNL) hires private premises for office accommodation and for telephone exchanges. Rules provided that accommodation shall not be hired at the first instance for a period exceeding 5 years and while hiring the accommodation it shall be ensured that the required basic infrastructure existed. The Corporate Office of MTNL further issued (June 1987) instructions that increase in rent should not exceed 10 to 15 per cent of the existing rent over a period of three years.

Shri B.M.Bhardwaj, General Manager (GM), Trans Yamuna (TY) invited (November 1997) tenders for hiring of accommodation for an exchange building in Trans Yamuna area. All the offers received, in response, were rejected on the ground that the accommodations did not have proper load bearing capacity or were otherwise unsuitable for opening of the exchange. GM (TY) then decided (September 1998) to abandon the proposal of hiring accommodation for office exchange and initiated a proposal for hiring accommodation for office building. No fresh tenders were invited for hiring of office building and it was finally decided to consider one offer received from a private party (Ms. Indu Malhotra) for hiring of office accommodation. The manner in which this offer was obtained was not on record. Moreover, no reasons were recorded for dispensing with the requirement of issuing fresh tenders for hiring of office accommodation.

A scrutiny of records relating to hiring of 5025 square feet (sq.ft.) of accommodation from the said private party in January 1999 revealed the following serious irregularities and violation of codal provisions:

- While the fair rent of the accommodation was worked out by the civil wing of MTNL at Rs. 9.22 per sq.ft., the rates of Rs. 18, Rs. 30 and Rs. 24 per sq. ft. were approved for the basement, ground floor and first floor respectively of the said accommodation, on the ground that in case of renting of accommodation, suitability and not competitive offer was the consideration. This logic was flawed because while the suitability factor was important the aspect of fair rent could not be ignored. As a result of this flawed logic, annual rent of Rs.14.41 lakh was agreed to as against the fair rent of Rs.5.56 lakh per annum.

- The justification given about suitability of the accommodation was also not correct since it was not centrally located, as testified by the fair rent committee, and was yet to be approved by Delhi Development Authority.
- The basis on which the Site Inspection Committee consisting of 4 Senior Officers of the area found the building suitable for the purpose of hiring was itself very questionable in view of the fact that basic infrastructure by way of sewerage connection, flush system, locking arrangement etc. were also not ready uptill April 1999.
- While the guidelines laid down by MTNL stipulated that a building was to be hired for a period of 3 years, extendable to 5 years, in the instant case, even though the lessor had requested for a lease of 9 years, a lease period of 15 years was approved by Shri B.K. Malhotra, GM (Admn.).
- In contravention of the instructions of the Management for allowing increase of not more than 10 to 15 per cent, an increase of 25 per cent every 3 years was agreed to in the instant case. This led to an undue benefit of Rs. 63.34 lakh, to be paid to the party over a period of 15 years.

The above omissions led to hiring of an accommodation which over a period of 15 years would entail, all other things remaining the same, an excess payment of Rs.1.96 crore.

The above findings were brought (May 1999) to the notice of GM (TY) who stated that the matter had been taken up for scrutiny by vigilance.

The matter was referred to the Ministry in July 1999; their reply was awaited (October 2000).

6.2.2 Billing failures in Integrated Services Digital Network

Due to delay in development of billing software for ISDN subscribers there was short/non-billing of revenue to the tune of Rs. 1.30 crore.

The Integrated Services Digital network (ISDN) introduced by the Mahanagar Telephone Nigam Limited (MTNL) in August 1996 was a State-of -Art public switched digital network. On the ISDN line, subscribers could send and receive in digital form, voice, data, image or combination thereof from their premises. The tariff recoverable from ISDN subscribers was: i) rent for access at Rs.1000 per month, ii) usage charges on the basis of actual meter reading subject to a minimum of Rs.5000 per month, and iii) charges for accessories, if any.

Prior to introduction of ISDN, the Telephone Billing System (TBS) cell was using Customer Services Management System (CSMS) for billing other telephone services and on introduction of ISDN, MTNL entrusted the development of software for ISDN billing to its Information Technology (IT) unit, but there was considerable delay in development of the software. Despite this the TBS cell failed to issue manually the bills to ISDN subscribers atleast for the minimum usage charges. It was only in March 1997 that MTNL decided to issue provisional bills manually to ISDN subscribers for rental as well as for minimum usage charges. Due to serious defects in the software developed by IT

unit, TBS unit continued to issue manually the provisional bills for the subsequent billing cycles upto May 1998. Thereafter, the ISDN billing was transferred to Area Offices. Even the Area Offices could not issue the bills correctly on actual meter readings as the defects in the software could not be rectified till April 1999.

The software developed for CSMS was not having the facility of billing for minimum call charges in ISDN cases where the actual meter reading was less than the prescribed minimum charges. In three Area Offices (South-I, II and Central) it was noticed that in 496 cases out of 564 cases test checked by audit, the billed amount was far less than the minimum prescribed usage charge and in other 68 cases bills were not issued at all to the subscribers. Thus, due to short/non-billing of even the minimum usage charges for the period from October 1996 to April 1999, there had been short collection of revenue to the tune of Rs. 1.30 crore. The actual revenue leakage would be far greater than this if the actual meter readings are taken into account. It would, thus, be observed that MTNL had failed to evolve an accurate billing system even after three years of commencement of ISDN services in Delhi. The possibility of some ISDN connections having been closed permanently without being billed at all could not be ruled out.

In reply, the Ministry stated (January 2000) that the billing of ISDN services was delayed due to the non-receipt of executed copies of order books, opening, closing and shifting particulars and non-availability of software in CSMS for passing the particulars of ISDN numbers to Telephone Revenue branch through computer. The Ministry admitted that considerable time was taken by MTNL's IT unit for development of software and added that bills were issued in all the cases pointed out by Audit. Particulars of recovery were awaited (August 2000).

6.2.3 Avoidable expenditure on building rent

Failure to exercise the option to extend the period of rent agreement on due date resulted in an avoidable expenditure of Rs. 1.26 crore

MTNL, Mumbai took possession of first floor and ground floor of a private building in January/April 1985 and October 1985 respectively at a mutually agreed licence fee of Rs. 12.50 and Rs. 13.50 per square foot per month. Department of Telecommunications (DOT) and MTNL shared both the floors and though the entire licence fee was paid by MTNL, Mumbai, the share of licence fee proportionate to the area occupied by DOT was claimed from them.

As per clause 7 of the agreement, the licensee (MTNL) was entitled to extend the licence period for a further period of ten years subject to an increase by 15 per cent of the then licence fee, provided that the licensee gave a notice in writing to the licensor (the owner) exercising the said option twelve months prior to the expiry of the licence period.

Though the due dates to give a written notice to the owner for renewal of agreement in respect of first floor and ground floor were prior to 7 January 1994 and 20 October 1994 respectively, MTNL without adhering to these due dates, served notices for renewal in October 1994 for first floor and in March 1995 for ground floor. Taking advantage of this lapse on the part of MTNL, the owner agreed (March 1996) to renew the agreement upto

a period of five years on mutually agreed terms and conditions provided the licence fee was increased to Rs. 200 per square foot per month. In April 1996, MTNL offered an increase of 50 per cent of the existing licence fee, which was accepted by the owner without renewal of agreement and loss of his legal rights. This offer was against the recommendation of the Rent Finalisation Committee (RFC) of MTNL, which under such conditions recommended only 15 per cent increase as per existing provision of the agreement.

Thus, as a result of delay in renewing the agreement within the due date MTNL had to agree to an increase of 50 per cent licence fee as against 15 per cent stipulated in the agreement and also recommended by the RCF. This resulted in an avoidable excess expenditure of Rs. 1.98 crore towards licence fee between April/October 1995 and December 1999, of which DOT shared Rs.72 lakh. In addition, MTNL would incur recurring loss of Rs. 2.42 lakh per month on this account.

The Management clarified that in view of the guidelines issued by the Corporate Office, the increase of 50 per cent over a period of ten years was well within the limits and that the revised licence fee was low considering the market rate of Rs.150 to Rs.200 per square foot. Reply is not tenable because had MTNL approached the owner within the stipulated time, the increase in licence fee would have been restricted to 15 per cent of the then licence fee in terms of the existing clause and the agreement could have been renewed for another ten years. Further, it was also found that though the Chairman and Managing Director (CMD), MTNL, Delhi instructed (June 1999) CGM, Mumbai Branch to fix responsibility for the lapse in June 1999, action was pending (March 2000).

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Videsh Sanchar Nigam Limited

6.3.1 Non-realisation of transponder lease rental of Rs. 1.48 crore

Failure of Videsh Sanchar Nigam Limited to fully encash the bank guarantee or to switch off transponder services despite continuous default in payment of dues by a television broadcaster, led to loss of revenue of Rs. 1.48 crore.

Videsh Sanchar Nigam Limited (VSNL) is a member of International Telecommunications Satellite (INTELSAT) Organisation and it leased out transponders to broadcasters through the INTELSAT system. As per the INTELSAT Organisation's terms and conditions, the transponder capacity booked by a member on guaranteed reservation basis was non-cancellable and the committing signatory i.e., member concerned was liable to pay lease rental for the entire period of lease.

VSNL entered into an agreement in April 1995 with a private television broadcaster for provision of 36- mega hertz pre-emptiable transponder on INTELSAT for a period of 10 years. Under the agreement, the television broadcaster was required to pay in advance the

first year charge of US$ 1.32 million (equivalent to Rs.5 crore approximately) towards lease rental and service charges before commencement of the lease of the transponder. Thereafter, the broadcaster was also required to pay lease rental in advance for each of the subsequent years of lease for this transponder. The television broadcaster was also required to furnish a bank guarantee (BG) for an amount equivalent to net present value of unexpired period of lease and accordingly, he deposited a sum of Rs. 10 crore with VSNL in August 1995.

Subsequently the above television broadcaster expressed difficulties in furnishing BG for such a large amount and accordingly, a tripartite meeting of television broadcasters, Director General of INTELSAT and VSNL Management was held in March 1996, wherein it was decided that the broadcaster would commit one year's guarantee equivalent to base tariff plus VSNL's overheads for the total transponder committed through a BG renewable every year for the duration of commitment. Accordingly, the said television broadcaster executed a fresh BG for Rs. 4.20 crore in July 1996 with the UTI Bank Limited, valid upto 19 July 1997. Thereafter, VSNL, after adjustment of its dues, refunded a sum of Rs. 4.14 crore to the above subscriber in July 1996, out of the earlier deposit of Rs. 10 crore made by him in August 1995.

As per the decision reached in the tripartite meeting, VSNL executed a revised agreement with the above broadcaster in July 1996. Under the revised agreement, the broadcaster was required to clear the lease rentals in advance on quarterly basis within 15 days of raising of invoice by VSNL. In case of any delay in payment he was liable to pay interest at prime lending rate of State Bank of India as on due date plus 2 per cent thereon.

As the Broadcaster failed to make the payment of dues, VSNL encashed (February 1997) the BG partially to adjust an amount of Rs. 1.62 crore due against the broadcaster but the Management failed to seek the extension of this BG for a further period of one year as a safeguard against dues payable by this party to VSNL during the subsequent period. Moreover, despite continuous default in payment of dues by the broadcaster, VSNL did not approach INTELSAT Organisation to switch off the services to the broadcaster, instead the Company continued to pay lease rental to INTELSAT though it failed to recover the same from the television broadcaster.

Since the above television broadcaster failed to clear the lease rentals of Rs. 1.29 crore for the quarter ending September 1997, VSNL requested UTI Bank Limited in July 1997 to release the balance amount of BG of Rs. 2.58 crore, but the bankers refused to honour VSNL's claim on the plea that the said BG had already been revoked by the concerned broadcaster. Finally, at the request of VSNL, the INTELSAT Organisation switched off the services and released VSNL from the principal commitment of 10 years from October 1997. Thus, VSNL's failure either to encash the BG in full in February 1997 or to get it extended for another year led to loss of revenue of Rs. 1.48 crore inclusive of interest of Rs.19 lakh on the above outstanding amount of lease rental for the period from September 1997 to March 1998.

The Management while accepting the facts of the case stated (May 1999) that a legal suit had been filed against the said television broadcaster and its bankers for recovery of the outstanding dues. No amount had, however, been recovered so far (October 2000).

The matter was referred to the Ministry in August 2000; their reply was awaited (October 2000)

6.3.2 Undue benefit to a foreign public relations agency

Unnecessary delay in finalisation of tenders for public relations work led to an avoidable extra expenditure of Rs. 49.96 lakh.

Videsh Sanchar Nigam Limited (VSNL) engaged (January 1997) a foreign firm (M/s. Dewe Rogerson (DR) of London) having a branch office at Bombay to undertake public relations (PR) work related to GDR issue. Pending finalisation of tenders for regular PR work and to attend to the residual work of GDR issue VSNL extended (April 1997) the agreement with the firm for a further period of one month upto May 1997.

The foreign firm expressed (April 1997) its willingness to work with VSNL for public relations work on annual retainership basis at a fee of Rs. 34.56 lakh. Considering their quoted rates to be high, VSNL decided to invite tenders. Meanwhile the services of the firm were extended for a further period of two months upto July 1997 at £ 7000 plus out of pocket expenses at actuals.

Tenders were invited in June 1997. In response, VSNL received four offers including an offer from the above foreign firm. The rate of Rs. 50.46 lakh per annum, plus out of pocket expenses, quoted by the said foreign firm was substantially higher than the rates quoted by the other three Indian firms which ranged between Rs. 9 lakh and Rs. 21.88 lakh, besides out of pocket expenses at actuals. Due to delay in taking a decision on tenders, VSNL continued to avail the services of the above foreign firm at a higher rate. The Tender Negotiating Committee after negotiations with the firms decided to split the scope of work into two parts i.e., one for Investor relations and other for Media relations/ Corporate image and decided to float fresh tenders.

Fresh tenders were invited in September 1997, against which five firms including the above foreign firm submitted their quotation. The foreign firm quoted Rs.57.60 lakh per annum for Investor relations and Media relations/Corporate image work as against the rates ranging from Rs. 6 lakh to Rs. 45.05 lakh per annum quoted by other firms. The Tender Committee after noticing wide variation in these rates decided once again to call for fresh bids. Consequent upon this decision, VSNL invited bids again in January 1998, against which the above foreign firm quoted Rs. 53.08 lakh per annum against the fees ranging from Rs. 11 lakh to Rs. 29.52 lakh per annum quoted by other firms. Finally VSNL appointed (October 1998) M/s. Shobhagaya Advertisement Services (SAS) for Media relations at a fee of Rs. 4.50 lakh per annum and M/s. Perfect Relations Pvt. Ltd., (PRP) for Investor relations at an annual fee of Rs. 5 lakh by discontinuing the services of the above foreign firm with effect from October 1998.

Thus, unnecessary delay in finalisation of tenders led to continuation of the services of the foreign firm for which VSNL had to incur an avoidable extra expenditure of Rs.49.96 lakh (as compared to SAS and PRP) between September 1997 and September 1998. It was further observed that the Company had paid a total fee of Rs. 74.15 lakh to the above firm without deducting the applicable income tax of Rs. 22.25 lakh at source and the out

of pocket expenses incurred in Indian currency were reimbursed in foreign currency without insisting upon supporting vouchers in contravention to terms of appointment.

In reply, the Ministry stated (October 1999), that the PR work being multifaceted needed in depth study before awarding the work to other agencies and as such VSNL continued to avail of the services of the foreign firm pending finalisation of tenders for this work. The reply is not tenable because jobs performed by the foreign firm were of routine nature such as drafting of reports/minutes/press releases and no special work requiring expertise was performed by them. The domestic PR agencies to whom this PR work was awarded earlier on as and when required basis performed satisfactorily.

CHAPTER 7: MINISTRY OF CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION

Department of Food and Civil Supplies

Food Corporation of India

7.1.1 Excess payment on account of storage gain

Due to indecision on the part of Government of India and subsequent non-implementation of the instructions issued by Government of India in November 1999, the Corporation made excess payment of Rs. 37.11 crore to various State Agencies in Haryana on account of increase of 0.88 lakh MT in the weight of wheat stocks (transferred by these agencies to the Corporation) owing to absorption of moisture during the years 1994-95 to 1999-2000.

The Corporation procures wheat for the Central Pool directly as well as through State Government Agencies. Due to operational constraints, the Corporation can not take over the entire stocks procured by State Government Agencies immediately after it is procured. Therefore, the State Government Agencies store wheat meant for ultimate delivery to the Corporation over extended periods. During storage and particularly during rainy season, wheat gains weight due to absorption of moisture. The Government of Haryana took note of this phenomenon and fixed (September 1993) a norm of 0.95 per cent as the likely storage gain on this account for wheat delivered during July and August and 1.16 per cent for wheat delivered between September and March by the State Agencies.

The Corporation was aware of the above facts and, therefore, requested (March 1993 and November 1994) the Government of India (GOI) to issue suitable instructions to the State Governments for a reduction of State Agencies claims against the Corporation for the excess wheat stocks delivered as a consequence of moisture gain. However, till October 1999, GOI did not take any decision in the matter and the Corporation had to make excess payment of Rs. 27.76 crore to various State Agencies in Haryana being the value of 0.71 lakh MT attributable to increase in weight due to moisture gain in respect of wheat stock transferred by these agencies to the Corporation during the year 1994-95 to 1998-99.

After the lapse was pointed out (July 1999) by audit, GOI, Ministry of Consumer Affairs and Public Distribution, replied (November 1999) that it had taken a decision whereby norm of 1 per cent for wheat stored in covered godowns and 0.7 per cent for wheat stored in open godowns/cover and plinth storage had been fixed for wheat delivered with effect from 1 April 1999. The Management, while referring to above decision, stated (December 1999) that the Corporation had made payments strictly based on orders issued

by GOI each year and that there was no excess payment. The reply is not acceptable because test check of records in District Office Kurukshetra revealed (August 2000) that the instructions of GOI applicable with effect from 1 April 1999 were also not being followed by the Corporation as a result of which excess payment of Rs.9.35 crore on moisture gain of 0.17 lakh MT (worked out at an average rate of 0.85 per cent) was made to State Agencies during the year 1999-2000. Further, excess payment of Rs. 27.76 crore made to State Agencies during the years 1994-95 to 1998-99 had also remained unrecovered.

7.1.2 Incorrect fixation of rates

Recurring overpayment to workers and loss to the Corporation amounting to Rs.8.35 crore between April 1996 and December 1999.

In J&K Region of the Corporation, the workers under Mate/Worker Management Committee (WMC) System were brought under direct payment system (DPS) with effect from January 1994. Under direct payment system (DPS) labourers were entitled to wages on piece rate basis with reference to schedule of rates prescribed in 1986 as revised from time to time. The Corporation had issued instructions (December 1994 and April 1996) for the revision of rates with effect from January 1994 and January 1996 by multiplying the basic rates of 1986 by a factor 900 per cent and 1100 per cent respectively. District Manager (DM) Jammu revised the rates by applying a factor of 1566.66 per cent and 1900 per cent, which raised the piece rate of all basic operations to an unjustified level. The Regional office amended (November 1996) the wrongly fixed rates, but the Corporation continued to pay higher rates fixed by DM Jammu due to the agitational approach of the workers union. Thus, due to wrong revision of rates an overpayment of Rs.8.35 crore was made to the labourers during the period April 1996 to December 1999. Besides this the Corporation was making an overpayment of close to Rs.2.25 crore per annum on recurring basis by paying unauthorisedly higher wages with attendant adverse implications on the subsidy payable by the Government of India.

The matter was referred to the Management and Ministry in July 2000; their replies were awaited (October 2000).

7.1.3 Loss due to hiring godowns unfit for storage and unscientific storage of rice

By hiring godowns in Madhya Pradesh unfit for storage and unscientific stacking of rice, 19103 MT rice was damaged, a part of which (9547 MT) was sold by the Corporation at a loss of Rs.4.16 crore. On the sale of balance quantity (9556 MT), it was likely to suffer a further loss of Rs.4.17 crore.

In January/February 1994, the Corporation hired 82 godowns in Raipur district of Madhya Pradesh having an aggregate storage capacity of 31735 MT for temporary storage of rice. Neither any enquiry was floated before hiring these godowns nor any lease agreement was entered into to safeguard the interest of the Corporation. As per mandatory inspections carried out before hiring these godowns, none of these were fit for

storage due to (i) absence of proper ventilation, (ii) leaking roofs, (iii) godown floor being below the ground level and (iv) exposure of godown space to heavy rice dust coming from adjoining rice mill even though this could have been prevented by properly partitioning the two adjoining spaces. These deficiencies were neither got removed before hiring, nor any written agreement was executed with the owner of the godowns to safeguard the Corporation against loss on account of improper storage conditions. Further, 39775 MT rice was stored in these godowns which was 25 per cent more than their aggregate capacity of 31735 MT, thus, leaving no space between the stacks. The height of the stacks was also raised to 26 bags against the standard height of 18 bags as a result of which upper bags came in contact with the roof. As a consequence of unscientific storage, periodic prophylactic and curative treatment could not be administered. Thus, kapra and other insects infected the stock by the time first inspection of the godowns was carried out by the Zonal Manager in 1996.

A quantity of 19103 MT rice was declared as damaged between April 1998 & September 1998, out of which, 9547 MT rice was sold between October 1998 and January 2000 at a loss of Rs. 4.16 crore. Even if the balance quantity of 9556 MT damaged rice is sold at the same rate, the Corporation is likely to suffer a further loss of Rs.4.17 crore. Thus, the total loss due to hiring of improper godowns and unscientific storage of rice would be Rs.8.33 crore. The subsidy payable to the Corporation by Government of India will also increase to the same extent.

The matter was referred to the Management and Ministry in February 2000; their replies were awaited (October 2000).

7.1.4 Loss due to unnecessary hiring of storage capacity

The Corporation unnecessarily hired a godown from Central Warehousing Corporation (CWC) at Rana Pratap Bagh in Delhi inspite of the fact that it had its own storage capacity and surplus labour available in nearby godown at Shaktinagar, also in Delhi. This resulted in avoidable payment of Rs.4.59 crore to CWC on account of rent and labour charges.

The Corporation owned a godown of 35000 MT capacity at Shaktinagar in Delhi. During the period 1994-95 to 1999-2000, the quantity of food grains stored at Shaktinagar godown ranged between 213 MT and 15835 MT i.e. the maximum capacity utilisation at any time was only 45.19 per cent. In addition, as assessed by the Management in September 1996, there were also 104 surplus departmental labourers at Shaktinagar godown. Inspite of surplus storage capacity and surplus labour at Shaktinagar godown, the Corporation did not dehire an existing godown hired from Central Warehousing Corporation (CWC) at Rana Pratap Bagh, near Shaktinagar. Upto March 2000, the maximum stock kept at a time at the hired godown was only 10773 MT. This stock could have been easily kept at Shaktinagar godown which had surplus storage capacity to the extent of 19165 MT during the same period. It also had surplus labour to handle the stock.

Thus, the unnecessary hiring of a godown from CWC in Rana Pratap Bagh resulted in avoidable payment of Rs.4.59 crore to CWC on account of rent and labour charges during the period from April 1994 to March 2000 and also avoidable incidence of subsidy on the Government of India to the same extent.

The matter was referred to the Management and Ministry in October 1999 and November 1999 respectively; their replies were awaited (October 2000).

7.1.5 Non recovery of differential cost of food grains supplied to State Governments under Public Distribution System

The Corporation did not follow the instructions of Government of India for recovery of differential cost of food grains issued to State Governments under Public Distribution System. This resulted in an amount of Rs.4.29 crore remaining unrecovered from State Governments which was an unintended benefit and also had an adverse effect on cash out-flow of the Corporation.

On revision of Central Issue Price (CIP) of food grains under Public Distribution System (PDS) by Government of India (GOI), the State Governments are also required to revise their retail prices to compensate themselves for increase in CIP. As the food grains under PDS carry a large amount of subsidy and since it must be ensured that no unintended benefit is derived by the State Governments/Union Territories or their agencies on account of revision of prices, the GOI has laid down (January 1994) a procedure under which the release orders issued by the Corporation to the State Governments/Union Territories or their agencies upto 7 days prior to the revision of CIP are to be treated as the stock in pipeline. In respect of such stock the differential between the old and the revised price is required to be recovered from State Governments/agencies within two months of the price revision. Failure to do so should result in issue of food grains being reduced or altogether stopped. In the former case the reduction of quantity is required to be commensurate with differential of cost.

Though Corporate Headquarters of the Corporation in February 1994 had directed its Zonal Managers to advise all the district managers to follow the above procedure, it was, observed that the district managers of the Corporation had not followed the above procedure when issue rates were revised by GOI with effect from 1 February 1994 and 1 June 1997. The Zonal Managers and the Corporate Headquarters also had taken no action to remedy this lapse. As a consequence, an amount of Rs.3.14 crore and Rs.1.15 crore remained unrecovered from State Governments of Orrisa, Assam, Rajasthan and Meghalaya/Mizoram on account of revision of CIP which thus, received an unintended benefit. The cash outflow of the Corporation was also adversely effected.

While accepting the facts, the Management stated (April 1999 and June 2000) that they did not resort to stoppage of further issue of food grains as it could have caused disruption of PDS and that the efforts were being made to realise the outstanding differential amount by having meetings and exchanging correspondence with the State Governments concerned. The reply is not acceptable because the Corporation had disregarded the instructions of GOI and during all these years, it had been able to realise

only an amount of Rs.3.59 crore as against the total outstanding amount of Rs.7.88 crore, thereby leaving Rs.4.29 crore (Rs. 3.14 crore since 1994 and Rs.1.15 crore since 1997) unrecovered.

The matter was referred to the Ministry in November 1999; their reply was awaited (October 2000).

7.1.6 Loss on sale of wheat

Failure of the Corporate Management to implement the orders of the Government of India for sale of wheat under the Open Market Sale Scheme at the revised rate, from the effective date and the failure of the Government of India to enforce implementation of its own orders resulted in short realisation and consequential additional financial burden of Rs.2.97 crore on the Government of India by way of payment of subsidy to the Corporation.

The rate for sale of wheat under the Open Market Sale Scheme (OMSS) and the date from which the rate is to be effective is decided by the Government of India (GOI) from time to time. Being the implementing agency for such decisions, the Corporation has no discretion to vary these conditions.

The Government of India, vide orders dated 4 February 1997, revised the rate for sale of wheat under OMSS. The Corporate Office of the Corporation issued fax message to various Zonal and Regional Offices on the same date to enable them to enforce the revised rate with immediate effect i.e. from 4 February 1997.

It was observed in audit that in Andhra Pradesh, Kerala, Tamil Nadu and Madhya Pradesh Regions the revised rate was actually enforced by the Corporation with effect from 5 February 1997 and partially with effect from 6 February 1997. Accordingly Tamil Nadu, Maharashtra, Gujarat and Madhya Pradesh (except district office Gwalior) regions did not raise any claim on account of differential amount of Rs.2.29 crore on sale of 11598.251 MT of wheat at pre-revised rate. Further, in the Andhra Pradesh region while the Corporation did collect the differential cost of Rs.53.55 lakh on sale of 2774.55 MT of wheat at pre-revised rates, the amount was later refunded to the parties concerned. On similar grounds a claim for Rs.14.34 lakh raised in the Kerala region on account of differential cost for sale of 647.080 MT of wheat at pre revised rates was withdrawn. Thus, the failure of the Corporate Management to implement orders of the GOI for sale of wheat under the OMSS at the revised rate from the effective date and the failure of GOI to enforce implementation of its own orders even though the deviation therefrom was reported to it by the Corporation in March 1997 itself resulted in short realisation. The consequential additional financial burden on GOI by way of payment of subsidy to the Corporation on sale of 15019.885 of MT wheat was Rs.2.97 crore.

The Management stated (August 1999) that the instructions from GOI had been received after close of business hours on 4 February 1997 and, therefore, it was not possible to implement the instructions with effect from 4 February 1997 as communication of instructions to district and depot offices took time. They also stated that the loss pointed

out by audit was only notional. The Ministry endorsed (September 1999) the reply of the Management.

The contention of the Management/Ministry is not tenable in view of the fact that the Regional Office Orissa and the district office Gwalior (Madhya Pradesh region) of the Corporation had actually collected the differential cost. Moreover, in 1999 the Corporation had collected the differential cost with effect from 4 February 1997 resulting from the subsequent price revision with effect from 3 February 1999 despite the necessary instructions having been conveyed to some of the field offices on 6 February 1999 i.e., three days after the effective date. It is also apparent that the recovery of differential cost in the transactions under OMSS poses no practical difficulty because such transactions are not effected on a cash and carry basis, on a singly day. Since the release orders are issued much in advance and the actual deliveries are spread over several days, the terms and conditions of release order, *inter alia,* provide that the buyer is bound by the rates prevailing on the date of physical delivery irrespective of date of issue of release order or receipt of payment etc. Thus, it was not impossible for the Management to implement the instructions of the GOI with effect from 4 February 1997.

7.1.7 Loss due to excess issue of food grains under Revamped Public Distribution System

Procedure prescribed to avoid diversion/leakage of food grains earmarked for distribution under Revamped Public Distribution System was not followed by the Management. This resulted in excess issue of 54535.10 MT foodgrains under this system and consequent short recovery/loss of Rs.2.73 crore.

The Government of India (GOI) subsidised (May 1992) the issue price of food grains earmarked for distribution under Revamped Public Distribution System (RPDS) by Rs.50 per quintal with effect from 1 June 1992.

Since the same variety of food grains was to be distributed at different prices under two system viz. Public Distribution System (PDS) and RPDS, there was an inherent risk of diversion of food grains to RPDS, issue price of which was lower. Accordingly, with a view to ensuring proper distribution of food grains, the Corporation provided for monitoring at various levels of the issue of food grains, *inter alia*, under PDS and RPDS in each area/district/zone. Suitable monthly returns prescribed for this purpose were to be sent from the district offices and consolidated at Regional and Zonal offices so as to generate an all India picture at Corporate office of the Corporation. Discrepancies including issue of food grains under either of the two systems in excess of authorised quantities were to be detected in this manner.

It was observed in audit that the prescribed procedure was not properly followed in the Corporation in as much as the monthly statements submitted by District Office Siliguri did not indicate separately the quantity issued under RPDS and the Regional Office also did not call for such information with a view to comparing the quantity of food grains issued under RPDS with the allotment made for this purpose by GOI. Consequently, 54535.10 MT food grains (rice & wheat) issued in excess of the allotment under RPDS during the period from June 1992 to January 1996 in Sikkim by the Food Storage Depot

Rangpoo and Jorthang, under District Office Siliguri of the Corporation remained unnoticed till January 1996. This resulted in short recovery of Rs.2.73 crore from the Government of Sikkim with corresponding adverse implications on cash flow and interest charges.

The Management stated (January 2000) that owing to revision of quantities that were allotted to Government of Sikkim by GOI under RPDS, the food grains issued in excess worked out to only 22285 MT and valued only Rs.1.11 crore. They also stated that Zonal Manager and Senior Regional Manager, Calcutta had already been asked to fix responsibility for excess issue of food grains.

The reply is not acceptable because the Corporation had itself raised a claim of Rs.2.82 crore against Government of Sikkim in June 1996 which was subsequently revised to Rs.2.73 crore in May 1999 based on actual listing by the Government of Sikkim. Moreover, despite the discrepancy being pointed out by audit in March 1996, the Management has neither been able to recover the amount short realised from Government of Sikkim nor has it fixed responsibility on the officials so far (July 2000). Excess issue of food grains in the first instance, non-detection of the same at different levels, non-recovery of differential cost of food grains excess issued and non-fixation of responsibility during the last four years were indicative of casualness with which the matter had been dealt with by the Management.

The matter was referred to the Ministry in May 1999; their reply was awaited (October 2000).

7.1.8 Excess payment due to wrong fixation of driage incidental on custom milled rice

Driage was allowed on mandi labour and transportation charges in Punjab during the years 1994-95 to 1996-97 on procurement of custom milled rice which resulted in excess payment of Rs.2.42 crore to the Government of Punjab and its agencies. Consequently Government of India was also constrained to bear additional subsidy to the same extent.

Government of India (GOI), Ministry of Consumer Affairs and Public Distribution, Department of Food and Public Distribution fixes rates every year for procurement of custom milled rice (CMR) for the Central Pool by State Government and their agencies. The rates are fixed by GOI in consultation with the Corporation and the concerned State Government. These rates are fixed by taking into account, *inter alia*, elements like mandi taxes, market fee, arthias commission, auction fee, purchase tax, mandi labour charges and transportation charges.

It was observed that while fixing rates for procurement of CMR through Government of Punjab and its agencies for the Central Pool during the years 1994-95, 1995-96 and 1996-97, GOI, *inter alia*, made an allowance for driage at the rate of 1 per cent from 1 April 1996 to 31 December 1996 and at the rate of 2 per cent in the relevant years before and after this period. However, while calculating the element of driage, costs on account of mandi labour and transportation charges which bore no relation to driage were not

ignored. However, the mandi labour and transportation charges were ignored while determining the element of driage in respect of Government of Haryana and its agencies during the same period even as ground realities in both the States were identical. Hence making an allowance for driage on cost relating to mandi labour and transportation charges to Government of Punjab and its agencies was unjustified and resulted in extra expenditure of Rs.2.42 crore on procurement of 60.57 lakh MT of CMR. Consequently Government of India was also constrained to bear additional subsidy to the same extent.

The Management stated (March 2000) that there was no excess payment to Government of Punjab and its agencies because mandi labour and transportation charges were always part of the paddy cost and driage incidental had to be allowed thereon. It was also stated that the Corporation had recommended allowance of driage on incidentals like mandi labour and transportation charges on procurement of CMR during Kharif season 1994-95 through Government of Haryana and its agencies.

The reply of the Management is not acceptable in view of the fact that GOI itself had turned down the proposal of the Corporation to allow driage on incidentals like mandi labour and transportation charges on CMR procured through Government of Haryana and its agencies which repudiates any justification for making any such allowance in the case of procurement through Government of Punjab and its agencies. Further, driage was allowed to compensate for the reduction in moisture content of paddy during storage. Hence, transportation charges and mandi labour were not part of cost of paddy as these were incidental expenditure only.

The matter was referred to Ministry in February 2000; their reply was awaited (October 2000).

7.1.9 Loss due to excess driage allowed to private rice millers

The Corporation suffered a loss of Rs.1.89 crore due to short recovery of 2399 MT of rice from private millers. The short recovery arose due to incorrect application of driage factor in calculating the quantity of rice required to be recovered in lieu of paddy given to the millers.

The Government of India (GOI), Ministry of Consumer Affairs and Public Distribution, Department of Food and Public Distribution while fixing the rates for purchase of custom milled rice makes certain allowance towards driage in conversion of paddy into rice. Such rates are fixed provisionally before the start of each Kharif marketing season to facilitate early clearance of dues to State Governments and it agencies. The final rates are fixed by GOI after appropriate proposals are received from the concerned State Government at the end of procurement season.

While fixing the provisional rates of custom milled rice to be delivered to the Corporation by the Government of Punjab and its agencies in respect of the crop year 1996-97 in September 1996, the GOI, *inter alia,* provided for an allowance of 2 per cent for the driage factor. However, the final rates fixed by GOI in December 1998 provided for only 1 per cent for this purpose.

Though the Corporation had allowed (December 1996) 2 per cent driage in respect of paddy got milled through private millers of Punjab during the crop year 1996-97 on the above analogy, in the agreements entered into with the millers the Corporation failed to mention the fact that the driage allowance of 2 per cent was only provisional and that the same was adjustable down-wards on receipt of final rates from GOI.

It was observed in audit that on 3.58 lakh MT of paddy got milled by the Punjab Region of the Corporation from private rice millers upto 31 December 1996, driage of 2 per cent had been allowed and no recovery could be effected for the extra 1 per cent driage. This resulted in short recovery of 2399 MT of rice valued at Rs. 1.89 crore from the millers and financial loss of Rs. 1.89 crore to the Corporation. Consequently GOI had to bear an extra burden for the same amount by way of additional subsidy payable to the Corporation.

The Zonal Management stated (May 2000) that the rates fixed provisionally and finally by GOI were exclusively meant for the State Government and its Agencies and had no bearing on the milling rates allowed by the Corporation to the private rice millers.

The reply of the Management is not tenable because the Corporation had been consistently allowing driage to private rice millers in Punjab at the rate fixed by GOI for State Government of Punjab and its agencies. Therefore, as normal financial prudence would have required and in the interest of uniformity within the same State, the Corporation should have inserted a suitable clause in the agreement to provide for final adjustment of driage allowed to private rice millers.

The matter was referred to the Management and the Ministry in June 2000; their replies were awaited (October 2000).

7.1.10 Loss due to improper implementation of a policy for issuing stocks

Food grains were issued to nominees specified under Public Distribution System from far off depots of the Corporation, instead of near by depots. This resulted in replenishment of stocks in far off depots at an additional cost of Rs. 1.18 crore and loss to the Corporation.

The Corporation has a working policy of issuing stocks to nominees under Public Distribution System (PDS) from its nearest available depots. Accordingly, Salem depot of the Corporation was required to cater to the needs of PDS-nominees of Salem, Dharmapuri and Namakkal revenue districts.

A test check of records in audit, however, revealed that during the last 5 years ending 31 March 1999, the Corporation, issued as much as 41 to 70 per cent of requirement of Dharmapuri and Salem Districts from far off depots at Erode and Coimbatore which were 131 km and 232 km from Dharmapuri and 63 Km and 164 km respectively from Salem even though Salem depot had capacity to stock around twice the quantity of stocks required for both Dharmapuri and Salem districts. This resulted in avoidable expenditure of Rs.1.18 crore on account of freight for moving 441386 MT of food grains through Salem to depots at Coimbatore and Erode.

The Regional Management stated (December 1999) that the releases from Coimbatore and Erode depots were made at the request of specified nominees under PDS because it was not possible for them to lift the allotted quantity of food grains from Salem depot within the validity period owing to their inability to arrange necessary transport. The reply is not tenable because it was the responsibility of PDS-nominees to arrange trucks for lifting of stocks. The fact that during all these years, the Management had not been able to persuade PDS-nominees of these districts to lift stocks from Salem was indicative of the laxity on the part of the Management in safeguarding its own interest.

The matter was referred to the Management and the Ministry in July 2000; their replies were awaited (October 2000).

CHAPTER 8: MINISTRY OF DEFENCE

Department of Defence Production & Supplies

Bharat Earth Movers Limited

8.1.1 Avoidable loss

The Company offered the transmissions for inspection before the agreed delivery schedule resulting in an avoidable loss of Rs.1.52 crore.

Bharat Earth Movers Limited (Company), received an order (June 1995) from Ordnance Factory Medak (Customer), for supply of 236 BMP* transmissions (systems) at Rs.11.16 lakh each for the first 100 systems and at Rs.12.27 lakh each for the remaining 136 systems. The first batch of 100 systems and second batch of 136 systems were to be supplied during 1995-96 and 1996-97 respectively.

The Company not only supplied the first 100 systems in 1995-96 but also offered the second lot of 136 systems for Customer's inspection during February and March 1996 and raised invoices for the second lot of 136 systems at Rs.12.27 lakh each. However, the Customer issued (October 1997) an amendment reducing the price for 136 systems to Rs.11.16 lakh each on the plea that these were manufactured during 1995-96 and the applicable rate for supplies during 1995-96 was only Rs.11.16 lakh resulting in a loss of Rs.1.52 crore to the Company.

The Company's request for restoration of the unit price of Rs.12.27 lakh for 136 systems was finally rejected (January 1998) by the Ministry of Defence and thereafter the Company made (August 1998) appropriate adjustments in its accounts to give effect to the rejection of this claim.

The Management stated (May 2000) that by offering 136 systems for inspection during March 1996 it could save Rs.1.95 crore by way of cash credit interest (Rs.1.21 crore) and interest on material cost (Rs.74.24 lakh).

The Management's reply that it saved Rs.74.24 lakh by way of interest on material cost is not tenable as the systems were imported during 1995-96 even in respect of supplies made in 1996-97. Thus, there was no saving on account of interest on material cost. The Management's contention as regards saving of interest on cash credit is also not tenable as postponement of delivery schedule would have only postponed the availment of cash credit facility. Besides, the Company did not receive the payment immediately on raising invoices as the systems were supplied in February/March 1996, while the payments were actually received between June 1996 and February 1998.

* *Boyevaya Machine Pekhoty (Russian term).*

Thus, offering of systems for inspection before the agreed delivery schedule resulted in an avoidable loss of Rs.1.52 crore.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

8.1.2 *Avoidable loss due to failure of the Company to follow the excise duty procedure for despatch of components*

Non payment of excise duty on axles/transmissions manufactured and supplied to its Mysore Complex deprived the Company of MODVAT credit resulting in loss of Rs.92.23 lakh.

Under modified value added tax (MODVAT) scheme introduced from 1 March 1986, a manufacturer can take credit for the duty paid on the raw materials purchased for manufacture so that duty is paid only on the final product.

The H&P Division of the Company despatched 32 BH-35 axles to its Mysore Complex during the period from 16 March 1995 to 22 July 1996 without payment of the excise duty. After the lapse was pointed out and demand raised by the excise authorities, the excise duty of Rs.43.96 lakh on the axles was paid by the Company in September 1998. The request of the Company (January 1999) for claiming MODVAT benefit at Mysore complex was not considered by excise authorities on the ground that non payment of duty at the time of removal of axles for despatch was with an intention to evade the duty.

Since the Company could not avail of MODVAT credit, Rs.43.96 lakh was absorbed as expenses in the accounts for the year 1998-99.

Similarly, in another case, of despatch of axles/transmissions to the Mysore Complex, the Company did not pay excise duty at the time of removal. Subsequently, on the lapse being pointed out, the Company paid the excise duty amounting to Rs.48.27 lakh in February 1997 and the amount so paid was, again, not eligible for MODVAT credit due to its failure to make payment at the time of clearance of materials.

The Management stated (May 2000) that the matter was pending adjudication before the Excise Department. The reply is not tenable as the matter pending adjudication before Excise Department related to another case.

Thus, by not following the prescribed procedure of making excise duty payment at the time of despatch/clearance of materials to the Mysore Complex, the Company was deprived of the benefit of availing MODVAT credit to the extent of Rs.92.23 lakh.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Bharat Electronics Limited

8.2.1 Lacuna in the contract

Failure on the part of the Company to include appropriate clause to safeguard its interest in the contract entered into with Goa Shipyard Limited resulted in a loss of Rs. 1.68 crore apart from levy of liquidated damages of Rs. 77.96 lakh by the latter.

Bharat Electronics Limited (Company) executed (September 1994) a contract with M/s. Goa Shipyard Limited (Customer) for supply of 4 Electro Optical Fire Control Systems (Systems) to be imported from M/s. Radamec Defence Systems Limited, UK (Supplier). The price to be paid by the Customer was firm at Rs.3.90 crore per system (import content being Rs.3.80 crore) which was worked out without considering overheads and profit. There was no clause in the contract to safeguard Company's interest if it suffered any loss due to reasons attributable to the Customer and due to exchange rate variation except devaluation. The Company also did not take forward cover to protect itself in the eventuality of adverse foreign exchange variation.

The Systems were to be delivered to the Customer in phased manner between November 1995 to September 1996. The Systems were to be accompanied by factory acceptance test (FAT) certificates duly endorsed by Director General of Indian Coast Guard.

The Systems were actually delivered in June 1996 (2 Nos.) and February 1997(2 Nos.) after a delay ranging between 3 and 7 months. This was due to the delay in import of the Systems due to delayed finalisation of sub-systems like vertical reference units and delay in deputing its representatives for FAT by the Customer for which the Company incurred an expenditure of Rs.92.71 lakh on account of adverse exchange variation. The Company also suffered a loss of Rs. 75.27 lakh due to adverse exchange rate variation during the scheduled delivery period of the Systems. As the price to be paid by the Customer was firm no compensation in this regard could be claimed from the Customer. In addition, the Customer also levied liquidated damages of Rs. 77.96 lakh.

The Ministry stated (October 1999) that the Company wanted to enter into the new area of business and would have lost the order if the higher rate had been quoted. The reply is not tenable as this was not a new area of business as the contract involved only supply of imported material without any value addition. Moreover the Company has not received new orders for these Systems so far (September 2000). Also the Company should have incorporated the provision to recover extra expenditure on account of exchange rate variation in their contract for minimising the loss.

Thus, failure on the part of the Company to include appropriate clause to safeguard its interest in the contract entered into with the Customer resulted in a loss of Rs.1.68 crore apart from levy of liquidated damages of Rs. 77.96 lakh.

Hindustan Aeronautics Limited

8.3.1 Extra expenditure due to non-revision of subsidy on electricity charges

Failure of the Company (Koraput Division) to revise the subsidy on electricity charges extended to employees, periodically, resulted in extra expenditure of Rs.4.62 crore.

The Company (Koraput division) extended subsidy on electricity charges to employees and recovered only Re.0.25 per unit as agreed to (October 1971) in the bipartite agreement with employees union. Though the power tariff had increased from Re.0.45 per unit (1986) to Rs.2.90 per unit (February 2000), the Company continued to recover at the old rate of Re.0.25 per unit. As a result the Company had been forced to bear the additional burden of subsidy to the tune of Rs.4.62 crore (1987-88 to June 2000).

The Company stated (May 2000) that the subsidy extended to the employees was a part of bipartite agreement entered into (October 1971) with employees union and the benefit was continued due to the remote location and difficult working conditions. The reply of the Company is not tenable as the employees of the division were already being compensated with special allowance in lieu of problems faced due to remote location and extending subsidy to the extent of 91.38 per cent lacks justification in view of periodical wage revision once in 5 years. The reply of the Company was endorsed (July 2000) by the Ministry.

The matter was considered in the wage settlement in May 2000 pertaining to the period of wage revision from 1 January 1997 and the recovery of electricity charges was revised with effect from 1 July 2000.

The fact that the Company contemplated the upward revision of the tariff in the current wage settlement only indicates that no serious efforts were put forth in the negotiations of earlier wage settlement in 1995, when the subsidy was more than 80 per cent in 1993, resulting in incurrence of extra expenditure.

Thus, the failure of the Company (Koraput division) to revise the subsidy on electricity charges extended to employees, periodically, resulted in extra expenditure of Rs.4.62 crore.

8.3.2 Loss due to non-inclusion of appropriate clause

Failure on the part of the Company to include a clause in the quotations to claim cost of modifications to aircraft supplied during 1995-96 to 1996-97 resulted in a loss of Rs.1.21 crore.

Hindustan Aeronautics Limited (Company) submitted (May 1993 to February 1996) the quotations to the Ministry of Defence (Customer) for supply of MiG 27M aircraft (aircraft) during the years 1993-94 and 1996-97. The quotations for the years 1993-94 and 1994-95 provided for preferring a claim towards cost of modifications to be carried

out to the aircraft while the quotations for 1995-96 and 1996-97 did not include such a clause. The Customer approved (September 1997) the quotations submitted by the Company with no clause for admitting modifications for the year 1995-96 and 1996-97. As a result the Company could not claim Rs.77.84 lakh and Rs.43.59 lakh being the cost incurred towards modifications in respect of aircraft supplied in 1995-96 and 1996-97 respectively.

The Management stated (April 2000) that the cost of modifications was included in the quotations of 1995-96 and 1996-97 as the standard man hours (SMH) for manufacture of an aircraft at 100 per cent efficiency had been increased from 2.02 lakh in 1993-94 to 2.12 lakh in 1995-96. The Ministry endorsed (July 2000) the reply of the Management.

The reply of the Management/Ministry is not tenable as for 1993-94 and 1994-95, 2.12 lakh SMH at 75 per cent efficiency and for 1995-96 and 1996-97, 2.12 lakh SMH at 77 per cent efficiency were adopted. Also 2300 SMH were provided additionally for cost of modifications in the quotations of 1993-94 and 1994-95. The reply of the Management/Ministry is only an afterthought as the quotations submitted by the Company invariably included a clause mentioning the manner in which the cost of modifications are to be claimed for supplies of 1995-96 and onwards. Thus, failure to include a clause for preferring a claim towards cost of modifications to aircraft resulted in a loss of Rs.1.21 crore.

8.3.3 Loss of interest

The Company suffered loss of interest of Rs.1.15 crore due to ignorance of the provisions of Income Tax Act 1961.

Ministry of Defence, Government of India entered (August 1993) into a contract with M/s. Dassault Aviation, France (Firm), for service and overhaul of Mirage 2000 aircraft and its accessories. The contract was entrusted (December 1993) to the Hindustan Aeronautics Limited (Company) for execution.

As per the provisions of the contract, the tax on the fees for technical services rendered by M/s. Dassault Aviation, France was to be borne by the Company. In terms of double taxation relief granted under Section 90 of the Income Tax Act 1961, income tax @ 20 per cent was to be paid by the Company on the fees for technical services rendered by the French Firm.

Unaware of the provisions of the Income Tax Act, the Company, however, remitted (December 1995 to August 1997) income tax on the fees at a higher rate of 30 per cent resulting in excess payment of tax by Rs.2.42 crore. On being pointed out by Audit (December 1997), the Company took up the matter (March 1998) with the Income Tax authorities and the excess amount of income tax paid by it was adjusted (May 1999). However, the Company lost interest of Rs. 1.15 crore in the process.

The Management while admitting the lapse stated (April 2000) that the income tax was remitted @ 30 per cent instead of 20 per cent on the basis of the rate advised by the Income Tax Department to the State Bank of India for remittance of tax on fees for

technical services. The reply confirms that the Management was ignorant of the relevant provisions of Section 90 of the Income Tax Act. The Ministry endorsed (May 2000) the reply of the Management.

Thus, due to ignorance of the relevant provisions of Income Tax Act, the Company suffered a loss of interest of Rs.1.15 crore.

CHAPTER 9: DEPARTMENT OF FERTILIZERS

The Fertilizers and Chemicals Travancore Limited

9.1.1 Avoidable payment of interest

Improper estimation of income and consequent short deposit of advance tax together with non-payment on due dates by FACT resulted in avoidable interest payment under Income Tax Act, amounting to Rs.96.20 lakh.

Section 234B of the Income Tax Act, stipulates that if the advance tax paid by the assessee was less than 90 per cent of the total assessed tax, the assessee would be liable to pay interest at the rate of 2 per cent per month or part thereof on such shortfall. Further, as per Section 234C of the Act, the advance tax has to be paid in instalments by the 15 of June, September, December and March during the financial year and in case of default interest is chargeable for the late payment of such instalment.

Fertilizers and Chemicals Travancore Limited (FACT) paid advance tax under Section 234B for the Years 1995-96,1996-97 and 1997-98 which was less than the statutory limit of 90 per cent of the assessed tax. Moreover, payment of quarterly instalments was also paid beyond the due dates prescribed under Section 234C. As a result, the Company had to pay interest of Rs.21.23 lakh and Rs.74.97 lakh under Section 234B and 234C respectively, aggregating to Rs.96.20 lakh for the defaults.

The Company admitted (July 2000) that the interest demand arose due to variations between the estimated profit and the actual profit. With regard to the quantum of interest, the Company stated (July 2000) that the interest actually paid including the amount adjusted while filing the returns was Rs.62.34 lakh and that the balance amount was covered by appeals, the outcome of which was awaited (October 2000).

The Ministry endorsed (August 2000) the reply of the Management.

Thus, the Company was itself liable for avoidable interest levy of Rs.96.20 lakh due to improper estimate of its income, consequential short payment of advance tax and non adherence to due dates for payment of tax prescribed in the Income Tax Act.

Hindustan Fertilizer Corporation Limited

9.2.1 Avoidable payment of Rs.68.53 lakh

Unfavorable clause of a contract relating to loading and despatch of urea from silos rendered irrecoverable an advance of Rs. 68.53 lakh.

The Durgapur unit of the Company had been using two silos for storage of urea. The work of loading and despatch of urea from the silos from October 1994 to October 1997 was awarded to a contractor. According to the terms of the contract the Company was to pay to the contractor a minimum guaranteed advance of Rs.1.67 lakh per month for each silo corresponding to a despatch of 3510 MT of urea @ Rs.47.45 per MT irrespective of the quantity actually loaded. Unadjusted advance relating to the months in which the actual quantity loaded was lower than the stipulated quantity, was to be adjusted against the running bills of the month where the actual despatch was higher than the stipulated quantity of 7020 MT (3510 MT x 2). Such adjustment was, however, possible only on year to year basis. In case the total advance paid during a year turned out to be more than the total amount due to the contractor on account of actual despatches, the extra advance was not adjustable with the next year dues and was, thus, irrecoverable.

During the entire three years tenure the actual loading and despatch was much lower than the minimum guaranteed quantity of 7020 MT in all the months except two (July 1995 and February 1996). The shortfall was attributed to poor production due to mechanical breakdowns and other force majeure conditions. As a result advance to the tune of Rs.68.53 lakh paid in excess of the actual amount due to the contractor, based on the actual despatch, became irrecoverable. This loss of Rs. 68.53 lakh could have been avoided had the Company assessed the loading and despatch position more realistically and agreed to a minimum guaranteed quantity closer to the actual despatch.

The Management stated (July 2000) that:

- the minimum guaranteed amount corresponding to 3510 MT per month per silo was incorporated as per the tripartite agreement dated 5 December 1983; and
- the quantity was arrived at to cover minimum wages of the contract labourers who had gone to High Court for regularisation of their employment. Had the quantum of 3510 MT not been fixed sufficient silo workers would not have been available to despatch the material.

The contention of the Management is not convincing because:

- the tripartite agreement mentioned in the reply was valid upto 31 December 1986 and had no relevance to this particular contract which was awarded in December 1994/January 1995;
- the condition relating to the minimum guaranteed quantity of 7020 MT which was prejudicial to the interest of the Company was agreed to under pressure from the contract labourers.

Acceptance of the unfavourable condition, thus, led to an avoidable loss of Rs.68.53 lakh.

The matter was referred to the Ministry in August 2000; their reply was awaited (October 2000).

Krishak Bharati Cooperative Limited

9.3.1 Construction of excess space

KRIBHCO, a cooperative society in the public sector, engaged consultants/ architects without fixing any ceiling on their fee. This and lack of proper monitoring resulted in construction of 0.71 lakh sq. ft. of space more than the planned requirement and consequential extra avoidable expenditure of Rs.1.11 crore.

The Krishak Bharati Cooperative Limited (Society), purchased (January 1989) 12635 square meters of land in NOIDA for construction of its own office building. The Society (without inviting any tenders) engaged (August 1988) M/s. C.P. Kukreja and Company a firm of Consultants/Architects which had previously been working on its projects, at a fee of 4 per cent of the construction cost estimated at Rs.7.00 crore. In addition, the Consultants/Architects were to receive reimbursement of salaries of the supervising staff. No ceiling was, however, placed either on the fee or the sums reimbursable to the firm.

Against 91,000 square feet (sq. ft.) which would have been sufficient to meet the requirements of the Society as per BPE norms and which also included scope for future expansion, the Board of Directors (Board) approved (January 1989) construction of a covered area of 1.50 lakh sq. ft. The fact that the Consultants/Architects had already enhanced (December 1988) the area to be constructed to 2.20 lakh sq. ft. without the specific consent of the client, had escaped notice of the Management. As the Society had appointed a non-technical person to approve the drawings, he had failed to notice and report this change in the scope of the work. Moreover, since the contract for construction had been awarded on item rate basis, significance of the actual area being constructed escaped notice at all stages of the work. Even though this deviation had substantial financial implication on the cost of the project (Rs.5.75 crore), the Board was not apprised about the matter till September 1990 when a proposal was placed before it for validating the enhancement of covered area to 2.20 lakh sq. ft. and the revised cost to Rs.12.75 crore. To ascertain the circumstances in which the enhancement of construction area had taken place, the Board appointed a sub-group to conduct an investigation in consultation with the technical experts of Projects and Development India Limited. The sub-committee confirmed (April 1991) the fact that the Consultants/Architects had not taken specific approval of the Society and that the official of the Society, who was signing the drawings before their submission to NOIDA, had also not taken due care to check out this deficiency. The Board accepted (July 1991) the report and asked for fixation of the responsibility for the irregularity. However, except issuing a letter of warning to the Consultants/Architects and limiting their fee to Rs.37 lakh, no responsibility was fixed upon any person in the Company. The building was finally allowed to be constructed upto the covered area of 2.21 lakh sq. ft. at a total cost of Rs.9.82 crore. This resulted in extra expenditure of Rs.5.78 crore over and above what could have been proportionately incurred had the area constructed been restricted as per BPE norms.

Against 0.71 lakh sq. ft. constructed in excess of the area approved by the Board, the Society let out (October 1996 and August 1997) an area of 40529 sq. ft. to two Public

Sector Undertakings and utilised 5960 sq. ft. for the use of its own Human Resource Development Centre and towards lift/lobbies. Thus, an area of 0.25 lakh sq. ft. had been left uncovered since July 1991, resulting in expenditure of Rs.1.11 crore remaining infructuous for the last 9 years. Had the BPE norms been followed, the Society could have saved total expenditure of Rs.3.73 crore.

The Management stated (November 1998) that action has been taken against the Consultants/Architects and that since the Society would be making full use of the space built, the expenditure incurred thereupon should not be considered extravagant.

Reply of the Management is not acceptable because apart from restriction of fee of the Consultants/Architects no penalty was imposed upon them for a grave breach of agreement on their part and no responsibility was fixed upon any official of the Society. Moreover, the Society had not been able to utilise, so far (October 2000), a part of the built up space.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

National Fertilizers Limited

9.4.1 Injudicious purchase of additional urea strippers

Injudicious decision to purchase two additional urea strippers after agreeing to release advance payment to the original supplier for similar items the Company blocked Rs.12.76 crore with consequential annual loss of interest of Rs.2.36 crore.

To procure two strippers required to be used for crystallisation of urea in its Vijaipur Expansion project the Company placed a purchase order on FBM Hudson, Italy (Supplier) in July 1994 at a cost of Rs.8.47 crore (equivalent to US$ 2.686 million). The equipment was to be delivered by 16 May 1995.

In January 1995 the Management learnt that the physical progress of the strippers was behind schedule by three and a half months owing to delay on the part of the Supplier in procurement of materials. The Company, therefore, in February 1995 amended the terms of payment to facilitate advance payment whereas the original contract provided for payment against proof of despatch. The relaxation in terms of payment was made to make it possible for the Supplier to effect the delivery by 30 November 1995 which was 6 months later than the original date of delivery. However, without any information that could suggest likelihood of further delay on the part of Supplier, a Fax of Intent for purchase of the same item was issued on M/s. Larsen & Toubro (L&T) on 3 July 1995 at a cost of Rs.12.76 crore even before the purchase sub-committee of the Board formally approved this proposal. While the scheduled date of delivery of the second set of strippers from L&T was 2 July 1996 FBM Hudson actually supplied the strippers in March 1996 which were installed in Vijaipur Expansion Plant in September 1996. The

strippers supplied by L&T received over a year later in August 1997 have remained idle since then and are unlikely to be used for next 8-10 years.

The Management stated (August 1999) that the decision to procure spare set of strippers knowing the clear possibility of its lying idle was a commercial decision to avoid any risk for delay in completion of expansion project. The contention of the Management is not tenable because apprehension of risk in delivery of equipment by FBM Hudson does not fit in with the logic of its decision to release funds to FBM Hudson ahead of delivery as well as excellent past records of FBM Hudson for this critical equipment. Besides, the purchase order in favour of L&T was actually placed on 16 November 1995 by which five representatives of the Company had already visited the factory of FBM Hudson and reported nothing that could indicate possibility of delay beyond the scheduled date of delivery of strippers. This is further evident from the fact that the Company released Rs.5.56 crore (equivalent to US $ 1.746 million) during June- November 1995 to FBM Hudson for making payment to the vendors of the latter. Hence, there was no serious apprehension of inordinate delay in the delivery of two strippers from FBM Hudson at the time actual orders for the second set of strippers was placed with L&T.

This injudicious decision resulted in blocking up of Rs.12.76 crore and consequential annual loss of interest of Rs.2.36 crore.

The matter was referred to the Ministry in February 2000; their reply was awaited (October 2000).

CHAPTER 10: MINISTRY OF FINANCE

Insurance Division

Tariff Advisory Committee

General Insurance Corporation of India

10.1.1 Loss of Rs.82.81 crore on issue of Comprehensive Package Policy to Reliance Industries Limited

Public Sector Insurance Companies lost premium of Rs.82.81 crore due to issue of a new Comprehensive Package Policy devised specifically for a single client at the latter's initiative, even though it was possible to cover the risks under the existing underwriting procedure.

The New India Assurance Company Limited (NIA) conveyed (2 July 1999) to Tariff Advisory Committee (TAC), a request of Reliance Industries Limited. (RIL) for consideration of a hitherto unavailable Comprehensive Package Policy (CPP) for the petrochemical plants of RIL. Justifying the need for such a policy (CPP) it was stated that such plants with integrated offshore risks, critical to the operation of the plant could not be handled by the Indian Insurers in the traditional manner by giving separate Fire/Machinery Breakdown Policies for the onshore risks as per tariff and a separate non tariff international market offshore cover for offshore risk, with business interruption cover taken twice under the respective policies.

TAC intimated (6 December 1999) its decision to NIA that all risks where threshold limit of Probable Maximum Loss (PML) was Rs.1054 crore or above at one location or where the sum insured at one location was Rs.10000 crore or above would go out of the purview of tariff with effect from the date of the letter. It was also conveyed that group companies under one management having units at different locations would qualify as mega risks, if the Company's products were inter dependent and one or both of the criteria of PML and sum insured were met.

Accordingly, NIA issued a CPP to RIL for the period 26 December 1999 to 25 December 2000 covering properties situated at Jamnagar, Hazira and Patalganga for a sum insured of 'Indian Rupee equivalent' of US $ 10817.55 million against physical loss and loss of profit by charging a premium of Rs.52.55 crore (including service tax of Rs.2.50 crore). The then existing policies of the insured covering Hazira and Patalganga locations were cancelled and premium to the tune of Rs.26.21 crore was refunded. The policy covered the properties including hull and machinery of all the RIL group Companies against perils of physical loss and loss of profit. The properties were located onshore /offshore

and included pipelines. The risk was reinsured to the extent of 80 per cent with a consortium of reinsurers.

Issue of the CPP was not in order on account of the following:

(i) All the risks covered under CPP had earlier been covered under traditional petrochemical and engineering policies. The normal course would have been to cover the risks regulated by tariff accordingly under standard terms and conditions and issue separate policies for non tariffed risk, if necessary, in consultation with reinsurers. Out of a total sum insured of US$ 10817.55 million, offshore property constituted only US$ 445 million or 4.11 per cent.

(ii) Had the properties been covered under the traditional petrochemical tariff even at the minimum rate of 2.225 per mille, the premium of the properties of RIL situated at Jamnagar, Hazira and Patalganga insured for US$10817 (at a conversion rate of 1 US$ = Rs.43) would have been Rs. 103.50 crore as against the premium of Rs.50.05 crore charged under CPP cover. Issue of CPP, thus, led to a loss of premium of at least Rs.53.45 crore.

(iii) According to the Reinsurance programme of GIC for the year 1999-2000, the premium received to the extent of risks of PML of Rs.384 crore was to be retained by the Indian Market and premium received for risks of PML higher than Rs.384 crore was to be shared with foreign reinsurer's so as to obtain reinsurance protection for losses over and above agreed limit. If already approved reinsurance programme had been followed premium retention would have been Rs.39.37 crore and not Rs.10.01 crore retained under CPP. The industry, thus, lost an additional premium of Rs. 29.36 crore (Rs. 39.37 crore minus Rs.10.01 crore) by deviating from the existing traditional reinsurance programme.

(iv) All India Fire Tariff whose provisions were applicable to petrochemical risks specifically provided that "in no case is it permissible to cancel a policy and allow refund of premium whereby an insured pays a lower premium for an insurance than is payable on the rates applicable at the commencement of the policy." In violation of this provision all the existing policies of RIL were cancelled at the time of issue of CPP, which involved a refund of premium of Rs. 26.21 crore.

(v) Section 64 UC of the Insurance Act, prohibited discrimination between different clients. Circumstances of the case clearly indicated that the CPP was conceived, devised and implemented at the instance of a single client. Even before the special group constituted by TAC had submitted its recommendations, representatives of NIA and TAC had accompanied the client to Germany for discussions with Reinsurers. TAC had even given the go ahead to issue policy on provisional rates before the final decision was taken.

(vi) RIL had been issued a dollar denominated policy though premium had been paid in Rupees. By the issue of a dollar denominated policy, NIA took upon itself the risk of foreign exchange fluctuation also, which did not fall within the scope of general insurance.

Thus, TAC, GIC and NIA went out of the way to favour a particular client by exempting insurance of their projects from the purview of tariff and by issuing the CPP at lower rates. This resulted in overall financial loss of Rs.82.81 crore (Rs.53.45 crore + Rs.29.36 crore) to Public Sector Insurance Companies (NIA and GIC).

The Management (IRDA/TAC) stated (August 2000) that:

(i) the approval by TAC for such kind of umbrella cover was based on the consensus evolved over a period of time and debate with existing insurers on whether the Indian insurance industry was capable of covering mega risks on its own and whether TAC could assist in formulating a structure which could meet the requirements of the industry as well as the consumers for comprehensive insurance of large risks;

(ii) taking into account the possibilities of a competitive environment likely to prevail in the not too distant future, TAC felt that serious consideration should be given to the prospects of coverage of mega risks at rates comparable with international standards;

(iii) the assessment and decision was to be applicable to all risks of similar nature and clients like Bharat Petroleum Corporation Limited, Cochin Refineries Limited and Indian Oil Corporation Limited had also been given such cover and hence the understanding that it was conceived, devised and implemented for a single client was not correct; and

(iv) the decision was in keeping with the authority vested in TAC.

The Ministry endorsed (September 2000) the reply of the Management.

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

(i) though the decision of TAC emanated from a proposal of NIA to device a cover integrating offshore risk with the cover for petrochemical plant, TAC ended up by exempting all risks of mega clients from tariff irrespective of the nature of risk. Thus, ownership of risks rather than their nature became the crucial consideration which violated the spirit of tariff;

(ii) insurance rates were linked to a variety of factors like interest rates, inflation index, claim experience, premium base, etc. and integrating the insurance rates, that too for a tiny segment of customers, with international rates in the manner it was done, would only hurt the business of Government Insurance Companies;

(iii) extension of similar concessions to a few other mega clients at a later date was only a result of the wrong precedence set by TAC in this case as their risks were earlier not considered for similar treatment; and

(iv) though TAC was within its power to decide on the tariff regime, being a statutory body, it can not claim immunity from legislative scrutiny of its actions and decisions.

GIC Asset Management Company Limited

10.2.1 Avoidable loss in repurchase of units of BIG Value Scheme

Company incurred an avoidable loss of Rs.46.33 crore by taking upon itself the liability of the trustees (GIC Mutual Fund).

General Insurance Corporation of India (GIC) and its four subsidiaries set up the GIC Asset Management Company Limited (Company) in 1993 with 49.50 per cent equity participation (Rs. 2.475 crore) for management of the assets of the GIC Mutual Fund (GIC MF) as per SEBI (Mutual Funds) Regulations 1993. The balance 50.50 per cent share of the Company was held by a foreign collaborator (33 per cent) and GIC Housing Finance Limited (17.5 per cent). The Company entered into an Investment Management Agreement (IMA) with GIC MF on 2 December 1993 and took over the authority and responsibility to act as Investment Manager for deployment of funds raised by the GIC MF under various schemes in accordance with SEBI guidelines.

GIC MF launched a five year close ended scheme viz. "GIC Big Value Scheme" in June 1992 with an assured return of 15 per cent per annum and its management devolved on the Company in December 1993. Though the scheme registered healthy growth till August 1994 and the Net Asset Value (NAV) of the units (Rs. 10) reached Rs. 19.24, it started declining thereafter and the NAV lingered between Rs. 14 to Rs. 16 during the remaining period of currency of the scheme. The NAV in June 1997, when the scheme matured, was only Rs. 15.45. The scheme was redeemed on the due date of 30 June 1997 at the assured terminal redemption price of Rs 21.48 per unit and shortfall of Rs. 46.33 crore was funded through issue of additional rights equity (Rs. 15 crore), loans from GIC and its subsidiaries (Rs.18 crore) and internal resources of the Company (Rs.13.33 crore). The loan was also subsequently converted into 11 per cent redeemable cumulative preference shares thereby increasing the participation by GIC and its subsidiaries to 73.40 per cent from the original 49.50 per cent.

Thus, the promise of assured returns without taking into account the volatility and uncertainty of market resulted in the Company having to meet the shortfall of Rs.46.33 crore at public cost.

The Management stated (June 2000) that:

(i) commercial obligation to make good the shortfall was spelt out in the IMA;

(ii) legal advice obtained by the Company was to pay the minimum return in accordance with assurance given in the Scheme;

(iii) Company had taken into account their reputation, while honouring the commitment; and

(iv) the expectation of continuance of license to manage the unit corpus and expected growth of assets under management leading to fresh fee accretion to cover losses in a reasonable period was also the main consideration.

The Management's reply is not tenable as:

(i) Company only lent its expertise in the investment decisions and was not supposed to partake in the risk. By promising assured returns, the trustees/Company took upon themselves the risk, which was unwarranted;

(ii) any obligation of the Company had to be shared by the promoters equally. Though insurance Companies held only 49.50 per cent of the equity of the Company, they contributed Rs.25.42 crore (77.03 per cent) towards the additional capital (Rs.15 crore + Rs. 18 crore) required to make good the shortfall. The foreign collaborator and GIC Housing Finance Limited which controlled 50.50 per cent of the equity contributed only Rs.7.58 crore (22.97 per cent) and the balance Rs.13.33 crore was met from internal resources. Thus, public funds were utilised to meet major share of the shortfall; and

(iii) utilisation of public funds for restoring confidence and loyalty of the investors and to keep promises made by sponsors regardless of stock exchange volatility, was not justifiable, especially since majority of equity shares were held by a foreign promoters and a non Government Company.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

National Insurance Company Limited

10.3.1 Loss of premium

Loss of premium amounting to Rs. 1.52 crore due to non-loading the basic rate for multi-transit and storage at intermediate points.

According to guidelines relating to marine cargo policies issued by the Company effective from 1 April 1994, 50 per cent of basic rate was to be loaded for multi-transit irrespective of the number of transits involved. Similarly, for storage at intermediate points irrespective of number of storage points, basic rate was to be loaded by 0.01 per cent per week or part thereof for a maximum period of 8 weeks.

Delhi Divisional Office of the Company issued Marine Multi-Transit Policy to M/s. Nestle India Limited for the period from 1 April 1995 to 31 March 1996 covering tea and all kinds of finished goods for voyage from anywhere in India to anywhere in India and Nepal, including storage for four weeks. The policy was periodically extended upto 31 December 1999. The premium for the policy was charged at the basic premium rate of 0.15 per cent for tea and 0.0125 per cent for others without loading 50 per cent on

basic premium for multi-transit risk. The division had also not charged premium for intermediate storage for a period of 4 weeks.

Charging of incorrect rate, thus, resulted in loss of premium of Rs.1.52 crore.

The Company stated (September 2000) that:

(i) all India Fire Tariff had been dismantled and, therefore, the rules/ provisions were no longer mandatory;

(ii) marine cargo underwriting after de-tariffing was left at the discretion of underwriters. Therefore, to prevent operating offices from reckless underwriting, Head Office of the Company issued guidelines, which, *inter alia,* includes reduction in basic premium rate by 40 per cent to 60 per cent;

(iii) experience of the business was satisfactory;

(iv) other subsidiaries tried to snatch business by quoting lower than lowest available rates and reasonable variations had to be resorted to, to remain in business; and

(v) storage at intermediate godowns had been covered separately for Flood, Storm, Tempest (FST).

The reply is not tenable due to the following reasons:

(a) additional loading had been prescribed to compensate the higher risks undertaken by the Company. Multiple transits and intermediate storage considerably enhanced the insurer's risk which warranted higher premium;

(b) though underwriting offices could have improvised the rates laid down in Head Office guidelines, underwriting of additional risks without adequate additional premium was neither proper nor prudent;

(c) if rating solely depended on experience, it would amount to discrimination between different clients, underwriting should have been based on uniform rates with suitable loading for adverse claims;

(d) the available fora like Inter Company Co-ordination Committee should have been utilised to avoid mutually harmful inter-company competition;

(e) the separate FST cover was applicable only to the godowns owned by the insured at Cuttack, Silchar and Agartala while the policy extended to fire, lightning, explosion and implosion losses also while in storage anywhere in India and Nepal including ports and godowns of others like Clearing and Selling agents.

The matter was referred to the Ministry in August 2000; their reply was awaited (October 2000).

The New India Assurance Company Limited

10.4.1 Avoidable interest on delayed payment of advance Income Tax

Company's failure to pay shortfall in advance tax even when final liability was ascertainable resulted in avoidable payment of interest of Rs.2.05 crore.

Under Section 208 of the Income Tax Act 1961, it was obligatory to pay advance tax during the financial year (FY) in every case where advance tax payable was Rs. 5000 or more. Advance tax as calculated under Section 209 of the Act on the current income was payable in four instalments falling on or before 15 June (15 per cent of such advance tax), 15 September (45 per cent of such advance tax as reduced by the amount paid earlier, 15 December (75 per cent of such advance tax as reduced by the amount already paid) and the balance on or before 15 March of each financial year, failing which, assessee was liable to pay simple interest for default in payment of advance tax at the rate of 2 per cent per month upto 31 May 1999 and 1.5 per cent per month from 1 June 1999 onward under Section 234 B and 1.5 per cent per month for deferment of advance tax under Section 234 C of Income Tax Act 1961.

Company's actual tax liability for the Financial Year 1997-98 worked out to Rs. 161.06 crore. As against this the Company had paid advance tax of Rs. 140 crore upto March 1998. The shortfall in advance tax to the extent of Rs.21.06 crore was paid only in November 1998. As a result the Company became liable to pay Rs. 4.40 crore as interest comprising of interest of Rs. 3.37 crore on account of default in payment of advance tax under Section 234 B and Rs.1.03 crore for deferment of advance tax under Section 234 C. But due to incorrect interpretation of relevant provision of Income Tax Act this interest was not paid by the Company alongwith the remittance (November 1998) of shortfall in advance tax. The interest liability was discharged by the Company only in September 1999 by paying an additional sum of Rs.79 lakh towards interest.

Thus, the Company made an avoidable payment of Rs. 5.19 crore (Rs. 4.40 crore plus Rs.79 lakh) towards interest because of its failure to correctly assess the advance tax liability and delay in payment of interest. The Management/Ministry's contention that due to the volatile nature of insurance business the Company could not properly assess the advance tax is not completely tenable because the Company was in a position to ascertain the exact tax liability by 31 August 1998 when its accounts were finalised. Had the Company assessed the shortfall in payment of advance tax and paid it in August 1998 it could have atleast avoided payment of Rs. 1.26 crore on account of interest liability pertaining to the period from September 1998 to November 1998. Poor financial management, thus, resulted in payment of Rs. 2.05 crore (Rs. 1.26 crore + Rs.79 lakh) which was clearly avoidable. Even if we take into account interest of Rs. 1.16 crore that the Company would have earned on unpaid amount of advance tax, (calculated at an average rate of return of 13 per cent earned on Company's investment during the period) the net loss worked out to Rs.89 lakh.

The Oriental Insurance Company Limited

10.5.1 Excess settlement of claim by Rs. 90 lakh

The Company made an excess settlement of claim by treating under Insurance as typographical error after occurrence of loss.

Mumbai Divisional Office of the Company insured the stock of Supreme Industries Limited for the period 1 July 1994 to 30 June 1995 including their Andheri and Taloja factories at Rs. 2.25 crore and Rs. 2 crore (later increased to Rs. 3 crore in September 1994) respectively.

The insured requested (22 December 1994) for an increase in the sum insured for Taloja Factory by Rs. 2 crore and necessary endorsement in this regard was passed on 23 December 1994.

A fire occurred in the Andheri factory on 6 January 1995 and the insured preferred a claim for Rs. 5.68 crore including Rs. 4.12 crore towards loss of stock. The insured informed (16 January 1995) the Company that a typographical error had occurred in their letter of 22 December 1994 and that the sum insured to be increased by Rs. 2 crore at Andheri works had been wrongly shown against Taloja factory. On investigation, surveyors surmised (October 1995) that the increase in the sum insured for stock in Taloja factory might have been erroneous as the stock value as on 31 December 1994 was only somewhat higher (Rs. 86.47 lakh) than the value as on 30 November 1994 based on which the sum insured was increased by a higher figure of Rs. 2 crore. The surveyor also brought out that the insured had not been including inventories of stores and spares in their declarations either to the bank or to the insurer though the same was required under the policy.

The Board of Directors approved the claim and the Company settled (22 May 1996) it for Rs.3.61 crore (Rs.2.68 crore for damaged stock plus Rs.93 lakh for building plant & machinery), accepting the underinsurance as a typographical error and allowing the increase in sum insured for one unit against another. The action of the Company was not in order as the insured had been resorting to underinsurance as a practice and surveyor's report did not categorically establish the bonafide or justification of the claim of the insured.

Irregular settlement of the claim by treating underinsurance as a typographical error, resulted in settlement of claim at Rs. 2.68 crore instead of Rs. 1.78 crore. There was, thus, an excess settlement of claim by Rs. 90 lakh.

The Ministry stated (August 2000) that:

(i) in policy covering various locations, mistakes might be committed and natural justice cast a duty on the Management to verify the correct position,

(ii) insured was partially penalised to the extent of Rs. 68 lakh, and

(iii) even the stated excess settlement of Rs.90 lakh was within the Board's authority for *ex gratia* payment of upto 60 per cent.

The reply is not tenable because:

(i) before arriving at the conclusion that a genuine mistake had occurred, the Management should have satisfied itself that the insured had been adequately covering their property at all times. In this case, there was conscious underinsurance to save premium. The stock at Taloja factory in November and December 1994 was in excess of the sum insured of Rs. 3 crore and hence it was reasonable to presume that the insured had increased the sum insured for this factory from December 1994;

(ii) that the insured was penalised to the extent of Rs. 68 lakh underscored the fact that the Company was not fully convinced of the bonafides of the error; and

(iii) Board's authority for *ex gratia* payment was not invocable in this case since such authority could be exercised only in cases where no payment could otherwise be made. Justification of the excess portion of claim settlement on *ex gratia* grounds was not correct as the same claim can not be settled partly on regular and partly on *ex gratia* basis.

10.5.2 Loss of premium of Rs.67.39 lakh

Adoption of incorrect claim ratio for loading of inland transit premium rates resulted in loss of premium of Rs.67.39 lakh.

According to the guidelines issued by the Company, rates charged in respect of Marine Special Declaration Policies (MSDPs) were to be loaded in cases where the claim ratio for three years immediately preceding the expiring policy exceeded 70 per cent. Thus, if the average claim ratio for three years was more than 70 per cent loading had to be effected in the fifth year policy.

Mumbai Divisional Office of the Company had been covering the risk of inland transit of two and three wheelers manufactured by the insured under MSDPs, from 1 April 1992. Claim ratio for the three years period 1993-94 to 1995-96 was adverse and hence according to the guidelines, the policy for the period 1 April 1997 to 31 March 1998 had to be loaded. Similarly the policy for the period 1 April 1998 to 31 March 1999 had to be loaded as the claim ratio for the three policy period 1994-95 to 1996-97 was also adverse. Though the Company loaded the policies for adverse claim ratios, the ratios were incorrectly worked at 138.02 per cent and 193.23 per cent respectively as against the actual ratios of 185.85 per cent and 205.34 per cent. This incorrect loading resulted in loss of premium of Rs.67.39 lakh.

The Ministry stated (October 1999), that:

(i) in a de-tariffed regime although guidelines had been issued, they were more advisory in nature than mandatory;

(ii) the underwriter could quote premium rates in a manner so as to take into account the entire premium portfolio of client and its profitability as a whole;

(iii) although the claim experience in marine department was not favourable, position in non-marine portfolio was excellent;

(iv) there was potential for increase in non-marine portfolio due to expanding network of the insured.

The reply is not tenable as:

(i) in this case the Company had actually resorted to loading for adverse claim ratio but such loading was based on incorrect claim ratio;

(ii) in the de-tariffed regime though underwriters have freedom to charge rates on marine policies based on their risk assessment, once such assessment is proved wrong by adverse claim experience, commercial prudence requires that the rates should be suitably revised. This revision involves loading based on correct claim ratios;

(iii) the overall claim ratio (including non-marine portfolio) was as high as 99.30 per cent during the year 1994-95 to 1996-97. This was insufficient to cover even the administrative expenses; and

(iv) anticipated future premium can not justify charging of uneconomic rates in existing business, as there was no guarantee that new business would come to the same Company.

Thus, due to incorrect loading of premium occasioned due to wrong adoption of claim ratio figures, the Company had to forgo revenue of Rs.67.39 lakh.

United India Insurance Company Limited

10.6.1 Avoidable loss of revenue

The Company violated the instructions of General Insurance Corporation of India resulting in the loss of premium to the extent of Rs.45.41 lakh.

United India Insurance Company Limited (UIIC) issued (January1994) a Group Personal Accident (GPA) policy to Government of Tamil Nadu covering 237 persons of the State Government Special Task Force for the period 5 January 1994 to 4 January 1995 for a premium of Rs.6.75 lakh. The policy was extended for the period upto 31 March 1995 at an additional premium of Rs.1.59 lakh. During the period 5 January 1994 to 31 March 1995 claims against the policy amounted to Rs.35.80 lakh resulting in claim ratio of 428 per cent. The customer did not renew the policy on expiry on 31 March 1995.

The UIIC issued a fresh policy from 1 April 1996 for one year for a premium of Rs.5.73 lakh on the basis of average of loss ratio for the preceding three years excluding the immediately preceding year. The instructions of General Insurance Corporation of India

(GIC), the Holding Company, stipulated (November 1990) that the premium rates in respect of GPA should be in the range of 70 per cent to 75 per cent of the claim ratio. Hence, the Company should have computed the premium for the period 1 April 1996 to 31 March 1997 on the basis of the claims paid for the period 5 January 1994 to 31 March 1995 as Rs.51.14 lakh. Non adherence to the instructions of the GIC by the Company has resulted in loss of revenue to the extent of Rs.45.41 lakh.

The Company stated (August 2000) that it would be premature to consider the results of a single year in isolation and the instructions of GIC (November 1990) were only guidelines as experience developed over a period of time in GPA policies. The Ministry in its reply (August 2000) endorsed the views of the Company.

The reply is not tenable as Company's own instructions (October 1992) in the matter provided that in case the risk has run for a period of less than 4 years the premium should be reckoned by taking into account the premium and claim figures for the actual number of years for which insurance has run.

Thus, due to violation of the instructions of the Holding Company, UIIC suffered a revenue loss of Rs.45.41 lakh.

CHAPTER 11: DEPARTMENT OF BANKING

Indfund Management Limited

11.1.1 Loss in the dividend funding of units of Ind Jyothi Scheme

Company incurred a loss of Rs.43.59 crore by having to pay the returns assured by the trustees.

Indfund Management Limited (Company), a wholly owned subsidiary of Indian Bank, was incorporated in January 1994 as per SEBI (Mutual Funds) Regulations 1993,as an Asset Management Company (AMC) for management of the assets of the Indian Bank Mutual Fund (IBMF). The Company entered into an Asset Management Agreement with IBMF on 14 February 1994 and took over the authority and responsibility to act as Investment Manager for deployment of funds raised by the IBMF under various schemes in accordance with SEBI guidelines. For the services rendered, the Company was to be paid managerial fees by IBMF.

The "Ind Jyothi" scheme was one of the schemes launched by IBMF in October 1990 and managed by the Company. It was an eight-year close-ended scheme maturing on 31 March 1998. While launching the scheme, IBMF offered assured annual returns ranging from 12.75 per cent (upto 31 March 1992) to 15.25 per cent (in the eighth year ending 31 March 1998). The dividends declared under the scheme were more than or equal to the assured minimum returns as indicated in the offer document upto the year ended 31 March 1996. However, during 1996-97 and 1997-98 the surplus generated in the scheme for making payment of the assured dividend @ 14.75 per cent and 15.25 per cent respectively fell short by Rs.43.59 crore. The Company agreed to absorb the short fall in the assured dividend and got it funded through additional equity of Rs. 43.71 crore by way of rights from Indian Bank.

Thus, the Company's promise of assured returns in volatile market operaitons and poor management decision of paying the entire profit in earlier year as dividend resulted in short fall of Rs.43.59 crore which had to be made good by injection of additional equity at public cost.

The Management stated (May 2000) that:

(i) SEBI had advised the Mutual Fund/AMC to pay the assured returns;

(ii) it met the liability out of funds provided by Indian Bank by infusion of capital.

The contention of the Management is not tenable because:

(i) SEBI directions were based on assured return already promised by the sponsors;

(ii) AMC only lent its expertise in the investment decisions and was not supposed to partake in the risk. In this case by promising assured returns the trustees/AMC took upon themselves the risk at the public expense, and

(iii) Mutual funds were only a medium through which investors entrusted the responsibility of managing their funds in the professional hands of AMC. This did not insulate the investors from losses inherent in unpredictable stock market behaviour. Trustees of mutual fund had ignored the fact to outwit competion to garner funds. Their promises accordingly made, had to be honoured by injection of additional equity at public cost.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

Industrial Investment Bank of India

11.2.1 Loss of premium of Rs.2.82 crore

Due to non-inclusion of a suitable clause in a loan agreement, the Company failed to recover prepayment premium of Rs.2.82 crore against premature repayment of a loan by a borrower.

Bangalore branch of the Company sanctioned (September 1997) a 'medium term working capital loan' of Rs.25 crore to ITC Bhadrachalam Paperboards Limited (ITCBP) and released the entire payment between September 1997 to March 1998. The loan was repayable in seven quarterly instalments starting after 18 months from the date of first disbursement. At the request of ITCBP, the Company refixed (October 1998) the repayment terms making the loan repayable in 26 quarterly instalments commencing from August 2001 and ending in November 2007. Other terms and conditions of the loan remained unaltered. By such rescheduling of the repayment schedule, beyond a period of five years, the 'medium term loan' became a 'long term loan'. As per the Company's approved general conditions "(GC) 86" as well as the general institutional practice, a long term loan attracted prepayment premium in case of premature repayment of loan by the borrowers. However, the Company did not include such a clause in the loan agreement at the time of rescheduling the repayment terms.

In October 1999, ITCBP repaid, prematurely, the entire loan of Rs.25 crore alongwith interest without any prior intimation to the Company. The Company claimed (October 1999) prepayment premium for premature repayment of loan, which was turned down by ITCBP on the ground that there was no such stipulation in the loan agreement. Thus, the Company's failure to include a suitable prepayment premium clause in the loan agreement at the time of rescheduling the repayment terms led to non-recovery of Rs.2.82 crore.

Management stated (March 2000) that the loan was made repayable without any prepayment premium on commercial considerations at the time of sanction itself keeping in view the reputation of the ITC group and future business prospects with it. The Management further stated that the Company made no loss or sacrifice, as there was no provision for prepayment premium in the loan agreement.

The Management's contention is not acceptable because the reasons for non-inclusion of the prepayment premium clause were not recorded anywhere at the time of sanctioning or rescheduling of the loan. Moreover, immediately after receiving the premature repayment of loan, the Company itself asked ITCBP to pay the prepayment premium, which could not be recovered only due to absence of a suitable clause in the loan agreement. It was also observed that in another concurrent loan having a prepayment premium clause, the Company had collected it from the same borrower (ITCBP). Therefore, non-inclusion of the prepayment premium clause was obviously an omission which costed the Company Rs.2.82 crore.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

PNB Capital Services Limited

11.3.1 Loss of interest due to acceptance of bonds without interest warrants

The Company obtained delivery of bonds with face value of Rs. 12 crore without ensuring the receipt of interest warrants which ultimately resulted in loss of Rs.68.40 lakh.

The Company purchased (April 1992) 9 per cent tax free Indian Railway Finance Corporation Limited (IRFC) bonds for face value of Rs.12 crore from ANZ Grindlays Bank through a broker (Harshad Mehta). The bonds were due for redemption on 28 August 2000 and interest thereon was payable half yearly on 1 April and 1 October every year till the date of redemption. The terms and conditions of the bonds, *inter alia,* provided that these bonds, along with post dated interest warrants, could be transferred by the holder by making endorsement on the bond and interest warrants. It was also stipulated in the above terms that any person(s) obtaining the bonds by transfer would be solely responsible for obtaining the interest warrants along with the bonds from the transferor and that IRFC would not undertake any liability for theft, loss or misuse of the interest warrants; further, the bondholder of the lost interest warrants would not be entitled to duplicate interest warrants under any circumstances. The Company, however, accepted the delivery of bonds (Face Value: Rs. 12 crore) without obtaining the requisite interest warrants.

In the meantime, the security scam broke out and the broker filed (July 1994) an application in the Special Court for attachment of the bonds. The Special Court, *vide* its judgement dated 3 February 1995, asked the Company to deposit all the bonds with the custodian, which the Company did on 27 April 1995. However, the Company filed an

appeal in the Supreme Court against the orders of the Special Court. The final order was passed in favour of the Company on 6 May 1997 and all securities and interest warrants were directed to be returned to the Company together with accrued interest within 4 weeks from the above date.

In view of this decision of the Court, the Company became entitled for interest on bonds due from 1 October 1992 onwards, but could not receive the half yearly interest of Rs. 54 lakh on the bonds for want of interest warrants. When IRFC was requested for the above interest, they stated that payment would be released only after reconciliation of their accounts and after ascertaining the encashment status of the related warrants. As a result, the interest amounts were received by the Company much later as shown in the table below:

Interest Due on	Amount (Rs. in lakh)	Received on
1.10.92 to 1.04.96	432.00	26.02.98
1.10.96 to 1.10.97	162.00	24.07.98
1.10.97 to 31.3.98	54.00	01.09.98
1.04.98 to 30.9.98	54.00	06.11.98

This delay resulted in loss of Rs. 68.40 lakh to the Company on account of interest[*].

The Management admitted (March 2000) that it did not insist for receipt of interest warrants at the time of buying these bonds.

The matter was referred to the Ministry in May 2000; their reply was awaited (October 2000).

[*] ***Calculated with effect from June 1997 in terms of the Court order.***

CHAPTER 12: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Department of Heavy Industries

Andrew Yule & Co. Limited

12.1.1 Irregularities and consequential loss in renouncement of right shares

By renouncing its entitlement in right shares of Dishergarh Power Supply Company Limited (DPS) in favour of a private party, the Company suffered loss of renunciation premium of Rs.6.50 crore and DPS lost the status of a deemed Government Company.

Andrew Yule & Co. Limited (Company) held 301269 equity shares of Rs.10 each (20.92 per cent of total shares) in Dishergarh Power Supply Company Limited (DPS). In addition, Life Insurance Corporation of India, United India Insurance Company Limited, Oriental Insurance Company Limited and Nationalised Banks held 42.07 per cent shares by virtue of which DPS was a deemed Government Company under Section 619-B of the Companies Act 1956.

In 1995-96 DPS planned to issue right shares, in the ratio of 1:1, at a premium of Rs.60 per share to part finance the cost of its future expansion. Each such right share was to carry a share warrant that entitled the shareholders to acquire additional share at the same premium of Rs.60 per share within 12 to 24 months of the right issue. The Board of Directors of the Company decided (February 1996) to renounce its entire entitlement in the right issue in favour of Descon Limited. Incidentally, Descon Limited was formed in March 1995 with a paid up capital of Rs.40.10 lakh of which 20 per cent shares were held by DPS and the balance 80 per cent by employees of Andrew Yule Group.

In March 1996, the Ministry asked the Company to examine the question of offer of right issue to different financial institutions at an acceptable renunciation premium and to take any further action in the matter only after obtaining its clearance. In response, the Company requested (April 1996) the Ministry to endorse the decision taken by the Board for renouncing the right shares in favour of Descon Limited. In June 1996, DPS issued letter of offer for the right issue and the Company renounced the entire right entitlement in favour of Descon Limited without charging any renunciation premium.

The shareholding pattern in DPS changed after the allotment of shares against the right issue and share warrants. The Company's shareholding in DPS came down from 20.92 per cent to 7.12 per cent. DPS ceased (26 August 1998) to be a deemed Government

Company as the shareholding of government companies and financial institutions in DPS came down to 49.80 per cent i.e. below 51 per cent.

The following irregularities were noticed by audit in the entire transaction:

(i) the fact that by this renouncement of rights shares by the Company, DPS would cease to be a deemed Government Company was not clearly spelt out in the proposal sent to the Ministry;

(ii) although clearance of the Ministry was not received, the Company went ahead and renounced the entire right entitlement in favour of a private party;

(iii) although the lowest and highest market price of DPS share was Rs.200 and Rs.375 respectively during 1995-96 and the book value per share in DPS was Rs.283 as on 31 March 1996, which came down to Rs.177.86 after the allotment of shares against right issued/share warrant, the Company did not charge any renunciation premium. As the Company could claim at least Rs.107.86 (Rs.177.86 minus Rs.70) per share as renunciation premium, the Company lost revenue of Rs.6.50 crore (301269 x 2 x Rs.107.86) by renouncing the shares without charging any premium; and

(iv) this process unduly benefited Descon Limited, a private party in which employees of the Company held shares and in which subsequently three Directors also acquired shareholding interest. Incidentally, these Directors were members on the Board of Directors of DPS also. Moreover, they also participated in the Company's decision to renounce the rights in favour of Descon Limited without-charging any renunciation premium.

In reply, the Management stated (April 1999/June 2000) that:

(i) due to fund constraints, the Company could not invest in fresh shares of DPS; and

(ii) it envisaged to keep its control in DPS by renunciation of right shares in favour of a group company i.e. Descon Limited and hence renunciation premium was not charged.

The reply of the Management is not convincing because:

(i) the Company held 394150 equity shares in ICICI Limited, which was a non-strategic investment and could be disposed of for Rs.3.59 crore at the then market price. These proceeds could have been utilised for subscribing to the right shares and share warrants costing Rs.4.22 crore (301269 x 2 x Rs.70). Moreover, a part of the right shares in DPS could have been retained by charging renunciation premium on sale of other part. Through this process, the Company could have ensured that DPS remained a deemed Government Company; and

(ii) the Company did not have any direct stake in Descon Limited and, therefore, the argument that it could keep control in DPS by renunciation of right shares in favour of the same is also not tenable. There was, thus, no valid justification for not charging renunciation premium as well.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Bharat Heavy Electricals Limited

12.2.1 Irregular payment of ex gratia

The Company made irregular payment of Rs.205.34 crore as *ex gratia* to its employees in contravention of the guidelines issued by the Department of Public Enterprises during April 1988 and December 1997.

The Company was paying bonus to its employees/workmen as per provisions of sub-section (1) of Section 20 of the Payment of Bonus Act, 1965 (Act). The Company was also making payments of incentive for plant performance under an incentive scheme formulated in terms of instructions issued by the Department of Public Enterprises (DPE) in October 1988. In addition to bonus and special incentive, the Company also formulated a scheme for payment of *ex gratia* to its employees who were not covered by the Act by virtue of their drawing wages/salary beyond the prescribed limit stipulated in the Act. It paid a sum of Rs. 205.34 crore during the period from April 1988 to December 1997 on this account. The above payment was irregular as this was in contravention of the provisions of the guidelines issued by DPE in August 1984. These guidelines, *inter alia*, laid down that only in those enterprises where the provisions of the Act, did not apply, an *ex gratia* amount should be paid to employees*.

The Management stated that no *ex gratia* was being paid by the Company and that the amount shown in the accounts as payments on account of *ex gratia* were actually payments made under the special incentive scheme which was linked to the performance of the Company under the Memorandum of Understanding signed with the Government. The reply of the Management is not tenable as in the note suggesting formulation of the scheme which was submitted (December 1988) for approval to the Board of Directors of the Company, it had been clearly mentioned that the *ex gratia* would be paid only to those employees who were not receiving bonus. Payment of *ex gratia* to the employees who were not eligible for bonus was irregular and inconsistent with the guidelines issued by DPE and was also against the spirit of the provisions of the Act.

The matter was referred to the Ministry in March 2000; their reply was awaited (October 2000).

12.2.2 Cash loss due to incorrect estimate

Failure of the Company to estimate cost of production of Stoker Fired Boilers as per customer specifications resulted in cash loss of Rs.4.82 crore.

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* ***The guidelines were subsequently withdrawn in December 1997.***

The Tiruchy Unit of Bharat Heavy Electrical Limited (Company) secured (September 1994) an order from a private party for supply of two 70 TPH Stoker Fired Boilers for Rs.11.90 crore. In November 1994, the Company accepted one more order from another private party for supply of one 70 TPH Stoker Fired Boiler for Rs.5.95 crore. The Company estimated that price quoted would cover the variable costs i.e. Prime Costs, Variable Overheads and would also earn a contribution of Rs.1.40 crore. In addition the Company also received Rs.1.58 crore towards Engineering Services for the execution of these orders.

The Company had originally planned indigenously fabricated Stoker Fired Boilers. But the customer insisted upon imported Stoker during the pre award stage which was agreed to by the Company. The customer also sought change in specifications of the Boilers, which the Company incorporated in the design. However, no revised cost estimate was prepared by the Company.

The Company completed the supplies of these two orders by March 1996/July 1996 by incurring an overall cash loss of Rs.4.82 crore as against the anticipated contribution of Rs.1.40 crore.

The main reasons for the cash loss were (i) supply of imported Stokers at a cost of Rs.2.11 crore each as against Rs.84 lakh estimated for indigenously fabricated Stokers and (ii) supply of total quantity of 4023 MT as against 2748 MT estimated. The increase in weight was mainly due to change in specifications of Boilers.

Thus, Company's failure to revise the cost estimates and renegotiate the terms of the contract in the light of changes sought by the customer, in major parameters led to an avoidable cash loss of Rs.4.82 crore.

The Management stated (July 2000) that:

(i) the Stokers were imported because the Boilers supplied earlier were for firing coal and not for firing Lignite and Bagasse;

(ii) the increase in weight was mainly due to new design of handling low-grade fuels;

(iii) the orders were executed with a view to establish business thrust and technology development.

The reply of the Management is not tenable since:

(i) the Company was well aware that the boilers were required for firing Lignite and Bagasse, even at the time of quoting for the order, and should have estimated cost of production accordingly. The approval of the competent authority to supply imported Stokers was taken based on the original price estimate for indigenously fabricated Stoker Fired Boilers;

(ii) the Company did not bother to estimate the additional cost due to change in specifications of the Boiler design or to renegotiate the terms of the contract on this account; and

(iii) the object of accepting the orders was to earn a contribution of Rs.1.40 crore rather than establish business thrust and technology development. Commercial

prudence demands that development of technology and business thrust should not be at the cost of the Company.

The matter was referred to the Ministry in May 2000, their reply was awaited (October 2000).

12.2.3 Blocking of funds

Allowing departure from the terms of the supply order without safeguarding the interest of the Company resulted in blocking of funds of Rs.1.30 crore with consequential loss of interest of Rs.1.04 crore.

Bharat Heavy Electricals Limited (Company) procured (September 1994) an order from M/s. Mideast Integrated Steels Limited, New Delhi (Customer) for design, manufacture, supply and commissioning of five diesel electric locomotives of 350 HP alongwith all auxiliaries at a total cost of Rs.3.42 crore including Rs.13.09 lakh towards Central Sales Tax (CST) for their integrated steel plan at Jajpur, Orissa. These locomotives were to be supplied in a phased manner from April to July 1995.

As per terms of the order, 70 per cent value of each consignment alongwith 100 per cent of CST and freight and transit insurance charges was receivable against despatch documents through bank.

The Jhansi Unit of the Company despatched two locomotives on 30 March 1995 for which it received payment of Rs.1 crore. The remaining 3 locomotives were despatched on 4 April 1995, 17 July 1995 and 24 July 1995 but the documents were delivered directly to the customer instead of routing the same through bank, contrary to the terms of the supply order. Had delivery of documents been routed through bank, as envisaged in the supply order, the Company would have received 70 per cent of the value of the consignment amounting to Rs.1.30 crore at the time of despatch and this unauthorised departure from the terms of the agreement facilitated the customer to receive the consignment without paying for the value thereof.

The Management stated (November 1999) that the customer demanded (December 1994) submission of despatch documents directly to them and the Company complied with the demand. This is not tenable since the detailed despatch instructions issued (December 1994) to send despatch documents directly to the customer instead of routing through bank did not bear the approval of the competent authority.

Thus, the lapse of the Company in not adhering to the terms of the supply order resulted in the blocking of funds to the tune of Rs.1.30 crore for more than five years with a consequential loss of interest of Rs.1.04 crore.

The matter was referred to the Ministry in March 2000; their reply was awaited (October 2000).

12.2.4 Loss due to delay in execution of an order

The Company suffered a loss of Rs.1.98 crore due to delay in the execution of order and consequent increase in Customs and Central Excise duties.

The Company received (November 1996) an advance purchase order for supply of 10,000 Solar Photo Voltaic Systems (Systems) from Department of Telecommunications (DOT) at a provisional rate of Rs. 15.31 crore subject to adjustment of rate approved against an earlier tender enquiry by DOT. Detailed purchase order was issued (December 1996) by DOT at a total price of Rs. 21.20 crore. The supply was to be completed by 28 February 1997. The Company accepted a price of Rs.21.20 crore against the originally quoted price of Rs. 26.61 crore in order to match the lowest bid.

Although the price of Rs. 21.20 crore offered by DOT for the supply was substantially lower than Rs. 26.61 crore quoted by the Company, the supply order was accepted by the Company on its assessment that there would not be any profit or loss and acceptance of the order would help its Electronics Division at Bangalore to achieve a substantial portion of its production target for 1997-98.

The Company expressed (December 1996) its inability to adhere to the delivery schedule and requested for extension of time. DOT refused (January 1997) to grant any extension of time.

Though the target date of delivery of Systems was 28 February 1997, the Company finalised its sub-suppliers in April/May 1997 with the lead period of two months. The Systems were finally delivered in October 1997. As a result of delay in the supply, DOT recovered liquidated damages amounting to Rs.1.06 crore. The Company's request regarding waiver of liquidated damages was finally turned down by DOT in December 1999.

As per detailed purchase order, any increase in taxes and other statutory duties/levies after the expiry of the delivery date was to be borne by the Company. Due to late supply and rise in the rates of duties in the intervening period, the Company incurred an additional expenditure of Rs. 91.53 lakh on account of increase in Customs and Central Excise duties.

The Company accepted (July 2000) the audit observation. Further, the Company stated that the order was accepted due to low order book position and to increase capacity utilisation. This is not tenable, as the additional expenditure and liquidated damages had resulted from the Company's failure to meet the delivery schedule.

Thus, lack of preparedness of the Company for meeting the delivery schedule resulted in a loss of Rs.1.98 crore due to increased liability on taxes and duties and payment of liquidated damages.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

12.2.5 Avoidable expenditure on painting

The Company suffered an avoidable expenditure of Rs.1.34 crore due to non-finalisation of terms on account of additional specifications and non-compliance with contractual provisions for painting.

The supply of Turbo-Generator (TG) hall structures for 2 x 250 MW Thermal Power Project of Bombay Suburban Electric Supply Limited (BSES) (customer) was entrusted (January 1991) to the Company (Boiler Auxiliaries Plant, Ranipat) for Rs.11.66 crore.

The contract provided for painting or otherwise treating the steel surfaces with primers/paints consisting of red oxide zinc chromate procured from an approved manufacturer. The samples were to be submitted to the customer for approval before procurement. However, the customer while approving the drawings for TG hall structures instructed the Company that the structures should be painted with one additional coat of epoxy based zinc riched primer. Although this change in specifications had financial implications, the Company complied with the instructions of the customer without finalising the revised terms and conditions on this account. The additional expenditure on epoxy painting worked out to Rs.1.34 crore. The Company claimed (February 1993) Rs.1.40 crore from the customer towards reimbursement of the cost of the extra paint. The customer turned down the claim (March 1995) on the ground that neither the paint was from the approved vendor nor was sample approved by them.

The Ministry replied (June 1999) that the Company got the claim for epoxy painting adequately compensated by the extra price for the additional tonnage of steel supplied to the customer.

The reply is not tenable as (i) the additional price accepted (January 1991) for the extra tonnage of steel by the customer was in lieu of price escalation accepted much before the submission of the claim for the additional cost for epoxy painting in February 1993, and (ii) the rejection of the claim for epoxy painting was due to the Company not obtaining the paint from the approved vendor and non-finalisation of terms.

Thus, due to non-finalisation of the commercial terms on account of change/additional specifications and non-compliance with the contractual provisions regarding painting, the Company suffered an avoidable expenditure of Rs.1.34 crore.

Burn Standard Company Limited

12.3.1 Extra financial burden due to increase in age of retirement

As a consequence of enhancement of retirement age of employees the Company had to bear an extra expenditure of Rs.99.12 lakh towards voluntary retirement benefits, besides additional salary and wages of Rs.1.08 crore for employees not opting for VRS but working beyond the age of 58 years.

In order to effect reduction of surplus manpower the Company introduced Voluntary Retirement Scheme (VRS) in March 1990. Since then, the VRS remained operative with modifications from time to time. The benefits available under the scheme were, *inter alia*, proportionate to the number of years of service left of the VRS candidate.

In May 1998, the Government of India announced an enhancement in existing age of retirement by two years (i.e. from 58 years to 60 years). While communicating the above decision the Ministry stated that the decision would be effective from the date on which the rules and regulations of the public sector undertakings (PSUs) were amended by the concerned PSU and would be applicable to employees below Board level.

The Company's employees were governed by different sets of rules/orders so far as their age of retirement (58 years and 60 years) was concerned. In May 1998, out of total 9245 employees of the Company, in case of 7622 employees the age of retirement was 58 years. The Board of Directors decided (June/August 1998) to amend the existing service rules by enhancing the age of retirement of all below Board level employees from 58 years to 60 years with effect from 19 May 1998.

With the enhancement of retirement age the main objective of VRS to reduce surplus labour and manpower cost was frustrated. This also dealt a severe blow to the already precarious financial condition of the Company as it had to incur an additional expenditure of Rs.2.07 crore towards additional retirement benefits to 127 employees (Rs.99.21 lakh) opting for VRS (upto December 1999) and additional two years salary and wages of employees (Rs.1.08 crore) not opting for VRS and working beyond the age of 58 years (upto June 2000).

Prior to enhancement of retirement age (May 1998) the Company was referred (November 1994) to Board for Industrial and Financial Reconstruction (BIFR) and was declared (January 1995) sick under Section 3(1)(0) of the Sick Industrial Companies (Special Provisions) Act, 1985. BIFR sanctioned (April 1999) a rehabilitation scheme for the Company and identified 2809 employees as surplus. As such, the extension of retirement age from 58 years to 60 years affected the manpower separation plan envisaged in the BIFR package. However, the Company did not approach the Government/Ministry for obtaining exemption from raising the age of retirement. It was only in November 1999 that the Company decided to roll back the retirement age of all employees from 60 years to 58 years subject to approval of Government of India which was still awaited (June 2000).

The Management stated (March 2000) that the Company had merely complied with the Government's directive to raise the retirement age. The decision to roll back the retirement age from 60 years to 58 years was also initiated following another directive (August 1999) of the Government whereby PSUs/Administrative Ministry were required to obtain specific exemption for not implementing the increase in age of retirement. The Ministry endorsed (June 2000) the Company's views.

The contention of the Management/Ministry is not acceptable as being a financially sick Company its turnaround strategy largely depended on substantial reduction of surplus manpower and related costs. Thus, before enhancing the age of retirement the Administrative Ministry/Management, in consultation with the Government of India,

should have sought and obtained an exemption from application of enhanced retirement age for the employees of the Company.

HMT Limited

12.4.1 Loss due to delay in supply of presses

Delay in supply of machines by the Company due to non-prioritisation of orders resulted in loss of Rs.74.47 lakh by way of liquidated damages.

Press Division, Hyderabad of HMT Limited (Company) received 10 orders from August 1995 to December 1996 from M/s. Bajaj Auto Limited, Pune (customer) for supply of 18 presses (machines) of different capacities at Rs.21.03 crore. As per terms of the sale orders, the supply of these machines was to be completed between August 1996 and September 1997. Any slippage in delivery of machines attracted liquidated damages (LD) at 0.25 per cent per week subject to a maximum of 5 per cent.

Due to non-prioritisation of orders received from the customer vis-à-vis other clients, there was delay ranging from 8 weeks to 32 weeks in supply of machines to the customer. Consequently the customer withheld Rs.74.47 lakh towards LD. Company's request (December 1997, March 1998 and November 1998) for waiver of LD had not been responded to by the customer so far (August 2000).

The Management stated (June 2000) that due to delivery at short notice for the orders received subsequent to orders from the customer, execution of orders pertaining to the customer got delayed. The reply is not tenable, as subsequent orders were not profitable and resulted in a loss of Rs.2.88 crore and as such should not have been accepted by the Company. The execution of the order from M/s. Bajaj Auto Limited also resulted in a loss of Rs.3.34 crore.

The Management further confirmed (July 2000) above facts and figures and did not offer any remarks. The Ministry endorsed (August 2000) the views of the Management.

Thus, delay in supply of machines to the customer resulted in avoidable loss of Rs.74.47 lakh by way of LD.

12.4.2 Loss due to non-execution of an order

Acceptance of an order without assessing the capacity to manufacture and adherence to the delivery schedule specified by the Customer resulted in a loss of Rs.71.04 lakh to the Company.

Press Division, Hyderabad of HMT Limited (Company) received (June 1995) an order from M/s. Gas Authority of India Limited, New Delhi (Customer) for supply of trays and tower internals (items) valued at Rs.3.12 crore. As per order, the supplies were to be completed by the Company by 1 February 1996 and a contract-cum-equipment

performance bank guarantee for 10 per cent of order value was to be furnished by the Company. In the event of failure to supply the items within the stipulated delivery schedule, the order also empowered the Customer to cancel it and procure the items from alternative sources at the risk and cost of the Company. The Company furnished (May 1995) bank guarantee for Rs.31.17 lakh and formally accepted (October 1995) the order placed by the Customer.

The Company subsequently intimated (November 1995) its inability to adhere to the delivery schedule and requested the Customer to look for an alternative supplier for part of the items valued at Rs.2.31crore. No reasons were stated by the Management for their inability. The Customer thereupon cancelled the order for these items between March 1996 and May 1996 and intimated that these items would be procured from alternative sources at the risk and cost of the Company as originally agreed upon. The Company supplied the balance items worth Rs.80.56 lakh between July 1996 and December 1996.

The Customer claimed (May 1997) a compensation of Rs.50.24 lakh from the Company towards additional cost incurred in procuring the items from alternative sources under risk purchase clause. The Company's request (June 1997) for waiver of above clause was not accepted and the bank guarantee for Rs.31.17 lakh was encashed by the Customer in November 1998. Besides, the dues amounting to Rs.10.97 lakh against supplies made between July1996 and December 1996 were also not settled. An amount of Rs.42.14 lakh representing these losses was provided for in the accounts for the year 1998-99.

Further, 55924 MT of steel valued at Rs.65.60 lakh procured (1995-96) specifically for the manufacture of items which the Company did not supply, were returned (June 2000) to Steel Authority of India Limited at reduced rates entailing a loss of Rs.28.90 lakh.

The Management stated (May 2000) that similar order from Indian Oil Corporation Limited was executed successfully which proved their capability in executing such orders. The reply is not relevant as the Management had not advanced any unavoidable reason which crept in after entering into the order with the Customer. Even in the case of supplies to Indian Oil Corporation Limited, the equipment supplied was found to be defective and hence the Company utilised fresh material costing Rs.21.64 lakh towards free replacement and rework.

The Ministry while confirming (August 2000) the fact and figures, did not offer any remarks.

Thus, acceptance of an order without assessing the capacity to manufacture and adherence to the delivery schedule specified by the Customer resulted in a loss of Rs.71.04 lakh to the Company.

Heavy Engineering Corporation Limited

12.5.1 Loss due to relaxation in the terms of contract with a private party

Failure of the Company to safeguard its interest by relaxing the terms and conditions of the contract entered into with a private sector Company, resulted in blocking of revenue of Rs.2.07 crore as well as loss of interest thereon to the tune of Rs.1.27 crore.

The Company entered into two contracts (April and July 1994) with M/s. Mideast Integrated Steel Ltd. (MESCO), a private sector Company, for manufacture and supply of Roll Crusher and Hot Sinter Breaker (two nos. each for Sinter Plant) and 524 nos. of cooling equipment for two Blast Furnaces for a total price of Rs.3.69 crore from December 1994 to March 1995.

In both the contracts, the Company relaxed its standard terms regarding advance payment of 100 per cent to 75 per cent before despatch by replacing it by only 15 per cent, at the instance of the customer ostensibly to secure orders under stiff competition. Besides, the Company also forfeited its right of suspension of supplies in case of default in payment. This relaxation was, however, not counter balanced by introducing any security provision like presentation of despatch documents to the customer through bank to ensure timely payment of bills.

The advance of 15 per cent (i.e. Rs.51.34 lakh) was paid by the customer in three instalments from May 1994 to October 1994. The advance money given by the customer was almost exhausted after supply of merely 139 nos. of cooling plates from February 1995 to June 1995. Thereafter with every subsequent despatch, the dues of the Company with the customer started accumulating. The cheques issued by MESCO for Rs. 45 lakh in December 1995 against bills raised in October 1995 also bounced. The last payment of Rs. 20 lakh was made by MESCO in September 1996 when total amount due was Rs.1.45 crore. However, the Company continued its supply till 10 March 1997 when the accumulated dues reached Rs.1.62 crore. Supply of all the main equipment was completed by then and only operational spares (worth Rs.45 lakh) were left. Thus, the failure of the Company to safeguard its interest by ensuring adequate provision in the contract resulted in blocking of revenue of Rs.2.07 crore (Rs.1.62 crore + Rs.45 lakh) and also loss of interest thereon to the tune of Rs.1.27 crore (June 2000).

Since the amount could not be realised against supplies, the matter was taken up by the Company in August 1997 with Industrial Development Bank of India (IDBI) which was the funding agency of MESCO, the Department of Banking, Government of India (March 1999) and the Ministry of Industry (May 1999) for help in realising dues. No positive outcome had been achieved so far (October 2000).

The Ministry in its reply (September 1999) stated that the deviation in standard terms of payment had to be accepted due to stiff global competition in securing orders from private sector on account of economic liberalisation from 1991.

The reply is not tenable as the Company had not only relaxed the terms of payment but had also continued despatch of vital equipment even after non-payment of bills by the party without re-negotiating the terms of payment. Thus, the party was granted undue favour which led to the loss of interest of Rs.1.27 crore (June 2000) apart from non-realisation of revenue of Rs.2.07 crore.

12.5.2 Injudicious purchases of spares

Company's injudicious decision to import spares of Electric Walking Dragline without assessing their actual requirement led to loss of Rs.84.64 lakh

The Company received (May 1991) order for supply of an Electric Walking Dragline (12 Dragline) to Northern Coalfields Limited (NCL-Almori Project-Dudhichuan). The Dragline was to be delivered by September 1994 at Calcutta port. With a view to improve the overall performance of the Dragline, the Company decided (May 1994) to import gearing items to give confidence to the customer and to utilise these items for the Dragline or as spares as and when needed. Accordingly, an import order was placed on M/s. Bucyrus Europe Ltd., United Kingdom in May 1994 for supply of the gearing spares valuing £ 0.46 million equivalent to Rs.3.33 crore.

The consignment, shipped on 7 March 1995, arrived at Calcutta port on 13 May 1995. The payment was made to the supplier on 4 September 1995 through a Letter of Credit. All the gearing spares were cleared from the Calcutta port by February 1996 except one Sleeved Hoist Drum Assembly (valuing Rs.73.91 lakh) which had been lying at the port since May 1995. The other components, excepting Motor Shaft and Pinion (8 Nos. valuing Rs.5.93 lakh) had been used while erecting the Dragline supplied by the Company to NCL in 1996.

The consignment of Sleeved Hoist Drum Assembly had not been cleared from the port till date (October 2000) as the amount required for clearance had become more than its import cost due to abnormal delay in clearing the Assembly. Further, Motor Shaft and Pinion (8 Nos. valuing Rs.5.93 lakh) had also been lying unused (October 2000) since March 1996. This proved that these spares were not actually required. The chances of getting either the Sleeved Hoist Drum Assembly cleared from the port or/and using the Motor Shaft and Pinion were extremely remote.

The Management admitted (March 2000) that the decision to import the spares was based on certain expectations which did not materialise subsequently.

Thus, the decision of the Company to import these spares without assessing their actual requirement resulted in loss of Rs.84.64 lakh (including freight of Rs.3.13 lakh and insurance cost of Rs.1.67 lakh).

The matter was referred to the Ministry in December 1999; their reply was awaited (October 2000).

Hindustan Paper Corporation Limited

12.6.1 Non-recovery of dues

Non-adherence to established marketing guidelines and inadequate supervision of the activities of Delhi depot led to non-realisation of dues of Rs.4.93 crore from a single party.

In November 1995, the Company appointed Golden Newsprint Limited (GNL) as stockist for sale of its products (writing and printing paper) in Delhi. As per terms of appointment, GNL deposited sales advance and bank guarantee of Rs.10 lakh each. In term of the approved marketing guidelines of the Company, the maximum credit limit that could be extended to the stockist was Rs.40 lakh (i.e. twice the value of sales advance and bank guarantee). It was also stipulated that in case three cheques preferred by a customer bounced in one financial year, either the supplies were to be stopped or were to be made only against pay order/demand draft.

During 1998-99, on 69 occasions cheques aggregating to Rs.4.17 crore preferred by GNL bounced. Though the cheques were replaced and fund released by GNL, the Company neither insisted on payment by pay order/demand draft nor stopped the supply of goods in violation of its on marketing policy. On the contrary, Executive Director (Marketing) enhanced (March 1999) the eligible credit limit of the stockist from Rs.40 lakh to Rs.1.40 crore on the pretext of boosting sales. In addition, outstation cheques submitted by the stockist were accepted since July 1999 in violation of instructions contained in the Company's 'Procedure and Work Instruction Manual'. However, frequent bouncing of local as well as outstation cheques continued and the outstanding dues against GNL and its associates accumulated to Rs.5.23 crore as on 31 December 1999, which exceeded the enhanced credit limit by 274 per cent.

Finally taking cognizance of the irregularities, the Company investigated (November 1999) the matter and suspended 8 officers including Executive Director (Marketing) for causing huge loss to it by abusing their official positions. The case was also referred (February 2000) to Central Bureau of Investigation (CBI) for investigation and the Company recovered Rs.30 lakh by forfeiting the sales advance/security deposit together with encashment of bank guarantee.

The stockist filed (April 2000) a legal suit against the Company claiming Rs.3.75 crore on account of cash incentive, cash discount, quantity discount, short receipt and non-receipt of goods etc. The Management stated (May 2000) that most of the claims of the stockist were not genuine and hence not sustainable. However, the Management could not provide the details of the non-admissible claims.

Thus, non-adherence to established marketing guidelines and inadequate supervision of activities of Delhi depot of the Company led to non-realisation of dues of Rs.4.93 crore (Rs.5.23 crore less recovery of Rs.30 lakh) from a single party.

While accepting the audit observation, the Management stated (July 2000) that legal action could not be initiated against the stockist in time because of complexity of the

issue. The Management further intimated (September 2000) that legal case had since been instituted which would come up for hearing in October 2000. However, the failure of the Company to institute legal proceedings against the defaulting stockist until June 2000 demonstrated laxity of Management's approach in collecting legitimate dues. The entire outstanding dues had been considered as doubtful of recovery and provided for in the accounts of the Company for the year 1999-2000.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Jessop & Co. Limited

12.7.1 Extra financial burden due to increase in age of retirement

As a result of enhancement of retirement age from 58 years to 60 years, the Company, despite its adverse financial conditions, had to bear an additional financial burden of Rs.1.99 crore towards extra voluntary retirement benefits besides payment of additional salary and wages of Rs.4.22 crore to employees in service beyond the age of 58 years.

With the object of reducing surplus manpower, the Company adopted (July 1993) voluntary retirement scheme (VRS) subject to modifications from time to time. The benefits available under the scheme were, *inter alia*, proportionate to the years of service rendered or years of service left whichever was lower. Till April 1998, the VRS continued based on the retirement age of 58 years.

In May 1998 the Government of India announced enhancement of retirement age by two years from 58 years to 60 years. While communicating the above decision, the Ministry stated that the decision would be effective from the date on which the rules and regulations of the Public Sector Undertakings (PSUs) were amended by the concerned PSUs and would be applicable to employees below Board level. The Company enhanced the retirement age with effect from 25 June 1998 by amending the existing service rules.

With the enhancement of retirement age, the main purpose of VRS to reduce surplus labour and manpower cost was frustrated. This also dealt a severe blow to the already precarious financial condition of the Company as it had to incur an additional expenditure of Rs.6.21 crore towards additional retirement benefits to 220 employees (Rs.1.99 crore) opting for VRS and additional two years salary and wages of employees (Rs.4.22 crore) not opting for VRS and working beyond the age of 58 years (upto June 2000). However, the Company did not approach the Government/Ministry for obtaining exemption from raising the age of retirement.

The Management stated (June 2000) that it had simply complied with the Government's directives. The Management further stated that had the original retirement process continued the Company would have been saddled with accumulation of provident fund and gratuity dues.

The Management's contention is not tenable because the deferment of retirement dues by two years did not absolve the Company from future liability of the same. Being a financially sick Company its turnaround strategy largely depended on substantial reduction of surplus manpower and related costs. Thus, before enhancing the age of retirement the Administrative Ministry/Management, in consultation with the Government of India, should have sought and obtained an exemption from application of enhanced retirement age for the employees of the Company.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

National Bicycle Corporation of India Limited

12.8.1 Non leasing of vacant floor space at Mumbai Unit

Non leasing of the vacant floor space at Mumbai unit inspite of instructions of Board of Directors led to Company losing lease rentals of Rs.3.02 crore.

Board of Directors directed (14 October 1996) the Company to explore the possibility of leasing out the surplus floor space available at its Mumbai Unit so that internal resources of the Company could be increased. Company called for offers on 27 June 1997 for leasing out surplus space of 60,000 sq.feet on first floor of the Company premises on "as is where is basis".

In response thereto, Shipping Corporation of India Limited (SCI), another Public Sector Company which was already in occupation of the second floor of the Company premises since 1985, offered (July 1997) to take over the entire space available on first floor on the same terms and conditions according to the existing agreement for the second floor. Lease rentals offered by the SCI in July 1997 worked out to Rs.21.50 per sq.feet. SCI offered to complete the interior decoration/repair of the first floor at their cost in nine months and wanted the Company to complete during this time, formalities like approval from Government of India, Municipal Corporation of Greater Mumbai etc. Company did not initiate any action to lease out the space till August 1998. On 31 August 1998 the Company sought legal opinion from Advocate whether it could lease out surplus space in view of its winding up petition before Hon'ble High Court at Mumbai. The Advocate opined (September 1998) that they could lease the premises subject to fulfillment of certain conditions. Inspite of this, the Company did not lease out the space (July 2000).

Non leasing of the surplus space to SCI inspite of instructions of Board of Directors, and legal opinion from advocate that Company could lease surplus space resulted in loss of earnings of Rs.3.02 crore for the period from October 1998 to July 2000.

The Management stated (October 2000) that in view of the stay by High Court of Mumbai of BIFR proceeding, uncertainty regarding the future of the Company and taking into consideration the intention of the Government of India for disposal of assets of the

Company for liquidation of loan liability, it was not considered feasible to rent out the premises to avoid legal hassles.

The Ministry endorsed (November 2000) the reply of the Management.

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

(i) the Company had obtained legal opinion that they could lease out the premises subject to fulfillment of certain conditions without infringement of the High Court Orders;

(ii) uncertainty about the future of the Company should not have restrained action in day to day administration including utilisation of premises; and

(iii) the proposed lease was to another Public Sector Company, which was already in occupation of Company's premises, further lease would not have led to legal hassles as the lessee was bound by Government decisions.

Tyre Corporation of India Limited

12.9.1 Extra financial burden due to increase in age of retirement

As a result of enhancement of retirement age from 58 years to 60 years, the Company had to bear an additional financial burden of Rs.3.40 crore towards extra voluntary retirement/separation benefits besides payment of additional salary and wages to employees in service beyond the age of 58 years.

For reducing its surplus manpower, the Company adopted (April 1992) voluntary retirement scheme (VRS) subject to modifications from time to time. In December 1998, another similar scheme called voluntary separation scheme (VSS) was also introduced in Tangra unit (IRP Division) of the Company which was then considered to be a non-viable unit. The benefits available under the VRS/VSS were, *inter alia,* proportionate to the number of years of the service left after retirement.

In May 1998, the Government of India announced enhancement of retirement age by two years from 58 years to 60 years. While communicating the above decision, the Ministry stated that the decision would be effective from the date on which the rules and regulations of the public sector undertakings (PSUs) were amended by the concerned PSUs and would be applicable to employees below Board level. The Company enhanced the retirement age with effect from 22 May 1998 by amending the existing service rules.

With the enhancement of retirement age, the main purpose of VRS/VSS to reduce surplus labour and manpower cost was frustrated. This also had a cascading effect on the Company's dwindling financial condition because it had to incur an additional expenditure of Rs.3.40 crore towards extra retirement benefits to 210 employees (Rs.2.06 crore) opting for VRS/VSS and additional two year's salary and wages of employees (Rs.1.34 crore) not opting for VRS/VSS and working beyond the age of 58 years.

However, the Company did not approach the Government/Ministry for obtaining exemption from raising the age of retirement.

The Management stated (June 2000) that it had only implemented the Government's directives. The Management's contention is not tenable as being a financially sick Company its turnaround strategy largely depended on substantial reduction of surplus manpower and related costs. Thus, before enhancing the age of retirement the Administrative Ministry/Management, in consultation with the Government of India, should have sought and obtained an exemption from application of enhanced retirement age for the employees of the Company.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

CHAPTER 13: MINISTRY OF INFORMATION AND BROADCASTING

National Film Development Corporation Limited

13.1.1 Non-recovery of dues of Rs. 94 lakh

Company could not recover dues of Rs. 94 lakh from ABCL due to inadequate safeguards in the contract and delayed action against default.

In view of the assured viewership and advertisement revenue potential of Amitabh Bachchan movies the Company entered into an agreement (19 April 1995) with Amitabh Bachchan Corporation Limited (ABCL) for telecast of Bachchan films, once a month on Doordarshan (DD) National Channel in the Friday night feature film slot, for a period of one year from April 1995.

Under the agreement, ABCL was allowed to market commercial time and spot buys on telecast schedule of these films. In return, ABCL was to pay a minimum of guaranteed amount of Rs.47.50 lakh per film to the Company and to share advertising revenue generated in excess of Rs.72.50 lakh per film in the ratio of 75 per cent to DD, 5 per cent to the Company and balance 20 per cent to ABCL. Thirty three per cent of total guarantee amount due for the period of agreement (Rs.1.88 crore) was to be paid within 7 days of the agreement and balance guarantee amount alongwith share of excess advertisement revenue was payable within 45 days of telecast of the film to the Company, which in turn was to remit the share of DD to them. The agreement did not provide for any security or bank guarantee to protect the interest of the Company and the payment was left to the free will of ABCL.

Twelve films were telecast under the agreement between 28 April 1995 and 26 March 1996. Total amount due from ABCL came to Rs.11.20 crore against which they paid Rs.10.26 crore from time to time leaving a balance of Rs.94 lakh.

The last film by ABCL was telecast on 26 March 1996. Thus, the entire balance amount (Rs. 94 lakh) as per term of contract fell due on 10 May 1996. However, the Company did not initiate any action to recover the dues for seven months and approached ABCL only in December 1996. ABCL did not pay and after expiry of another six months period the Company sent (July 1997) a notice intimating ABCL that legal action would be initiated if payment was not made within 21 days of its receipt. Though ABCL did not pay up, Company initiated legal action only after further delay of eight months and filed a petition (March 1998) before the Hon'ble High Court of Mumbai for winding up of ABCL under the provisions of Companies Act, 1956 and for appointment of an official liquidator. The Court directed (December 1998) ABCL to pay Rs.30 lakh to the Company, which was not paid. The proceedings could not progress as ABCL was referred to Board for Industrial and Financial Reconstruction (BIFR).

Thus, lapse on the part of the Company to part with exclusive right to market commercial time to ABCL by taking only 33 per cent of minimum guarantee in advance initially and non-initiation of prompt action for recovery of dues after the expiry of the stipulated period of 45 days as contemplated in the agreement resulted in non-recovery of dues of Rs. 94 lakh. This also led to loss of interest of Rs. 60.42 lakh @ 16 per cent for 4 years i.e. from June 1996 to May 2000.

The Ministry stated (August2000) that:

(i) personal efforts were being made by the Company to recover the dues and there was a reasonable chance of recovery;

(ii) as per the trade practices prevalent at that time, bank guarantee was not obtained in such cases;

(iii) there was problem of selling free commercial time on DD due to competition from private channels and asking for security/bank guarantee would have created difficulties in procuring business; and

(iv) since ABCL was one of the good customers and had very good reputation, the Company had to give extension of time.

The reply is not tenable because:

(a) had there been a proper clause in the agreement to safeguard the interests of the Company the necessity of a legal recourse and personal pursuance would not have arisen;

(b) the benefit of additional business procured in relaxation of requirements of security, did not accrue to the Company but went to ABCL;

(c) being in the public sector, adequate care should have been taken by the Company to avoid counter party risks; and

(d) ABCL had already collected the advertising revenue and the Company was only seeking payment of its share, there was, therefore, no case for grant of extension of time. Moreover, as ABCL had not paid the dues even after extension of seven months, further delay (14 months) in initiating action against it was totally avoidable.

Thus, inadequate safeguards in the agreement, failure to recover its dues in accordance with the terms of the agreement and delay in initiating legal action resulted in non-recovery of Rs.94 lakh and loss of interest amounting to Rs.60.42 lakh thereon.

CHAPTER: 14 MINISTRY OF INFORMATION TECHNOLOGY

CMC LIMITED

14.1.1 Loss of revenue of Rs.1.61 crore

Company's failure to adhere to the procedure and to enter into agreement before taking up additional work in a contract led to loss of revenue of Rs.1.61 crore.

The Company entered (March 1997) into an agreement for development, delivery and implementation of terminal – software and related services for a total consideration of Rs.8.40 crore (DM* 3.5 million) with two foreign firms viz. Bremer Lagerhausgesellschaft AG (BLAG) (DM 1.6 million) and Eurokai KgaA (DM 1.9 million).

Scope of the project covered, development, installation and implementation of terminal software based on Marine Container Handling System (MACH), a standard software tailored to suit the special needs of the customer. It also included training in design structures, programming, data modeling, and application of MACH software and advise to the customer in selection of hardware and software configuration required for the software. Target dates for completion of the projects were 30 June 1998 (Eurokai KgaA) and 30 September 1998 (BLAG). Although work on these projects started immediately after signing of the agreement, it was still under execution (August 2000).

As per the agreement, the Company was to inform the customer by way of a written proposal including financial and scheduling charges in case of execution of any modification required by the customer leading to additional costs. A maximum amount of DM 240 per worker day or DM 3850 per worker month for additional expenses incurred in India and a maximum of DM 600 per worker day for additional expenses incurred in Germany had been fixed for inclusion in such proposal.

During implementation of the project, the Company had put in additional efforts to study designs, functionality implementation and stepwise implementation, thereby incurring additional expenses. The Company claimed (November 1998) reimbursement of DM 1.92 million (Rs.4.61 crore) on this account. The claim was negotiated (January 1999) and an agreement for reimbursement of only DM 1.25 million (Rs.3 crore) was concluded. Though Cgompany had raised the bill for additional expenses according to the rates mentioned in the agreement, it had to settle for a lower amount as modification and additional efforts were not intimated to customer and got approved by Project Management Unit as per clause 9 (6) of the agreement. Loss of revenue of Rs.1.61 crore (Rs.4.61 crore-Rs.3 crore) could have been avoided, had the additional expenditure been incurred with prior notice and approval of customer as envisaged in the contract.

* ***For the conversion of DM into rupee 1 DM=Rs.24 as on 27 February 1997***

The Ministry stated (June 2000) that (i) the additional time and skills deployed in the project did not require approval of the customer. (ii) the rates used in billing were maximum as prescribed and the Company was aware that the rates would be negotiated, (iii) though the parties/initially agreed to pay DM 0.70 million it was increased to DM 1.25 million through negotiation and that the additional charge more than compensated the Company for the additional work put in.

Reply of the Ministry is not tenable as:

(i) as per clause 9 (6) of the agreement, for any modification requiring deployment of additional skill and time, written prior permission of the customer was necessary. Failure of the Company to get approval of the customer resulted in reduction in dues;

(ii) the rates used in billing were as prescribed in the contract which should not have been disputable and negotiable; and

(iii) when the Company could have received substantially higher amount, it was no consolation that the additional payment compensated additional work.

CHAPTER: 15 DEPARTMENT OF COAL

Bharat Coking Coal Limited

15.1.1 Idle investment of Rs. 7.83 crore

A plant for production of smokeless coal set up at a cost of Rs. 7.83 crore has been lying idle due to market constraints rendering the investment unfruitful.

With a view to produce smokeless coal technically known as Special Smokeless Fuel (SSF) for domestic consumption and also to avoid air pollution from conventional "Vhatta' system, the Company (BCCL) decided (1983) to construct a 510 TPD Coke Plant at Muraidih under Borora Area. Although Central Mine Planning & Design Institute Limited (CMPDIL) which prepared the Feasibility Report (March 1986) indicated a negative rate of return, the Company went ahead with the project and awarded the work to a private firm (M/s. NICCO) in March 1989 on a turnkey basis at a contract value of Rs. 6.80 crore. The plant was scheduled to be commissioned by February 1991 but was actually commissioned in September 1998 at a cost of Rs. 7.83 core. The delay of more than 7 years was attributed to non-availability of land, presence of hard rock at site, unplanned execution of work by the contractor, funds crunch of the Company etc. Even though the plant was commissioned in September 1998, it commenced production on trial basis, only from June 1999 due to non-availability of skilled and technically trained personnel.

The plant had produced merely 3742 tonne of SSF till 31 May 2000 against the installed capacity of 186150 MT per annum. Even this meagre quantity could neither be sold nor any agency lined up for marketing the product despite three tenders being floated by the Company since August 1999. The Company then took up the matter with its Holding Company viz. Coal India Limited (CIL) for advice regarding further course of action to be taken in the matter. Response of CIL was awaited (September 2000).

In reply, the Ministry stated (May 2000) that the marketing strategy to be adopted for sale of product had been approved by the Board of Directors in October 1998 and action had been taken accordingly. As per the marketing strategy, at a sale price of Rs. 1555 per tonne, and at 80 per cent capacity utilisation the plant would earn a return of 12 per cent on the investment.

Reply of the Ministry is not tenable because despite adoption of the new marketing strategy since October 1998 the Company had not been able to sell even a single tonne of SSF coal till date (September 2000). Even the future acceptability of the product in the market was doubtful in view of availability of cheaper soft coke as well as alternative petroleum based fuel products.

15.1.2 Delay in construction of Froth Floatation Plant

Delay in construction of Froth Floatation Plant led to an idle investment of Rs.5.64 crore.

The Company decided (June 1988) to set up a Froth Floatation Plant at an outlay of Rs.7.09 crore for benefication of coal at Bhojudih washery. The work of construction of the plant was awarded (April 1990) on a turnkey basis to M/s. Triveni Engineering Work Limited (Contractor) at a contract value of Rs.7.12 crore with scheduled date of completion as January 1992.

The progress of work was very tardy from the very beginning mainly due to delay in release of mobilisation advance, handing over of site, release of approved drawings and release of progressive payments. Inspite of repeated extensions, the work could not be completed. In the meantime, the contractor put forward a claim (January 1995) for compensation of Rs.5.89 crore towards idle wages, interest on delayed payments, escalation beyond contract period, etc. As the claim was not admitted by the Company, the contractor withdrew and foreclosed the contract with effect from September 1995. By then, the contractor had been paid Rs. 5.64 crore towards the value of work done.

After a lapse of over two years, the balance work was awarded (February 1998) to another contractor at a contract value of Rs.2.80 crore at the cost and risk of the previous contractor. But due to delay in finalising the terms of contact, the work started only in April 1999. Moreover the new contractor declined to take responsibility for the performance of the plant after completion as they had neither designed the plant nor supplied the main equipment. The Company had so far incurred an expenditure of Rs.83.04 lakh on the balance work, which was expected to be completed by July 2000. Claims made for recovery of extra cost involved in awarding the balance work were not admitted by the previous contractor.

Thus, a project which was scheduled to be completed in January 1992 was expected to be completed in July 2000 after a time overrun of nearly 8 years. This has led to blocking of investment of Rs.5.64 crore and the resultant loss of interest of Rs.67.68 lakh per annum thereon. Moreover, the satisfactory performance of the plant on completion is not guaranteed as the second contractor declined to give any such guarantee. In addition, the Company faced deductions aggregating to Rs.17.18 crore from its coal bills for the period 1992-93 to 1998-99, on grounds of quality slippage. This could have been avoided to a large extent if the Froth Floatation Plant had been commissioned as scheduled for benefication of coal.

The Management/Ministry while admitting that the deductions on quality grounds could have been partially avoided had the Froth Floatation Plant been completed in time, stated that the contractor had delayed preparation of plot plans, flowsheets and other drawings and resorted to stoppage of work frequently and kept the work incomplete from February 1992 to January 1996.

The Management can not absolve itself of the responsibility of the inordinate delay in completion of the project because:

(i) as per terms of agreement with the original contractors clear site with accessible road was to be provided by the Company by July 1990 but the same was progressively released to the contractor only by August 1991. In fact some of the sites were cleared by the contractor himself by putting in extra effort and labour;

(ii) the project was also delayed due to relocation of critical equipment/ setting ponds etc. due to non-availability of earmarked areas; and

(iii) there was delay in release of mobilisation advance and persistent delay in release of progressive payment to the contractor by the Company.

The fact that the Management did not take any punitive action against the contractor despite the delays, as stated in their reply is indicative of tardy monitoring of the project by the Company.

Thus, the lackadaisical attitude of the Management led not only to investment of Rs.5.64 crore remaining idle for the past five years but has also deprived the Company of the envisaged benefit of avoiding deduction from sales bills on grounds of quality.

Central Coalfields Limited

15.2.1 Wasteful expenditure on construction of wagon loading system

Wagon loading system constructed at a cost of Rs.7.23 crore was lying idle as it was found to be unsuitable for loading wagons within the free time of 3 hours allowed by the Railways.

Phase-I of the Coal Handling Plant (CHP) at KD Hesalong Open Cast Project (OCP) of the Company became operational in December 1985. Construction of Phase-II of the said CHP was completed in July 1995 at the cost of Rs. 7.23 crore. The facilities created by Phase-II construction, *inter alia,* included a wagon loading system which could load a rake in 6/7 hours. Phase-II of the CHP had not been commissioned so far (August 2000) because it was found to be unsuitable to load a rake within the free time of 3 hours allowed by the Railways. Due to non-operation of Phase-II of the CHP the Company had to incur an expenditure of Rs. 17.87 crore on transport of coal to the rail siding by road during the period 1995-96 to 1998-99.

Although the work order for the CHP (Phase-I & II) was placed in the year 1982, Management overlooked the fact that the concept of wagon loading had changed since 1980 allowing for only three hours for loading of the entire rake. Even after completion of Phase-I of the CHP the project profile was not updated. As a result the entire expenditure of Rs. 7.23 crore proved to be totally infructuous.

In reply the Ministry/Management stated that the CHP would be gainfully utilised with suitable modifications, now that the OCP was upgraded to 4.5 million tonne per annum (MTPA) as against the original capacity of 1.5 MTPA.

The reply is not tenable because:

(i) the Revised Project Report (of September 1999) for the upgraded project had excluded the need for a CHP due to a decision of the consumer (Punjab Electricity Board) to install a benefication plant nearby; and

(ii) pending completion of the benefication plant it was decided to make the despatches to the Rail siding by road and loading into the wagons by means of dumpers.

It is, thus, evident that even in future there is no likelihood of utilising the facilities created at a huge investment of Rs. 7.23 crore.

15.2.2 Loss of Rs. 2.26 crore

Company's failure to insure a dumper in accordance with the provisions of the loan agreement led to loss of Rs.2.26 crore as the dumper was destroyed by fire.

The Company procured 32 Nos. of 85 –T Dumpers from M/s. Bharat Earth Movers Limited (BEML) during 1997-98 and 1998-99 at a cost of Rs. 60.08 crore for its KD Hesalong project against a purchase order (February 1997) of its Holding Company M/s. Coal India Limited (CIL). The above purchase was financed by Industrial Credit and Investment Corporation of India Limited (ICICI) under a tripartite agreement amongst the buyer, seller and the lender which, *inter alia,* provided that the equipment would be comprehensively insured by the buyer against possible risk and the policy would be kept assigned to ICICI until the loan was repaid. In case of failure, ICICI was to take out the policy, pay the premium and recover the same with interest at 22.5 per cent.

One such dumper commissioned in November 1998 collided with a Tipping Truck in December 1998 and an irate mob set the dumper on fire as a result of which it was completely destroyed. The accident took place when it was reported to have been used unauthorisedly by the maintenance personnel of BEML as a transport vehicle. As the Dumper was not insured as per provisions of the tripartite agreement and there was no scope for recoupment of the loss, the Company had to make provision to the extent of Rs.2.26 crore in their accounts during 1998-99.

Even though in their enquiry report (September 1999) the officers of the Company squarely blamed BEML for the entire episode and sought replacement of the Dumper by BEML, it was totally disowned by BEML on the ground of non-inclusion of any of their representative in the enquiry committee. BEML also raised doubts about the impartiality of the report. Further the Management's reply (March 2000) that as a corporate policy the equipment was not insured is not tenable as non-insurance is applicable in case of assets free of charge and not where insurance is a condition of an agreement for purchase of an asset. The Company also did not intimate ICICI about non-insurance of the Dumper. Besides subsequent decision of the Company to insure all equipment procured under loan agreement proved that non-insurance of the equipment earlier was not only violation of provisions of the loan agreement but also led to undertaking avoidable risk on the asset.

Thus, violation of provisions of loan agreement and safety norms resulted in loss of Rs.2.26 crore.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

15.2.3 Avoidable expenditure of Rs. 65.35 lakh

Company's failure to file the application for increase in contract demand (CD) in time led to avoidable expenditure of Rs. 65.35 lakh.

The Bokaro-Kargali (B&K) Area of the Company had a contract demand (CD) of 20 MVA of electricity from Damodar Valley Corporation (DVC) since June 1989, with a provision for revision of CD by giving a 12 months notice. In case the actual demand recorded was more than the CD, the Company was liable to pay electricity charges at penal rates for the demand in excess of the CD. The actual demand recorded had crossed the CD limit 6 times over the period of 44 months from January 1990 to August 1993 and exceeded the CD limit repeatedly from September 1993 and the Company had to pay electricity charges at penal rates in 8 months out of 12 months following September 1993. The Management failed to initiate any corrective action and continued to pay electricity charges at penal rates for the demand in excess of CD till February 1998, when at the instance of Audit, the Company approached DVC for upward revision of CD with effect from April 1998. The enhanced limit of CD was made effective from June 1999. The incidence of penalty stopped since then. Had the Company taken action for enhancing CD in October 1993 they could have saved penal charges paid from October 1994 to May 1999 amounting to Rs. 65.35 lakh.

The Management stated (May 1999), *inter alia*, that inspite of persistent follow up, the DVC authority expressed their inability to enhance the CD due to line constraints. However, with the help of the re-distribution of load, the penalty was avoided since January 1999. The reply is not tenable as the Management had applied for enhancement of CD only in February 1998 that too after it had been pointed out by Audit and the line constraints surfaced in 1998. It is also not a fact that penalty was not paid from January 1999 as the Company paid electricity charges at penal rates even in March, April and May 1999.

Thus, the lackadaisical approach of the Management toward the assessment of demand for electricity and delay in serving notice for enhancement of CD led to the avoidable expenditure of Rs. 65.35 lakh.

The matter was referred to the Ministry in April 2000; their reply was awaited (October 2000).

South Eastern Coalfields Limited

15.3.1 Avoidable loss

Due to non-recovery of electricity charges from the employees, the Company suffered a loss of Rs.3.37 crore.

The wage structure and terms and conditions of service including fringe benefits of the employees in the Coal Industry are regulated by the recommendations of the Central Wage Board for Coal Mining Industry as accepted by the Government of India. National Coal Wage Agreement – V (NCWA-V) as accepted by the Government of India, *inter alia,* provided that in the coalfield areas, where the employees were provided with residential quarters by the Management and also electricity from the bulk supply obtained from the Electricity Boards, they would be entitled to a free consumption of 30 KWH per residential quarter per month on a uniform basis. It was further provided that for any consumption beyond this, they would be required to pay at the same rates at which the electricity supply undertakings charged the Coal Companies.

A test check in Jamuna & Kothma (J&K) area of the Company revealed that the consumption of electricity by the employees was in excess of the limit and no recovery was made from the employees in accordance with the terms and conditions of the NCWA-V for the period from April 1997 to March 2000 which worked out to Rs.3.37 crore

The Management stated (March 2000) that electricity charges were not being recovered from the employees due to non-installation of meters in their residential quarters. This reply is not tenable since this was not an insurmountable problem. Also, non-installation of meters would encourage the employees to resort to injudicious use of electricity for their energy needs.

Thus, due to non-recovery of electricity charges from employees, the Company suffered a loss of Rs.3.37 crore in J&K area alone over a period of three years.

The matter was referred to the Ministry in May 2000; their reply was awaited (October 2000).

CHAPTER 16: DEPARTMENT OF MINES

Hindustan Copper Limited

16.1.1 Avoidable expenditure on development of an uneconomic mine

The Company's failure to adapt to the changed market scenario and to stop the development activities of an uneconomic mine resulted in an avoidable infructuous expenditure of Rs.1.97 crore.

The Company decided (May 1996) to reopen and develop Dhobani mine, which had been closed since 1953, at an estimated cost of Rs.11.20 crore. The decision to reopen the mine was based on the average London Metal Exchange (LME) price of Copper of US $ 2760 per MT during the preceding two years ending March 1996. It was also decided to meaningfully deploy at Dhobani mine the surplus manpower of Mosaboni mine which was being closed due to uneconomic operations. The decision (May 1996) of reopening the Dhobani mine was not based on any detailed project report. A brief report prepared for perusal of the Board of Directors of the Company envisaged an internal rate of return (IRR) of 16.10 per cent with a pay back period of 4.53 years.

In September 1999, the Company decided to close down the Dhobani mine once again. The reasons for this decision were not on record. Accordingly, notice was served (January 2000) for abandonment of activities at Dhobani mine with effect from February 2000. But by September 1999 the Company had already incurred an expenditure of Rs.3.03 crore on mine development (Rs.1.65 crore), infrastructure facilities (Rs.32 lakh) and salaries and wages (Rs.1.06 crore). This entire expenditure, thus, proved to be infructuous.

The Management while admitting the above facts stated (June 2000) that the Company carried on the construction work in Dhobani mine for meaningfully deploying the surplus manpower of Mosaboni mine which was being closed due to its uneconomic operations. The Management further stated that the Dhobani mine had to be eventually closed down due to paucity of fund and uneconomic price of copper.

The Management's reply is not tenable because the development work was actually started in July 1996 when the average LMF price had fallen from US$ 2760 per MT in the preceeding two year ending March 1996 to US$ 2173 per MT in June 1996. This sharp fall in the international price of copper had made most of the operational activities of the Company uneconomic and led to the financial crunch. Therefore, before starting the development work at Dhobani mine, the Company should have reviewed and reconsidered its decision keeping in view the subsequent substantial fall in copper price.

The decision to deploy surplus labour from one closed mine (Mosaboni) in another economically unviable mine was also not commercially prudent. But, even if we accept the Management's contention that Rs.1.06 crore spent on salaries & wages was unavoidable, the fact remains that by adapting to the market scenario and stopping the

development activities at Dhobani mine in time the Company could have avoided infructuous expenditure of Rs.1.97 crore (Rs.3.03 crore minus Rs.1.06 crore).

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Hindustan Zinc Limited

16.2.1 Extra payment for procurement of lower capacity Diesel Generating (DG) sets

The Company purchased 11 DG sets with a capacity of 5.047MW each which were not functioning at the rated capacity since installation. Instead of rejecting the DG sets, the Board de-rated the DG sets to 3.5MW each. Thus, due to accepting the DG sets of lower capacity, the Company incurred an extra payment of Rs. 14.94 crore.

In view of deteriorating power situation M/s. Hindustan Zinc Limited (Company) procured (June 1989 and April 1992) 11 DG sets with a capacity of 5.047 MW each from M/s. WH Allen England at a cost of Rs. 49.80 crore. The agreement entered into with the supplier provided that the shortfall in power generation would be limited to 250 KW (5 per cent) of rated capacity on any set and if shortfall in output exceeded 250 KW, the DG set would be liable for rejection.

Since inception the DG sets were not giving the output at the full rated capacity. The DG sets could be safely operated only upto 3.5 MW load, as all parameters were maintained within their safe operating limits but during operation beyond 3.5 MW load, the operating parameters exceeded the safe limits, causing higher stress and fatigue. One of the DG sets at Chanderiya Lead Zinc Smelter suffered a major breakdown in September 1992 and was decided to be cannibalised as the same was found to be beyond repairs. Though the agreement provided for rejection of the DG sets in case of shortfall in power generation, the Company did not reject the DG sets. Due to lower output from the DG sets, the Board approved (January 1999) de-rating of the capacity of all DG sets to 3.5 MW.

The Management stated (May 2000) that except DG set No 3 at Vizag Zinc Smelter, which was tested at 3 MW load, all others were tested at works of the manufacturer in terms of the agreement, and only after achieving the full load of 5 MW at alternator terminals within acceptable range of operating parameters including satisfactory test result of fuel consumption, the DG sets were despatched from UK. The Management further stated that during initial years the sets were regularly operated at normal service rating i.e. 85 per cent of maximum service load. As the sets at major installations became old and the wear and tear in operating the sets at higher load increased, which resulted in consumption of capital spares that were costlier and loss of production, it was decided to operate the sets on 3.5 MW.

The reply is contradicting the earlier statement (January 1999) that certain inherent problems were experienced in getting the full rated capacity of 5 MW from the DG sets since inception and when the DG sets were operated beyond 3.5 MW load, they failed. The Board decided (January 1999) to de-rate the capacity of all the DG sets from 5 MW

to 3.5 MW considering its low performance and higher cost of operation at 5 MW capacity, but not due to the DG sets being old. Thus, the lapse of the Management in not rejecting the DG sets in terms of the agreement resulted in an extra expenditure of Rs.14.94 crore.

The Ministry stated (August 2000) that in view of the seriousness of the case, it was being examined from different angles.

16.2.2 Avoidable payment of lease charges for defective and idle equipment

Though the order for purchase of horizontal belt filter provided for rejection of defective equipment by the buyer and rectification/replacement thereof by the seller at his cost, the filter was not rejected, which resulted in an avoidable payment of lease charges for the defective equipment to the tune of Rs.80.15 lakh.

The Company's Zawar Mines placed (September 1991) a purchase order on M/s. Adpec Filters (India) Private Limited, Mumbai for supply of one horizontal belt filter (Equipment) to handle Lead Concentrate of Balaria beneficiation plant at a cost of Rs.48.54 lakh. The Company entered into a financial lease agreement (November 1991) with M/s. Infrastructure Leasing and Financial Services Limited for this procurement. The supply order, *inter alia,* provided that any portion of the goods rejected at the seller's or buyer's premises should immediately be replaced by the seller at his cost and material found unsuitable while in use even after the inspection would be rejected. It also provided that the workmanship of the equipment would conform to the owner's requirements and specifications and if the need arose, the seller would revise, modify, rectify and replace the equipment, material or stores in case any deficiency was found which was not conforming to the owner's requirements/specifications. The lease agreement provided that acceptance of the equipment by the lessee would be taking the delivery of the equipment in sound working order and the lessor would not be responsible for unsatisfactory performance of the equipment or making good the damaged parts thereof.

The equipment was installed in October 1992 and trial run was carried out in August 1993 but it failed to achieve the specified results. Against the required capacity of 8 tonnes per hour (TPH) with moisture content from 7.5 to 8.5 per cent, the equipment was giving an average output of 3 to 4 TPH with moisture content varying from 10 to 11 per cent. Instead of rejecting the equipment, the Company waited for rectification to be carried out by the supplier, which was not carried out (April 2000).

As the filter was procured under a financial lease, the Company had to pay lease charges of Rs. 80.04 lakh to the lessor till 31 March 2000 besides incurring a liability of Rs. 4.96 lakh towards lease charges for the remaining period upto March 2001 for the idle equipment. Since the equipment had been defective, the Lead Concentrate of Balaria beneficiation plant is being handled by another equipment at Mochia beneficiation plant by running additional shifts on all seven days of the week besides using a number of settling pits.

Admitting the lapse, the Company stated (April 2000) that the equipment was not accepted and the balance/additional payment of Rs. 14.12 lakh had not been released to the party.

The reply is not tenable, as the Company had to pay Rs. 80.04 lakh besides the liability of Rs. 4.96 lakh for 2000-2001 on account of lease charges. After taking into account the amount of Rs. 4.85 lakh towards bank guarantee already encashed the avoidable loss worked out to be Rs. 80.15 lakh.

The Ministry stated (July 2000) that the Company was enthusiastic to upgrade its technology, and failure in achieving rated performance of the equipment was not to be treated as a bad management decision. The reply is out of context in view of the fact that the Company had accepted the defective equipment and did not initiate action for its rejection under terms and conditions of the purchase order resulting in avoidable payment of lease charges of Rs. 80.15 lakh to the lessor besides deprivation of services from the equipment procured.

CHAPTER 17: MINISTRY OF PETROLEUM AND NATURAL GAS

Balmer Lawrie & Co. Limited

17.1.1 Loss due to use of an unproven technology

The Company suffered an operating loss of Rs.8 crore besides a fruitless capital investment of Rs.6.10 crore due to implementation of a project with unproven technology and huge expansion thereof without stabilising the existing operation. The project had to be eventually abandoned, as the same was operationally unviable.

With a view to diversify into the area of Antioxidant Functional Additives (AOFA), the Company decided (July 1988/ January 1989) to set up a plant for manufacturing 150 MT per annum (TPA) of Di-Tertiary Butyl Para Cresol (DBPC) at a capital investment of Rs.50 lakh and to manufacture 300 TPA of Para Tertiary Butyl Phenol (PTBP) at an additional investment of Rs.18.50 lakh.

While DBPC facilities were set up as per the process engineering package of Indian Institute of Petroleum (IIP), Dehradun, the manufacturing facilities for PTBP were designed using the laboratory scale know-how provided and demonstrated by IIP. No scale up or operational problems were anticipated and the package purchase from IIP was not reviewed before implementing the AOFA project. The manufacturing facilities for PTBP and DBPC were commissioned in January 1990 and June 1990 respectively at a total expenditure of Rs. 73.20 lakh.

After commissioning none of the plants could be run satisfactorily due to a number of technical problems like low yield of DBPC as compared to the designed output, accumulation of mother liquor which was difficult to dispose off because of its phenolic nature etc. The production performance for first 5 years of operation of the plants has been summarised in the following table:

Year	Target (MT)		Production achieved (MT)		Percentage of achievement		Loss (Rs. in lakh) for both the products
	DBPC	PTBP	DBPC	PTBP	DBPC	PTBP	
1990-91	60	150	22.98	13.504	15.32	4.5	37.24
1991-92	120	195	16.00	2.1675	10.67	0.7	41.01
1992-93	136	240	43.00	NIL	28.67	-	44.65
1993-94	150	270	116.00	NIL	77.33	-	11.37
1994-95	150	300	72.00	NIL	48.00	-	57.13
Total							**191.40**

It may be seen that capacity utilisation was very low in case of both the products and the production of PTBP was stopped from 1991-92. The Company suffered an operating loss of Rs.1.91 crore during 1990-91 to 1994-95 on production of DBPC & PTBP as against projected profit of Rs.68.80 lakh during first five years of operation.

When the project failed dismally the Management decided (September 1992) to treat the capital expenditure of Rs.73.20 lakh as Research and Development (R&D) expenditure. Despite the dismal performance of the plant, the Management decided (September 1992) to invest a further amount of Rs.5.03 crore for setting up a bigger plant of 1000 TPA capacity for both the products on the expectation that the technical problems faced in operating the initial plant would be resolved by setting up a distillation plant. The plant with the increased capacity was commissioned in March 1995 at an actual cost of Rs.5.37 crore.

The Ministry stated (October 1995) that based on valuable data generated in the initial plant, it was decided to set up a large scale commercial plant. It was, however, observed that the new plant also did not perform well even after installation of the distillation process and it could never be operated to produce the final products of desired quality/quantity. The production performance of operation of new plant has been summarised in the following table:

Year	Target (MT)	Production achieved (MT)		Percentage of achievement		Loss (Rs. in crore) for both the products
	DBPC / PTBP	DBPC	PTBP	DBPC	PTBP	
1995-96	1000(AOFA)	104.95	NIL	10.50	NIL	2.14
1996-97	1000(AOFA)	140.00	NIL	14.00	NIL	2.26
1997-98 (till December 1997)	1000(AOFA)	121.74	NIL	12.17	NIL	1.69
Total						**6.09**

It may be seen that while AOFA plant could produce only 104.957 MT, 140.00 MT and 121.74 MT of DBPC during the year 1995-96, 1996-97 and 1997-98 respectively against the enhanced rated capacity of 1000 MT, no production could be achieved in respect of PTBP. The Company incurred further operating loss of Rs.6.09 crore from April 1995 to December 1997. Finding the project proving to be operationally unviable, the Management ultimately decided (March 1999) to abandon it.

The Management stated (January 2000) that by the time the developmental activities were completed and the plant was stabilised for regular production of quality products, factors beyond the control of the Company i.e. reduction in import duty, reduction in market demand, increase in input cost, reduction in selling prices etc., made the operations unviable leading to loss and eventual suspension of operation.

The Management's contention is not tenable because the plant was never stabilised for regular production of quality product. It was also observed that the raw material cost was

always sufficiently lower than the sale price of DBPC during 1995-96 to 1997-98. Had the plant been run to optimum capacity the Company could have earned operating profit. The Company incurred operating loss only due to consistent low level of production and consequent high loading of overheads to the final products. The low production, in turn, was mainly due to technical problems in the new plant that was set up without first stabilising the production in the initial plant. There was nothing on record to indicate that the poor capacity utilisation of the plant was due to low market demand.

Thus, due to embarking upon a commercial venture without a proven technology, and persisting with the venture despite failure of the initial project, the Company suffered an operational loss of Rs.8 crore (Rs.1.91 crore + Rs.6.09 crore) besides being saddled with fruitless capital investment of Rs.6.10 crore (Rs.73 lakh + Rs.5.37 crore).

The matter was again referred to the Ministry in December 1999; their reply was awaited (October 2000).

Bharat Petroleum Corporation Limited

17.2.1 Loss on supply of aviation turbine fuel to a private airline

The Company suffered loss of Rs.7.84 crore on account of extension of credit facilities to a private airline in violation of the terms and conditions of the agreement.

The Company on 30 April 1993, when there was no credit policy for sale of Aviation Turbine Fuel (ATF), entered into an agreement with M/s. Modiluft (buyer) for supply of ATF whereby the buyer was to furnish a bank guarantee equivalent to the value of the fuel to be lifted, during the period of presentation of invoice by the Company and payment by the buyer. The Company was to present bills to the buyer on weekly basis for payment. Though the buyer failed to furnish the required bank guarantee and was also irregular in the settlement of the invoices, the Company continued to supply ATF on credit basis without ensuring that it received its past dues in full. As on 1 November 1996, when the buyer stopped its operation, an amount of Rs.7.84 crore was outstanding. For recovery of its dues, the Company, on 31 July 1997, filed a winding up petition in the Delhi High Court. However, in the accounts for the year 1999-2000, the Company had already provided the amount as doubtful debt.

The Management stated (February 2000) that ATF was supplied on credit to protect the market share of the Company and that it had not taken the bank guarantee as per the practice followed by other PSUs.

The contention of the Management is not tenable because there was no justification for enhancing credit sale of ATF when even the recovery of outstanding sale proceeds was clearly at stake. Further, recovery action reportedly initiated by the Company by filing a criminal suit for dishonour of cheques, had yielded no results so far (October 2000).

The matter was referred to the Ministry in August 1999; their reply was awaited (October 2000).

17.2.2 Undue benefit to a private party

Due to delay in revision of prices as effected by the Ministry, BPCL lost Rs. 3.51 crore to a private party by undercharging for its product

In terms of the agreement of May 1990 between Bharat Petroleum Corporation Limited (BPCL) and Reliance Industries Limited (RIL), the former was to supply Naphtha (110/140° cut) to the latter at a price as fixed by the Ministry of Petroleum & Natural Gas from time to time. RIL was to use Naphtha as feed stock for the manufacture of petrochemicals.

The Ministry increased the prices of Naphtha alongwith the prices of different petroleum products, with effect from 16 September 1992. The price increase was Rs. 1660.56 per tonne for Naphtha for use in other than manufacture of fertiliser. BPCL, however, implemented the price increase by Rs. 997.10 per tonne only (revision as applicable in respect of free trade products) as against Rs.1660.56 per tonne for Naphtha till 27 November 1992 on the ground that they were supplying Special cut Naphtha (SCN) which was a free trade product. The balance increase of Rs. 663.46 per tonne for Naphtha was implemented from 27 November 1992. The delay in giving effect to the price revision resulted in loss of revenue of Rs. 3.51 crore on 52920 tonnes of Naphtha supplied to RIL between 16 September 1992 and 26 November 1992.

The Management stated (May 1998) that the price of Naphtha was controlled by the Ministry whereas SCN supplied by it to the private party was a free trade product. Further the Ministry's message in respect of price increase of Naphtha was ambiguous as such clarification was obtained from the Oil Co-ordination Committee (OCC) before implementing the price revision prospectively.

The reply of the Management is not tenable because:

(i) the prices of the SCN was to be determined in terms of the agreement *ibid* which clearly stipulated that the price would be as fixed by the Ministry plus additional cost of extracting the Naphtha of 110/140° cut (Naphtha condensed in the distillation column of the refinery within temperature range of 110° to 140° C out of a wider range). Also the Ministry's telex clearly indicated increase in price of Naphtha by Rs. 1660.56 in case of use other than manufacture of fertiliser;

(ii) even if BPCL felt that the instructions were ambiguous it should have recovered the differential amount after obtaining the necessary clarification from the OCC/Ministry. In fact the OCC clarification dated 19 November 1992 had confirmed that the price increase of Rs. 1660.56 was applicable from 16 September 1992; and

(iii) the Company later had also confirmed in December 1994 to the buyer that the price increase was to be implemented from 16 September 1992.

Thus, the Company had extended undue financial benefit to RIL by undercharging for its product.

The matter was referred to the Ministry in September 1999; their reply was awaited (October 2000).

Bongaigaon Refinery & Petrochemicals Limited

17.3.1 Loss due to injudicious procurement

Procurement of optical whitener without properly assessing its usability resulted in loss of Rs.1.05 crore.

With the object of making polyester staple fibre (PSF) more white, the Company started (1990-91) the use of optical whitener @ 0.08 Kg per MT of PSF. The production of PSF during 1991-92 was 10397 MT. The Company placed (January 1992) a purchase order on Indian Polyfibres Limited for 866.78 kg. of optical whitener at a cost of Rs.51.54 lakh even though its usability and effect on PSF was not yet fully assessed. The procurement of 866.78 kg. in the last quarter of 1992 was almost equivalent to the expected total requirement for the next year i.e. 1992-93 but the Company placed (May 1992) another purchase order for 1800 kg. valuing Rs.1.06 crore on Orissa Synthetics Limited on the ground that the material was available indigenously at a cheaper rate.

Observing colour problem in PSF after the use of optical whitener, the consumption of optical whitener was gradually reduced from 0.08 kg. per MT of PSF in 1990-91 to 0.0588 kg./MT in 1991-92 and again to 0.0462 kg./MT in 1992-93. In November 1993, the Company decided to discontinue the use of optical whitener altogether due to persistence of colour problem in the fibre. Since then a quantity of 1783.48 kg of optical whitener, valuing Rs.1.05 crore was lying unused in stores.

The Management stated (June 2000) that, as the material was available at a much lower price as compared to imported material, they felt it would be prudent to keep a stock of it. It was added that the problem in marketing of PSF because of the use of optical whitener came to light well after completion of procurement. The Management, however, stated that there was no shelf life of the material, as confirmed by the sole manufacturer and that effort were being made to dispose off the material to other fibre manufacturers.

The Management's reply is not tenable because it was not judicious to keep an excessive stock of the material when its usability was not fully assured. Further, the user department had observed that useful life of the optical whitener lying in stock was over and the value of the material was already reduced by Rs.62.08 lakh in the books of accounts.

Thus, the injudicious decision on the part of the Management to procure optical whitener in excess of requirement resulted in loss of Rs.1.05 crore.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

Hindustan Petroleum Corporation Limited

17.4.1 Loss due to non recovery of excise duty

Non recovery of excise duty paid on the supply of Natural Gas Liquid to Krishak Bharati Co-operative Limited resulted in loss of Rs. 5.83 crore

Ministry of Petroleum & Natural Gas in May 1993 approved supply of 2 lakh tonnes of Natural Gas Liquid (NGL) per annum by Hindustan Petroleum Corporation Limited (HPCL) to the urea complex at Hazira of Krishak Bharati Co-operative Limited (KRIBHCO), a co-operative society under the Ministry of Chemicals and Fertilizers. Accordingly, in October 1993, HPCL entered into an agreement with KRIBHCO, for the supply of NGL produced by ONGC, *inter alia,* on the following terms:

(i) prices to be charged would be exclusive of excise/customs duty and all other taxes, levies and cess, etc., would be recovered by HPCL at the actual rates prevailing and levied by the concerned authorities;

(ii) the product shall not be used for any purpose other than for the manufacture of fertilizers; and

(iii) HPCL shall send KRIBHCO a statement of account and KRIBHCO/ HPCL agreed to settle the outstanding amount, if any, within 30 days of the receipt of the statement. In the event of any dispute between the two parties relating to the various terms and conditions set forth in the contract, the parties agreed to refer the dispute to the arbitrator appointed by mutual consent.

HPCL obtained NGL from ONGC and supplied it to KRIBHCO by charging the concessional price applicable to fertilizer manufactures. ONGC was paying the excise duty on clearance of NGL, which was ultimately to be recovered from KRIBHCO by HPCL. The Ministry of Petroleum and Natural Gas directed HPCL in November 1994 to charge normal price from KRIBHCO instead of concessional price for supplies of NGL since NGL was being used by KRIBHCO as fuel and not as feed stock for the manufacture of fertilizers. Subsequently, in December 1994, Central Excise Department also withdrew the concessional excise tariff and advised ONGC to stop clearance of NGL to KRIBHCO at concessional excise tariff. Accordingly, ONGC had to pay full excise duty at 10 per cent *ad valorem* with effect from 6 December 1994 and they also advised HPCL to recover the same from KRIBHCO as per the terms of the agreement ibid. However, KRIBHCO continued to reimburse HPCL on the basis of concessional rates stating (January 1995) that the matter was under active consideration of the Department of Fertilizers (DOF) and Ministry of Petroleum and Natural Gas and that DOF had advised them to continue payments at the pre-revised rates pending directions from the Ministry of Petroleum and Natural Gas.

The Central Excise Department did not restore the concessional rate of duty till 15 November 1995. KRIBHCO paid only Rs.3.69 crore out of a total duty differential of Rs.9.52 crore for the period from 6 December 1994 to 14 November 1995 and the balance of the excise duty (including the consequent sales tax) differential amounting to Rs.5.83 crore has not been paid to the HPCL so far (July 2000).

The Management stated (August 1998) that they billed KRIBHCO at full rates as per the instructions of the Ministry and though KRIBHCO had failed to honour the commitment to pay normal excise duty, supplies to them were continued on the directives of the respective Ministries as it was a major fertilizer plant in the co-operative sector. The Management further stated that they had taken up the matter with the Ministry.

The reply of the Management is not tenable because supply of NGL to KRIBHCO at concessional rate of duty was subject to the condition that it should be used only in the manufacture of fertilizer and when this condition was violated it was open to HPCL to rescind the contract and stop supply from November 1994. As per the agreement, excise duty was recoverable by HPCL from KRIBHCO at the actual rates prevailing and levied by the Excise Department. The Management's failure to enforce the remedies available under the contract ibid for settlement of account resulted in extending undue benefit to KRIBHCO and non recovery of outstanding excise duty and sales tax amounting to Rs.5.83 crore.

The matter was referred to the Ministry in August 1999; their reply was awaited (October 2000).

17.4.2 Loss on supply of aviation turbine fuel to private airlines

The Company suffered loss of Rs.1.48 crore by business practices that violated its own internal rules and procedures.

The Company follows a cash and carry system for sale of most of its products. The terms of payment in respect of Aviation Turbine Fuel (ATF) being supplied to foreign airlines and private parties envisage that each party would furnish a bank guarantee to cover value for 7 days off take. Chief General Manager (Sales) of the Company is empowered to extend credit upto Rs.5 lakh or 3 day's off take, whichever being lower, even before an agreement is signed and a bank guarantee received. For any relaxation for credit sale beyond this level, approval of the Director (Marketing) and the Director (Finance) is required. Despite such prohibitive provisions the Management of the Company extended credit facilities to two Airlines and suffered loss of Rs.1.48 crore as indicated below:

(i) Fuel was supplied to M/s. Tajikistan International Airlines (TIA) from 12 February 1995 without obtaining any bank guarantee. Though no payment was received from TIA, the Company continued to supply ATF raising the outstanding amount to Rs.47.80 lakh in October 1995.Though only a meagre sum of Rs.1.53 lakh was received from TIA, supply of ATF was not stopped and the outstanding amount allowed to further increase to Rs.50.98 lakh in the next two months i.e. November/December1995. After receipt of 5 post-dated cheques for an aggregate

sum of Rs.18.81 lakh and an unenforceable undertaking to furnish a bank guarantee of Rs.35 lakh on 12 December 1995, the Company supplied ATF on 12 December 1995 to TIA which enabled its aircraft to fly out of India. Consequently, Rs.52.66 lakh remained unrecovered from the TIA. In reply, the Management stated that the Company had already provided for this amount in the accounts of the Company as bad debts.

ii) Fuel worth Rs.95.10 lakh was supplied to M/s. Modiluft Limited without entering into any agreement and without obtaining any bank guarantee. The approval of the Director (Marketing) and the Director (Finance) as required under the rules was also not obtained for making credit sales at such liberal terms. Consequently, the Company could not recover Rs.95.10 lakh from M/s. Modiluft Limited as of 1 November 1996 when it stopped the operations in India.

Thus, the Company suffered loss of Rs.1.48 crore by business practices that violated its own internal rules and procedures.

The matter was referred to the Ministry in August 1999 and April 2000; their reply was awaited (October 2000).

17.4.3 Excess payment of transport charges

The Company sustained a loss of Rs.79 lakh by way of excess transportation cost due to non-verification of actual distance covered in transportation for out of zone stock transfers.

The Road Construction Department of the Government of Bihar used to purchase bitumen from the Oil Companies. As per the industry practice, the requirement of customer falling within the Barauni Pricing Zone was met by stock transfer by road from Haldia to Barauni, as bitumen was not available at Barauni for onward delivery to customers at ex-Barauni price. The transportation cost of such stock transfer was reimbursable by the Oil Co-ordination Committee (OCC).

For the purpose of re-imbursement the container carrying the product was first to physically report at Barauni terminal of the Company and then the product was to be despatched to ultimate consignees in that zone. However, without verifying actual reporting of the products at Barauni terminal and the actual distance covered in transportation, the transporters were paid by the Company presuming that the trucks first reached the Barauni terminals and were thereafter sent to the consignees.

It was observed that some transporters took advantage of this systems deficiency as the Ministry of Petroleum and Natural Gas informed (September 1996) the Company that there were a number of instances where products had not reached the intended destination i.e. Barauni terminal. Instead the same were diverted and delivered short of destination directly to consignees. However, the transporters were paid for the full distance from Haldia to the ultimate consignee's destination via Barauni. Failure to institute a system of physical reporting of trucks at the Barauni terminal and consequent non-verification of actual distance covered led to an excess payment of Rs.1.45 crore to 15 transporters

during the period from November 1993 to July 1996. Against this excess payment (Rs.1.45 crore) the Company could withhold only a sum of Rs.66 lakh from the security deposit and subsequent transportation bills of the transporters. The Company stopped sending bitumen from Haldia to Barauni on stock transfer basis after July 1996 and the products were being sold ex-Haldia only.

Thus, due to inadequate safeguards and non-verification of actual distance covered for out of zone stock transfers, the Company sustained a loss of Rs.79 lakh (Rs.1.45 crore – Rs.66 lakh) towards excess payment of transportation cost.

While accepting the above facts the Management stated (March 2000) that for recovery of the balance dues from the transporters the Company had referred the matter to Arbitration the result of which was awaited. However, it was observed that no responsibility had been fixed by the Management for the irregularity.

The matter was referred to the Ministry in March 2000; their reply was awaited (October 2000).

IBP Co. Limited

17.5.1 Avoidable payment of income-tax

The Company's failure to finalise annual accounts and hold AGM in time and consequent delay in distribution of dividend led to an avoidable payment of Rs.2.41 crore towards income-tax.

In its Annual General Meeting (AGM) held on 15 December 1995, the Company declared dividend for the financial year 1994-95 (relating to Assessment year 1995-96) @ Rs.3.20 per share amounting to Rs.4.36 crore on 1,47,60,017 equity shares. The dividend was paid to the shareholders on 4 January 1996.

Under Section 80-M of the Income Tax Act 1961, the dividend of Rs.4.36 crore paid by the Company to its shareholders was deductible from income of Rs.14.97 crore received by it as dividend from various domestic companies and Unit Trust of India. However, for claiming the deduction under Section 80-M, the Company was required to distribute the dividend to its shareholders on or before due date of filing income-tax return which was 30 November 1995 for the assessment year 1995-96.

The Company did not distribute the dividend by 30 November 1995, yet in the income-tax return filed (26 April 1996) for the assessment year 1995-96 it claimed a deduction of Rs.4.36 crore under Section 80-M of the Income Tax Act. The claim for deduction was denied (March 1998) by the assessing officer on the ground that the Company had not distributed the dividend by the due date of filing of income-tax return. An appeal was filed by the Company subsequently (May 1998) before the Commissioner of Income Tax who also denied (July 1998) the deduction so claimed. As a result, the Company had to pay an amount of Rs. 2.41 crore as income-tax.

The dividend could not be distributed before 30 November 1995 because the Company failed to hold the AGM for approval of its annual accounts and the dividend for the year 1994-95 by the statutory date of 30 September 1995. The AGM was held on 15 December 1995 after obtaining (8 September 1995) the permission of the Central Government. While seeking extension of time for holding of the AGM, the reasons for delay in holding the AGM as submitted by the Management to the Government were: (i) the delay in consolidation of accounts of respective Business Groups of the Company spread throughout the country, (ii) delay due to two-tier audit system i.e. Statutory Audit and Government Audit and (iii) the sudden demise of the then Director (Finance).

While admitting the above facts the Management stated (March 2000) that in view of the aforesaid special circumstances there was no alternative but to seek extension of time for holding of AGM. The Management's above contention is not acceptable because (i) it was a regular activity of the Company to finalise the annual accounts in time and hold the AGM by 30 September 1995 and any delay in this process was purely an administrative lapse, (ii) the existence of two-tier audit system is universal for all Government Companies and not a special requirement for the Company and (iii) a single unfortunate event involving one individual ought not to have derailed the normal business/administrative activities of the Company, particularly when the incidence occurred (July 1995) more than two months before the scheduled date (30 September 1995) for holding of the AGM.

Thus, the delay in finalisation of annual accounts and holding the AGM of the Company and consequent delay in distribution of dividend led to an avoidable payment of income-tax amounting to Rs.2.41 crore.

The matter was referred to the Ministry in May 2000; their reply was awaited (October 2000).

Indian Oil Corporation Limited

17.6.1 Blocking of funds due to import of crude oil earlier than its requirement

Import of 283967 MT of crude oil valuing Rs.199.02 crore for the Company's Panipat Refinery earlier than its requirement resulted in purchase being effected at higher price leading to loss of Rs.97.84 crore and loss of interest of Rs.3.57 crore on blocked funds.

The Company imported 283967 MT of crude oil valuing Rs.199.02 crore for its Panipat Refinery (Refinery) which was received in the first week of December 1997, whereas the crude oil was required in May 1998 for testing of crude distillation unit (CDU). Thus, different shipments of crude oil were received 162 to 175 days earlier than required. Had the oil been imported in March 1998 when a lead time of more than 45 days would have been available, the Company could have saved Rs.97.84 crore due to reduction in the prices of crude oil in March 1998. Also, funds amounting to Rs.199.02 crore, thus,

remained blocked for 152 to 156 days resulting in loss of interest of Rs.3.57 crore between December 1997 and March 1998.

The Management replied (November 1999) that the target for commissioning of the CDU was February 1997 and delay in commissioning of CDU beyond that month could not be anticipated in November 1997. It further stated (June 2000) that lead time required was 145 days for various activities leading to receipt of crude oil in the refinery. Moreover, it also stated that the established practice in the Company was to commission the refinery in winter only.

The reply of the Management is not tenable because even when it was mentioned in the Physical Progress Report of 31 March 1998 that all equipment for CDU had been installed by that date, the Management was still able to commission the unit only 43 days later i.e. on 13 May 1998. Hence, the expectation in September 1997 (when it was decided to place an order for the purchase of crude oil) that CDU would be ready by February 1998 was unrealistic because at that stage some of the equipment had not even been installed. Further, the lead time of 145 days indicated by the Company is also incorrect because the crude oil ordered as late as 23 October 1997 was received in the first week of December 1998 at refinery. Moreover, the refinery was commissioned in summer. Thus, with proper monitoring import of crude oil earlier than its requirement was clearly avoidable and resulted in the loss of Rs.101.41 crore.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

17.6.2 Infructuous expenditure on Microbial De-sulphurisation Process Plant in Mathura Refinery

For controlling air pollution from Mathura Refinery which was considered to be detrimental to Taj Mahal and had become subject matter of public interest writ in Supreme Court of India, the Company opted for an unproven indigenous technology. The technology, which was upgraded directly from laboratory to commercial scale without first testing it in a pilot plant, failed to deliver expected results. In consequence of this, the expenditure of Rs.12.54 crore became infructuous.

In response to a public interest litigation filed for control of air pollution around Taj Mahal, the Supreme Court of India (SCI) directed the National Environment Engineering Research Institute (NEERI) to investigate and recommend the feasible technologies for the purpose. NEERI in October 1993 recommended, *inter alia,* adoption of the Chemo-biochemical Process for treatment of 'tail gas' emitted by Sulphur Recovery Unit (SRU) of the refinery. In compliance with the SCI directions for implementing recommendation of NEERI, the Company informed it in August 1996 that it proposed to use a process already developed by NEERI at lab stage. The fact that proven alternative processes were available abroad was neither brought to the notice of its Board of Directors nor to the SCI by the Company. After the SCI accepted the proposal of the Company, NEERI was awarded (March 1997) a contract for supply, fabrication, installation, testing and

commissioning of Microbial De-sulphurisation Process Plant for Rs.13.20 crore. In awarding the project to NEERI, the Company deviated from its own procedure and accepted the procedure of the NEERI under which it was not expected to provide any performance guarantee/ indemnity bond for success of the process. Instead, the Company accepted bond for 10 per cent value of the contract. NEERI established the plant by June 1998. The plant, however, failed to produce the desired results. This was attributed to the condensing of sulphur mist in the inlet gas on the fins of heat exchanger to such an extent that it resulted in abnormal pressure drop in the heat exchanger. NEERI refused to accept any responsibility for the failure of the process on the plea that the Company had not informed it about the existence of sulphur mist in the 'tail gas' emitted by the SRU. However, this statement was not tenable in view of the fact that not only had a sample of the 'tail gas' been collected and tested by NEERI but also the possibility of sulphur mist existing in the gas had been specifically brought to their notice by the Company. Resultant dispute could be resolved only by awarding to NEERI a second contract for removal of sulphur mist from 'tail gas' in a new plant to be set up at a cost of Rs.97 lakh. However, since NEERI had also been in a dispute with its sub-contractor, the second contract also had not been implemented since March 1999.

Thus, by adopting an unproven technology without testing it at pilot stage, the Company failed not only to install the process successfully but also in complying with the directions of the SCI. Total expenditure of Rs.12.54 crore incurred so far (October 2000) for the purpose has remained unfructified.

The Management stated (July 1999) that the project was undertaken in accordance with the guidelines of the SCI and for encouraging the indigenous technology developed by NEERI on an experimental basis. It was further stated that in view of the possibility of sulphur mist carrying over in the 'tail gas' having been brought to the notice of the NEERI, the latter should have taken due care of the same in designing the plant.

The reply of the Management is not acceptable as the SCI had not directed it to award the work to NEERI but merely accepted the proposal put forward by the the Company itself. Further, it was far more important to reduce pollution around Taj Mahal. Hence, priority given to development of the indigenous technology was misplaced. Moreover, award of work to NEERI can not be termed as the development of indigenous technology as the project was conceived, funded and awarded purely on commercial terms. This is also corroborated by the fact that a Centre for High Technology which sponsors developmental work beneficial for the Oil Industry, had refused to fund the project.

The matter was referred to the Ministry in April 2000; their reply was awaited (October 2000).

17.6.3 Loss on supply of aviation turbine fuel to a private airline

The Company suffered a loss of Rs.9.41 crore on account of extension of credit facilities to a private airline in violation of the terms and conditions of the agreement.

In line with its corporate policy of not extending credit to any party the Company on 9 April 1993 entered into an agreement with M/s. Modiluft (buyer) for supply of Aviation Turbine Fuel (ATF) whereby the buyer was to furnish a bank guarantee equivalent to the value of 25 per cent of the total monthly consumption of ATF and to make weekly payment of invoices immediately on submission.

Though the buyer failed to furnish the required bank guarantee and was also irregular in the settlement of the invoices right from May 1993 the Company continued to supply ATF on credit basis without ensuring that it received its past dues in full. As a result by June 1996 amount outstanding from the buyer increased progressively to Rs. 10.72 crore. Even after the buyer was put on "cash and carry" system with effect from 21 August 1996, the outstanding amount instead of going down increased further to Rs.11.89 crore upto 1 November 1996 when the buyer altogether stopped its operation. After adjustments of pledged documents of Rs.2 crore which the Company had obtained to safeguard its interest an amount of Rs.9.41 crore remained outstanding as on 31 March 1999. The Company has already provided for this amount in their books of accounts as a bad debt.

The Management stated (June 1999) that ATF was supplied on credit to protect the market share of the Company and that it had at the same time, taken appropriate action for securing the credit to the extent possible.

The contention of the Management is not tenable because there was no justification for increasing sale of ATF on credit when recovery of sale proceeds was clearly at stake. Further, recovery action reportedly initiated by the Company did not have any impact as outstanding dues increased from Rs.5.96 crore in September 1995 to Rs.11.32 crore in September 1996.

The matter was referred to the Ministry in August 1999; their reply was awaited (October 2000).

17.6.4 Avoidable loss on transportation

Failure of the Company to realise actual transportation charges from NLC resulted in avoidable loss of Rs.2.42 crore.

The Low Sulphur Heavy Stock (LSHS) requirement of Neyveli Lignite Corporation Limited (NLC) was met since December 1982 by Southern Region of Indian Oil Corporation (IOC-SR) which had arranged with Chennai Petroleum Corporation Limited (CPCL) at Chennai and its Cauvery Basin Distillation Unit at Narimanam for supply of the same to NLC. Freight charges were first paid by IOC and then reimbursed by NLC, based on ex-Chennai/Narimanam freight which was fixed at Rs. 255 per MT. After April 1995, the demand of LSHS for NLC was met by IOC-SR from Kochi Refineries Limited, Kochi (KRL) which necessitated the delivery of the material by road on which transportation cost incurred was Rs.689 per MT as against the ex- Chennai/ Narimanam freight of Rs.255 per MT. IOC-SR lodged a claim regarding reimbursement of additional freight incurred only in December 1996. The Company, thus, lost Rs.2.42 crore on

account of additional transportation charges incurred during the period from April 1995 to June 1996 which was not reimbursed by NLC.

The Company in its reply (July 1999) admitted that it had absorbed the expenditure of additional road transportation cost and provided for the same as doubtful debt in its accounts for the year 1997-98, though the matter was being pursued (March 1999) with the Fertiliser Industry Coordination Committee (FICC)* for reimbursement. The Ministry in its reply (October 1999) endorsed the views of the Company.

The reply is not tenable as IOC-SR *ab initio* had not fixed the freight from the actual point of supply and it had also failed to take up the matter with NLC at the time of supply from KRL. The claim lodged with NLC/FICC for recovery was also doubtful as NLC had already finalised its fertiliser pool account adjustment with FICC for the relevant period for cost of inputs based on ex Chennai rate for transportation of LSHS.

17.6.5 Failure to avail of MODVAT benefit

The Company failed to avail of MODVAT benefit of Rs.1.24 crore due to delay/non-filing of statutory declarations with the excise authorities.

During the period between March 1994 and February 1995, the Company received capital goods for erection of its captive power plant at Digboi Refinery in Assam. Under a Modified Value Added Tax (MODVAT) scheme, the central excise duty paid on capital goods could be adjusted against the excise duty payable on the final products. For availing of the MODVAT credit, the purchaser of capital goods was required to file a declaration with the excise authorities indicating the particulars of capital goods, gate pass/bill of entry, description of final products etc. The declaration was required to be filed within one month of receipt of capital goods or such further period as may be allowed for a maximum period of another two months.

Although the Company began receiving the capital goods from March 1994, it was only in June 1994 that it applied to the excise authorities for requisite declaration format. The Company could collect the format only in September 1994 and it took another two months to file (December 1994) the declaration with the excise authorities in respect of 155 items of capital goods. The excise authorities rejected (January 1995) the MODVAT claim of the Company to the extent of Rs.58.76 lakh, in respect of 114 items which were received prior to 4 September 1994, on the ground that the delay in filing the declaration beyond a maximum allowable period of three months was not condonable. It was further observed that the Company did not file the declaration at all in respect of 56 items of capital goods involving an excise duty of Rs.65.03 lakh. Thus, the Company failed to avail of the MODVAT benefit of Rs.1.24 crore due to delay in filling of declaration in respect of 114 items (Rs.58.76 lakh) and non-filling of the declaration in respect of 56 items (Rs.65.03 lakh).

The Management stated (July 2000) that the MODVAT scheme was extended to the petroleum sector with effect from 1 March 1994 and it took some time to give effect to

As the product was used by NLC for production of fertilisers, it was getting subsidy for this from the FICC as the product was under the Administrative Pricing Mechanism.

the requirements of MODVAT rules and related notifications. Regarding non-availing of MODVAT benefit in respect of 56 items, the Management contended that as the contractor (BHEL) did not provide the required excise documents, the Company could not file the requisite declaration.

The Management's reply is not acceptable because the delay in familiarising with the changing legal enactment and failure to collect the requisite documents from the contractor pointed to a serious defect in internal control systems of the Company which needed to be addressed urgently in order to avoid recurrence of such loss.

The matter was referred to the Ministry in July 2000; their reply was awaited (October 2000).

17.6.6 Non-recovery of overdue interest from customers

Due to delay in introducing a system of receipt of local cheques/demand drafts from customers as per advice of State Bank of India, the Company suffered a loss of Rs. 65.24 lakh towards overdue interest charged by the bank for delay in clearance of the outstation cheques/demand drafts beyond stipulated period.

As per memorandum of terms and conditions (MOT-1987) with State Bank of India (SBI), the Company used to get instant credit to its collection account for all outstation cheques/demand drafts deposited into the bank. SBI, Ranchi was facing inordinate delays (2-3 months) in clearance of demand drafts/cheques drawn on Punjab National Bank, Bachra and Bank of India, Rajarappa. Pointing out some specific cases relating to the period from October 1990 to November 1991, the bank advised (May 1992 & March 1993) the Company that customers should be asked to tender cheques/demand drafts drawn either on any of its (SBI's) branches or in the case of other Nationalised Banks on Ranchi branch only. SBI also cautioned that overdue interest would be charged to the collection account of the Company for delay in clearance of such cheques/demand drafts. However, the Management did not ask its customers to tender cheques/ demand drafts as per the advice of SBI.

In January 1993, SBI informed the Company that overdue interest would be charged in case of delay in clearance of cheques/demand drafts beyond 7 days from the date of deposit of cheques (later changed to 13 days with effect from January 1994). Accordingly, SBI debited (September 1994 to March 1996) the Company's collection account by an amount of Rs.71.96 lakh on account of overdue interest relating to the period from January 1993 to January 1996. The Company could recover only an amount of Rs.6.72 lakh from the customers till date (April 2000).

Thus, due to delay on the part of the Management in introducing the system of receipt of cheques on any branch of SBI or only local cheques/demand drafts from customers immediately after advice of SBI in May 1992/January 1993, the Company suffered a loss of Rs.65.24 lakh (Rs.71.96 lakh minus Rs.6.72 lakh) towards the overdue interest charged by the bank and non-recovery of the same from customers.

The matter was referred to the Ministry in February 2000; their reply was awaited (October 2000).

Kochi Refineries Limited

17.7.1 Avoidable expenditure due to abandonment of project

Lapse on the part of the Company in procuring material for laying crude pipeline and allowing consultants to do other items of work without obtaining approval from the statutory and local bodies resulted in an avoidable expenditure of Rs.4.63 crore on denial of permission by the authorities.

In order to cope with the increased refining capacity of 7.5 MMTPA* commissioned in December 1994, Kochi Refineries Limited (KRL) decided (September 1995) to replace the existing 30" crude oil pipeline (crossing the Ernakulam City) by 40" pipeline at an estimated cost of Rs.73.68 crore, so as to increase the pumping rate for adequate discharge of crude from Cochin oil terminal. The consultancy contract for the project was awarded (April 1996) to Projects and Development India Limited (PDIL) at a lumpsum fee of Rs.3.86 crore. Scheduled date of completion of the work was September 1998. The consultants' scope of the work included obtaining statutory clearances among others items of work.

KRL approached (December 1996) Greater Kochi Development Authority (GCDA) and Corporation of Kochi (CoK) through PDIL for routing the pipeline along the Corporation roads which was not allowed by CoK (March 1997) However, GCDA suggested an alternate route. This was not acceptable to KRL due to technical and economic reasons and it suggested two alternate routes. This was acceptable to GCDA provided KRL rendered financial assistance of Rs.10 crore in developing a main road in the city and allowed light vehicular traffic along the pipeline corridor. KRL, however, decided to drop the project (April 1998). By the time, Company decided to drop the project and short close the contract with PDIL after negotiations, following untimely and early decisions of KRL, resulted in avoidable loss of Rs.4.63 crore as detailed below:

(i) without obtaining the statutory permissions, for which action was initiated belatedly in December 1996, PDIL proceeded ahead and did other items of work of the consultancy contract to the extent of Rs.1.92 crore;

(ii) after abandonment of the project (April 1998), PDIL claimed Rs.60 lakh as compensation towards foreclosure of the contract against which KRL agreed for Rs.40 lakh and total expenditure on consultancy amounted to Rs.2.32 crore (Rs.1.92 crore+Rs.40 lakh);

(iii) KRL imported (June/August 1997) crude transportation pipes at a cost of Rs.19.08 crore for which orders were placed in December 1996.

KRL stated (November 1999) that no objection from GCDA was anticipated and approval was normally a parallel activity with implementation. It was further stated that services rendered by PDIL would be put to use and pipes procured for the project were being used in "stand alone water supply scheme (SWSS)" project.

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* ***Million Metric Tonnes per annum***

The reply of the Company is not tenable as prior approvals/clearance should have been obtained from the concerned authorities (CoK/ GCDA) before going ahead with other project activities for project of this magnitude, which involved lying of pipeline by cutting across the city. Failure of the Company in this regard has resulted in avoidable expenditure of Rs.2.32 crore towards project consultancy. As regards the use of imported pipes meant for transportation of crude, the SWSS project in fact required pipes of different quality available indigenously and were estimated to cost of Rs.16.77 crore only as against the cost of Rs.19.08 crore. This has resulted in extra expenditure of Rs.2.31 crore.

Thus, the Company incurred avoidable expenditure of Rs.4.63* crore by proceeding ahead with project activities and purchases relating to the project for which clearances from the authorities concerned were not received.

The matter was referred to the Ministry in May 2000; their reply was awaited (October 2000).

Oil and Natural Gas Corporation Limited

17.8.1 Avoidable expenditure due to creation of excess capacity

ONGC incurred avoidable expenditure to the tune of Rs.26.10 crore by installing pipeline of capacity higher than what was necessary, ignoring its own estimates and also against the advice of their consultant. The pipelines subsequently remained grossly under-utilised due to non availability of sufficient quantity of gas.

ONGC had to flare nearly 1/3 of 'associated gas' produced at Bombay Offshore due to inadequate processing and transportation facilities. The gas flaring reached the level of 12 Metric Million Standard Cubic Meter per day (MMSCMD) valued at approximately Rs. 1.68 crore by 1989-90, during which year ONGC produced 26.83 MMSCMD of associated gas from Bombay High. With the objective of saving of additional gas flaring, ONGC proposed (August 1990) SHG – BPB pipeline with a capacity to carry 15 MMSCMD of associated gas. Feasibility Report prepared (August 1990) by ONGC had estimated the maximum availability of associated gas at SHG complex for compression and transportation through that pipeline at 13.074 MMSCMD by 1993. The proposal of ONGC was approved in April 1991 by the Government of India with a total estimated cost of Rs. 151.48 crore.

Meanwhile in November 1990, Bombay High Review Committee (BHRC), constituted (April 1990) by the Government of India to review the development and Management of the Bombay High reservoir recommended closure of wells with high Gas-Oil-Ratio (GOR)@ to reduce reservoir voidage#. In view of the lower availability of gas, ONGC's

* *Rs. 2.31 crore on SWSS pipes and expenditure on consultancy of PDIL amounting to Rs.2.32 crore.*

@ ***Gas-Oil-Ratio (GOR) : The ratio of volume of natural gas produced to unit volume of oil.***

\# ***Reservoir Voidage: Uncompensated volume of reservoir fluids (oil + water + gas) produced. Normally, it is compensated either by natural water drive or by injection of water and gas.***

consultant, Engineers India Limited (EIL) had suggested (December 1990) for the 24" pipeline in place of proposed 28" pipeline for transportation upto 12 MMSCMD of gas. Minimum cost saving of US$ 8.7 million (Rs.26.10 crore) was also worked out on this modification.

In the light of BHRC recommendations, ONGC also revised the production profile of Bombay High (September 1991) and estimated the maximum quantity of associated gas availability at Bombay High at 9.72 MMSCMD by 1995-96. BHRC recommendations were approved by the Government in May 1992[@]. However, ignoring the suggestion of the EIL, and disregarding its own revised estimates of 9.72 MMSCMD made in September 1991, ONGC placed (March 1992) Letter of Intent (LOI) for the procurement of 28" pipeline with capacity of 15 MMSCMD (after allowing design margin over the availability of 13.074 MMSCMD as per its earlier estimates of August 1990). The project was finally commissioned in April 1994 at a total cost of Rs. 197.44 crore.

The pipelines laid down for transporting of 15 MMSCMD gas, however, remained grossly under-utilised due to non-availability of sufficient gas, as can be seen from the details given below:

Year	Gas transported (MMSCMD)	Capacity utilisation
1995-96	1.76	12%
1996-97	1.17	8%
1997-98	0.16	1%
1998-99	0.45	3%
1999-2000	0.53	3.5%

Had ONGC accepted the advice of EIL for 24" pipeline instead of 28" pipeline, and went by its own estimates of 9.72 MMSCMD, it could have avoided extra expenditure of US$ 8.7 million equivalent of Rs. 26.1 crore (@1US$ = Rs.30.00) on creation of excess capacity.

The Ministry stated (November 1999) that any change in the size of the pipeline would have resulted in delay in tendering process which also involved construction of well platforms and other facilities. The Ministry's reply is not tenable because EIL's advice was given in December 1990 whereas the sale bid documents were opened between March and May 1991. Thus, ONGC had adequate time to scale down the designed requirement in view of substantial cost saving suggested by EIL.

[@] ***ONGC closed down 29 high GOR wells in May 1992, bringing down the annual production to 19.6 MMSCMD from 25.6 MMSCMD in 1990-91. Subsequently some more wells (53 in 1992-93 and 27 in 1993-94) were also closes down bringing down the production of gas to 13.3 MMSCMD in 1992-93 and further to 10.8 in 1993-94.***

17.8.2 Loss in idling of rig due to lack of perspective planning

Lack of perspective planning in creating the required infrastructure for deployment of a drilling rig resulted in its idling for 268 days at a cost of Rs. 4.02 crore at Tripura Project of ONGC between October 1995 and June 1997.

For exploration and exploitation of mineral oil and natural gas, drilling rig is essential and its optimum utilisation is necessary for enhancing the profitability of operations. ONGC has estimated the cost of an idle rig at Rs.1.50 lakh per day. Deployment of a rig, for which detailed plans are prepared indicating the time required for shifting to a new location, drilling and lay-off for repairs etc., must be preceded by preparatory work like site acquisition, site preparation and the associated civil works. Also, before shifting a rig, advance action is required for construction of approach roads for its movement.

Audit scrutiny of deployment of rig (A-1320/UE-2) by Tripura Project of ONGC between October 1995 to June 1997 revealed that inspite of a deployment plan for the rig approved by Director (Drilling), complementary plans for allied works, like site acquisition, civil works and approach roads, were not prepared. Lack of complementary plans for allied works resulted in time overruns of civil works causing idling of the rig for 268 days, at an estimated cost of Rs. 4.02 crore, as discussed below:

(i) after completing drilling at location 'ROAE', ONGC released the rig for drilling at location 'ADAD' on 26 September 1995. Though dismantling of the rig was completed by 12 October 1995, its shifting to the new site had to be delayed by 86 days till 8 January 1996 as the site at the new location was not ready. ONGC had acquired the land at the site 'ADAD' in September 1995 but delayed its handing over to the civil contractor till 30 October 1995, as earthwork for levelling of site had not been completed. The earthwork was commenced only on 15 December 1995 and the rig was deployed at the new location on 9 January 1996.

(ii) drilling at location 'ADAD' was completed in March 1996 and the rig was released for next location 'ROAF' on 21 April 1996. The rig, however, could not be shifted to the new location, as the drill site was not ready. ONGC had invited tenders for construction of foundations for the rig at the new location in March 1996, opened the tenders on 18 April 1996 and issued work order to a contractor on 29 July 1996. The contractor completed the civil works on 28 October 1996. Meanwhile, transportation of the rig and its assembly at a new site was started from 9 October 1996 and was completed by 17 October 1996. The rig, thus, remained idle at the old site for 73 days from 22 April 1996 to 8 October 1996.

(iii) drilling at location 'ROAF' was completed on 27 February 1997 and the rig was released for new location 'RODA' where drilling had been planned from 15 April 1997. The rig, however, could not be shifted to the new location, as approach road to the site was not ready. ONGC had awarded the work for construction of approach road to a contractor on 3 February 1997 for completion by 8 May 1997. However, against the stipulated date of handing over of the site by 9 February 1997, ONGC handed over the site in phases to the contractor by 10 June 1997 and consequently the civil work was delayed and completed by the contractor on 3 July 1997. The rig was shifted to the location on 17 June 1997. The rig, thus,

remained idle for 109 days from 28 February 1997 to 16 June 1997 due to delay in construction of approach road.

ONGC is in its reply (March 1999) stated that idle rig days were caused due to difficult terrain in the area, problems in land acquisition, law and order problem in the area and non-availability of departmental bulldozer when required. The Ministry further stated (July 1999) that the Project was a victim of circumstances beyond its control and that action has been taken for avoiding idling of the rigs in future.

Replies of ONGC and the Ministry are not tenable because advance plans for allied civil works were not prepared by the Project which led to idling of the rig. Besides, all the cited locations were of category 'B' for which ONGC's internal instructions required better level of preparatory work. Further, the known adverse factors in the area should have prompted the Project Management for advance action to avoid delays in land acquisitior ınd connected civil works, which was the main reason for idle rig days and consequent loss of Rs. 4.02 crore.

17.8.3 Extra expenditure on the purchase of Pour Point Depressant

By ignoring an offer of the firm for supply of 1400 MT Pour Point Depressant at lower rate. ONGC incurred an extra expenditure of Rs. 1.94 crore on the purchase of same quantity from other firms at higher rates.

ONGC invited open tenders on two-bid system in October 1994 for purchase of 8000 MT of Pour Point Depressant (PPD) for use in its Mumbai offshore area. Unpriced bids were opened on 13 December 1994 and the suppliers were shortlisted which included M/s. Dai-Ichi Karkaria Ltd. (DIKL), who had earlier supplied 3500 MT of PPD to ONGC. In April 1995, Tender Committee after assessing the manufacturing capacity of bidders recommended the maximum quantity to be ordered on the seven shortlisted firms. The price bids were opened on 11 July 1995 and four firms, namely M/s. Phonix Alchemy Private limited (L1), M/s. Vishuddha Rasayanee Private Limited (L2), M/s. Thermax Limited (L3) and M/s. Dai-Ichi Karkaria Limited (L4) were finally selected on the basis of their bids.

In August 1995, DIKL, who was one of the bidders, offered to supply around 3000 to 3500 MT of PPD at the old rate of US$ 2562.48 per MT (all inclusive free delivery at ONGC Godown, Nhava). Tender Committee recommended (August 1995) the acceptance of this offer of DIKL and asked other bidders in the instant tender to match this price. However, the Steering Committee decided (October 1995) not to accept the offer of DIKL on the ground that it would tantamount to vitiating the tender process. Accordingly, orders were placed between October 1995 and February 1996 on the first three successful bidders by ignoring the offer of DIKL. The supplies of PPD against these orders were to commence by the end of January 1996 onwards.

Meanwhile, in September 1995, ONGC's Mumbai Region observed that the supply orders to meet its future requirement of PPD were required to be placed immediately in view of

their available stock position. ONGC, therefore, decided (December 1995) to purchase 875 MT of PPD (subsequently increased to 1100 MT) at old rates from DIKL to meet its emergent requirement on nominated basis. DIKL while accepting (December 1995) this offer also expressed their willingness to supply 2000 to 2500 MT of PPD at old rates (US$ 2562.48 per MT). ONGC instead of considering the offer of 2500 MT at cheaper rates placed an order on the firm for the supply of only 1100 MT in March 1996 at Rs. 97562.55 per MT (based on price of US$ 2562.48 per MT with exchange rate frozen on the date of order). Against this the supplies were effected by DIKL in April 1996 (649 MT) and June 1996 (451 MT). Thus, by ignoring an offer of DIKL for the supply of additional quantity of 1400 MT of PPD at lower rates, ONGC incurred an extra expenditure of Rs. 1.94 crore on the purchase of same quantity from other firms at higher rates (Rs. 111441.34 per MT paid to M/s. Phoenix (L1)).

The Management stated (May 1999) that it did not place order for additional quantity of 1400 MT of PPD on DIKL at the earlier rates because procurement of 1100 MT was only considered necessary to tide over an unexpected stock out situation. Moreover, consideration of DIKL's offer would have vitiated the tendering system and the legal opinion was also against it.

Reply of the Management is not tenable on the grounds that PPD is an item of regular consumption in offshore drilling. ONGC should have availed of the full 2500 MT quantity as offered by DIKL at cheaper rates specially when the rates quoted by the selected bidders were substantially higher. The purchase of 2500 MT from DIKL could have also been settled on nominated basis just as the purchase of 1100 MT was made, for which there was no legal hurdle. In addition the tendering process is only a procedure to achieve the larger and final objective of purchasing the required goods of acceptable quality at the least price.

The matter was referred to the Ministry in March 2000; their reply was awaited (October 2000).

17.8.4 Loss due to operation of compressor with gases outside designed parameters

Running of compressor with gas directly obtained from field instead of off-gas released at intermediate stage for which it was designed caused its failure and consequential repair cost amounting to Rs.1.85 crore.

The Ankleshwar Project of ONGC commissioned four Off Gas Compressor (OGC) during March – May 1997 to compress gas released at intermediate stage of separation of water and well fluid in the Crude Stabilisation Unit (CSU) at the Central Processing Facility (CPF) at Gandhar. However, the availability of off gas from intermediate stage of CSU at CPF was adequate for running only two compressors. To run three compressors simultaneously (one compressor being standby) piping was modified by the Operation Department to bring field gas directly and mix it with off gas. The molecular weight of the field gas was, however, lower and not within the working range of OGC. This caused frequent tripping of the compressors and led to seal failure of one Compressor in April 1998. After removing the direct field gas connection, the frequent tripping disappeared.

The Project approached the Original Equipment Manufacturer (OEM) for repairs under warranty. The OEM refused to carry out the repairs on the plea that the damage occurred on account of fluctuating input parameters and not due to any shortcoming on the part of the machine itself. Therefore, ONGC re-commissioned the compressor in July 1998 by cannibalising parts from another compressor damaged accidentally in February 1998 at a cost of Rs. 25.17 lakh. The replacement cost of the cannibalised parts of the other Compressor was estimated (May 2000) by the ONGC at Rs. 1.60 crore.

Thus, due to not running the machine in accordance with the designed conditions and the consequential operational failure of the OGC, ONGC incurred avoidable expenditure of Rs. 1.85 crore.

The Management stated that the Project did not misuse the compressors by using direct gas from the field rather it tried to gainfully utilise the available gas which was otherwise being flared and earned additional revenue of Rs. 1.05 crore.

The Ministry endorsed (October 1999) the reply of the Management.

The reply of the Management/Ministry is not tenable due to the reasons that consequences of using compressors on mixed gas having molecular weight outside the designed range should have been foreseen. Besides for utilisation of excess gas with a view to earn additional revenue a separate project with an appropriate compressor should have been conceived.

17.8.5 Idle Investment

Early Production System created by ONGC in December 1996 at a cost of Rs. 79.83 lakh to enhance the oil production could not be used due to high well pressure and remained largely idle since inception

Crude oil and gas from various wells is gathered at a Group Gathering Station (GGS) for treatment and then sent to a Central Processing Facility (CPF) for further processing/ marketing. If no GGS is available nearby the field, the same can be collected at Early Production System (EPS) before sending it to CPF.

ONGC's Ankleshwar Project was put on production in May 1994. Oil well G-253 producing oil at the rate of 105 M^3 per day was inter connected with flow line (2.38 Km.) of well G-12 to GGS 1. Due to high waxy nature of oil and the G-12 line being old with less diameter, the flow line got choked and well G-253 had to be closed down in August 1994. To tap oil from the well it was again inter-connected in December 1994 with the condensate of nearby well G-30, having an oil production rate of 55 M^3 per day in March 1994. This interconnection led to the back pressure and caused the production from these two wells to fall. In February 1995 the production from well G-253 was 68 M^3 per day only and that of well G-30 was just 33 M^3 per day. Thus, the interconnection resulted decrease in combined oil production from the two wells by 59 M^3 per day.

The project valued this loss of production at Rs. 3.75 crore per annum. A proposal for creating an EPS at well G-253 at an estimated cost of Rs. 82.66 lakh was approved considering that it would not only enhance the production but would also allow individual testing of wells.

ONGC commissioned EPS on 30 December 1996 at a total cost of Rs. 79.83 lakh. Initially EPS was operated upto 3rd week of January 1997 and was utilised to test the well twice in April 1997 and in June 1997. It has not been utilised since then (June 2000).

The Ministry attributed (May1999), the non-operation of EPS to the sustained good pressure of the well G-253, which enable gas and oil to flow through the pipeline connected to CPF, Gandhar.The Ministry further added that EPS would be re-commissioned when the pressure of well G-253 fell to such extent that gas and oil would not flow optimally to CPF Gandhar.

The reply of the Ministry is not tenable because at the time when it was decided (July 1995) to install the EPS the well pressure was 100 kg/cm^2, which was far in excess of the pressure of 30 kg/cm^2 subsequently (April 1999) estimated for sustained flow from the well to the CPF. This aspect was totally ignored while opting for the installation of EPS. In fact according to the project Management (April 1999), the EPS would remain inoperative for some more years till the well head pressure falls to the required level of 30 kg/cm^2.

17.8.6 Loss due to idling of rig

Due to delay in handing over land at drilling location the drilling rig released for the site could not be put on operation for 47 days resulting in an estimated loss of Rs. 70.50 lakh.

Oil and Natural Gas Corporation Limited (ONGC) released the drilling rig E-1400-XIV of its Tripura Project for next location 'ROAD' after completion of drilling at location 'ADAA' on 30 July 1996. The rig could not be moved immediately as the site 'ROAD' was not ready for its operation. The rig could be put on operation from 18 September 1996 after keeping it idle for 47 days from 2 August 1996 to 17 September 1996.

ONGC acquired site 'ROAD' on 20 October 1995, which was to be handed over to the contractor after levelling on 17 March 1996. The civil works as per the work order was to be completed by 16 May 1996. However, the site was actually handed over to the contractor in phases between 17 March 1996 and 1 September 1996. This was due to the fact that the earth-work relating to levelling and dressing of site by deploying two old departmental bulldozers could not be completed in time as both of them remained mostly under repairs due to frequent break down. Consequently, the civil works got delayed and could be completed on 28 September 1996 but the rig operation could be started a little earlier (18 September 1996). While analysing the reasons for total delay of 132 days from 17 May 1996 to 27 September 1996 in completing the site, the Management attributed delay of 59 days to non-functioning of departmental bulldozers and the remaining 73

days to heavy rain, festivals, late handing over of site to contractor and execution of extra items of work. Had the Management kept the bulldozers in working order, the site could have been cleared much before the release of rig from the previous site.

Thus, the failure of the ONGC in not keeping the departmental bulldozers functional coupled with handing over of site in phases to the contractor, the site 'ROAD' could not be cleared for operation of rig as per schedule and the rig remained idle for 47 days. This resulted in an avoidable loss of Rs.70.50 lakh at the rate of Rs.1.50 lakh per day (calculated by the ONGC).

The Management, *inter alia,* attributed the delay in levelling the land due to encountering of abnormally hard shale, excessive rain fall due to which bulldozers could not be operated and critical law and order situation.

The Ministry endorsed (July 2000) the reply of the Management.

The reply of the Management/Ministry is not tenable, as the project itself had analysed that out of total 132 days delay (16 May 1996 to 28 September 1996), 59 days delay was due to bulldozer being non-functional. Had advance steps been taken to keep the bulldozers functional with critical spares in hand; the site could have been kept ready in time and 47 days idling of rig could have been avoided.

Oil India Limited

17.9.1 Loss due to setting up of an unviable project for exploitation of gas reserves

The Management of Oil India Limited invested Rs.96.29 crore for exploiting discovered gas reserves in Rajasthan without adequately ascertaining the viability of the investment and without informing the Board of Directors/Government of India about its full implications. The project earned small revenue of Rs.20.66 crore as against the cost of production of Rs.46.45 crore, thus, causing a loss of Rs.25.79 crore to the Company.

Oil India Limited (OIL), in 1988, discovered gas reserves in west Rajasthan which has the potential to supply natural gas over a period of 15 years at the rate of 0.55 Million Metric Standard Cubic Metres (MMSCM) per day. Accordingly, Rajasthan State Electricity Board (RSEB) planned to set up a gas based power plant at Ramgarh about 60 Kilometres from the gas field. By June 1996 OIL developed above gas fields at a cost of Rs.96.29 crore which included Rs. 18.38 crore spent for development of six wells which are not being operated for want of demand from RSEB. OIL has been supplying gas to RSEB since July 1996 at a rate of 0.40 MMSCM per day. The calorific value of gas supplied has been around 4200 Kilo calories (K/cal) per Standard Cubic Metre (SCM) and, therefore, fetched a price of Rs. 600-700 per 1000 SCM whereas in the initial investment proposal submitted by OIL to the Government of India on 22 February 1991 the calorific value of the same gas was projected to be 5600-5850 K/cal per SCM and its price assumed at Rs.1550 per 1000 SCM. Consequently, from 327.09 MMSCM of gas

supplied by it to RSEB during the period 1996-99 OIL could recover merely Rs. 20.66 crore whereas its cost of production was Rs.46.45 crore. Thus, during the above period OIL suffered a loss of Rs. 25.79 crore.

Audit of the project revealed that:

(i) the possibility of OIL supplying gas to RSEB and making appropriate investment for the purpose had never been placed on the agenda of Company's Board of Directors. The formal approval of its Board of Directors or of Public Investment Board had not been obtained even post-facto;

(ii) assumption of price of gas at Rs.1550 per 1000 SCM was unrealistic because this price was payable only if the calorific value of gas had been 10,000 K/Cal per SCM. Since gas proposed to be supplied by OIL had an assumed calorific value of only 5600-5850 K/Cal (which in reality turned out to be only around 4200 K/Cal) per SCM it could have fetched only Rs.855 per 1000 SCM in proportion to its calorific value. Hence project was unviable *ab initio.*

(iii) in a meeting held on 30 September 1992 the then Joint Secretary (E) had clearly indicated that RSEB would be entitled to (a) make payment proportionate to the calorific value of gas and (b) additional discount on the gas supplied from an isolated field. Though the above indications should have left no ambiguity about the unviability of the project the fact was overlooked by the Management and not brought to the notice of either the Ministry or the Company's Board of Directors. These facts were also not mentioned by the Management at any stage in its correspondence with the Ministry.

(iv) notwithstanding the unviability of the project Ministry of Petroleum and Natural Gas (Ministry), in April 1993, directed CMD of OIL to initiate immediate action for setting up facilities for supplying gas to the RSEB. The Ministry also directed OIL to submit monthly progress report in this regard as the matter was being regularly monitored at the highest level in the Government. In a review meeting taken by the Additional Secretary of the Ministry in June 1995, the necessity of OIL supplying gas to RSEB was again emphasised.

(v) despite the fact that these fields were exclusively developed for RSEB, OIL was compelled by the Ministry to allow to RSEB a 15 per cent discount on the entitled price because the Ministry considered these fields as isolated gas fields. Though OIL suffered a revenue loss of Rs.3.65 crore during 1996-99 on account of such discount, the Ministry had taken no initiative to reimburse the loss to the Company from the gas pool account.

Thus, by setting up a project without considering its viability and without the specific approval of its Board of Directors OIL had already suffered loss of Rs. 25.79 crore in this project upto March 1999 which was clearly avoidable.

The Management stated (March 2000) that OIL had not taken any initiative/action at its own to develop these fields, and that the project had been implemented in compliance with the decision of the Ministry which had committed gas to the Government of

Rajasthan. The reply is not acceptable because the Company Management had overlooked facts which underlined the unviability of the project even as the Ministry had prompted the Management to go ahead with the project without examining its viability at any stage. Thus, both the Company Management as well as the Ministry had failed to exercise due diligence in the matter.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

CHAPTER 18: MINISTRY OF POWER

National Thermal Power Corporation Limited

18.1.1 Avoidable expenditure

Non-placement of letter of award within the validity period resulted in avoidable expenditure of Rs. 3.03 crore.

National Thermal Power Corporation (Company) invited tenders in August 1995 for civil works for Starter Ash Dyke package for its Feroze Gandhi Unchahar Thermal Power Project, Phase-II (FGUTPP)-II and the bids were opened in October 1995. The offer of M/s. Kranti Construction, Hyderabad (KCH) was evaluated by the Tender Evaluation Committee (TEC) as technically responsive and least priced. As such, the Letter of Award (LOA) was recommended by the TEC to be placed on KCH at a value of Rs.9.23 crore. However, the TEC also stated that award be placed only after confirmation from the site about availability of land to start the work.

Work was to be completed within 23 months from the date of award. The offer of KCH that was valid upto 30 April 1996 was extended from time to time till 30 November 1996 at the request of the Company. During November 1996, when the Company requested KCH to extend the validity of their bid upto 30 January 1997, the latter agreed to extend it subject to fulfillment of certain conditions pertaining to price variation and price adjustment etc., which were not agreed to by the Company. Hence, the validity of bid was not extended by KCH. The Company had to resort to re-tendering in July 1997. This time, the lowest evaluated and technically responsive bid was that of M/s. Hindustan Steel Corporation Limited (HSCL) at Rs.12.26 crore which was higher by Rs.3.03 crore (33.67 per cent) than that of initial officer of KCH. An LOA was finally placed on HSCL on 7 January 1998.

A review of the records revealed that out of the total land needed for the above work (223 acre), 40 acres (28 acre of Gram Sabha's land and 12 acre of forest land) were already available with the Company on which the work could have easily been started. Moreover, the General Manager of the project also stated (August 1996) that the process of possession of remaining piece of land was at an advanced stage and suggested that work be awarded at the earliest as that would also help in obtaining the physical possession of land. This was corroborated by the Executive Director (Northern Region). However, the Management did not act upon the communications of General Manager of the Project.

Thus, the Company incurred an avoidable expenditure of Rs. 3.03 crore by not placing the LOA within the validity period inspite of the fact of availability of land required to start the work.

The Management replied (July 2000) that no land was available with the Company as on 30 November 1996. This contention of the Management is not acceptable as 40 acres of land were already available with the Company as on 30 November 1996 and the remaining land was also made available to it by January 1997.

The matter was referred to the Ministry in August 2000; their reply was awaited (October 2000).

CHAPTER 19: MINISTRY OF RAILWAYS

Konkan Railway Corporation Limited

19.1.1 Infructuous expenditure on purchase of cranes

Company's failure in properly assessing the need for Portal Cranes at project site before procurement resulted in an infructuous expenditure of Rs.70.37 lakh.

The Corporation placed an order in September 1992 on M/s. Bharat Earth Movers Limited, a public sector undertaking, for procurement of 4 nos. of Portal Cranes for laying and relaying of railway tracks with concrete sleepers at a total cost of Rs.1.50 crore (excluding freight charges). Out of these 4 portal cranes, two cranes were delivered to Southern Railway. Remaining two cranes were received by the Corporation in March 1993 i.e. one each at Kudal and Udupi Zones.

The portal cranes could not be used by the Corporation as long stretches were not available for linking the tracks. These cranes had been lying idle since their procurement in March 1993. In order to dispose off the portal cranes, the Corporation took up the matter with the Railway Board in November 1995. Accordingly, the Railway Board approached the Western Railway in May 1997 to take over these two portal cranes, surplus with the Corporation. However, the Western Railway did not accept (July 1997) these cranes on the ground that these were not required by them. In September 1997, the Railway Board informed the Corporation that these cranes were not required by the Railways. The cranes had been lying unused (October 2000) and there was little chance of using these in future.

Thus, the purchase of two portal cranes by the Corporation without properly assessing the need of their utilisation resulted in an infructuous expenditure of Rs.70.37 lakh.

The Management, with the approval of the Railway Board, stated (July 2000) that the Corporation was examining the feasibility of using these cranes for tunnel and bridge construction to ensure that investment was not wasted.

The reply is not tenable as the work relating to construction of all the tunnels and bridges had already been completed by the Corporation. Further, the entire KRCL line had been opened for operation with effect from 26 January 1998. So, there was little chance of the Corporation using these cranes in the near future.

CHAPTER 20: MINISTRY OF SOCIAL JUSTICE AND EMPOWERMENT

National Scheduled Castes and Scheduled Tribes Finance & Development Corporation

20.1.1 Loss of revenue due to non-recovery of interest

Due to failure to recover interest at higher rate as required on loan advanced to a State channelising agency, the Company lost Rs.74.26 lakh.

The Company is the apex institution for financing, facilitating and promoting the economic development activities of Scheduled Castes and Scheduled Tribes through the State channelising agencies. As per lending policy of the Company, the loan advanced to the agencies carried an interest rate of 4.5 per cent, with a rebate of 0.5 per cent for timely repayment of dues. In case the funds released by the Company were not utilised within a period of 90 days, the Company was to charge higher rate at 12 per cent per annum on the unutilised funds.

The Company sanctioned (December 1992) a loan of Rs. 2.81 crore to MP Antyavasayee Sahkari Vikas Nigam Limited, a State channelising agency, for setting up 50 co-operative dairy units covering 1250 beneficiaries and the scheme was to be implemented within one year. The loan amount was released on 30 January 1993 (Rs.203.35 lakh), 30 July 1994 (Rs.50.00 lakh) and 31 January 1995 (Rs.27.65 lakh). The State channelising agency, however, could not utilise these funds within the prescribed period of 90 days, reasons for which were not available from the records.

The Company started recovery of loan from the agency from 24 September 1993 with normal rate of interest of 4.5 per cent, instead of charging interest at the higher rate of 12 per cent on the unutilised funds in contravention of the provisions of its lending policy. The Company's failure to recover interest at higher rate resulted in a loss of revenue of Rs.74.26 lakh.

While admitting the fact of non-submission of proof of utilisation of funds by the borrowing agency, the Ministry stated (July 2000) that since the full picture about utilisation of funds in question was not clear, the demand of higher rate of interest was tentative, which might be reduced on receipt of information about actual utilisation of funds. The reply is not tenable as no demand for higher rate of interest was raised by the Company till the same was pointed out by Audit (September 1999), besides even after more than five years since the funds were released, the Company had not been able to provide the details of their utilisation.

CHAPTER 21: MINISTRY OF STEEL

Indian Iron & Steel Company Limited

21.1.1 Loss of Rs.1.44 crore

Company's failure to conduct market survey and review the price of boiler ash/cinder prevailing in other nearby sister steel plants of SAIL resulting in revenue loss of Rs.1.44 crore.

The Company was having captive boiler plants at Burnpur works for generating steam by firing boiler coal as main fuel. The boiler ash/cinder arising therefrom was sold to outside agencies at a price fixed from time to time by the pricing committee either on the basis of market price or with reference to prices fixed by other Steel Plants under Steel Authority of India Limited (SAIL).

During the period from June 1993 to January 1998 the above condition for selling the boiler ash was not observed by the Company with the result that the prices fixed by the Company were very low as compared to the prices fixed by a nearby sister Steel Plant i.e. Durgapur Steel Plant (DSP) of SAIL. The selling prices of boiler ash/cinder prevailing in DSP during the aforesaid period ranged between Rs.75 and Rs.180 per tonne, as compared to prices fixed by IISCO which ranged between Rs.18 to Rs.125 per tonne resulting in a loss of revenue of Rs.1.44 crore on the sale of 2.88 lakh tonne boiler of ash/cinder.

The Ministry stated (July 1997) that the price of boiler ash depends primarily on unburnt carbon, calorific value and moisture percentage in the arisings due to condition of boiler and its operation.

The Ministry's reply is not tenable as the price circulars issued by the Company and other Steel Plants of SAIL for sale of ash/cinder did not indicate the carbon contents, calorific value and moisture percentage which claimed to have influenced the price of the boiler ash/cinder. Even the Company had admitted (September 1995) that factors taken into consideration for fixation of price were primarily the market price and the price fixed by other Steel Plants of SAIL.

The fact remains that the Company had neither conducted a market survey to assess the demand of boiler ash/cinder nor reviewed the prices prevailing in the market. With little vigilance and alertness it could have taken into account the price prevailing in the nearby sister Steel Plants and earned an additional revenue of Rs.1.44 crore.

21.1.2 Loss of Rs.84.18 lakh

Company's failure to adhere to the terms of offers made to the customers for lifting the materials resulted in non-realisation of sale proceeds amounting to Rs.84.18 lakh.

The Company (IISCO) sold a quantity of 812.755 tonne of steel materials valuing Rs.91.50 lakh to the customers in January 1998 from its own stockyard ex Delhi, Ludhiana and Chandigarh on advance payment terms.

Against the terms of advance payment, the undermentioned customers deposited cheques drawn on Oriental Bank of Commerce, Ludhiana, payable at State Bank of India, Ludhiana branch on 30 and 31 January 1998, being the value of the steel materials:

Name of customer	Quantity lifted (tonne)	Cheque No. & date/ amount of cheque	Date of receipt of cheques by the Company	Date of deposit of cheques by the Company	Date of lifting of materials/ stockyard name
M/s. Jain Steel Industries	299.045	733983 dated 30.1.98 – Rs.33 lakh	30.1.98	31.1.98	30.1.98/ Ludhiana
M/s. Pee Gee Corporation	278.710	125759 dated 31.1.98 – Rs.32.50 lakh	31.1.98	2.2.98	31.1.98 & 2.2.98/ Delhi
M/s. Pee Gee Corporation	235.00	125758 dated 30.1.98 – Rs.26 lakh	30.1.98	31.1.98	30,31.1.98/ Chandigarh
Total	**812.755**	**Rs.91.50 lakh**			

As per terms of 'Offer Letters' issued by the Company to the customers, the payment was to be received by Account Payee Demand Draft in favour of IISCO and in the event of payment by cheque delivery order was to be issued to customers only after encashment of cheque. However, in the instant cases, although the payment was made through cheques, delivery orders for lifting the materials were issued to the customers without encashment of cheques from the respective bank. It was, however, observed that in all the above cited cases cheques (total value; Rs.91.50 lakh) deposited with the State Bank of India, Ludhiana branch, were dishonoured, subsequently. Failure of the Management to strictly enforce the terms of the 'Offer Letters' compromised the interest of the Company and led to non-realisation of sale proceeds amounting to Rs.84.18 lakh (after adjusting Rs.7.32 lakh being the credit balance against the said customers). No responsibility for the failure had been fixed in these cases by the Management.

The Management while admitting that there was a system failure stated (May 2000) that as a precautionary measure, all branches of Northern region were advised to deliver materials only against bank drafts/ pay orders or where payments were received by cheques, only after encashment advice was received. It was also stated that a case had been filed by the Company against the customers, which was sub-judice (October 2000).

The matter was referred to the Ministry in September 2000; their reply was awaited (October 2000).

MECON (I) Limited

21.2.1 Loss of Rs.1.65 crore

Company's failure to invoke risk purchase clause and to levy liquidated damages despite a clear provision of the same in the terms of a contract resulted in avoidable loss of Rs.1.65 crore.

The Company (MECON) placed an order in November 1990 on M/s. Simplex Engineering & Foundary Works Limited, Madhya Pradesh for manufacture, supply and delivery of mechanical equipment, auxiliary system and technological structures (850 tonne +/- 5 per cent) at a cost of Rs.8.46 crore for the Section Mill of Durgapur Steel Plant (DSP). The order was placed against pre-order tie up and on back to back basis. The delivery was to be completed in phases by 31 July 1992 on Free On Rail (FOR)/ DSP site basis.

As per Liquidated Damages (LD) clause of the contract, for every completed week of delay in delivery of equipment, the supplier was liable to pay LD to the Company at the rate of 0.5 per cent subject to a maximum of 7.5 per cent of the total contract price. In addition, as per contract clause 10.24.1, the Company could rescind or cancel the agreement at the risk of the supplier, if they failed to comply with or neglected any reasonable order given to them in writing.

M/s. Simplex could supply only 551 tonne against the ordered quantity of 850 tonne by March 1995 against the delivery schedule of 31 July 1992. The balance quantity of 299 tonne was procured from alternate sources at a differential amount of Rs.2.09 crore. However, neither LD amounting to Rs.22 lakh nor the differential amount of Rs.2.09 crore towards risk purchase was recovered, despite clear provision for the same in the terms of contract. This resulted in avoidable loss of Rs.2.31 crore to the Company. Despite the poor performance, no action was taken to black-list the supplier.

The Ministry stated (September 2000) that the Company had acted in the best of their interest to enhance their future business prospects in this field.

The reply of the Ministry is not tenable because though the settlement with DSP was reached on 9 May 2000 bringing down the contract fee of Rs.19.46 crore to Rs.17.48 crore no amount was recovered by the Company from M/s. Simplex. The Company could, however, invoke (June 2000) their bank guarantee of Rs.66 lakh. The remaining amount of Rs.1.65 crore could not be recovered so far (October 2000). Further, reduction in the scope of supply without considering effect of financial impact due to risk purchase proved detrimental to the interest of the Company.

National Mineral Development Corporation Limited

21.3.1 Avoidable expenditure on demurrage charges

The Company had to bear demurrage charges amounting to Rs.31.50 crore despite discharging its contractual obligations of supply of iron ore, due to prejudicial agreements with MMTC.

The Company had been supplying iron ore lump and fines to Minerals and Metals Trading Corporation Limited (MMTC), a canalising agency for export to Japan, South Korea and China. The terms and conditions of supply of iron ore were being regulated as per Recorded Notes of discussion between the Company and the MMTC, signed on yearly basis.

The terms and conditions of the agreements, *inter alia*, provided for reimbursement of actual demurrage charges by the Company to MMTC, for export of iron ore. For this purpose, MMTC was to furnish a statement indicating actual demurrage paid.

As a result of the clause in the agreement relating to reimbursement of actual demurrage the Company had to bear total demurrage charges amounting to Rs.31.50 crore for the period from April 1995 to November 1998 despite discharging its contractual obligations. The Company should not have agreed to reimburse the actual demurrages to MMTC when it had no control either over indenting ships or on loading iron ore at the ports. Thus, by entering into an agreement with MMTC, which was prejudicial to its interest, the Company had to make an avoidable payment of Rs.31.50 crore.

The Ministry stated (August 1999) that:

(i) MMTC being a canalising agency, all expenses including demurrages were to be borne by NMDC since the 'Free on Board' (FOB) realisation received by MMTC was passed on to NMDC after deducting/adjusting all their charges.

(ii) had NMDC not agreed to pay for demurrage it would have had bearing on the price received.

The reply of the Ministry is not tenable as Demurrages are avoidable and should not be treated as normal/regular expenses. An analysis of some of the demurrage charges reimbursed by the Company revealed that demurrage charges of Rs.8.04 crore during 1997-98 and Rs.4.14 crore during 1998-99 had to be paid due to unplanned nomination of vessels by MMTC. The Company should not have agreed to bear those demurrage expenses on which it had no control. MMTC in its contract with private mine owners for supply of iron ore for export had not insisted on reimbursement of actual demurrage charges. In order to minimise the expenditure on this account the Company could have specifically included a clause in the agreement with MMTC to the effect that it would bear demurrage charges limited to delays attributable to it. In doing so the Company could have avoided the payment of Rs.31.50 crore or atleast reduced it substantially.

21.3.2 Irregular payment under 'Payment by Result' Scheme

The Company made irregular payment of Rs.11.29 crore under 'Payment by Result' scheme to its employees during the year 1997-98 to 1999-2000 in contravention of specific direction of the Ministry of Steel.

The Company was paying *ex gratia* to its employee, not covered under Bonus Act, 1965 upto the year 1996-97 in contravention of DPE guidelines and Government directions. This irregularity had been reported in CAG's Audit Report (Commercial) No.3 of 1999. The Ministry of Steel issued directions (January 1998) to the Company that no such payment should be made unless otherwise authorised under an incentive scheme duly approved by the Government.

The Company evolved (September 1997) yet another scheme viz. 'Payment by Result' for employees who were not eligible for Bonus under Payment of Bonus Act with the approval of the Board of Directors. The scheme was sent to the Ministry of Steel in October 1997 for approval. However, payment was made under the said scheme pending approval by the Ministry. The total payment made during the three years from 1997-98 to 1999-2000 was Rs.11.29 crore.

The Company already had an incentive scheme for executives and non-executives, who were not covered under the Payment of Bonus Act, which envisaged monthly/annual payment linked to performance.

The Management stated (December 1999) that:

- the contribution of the large group, which was out of the purview of the Payment of Bonus Act, could not be ignored.
- the Company was operating annual/monthly incentive scheme at production units. The above incentive scheme was based on the capacity utilisation and fulfillment of targets of physical parameters irrespective of Company's profitability.
- in case of 'Payment by Result' the payment was based on overall performance of the Company as spelt out in the Memorandum of Understanding (with Government of India) of that particular year. Therefore, these two schemes were different, independent and could not be equated.

The above reply is not tenable as: -

- the contribution of the large group, which was out of the purview of Payment of Bonus Act, was already considered while formulating the monthly/annual incentive scheme.
- the payment made under the scheme 'Payment by Result' ran parallel to the existing production incentive scheme.
- the Ministry of Steel specifically clarified (January 1998) that no payment should be made unless otherwise authorised under any incentive scheme duly approved by it.

Thus, the payment of Rs.11.29 crore was irregular and a clear violation of DPE guidelines and the Ministry's directive.

The matter was referred to the Ministry in November 1999, their reply was awaited (October 2000).

Steel Authority of India Limited

21.4.1 Unproductive investment

Unproductive investment of Rs.8.39 crore on import of technical know-how for introduction of Galvalume Technology lying idle since 1996 entailing loss of interest thereon to the extent of Rs.8.38 crore.

Centre for Engineering & Technology (CET) a unit of Steel Authority of India Limited (SAIL) signed a contract on 9 November 1992 with M/s. BIEC International INC, USA (for grant of non-exclusive licence-cum-know how at US $ 3 million) and with M/s. John Lysaght Ltd. (JLA), Australia (for rendering technical assistance services at a fee of US $ 0.6 million). Payment was to be made in six (6) instalments. The basic engineering and detailed know-how documents were required to carry out detailed engineering for introduction of Galvalume Technology* at Bokaro Steel Plant (BSL) at an estimated cost of Rs.45 crore.

The transfer of technology took place in stages between March 1993 and January 1996 against payment of Rs.8.39 crore (US $ 1.75 million paid to M/s. BIEC and US $ 0.40 million to M/s. JLA). However, in order to implement the technical know-how, some additional facilities like installation of pre-melt pot and galvalume coating pot, new strip clearing facilities, augmentation of power supply system etc. were required to be installed. On the recommendation of M/s. Broken Hill Proprietary (BHP), the parent Company of M/s. BIEC, USA and M/s. JLA, Australia, SAIL identified in May 1995 five foreign firms for designing and constructing the said facilities. It was also decided that the cost would be firmed up after evaluation of techno-commercial offers from the aforesaid foreign parties. The approval in principle was accorded by the Board and accordingly limited tender enquiries were issued in July 1995. Only one offer was received on which no action was taken and the project was deferred due to resource constraints. Thus, the technical know-how imported at a cost of Rs.8.39 crore had been lying unused since the date of its acquisition (January 1996).

This resulted in unproductive investment of Rs.8.39 crore entailing loss of interest to the extent of Rs.8.38 crore upto September 2000.

**** Galvalume Technology is for producing Zinc – Aluminium coated sheet having better corrosion resistance. This product is better than Galvanized products and have a better surface finish. Use of Galvalume coatings reduces the coating weight, replaces imported Zinc, extends consumption of indigeneously available aluminium. Reduces cost of production.***

The Ministry while accepting the facts stated (October 2000) that a survey on the demand of Galvalume products had been conducted and its report was under consideration of the Company. Further the Company had taken action to extend the period of implementation beyond January 2001.

The reply of the Ministry is not tenable in view of the fact that the Company does not have any specific investment plan for implementation/use of this technical know-how in the near future. Further, the Committee formed by the Company (January 2000) to assess the market for Galvalume sheets in the country had reported (February 2000) that there was no requirement of Galvalume sheets in the Central Region. Final report was awaited (October 2000).

21.4.2 Avoidable payment of Rs.2.81 crore

Avoidable payment of dead freight due to under loading of hard coke in wagons as compared to railway chargeable weight.

Bokaro Steel Plant (BOSP), a unit of Steel Authority of India Limited (SAIL) had been procuring hard coke from Rourkela Steel Plant (RSP), IISCO and other sources through rail. The freight was payable to Railways on the basis of fixed weight of 50 tonne/wagon upto 31 January 1996 and thereafter 47 tonne/wagon in case of Box 'N' wagon and 50 tonne/wagon in case of Box 'G' wagon.

During weighment of wagons at the destination/unloading point by BOSP, it was found that wagons received from RSP & IISCO had not been loaded according to their chargeable weight. During the period from 1994-95 to 1996-97, RSP despatched 4.60 lakh tonne and IISCO 7.32 lakh tonne of hard coke to BOSP through rail. However, the Railways charged freight for 5.75 lakh tonne and 8.23 lakh tonne respectively on the basis of chargeable weight of wagons which resulted in payment of dead freight of Rs.2.81 crore by BOSP to Railways.

The Ministry in its reply stated (November 1999) that the issue of poor load ability of hard coke in Box 'N' and 'G' wagons was taken up (1990) by the Steel Plants with Railways. The fact of poor load ability of hard coke was accepted by the Railways and as a result thereof, the chargeable weight of Box 'N' wagon was reduced to 47 tonne with effect from 1 February 1996. The Ministry added that actual load ability was still lower than the revised chargeable weight and as a result of consistent efforts made by SAIL, Railways had agreed to conduct further test weighment.

The Ministry's contention that actual load ability was still lower than the revised chargeable weight is not tenable as hard coke loaded and supplied by M/s. Durgapur Project Limited (a West Bengal Government Undertaking) to BOSP ranged between 50.74 tonne/wagon and 52.55 tonne/wagon during 1994-95 to 1996-97 which was higher than the chargeable weight fixed by Railways. Further, Railways had not deputed any official so far (October 2000) for conducting further test weighment.

The fact remains that BOSP had accepted the fact of under loading of wagons and had paid dead freight of Rs.2.81 crore.

21.4.3 Infructuous expenditure of Rs.1.13 crore

Company's failure to correctly assess the availability of bye-product for supply to its Thermal Power Plant resulted in infructuous expenditure of Rs.1.13 crore on construction of Pipeline.

An Investment Planning Unit (IPU) Scheme for providing pumping station and pipeline for supply of crude tar/pitch creosote mixture (PCM) from Bye Product Plant (BPP) to Thermal Power Plant (TPP) of Bokaro Steel Plant of the Company was sanctioned in November 1990 at an estimated cost of Rs.1.82 crore. The objective was to use crude tar/PCM produced at BPP as an alternate fuel for lighting up boilers and flame stablisation at TPP in case furnace oil was not available. The Company assumed that there would be adequate availability of crude tar/PCM to feed both Refractory Material Plant (RMP) kilns for calcination of lime and for feeding boilers in TPP respectively.

On completion of a part of the scheme in December 1990 i.e. pipeline from BPP to TPP and return line from TPP to BPP including the heating system at TPP, the system was capitalised (including expenditure during construction) in December 1991 at a total value of Rs1.13 crore. However, the balance part of the scheme i.e. installation of the pump house at BPP to boost up the pressure of tar/PCM was dropped in January 1992 on the ground that there would not be surplus availability of tar/PCM for feeding boilers of TPP without sacrificing the production at RMP kilns.

Thus, the assumption of the Company about availability of surplus crude tar/PCM to be used as an alternate fuel in TPP proved wrong rendering infructuous the expenditure of Rs.1.13 crore.

In reply, the Ministry stated (July 1999) that the scheme was conceived during the Gulf War as an alternative emergency provision to sustain the operation of the power plant in the event of furnace oil 'stock-out' caused by external or internal factors beyond SAIL's control. It added that the scheme would be used in any future emergency by sacrificing part or full production of RMP.

The Ministry's contention is not acceptable as IOC, the bulk supplier of furnace oil had neither indicated likely shortage nor its inability to supply furnace oil during the Gulf War. Further, no other plant of the Company had taken such an initiative merely on the apprehension of shortage of furnace oil during the Gulf War. The expenditure of Rs.1.13 crore incurred under the scheme on construction of pipeline, thus, proved infructuous as the scheme had not been utilised so far (October 2000) and its utilisation in future also appeared to be bleak as 100 per cent provision had already been made by the Company in its accounts treating it as a non-performing asset.

21.4.4 Avoidable expenditure of Rs.76.55 lakh

Avoidable expenditure of Rs.76.55 lakh on procurement of Bevel Gear Reducer which had been lying idle since procurement (1992).

Rourkela Steel Plant (RSP), a unit of SAIL issued (December 1989) a single tender enquiry to M/s. Dorr Oliver, Gmbh, Germany for import of one Bevel Gear Reducer, a proprietary item. The equipment was required for replacing one damaged Gear box fitted in the Dorr Clarifier of the Blast Furnace. The offer of the party was received in February 1990, and a purchase order was placed in July 1990 at a cost of DM 168200.

The Gear Reducer was received by the Company in April 1992 at a landed cost of Rs.76.55 lakh and issued to the user department in the same month. It was observed that even before the tender enquiry was issued, the existing Gear box had been extensively repaired by the Company and put into operation. Since the repaired Gear box had been working satisfactorily, the imported Bevel Gear Reducer was not required to be installed and had been lying idle for the last 8 years (October 2000). As the Bevel Gear Reducer was specifically made for the Dorr Clarifier it could not be used elsewhere also. There was, thus, no justification for the expenditure of Rs.76.55 lakh on import of Bevel Gear Reducer particularly since the existing Gear box had been repaired and put to use during August to November 1989 i.e. before issuing (December 1989) a tender enquiry for import of the equipment.

The Management stated (November 1999) that the equipment was procured for ensuring minimum safety stock of the high lead time spare and would be used on failure of the repaired Gear box.

The contention of the Management is not acceptable as the procurement of equipment was made for replacement of damaged equipment and not for keeping as a safety stock and that too for a period of 8 years. Further the guarantee period of the equipment had expired long back in June 1993 and there was no safeguard available with the Company in case of non-functioning of the equipment after installation.

The matter was referred to the Ministry in April 2000; their reply was awaited (October 2000).

21.4.5 Loss of Rs.57.19 lakh

Failure of the Company in arranging the cargo of required specification at ports within the scheduled shipment date led to a loss of Rs.57.19 lakh.

The Company entered into an export contract with M/s. Noble Resources Limited, Hongkong in October 1997 for supply of 10,000 metric tonne (MT) mild steel concast billets (plus/minus 5 per cent at seller's option) at the rate of US$ 225 per MT/FOB Haldia port with scheduled date of shipment as 31 December 1997.

Accordingly, the vessel "MV Hill Harmony" arrived at Haldia port on 26 December 1997 and tendered 'Notice of Readiness' (NOR) on the same day. However, Durgapur Steel Plant (DSP) of the Company could not produce the required quantity of material with contracted specification within the committed date of 20 December 1997. However, a quantity of 9700 MT of material could only be despatched to Haldia Port by 31 December 1997 out of which only 64 per cent was as per contracted specification and the

balance was of short length. Apprehending delay in arrangement of material of required specification, the Company sought extension of Letter of Credit (LC) from the buyer. The buyer extended the LC upto 15 January 1998 but claimed reduction in price by US $ 10 per MT. The Company accepted the same and suffered a revenue loss of Rs.37.38 lakh.

A total quantity of 15,389 MT mild steel concast billets were received by 15 January 1998 at Haldia port from Durgapur Steel Plant against the above contract (as the first lot was containing only 64 per cent material within specification). Out of the total quantity, 9598 MT of billets could be despatched by 15 January 1998. The remaining quantity was either despatched against other export contracts or taken to stock by the Company for domestic sale. Due to this delay in arranging the material the Company incurred demurrage of US $ 50,850.69 equivalent to Rs.19.81 lakh.

Thus, due to non-arrangement of material of required specification in time, the Company suffered a total loss of Rs.57.19 lakh (i.e. Rs.37.38 lakh on account of reduction in price and Rs.19.81 lakh on account of demurrage).

The Ministry stated (June 2000) that the decision to agree to the reduction in price was a commercial decision, keeping in mind the general decline in international prices at that point of time. Further backing out from the export commitment would have seriously damaged SAIL's reputation as a major supplier apart from incurring claims/damages on account of non-performance of contract.

The reply of the Ministry is not tenable because the observed loss was on account of DSP's failure to supply, in time, material of contracted specification. Had the Company evolved an effective system of inspection and cargo movement its reputation would not have been at stake any way.

21.4.6 Loss of Rs.53.51 lakh

Company's failure to correctly assess the market trend led to a loss of revenue of Rs.53.51 lakh on sale of Special Import Licences.

Under the Export-Import (EXIM) policy of the Government of India for the year 1992-97, the Company received Special Import Licences (SIL) amounting to Rs.53.22 crore against value of its exports during 1996-97. As per the EXIM policy, the licences could be utilised by the Company or could be sold to outside parties. In February 1998, the Company decided to sell SIL amounting to Rs.47.56 crore at a premium.

The Company issued (February 1998) limited tender for sale of licences. Seven parties responded to this limited tender and the premium quoted by them ranged between 2.15 per cent and 4.41 per cent of the value of licences. However, the Company did not accept (March 1998) any offer as the rate of premium was considered to be very low and because the Company was expecting a further increase in premium following the revised EXIM policy scheduled to be announced in April 1998. However, contrary to the Company's expectations the premium showed a downward trend even in subsequent

period and the offers received in response to a limited enquiry (June/July 1998) ranged between 2.75 per cent and 4 per cent. However, no action was taken by the Company to dispose off the licences despite the fact that the validity of licences was going to expire by December 1998 (Rs.37.26 crore) and February 1999 (Rs.10.30 crore).

As the remaining validity of licences was short, the Ministry suggested (June 1998) that the Company should sell the licences through an advertised tender. Accordingly, the Company advertised the tender in October 1998 and based on the offers received, sold SIL valuing Rs.37.94 crore (Rs.47.56 crore minus Rs.9.62 crore utilised by steel plants) at a total premium/earning of Rs.50.84 lakh. The premium earned on each licence ranged between 1.13 per cent and 2.36 per cent of the value of the licence.

Thus, the decision of the Company not to sell the licences in March 1998 on the assumption of future improvement in premium rate proved to be injudicious resulting in loss of revenue of Rs.1.17 crore (calculated at the rate of 4.41 per cent i.e. the highest rate offered against limited tender of February 1998).

The Ministry stated (August 2000) that a conscious commercial decision to cancel the tender was taken in March 1998 as the premium quoted was far lower than the rates obtained during the previous sale. Further, enhancement in the rate of premium was expected under the revised Export-Import policy which was scheduled to be notified in April 1998.

The reply of the Ministry is not tenable as there was clear indication of downward trend in the market which continued even after announcement of the new export-import policy in April 1998 as is evident from the offers received during June/July 1998. Thus, even if the Company had decided to sell the licences in July 1998 when the tenders were invited again it could have earned an additional premium of Rs.53.51 lakh (calculated at the lowest rate of 2.75 per cent offered during June/July 1998).

21.4.7 Failure in arranging vessel

Company's failure in arranging the vessel in time resulted in non-shipment of cargo within the stipulated shipment period and consequent loss of Rs.52.63 lakh.

SAIL entered into an agreement with M/s. Euro Steel Products Limited., United Kingdom in September 1998 for export of 4685 tonne of prime mild steel hot rolled plates (plus/minus five per cent) at the rate of US $ 270 per tonne. The plates were to be produced at Bhilai Steel Plant (BSP) and shipped by 30 November 1998. BSP indicated to the International Trade Division (ITD) of the Company at New Delhi the completion of despatches of plates by 31 October 1998. The validity of Letter of Credit (LC) for shipment was upto 30 November 1998.

Based on the schedule of shipment indicated by the BSP, International Trade Division of the Company sent 'Notice of Readiness' (NOR) to its Transport and Shipping (T&S) Wing on 15 October 1998 to arrange a vessel for shipment of the material. However, the T&S Wing could not arrange the vessel in time as contractual details were not available with them. The details were received from ITD only on 21 October 1998. As a result, the

material could not be shipped within the stipulated shipment period of 30 November 1998. The Company, therefore, asked the buyer on 21 November 1998 for extension of the LC upto 31 December 1998 which the buyer agreed to provide a reduction in price by US $ 35 per tonne was allowed. After negotiation, the selling price was reduced mutually by US $ 26 per tonne and an amendment to that effect was issued on 16 December 1998. Finally a quantity of 4766 tonne of plates was shipped on 31 December 1998.

Thus, failure of the Company to arrange the vessel in time within the stipulated shipment schedule necessitated re-negotiation of price with the buyer and consequent loss of revenue of Rs.52.63 lakh.

Ministry admitted (October 2000) that they could not execute the export order in time due to delay in fixation of vessels as they had to arrange the vessel through 'Transchart' a wing of the Ministry of Surface Transport as per guidelines of Government of India. Since transchart could not arrange the vessels in time, the shipment was delayed and the Company had to re-negotiate with the buyer. They added that the Company obtained the best available price keeping in view the dwindling international steel price scenario.

Scrutiny of records, however, revealed that the Company's two important wings - ITD and T&S did not take immediate and prompt action to arrange for the vessel although they were well aware of the procedure and time required for fixation of vessels by 'Transchart'. In fact, the then Director (Commercial) had remarked in this connection that, "There have been lapses in this case both on the part of ITD and T&S. This should not repeat in future". Further, the Company had to accept reduction in price due to failure in arranging the vessel in time rather than the dwindling international steel price scenario.

CHAPTER 22: MINISTRY OF SURFACE TRANSPORT

Department of Shipping

Hindustan Shipyard Limited

22.1.1 Avoidable expenditure in procurement of material

The Company procured flooring material having limited shelf life, without considering slippage in construction schedule of a ship. This resulted in avoidable expenditure of Rs.72.54 lakh.

The Company entered into a contract (May 1996) with M/s. Harland and Wolff Technical Services Ltd., UK (Supplier) for procuring Accommodation Materials/Equipment Package (AMEP) required for construction of a passenger-cum-cargo vessel (Ship). The FOB delivery of AMEP was to commence in batches, within 2 months from the date of contract (May 1996) and was to be completed in six months. The contract included among other items supply of flooring material. The flooring material was despatched by the supplier in December 1996 and received in February 1997. The shelf life of the material was 12 months. The material was required for laying the frontage of the ship during outfitting-stage i.e. 3 months before delivery of the vessel. Due to delay in receipt of imported steel and propeller bossings there was slippage in the construction schedule of the ship. The frontage was ready for laying only in August 1998. By that time a portion of the flooring material was found to be unusable due to expiry of shelf life. The Company had to go for replacement of unusable material at an additional cost of Rs.72.54 lakh.

Thus, procurement of flooring material without taking into account the delays in construction of the ship led to an avoidable expenditure of Rs.72.54 lakh.

The Ministry stated (May 2000) that:

a) the ordering of material was done as per the original construction schedule and the flooring works had to be rescheduled due to unforeseen circumstances; and
b) the supplier would have charged escalation at 1 per cent per month for postponement of delivery schedule upto one year.

The Ministry's reply is not tenable as:

a) the Company was well aware of the slippage in construction of the ship (i.e. 50 per cent of Hull erection) by more than one year, at the time of signing the contract (May 1996) for supply of flooring material. The Company should have rescheduled the procurement of the flooring material; and

b) there was no provision in the contract for charging escalation as contended by the Ministry.

The Shipping Corporation of India Limited

22.2.1 Uneconomic acquisition of two second hand vessels

Acquisition of two second hand vessels by the Company without proper assessment of their condition, probable repair cost and earning capacity led to a loss of Rs.40 crore.

The Company acquired (March 1994) two second hand vessels build in 1979 and 1981 from M/s. Scindia Steam Navigation Company Ltd. at a total cost of Rs.13.77 crore. It was estimated that by incurring Rs.6.32 crore on repairs/refurbishing, the vessels would give a further operational life of 10 years each and generate a cash surplus of Rs.11.87 crore equivalent to an internal rate of return of 10.69 per cent.

During the course of repairs, it was observed that the condition of the vessels was far worse than foreseen. Consequently, the total repair cost went upto Rs.11.15 crore as against Rs.6.32 crore approved at the time of acquisition.

Even after repairs cargo movement was restricted due to persistence of some technical problems like breakdown of cargo gear, non-movement of tween deck covers etc. Further, the derricks of these ships were suitable only for light cargo. All these factors reduced the earning capacity of the vessels. Hence the vessels registered continuous operational loss, except for a marginal profit of Rs.24.15 lakh by one of the vessels during 1996-97. The cumulative loss till 31 March 1999 worked out to Rs.29.41 crore.

In view of the continuous operational loss and poor earning capacity of the vessels, the Management decided (October 1998) to dispose off these prematurely. Accordingly, the vessels were laid up for scrapping on 10 January 1999/30 April 1999. As against the written down value of Rs.16.48 crore of both the vessels as on 31 March 1999, the vessels were sold for Rs.5.89 crore resulting in further loss of Rs.10.59 crore.

Thus, acquisition of the vessels without proper assessment of their condition and earning capacity led to a loss of Rs.40 crore (operational loss of Rs.29.41 crore and loss on sale of vessels Rs.10.59 crore).

While admitting the facts, the Management stated (September 2000) that:

(i) the ships were acquired on 'as is where is' basis and visual examination could not detect invisible defects which subsequently showed up. Additional repairs cropped up at the time of execution which had to be undertaken to meet classification requirements;

(ii) during post acquisition years, trend of cargo changed towards heavier parcels, making the vessels unattractive to the trade and revenue estimation made in 1994 could not be achieved on account of various subsequent events;

(iii) maintenance and repair costs for the vessels for extended life of ten years were included in the estimated standing charges; and

(iv) in order to arrest mounting operational losses, the Management had to decide in favour of disposal of the vessels.

The Ministry endorsed (October 2000) the reply of the Management.

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

(i) even the defects which were noticed on visible inspection were ignored. As a result, the repair costs were under estimated. The Company was well aware that the vessels would have to pass the mandatory survey tests. Thus, repair costs and internal rate of return should have been estimated more realistically;

(ii) the fact that the vessels were fitted with derricks instead of cranes constituted a severe operational handicap, which was overlooked while estimating earnings; and

(iii) standing charges per day amounted to Rs.2.8 lakh and hence the estimate of Rs.6.32 crore per annum at the time of acquisition was very much on the lower side. It was not, therefore, convincing that it included repair and maintenance costs also.

22.2.2 Avoidable loss of Rs. 5.78 crore in charter of vessel

Failure on the part of the Company to provide a suitable vessel as per agreement and unilateral withdrawal of the same resulted in loss of Rs. 5.78 crore.

The Company entered (July 1991) into a charter party agreement for chartering a vessel for loading clean or dirty petroleum products at a charter hire of US$ 14,250 per day for a period of first six months and US$ 14,500 for the next six months. The charter party agreement also provided that the vessel be fully coiled and capable at all times of heating and maintaining cargo at a minimum of 55^0 C. The vessel delivered by the Company, MT Fonji Sekhon PVC, had traded only in clean petroleum products and the heating coils of the vessel had not been pressure tested since its previous dry docking in December 1989/ January 1990.

The vessel arrived at Houston (September 1991) in the course of the Charter. Charterers reported delay in discharge of oil and surveyors found that 14 out of 21 cargo hold heating coils were malfunctioning, causing drop in temperature below the stipulated level. As temperature maintenance was crucial for dirty petroleum products, Company requested (October 1991) the charterers to explore the possibility of trading in warmer waters and carriage of clean petroleum products till rectification of defects. This was not agreeable to the charterers. Counter offers made by the charterer for reduced charter hire and treating the vessel as off hire till it was cleaned was also not acceptable to the

Company. The vessel was, thus, withdrawn by the Company unilaterally on 11 November 1991.

The Charterer went for arbitration (August 1992). The arbitrator awarded (June 1996) claims on account of overpaid hire, damages, expenses and cost of arbitration. The total payment made by the Company including solicitor charges amounted to Rs. 5.78 crore.

Thus, the failure of the Company to ensure that it would be in a position to satisfy all the conditions of the agreement before entering into a charter party agreement resulted in avoidable loss of Rs. 5.78 crore.

The Ministry stated (April 2000) that:

(i) due to heavy outgo of cost for getting the coils pressure tested, Company's decision to rely on the certification obtained during the dry-docking immediately preceding to the delivery of the vessel to the charterer in July 1991 was a perfectly bonafide and appropriate decision,

(ii) the withdrawal of the vessel by the Company was due to the charterers not agreeing to restrict the use of the vessels for clean petroleum products,

(iii) unfortunate loss and payment of compensation could not be averted.

The Ministry's reply is not tenable as:

(i) as per Clause 1 (C) of the Charter Policy Agreement, the vessel was to be fully coiled and capable at all times of heating and maintaining cargo at the temperature of 55^0C. Failure to comply with the requirement resulted in arbitrator adjudging non-pressure testing as a breach of clause which was a clear indictment of the lapse of the Company.

(ii) since the Company had agreed to provide the vessel capable of carrying clean or dirty petroleum products, it should not have subsequently insisted that the vessel be used only for loading clean products.

The loss may be termed as an unfortunate event but it resulted from the Company's failure to ensure compliance of requirement of the charter party agreement and was, thus, avoidable.

22.2.3 Avoidable standing charges of Rs.5.19 crore and loss of Rs.72.48 lakh on sale of vessels

Failure on the part of the Government to accord approval to sale of vessels in time resulted in avoidable expenditure on standing charges of Rs.5.19 crore and loss of Rs.72.48 lakh on retendering.

According to its Articles of Association the Company had to obtain approval of the President of India for sale of any vessel, which had not completed its economic life. Procedure prescribed (February 1991) by the Government for disposal of vessels

included a time frame of four months to the Company for completion of internal procedures such as techno-economic study, evaluation by screening committee, approval by Board, invitation of tenders, final approval by the Board and submission of proposal to the Government and further four weeks to the Government for conveying final approval of the disposal.

In 1998-99, Company identified, *inter alia,* four vessels for disposal viz. M.V.Kasturba, M.V.Harkishan, M.V.Veer Savarkar and M.V.Trimbakeshwar after conducting a techno-economic study as their continued operation was found to be uneconomical. As these four vessels had not completed their economic life, the Company had to obtain approval of the Government for their disposal. Internal procedures were completed within four months prescribed for all the four vessels. However, receipt of Government approval was delayed by 64 days for M.V. Veer Savarkar, 95 days for M.V.Harkishan, 127 days for M.V.Kasturba and 135 days for M.V.Trimbakeshwar. Meanwhile, validity period of the highest offer for M.V.Veer Savarkar (Rs.3.50 crore) and M.V.Harkishan (Rs.4.41 crore) expired. The vessels had to be retendered delaying the disposal by 238 days. Price fetched (Rs.3.11 crore + Rs.4.08 crore) by the ships due to retendering was also less by Rs.72.48 lakh. Due to the delay in receipt of approval and consequent delay in retendering, the Company had to incur avoidable standing charges of Rs.5.19 crore on the four vessels.

The Management while agreeing with the Audit observation stated (June 2000) that the delay in disposal of the vessels was solely on account of non-receipt of Government approval and the Company did not have any option but to wait till its receipt.The Management added that Government of India had since empowered (23 August 1999) the SCI Board to take decision on disposal of vessels which had not completed their economic life.

The matter was referred to the Ministry in June 2000; their reply was awaited (October 2000).

CHAPTER 23: MINISTRY OF TEXTILES

The Cotton Corporation of India Limited

23.1.1 Avoidable loss of Rs.85 lakh

Company's failure to obtain advance deposit and bank guarantee in accordance with the terms of a contract led to avoidable loss of Rs.85 lakh.

The Company entered into three contracts for sale of cotton with M/s. JCT Group of Mills (buyer) during February and March 1998. The details of contracts are as follows:

Sl. No.	Contract of Sale No.	Date of entering contract	Number of Bales/ Candy* involved		Rate per Candy	Value of contract (Rupees in crore)
			Bales	Candys		
1	7906	3.2.98	2500	1200	22100	2.65
2	7956	10.2.98	5000	2400	21500	5.16
3	8138	9.3.98	2000	960	19650	1.89

As per the terms of contracts (i) the buyer was to deposit a minimum advance equivalent to 10 per cent of the value of contract in addition to a bank guarantee for 5 per cent of the value of the contract and (ii) pay, in advance, carrying charges on quarterly rest basis @ 2 per cent for the first 60 days and @ 2.50 per cent thereafter and interest (bank rate + 1 per cent) till the delivery of cotton.

Out of the total contracted quantity of 9500 bales under the above cited three contracts of sale the buyer did not lift 4600 bales by the stipulated dates (maximum period of 90 days from the date of contract/confirmation i.e. between 5 May 1998 and 9 June 1998). These unlifted bales were resold in March 1999 at a price difference of Rs.63 lakh. Total loss sustained by the Company due to failure of the buyer to lift the cotton amounted to Rs.2.16 crore inclusive of price difference (Rs.63 lakh), carrying charges (Rs.1.46 crore) and interest (Rs.7 lakh) upto June 1999. However, due to lapse on the part of the Company of not collecting an amount of Rs.2.92 crore on account of initial deposit @ 10 per cent of contract value (Rs.97 lakh), bank guarantee (Rs.49 lakh) and carrying charges (Rs.1.46 crore) as per terms of contract of sale, the Company could not fully recover the loss of Rs.2.16 crore sustained in these deal.

Company recovered Rs.32.70 lakh from the credit balance lying with the Company and initiated (August 1999) arbitration to recover the balance loss of Rs.1.83 crore. The claim was filed in October 1999 and the buyer denied the existence of any contract or liability. The arbitration was decided (July 2000) in favour of the Company by an award of Rs.1.31 crore (inclusive of credit balance of Rs.32.70 lakh) to be paid by the buyer in 15 monthly instalment of Rs.6.25 lakh and an additional instalment of Rs.4.70 lakh. This was Rs.85 lakh less than what was due to the Company as per the contract. Thus, the

* *1 Candy = 3.56 quintals*

Company lost Rs.85 lakh in the deals apart from having to put up with a protracted repayment schedule.

The Ministry stated (June 2000) that:

(i) after delivery of cotton bales, there was a credit balance totalling Rs.30.02 lakh which was more than the required 5 per cent value of 4600 bales applicable for spot delivery;

(ii) big buyers like JCT Mills covered their cotton requirement during season time for consumption during whole year and as such delivery by such big buyers could not be restricted to 90 days; and

(iii) once it was clear that the buyer was not in a position to perform, no time was lost in resale of unlifted bales.

The Ministry's reply is not tenable in view of the fact that:

(i) the contract provided for deposit of an amount equivalent to 15 per cent of the contract value and not 5 per cent value of the bales for spot delivery as stated by the Ministry;

(ii) if the Company wanted to allow additional time to big buyers, it should have done so after recovering carrying charges in advance. Carrying charges in this case amounted to Rs.1.46 crore and if that amount, advance and bank guarantee had been recovered, as per contractual terms, Company's loss in this deal would have been fully recovered; and

(iii) waiting for almost one year for a buyer who had not even signed the contract nor requested the Company to keep the stock on his behalf prejudicially affected the interest of the Company. The Company could have taken adequate financial security as envisaged in the contract to ensure that it was properly compensated for any loss caused by failure of buyer to perform his part of the contract.

National Jute Manufactures Corporation Limited

23.2.1 Non-recovery of Rs. 2.13 crore

Lack of initiative on the part of the Management to instal meters at individual quarters and to recover electricity charges from the employees, led to a loss of Rs. 2.13 crore.

Service rules of the Company did not provide for any free supply of electricity to employees residing in the Company's allotted quarters. A circular issued in this regard in April 1984 clearly stated that recovery of electricity charges was to be made from the concerned employees based on reading of individual meters. The Company neither initiated action towards installation of individual meters nor made any attempt to recover Rs. 2.13 crore paid to the concerned authority towards consumption of power by staff during the period April 1995 to October 1999.

The Management stated (July 2000) that the service rules did not specify anything about recovery of electricity charges from the staff. The Management reply is not tenable

because as the service rules were silent about free supply of electricity to staff quarters it was only logical that the charges should be recovered from the employees. Moreover, the Company's circular of April 1984 clearly provided for such recovery based on meter reading.

It is, thus, evident that lack of initiative on the part of the Management to install meters at individual quarters and to recover electricity charges led to a loss of Rs. 2.13 crore.

The Ministry stated (September 2000) that the Company had since been asked to recover the arrears of electricity dues from the employees and also recover the current dues regularly.

National Textile Corporation (TN&P) Limited

23.3.1 Loss due to non-recovery of dues

NTC (TN&P)'s failure to obtain adequate security for value of goods supplied and laxity in re-covering the sales proceeds in time as per contractual obligation from the depot agent resulted in avoidable loss of Rs.1.06 crore.

For sale of yarn in Mumbai, three mills of the National Textile Corporation (TN&P) Limited entered into depot agency contracts with M/s. Kashi Prasad Shyam Behari, Mumbai between 1992-1998. According to the agency agreement terms, the respective mills were supposed to receive sale proceeds immediately on next day in case of cash sale and within 7 days in case of credit sales.

The sale proceeds of the stocks held by the depot agent between March 1997 and April 1998 valuing Rs.1.20 crore could not be realised as the agent stopped communicating with the Company after April 1998 when last consignment was sent. The post-dated cheques issued by the agent to the tune of Rs.40 lakh were dishonoured in October/November 1998. The mills adjusted the available security deposits aggregating Rs.14 lakh with them. With this, the Company was left with huge outstanding of Rs.1.06 crore.

The Company filed (March1999/August1999) three different suits in the court for recovery of amount due from the agent to the three mills viz. (i) Coimbatore Spinning & Weaving Mills (Rs.55.27 lakh) (ii) Cambodia Mills (Rs.42.35 lakh) and (iii) Sri Bharathi Mills (Rs.7.96 lakh) only after it came to know (December 1998) that depot agent was absconding. One suit was decreed (February 2000) in favour of the Company for Rs.55.27 lakh and other two were pending (September 2000). Even the decreed amount could not be realised by the mills/Company (September 2000) since the whereabouts of the agent were not known.

The Company's failure to obtain adequate security for the value of goods supplied and to initiate timely action and follow-up for recovery of sales proceeds as per terms of the agreement resulted in avoidable loss of Rs.1.06 crore.

The Ministry, while confirming the facts (August 2000) intimated that Company had been asked to fix responsibility for the loss and take necessary action for laxity or complicity noticed on the part of any of the officers.

CHAPTER 24: MINISTRY OF URBAN AFFAIRS AND EMPLOYMENT

Housing & Urban Development Corporation Limited

24.1.1 Loss due to non-recovery of interest

The Company sanctioned and released a loan of Rs. 7 crore to a private builder by violating its own guidelines which resulted in non-recovery of interest of Rs.1.90 crore.

The Company which was engaged in the business of financing housing and urban infrastructure activities provides assistance to borrowing agencies in Government and semi-Government sectors like Housing Boards, development authorities etc. In response to a request from a private builder, M/s. Premier Housing and Industrial Enterprises Limited (Party) in June 1997, the Company decided (September 1997) to extend its scheme of financing to private builders also and framed guidelines (October 1997) in this regard which, *inter alia*, included the following terms:

i) in the event of default in repayment of instalments of principal and/or interest on due dates, the borrower would be liable to pay penal interest at the rate of 2.50 per cent over and above the normal rate of interest on total amount overdue;

ii) the loan was to be secured by an unconditional and irrevocable bank guarantee from a scheduled bank for principal amount of the loan as well as interest thereon; and

iii) post dated cheques from the party for repayment of interest and instalments of the entire amount as per the repayment schedule were to be obtained.

The Company sanctioned (February 1998 and March 1998) a loan of Rs.7 crore to the Party repayable in one shot at the end of second year @18.50 per cent interest to be paid on quarterly basis commencing on 30 June 1998. The loan was to be backed by the bank guarantee and in case of default by the borrowing agency, the guarantee was to be invoked in the following month. Accordingly, a sanction cum loan agreement was signed (March 1998) with the party. It was found that the agreement did not include any clause regarding levy of penal interest in case of default by the Party; nor did it provide for obtaining post dated cheques for repayment of the loan along with interest. Further, an additional clause included in the bank guarantee restricted the liability under the guarantor only to the principal amount of the loan. All these were in violation of the guidelines earlier framed by the Company.

The party defaulted in payment of quarterly interest since 30 June 1998 till 31 March 1999; but no action for invoking the bank guarantee was taken till it was pointed out by Audit (April 1999)*. The Company initiated action for invoking the bank guarantee only in August 1999 and requested the bank to make payment of Rs. 8.90 crore (`Principal: Rs.7 crore; interest: Rs.1.90 crore). But the bank remitted (November 1999) only Rs.7 crore, together with Rs.26.38 lakh being the interest from the date of invocation of the guarantee till the date of payment, as its liability was restricted only to the principal amount of the loan. Thus, violation of its own guidelines resulted in loss of Rs.1.90 crore to the Company on account of non- recovery of interest.

While admitting the lapse of the Company the Ministry stated that responsibility for the lapses would be fixed and 'exemplary disciplinary action' would be taken against the guilty.

* ***The Party paid part interest of Rs.20 lakh only in May 1999***

CHAPTER 25

Follow up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes, (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Reports of the Comptroller and Auditor General of India (Commercial) as have been laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Undertakings for detailed examination. The COPU in its 2nd Report (1998-99 - 12th Lok Sabha) while reiterating the above instructions recommended that follow up action taken notes duly vetted by Audit in respect of all the Reports of the C&AG of India (Commercial) presented to Parliament should be furnished to the Committee within six months from the date of presentation of the relevant Audit Reports.

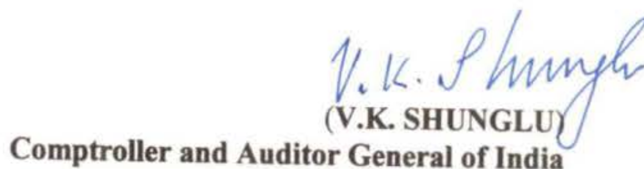
A review has revealed that inspite of reminders from audit, the remedial/corrective action taken notes on the paragraphs/appraisals contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of the various Ministries, as detailed in Appendix, have not been forwarded to Audit for vetting.

Since remedial action, if any, taken by the Government on the audit paras included in the Reports of the C&AG of India is watched by Parliament through the COPU, non-submission of such ATNs has resulted in keeping a large amount of the Government expenditure outside such parliamentary scrutiny.

(J.S.MATHUR)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
The 13 मार्च 2001

Countersigned



(V.K. SHUNGLU)
Comptroller and Auditor General of India

New Delhi
The 13 MAR 2001

APPENDIX

(Referred to in Chapter 25)

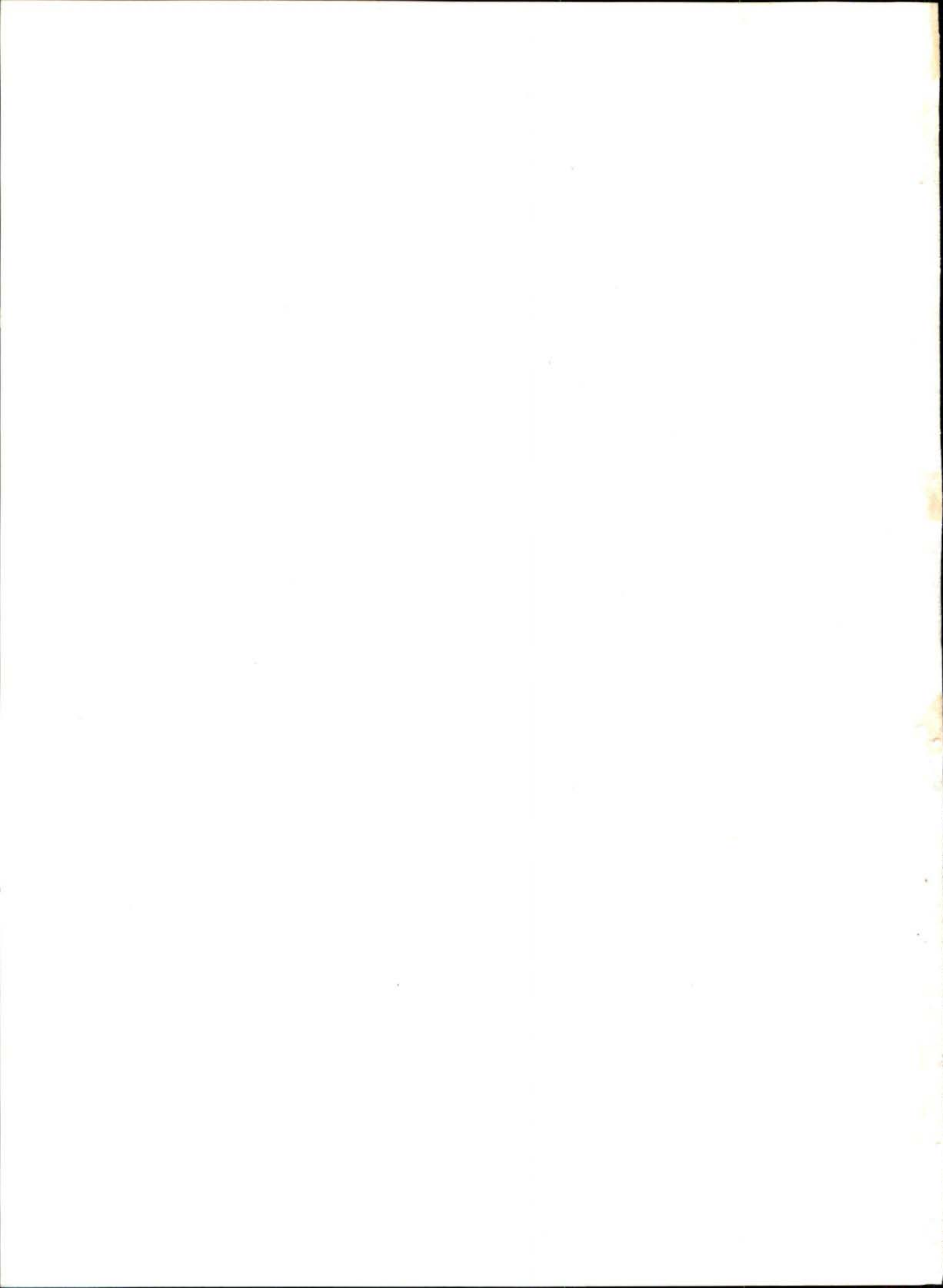
Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes are pending as on 31 October 2000

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Agriculture		
1. No. 2 of 1999	Comments on Accounts	Paras 1.2.1, 2.1.1 and 2.2.1
Department of Chemicals & Petro-chemicals		
1. No. 2 of 1999	Comments on Accounts	Paras 1.3.3, 2.1.3, 2.2.3, 2.4.2 and 2.6.2
2. No. 3 of 1999	Transaction Audit Observations	Paras 1.1.1 and 1.1.2
Department of Fertilizers		
1. No. 2 of 1999	Comments on Accounts	Paras 1.2.8, 2.4.3 and 2.6.4
2. No. 3 of 1999	Transaction Audit Observations	Paras 1.2.3.1, 1.2.3.2 and 1.2.4.2
Ministry of Civil Aviation		
1. No. 3 of 1999	Transaction Audit Observations	Paras 2.1.1 and 2.2.2
Ministry of Communications		
1. No. 2 of 1999	Comments on Accounts	Paras 1.2.20, 1.2.21, 2.1.9, 2.2.7 and 2.4.10
2. No. 3 of 1999	Transaction Audit Observations	Paras 5.2.3, 5.2.4, 5.2.5 and 5.4
Ministry of Consumer Affairs & Public Distribution		
1. No. 3 of 1999	Transaction Audit Observations	Paras 9.2.1, 9.2.4, 9.2.6, 9.2.7, 9.2.8 and 9.2.9

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Environment & Forest		
1. No. 3 of 1994	Audit Observations	Para 11.1
2. No. 2 of 1995	Comments on Accounts	Paras 2.2.30
3. No.16 of 1995	Andaman & Nicobar Island Forest Development Corporation Ltd	
4. No. 2 of 1996	Comments on Accounts	Paras 2.2.16 and 2.7.3
5. No. 2 of 1997	Comments on Accounts	Paras 2.2.18, 2.2.23, 2.4.17 and 2.5.13
6. No. 2 of 1999	Comments on Accounts	Paras 2.5.9 and 2.6.13
Ministry of Finance (Banking Division)		
1. No. 2 of 1998	Comments on Accounts	Paras 1.2.26, 2.2.8, 2.6.12 and 2.8.8
2. No. 2 of 1999	Comments on Accounts	Paras 1.2.28, 1.2.29, 1.2.30, 1.2.31, 1.2.32, 1.2.33 and 1.2.34
3. No. 3 of 1999	Transaction Audit Observations	Paras 8.1 and 8.4
Ministry of Health & Family Welfare		
1. No. 2 of 1999	Comments on Accounts	Paras 2.2.10 and 2.4.14
Ministry of Heavy Industries & Public Enterprises		
1. No. 3 of 1998	Audit Observations	Paras 12.1.2, 12.1.4 and 12.7
2. No. 2 of 1999	Comments on Accounts	Para 1.2.65
3. No. 3 of 1999	Transaction Audit Observations	Paras 11.1.3, 11.2, 11.3, 11.4.1, 11.4.3, 11.4.4, 11.5, 11.6 and 11.7
Ministry of Non-conventional Energy Resources		
1. No. 2 of 1999	Comments on Accounts	Paras 2.1.27, 2.6.29 and 2.8.6
Ministry of Petroleum and Natural Gas		
1. No. 2 of 1993	Comments on Accounts	Paras 1.2.10, 1.3.29, 2.5.26 and 2.5.27
2. No. 2 of 1994	Comments on Accounts	Para 1.3.39

No. and Year of Report	Name of the Report	Para No., if any
3. No. 2 of 1995	Comments on Accounts	Para 1.2.33, 1.3.40 and 2.4.26
4. No. 3 of 1995	Audit Observations	Paras 14.4, 14.8 and 14.12
5. No.24 of 1995	IOC Ltd. (Marketing)	
6. No. 2 of 1996	Comments on Accounts	Paras 1.2.24, 2.4.43 and 2.5.13
7. No. 5 of 1996	Private participation in production of Crude Oil-JVs	Selected by COPU for examination.
9. No. 2 of 1997	Comments on Accounts	Para 2.4.38
10. No. 2 of 1998	Comments on Accounts	Paras 2.2.24 and 2.4.20
11. No. 2 of 1999	Comments on Accounts	Paras 1.2.50, 1.2.53, 1.2.55, 1.2.56, 2.2.21, 2.3.15, 2.4.27 and 2.6.32
12. No. 3 of 1999	Transaction Audit Observations	Paras 12.1, 12.3.1, 12.3.2, 12.4.1, 12.4.2, 12.5.3, 12.5.4, 12.5.8, 12.5.14 and 12.6
Ministry of Planning & Programme Implementation		
1. No. 2 of 1999	Comments on Accounts	Paras 2.2.24 and 2.6.33
Ministry of Power		
1. No. 2 of 1999	Comments on Accounts	Paras 1.2.59, 1.2.61, 2.1.34, 2.5.25, and 2.6.36
2. No. 3 of 1999	Transaction Audit Observations	Paras 13.1.2, 13.3.1 and 13.3.2
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
2. No. 2 of 1999	Comments on Accounts	Paras 1.2.66, 2.1.37, 2.2.27 and 2.6.39
3. No. 3 of 1999	Transaction Audit Observations	Para 15.1
Ministry of Social Justice & Empowerment (Department of Welfare)		
1. No. 2 of 1997	Comments on Accounts	Paras 1.3.43 and 2.3.52

No. and Year of Report	Name of the Report	Para No., if any
2. No. 2 of 1998	Comments on Accounts	Para 1.2.75
3. No. 2 of 1999	Comments on Accounts	Para 2.1.54
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 1999	Comments on Accounts	Paras 1.2.68, 1.2.71, 1.2.74, 1.3.29, 2.1.44 and 2.4.42
4. No. 3 of 1999	Transaction Audit Observations	Paras 16.2, 16.4.1 and 16.4.2
5. No. 6 of 1999	Review on some of the important activities of SAIL	
6. No. 8 of 1999	Appraisal on Rashtriya Ispat Nigam Ltd.	
Ministry of Surface Transport		
1. No. 3 of 1999	Transaction Audit Observations	Paras 17.3.1 and 17.3.2
Ministry of Tourism		
1. No. 2 of 1999	Comments on Accounts	Paras 2.1.52, 2.2.35, 2.2.36, 2.4.49, 2.5.33, 2.6.51 and 2.6.52
Ministry of Urban Affairs and Employment		
1. No. 2 of 1998	Comments on Accounts	Paras 1.2.72, 1.3.43, 2.1.45, 2.2.31, 2.6.40, 2.7.23 and 2.8.23
2. No. 3 of 1998	Audit Observations	Para 19.1



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