REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT

NO.3 (COMMERCIAL) OF 1991

AUDIT OBSERVATIONS ON INDIVIDUAL TOPICS

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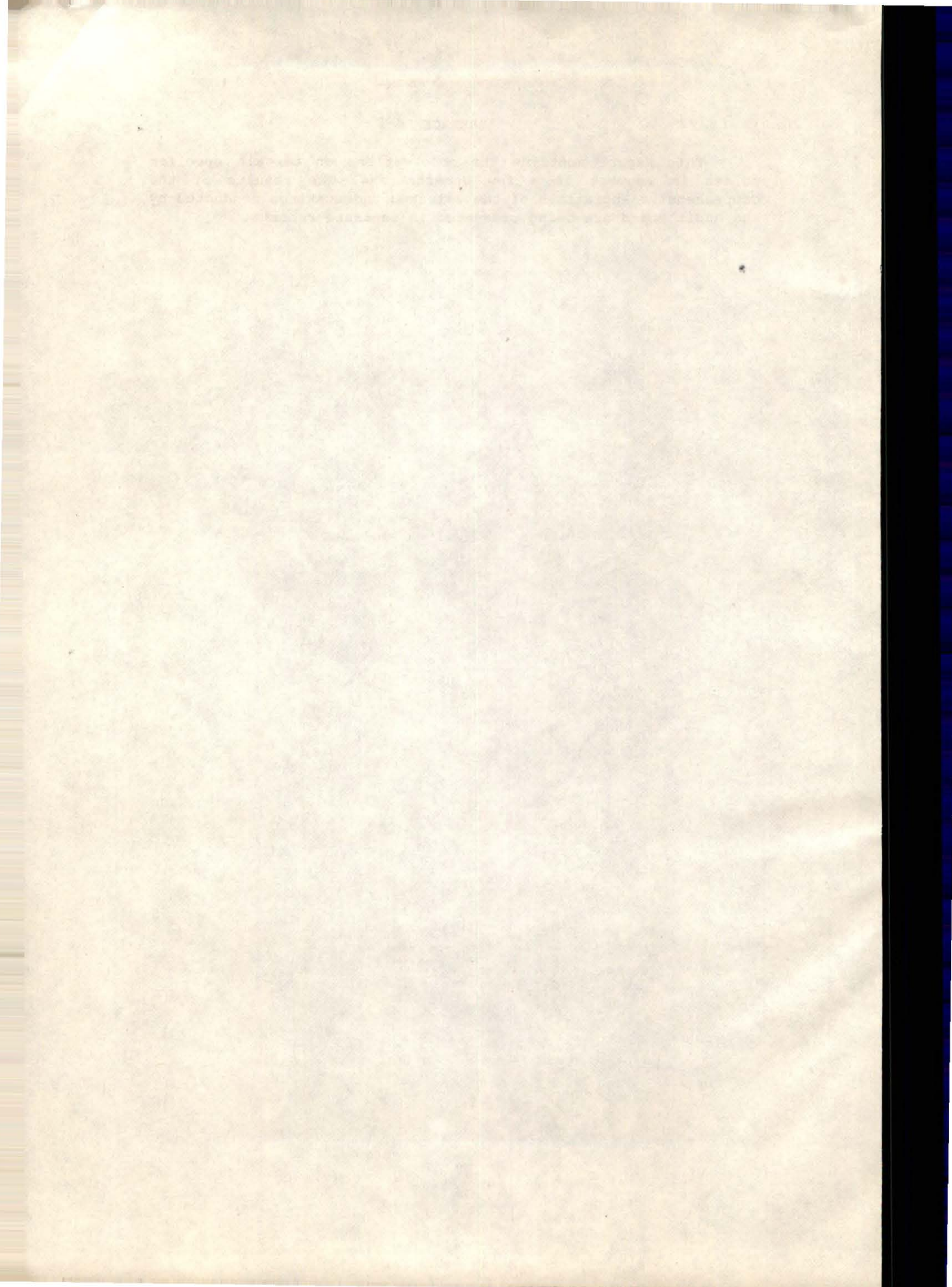
PREFACE

This Report contains the observations on certain specific points in respect of a few Undertakings. The results of the Comprehensive Appraisals of the selected Undertakings conducted by the Audit Board are being presented in separate reports.



OVERVIEW

This Audit Report (Commercial) contains 43 audit paragraphs. Significant audit findings highlighted in the Report are:-

1. UNITED INDIA INSURANCE COMPANY LIMITED

(i) The Insurance company paid an amount of Rs.201.78 lakhs to a insured on a claim in respect of fire policy which did not have valid insurance cover, as the full amount of the premium was not paid by the Insured on due dates of payment as per provisions of Section 64 VB of the Insurance Act, 1938.

(para 1.1)

(ii) Reduction of rates of premium for extraneous perils in respect of a marine special declaration policy by the company without any justification resulted in a loss of premium of Rs.31.04 lakhs .

(Para 1.2)

(iii)In spite of refusal of Regional Committee of the Tariff Advisory Committee (empowered to allow special discounts) to sanction such discounts in respect of a Marine Special declaration Policy in view of adverse claim ratio, the company allowed such discounts in premium to the Insured for the years 1984-85 and 1985-86. This resulted in loss of premium of Rs.25.10 lakhs.

(Para 1.3)

2. NATIONAL INSURANCE COMPANY LIMITED

(i) The company could not realise a premium of Rs.22.95 lakhs from the insured because it did not monitor the submission of statements of actual wages paid by the insured to its employees during 1979 to 1983 as stipulated in workmen's compensation policy. Further,in the absence of wage statements for subsequent periods, additional premium recoverable from the insured for the period from 1.1.1984 to 2.6.1985 and 18.4.1986 to 17.4.1987 could not be ascertained.

(Para 2.1)

(ii) Due to charging lower rates of premium, the company incurred a loss of Rs.11.72 lakhs in respect of fire-policy issued to a power company for the period from 31.12.1984 to 31.12.1986.

(Para 2.2)

(iii) There was a loss of premium of Rs.7.99 lakhs due to incorrect charging of appropriate flood premium rate in respect of a policy for the period from 31.12.1981 to 31.12.1983 issued against fire and allied perils.

(Para 2.3)

3. ENGINEERING PROJECTS (INDIA) LIMITED

(i) The company paid adhoc advances out of the funds borrowed in foreign exchange to its Indian Associates over and above the amounts mentioned in the agreements and without obtaining adequate Bank guarantee. Advances were also made towards materials supplied, hire charges of plant and machinery, workmen compensation insurance etc. much in excess of the value of work done and these advances could not be recovered. This resulted in non-recovery of Rs.60.37 crores leading to protracted arbitration and legal proceedings.

(Para 3.1)

(ii) The company incurred losses in execution of projects, including foreign projects which were financed by raising loans from the Government of India. The outstanding amount of loans due for repayment upto 31st March 1990 was Rs.115.40 crores out of the total loan of Rs.225.74 crores. The company's liability towards interest at the end of March 1990 was Rs.180.17 crores.

(para 3.2)

4. INDIAN AIRLINES CORPORATION

The corporation failed to obtain the possesion of land which was allotted to it in November 1983 despite depositing Rs.1229.58 lakhs in January 1984 towards security deposit (Rs.1195 lakhs) and licence fee (Rs.34.58 lakhs) and incurring an expenditure of Rs.3.06 lakhs in demolishing an existing structure on the leased land. The blocking up of funds (Rs.1229.58 lakhs) resulted in loss of interest to the extent of Rs.819.73 lakhs between January 1984 to August 1990.

(para 4)

5. SHIPPING CORPORATION OF INDIA LIMITED

(i) Due to in-ordinate delays in supply of vessels by another Public Sector Undertaking,the Company had to incur extra expenditure of Rs.641.26 lakhs on account of increase in prices and foregoing of claims for interest charges from the supplier. One vessel was accepted by the company on considerations other than commercial viability and operational efficiency.

(Para 5.1)

(ii) Due to delay in getting the approval of Director General of Shipping for scrapping a vessel, the company suffered avoidable loss of Rs.30.38 lakhs on retendering the ship for scrapping, in addition to the maintenance cost of the vessel amounting to Rs.54.84 lakhs incurred from the date of lay up till its delivery.

(Para 5.2)

6. THE FERTILIZER CORPORATION OF INDIA LIMITED

Due to delay in clearance of the consignments within free time, the company had to incur avoidable expenditure of Rs.241.49 lakhs towards port rent.

(Para 6)

7. TYRE CORPORATION OF INDIA LIMITED

The company/Government of India failed to physically verify the assets taken over from the erstwhile Incheck Tyres Limited and National Rubber Manufacturers Limited on the date of nationalisation. Failure to get the assets physically verified before arriving at the purchase consideration resulted in over valuation of compensation money paid to the extent of Rs.239.56 lakhs and resultant loss to the company.

(Para 7)

8. INDIAN OIL CORPORATION LIMITED

(i) Non-pigging of the Haldia-Mourigram-Rajbandh pipeline as per prescribed schedule resulted in contamination and consequent downgradation of aviation turbine fuel resulting in a loss of Rs.36.19 lakhs to the company.

(Para 8.1)

(ii) Due to unrealistic projections made on the availability of surplus LPG from Dhuliajan Project in Assam of Oil India Limited, the expenditure of Rs.193.93 lakhs incurred by the company on setting up of LPG handling facilities at New Bongaigaon and Kalyani proved to be largely infructuous.

(Para 8.3)

9. ELECTRONICS CORPORATION OF INDIA LIMITED

(i) Due to time and cost overruns in supply and commissioning of Thyristor conversion equipment for Indian Railways, the company suffered a loss of Rs.184.51 lakhs upto January 1991. The loss would increase further by the expenditure likely to be incurred for completion of the Project (estimated at Rs.120 lakhs by the company).

(Para 9.1)

(ii) The company suffered a loss of Rs.26.12 lakhs on the development and sale of three sets of 3KW high Power Amplifiers due to payment of liquidated damages, deduction by the purchaser for unsatisfactory performance of sets and acceptance of uneconomic prices.

(Para 9.2)

10. AIR INDIA

Due to absence of advance planning, non-assessment of all the aspects of the project and awarding the work to a contractor whose performance in past and also on on-going projects was unsatisfactory, the corporation incurred an avoidable expenditure of Rs.137.44 lakhs on account of undue delay in construction of a Hanger.

(Para 10)

11. BHARAT HEAVY ELECTRICALS LIMITED

(i) Due to ignorance of the Government of India notification of June 1977 regarding exemption in excise duty, not following the prescribed procedure and delay in lodging refund claims, the company suffered a loss of Rs.132.50 lakhs during the period June 1977 to January 1982 in respect of the Bhopal Unit.

(Para 11.1)

(ii) Procurement of one single draw-bench machine at a cost of Rs.12.13 lakhs in February 1984 by SSTP Division Trichy without any realistic assessment of the demand for its use resulted in non-utilisation of the machine and resultant blocking of company's funds to the extent of Rs.12.13 lakhs.

(Para 11.2)

12. THE MINERALS AND METALS TRADING CORPORATION LIMITED

The company imported Molyoxide which the end users did not lift owing to steady and steep decline in prices. Since the company's proposal for re-export did not materialise, the material was sold in small lots resulting in a loss of Rs.292.47 lakhs -Rs. 118.57 lakhs on sale of material , Rs.167.50 lakhs on account of interest loss on blocked funds and Rs.6.40 lakhs incurred on godown rent, insurance and handling charges.

(Para 12)

13. NATIONAL FERTILIZERS LIMITED

Due to excess storing of items of stores in violation of the terms and conditions of the Insurance Policy the Insurance company settled the claim of damage due to fire in the company's stores for Rs.505.59 lakhs after deducting Rs.86.80 lakhs on account of non-adherence of special storage condtions of the Policy by the company. Thus, the company suffered a loss of Rs.86.80 lakhs on this account.

(Para 13)

14. MAZAGAON DOCK LIMITED

Due to delay in taking insurance cover, which was caused by lack of timely communication between the operating and accounts departments of the company, the company suffered a loss of Rs.85.25 lakhs on account of damage caused by accident occuring before the commencement of the period of insurance.

(Para 14)

15. TANNERY AND FOOTWEAR CORPORATION OF INDIA LIMITED

Due to delay in construction of factory building, imported machines could not be installed for a period of 5 years resulting in blocking of Rs.48.68 lakhs with consequential loss of interest of Rs.42.46 lakhs. The output of the factory even after substantial investment on modernisation did not improve, nor did it achieve its objectives of export.

(Para 15)

16. BHARAT EARTH MOVERS LIMITED

The failure of the company to mention clearly the reduced rates of freight offered by the Shipping Corporation of India Limited in the amended purchase order of March 1988 for supply of CKDs/Components for Dump Trucks on a U.S. Firm resulted in an extra expenditure of Rs.42.56 lakhs in foreign exchange.

(Para 16)

17. HINDUSTAN VEGETABLE OILS CORPORATION LIMITED

The company paid a sum of Rs.41.50 lakhs to a sub-contractor for civil construction works, without verifying the progress of work and without any bill from the sub-contractor. Subsequent evaluation of the work done revealed that work valuing Rs.11.25 lakhs only was executed. This resulted in an excess payment of Rs.30.25 lakhs, which was in total dis-regard of the terms and conditions of the work order.

(Para 17)

18. TEA TRADING CORPORATION OF INDIA LIMITED

(i) The company suffered a loss of Rs.22.44 lakhs due to rejection of tea by the Defence Authorities on the grounds that the tea supplied was substandard and not conforming to the specifications as per samples approved.

(Para 18.1)

(ii) Due to inability of the company to sort out the manufactured tea expeditiously, the accumulated tea deteriorated resulting in a loss of Rs.10.91 lakhs.

(Para 18.2)

19. METALLURGICAL AND ENGINEERING CONSULTANTS (INDIA) LIMITED

Failure of the management of the company to keep abreast of the full details of tax concessions allowed by the Government resulted in a loss of Rs.22.28 lakhs due to non-availing of surcharge on income tax.

(Para 19)

20. EASTERN COALFIELDS LIMITED

Avoidable extra expenditure of Rs.18.38 lakhs was incurred by the company due to non-acceptance of lowest offer in procurement of seven Crawler Mounted Drills.

(Para 20)

21. NEYVELI LIGNITE CORPORATION LIMITED

The company had incurred an avoiable expenditure of Rs.16.75 lakhs due to defective storage resulting in damages to the Binary Control Cubicles (Steam generator components) imported during 1983-85 at Rs.3.99 lakhs and also resorted to emergency purchase of almost equal number of additional modules for about Rs.28.19 lakhs.

(Para 21)

22. INDIAN DURGS AND PHARMACEUTICALS LIMITED

Non payment of electricity bills on the due dates by the company, resulted in payment of additional charges of Rs.101.09 lakhs.

(Para 22)

23. HINDUSTAN AERONAUTICS LIMITED

Due to non-verification of invoices of boughtout items before payment, the company had overpaid Rs.15.27 lakhs to a foreign supplier in respect of certain items. Pending settlement of issue of actual verification of invoices, the total overpayment made could not be ascertained.

(Para 23.1)

24. INDIA TOURISM DEVELOPMENT CORPORATION LIMITED

The failure of the company in measuring correctly the area leased out in the Kanishka Shopping Plaza resulted in a loss of revenue of Rs.12.23 lakhs from June 1983 to July 1986.

(Para 24)

25. BANARHAT TEA COMPANY LIMITED

Failure to ensure the reasonability of the rates of the transportation charges etc. by inviting tenders or otherwise resulted in allowing higher rates and incurring extra expenditure of Rs.10.31 lakhs on transportation of coal by the company.

(Para 25)

26. COAL INDIA LIMITED

The company incurred infructuous expenditure of Rs.9.19 lakhs on import of roof drilling rigs for Moonidih Project without adeqauate consideration for its suitability for drilling the roof. These drills supplied in June/July 1984 were not effective for the purpose and are lying idle.

(Para 26)

27 FERTILIZERS AND CHEMICALS TRAVANCORE LIMITED

Purchase of 93 M3 of Polypropylene Rings (substitute for ceramic saddles in the absorber and regenerator sections of Ammonia Plant at Cochin) at a cost of Rs.10.28 lakhs from a private firm in Bombay in 1981 without ensuring the suitability of the material resulted in a loss of Rs.8.98 lakhs to the company when they were finally disposed off in March 1987 without putting them to use.

(Para 27)

28. NATIONAL TEXTILE CORPORATION (M.P.) LIMITED

Consequent to the decision made in October 1981 to instal one more Diesel Generating Set, the company procured and installed the set at a cost of Rs.7.91 lakhs in May 1985 by which time there was no need for it. The order could not be cancelled mainly because the supplier refused to refund the advance of Rs.7.91 lakhs paid in January 1984. The set had been lying idle since its commissioning.

(Para 28)

29. HMT LIMITED

The company took an unduly long time of eight years to determine the acceptability of the components offered by a Swiss firm for its Watch Factory at Tumkur while similar components were being used by the Watch factory at Bangalore. This resulted in the Tumkur factory meeting its requirements from other sources by paying higher prices which resulted in extra expenditure of Rs.90.49 lakhs.

(Para 29)

30. FOOD CORPORATION OF INDIA

Due to non-observance of the quality control instructions during the purchase of paddy, the corporation suffered a loss of Rs.103.72 lakhs.

(Para 30)

31. VIDESH SANCHAR NIGAM LIMITED

Failure in timely revision of contracted demand of power supply resulted in extra expenditure of Rs.16.29 lakhs during September 1985 to February 1990.

(Para 31)

1. UNITED INDIA INSURANCE COMPANY LIMITED.

1.1 Settlement of claim in contravention of section 64 VB of the Insurance Act, 1938.

According to Section 64 VB of the Insurance Act, no insurer shall assume any risk unless and until the premium payable is received by him. A risk in respect of a policy may be assumed before premium payable in respect thereof is received, if the entire amount of the premium is guaranteed to be paid by a Banking Company before the end of the calender month next succeeding the month in which the risk is assumed if the premium due is not paid by the insured before that date. The Controller of Insurance in his letter dated 17.4.1984 addressed to the Chairman-cum-Managing Director of the Company, while pointing out the above statutory provisions, stated that if, in any case, these statutory provisions have not been complied with, the insurer is barred from issuing any Insurance Policy and even if such a policy has been issued, it cannot be said that valid insurance cover exists and in consequence the insurer is precluded from admitting any claim under such a policy.

A Hyderabad Division of the Company issued fire and other risks policies covering the assets of a spinning mill 'p', initially for the period from 8.3.1984 to 8.3.1985 for Rs.155.15 lakhs. These policies were renewed for the subsequent annual periods for different amounts. The policies effective for the period 8.3.1986 to 8.12.1987 were for Rs.885 lakhs. The total amount of premium payable was Rs.4.98 lakhs. At the time of undertaking the risk for the renewed period, a bank guarantee for Rs.2 lakhs only valid for the period 9.3.1986 to 8.9.1986 was furnished by the Insured. The bank guarantee was raised to Rs.4.00 lakhs from 8.9.1986 and Rs.4.55 lakhs from 10.2.1987. The Company collected from the insured a sum of Rs.0.59 lakhs between 6.6.1986 to 9.12.1986 in instalments. Although the Insured had failed to pay the entire premium in cash or give a bank guarantee for the full amount at the time of renewal of policy, the risk was undertaken and policies were renewed. Even though the Insured had not paid the full premium amount in cash upto 9.3.1987, the Company did not encash even the bank guarantees given by the insured on the ground that the client had requested the Divisional Office on 7.5.1986 for some more time to make payment.

On 6.3.1987 and 7.3.1987, a fire broke out in post spinning and Synthetic Fibre Sections of the Mill, respectively, in which machinery and stocks were damaged. Out of the balance amount of premium of Rs.4.40 lakhs, the insured paid Rs.2 lakhs by cheque dated 3.3.1987 (encashed on 9.3.1987) and Rs.2.40 lakhs by cheque dated 7.3.1987 (encashed on 9/10.3.1987) i.e. only after the occurrence of this damage.

Two surveyors were appointed to survey and assess the loss jointly . Interim report recommending an 'on account' payment of Rs. 1.25 crores was received from the surveyors on 7.5.1987. This'on account' payment was made on 26.5.1987 pending final assessment of loss. After considering the final report, a further sum of Rs. 76.78 lakhs was approved for payment to the Insured in February 1988. Thus, a total sum of Rs.201.78 lakhs was paid to the Insured.

The settlement of the claim is not in order as the Company should not have undertaken the risk and renewed the policy without receiving the full premium. Therefore, at the time of occurrence of loss, there was no valid cover for the spinning mill and consequently there was no liability on the part of the company to pay the claim.

It was also observed that the fact of non-receipt of premium due on the renewed policies before undertaking the risk and the fact of violation of the provisions of Section 64 VB of the Insurance Act and the instructions of the Controller of Insurance as to the course of action to be taken in such circumstances were not brought to the notice of the Board of Directors of the Insurance Company while recommending the 'on account' payment.

The GIC stated (August 1990) that the Insured took his own time in remitting the premium; the invocation of bank guarantee as a system was not in vogue and apparently this was the reason for not complying with the instructions of the Controller of Insurance as contained in his letter of 17.4.1984. It added that no specific reference to compliance of Section 64 VB of the Insurance Act was made in the notes submitted to the Board as per the practice then existing in the Company. The Head Office of the Insurance Company relied upon the statement of the Divisional Office that the premium had been collected. The Company further added that instructions were issued by the GIC subsequently in November 1987, insisting upon all

companies for strict compliance of Section 64 VB of the Insurance Act and to specifically mention compliance with these provisions in all notes submitted to the Board of Directors seeking approval for payment of claims. The responsibility had been fixed for the lapse on two Divisional Managers and suitable penalties imposed. The Ministry endorsed the above views of GIC.

Thus, the Insurance Company paid an amount of Rs.201.78 lakhs on a claim which did not have valid insurance cover.

1.2.Avoidable loss of premium for extraneous perils.

Bombay Division of United India Insurance Company Limited had been issuing from 1981, Marine Special Declaration Policies to a Tobacco Company. The Policy covered not only all risks of inland transit for which rates were governed by All India Marine Cargo Tariff but also extraneous perils like damage or loss due to (i) strike, riot and civil commotion,(ii) rain or fresh water and (iii) crushing following internal impact on consignment in transit, for which rates were to be decided by the concerned divisions as these risks were not governed by Tariff. No guidelines for fixation of rates for extraneous perils were issued by the company and the matter was left to the discretion of the Divisional Offices.

The All India Marine Cargo Tariff stipulates that the special discounts are permissible as reduction in the tariff rates to the Insureds, provided the loss ratio for the last three years is maintained at below 60% of the premium. The Division had obtained approval of the Bombay Regional Committee of the Tariff Advisory Committee for allowing 50% discount on tariff rates for the policy issued for the period from 1.1.1983 to 31.12.1983. The Bombay Regional Committee reduced the special discount from 50% to 25% for the subsequent renewal for the period from January to December 1984 due to adverse claims ratio. Though the Bombay Regional Committee increased the net rate payable for basic tariff risk,the division reduced the rates for extraneous perils to ensure that there was no difference in the net rate of premium payable by the insured to the Company not withstanding the fact that the claims position for extraneous perils was very high during the years 1981 to 1984 as indicated below:-

(Rs.in lakhs)

Year	Premium Received			Claims Paid/due			
	Basic prem-ium.	Pre-mium for ext-rane-ous Perils	Total	Basic Perils	Extra neous Perils	Total	Per centage of claims paid to Premium received
1981	8.87	6.74	15.61	N.A.	N.A.	13.39	85.8
1982	10.25	8.32	18.57	0.87	9.62	10.49	56.5
1983	11.72	9.35	21.07	2.36	15.34	17.70	84.0
1984	18.11	4.77	22.88	0.83	10.54	11.37	49.7

There was , therefore, no justification for reducing the premium so drastically for extraneous perils during 1984. Unjustified reduction of the tariff rate for extraneous perils resulted in loss of premium of Rs.6.03 lakhs to the company during 1984.

It was further observed that the Tariff Advisory Committee increased the rate of maximum discount to 50% from 1985, as the claims ratio ceased to be adverse. However, the Company during the period from 1st January 1985 to 30th June 1988, continued to charge premium at reduced rates for extraneous perils even though the claims position for extraneous perils remained very high as is evident from the following:-

(Rs.in lakhs)

Year	Premium Received			Claims Paid/due			
Ending June.	Basic Pre-mium	Prem-ium for extrane-ous perils	Total	Basic Peri-ls	Ext-ra neous peri-ls	Total	Perce-ntage claims to pre mium rece ived
1985-86	33.34	0.96	34.30	3.43	23.83	27.26	79.48
1986-87	22.03	2.11	24.14	1.21	13.05	14.26	59.07
1987-88	15.79	1.24	17.03	0.60	16.50	17.10	100.41

The loss of premium as a result of reduction of rate of premium for extraneous perils during the period from 1st January 1985 to 30th June 1988 worked out to Rs.25.01 lakhs. The company restored the original rates for extraneous perils from 1.7.1988 onwards.

The Ministry in its reply(January , 1990) inter-alia stated as under:-

1) Extraneous perils are not tariffed and no uniform guidelines can be laid down and rates are decided by the Divisional Office concerned based on merits of each case;

2) In respect of the period January to December 1984 the rates for extraneous perils were in fact adjusted on a rationalised basis to arrive at the overall rates for the composite cover which were more than the previous year.

3) The claim ratio which was 85.8% in 1981 came down to 47.5% in 1982 and again went upto 64.28% in 1983. Since the ratio for 1983 was 64.28% the BRC decided to reduce the special rate of discount to 25% in 1984. The claim ratio in 1983 was still much less than in 1981 and therefore, the Division appears to have considered it rational and proper in its judgement to give relief to the insured in the rate for the extraneous perils in 1984, while keeping overall composite rate higher than in the previous year.

4) After restoring the discount to maximum of 50% for basic perils for 1985 by BRC, it would not have been proper to increase the rate for extraneous perils for that year since such a step would have been unacceptable to the Insured.

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

a) Though rating for extraneous perils is within the discretion of the insurer, such discretion should be exercised having regard to the circumstances of each policy. In the instant case. the Company revised its earlier rates to a lower level the moment the TAC reduced the rate of special discount for tariffed items. Such action cannot be construed as rationalisation but would appear to have been adopted to even out the effect of reduction of discount in basic rates.

b) For granting special discount, the Tariff Advisory Committee always considered the last three years claim ratio of the insured and not in isolation for a particular year. Further the claim ratio for 1982 and 1983 was 56.5% and 84% respectively and not 47.5% and 64.28% as stated by the Ministry.

c) Even after the discount in basic rate was restored to maximum level, the company did not increase the rates for extraneous perils,.

d) The action of the Company to reduce the rates was not justified in view of the adverse claims position under extraneous perils over a period of years from 1984.

Thus, the company had been put to an avoidable revenue loss of Rs. 31.04 lakhs.

1.3.Loss due to irregular grant of discount on marine cargo policy.

Marine Special Declaration Policies Tariff provided for grant of discount in the premium on a graded scale based on the annual despatches. The tariff also provide that such discounts may be allowed by the companies where the cover granted under the policy is limited to basic cover only plus SRCC (strike, riot and civil commotion) risk without any reference to the Regional Committee in such a way that, after the discount, the loss ratio shall not exceed 60% under the policy at net rate. But according to Section 3 and Rule (B)and (C) of the tariff, if the cover granted is wider than the basic cover, a reference shall be made to the Regional Committee detailing the claims experience of the last three years immediately preceding the expiring year and the discount shall be considered by the Committee in such a way that after the discount, the loss ratio shall not exceed 60% under the policy at the net rate.

The Anand Divisional Office of the Company issued a Marine special Declaration Policy to a co-operative federation covering the transit of dairy products of every description including Ghee, Butter etc. from any where in India to anywhere in India on "All Risk" basis for the period from 1.3.1980 to 1.3.1981 and the policy was renewed thereafter. Although the claim ratio was more than 70% from the very first year, the Tariff

Advisory Committee sanctioned 50% discount for the year 1981-82 to 1983-84.

At the time of renewal of the policy for the period from 1.3.1984 to 29.2.1985, the average loss experience for the previous three years (1980-81 to 1982-83)) was 83.76%. As per tariff provisions, approval of Bombay Regional Committee was essential for granting any discount in premium for the year 1984-85 as the claim ratio was very adverse. The Divisional Office, however, granted discount amounting to Rs.15.11 lakhs at the rate of 40% on the policy renewed as well as on the mid-term increase in the sum insured and simultaneously referred the matter (April 1984) for ex-post facto sanction which ,in view of the high claim ratio,was turned down by the Bombay Regional Committee in the same month. The Company thereafter again appealed (July 1984) to the Tariff Advisory Committee to sanction discount at least at the rate of 25% which was also turned down by the Committee in October 1984 on the ground that there were no justifications to make any deviations from the tariff provisions.

Although the Company was aware of the non-approval of any discount in premium when the average claim ratio was 83.76% for previous three years, the policy was further renewed for the next year from 1.3.1985 to 28.2.1986 by granting discount of Rs.9.98 lakhs at the rate of 25% though the average claim ratio for previous three years was as high as 90.01%. The Company thereafter applied (February 1986) to Bombay Regional Committee of Tariff Advisory Committee and to Tariff Advisory Committee (April 1987) for ex-post facto sanction to allow discount at uniform rate of 25% for consecutive two years 1984-85 and 1985-86. Bombay Regional Committee of Tariff Advisory Committee and Tariff Advisory Committee, however, turned down the appeals in April 1986 and November 1988 respectively.

The Management stated (April 1989) that the policy was rectified for the year 1986-87 by collecting the additional premium and withdrawing the special discount and that regarding the earlier years, they were pursuing the matter with the Insured. The amount had not been received so far (July 1990). The premiums on policies for 1986-87 onwards were charged in accordance with the rules. General Insurance Corporation of India and United India Insurance Company Limited stated that the amounts of short collection shown as Rs.15,11,062 for 1984-85 and Rs.9,98,445 for 1985-86 respectively would be considerably reduced, since based upon the

premium and claim, the insured would be entitled to a minimum discount of 19.14% and 7.52% respectively during 1984-85 and 1985-86. The Ministry stated (March 1990) that these views should be taken into consideration.

Reply of the Ministry/GIC overlooks the fact that there is no provision in tariff which allowed the company to sanction discount for wider cover and these powers are vested with the Regional Committee of the TAC Under Section 3 and Rule (B) and (C) of All India Marine Cargo Tariff and this committee had refused to sanction discount in view of adverse claim experience.

Thus, there had been a loss of Rs.25.10 lakhs due to irregular grant of discount in premium on the policy for the years 1984-85 and 1985-86.

2.NATIONAL INSURANCE COMPANY LIMITED

2.1.Undercharge of premium due to non-observance of the conditions of the Policy.

Workmen's compensation policy covering all employees for the period from Ist January 1979 to 31st December 1979 was issued to a firm by the Calcutta D.O.III of the Company and the same was renewed for subsequent years upto 1985.

The tariff provides that a provisional premium is to be charged based on the amount of estimated wages to be paid during the period of insurance and premium is to be adjusted at the end of the period based on the amount of wages actually paid. For this purpose, the insured is required to furnish to the insurer within one month from the expiry date of such period of insurance, a statement of actual wages paid. If the amount so paid shall differ from the amount on which the premium has been paid, the difference in premium shall be met by a further proportionate payment to the Company or refund to the Insured as the case may be.

The insured firm did not furnish the wages statement for the years 1979 to 1985. The insurer consequently did not adjust the premium after expiry of the policy period but renewed the same year after year upto 1985. The Insurance company did not watch the compliance of the conditions regarding submission of information within one month after expiry date of the insurance policy. However, in January 1984, the insured firm furnished the wages statement from 1979 to 1981 and in November 1984 for 1982 and 1983. It did not furnish similar statements for the period 1984 to 2nd June 1985.

It was noticed from the wages statements received that an additional premium of Rs.22,95,031 was realisable from the insured for the period from 1979 to 1983 . The Company preferred a bill against the insured for Rs.22,95,031 on 3rd August 1985. The amount was not paid by the insured on grounds of financial difficulties.

The policy was discontinued from 3.6.1985. However, the risk was again underwritten for the period from 18.4.1986 to 17.4.1987 with a specific written assurance of the insured firm (22.1.1986) that all outstanding premium should be paid latest by

31.12.1986. Not only was the outstanding premium not paid by the firm, it did not even submit statement of wages for the past and current periods. In the absence of these statements, additional premium, if any, recoverable from the insured for the period from 1.1.1984 to 2.6.1985 and 18.4.1986 to 17.4.1987 could not be ascertained.

The Ministry in its reply (November 1990) admitted the lapse on the part of the Insurance Company and stated that the Company had filed a money suit for the recovery of additional premium in June 1988 and the matter was subjudice.

2.2.Loss of premium due to incorrect application of Tariff.

A Calcutta based division of the Company issued a fire policy to a Power Company in Uttar Pradesh for the period from 31.12.1984 to 31.12.1985 and subsequently renewed it during 31.12.1985 to 31.12.1986 to cover Buildings and Plant & Machinery of the Insured's Power Generating Station for an insured sum of Rs.98,41,75,156. As per the ruling tariff, the fire premium is to be charged according to the use/occupation of the building and processes carried on therein. The Division charged premium at the rate of Rs.0.70 per mille on the entire sum insured.

The premium on Coal Handling Plant insured for Rs.8,10,53,776/- and included in the above sum was also charged at the rate of Rs.0.70 per mille alongwith other Buildings and Plant & Machinery instead of the tariff rate of Rs.6.65 per mille plus 25% night work extra applicable to Coal Crushing Mill.

At the time of covering this risk, there was no separate tariff in existence for Coal Handling Plant (CHP) as such,the item included in the tariff applicable from 1.1.1979 was "Coal Pulverising and Coal Crushing Mills for which a rate of Rs.6.65 per mille was to be charged. Although Coal Pulverising and Crushing is not the sole function of Coal Handling Plant ,yet the coal crushing and pulverising is one of the most important constituents of Coal Handling Plant and, therefore, at least the rate applicable viz. Rs.6.65 per mille to coal pulverising & crushing should have been charged to CHP instead of Rs.0.70 per mille, which was applicable to only buildings and machinery of Thermal plants. In 1983, the New India Assurance Company Limited had charged the rate of Rs.6.65 per

mille as premium for the Coal Handling Plant at Barauni Thermal Power Station and Patratu Thermal Power Station in Bihar.

General Insurance Corporation's reply of 11th January,1991 forwarded by the Ministry in February 1991 stated that it was not clear to them from the tariff provision then existing whether the rate prescribed for pulverising and crushing mills would apply to pulverising and crushing mills doing job work for others or it would also apply to the Coal Handling Plant forming part of a Thermal Power Station. The Company further stated that when the question of rating the Coal Handling Plants was referred (January 1985) to the four Regional Committees of Tariff Advisory Committee (viz. Calcutta Regional Committee, Delhi Regional Committee, Madras Regional Committee and Bombay Regional Committee), the Bombay Regional Committee intimated (March 1985) that the Coal Handling Plant could be treated as integral part of the power plant and rated accordingly. Madras Regional Committee, however, intimated that the rate of Rs.0.70 per mille could be charged only provisionally, but accorrding to the Company,this advice regarding provisional rating became infructuous by virtue of the fact that no subsequent advice was received from the Committee.Opinion, if any, expressed by other two committees is not known.

The Company's action of charging the lower rate of Rs.0.70 per mille was not correct because of the following :

a) In the absence of any qualifications in the tariff effective from 1.1.1979, there was no reason to doubt that the rate prescribed for pulverising and crushing mills applied to coal handling plant doing job works only for others.

b) The competent authority for giving clarifications in tariff matters is Tariff Advisory Committee (Head Office) and not Regional Committees. If the Company had any doubt in these matters, it should have got it clarified from TAC (Headquarters) especially in view of the different interpretations given by the Regional Committees. When the matter came before the TAC, TAC gave the ruling in September 1987 that the detached coal crushing plant in a thermal power station should be rated per se implying that the separate rate

prescribed for Coal Pulversing and Coal Crushing Mills should be charged.

Due to charging lower rates, the Company incurred a loss of Rs.11.72 lakhs on premium for the period from 31.12.1984 to 31.12.1986.

2.3.Loss of premium due to charging of lower rate than authorized by the Tariff.

A Calcutta based division of the Company covered various non-hazardous stocks stored in three different godowns and stock lying in the open yard of a firm in calcutta, agaist fire and allied perils i.e. Riot, Strike, Malicious Damage, Flood, Storm etc. and Air Craft damage risk for a total insured sum of Rs.1.50 crores for the period from 31.12.1981 to 31.12.1982. As the policy was issued under one sum, floater extra as applicable in the tariff had been charged. Sum insured under the policy was subsequently increased to Rs.4 crores with effect from 29.6.1982 and was renewed for the period 31.12.1982 to 31.12.1983 for an insured sum of Rs.3.50 crores. The Insurance Company charged a flat rate of Rs.0.10% for flood cover on various stocks lying in godown or anywhere in the open yard for the policy period from 31.12.1981 to 31.12.1982 and at Rs.0.50% for the period from 31.12.1982 to 31.12.1983. According to Rule 6 of Part-I -General Rules and Regulations Section-I of the All India Fire Tariff, a risk rateable under more than one tariff and/or more than one section of a tariff must bear the highest rate applicable to the risk. Since the rate prescribed in the tariff for grant of flood cover on 'stock stored in open' is Rs.10%, the risk for the entire period and sum insured should have been rated at Rs.10%. Thus, non-charging of appropriate flood premium rate during the period from 31.12.1981 to 31.12.1983 had resulted in under charge of premium of Rs.7.99 lakhs.

The incorrect charging of the premium was brought to the notice of the Division by Audit in June 1987. The division claimed (February 1989) the amount of Rs.7.99 lakhs from the insured. The Ministry endorsed the views of GIC which stated (August 1990) that :-

i) As per tariff, a rate of Rs.10% was required to be charged for storage in open and hence the risks of stocks in all the godowns should have been charged at this rate.

ii) Had the insurer given advice to the insured to declare the sum insured separately in respect of each location of storage, the additional premium recoverable for the entire period for goods stored in open would have been Rs.40,182.

iii) The Company decided to fix responsibility on the officer concerned but unfortunately the concerned officer had retired on 28.2.1989.

The reply of Ministry/GIC ignores the fact that :-

i) GIC itself had admitted that the risks of stocks in all the godowns also should have been charged at Rs.10 %; and

ii) The amount of undercharge of Rs.40,182 mentioned by GIC is based upon a non existent situation.

3.ENGINEERING PROJECTS (INDIA) LIMITED.

3.1.Grant of irregular adhoc advances to Indian Associates and Consequential loss of foreign exchange.

I. Mention was made about loss in execution of foreign projects by the Company in para No. 9 of Audit Report (Commercial)-1989 No.9.The Company undertook the execution of civil works and material handling projects in Kuwait and Iraq from 1976 onwards. The work was got executed by entering into agreements with sub-contractors known as Indian Associates. As per terms of payment envisaged in the agreements total advance ranging from 3 to 10 percent of the contract value of the work was payable to the Associates against irrevocable bank guarantees from a Nationalised Bank in India, for an equal amount in favour of the Company. The amount of advance granted was to be recovered from the bills for the work done by the Associates. The Company, however, started paying adhoc advances to these Associates out of the funds borrowed by it in foreign exchange from banks over and above the amount mentioned in the agreements without obtaining bank guarantee. The Company also did not settle the mode of recovery of advances.

2. The Committee of Directors of the Company had reiterated in November 1978 that Associates should be paid money to meet deficit in their cash flow only when they furnish bank guarantee of equivalent amount in rupees in India. They had also decided that (i) Associates should be asked to furnish bank guarantee for adhoc advances taken upto 31st October 1978 (ii) recovery should be effected as soon as monthly bills of Associates generate surplus funds and (iii) the adhoc advances would carry interest at market rate. This decision was not implemented by the project units.

3. Outstanding advances to the tune of Rs.6,037.31 lakhs (excluding interest) as on 31st March 1990 could not be recovered as per details given below:-

Sl. No.	Name of the Associates.	Amount of adhoc advance outstanding as on 31.3.1990.
		(Rupees in lakhs)
1.	Ansal Properties & Industries (P) Ltd., New Delhi.	1,336.69
2.	Som Dutt Builders (P) Limited.	934.17
3.	Noor Mohd. and Company.	716.92
4.	Punjab Chemi	383.44
5.	Janta Nirman	302.97
6.	Prime Builders.	262.03
7.	Arbind Construction Co.(P)Ltd.	260.42
8.	Seth Talwar & Company	153.05
9.	Sikand Construction Company	122.21
10.	K.Pattabhi Rama Reddy	92.48
11.	Crompton Greaves Limited.	31.12
12.	Blue Star Limited.	33.22
13.	Gannon Dunkerley Company Ltd.	63.54
14.	Bhasin Construction Company	63.82
15.	N.P.C.C.Ltd.	1,281.23
		6,037.31

Against the above adhoc advances, the Company had retention money and Bank guarantees only to the extent of Rs.1045.44 lakhs and Rs.409.98 lakhs respectively.

4. It was noticed that advances made on account of cost of materials supplied, hire charges of Plant and machinery, workmen compensation insurance etc. were in excess of the value of work done. As a result the recovery of the above adhoc advances could not be made from the bills presented by the Associates. The Company permitted a situation whereby contractors drew advances much beyond the anticipated value.Even after the completion of work, some Associates refused to pay the excess advance drawn by them from the Company and instead filed counter claims for additional payments. The Company was, therefore, forced to refer these cases to Arbitration. The position of arbitration cases is given below:-

S.No.	Name of the associates.	Amount of adhoc advance outstanding as on 31.3.90 (Rs.in lakhs)	Date of entering upon reference by Arbitration.	No. of hearings held.
1.	Ansal Properties & Industries(P) Ltd.	1,336.69	October 83(in Court August,88)	101
2.	Som Dutt Builders(P) Ltd.	934.17	4.6.83	(EPI's list of claims finalised New Arbitration not started)
3.	Noor Mohd. & Company	716.92	June,84	31
4.	Punjab Chemi	383.44	1980-81	20
5.	Janta Nirman	302.97	1980-81	23
6.	Prime Builders	262.03	1980-81	10
7.	Arbind Construction Co. (P) Limited.	260.42	July,88	29
8.	Seth Talwar & Co.	153.05	1980-81	12
9.	Sikand Construction Company.	122.21	11.10.84	113
10.	K.Pattabhi Rama Reddy.	92.48	26.8.88	15
11.	Crompton Greaves Ltd.	31.12	4.6.83	EPIs list of claims finalised.
12.	Blue Star Limited.	33.22	4.6.83	Hearing yet to start.EPI is fighting with Associates against MITSUBSHI, Japan
13.	Gannon Dunkerley Co.Ltd	63.54	Feb.88	7
14.	Bhasin Construction Company.	63.82	29.6.84	96
15.	N.P.C.C.Ltd.	1,281.23	16.1.89 (Arbitrator appointed)	Not started
		6,037.31		

5. First Schedule of Section 3 of the Arbitration Act, 1940, as amended, stipulates that the arbitrators are required to make their awards within four months after entering on the reference or after having been called upon to act by notice in writing from any party to the arbitration agreement or within such extended time as the court may allow. The expeditious despatch of the award by the Arbitrator has also been stressed upon in the rules issued by the Indian Council of Arbitration. Notwithstanding these stipulations, it was seen that 11 cases involving Rs.4339.64 lakhs were pending arbitration for a period exceeding 5 years.A further analysis of these cases revealed that in 3 cases involving Rs.998.51 lakhs no hearings have been started so far; while in 7 cases involving adhoc advance of Rs.1517.93 lakhs, arbitration sittings ranged from 7 to 29 so far.

6. Further review of these cases under arbitration revealed that the Company has made claims of Rs.17,378.42 lakhs inclusive of adhoc advances from the Associates whereas the Associates have lodged claims for Rs.16,276.46 lakhs. The Company in their books of accounts were showing the entire sum of Rs. 6,037.31 lakhs advanced to Associates as fully recoverable.

7. Thus, due to excess grant of advances to various Indian contractors in violation of the agreements with the Associates the Company was unable to recover a sum of Rs.6,037.31 lakhs and was engaged in protracted Arbitration/legal proceedings.

8. The Company/Ministry stated (May 1990/July 1991) that initially when no adhoc advances were paid, the Associates could not generate sufficient funds even to meet the wage bills of the labour force and this led to instances of strikes/ manhandling of personnel of project sites, which was viewed very seriously by the Government of host country and the Indian Embassy. Moreover, sole responsibility of averting any labour problem rested with the prime contractor i.e. the Company. In fact the Company had to face the threat of cancellation of contract. There was also outbreak of war between Iraq-Iran in September 1980 which lasted for nearly 8 years.When the war was declared, the "force majeure" conditions were in operation but Iraqi authorities refused to compensate the Company and insisted that conditions in their country were quite normal. The price level of products had shot up and in order to fulfil the contractual obligations with the

foreign clients the Company had to advance money to the Associates to enable them to procure materials at much higher prices.

The above arguments of the Company are not tenable as the same were neither covered under the agreements nor were they in consonance with the decision of the Committee of Directors taken in November 1978 regarding payment of adance only against bank guarantee or deposit of equivalent amounts in India. The release of adhoc advances without proper security and non-recovery from subsequent bills resulted in blocking of over Rs.60 crores.

3.2. Loans from Government and heavy interest burden thereon

The Company was established in 1970 with the main objective of operating as a prime contracting Company for securing industrial projects on turn key basis within and outside the country.

The Company borrowed long term loans ranging from 5 to 7 years duration amounting to Rs.22,574.25 lakhs upto 31st March 1990 from Government of India during the period 1980-81 to 1989-90. The year-wise break up of loans, the amounts due for repayment, interest accrued and due/not due upto 31st March 1990 are detailed below:-

(Rupees in lakhs)

Year of loan	Amount of loan	Amount due for repayment	Interest payable on loans as on 31.3.1990		
			Interest accrued and due	Interest accrued but not due	Total
1980-81	3,188.00	3,188.00	6,723.75	-	6,723.75
1981-82	1,212.00	1,212.00	2,149.28	-	2,149.28
1982-83	900.00	900.00	1,511.60	-	1,511.60
1983-84	450.00	450.00	630.13	-	630.13
1984-85	1,200.00	1,200.00	1,488.27	-	1,488.27
1985-86	1,320.00	1,056.00	1,197.01	4.41	1,201.42
1986-87	3,530.00	2,107.33	2,399.25	93.00	2,492.25
1987-88	2,550.00	1,020.00	973.59	5.09	978.68
1988-89	1,654.25	406.25	304.81	28.09	332.90
1989-90	6,570.00	-	-	508.22	508.22
Total	22,574.25	11,539.58	17,377.69	638.81	18,016.50

The outstanding amount of loans due for repayment upto 31st March 1990 was of the order of Rs.115.40 crores out of the total loans of Rs.225.74 crores. Further, a sum of Rs.173.78 crores being the amount of interest accrued and due, was payable to the Government upto 31st March 1990. The amount of interest accrued but not due as on 31st March 1990 was Rs.6.39 crores. Thus, the Company's total liability on account of interest worked out to Rs.180.16 crores. The heavy burden of loans and interest accrued and due could not be liquidated due to the fact that the Company had been incurring losses on the execution of foreign projects.The total accumulated losses amounted to Rs.345.65 crores as on 31st March 1990 which included a net loss of Rs.38.67 crores pertaining to foreign projects.

Keeping in view the consistent failure to repay the loans and interest, the Company, at the instance of Government, submitted a proposal in July 1986 to the Government to either write off the loans alongwith interest liability thereon or to convert the loans and interest thereon into grants-in-aid. However, no decision has been taken by the Government so far on the proposal (September 1990).

The Management, while confirming (July 1988)the figures mentioned in para 2, had not offered any comments. The Ministry stated (March 1991) that the losses incurred in execution of foreign projects were mainly due to long drawn Iran-Iraq war; non payment of bills by Iraqi clients for long periods; rigid and unreasonable attitude of the clients and added that Rs.42.85 crores was pending recovery from the Government of Iraq.

The Ministry's reply is to be viewed in the light of:-

i) the major losses (Rs.55.05 crores) sustained by it in execution of its project in Kuwait where there was no war during the period of the transaction, a fact which has not been covered in the Ministry's reply and;

ii) accounting for the dues from the foreign clients on accrual basis and anticipating realisation thereof without assessing the likelihood of recovery in near future on a realistic basis does not improve the financial condition of the Company.

4. INDIAN AIRLINES CORPORATION

Loss of interest on Security deposit and Licence fee due to non-occupation of Land.

For construction of City Terminal Offices and related facilities to be jointly used by Indian Airlines and Air India, a plot of land measuring about 4 acres at Baba Kharak Singh Marg in New Delhi was allotted by the Ministry of Works and Housing (now the Ministry of Urban Development) to Indian Airlines and Air India on 7th November 1983 on perpetual lease basis. As per mutual arrangement, Air India's share of land was 18.6165 percent and the remaining portion of land (81.3835 percent) was to belong to Indian Airlines. In the allotment letter, the Ministry of Works and Housing stipulated, inter-alia, that Indian Airlines/Air India deposit Rs.1465.57 lakhs as security deposit and Rs.42.49 lakhs as licence fee. Though the allotment letter was silent about some important aspects regarding (i) payment of interest on the security deposits, (ii) handing over the possession of land free from all encumbrances and (iii) refund of money in the event of cancellation of allotment, the terms and conditions were accepted without any objection. Indian Airlines deposited their share of security deposit of Rs.1195.00 lakhs and licence fee of Rs.34.58 lakhs (January 1984) which was to be adjusted from the date of offer of handing over possession of land.

Indian Airlines was offered in March 1985 the possession of plot excluding a portion of land measuring 0.3 acre which was in the occupation of an Indian Oil Corporation petrol pump. Air India agreed to this and authorised Indian Airlines to take possession on their behalf, but Indian Airlines preferred to take possession free from all encumbrances.

Despite protracted correspondence exchanged between Indian Airlines and the Ministry of Works and Housing, nothing concrete emerged and finally on 7th January 1987 a meeting was convened by the Ministry of Civil Aviation, in which the representatives of Indian Airlines, Ministries of Civil Aviation, Urban Development, Petroleum and Natural Gas and Delhi Development Authority were present and inter-alia, the following decisions were taken-

a) Indian Airlines should take over the possession of land with effect from 1.1.1987 and pay lease money from that date.

b) Indian Oil Corporation be allotted an alternative plot by the Ministry of Urban Development and they would vacate the existing land as soon as possible.

c) In the meantime, Indian Airlines should finalise project proposals and initiate action to seek approval thereto. They should suggest a date on which the foundation stone of proposed City Terminal Complex should be laid.

Indian Airlines accepted the decisions and accordingly adjusted the payment of licence fee with effect from 1st January 1987 in their books without taking over the physical possession of land.

No headway has been made so far (August 1990) in regard to taking over the possession of the land. The proposal to construct a building in the central area had been allowed to linger on for more than eighteen years.In spite of the decision taken in the inter ministerial meeting held in January 1987, Indian Airlines neither took possession of the land nor did it prepare a project report.

Thus, by not taking over the plot, even excluding the land occupied by Indian Oil Corporation petrol pump, Indian Airlines had to suffer:

a) the escalation in the project cost of construction of City Terminal Complex (consisting of 3.06 lakh square feet of built up area at an estimated cost of Rs.56.66 crores including the cost of land in 1983), which is not quantifiable in the absence of any endeavour made by Indian Airlines to update the project cost,

b) the blocking of funds amounting to Rs.1195.00 lakhs as security deposit and Rs.34.58 lakhs as licence fee since January 1984 and loss of interest to the tune of Rs.819.73 lakhs thereon (January 1984 to August 1990) presuming a rate of interest of 10 percent per annum,

c) commitment of payment of licence fee for the land at the rate of Rs.34.58 lakhs per year without taking possession of land,

d) payment of Rs.3.06 lakhs in May 1984 for demolishing the existing structure on the leased land. The structures are yet to be demolished.

While accepting the above facts and figures, Indian Airlines further stated (January 1988) that they had been trying for long to obtain a suitable site in the city centre of New Delhi to construct their Headquarters and booking office in the centralised location. In 1971, a plot was allotted to Indian Airlines which was later cancelled on the recommendations of New Delhi Development Advisory Committee. Subsequently an alternate site at Baba Kharak Singh Marg was allotted in 1977. This allotment was also cancelled as Indian Airlines did not pay the land premium in time.

The reply of Indian Airlines does not explain why they have not implemented the decision taken in the meeting held in January 1987.

The para was issued to the Ministry of Civil Aviation on 8th March 1988 but their reply was not received (September 1990).

5.SHIPPING CORPORATION OF INDIA LIMITED

5.1.Acquisition of Ships at avoidable extra cost

The Mogul Line Limited (MLL) which was merged with the Shipping Corporation of India Limited (SCI) in June 1986, entered into an agreement in July 1975 with Garden Reach Shipbuilders and Engineers Limited (GRSE), Calcutta for purchase of 3 bulk carriers of 26,000 DWT each at the price to be fixed by Government of India. The first ship was to be delivered by October 1977, the second by September 1978 and the third by March 1979 and delay in delivery entailed right to levy of liquidated damages and also cancellation of the order in case the delay exceeded 120 days.

Due to extensive delay by GRSE in effecting the deliveries, the MLL cancelled the orders for the first and second ships in March 1978 and June 1979 respectively and demanded refund of Rs.664.80 lakhs and Rs.440.00 lakhs paid by it as advance and the interest charges thereon. At the intervention of the Ministries of Defence and Surface Transport, fresh protocols were signed on 29th April 1981, wherein the revised delivery dates of these ships were fixed as 30th June 1981, 30th June 1982 and June 1983 without recourse to levy of penalties for the delays upto these dates. In spite of the extended dates, there were furhter slippages and GRSE could deliver the first ship in December 1981 and the second ship in May 1984. Apart from the liquidated damages, the MLL demanded payment of interest charges for the period of delay beyond the revised dates of delivery in terms of the protocol.

As GRSE failed to deliver the third ship even by October, 1983 and anticipating prolonged delay, MLL cancelled (November 1983) the order which was not accepted by GRSE. The Government referred (August 1984) the dispute for arbitration by the Secretary, Ministry of Law and the matter of recovery of liquidated damages/interest in respect of the first two ships was also referred to arbitration. The arbitrator, in his award given in October, 1986 upheld the cancellation of order for third ship (ordering refund of advance together with interest at 6 per cent per annum) but rejected the claim for levy of liquidated damages/interest in respect of the first two ships on the ground that MLL had by accepting deliveries without demur and without reiterating that time was the essence of the contract, acquiesced in the delay. The third ship was eventually accepted at the intervention of the

Government of India in January 1989 by SCI at a price of Rs.1292.50 lakhs in the overall national interest as GRSE had incurred heavy expenditure and no buyer could be found even after global advertisement.

It was observed in audit that the SCI accepted the ship after 10 years of delay when the technology that had gone into the vessel was outdated and the vessel was not fuel efficient (excess fuel consumption being 20-25 per cent). The acceptance of these ships at prices fixed by Government and foregoing of claims for interest charges resulted in extra cost as worked out below:-

	I Vessel	II Vessel	III Vessel	Total.
			(Rupees in lakhs)	
Interest	39.61	145.80	290.35*	475.76
Increase in price.	-	-	165.50	165.50
	39.61	145.80	455.85	641.26

* For the period from 1.7.1983 to 26.1.1989 (Rs.404.65 lakhs) less interest recoverable in terms of the award from 27.11.1986 to 26.1.1989 (Rs.114.30 lakhs).

Thus, the 3 bulk carriers were acquired by the Company at a total extra cost of Rs.641.26 lakhs and the third vessel was accepted on considerations other than commercial viability and operational efficiency.

5.2.Loss in the scrapping of vessel 'M.V. State of Himachal Pradesh'.

The Board of Directors (BOD) of the Company approved (17th August 1984) the proposal for disposal of the vessel M.V. State of Himachal Pradesh, as the vessel had become uneconomical to operate. As directed by the BOD, the Company first placed the vessel in the market for sale for further trading on 'as is where is basis'. Since no offer was received,it was decided (23rd March 1985) to sell the vessel for scrapping and the vessel was laid up (19th April 1985) for scrapping at Bombay. As per normal practice, tenders for sale of vessels for scrapping are to be issued only after obtaining the approval from the Director General of Shipping.

However, in respect of this vessel, to expedite the sale,tenders for sale of vessel as scrap were invited on 22nd June 1985 and approval of Director General of Shipping was sought for on 9th July 1985. Tenders were opened (19th August 1985) before getting the approval of D.G. Shipping, and the highest offer (Rs.193.05 lakhs) of firm 'A' valid for 30 days i.e. upto 18th September 1985 was accepted. While communicating the acceptance of offer, firm 'A' was informed (20th August 1985) that the said acceptance was subject to the approval of the BOD of the Company, Metal scrap Trading Corporation Limited (canalising Agency) and the D.G. of Shipping. As the approval in Principle of D.G.Shipping was not received by that time, firm 'A' did not accept the letter of acceptance of sale. A review of the correspondence between the Company and the D.G. of Shipping revealed that no concrete steps were taken by the company in time to obtain the approval in principle of the D.G.of Shipping before the expiry date of the validity of the offer i.e. 18th September 1985. The approval from the D.G. of Shipping dated 10th October 1985 was received by the Company on 11th October 1985 and on its receipt firm 'A' was requested (18th October 1985) to pay the due instalment of Rs.20 lakhs. Firm 'A', (through Solicitors) however, refused (21st November 1985) to pay the instalment and stated that the offer was not binding as the same was not accepted within a period of 30 days from the date of opening of the tender (i.e. before 18th September 1985). The Company consulted their solicitors who opined (30th November 1985) that since the Company had failed to obtain the necessary approval in principle for scrapping the vessel from the D.G. of Shipping within the stipulated period of 30 days of the offer, the buyer was justified in refusing to accept the offer and in demanding refund of their earnest money. Accordingly, the earnest money was refunded to firm 'A'.

The vessel was retendered (26th December 1985) and the highest offer of firm 'N' at Rs.162.67 lakhs was accepted (30th January 1986) and the vessel was delivered on 17th April 1986 to firm 'N'. Thus due to delay in getting the approval of D.G. of Shipping, the Company had to incur avoidable loss of Rs.30.38 lakhs, in addition to the maintenance cost of the vessel amounting to Rs.54.84 lakhs incurred from the date of lay up (19th April 1985) till its delivery (17th April 1986) to firm 'N' for scrapping.

15.

The Management stated (15th March 1987) that it was not possible to file the application to D.G. of Shipping earlier as various data required by the D.G. of Shipping was to be compiled from various departments which involved time and labour. It was, however, noticed in audit that the information to be supplied was of a very preliminary nature and could have been compiled without taking much time.

The Ministry while admitting (February 1991) the lapse on the part of the SCI in handling the case and undue delay on the part of the D.G. of Shipping in giving the clearance, stated that these two agencies have been asked to conduct detailed enquiry and to fix the responsibility for the lapse. The Ministry further stated that detailed guidelines prescribing inter-alia a time schedule to be followed by SCI, D.G. (Shipping) and the Ministry for sale/scrapping of ships have already been issued (April 1990) to the concerned authorities.

6.THE FERTILIZER CORPORATION OF INDIA LIMITED

Avoidable payment of Port rent

The Fertilizer Corporation of India Limited (FCI) has set up the shipping, purchase and liaison office which started functioning from September 1982 with the primary object to look after the shipping, purchase and liaison function of all the units of F.C.I. It was observed by the Management that such an organisation was desirable not only on the basis of expected economy but also for a better service in the clearance of the imported items.

During the period 1983-84 to 1990-91 the above unit of the Company failed, in many cases, to clear the consignments from the port within the free time and the Company had to pay a total sum of Rs.241.49 lakhs towards port rent. The details are given below:-

Year	No. of consi-gnment clear-ed dur-ing the year.	CIF value of the con signments cleared.	No.of con-sign-nments on which demurr-age paid	Amount of dem-urrage paid.	%of dem urr age to the CIF value	%of non free cases to total cases
1983-84	90	18,44,414	83	1,54,102	8.36	92.22
1984-85	258	3,50,58,614	235	11,88,466	3.39	91.09
1985-86	277	3,17,82,601	256	12,22,519	3.84	92.42
1986-87	274	5,69,46,708	238	63,17,965	11.09	86.86
1987-88	253	5,60,95,071	207	18,29,708	3.26	81.82
1988-89	380	9,77,09.139	333	71,63,507	7.33	87.63
1989-90	264	8,45,68,585	248	59,85,003	7.08	93.94
1990-91	123	5,03,76,526	98	2,88,098	0.57	79.67
			Rs.	241,49,368		

It may be seen from above that the delay in clearance of consignment ranged between 79.67% and 93.94% during the years 1983-84 to 1990-91.

Management in its reply (January 1990) observed that efforts would be made to minimise the expenditure on wharf rent in future by streamlining the work of the concerned units. The delay in clearing consignment was attributed by the Management to the following:-

i)
Procedural delays in completing customs formalities, particularly on account of placing orders with the foreign suppliers without a valid licence.

ii)
Importing of materials under Open General Licence (OGL) which was originally not covered under this licence and non-acceptance of the same by the Customs.

iii)
Non-availability of suitable instructions issued to the Units by the Central Office or Chief Controller of Imports and Exports.

iv)
Importing of materials without ensuring conformity with the customs policy and,

v)
Severe liquidity position of the Company.

The Ministry while concurring with the Management's reply stated (July 1990), inter-alia, as follows:-

i)
The clearance of certain consignments was delayed mainly because of the severe liquidity position of F.C.I.

ii)
In a few cases the units, due to wrong interpretation of the instructions of Customs Authorities, ordered certain non-permissible items under OGL without import licence. F.C.I.has since re-emphasized instructions to streamline the system and minimise the incidence of wharf rent.

It may be mentioned that despite severe resource crunch the Company imported fertilizers where CIF plus customs duty costs amounted to Rs.651.53 lakhs, Rs.1167.39 lakhs, Rs.1149.94 lakhs, Rs.2003.03 lakhs, Rs.2030.23 lakhs and Rs.1244.26 lakhs in the years 1985-86,1986-87, 1987-88, 1988-89, 1989-90 and 1990-91 respectively.

7.TYRE CORPORATION OF INDIA LIMITED

Incorrect computation of compensation on nationalisation of Incheck Tyre Limited & National Rubbers Manufacturers Limited resulting in infructuous investment

The Management of the undertaking of the Incheck Tyre Limited and the National Rubber Manufacturers Limited were taken over by the Central Government with effect from 13.4.1978 under the provision of the Industries (Development and Regulation) Act, 1951 and subsequently the two units were nationalised by Government of India with effect from 14.2.1984 and undertakings vested in the Andrew Yule & Company Limited, an existing Government Company. Thereafter, Andrew Yule & Company Limited was divested of the undertakings and the same were vested by Notification dated 5.3.1984 in the Tyre Corporation of India Limited, a new Government Company incorporated on 24.2.1984.

The undertakings of each of the two companies were deemed to include, inter-alia, all assets, right, leasehold, powers, authorities and privileges and all property, movable and immovable including lands, buildings, cash balances, book debts and all other rights and interest in or arising out of such property as were immediately before the appointed day (i.e. 14.2.1984) in the ownership, possession, power, or control of such company.

For the purpose of the above transfer, an amount of Rs.490.04 lakhs was fixed by the Central Govt. as purchase consideration (difference between book value of assets and liabilities taken over by Government) to be paid to each of the two companies as indicated below:-

a)	Incheck Tyres Limited	Rs.330.40 lakhs
b)	National Rubbers Mfg.Limited	Rs.159.64 lakhs

Since the accounts of both the erstwhile companies were in arrears for seven years, the amount was based on estimated position of assets and liabilities as on 31st March 1983.

In March 1984, M/s. S.R.Batliboi & Company a firm of Chartered Accountants was appointed by 1st Management Committee of the Tyre Corporation of India Limited for physical verification of all assets and

stock and checking of debtors of Incheck Tyres Limited and National Rubber Manufacturers Limited. It was observed by M/s. S.R. Batliboi & Company, Chartered Accountants in February 1985 that out of the value of Sundry Debtors, loans and advances taken over by the Government and vested in Tyre Corporation of India, an amount aggregating Rs.123.39 lakhs, of which Rs.95.42 lakhs related to pretakeover period and Rs.27.97 lakhs to post takeover period, became unrecoverable. Similarly, out of stock value taken over by Government and vested in TCI, the stock valuing Rs.79.29 lakhs (representing raw materials, stores and spares, work-in-progress, finished goods) included in the inventory had no realisable value due to obsolescence and rejection as per technical estimate of the Company Management.

Accordingly, the Board of Directors in its meeting held on 16th February 1985 approved the write off of the above amount involving Rs.202.68 lakhs and thereby reducing the value of the assets taken over at the time of nationalisation. In addition to this, fixed assets valuing Rs.0.47 lakh and investment in terms of equity shares amounting to Rs.36.41 lakhs were also written off by the previous management for the purpose of preparing the statement of affairs as on 14th February 1984. Thus, the amount of Rs.490.04 lakhs paid to Commissioner of payments as purchase consideration/compensation of these two companies, based on the difference between book value of assets and liabilities taken over by the Government included the written off amount of Rs.239.56 lakhs.

Ministry stated (July 1991) " Relevant records have been gone through. It is true that in the Cabinet note sent in January, 1983 the compensation amount for nationalisation of Incheck Tyres and National Rubbers Manufacturers Limited was worked out to Rs.603.87 lakhs. This was based on the estimated position of the assets and liabilities as on 31.3.1982. This note was not approved by the Cabinet and several clarifications/additional information was called for. This include nationalisation of labour force, additional investment proposals, etc. On the basis of the discussions in the Cabinet subsequently, the proposals were revised several times and in the proposal finally approved by the Cabinet the compensation amount for nationalisation of the two sick units has been indicated as Rs.490.04 lakhs. This amount was based on estimated position of assets and liabilities as on 31.3.1983".

Since the Management of the two companies was under Central Government over a period of about six years, if the then management had made efforts to physically verify the assets as on the date of nationalisation, the over-valuation of assets could have been detected before arriving at the compensation amount of Rs.490.04 lakhs. The failure on the part of the Management/Government to get the assets physically verified before arriving at the purchase consideration resulted in over-valuation of compensation money to the extent of Rs.239.56 lakhs and loss to the Company by the same amount.

8. INDIAN OIL CORPORATION LIMITED

8.1. Loss due to down-gradation of Aviation Turbine Fuel.

A parcel of about 5055 KL Aviation Turbine Fuel (ATF) was pumped from Haldia Refinery to Rajbandh Terminal through Haldia-Mourigram-Rajbandh pipeline in September, 1984. Samples of the consignment taken at terminal failed in Silver and Copper strip corrosion tests and as such a quantity of 4870.552 KL. ATF was downgraded to Superior Kerosene Oil (SKO) with consequent loss of Rs.16.99 lakhs being the difference between the ex-refinery prices of ATF and SKO.

The Company constituted a committee (December, 1984) to study the reasons for failure of ATF. As per the investigation report (December 1984) of the committee, the ATF despatched in September 1984 was contaminated because (i) before the introduction of ATF in the pipeline, pigging in the Mourigram-Rajbandh pipeline was not done as per schedule to eliminate contamination as recommended by ATF Investigation Committee and (ii) there was a shut down of 3.5 hours in Mourigram-Rajbandh section which allowed sufficient resident period for ATF to react with corrosive elements.

Another parcel of 5918.358 KL. ATF pumped through the same pipeline in September, 1985 (i.e. long after the above ATF investigation report of December, 1984) was also found at the Rajbandh Terminal to have failed in Silver and Copper corrosion test. Consequently, the ATF was downgraded to SKO leading to a loss of Rs.19.20 lakhs. The Committee appointed (January, 1986) to study the reason for the parcel despatched in September, 1985 failing in these corrosion tests observed (February, 1986) that (i) the pipeline was in a derated condition, (ii) there was a product stagnancy of Mourigram-Rajbandh Section on account of prolonged delivery at Mourigram and (iii) Scrapper pigging which was due in June 1985 was not done.

The Ministry stated (April 1989), inter-alia, as follows:-

"At the time of pumping parcels, it was known that the product may go off specification as the Mourigram-Rajbandh Section was stagnant for a very long time and Scrapper pigging was not favoured in view of the

pipeline condition at some portions not being in good health. Still it was considered desirable to make attempts for successful transportation of ATF parcels in view of urgent requirements of Rajbandh knowing fully well that, at worst, the product ATF would be down-graded as SKO. The pumping of two parcels in September, 1984/September, 1985 may be taken as usual operational decision of IOC Management which did not prove successful".

The contention of the Ministry apparently ignores the following points:-

Mourigram-Rajbandh Section of the pipeline handled maximum volume of HSD pumped from tanks, most of which had water/sludge which settles down as deposit in the pipeline. During ATF investigation the earlier committee found these deposits to be corrosive due to presence of elemental sulphur/chlorine. Besides these two corrosive elements, earlier reports also indicated presence of annerobic bacteria in the pipeline. To eliminate these contaminations which react on silver/copper strip, regular pigging with strict schedule was recommended by the ATF Investigation Committee in their reports in Phase I and II.

Before introduction of ATF in the above pipeline in September, 1984, no pigging was done which resulted in the ATF not meeting the specification. The committee constituted to investigate the failures of ATF pointed out (December, 1984) that during pumping operation there was shut-down in Mourigram-Rajbandh Section blocking the ATF for three and half hours and allowed sufficient resident period to get reacted with the corrosive elements.

Lighter products like naptha and motor spirit had not been pumped through Mourigram-Rajbandh section for a considerable time prior to pumping of ATF in September 1985 and as a result there was no adequate clearing effect on the internal surface of the pipeline.

Any attempts of successful transportation of ATF, which were to be construed as experiments, should naturally call for pumping of smaller parcel and in that case, the attendant risk could have been minimised. This view was also expressed by the Chairman of the Company while according sanction (August 1986) to write-off of the loss.

Thus, contamination of the ATF in both the cases should not be considered as appropriate operational decision of the IOC Management in the face of known factors of non-pigging of the pipeline as per prescribed schedule, leading to a loss of Rs.36.19 lakhs.

8.2. Infructuous expenditure due to non-occupation of staff quarters.

The Corporation sought approval (April 1980) of the Government for construction of 65 residential quarters at Mourigram for 93 employees posted there to ensure availability at site round the clock of such staff deemed critically essential for pipe line operation. Provision of housing facilities at site was also considered essential as transport facilities were lacking at this location.

The Government approved the proposal in June, 1980. Accordingly, 48 staff quarters and 17 officers' quarters were constructed at a total cost of Rs,72.06 lakhs and capitalised in 1985-86.

Occupation of the quarters after construction was a slow process and required persuation by Management. Even then as on 31.3.1991 out of 48 staff quarters, 14 remained vacant since inception resulting in infructuous expenditure of Rs.11.85 lakhs, besides maintenance cost incurred. This apart, the Company incurred additional expenditure to the tune of Rs.3.50 lakhs as House Rent Allowance paid to the employees upto 31.3.1991 and Rs.6792 per year being the 5% of the amount of basic pay which they could have recovered had the quarters been allotted to the employees.

Management in their reply stated that the quarters at Mourigram were planned and constructed keeping in view the total strength of employees posted at Mourigram and also to avoid industrial relations problem. It was further stated that the number of employees having local residence at Calcutta turned out to be more than 30% and hence the quarters remained vacant.

The Ministry in their reply (December, 1989) stated that the quarters at Mourigram were planned and constructed keeping in view the total strength of

officers and staff as per the Government guidelines relating to 70% satisfaction level. It has also been clarified by them that while considering the proposal for construction of quarters at Mourigram, educational and other facilities available at that point of time were taken into consideration. It was felt that in the course of time facilities will expand/develop as generally is happening at developing centres but unfortunately there has not been much of expansion of education facilities. As such there were cases where the employees had declined their promotions on transfer to Mourigram.

It is observed that in addition to the infructuous expenditure of Rs.11.85 lakhs the Company did not even achieve the objective of ensuring availability of staff at site round the clock as deemed critically essential for pipe line operation.

8.3.Poor utilisation of Railway Siding and other transhipment facilities at New Bongaigaon and Kalyani LPG Bottling Plant.

Indian Oil Corporation Limited planned (1978) to market surplus LPG available from the proposed Duliajan extraction plant of Oil India Limited (OIL). The quantity available was assessed at 35,000 MT from 1984-85 after allowing the maximum absorption of LPG in the North Eastern States by considering special measures including even offer of special incentives to local customers - as per decision of the Government of India. With this end in view, a transhipment depot was planned (1981) to be set up near Guwahati but eventually shifted to New Bongaigaon to take advantage of broad guage rail link. It was decided that the product would first be transferred to New Bongaigaon by road and then be shipped to Kalyani Bottling Plant (WB) by block rake of 1000 MT pay load capacity.

As part of the scheme, storage bullets (15x100 MT) at a cost of Rs.23 lakhs each and railway siding with weigh-bridge and other loading, unloading facilities at a cost of Rs.84 lakhs approximately were constructed. The work for railway siding at Bongaigaon was commenced in October, 1983 and commissioned in July, 1985.

Kalyani Bottling Plant was planned (1981) for bottling of 27500 MT of OIL LPG for marketing in packed condition and the balance quantity was decided to be

marketed in bulk. For the purpose of receiving OIL LPG at Kalyani, a well-equipped railway siding was also set up at Kalyani and commissioned in January 1987 at a cost of Rs.109.93 lakhs.

Since commissioning in July 1985, New Bongaigaon Railway Siding handled only two rakes for despatch one each in 1985-86 (839.2 MT) and 1986-87 (940 MT). The Kalyani Railway Siding commissioned in January 1987 received very little quantity compared to total receipt at Kalyani and that too from sources other than New Bongaigaon as indicated below :-

Year	Road	Rail	Total	%age of receipt by rail to total	Source of supply by rail	Qun-tity (MT)
1986-87	31,190	3,466	34,656	(10.00)	Mathura Ref.	3,466
1987-88	31,344	7,288	38,632	(18.87)	Mathura Ref.	4,248
					Vizag Ref.	3,040
1988-89	35,142	4,064	39,206	(10.37)	Vizag Ref	1,118
					Mathura Ref.	1,630
					Bombay Ref.	1,316
1989-90	38,486 (Provisional)	4,472	42,958	(10.41)	Vizag Ref	4,472

The utilisation of the two sidings was negligible and the investment on the two sidings amounting to Rs.193.93 lakhs proved to be unfruitful. On the other hand, the Corporation had incurred extra expenditure of Rs.198 lakhs in 1986-87, Rs.432 lakhs in 1987-88, Rs.379 lakhs in 1988-89 and Rs.343 lakhs (Provisional) in 1989-90 on account of road bridging of the product from different sources to Kalyani Bottling Plant which were re-imbursed by the OCC/Ministry of Petroleum and Natural Gas under the existing procedure.

The Management of the Company in their reply (August/September, 1989) stated, inter-alia that investments in the LPG handling facilities created at Bongaigaon and Kalyani were based on production estimates furnished by Oil India Limited for their Dhuliajan Project. As subsequently actual production of LPG had fallen and consumption increased in the North Eastern States, actual surplus available for

transportation from North Eastern States was much less than earlier projections. The railway movement originally envisaged for transportation of LPG from Bongaigaon to Kalyani did not materialise. The transhipment facilities created at New Bongaigaon would be useful for moving the North Eastern Surplus in future years when supply position of LPG would increase. In regard to higher expenditure on road transportation of bulk LPG to Kalyani Bottling Plant from different sources in place of Railway tank wagons service, it was stated by the Management that some of the sources of supply did not have Tank Wagon facilities and there were constraints on the availability of Tank Wagons.

The replies of the Management are to be viewed in the context of the following:-

The intention of Government of India for increasing the consumption of LPG in the NE States was borne in mind in the initial stage of planning (1981) when the net surplus of LPG ex-OIL extraction plant was assessed. It is evident that the forecast made in regard to future absorbtion of LPG in the North Eastern States was unrealistic.

The expenditure of Rs.193.93 lakhs incurred on setting up the LPG handling capacity at New Bongaigaon and Kalyani has proved to be largely infructuous due to unrealistic projections made on the availability of surplus LPG from Oil India's Dhuliajan Project in Assam.

The matter was reported to the Ministry in October, 1990, their reply is awaited (August, 1991).

9.ELECTRONICS CORPORATION OF INDIA LIMITED

9.1.Loss in manufacture and supply of Thyristor Conversion Equipment.

The Company was chosen as a productionising agency for technology developed by Bhabha Atomic Research Centre and accepted by the Railways for Thyristor Conversion System - an energy saving device used in electric locomotives with a high demand potential. The Railways supplied the specifications to the Company in August 1972.On the basis of the quotation of May 1973 of the Company they placed an order on it in September 1974 for design, modification, manufacture, testing, supply and installation of five (one per locomotive) complete sets of Thyristor Conversion equipments including suitable modifications to the locomotives. The price was Rs.9.70 lakhs (which included a profit element of 20 per cent) per equipment with a provision for escalation in labour and material costs subject to a maximum of 25 per cent of total cost or 50 per cent of material cost whichever is less. The first unit was to be delivered by about June 1976 and the remaining units by about September 1976. All the units were to be commissioned by about January 1977. As against this, the first unit was delivered only in June 1978. The Railways issued an amendment tc the order in May, 1983 increasing the order quantity to ten and stipulating a major modification to the control device in respect of nine units and raising the ceiling on escalation in costs to 50 per cent of total cost. The Company completed the supply of all sets by October 1988 but it could instal and commission only three sets so far (January 1991).

It had incurred Rs.326.90 lakhs excluding erection and commissioning charges (upto January 1991) on the ten sets against a realisable value of Rs.142.39 lakhs.

On the question of delay in supply, the Ministry stated in June 1988 that (i) the onus of developing the technology for this was not on the Company alone, (ii) co-ordination with the others viz. RDSO (Design), South Eastern Railway (user), Tatanagar Shed (loco building and testing) and Railway Board (monitoring agency) needed lot of effort and (iii) parameters could not be defined with any degree of certainty because the various agencies had their own perceptions being anxious to have the state of art equipment.

According to the Ministry this was a development order; the cost estimates in such cases could only be conceptual and as quite a large demand existed it was worthwhile for the Company to go in for development work. In the Ministry's view, it would not be appropriate to match the total expenditure on development of these systems against the receipts from this contract and the excess expenditure was to be treated as part of the investment in R&D. This view ignores the fact that the Company had taken the order as a commercial proposition with anticipation of profit and it could not have undertaken R&D for a sole customer for a particular product without scope for recovering expenditure through sale of that product. As there was no frozen design at the time of placement of the order and as considerable developmental effort was needed in close association with the Railway engineers, it was for the Company to make appropriate stipulations in the matter of price.

The Company approached the Railway Board in July 1990 for modification of the contract to cover (i) the expenditure of Rs.326.47 lakhs already incurred (upto January 1990) which included expenses towards extra design features incorporated in the project beyond contractual obligations, (ii) additional expenditure of Rs.120 lakhs required to complete the project which involved purchase/manufacture of certain items and installation and commissioning and, (iii) profit of Rs.53.58 lakhs at 12% on the total cost of Rs.446.47 lakhs. The Railway Board, however, did not accept (October 1990) the request of the Company for upward revision of the contract amount on the ground that the design features and the supervision of erection, testing and commissioning of the equipment were not extras but only part of the contract entered into by the Company.

The Company had so far (January 1991) incurred a loss of Rs.184.51 lakhs, which would increase further by the expenditure likely to be incurred for completion of the project (estimated at Rs.120 lakhs). Further, the anticipated high demand potential has not been realised yet.

9.2. Loss in development and sale of three sets of 3 KW High Power Amplifiers.

The Company was required to supply three sets of 3 KW High Power Amplifiers (HPA) with accessories for P&T INSAT Scheme at value of Rs.61.21 lakhs (including

spares valued Rs.10.87 lakhs) to the Ministry of Communications (P&T Board) New Delhi.The supplies were to be completed by January, 1982 failing which the Company was liable to pay liquidated damages upto a maximum of 5% of the value of the contract. In this connection, the following observations are made:-

1) As per Government of India Notification dated 8th July, 1978 the goods intended for installation at the site of INSAT-1 are completely exempted from the excise duty leviable thereon. To avail of this benefit, the Company filed (May 1982) a classification list before the excise authorities alongwith a letter addressed by the Director (MMD), P&T Board to the Company in which it was mentioned that no excise duty would be leviable on HPAs to be used for INSAT programme. The excise authorities, however, pointed out (June 1982) inter-alia, that the use of HPAs for INSAT programme had to be certified by Director, INSAT and not by Director, P&T. They also called for certain clarifications in this regard and suggested that if any delay was anticipated in furnishing the clarifications, the amplifiers could be cleared on payment of duty for which a refund claim could be preferred later, on receipt of clear proof of use by INSAT.

The Company accordingly despatched the three Amplifiers in June, 1982, March 1983 and April, 1983 respectively after paying excise duty of Rs.4.36 lakhs and Sales Tax of Rs.0.18 lakhs thereon.

2) As the Company had failed to supply the equipments within the stipulated time its customer recovered from the Company a sum of Rs.2.52 lakhs towards liquidated damages. The customer also withheld the 10% final payment of Rs.5.03 lakhs on the ground that the performance of these sets was not satisfactory.

The Company has written off both the above sums of Rs.2.52 lakhs and Rs.5.03 lakhs in the year 1985-86.

3) Besides this loss, there was a loss of Rs.18.57 lakhs, as the actual cost of sales of the three sets worked out to be Rs.68.91 lakhs (without spares) as against the quoted price of Rs.50.34 lakhs.

4) The Company could secure the requisite certificate from Director (Satellite-I),P&T Board in July 1983 but

failed to prefer any claim within the permissible period of six months from the date of delivery. A consolidated refund claim was preferred in January 1984 when the excise authorities turned down the claim on the ground that it was time barred according to Section II-B of Central Excise and Salt Act, 1944. The Company having failed in its appeal (December 1984) filed a writ petition in the High Court of Andhra Pradesh, Hyderabad in August 1986 which is still pending (October 1990).

The Ministry stated (September 1989) that the Company could not obtain the required certificate till July 1983 due to procedural delays and reasons beyond its control.

Taking into consideration the overall position, the Company suffered a total loss of Rs.26.12 lakhs as under:-

	(Rupees in lakhs)
i) Liquidated damages.	2.52
ii) Deduction for unsatisfactory performance of the sets.	5.03
iii) Excess of cost of sales to sales.	18.57
	26.12

10.AIR INDIA.

AVOIDABLE EXPENDITURE IN CONSTRUCTION OF BOEING 747 HANGAR NO.2.

Air India invited tenders in July 1980 for construction of Boeing 747 Hangar No. 2 at Old Santa Cruz Airport Bombay. The work was awarded to the lowest tenderer for Rs.242 lakhs although their performance in the past and in the two on-going projects with Air India was poor. The stipulated date of completion of work was 800 days from the date of work order (14th April 1981) but not later than 22nd June 1983. However, the work was not completed by the stipulated date and the contractor was granted extensions from time to time on different grounds upto June 1985. The work could not be completed even within the extended time and due to further delay of two years in its construction, the Hangar was put into operation only on 1st July 1987 resulting in an additional expenditure of Rs.137.44 lakhs as detailed below:-

i) Payment of escalation charges to the extent of Rs.16.35 lakhs beyond the stipulated date of completion of contract upto 30.6.1985 had to be made to the contractor.

ii) Due to non-availability of Boeing 747 Hangar, the 707 Hangar was used for maintenance of 747 air craft also. As Boeing 707 Hangar facilities were inadequate for maintenance of Boeing 747, an additional expenditure of Rs.2,81,600 per month was incurred on additional input of labour. The additional expenditure from June, 1983 to December, 1986 viz. for 43 months worked out to Rs.121.09 lakhs due to additional labour only.

The Company, however, decided to recover nominal liquidated damages amounting to Rs.5000/- only as against Rs.24.20 lakhs leviable in terms of the contract for the delay beyond the authorised extension on the grounds that the delay was due to (i) non-availability of the site due to dismantling of AWD Hangar at the proposed site(ii) time taken in shifting of steel lying at the Hangar site,(iii) non-availability of high quality cement required for Annexe Building and (iv) rectification of defects in parent material i.e. steel, etc.

The reply of the Management/Ministry ignores the fact that availability of site and the required quality of cement could have been managed by proper advance planning and defects in parent materials could have been avoided by proper inspection.

Absence of advance planning, non-assessment of all the aspects of the project and awarding the work to a contractor whose performance in past and on on-going projects was unsatisfactory resulted in avoidable expenditure of Rs. 137.44 lakhs owing to undue delay in construction of Hangar No.2.

11.BHARAT HEAVY ELECTRICALS LIMITED.

11.1.AVOIDABLE LOSS OF RS.132.50 LAKHS DUE TO NON-AVAILMENT OF SET-OFF OF EXCISE DUTY.

In terms of Government of India notification dated 18th June 1977 all exciseable goods were exempted from so much of the excise duty as was equal to the duty already paid on the inputs used in the manufacture of the finished exciseable goods falling under tariff item No. 68. This provision was further amended vide notification dated 4th June 1979 prescribing a detailed procedure similar to Rule 56 A of Central Excise Rules, 1944 which inter-alia provided for filing of intimation of receipt of material within 24 hours,maintenance of certain records, etc. Further, notification dated 1st March 1979 provided for exemption of so much of the excise duty as was paid on imported steel sheets and strips falling under Tariff item 26 AA used in the manufacture of electrical stamping and lamination falling under Tariff item 28 A.

The Bhopal unit of Bharat Heavy Electricals Limited (Company) did not follow the prescribed procedure of filing of intimation of receipt of material within 24 hours and maintenance of certain records partly on account of ignorance about these notifications and partly on account of procedural delay. Hence, it could not avail of duty set off/ credit amounting to Rs.132.50 lakhs pertaining to the period from 18th June 1977 to 31st January 1982 i.e. Rs.69.80 lakhs from 18th June 1977 to 31st December 1979 in respect of inputs falling under Tariff item 68 for manufacture of other exciseable goods admissible under notification dated 18th June 1977 and Rs.62.70 lakhs in respect of inputs falling under Tariff item 26 AA for manufacture of electrical stampings for electric motors and steel sheets for stamping and laminations falling under notification dated 1st March 1979 for the period from 1stMarch 1979 to 31st January, 1982.

The Company filed (November 1981/January 1982) petitions before Collector, Central Excise, Indore praying condonation of delay in filing the claim and shortcomings in following the prescribed procedure.

The Collector, Central Excise, Indore rejected (March 1984) the claim on the ground that the Company had applied for the proforma credit under notification dated 1st March 1979 more than seven months after the publication of the notification and as they had not

complied with the requirement of Rule 56 A such as that of filing of intimation of receipt of material within twenty four hours and maintenance of RG-23 records upto December 1979, the failure to do so could not be attributed to the late communication of the notification.

Against the three miscellaneous applications filed (June 1984) by the Company, the Customs, Excise and Gold (Control) Appellate Tribunal, New Delhi observed (May 1988) that since the question of refund claim was not under adjudication before the Collector, the question involved was of allowing credits on the raw material and if it was a refund claim the Tribunal was not the proper authority to deal with such cases;the assessee might present their claim before the proper authority for decision.

Accordingly, the Appellate Tribunal remanded the three cases to the Collector, Central Excise, Indore for readjudication who in turn rejected (November 1988) all the claims worth Rs.132.50 lakhs.The Management stated (April 1990) that an appeal against the orders of the Collector dated 4th November 1988 had been filed with the Appellate Tribunal on 27th January 1989 and the same was pending for being listed for the hearing according to the established procedure of the Tribunal.

The Ministry inter-alia stated (February 1991) that the Company could not file the claim for refund in time because one of the officers who was on deputation, reverted to his parent office (Excise Department) and other officers were not familiar with the notification extending benefit of exemption in excise duty and that the procedure has since been streamlined and now maximum benefit under the scheme was being availed.Further the Company was making vigorous efforts to get back the amount in question.

Due to ignorance of the notification regarding exemption in excise duty and not following the prescribed procedure and delay in lodging refund claims, the Company suffered a loss of Rs.132.50 lakhs.

11.2.Avoidable procurement of Draw Bench at avoidable cost by Seamless Steel Tube Plant (SSTP),Trichy

In February 1984 the Division procured one single tube draw bench which was meant to be used to convert thickened end losses (scrap) into saleable tubes and

also to produce tubes requiring multi draw against external orders.The bench was commissioned in March 1985 and the total cost was Rs.12.13 lakhs. The Division subsequently found that conversion of scrap into tubes was not economically viable. The bench was, therefore, utilised for drawing a small quantity of 126.5 tonnes only in 1985-86 and was kept idle during the years 1986-87 to 1988-89. The Division stated (November 1989):-

- in the trial runs conducted in September 1985 failures were faced on plug, mandrel rod, hollow etc., as a result of which subsequent processing could not be undertaken on the machine.

- the machine could not be utilised because of its limitations of 8 metres drawn length.

- due to these technological problems certain modifications were made in the equipment and trial runs in this regard were conducted in August 1989 for one size required for 500 MW boilers and trial of other sizes could be undertaken progressively after establishing the process of manufacture for other sizes.

The Ministry stated (March 1991) that Bharat Heavy Electricals Limited has now decided to transfer the machine to Hardwar Unit where it could be gainfully utilised for the manufacture of commutator bar blanks for DC motors.The Ministry further stated that the Bharat Heavy Electricals Limited is being advised to make realistic assessment of demand before procuring any equipment in order to ensure that such instances do not recur.

Injudicious purchase of a machine costing Rs.12.13 lakhs and commissioned in March 1985 resulted in its lying mostly idle for over five years.

12.THE MINERALS AND METALS TRADING CORPORATION OF INDIA,LIMITED

Loss on the import of Molyoxide.

The import of Molyoxide was canalised through the Minerals and Metals Trading Corporation of India Limited from 1.4.1972 to meet the requirements of the end consumers of Molyoxide against earnest money deposit/bank guarantees. Records relating to the policy governing the quantum of earnest money or bank guarantees were not made available to audit on the ground that these were untraceable. Even after decanalisation of the import of Molyoxide from 1.4.1979 the Company continued to import it on the previous terms and conditions which was earnest money deposit for registration of requirement at the rate of 2% of the import value or Rs.50,000 whichever was less. Reason for continuation of import even after decanalisation was stated to be pressures from the industry.

A four member delegation (consisting of two members from M.M.T.C. and two members from the Industry) visited U.K., U.S.A., Canada and Chile from 26th July to 19th August 1979 for procuring supplies of Molyoxide from the producers in these countries. During discussions M/s. Climax, U.S.A. offered to supply about 80,000 lbs. by December 1979 at producers' price. During discussions, M/s. Codelco, Chile also agreed to consider favourably supply of the material at producers' price.

On 22nd August 1979 M.M.T.C. received an offer dated 21st August 1979 from M/s. Codelco, Chile for supply of 60 MT Molyoxide effective November 1979 and 120 MT Molyoxide effective 1980. The rate offered was 96% of the average of low and high 'dealer oxide' quotations published in 'Metals Week' as obtaining during the quotational period (last daily known quotations of the second month before the contractual month of shipment) and not on producer's price. As the shipment was to be made in November 1979 the price ruling in September 1979 was to be paid. However, on 27th August 1979, the representative of " Low Carbon Ferro Alloys Manufactures Association of India", wrote to the Company stating that since prices quoted by M/s. Codelco, Chile were high, only 30 MT may be procured from them. Without waiting for the offer of M/s. Climax, U.S.A., who had offered to supply by December 1979 at producer's price, the Company went ahead and

finalised on 12.9.1979 a contract with M/s. Codelco,Chile for import of 60 MT of Molyoxide at the price of U.S. $ 26.125 per lb. MO (total CIF value Rs.172 lakhs). The reasons for placing the order on traders' price instead of producer's price with M/s. Codelco, Chile are not on record. The Molyoxide which was due in January 1980 was received in April 1980.

The offer from M/s. Climax Moly Co. U.S.A. was received on 25.9.1979 at producer's price which was U.S.$ 9.54 per lb. MO content CIF Calcutta/Bombay. The purchase Advisory Committee approved the purchase on 26-9-1979.

In the meantime the international prices of Molyoxide had been steadily declining from U.S. $ 15.28 per pound in January 1980 to US $ 9.69 per pound in May 1980.

Although material imported from M/s. Codelco, Chile was allocated to the members of "Low Carbon Ferro Alloys Manufacturers Association" as per their secretary's request contained in his letter dated 27th September 1979, yet they backed out and the Company could do nothing more than forfeiting their security deposit. In all, five end users did not lift 45.3570 MT of Molyoxide valuing Rs.194.99 lakhs approx. imported by M.M.T.C. for them from Chile.

Including the unissued balance of other purchases the Company had in May 1980 a stock of 47.99 MT Molyoxide of which 35.50 MT was in Bonded Warehouses (12.9.1983). As the material was not lifted by the endusers and it could not be sold since its arrival, a note was submitted to the Board of Directors on 12.9.1983 for its re-export. It was reported to the Board that the purchase with M/s. Codelco, Chile was finalised at the best available price then prevailing in the international market. The fact that the F.O.B. price (Producers Price) of min. 85% and min.95% per lb. MO of 'world Concentrates' and 'United States Climax Concentrates' respectively prevailing in August 1979 was $ 8.84 as against $ 26.125 quoted by M/s. Codelco, Chile, was not brought to the knowledge of the Board. Besides, the facts that i) the purchase was finalised on the basis of only one quotation and ii) another purchae of 10 MT Molyoxide was made from M/s. Climax at a considerably lower price in the same month, were also brought to the notice of the Board.

The Board accorded approval for re-export of 35.50 MT of Molyoxide lying in bonded warehouse and local sales of remaining about 12.50 MT, preferably to Public Sector Undertakings. The re-export was, however, not approved by the Reserve Bank of India (July 1984). The

Company approached Finance Ministry on 25.8.1984 for their clearance of re-export. However, on 21.3.1985 the Commerce Ministry asked M.M.T.C. to sell the material in domestic market and take the loss.

Four out of the five end-users had given bank guarantees for Rs.10 lakhs, Rs.3.53 lakhs, Rs.5 lakhs and Rs.5.87 lakhs. No information was available with the Company about the earnest money or bank guarantee taken from the fifth end-user for whom 9.299 MT Molyoxide was imported. Bank guarantees for Rs.19.40 lakhs were encashed, out of which Rs.5.87 lakhs relating to HEC, Ranchi were adjusted against the bill of the material lifted by them. There was stay order against the encashment of the bank gurantee for Rs.5 lakhs from a private firm. (December 1990)

The Company disposed of the material in small lots to M/s. HEC, Ranchi. In the disposal of 47.99 MT Molyoxide costing Rs.200.20 lakhs the Company suffered a direct loss of Rs.132.10 lakhs. Taking into account Rs.6.40 lakhs incurred on godown rent, insurance and handling and other charges etc., Rs.167.50 lakhs as interest on money blocked and Rs.13.53 lakhs receipts on account of bank guarantees invoked, the loss works out to Rs.292.47 lakhs which could have been avoided if the Company had taken the normal commercial precaution of obtaining irrevocable L/C or 100% bank guarantees before importing a non-canalised item under the OGL.

The matter was reported to the Chairman, M.M.T.C. in July 1987 and to the Ministry of Commerce in October 1987. In January 1988 Ministry forwarded to Audit a copy of M.M.T.C.'s reply which stated that the loss would have reduced substantially had the Govt. considered it appropriate to allow re-export of this material as requested by M.M.T.C. and that the so called loss was only notional as major portion of the loss comprised the import duty paid by the Corporation to the exchequer. The Company again intimated in April 1991 through Ministry of Commerce that keeping in view the pressing demand from the 'Low Carbon Ferro Alloy Manufacturers Association' for continuing the imports by M.M.T.C. and as there was no other offer available at that time, the Corporation concluded the purchase with M/s. Codelco, Chile at traders' price on the basis of single offer. Due to the crashing of international prices during 1980, which was beyond any body's control, the end-users failed to lift this quantity.

A scrutiny of the deal in audit as brought out above reveals:

i) The Company acted in haste in approving the single offer of M/s. Codelco, Chile which quoted the trading

price which was against the Company's declared aim since they had made it clear through their delegation that M.M.T.C. was keen on purchasing only on producers' price, which was agreed to by M/s. Climax U.S.A. while M/s. Codelco, Chile also had agreed to consider it favourably.

ii) M.M.T.C. knew that the offer of M/s. Climax, U.S.A. was in the wings and yet went ahead with the placement of order on M/s. Codelco, Chile.

iii) Well before the deal was finalised, a note of warning was sounded by the representatives of "Low Carbon Ferro Alloys Manufacturers Association" regarding the high rate quoted by M/s. Codelco, Chile, but apparently no heed was given to this advice. The Association also limited the total tonnage to 30 MT against the import from M/s. Codelco, Chile as their prices were high.

iv) The Company ought to have known even otherwise that the producers' price ruling at that time was F.O.B.$ 8.84 per lb. MO (85% to 95%) as against C.I.F. U.S. $ 26.125 per lb. MO (57%) offered by M/s. Codelco, Chile. These prices are quoted in the 'Metals Week'.

v) There was nothing on record to show nor has the Company ever made the preposition that the deliveries were needed very urgently in view of any criticality.

To compound the mistakes, the M.M.T.C. had not taken any bank guarantees for covering the entire deal from the intending purchasers.

13. NATIONAL FERTILIZERS LIMITED

Loss due to non adherance of the terms and conditions of Insurance Policy

The Company took an all risk Marine cum Erection insurance policy covering a period of 30 months from 27.9.1985 to 26.3.1988 from an Insurance Company in respect of its Vijaipur Project. The policy provided that all machinery and equipment shall be stored in such a manner that value of items stored per storing unit shall not exceed the equipment of Rs.5 crores and that such individual storing units shall be at least 20 metres apart or separated by fire proof wall. Should the value per storage unit exceed Rs.5 crores, then in event of claim, the liability of company shall be in the same proportion as Rs.5 crores bears to the total value of items stored in the concerned individual storage unit.

A major fire broke out on 30.3.1987 in the Company's stores located in a portion of workshop building maintained by Projects and Development India Limited (PDIL) - Consultants and later spread to the Company's stores located in the other portion of workshop building separated by a permanent partition wall. As a result of fire, most of the equipment comprising mainly of costly and precision spares, both indigenous and imported, were destroyed or damaged. On the basis of assessment of loss made by the Surveyors, a final settlement of Rs.505.59 lakhs was made by the Insurance Company in March, 1989 after deducting Rs.86.80 lakhs on account of non-adherence of special storage conditions provided in the policy as the stores of Rs.5.90 crores were stored in the stores against limit of Rs.5 crores. Thus, due to storing of insured items in violation of the relevant endorsements in the policy, Company suffered a loss of Rs.86.80 lakhs.

Ministry indicated that this was due to non-availability of adequate space for storing such large quantities of items as the construction of permanent warehousing building which was to be completed in June 1986 was delayed due to the problems of the contractor necessitating conversion of a part of the workshop building into stores.

Against the total settlement of Rs.505.59 lakhs made by the insurers, actual expenses to the extent of Rs.836.92 lakhs were incurred by the Company on

replacement/repairs.Thus, the Company had to meet the deficit of Rs.331.33 lakhs from its own resources.

A three member committee constituted to investigate the cause of fire recommended improvement of the fire fighting services and introduction of safety procedures.

While admitting that fire fighting efforts were hampered as the storage shutters were locked, the day being a holiday, the Ministry stated (February 1991) that the fire took place as a result of an accident and that every effort was made by NFL to contain the loss with the facilities available at that stage of the construction of the Project.

14.MAZAGAON DOCK LIMITED

Loss due to delay in taking Insurance Cover .

The Company undertook (January 1985) the work of laying 12.75 inch diameter pipelines for ONGC between Platforms NI-NW,NH-NE and NO-ND in the Bombay High field. Even though the work commenced from 7th January 1985, the company addressed the New India Assurance Company Limited on 8th March 1985 to arrange insurance for the pipelines works and connected risers for a total value of Rs.466.01 lakhs including the value of Rs.109.25 lakhs in respect of NI-NW pipelines. The Insurer effected the Insurance for the period from 9.3.1985 to 8.7.1985 (both days inclusive). The Insured amount under the policy was payable to the Company for occurrence of each damage/loss to the extent of the insured value after adjusting the deductible franchise limit of Rs.24 lakhs.

There was extensive damage to the pipeline N1-NW due to two accidents, one occurring on 9th March 1985 and the other on or before 8th March 1985 i.e. before the commencement of the period of insurance.The pipelines were got repaired through the sub-contractor at a net cost of Rs.281.78 lakhs after taking into consideration the expenditure of Rs.50 lakhs borne by the contractor as per contract. Against the damage that occurred on 9th March 1985, the Insurance Company settled the claim for Rs.85.25 lakhs (policy value Rs.109.25 lakhs-Rs.24 lakhs towards franchise limit). In respect of the second claim for Rs.109.25 lakhs (amount limited to policy), the surveyors of the Insurance Company rejected the claim for the reason that the damage which was discovered on 18th March 1985 was caused on or before 8th March 1985 viz. prior to the commencement of the period of insurance. The Company did not pursue the matter further.

Thus due to delay in taking insurance cover which was in turn caused by lack of timely communication between the operating and accounts departments, the company suffered a loss of Rs.85.25 lakhs.

The Ministry while admitting that the loss had been suffered by the Company, stated (July 1990) that the matter had been referred to vigilance for a thorough probe and for fixing the responsibility to punish the erring officers.The Ministry further stated that detailed instructions had also been issued to prevent the recurrence of such incidents in future.

15. TANNERY & FOOTWEAR CORPORATION OF INDIA LIMITED

Non/Under-utilisation of Imported Footwear Machines

The Corporate Plan of the Company for the period 1980-85 envisaged modernisation of its footwear factory and shifting it to a new location in the factory No.2 as the Unit was scattered over a large area in different buildings and different floors. Phase I of the Plan involved a capital expenditure of Rs.217.85 lakhs and envisaged production of 11.40 lakh pairs of footwear (including 3.24 lakhs for export) in 1982-83 after modernisation of the footwear factory.

The Company placed orders in July/August/October 1981 for importing 52 footwear machines at a landed cost of Rs.65.65 lakhs (approx.). The Company placed further orders for ten types of footwear machines at a landed cost of Rs.66.33 lakhs in February 1982 without obtaining recommendation of technical and purchase committees and without following the prescribed purchase procedure in anticipation of an export order which did not materialise.

Due to delay in construction of factory building 11 machines worth Rs.19.54 lakhs received during October 1981 to September 1982 against order of July/August/October 1981 and 12 machines worth Rs.29.14 lakhs received during September 1982 to July 1983 against order of February 1982 could not be installed and put to use. These machines were ultimately installed during October 1987 to April 1988.

The Company could produce 4.13 lakh pairs of footwear in 1986-87, 5.51 lakh pairs in 1987-88, 4.25 lakh pairs in 1988-89 and 3.58 lakh pairs in 1989-90. It could export 0.44 lakh pairs of footwear in 1986-87, 0.09 lakh pairs in 1987-88 and 1.06 lakh pairs in 1989-90. It was producing about 4 lakh pairs per year prior to installation of the machines. The output of the factory after substantial investment on modernisation did not improve, nor did it achieve its objectives of export.

The Ministry stated (October 1989) that construction of the new building was delayed because of review of the structural designs as per the suggestion of consultants and failure of the first contractor.

The reply of the Ministry overlooks the fact that the decision to construct the building was taken in July 1983 and the work of construction of the building was awarded in August 1984 whereas the machines were already received during October 1981 to September 1982.

Delay in installation of the machines for a period of 5 years resulted in blocking up of funds of Rs.48.68 lakhs with consequential loss of interest of Rs.42.46 lakhs thereon.

The reasons for shortfall against production targets have not been explained.

16. BHARAT EARTH MOVERS LIMITED

Avoidable payment of Ocean Freight.

The Company placed a purchase order (January 1988) on a US. firm for supply of CKDs/components required for 11 sets of 120 ton Dump Trucks, at a total value of $56,62,712 on FOB basis with option to change the terms of delivery C&F Madras by allowing an additional amount of US$ 1,45,662 (US$ 13,242 per set) towards ocean freight.

The Company approached (February 1988) the Ministry of Surface Transport for permission to import the material on C&F basis in relaxation of their general directive to effect import on FOB basis, as the freight rate offered by Shipping Corporation of India Limited (SCI) was high, or to advise SCI to bring down the freight charges to US$ 13,242 per set as offered by US Suppliers.The Ministry in consultation with the SCI intimated (March 1988) that the latter had agreed to charge a special lump sum freight of US$ 1,89,123 for 11 sets and advised the Company to finalise the contract on FOB basis.

The purchase order amendment issued (March 1988) by the Company to the Ministry with a copy to the latter's Shipping Agent merely altered the terms of delivery as "FAS (Vessel) North American Port of Exit" without indicating the special freight rates offered by the SCI.

Due to non-positioning of adequate Indian vessels. CKDs/Components for 3 sets were carried (June 1988) by SCI vessel and the remaining supplies were carried (June and August 1988) by foreign vessels. The freight charges paid to SCI were US$ 86,231 as against prorata charge of US$ 51,579 indicated by the Ministry and US$ 4,56,511 to foreign vessels. This resulted in excess payment of freight charges of US$ 3,53,619 (Rs.50.12 lakhs) over the rates agreed to by the SCI.

The Company requested (August 1988) the Ministry of Surface Transport to take up the matter with the SCI for refund of excess freight paid. The Ministry replied (March 1989) that the special rates quoted by the SCI were not either confirmed by the Company nor the amendment to Purchase Order mentioned the special rates, in the absence of which retrospective reduction in freight would not be possible. The Ministry further stated that as a special case the SCI would consider reduction in

respect of part-shipment effected through their vessels. The claim for refund of Rs.7.56 lakhs made in February 1990 in this regard was yet to be settled (October 1991).

The Ministry stated (March 1991) that the excess payment was due to a communication gap between the Company and the Ministry of Surface Transport and that the Company had been strictly directed to be more vigilant and responsible in future.

Failure to mention clearly the reduced rates offered by SCI in the amended Purchase Order of March 1988 resulted in the Company incurring an avoidable expenditure of Rs.42.56 lakhs in foreign exchange.

17.HINDUSTAN VEGETABLE OILS CORPORATION LIMITED

Loss due to unauthorised and irregular payment to the sub-contractor at Bangalore Unit.

The Company placed (July 1984) an order for complete plant and machinery required for a 100 MT per day refinery in Bangalore at a cost of Rs.258 lakhs, excluding freight, insurance and taxes, on a firm of Bombay. As the civil construction work was not awarded alongwith the above order, the Bangalore Unit, after calling quotations, placed (November 1984) another order for civil construction work to the same firm whose quotation was the lowest, for a total amount of Rs.66 lakhs without approval from the Head Office. As per payment clause, 90 per cent of the payment was to be made as per progress of the work and the balance on satisfactory completion of the job. The work was required to be completed within 3-4 months from the date of issue of order.

2. The contractor did not start any civil works till 15th January 1985, when he informed the Company about appointment of a sub-contractor for the civil works and requested the Company to pay to the party on his behalf by debiting his account against the above work orders.The sub-contractor did not submit any bills in respect of the work done by him. The unit, however, released a sum of Rs.41.50 lakhs to the sub-contractor during the period 21st January 1985 to 26th February 1985 without verification of progress of work as envisaged in the work order. The implementation of the above work was suspended subsequently (September/October 1985) due to delay in execution as per the Board's decision, which was communicated to the contractor on 1st November 1985.

3. While evaluating (November 1986) the value of work done, it was seen that work valuing Rs.11.25 lakhs only were done. Thus, a sum of Rs.30.25 lakhs was paid in excess in total disregard of the terms and conditions of the work order.

4. The amount of Rs.41.50 lakhs was shown as debit against the contractor, which he disowned (April 1987). On being told (July 1987) that the payment was released to the sub-contractor as per instructions contained in his letter dated 15th January 1985, the contractor contended (October 1987) that payment was required to be made as per work order after verification of the

work done and as such no advance payment should have been made.

5. The Management stated (February/March 1988) that an enquiry by C.B.I. in respect of unauthorised and irregular payment to the sub-contractor had been initiated on 1st April 1987 against the then officer-in-charge and that the Company was in the process of consolidating the accounts of the associate concerns for making necessary adjustments. The Management has not taken any action, so far (October 1991), on the report of C.B.I.

6. The Ministry stated (October 1988) that the Company will deduct Rs.41.50 lakhs paid to sub-contractor from the accounts of main contractor and in such a case the loss will depend upon the contractor's acceptance or rejection of the debits raised against him. In case, the contractor goes to the court of law, the possible loss will depend upon the decision of the court.

7. The reply of the Ministry ignores the fact that the main contractor had already disowned the debit raised against him in April 1987 though there was a net credit balance of Rs.55 lakhs in the accounts of the contractor and his associates as on 31st March 1988 after adjusting the amount of claims raised by the Company. The Management subsequently informed (September 1991) that accounts of the contractor and its associate concerns have been finalised but the adjustment could not take place as the contractor has instituted a civil suit against the Company. The Management further stated that the C.B.I. has recommended the prosecution of two employees of the Company in the case.

Further developments in this regard were awaited (October 1991).

18. TEA TRADING CORPORATION OF INDIA LIMITED

18.1. Loss on tendering of sub-standard Tea.

Tea Trading Corporation of India Limited entered into an agreement in March 1984 with the Canteen Stores Deptt., Ministry of Defence for supply of 3180 MT of tea during the period August 1983 to March 1984. The terms of the agreement provided, inter-alia, that (i) the supply of tea should conform to ISI & ASC specifications and (ii) each batch/lot was to be subjected to sampling/analytical testing by the Composite Food Laboratory (CFL) of the Defence Authority to ensure that the product conforms to the agreed specifications and acceptable for issue to the troops.

After procuring and blending, the tea was tendered as per procedure before the Defence Authority. In April and July 1984, the Defence Authority rejected 1,16,026 kgs. of tea, the value of which was Rs.27.29 lakhs due to (a) percentage of moisture and sieve test being in excess of the prescribed ceiling limits, (b) tea was unclean with excessive fibres, hard stalks, not free from extraneous matter and (c) liquor produced was of unsatisfactory flavour. The tea was, thereafter, lying at Cochin and Guwahati branches of the Company. As it could not be utilised against any order, it was decided in November 1984 (for Guwahati branch) and September 1985 (for Cochin branch) to transfer it to Calcutta for which an amount of Rs.0.73 lakh was incurred as freight and transport charges.

By October, 1986 it was decided to sell the rejected blends as the prevailing tea prices were higher than those of previous year. The Company sold 1,15,105.5 kgs. of blended tea at the rate of Rs.5/- per kg. (approx.). However, owing to shortage in supply to the extent of 2320 kgs., the Company realised Rs.5.58 lakhs in March 1987. The balance quantity of 920.5 kgs. was not kept separately and was mixed up with other blended tea resulting in loss of identification. Thus, the Company sustained loss of Rs.22.44 lakhs for tendering sub-standard tea, not conforming to accepted samples.

The Company stated (June 1987) - "We have tried our best to get highest bid to minimise the loss....". The Company added (April 1989) that the tea in question was not accepted because it was found by the Defence

Authority to be not conforming to the specification as per the samples.

The Ministry has accepted the above loss. It has also been stated that due to passage of time the quality of tea also deteriorated and the company had to incur loss to the tune of Rs.22.44 lakhs. It has been further stated by the Ministry that for buying such teas which after blending were rejected by the Defence Authority, responsibility was fixed on the Tea Buying Department. The In-charge of Tea Buying Department of the relevant time was dismissed from the services.

18.2.Loss on sale of stock of accumulated tea.

The stock of tea accumulated over the years at the factory of Looksan Tea Estate of the Company as on 14th December 1985 was 1,49,429 kgs. including 1234 kgs. of tea produced on that day. In addition, 8846 kgs. were found excess by the Central Excise Authorities during the annual stock taking on 21st February, 1986 bringing the total stock of tea to 1,58,275 kgs. (64074 kgs. pertaining to years upto 1984-85 and the balance relating to 1985-86).

On the accumulated 1,58,275 kgs. of tea the Company suffered a loss of Rs.10.91 lakhs as detailed below:-

Revenue realised	(Rs.in lakhs)
1,41,809 kgs. - sold	11.77
16,466 kgs. - distributed as samples & denatured	
1,58,275 kgs.	**11.77**
Manufacturing cost incurred	
64,074 kgs. @ Rs.13.64 per kg.	8.74
85,355 kgs. @ Rs.11.15 per kg.	9.52
8,846 kgs. @ Rs.11.15 per kg.	0.99
1,58,275 kgs.	
Re-processingcost(1,01,651kgs. @ Rs.3.37 per kg)	3.43
	22.68
Loss	10.91

The Ministry in their reply has stated (January 1989) as follows:-

"Through the manufacturing process, both primary and secondary grades of tea are produced. The secondary grades need to be reprocessed, reconditioned and

resorted before these become fit for sale. This is time consuming process and linked with quality of green leaf harvested and plucked. Thus, the accumulation was mainly for reprocessing and sorting of secondary grades of tea. The position was further aggravated as the Sorting Machines in the garden could not be properly alligned and there were frequent interruptions".

It is, therefore, observed that due to its inability to sort out the manufactured tea expeditiously, there was huge accumulation and the consequent deterioration in quality with the passage of time leading to a loss of Rs.10.91 lakhs.

19. METALLURGICAL AND ENGINEERING CONSULTANTS (INDIA) LIMITED

Non-availing of concession on surcharge on income tax by MECON.

The Government of India introduced through Finance Act, 1983, the scheme known as Companies Deposits (Surcharge on Income Tax Scheme, 1983), granting concessions on surcharge in consideration of deposit in special account with I.D.B.I. The concession under the scheme was upto 50% of the surcharge due for the assessment year 1984-85. It was modified subsequently through the Finance Act, 1984 for the assessment years 1985-86 and 1986-87. The scheme as modified inter-alia provided as follows:-

" A company may, in lieu of payment of the entire amount of surcharge on Income Tax, make, before the last instalment of advance tax is due in its case, deposit with Industrial Development Bank of India and where the amount of deposit so made is equal to or exceeds the amount of surchage on Income Tax payable by it, the surcharge payable by it, shall be reduced to nil. Where the amount of deposit so made falls short of the amount of surcharge, the surcharge payable by the Company are reduced by the amount of the deposit so made".

MECON estimated surcharge amounting to Rs.27.28 lakhs on Income Tax for the Assessment year 1985-86. On receipt of confirmation from S.B.I., Ranchi, that necessary instructions were received from I.D.B.I. regarding acceptance of deposit for the year 1985-86, the Company deposited Rs.5 lakhs as the first instalment of the year for availing benefit of non-payment of surcharge. In order to avail of the concession in full a cheque for Rs.23 lakhs was prepared on 20.3.1985 and sent to S.B.I., Ranchi for deposit. The Gazette Notification on the subject, however, provided that the deposit towards the surcharge is to be made before the last instalment of the advance tax was due unless the C.I.T. extends the said date in respect of a particular assessee. In this case the last instalment of advance tax was due on 15.3.1985 and on that count the S.B.I., Ranchi did not accept the deposit under the scheme. The Company requested C.I.T. for extension of the date but this was not allowed. As a result an amount of Rs.22 lakhs was deposited on 27.7.1985 against 'payment of advance tax' for the year. Thus the Company could deposit only Rs.5

lakhs with I.D.B.I. under the scheme and failed to avail of the concession of Rs.22.28 lakhs in the Assessment year 1985-86. To that extent MECON has suffered a loss of Rs.22.28 lakhs.

The Management stated (March 1990) as follows:-

" We were not aware of the Gazette Notification till the State Bank brought it to our notice.

It may kindly be seen that MECON's failure to deposit the amount of Rs.22.28 lakhs in the I.D.B.I. deposit scheme was due to genuine mistake that the amount could be deposited by 31.3.1985 as was allowed for the year 1984-85".

The Ministry of steel has also given the same reason that the concerned dealing officer of the Company was genuinely under the impression that this deposit could be made before 31st March 1985, and that MECON came to know about the date of deposit from the S.B.I. Ranchi.

The reply of the Management and the Ministry highlights the failure of the management of the Company to keep abreast of the full details of tax concessions allowed by the Government. This failure has already resulted in a loss of Rs.22.28 lakhs.

20.EASTERN COALFIELDS LIMITED

Avoidable extra expenditure on procurement of Crawler mounted Drills.

In order to procure seven number of Crawler mounted 4-4-1/2" DTH Drills, for immediate requirement in different projects, the company floated limited tender enquiry in January, 1985. In response, seven manufacturers submitted their offers out of which only two offers of firm 'A' and firm 'B' were in conformity with the technical specifications. The rate per drill quoted by firm 'B' was lower than that of firm 'A' by Rs.2,62,513/-. However, the Tender Committee recommended procurement of the drills from firm 'A'.

The Committee observed in its meeting on 15.3.1985 in respect of offers of firm 'B' as follows:-

"T.C. noted that C.E.(EXCV) had stated that this offer was in line with our technical specification. However, T.C. was informed that similar drill was ordered on firm 'B' last year on educational basis and the same has not been commissioned yet, as understood from the technical member. Performance reports have not been furnished by the C.E.(EXCV) or the user. T.C., therefore, opined that it would not be prudent to place further orders on this manufacturer until the performance of the machines already on order is established".

The Company, accordingly, placed the purchase order on firm 'A' in April, 1985 and procured seven numbers of Crawler mounted Drills at a total cost of Rs.60.30 lakhs which was Rs.18.38 lakhs higher than those offered by firm 'B'.

The decision to ignore the offer of firm 'B' lacked justification on the ground that the performance of the Crawler mounted drill which was supplied by firm 'B' on 14.12.1984 and commissioned on 13.2.1985 could have been assessed and considered by the Tender Committee in its meeting held on 15.3.1985. Moreover, the fact that the firm 'B' had supplied Crawler Drills of same specification to other Public Sector Undertakings and that their performance was found satisfactory,was also ignored by the Tender Committee.

It would, therefore, be evident that the extra expenditure of Rs.18.38 lakhs, incurred in procurement of seven numbers of Crawler mounted Drills, was not

judicious and could have been avoided by procuring these from the lowest tenderer.

The Ministry, while confirming the facts of the case, stated (September 1991) that the short period which had elapsed between the commissioning of drill supplied by Firm 'B' in February 1985 and the meeting of the Tender Committee in March 1985 was not enough to assess the performance of the drill. This reply is to be considered in the light of the fact that the Tender Committee was not even informed of the commissioning of the drill. Moreover, the entire quantity was decided to be ordered at a higher price without considering the performance of firm 'B''s product in other companies. The Ministry further stated that the drill supplied by Firm 'B' has been reported to be functioning satisfactirly and that the company has been asked to institute an enquiry to determine whether there was any malafide in the selection process in this particular case.

21.NEYVELI LIGNITE CORPORATION LIMITED

Import of Binary Control Cubicles.

Neyveli Lignite Corporation Limited (NLC) imported steam generator components during 1983-85 from the prime contractors (M/s. Transelektro, Hungary) for erecting, testing and commissioning of the three generation units of Thermal Power Station-II-Stage-I; these components included three Binary Control Cubicles meant for Unit I (98 Nos. of electronic modules) at an assessed cost of Rs.3.99 lakhs supplied by M/s. Siemens, West Germany, as sub-contractors of M/s. Transelektro. No apparent damage was noticed when the control cubicles were jointly verified in May 1985. The cubicles were taken up for detailed inspection only in December 1986 just before the commencement of erection of Unit I. Reasons for delayed inspection are not on record. On detailed inspection, it was found that the cubicles had been damaged because they were kept in an unsuitable store, the climate resistant package and the inside wrappings were opened with the consequence that panels inside were totally corroded. M/s. Transelektro observed that the panles were completely rusted and damaged as this item was not stored as per storage instructions.

The responsibility for the storage of the materials supplied in terms of the contract entered into between NLC and M/s. Engineering Construction Corporation Limited (ECC) vested with the erection contractors, viz., ECC, a subsidiary of Larsen & Toubro Limited (L&T).

The insurance surveyor also reported (January 1987) that the damage could have been prevented, if normal procedure for storing such panels had been observed. The insurer therefore rejected (July 1987) the formal claim lodged by NLC in February 1987 stating that there was no justification for insurance compensation. When NLC informed (January 1987) L&T about the non-compliance of storage instructions and claimed consequential loss, L&T declined (February 1987) to accept any responsibility stating that the big size panels could not be stored in air-conditioned stores at erection site due to their abnormal size. No alternate air conditioned storage could be made available by either NLC or M/s. Transelektro despite repeated requests by ECC. M/s. Transelektro did not accept (April 1987) the contention of L&T, as securing air-conditioned storage area was not within the scope

of their work. The Company withheld a sum of Rs.20.19 lakhs from M/s. ECC, pending resolution of the dispute regarding responsibility for the damage to the equipment. The Company had also the contract performance guarantee (CPG) of M/s. Transelektro kept valid to fall back upon in the eventuality of M/s. ECC not accepting the liability finally.

Meanwhile, an order for purchase of new modules was placed on M/s. Intradex, Austria, through M/s. Transelektro in July 1987 and 97 modules were received at a total cost of Rs.28.19 lakhs (exchange rate 1 DM=Rs.8.10) and used for Unit I (when it was commissioned in January 1988) as against the original cost of 98 modules of Rs.3.99 lakhs imported in May 1985 as assessed by NLC at the then prevailing exchange rate of 1 DM=Rs.4.07. This second purchase was necessitated due to the damaged consignment received earlier.

As the electronic modules (98 nos.) received in May 1985 and damaged could not be repaired in the Bombay Unit of sub-contractor who supplied the material, the materials had to be re-exported to M/s. Siemens, West Germany, in October 1987 through M/s. Transelektro. But the order for repair work indicating the repair charges of 98 modules at a total FOB price of DM:119877 was issued on M/s. Transelektro in October 1989 only, (i.e. after a period of two years of re-exporting the defective material) after getting clearance from DGTD in Febraury 1989 and import licence in September 1989. It was decided in the meeting of the purchase co-ordination committee held on 31st July 1987 that NLC would bear the expenses initially pending final settlement of the repair cost and the repaired modules, after receipt, would be kept as 'spares' for sustaining production in all the three units. The matter as to who should finaly bear the repair cost remains unresolved so far (May 1991).

The defective modules were received back after repairs in March 1990 and the total cost incurred, which included the repair cost of DM:119877 and concessional Customs Duty, worked out to Rs.16.75 lakhs. The cost of repairs to the defective modules was borne by NLC.

Thus, in view of the damages to the Binary Control modules due to defective storage resulting in damages to the first consignment, NLC had to incur an avoidable expenditure of Rs.16.75 lakhs on repairs of the damaged

modules and also resort to emergent purchase of almost equal number of additional modules for about Rs.28.19 lakhs.

The Ministry stated (April 1991) that-

i) by importing 97 modules along with other critical items required for commissioning and operation of the thermal units as part of a contingency action plan for ensuring unobstructed availability of all the critical items, NLC was able to save more than Rs.25 lakhs on customs duty.

ii) The financial interest of NLC had been secured by retaining a part of the dues of the erection contractors and claiming of CPG of the prime contractor.

iii) The list of recommended spares was finalised as recommended by the suppliers of the main equipment and this has been included in the modules in question. Hence the expenditure of Rs.28.19 lakhs could not have been avoided by including the modules in the list of recommended spares as the value would have gone up by a corresponding amount.

Ministry's reply ignores the cost incurred (Rs.16.75 lakhs) in repairing the damaged modules. The sub-contractor has so far refused to accept this liability. This is an additional expenditure and therefore a loss so far borne by the Company.

22. INDIAN DRUGS AND PHARMACEUTICALS LIMITED

Extra expenditure due to delay in payment of electricity bills

The company obtains electricity from Uttar Pradesh State Electricity Board (UPSEB) for its Plant at Rishikesh. According to the Rate Schedule the UPSEB levies additional charges per day at the rate of seven paise per hundred rupees or part thereof (revised to 2 percent per month or part thereof with effect from 17th October 1989) on the unpaid amount of the bill for the period by which the payment is delayed beyond the due date specified in the respective bill.

The Company had to pay additional charges amounting to Rs.101.09 lakhs on account of non-payment of electricity bills by the due dates during the years 1984-85 to 1990-91.

Ministry stated (February 1990) that the payment of electricity bills could not be made in time as IDPL was facing financial crisis. It was further stated that had the Company paid the bills in time it would have been required to pay interest on overdrawals from bank under the cash credit arrangement.

The reply of the Ministry is not tenable because the Company paid surcharge at the rate of 25.55 per cent upto 16th October 1989 and 24 per cent per annum thereafter to the UPSEB whereas interest on overdraft under cash credit arrangement if availed of from the Bank would have ranged from 19.75 per cent to 18.5 per cent per annum. Even if the Company's financial position was not sound and it had paid electricity bills out of overdraft funds it could have avoided an extra payment of Rs.23.96 lakhs.

23.HINDUSTAN AERONAUTICS LIMITED

23.1.Over payment on purchase of bought out items

An agreement was entered into between M/s.Dornier GmbH and Government of India on 29th November, 1983 for transfer of technical knowhow, and supply of material and services for the manufacture of Dornier aircrafts in India. In December 1983, this agreement was assigned to Hindustan Aeronautics Limited (HAL) for implementation. The agreement provided for payment of bought out items by HAL to M/s. Dornier GmbH at actual vendor invoiced prices increased by twenty percent for handling charges. Further, in July, 1988 it was also agreed that for the items supplied from stocks of M/s. Dornier GmbH on urgent basis, handling charges at 62.5% and 40% of cost for items costing below DM 2500 each and costing above DM 2500 each respectively, would be chargeable.

During the years 1984 to 1986, HAL placed orders for 2500 bought out items, which were received and paid for by HAL based on invoices raised by M/s. Dornier GmbH. As HAL had been procuring the bought out items progressively directly from vendors, prices charged by vendors also became available to HAL. On a comparison made by HAL between the actual prices charged by M/s. Dornier GmbH and the prices arrived at by adding twenty percent handling charges on the vendors' prices of items directly procured by HAL,it observed that for 644 items M/s Dornier GmbH had overcharged. HAL then insisted on production of invoices of vendors for further verification of prices charged. M/s. Dornier GmbH contested that the agreement did not provide for verification of invoices of vendors and hence it was not obligatory on their part to produce invoices of vendors.

In July 1988 it was, however, agreed that verification of invoices of vendors be restricted to a maximum of twenty percent. Accordingly, M/s.Dornier GmbH was given a list of 400 items for which invoices of vendors were to be produced for verification. M/s. Dornier GmbH, however, provided vendors invoices for 165 items which included only 25 items out of the list supplied by HAL. On verification of these invoices it was observed that an amount of DM 3,29,139.52 (Rs.15.27 lakhs) stood overpaid to M/s. Dornier GmbH in respect of 25 items. The amount was, however, not received by HAL till June, 1991.

The issue of verification of invoice could not, however, be settled so far (June 1991). Pending actual verification of invoices of the vendors, the extent of overpayment could not be ascertained. Further, agreeing to a restricted verification of invoices of vendors, HAL had failed to safeguard its financial interst.

Ministry stated (January 1991) that the clause of agreement casts a primary obligation on M/s. Dornier GmbH to frame invoices for bought out items based on actual vendor invoices prices; it does not create a liability on HAL to verify 100% vendor invoices. Ministry's reply overlooked the fact that if the verification of vendors invoices was not the intention of the parties, how was HAL to ensure that the payments for bought out items were made based on actual vendor invoiced prices in terms of the provisions of the agreement and it was not overcharged.

HAL continued to make further purchases of bought out items at the prices charged by M/s. Dornier GmbH without verification with reference to actual vendor invoiced prices.

23.2.Delay in Commissioning of Plating Line Machine.

During 1988 the Company imported from a U.K. supplier one Plating Line machine with automatic controller for its P.C.B. shop at a total cost of Rs.38.28 lakhs. The Company received information from the supplier that the machine was shipped on 3.3.1988 and was expected to reach Bombay around 9.4.1988. The machine was received in May 1988 but due to lack of advance action for its installation the machine could be installed after 2 years in June 1990.

The Management/Ministry stated that at the time of ordering for the machine in March 1987 it was proposed to instal it on the first floor of the building where the P.C.B. Department was located. However, during the course of inspection of the P.C.B. area in 1987, leakages in the building were noticed due to constant use of acid resulting in corrosion. Thus, the earmarked site was found unsafe for man and machinery. The alternative site was selected and a proposal for civil works for modifications of the area (alternative site) at an estimated cost of Rs.4.50 lakhs was made. The funds (Rs.2.80 lakhs) were, however, sanctioned only in June 1989 resulting in delay in awarding the contract for execution of the civil work which could finally be completed by January, 1990.

Omission in taking adequate advance action for installation of the machine resulted in its remaining idle for over 2 years.

24.INDIA TOURISM DEVELOPMENT CORPORATION LIMITED

Loss of Revenue due to incorrect measurement of area.

In response to tender dated 27th June 1983 from 'X', the Management of the Kanishka Shopping Plaza allotted (July 1983) 11 modules (No.106 to 116) of the Shopping Plaza, stated by the Management to cover an area of 2060 sq.ft., to 'X' at the rate of Rs.40/- per sq.ft. per month for a period of three years with effect from 1st September 1983. Consequently an agreement was signed on 30th August 1983 providing for an annual licence fee of Rs.9,88,800. When the licence was being re-negotiated at the end of the 3 years period, the area was measured and the actual area was found to be 2760 sq.ft., instead of 2060 sq.ft. which had been indicated in the earlier allotment letter. Due to incorrect measurement of the area allotted in 1983 the Kanishka Shopping Plaza suffered a loss of revenue amounting to Rs.10.08 lakhs during the three years from 1st September 1983 to 31st August 1986.

While re-negotiating the licence,the licensee agreed to pay for the extra area of 700 sq.ft. at the rate of Rs.40/- per sq.ft. provided they were not to be charged retrospectively. The Management agreed.

Similarly, 5 modules (No. 117 to 121) were allotted to 'Y' with effect from 14th July 1983 for 3 years at the rate of Rs.40/- per sq.ft. per month covering an area of 1151 sq.ft. as stated by the Management, at an annual licence fee of Rs.5,52,480. When the three year period expired, it was measured and licensed to 'X'. The actual area, when measured in 1986 worked out to 1300 sq.ft. instead of 1151 sq.ft. In this case also incorrect measurement of the area allotted in 1983 resulted in loss of revenue of Rs.2.15 lakhs during the three years from 14th July 1983 to 13th July 1986. Though the Management were aware in April 1986 of the initial incorrect measurement, no efforts were made to recover the amount from 'Y' though they vacated the premises only in July 1986.

The Management stated (August 1990) that in both the cases, the licensees were not using the corridor and toilets exclusively and these were open for general public; as such the licence fee for these areas was not charged. The reply of the Management ignores the fact that in the case of modules No. 106 to 116 there was no separate corridor as a passage and the licensee had

been occupying the corridor area also in addition to the modules and in case of modules 117 to 121 the toilets were also exclusively licensed out. It also ignores the fact that the licensee agreed to pay the licence fee for the increased areas in 1986.

The Ministry in its reply (December 1990) stated that the licensee was to pay a lumpsum fee of Rs.9,88,800 per annum and there was no mention of the area in the agreement. The reply is not correct as the agreement providing for payment of licence fee of Rs.9,88,800 per annum was determined on the basis of offer of 'X' for allotment of 2060 sq.ft. area at the rate of Rs.40/- per sq.ft. per month.

The failure of the Management of the Kanishka Shopping Plaza to correctly measure the area of the commercial space licensed out by them in 1983 led to loss of revenue of Rs.12.23 lakhs.

25.BANARHAT TEA COMPANY LIMITED

Extra expenditure on transportation of coal.

Two firms (A&B) were appointed on 21.5.1981 for transportation of coal at the rate of Rs.450/- per tonne without inviting tenders (the basis of arriving at the rate of Rs.450/- per tonne not on record). After supplying about 342 tonnes of coal firm 'B' stopped the execution of work (23.12.1981). The contract did not provide for liquidated damages in case of default. In the meantime (September 1981) rates of coal contracted with firm 'A' were increased from Rs.450/- to Rs.510/- per tonne (reasons not on record). On 15.10.1981, another firm 'C' offered transportation of 1000 tonnes of coal at the rate of Rs.510/- per tonne. Trial orders for 600 tonnes of coal were also placed on firm 'C' on 16.10.1981 against which 495 tonnes were transported during the period 16.10.1981 to 31.12.1981. In December 1981, firm 'C' was appointed as the transporter for the year 1982 on the verbal orders of the Chief Executive Officer at rates ranging from Rs.450/- to Rs.510/- per tonne. The total payments made to these firms amounted to Rs.44.32 lakhs as shown below:-

Name of the Firm	Quantity supplied (Tonnes)	Total amount actually paid at rates of Rs.450/- to Rs.510/- per tonne (Rs.in lakhs)
"A"	3976.320	18.17
"B"	341.895	1.52
"C"	4924.212	24.63
		44.32

On 12.3.1982 another firm "D" which had been catering to the needs of about 30% of the requirements of the Company's tea gardens in North Bengal for a long time, offered a lower rate of Rs.368 per tonne.In this context, it is significant to take note of the fact that the Indian Tea Association, in a meeting held in February 1982 also had indicated that the then cost of coal movement by road from the collieries to the tea gardens was around Rs.330/- to Rs.340/- per tonne. Inspite of the offer at the rate of Rs.368/- per tonne indicating the ruling rates, the Company continued the transportation of coal at rates ranging from Rs.450/- to Rs.510/- per tonne till December 1982.

Thus without ensuring the reasonability of the rates of the transportation charges etc. by inviting tenders or otherwise and allowing higher rates, the Company incurred extra expenditure of Rs.10.31 lakhs for the period May 1981 to December 1982 compared to the rates subsequently offered by firm "D".

The Management's reply which was endorsed by the Ministry in March 1988 stated - .... the Company did not know the firm (D) and did not call for any quotation from them. The Company receives such quotations from such unknown parties from time to time. Normally such quotations are not considered reliable and as such filed only..........The rates they quoted were unrealistically low and hence the allegation of extra expenditure incurred by the Company as worked out by the Audit on the basis of such unrealistically low rates were not correct'. The contention of the Management is not tenable as the firm had a branch and depot at Siliguri and verbal negotiations were held with the firm. It is rather surprising that the quotations of such firms are not considered reliable without verifying the credentials of the firms. The rates quoted by the firm have been stated to be unrealistic notwithstanding the fact that the rates of the Indian Tea Association which were more authentic were comparable with the rates quoted by the firm.

26.COAL INDIA LIMITED

Injudicious purchase of equipment.

Imported Dint Headers (DOSCO make) were in use in the Moonidih Project of Bharat Coking Coal Limited where new drill rigs (roof drilling machine) were to be used as Dint Header attachments. An Indian public sector firm quoted for 2 sets of roof drilling equipment at Rs.1.80 lakhs per set F.O.R. Durgapur. This was not considered suitable and Coal India Limited placed order on M/s.DOSCO for 2 sets of drill rigs at an approximate landed cost of Rs.2.24 lakhs per set. The drill rigs were received in June/July 1984. Soon afterwards, in September, 1984, a further order for 3 sets of drill rigs at an approximate landed cost of Rs.7.06 lakhs was placed on M/s. DOSCO for the Moonidih Project as well as for the Western Coalfields Limited. These 3 rigs were received in March 1985.

The roof drilling rigs received from M/s.DOSCO were not, however, able to drill properly in the roof. On this being reported to the supplier as well as to the manufacturer, certain modifications were tried in the hydraulic circuits as well as in the type of drill bits. These were not effective and in February 1987 it was concluded by the suppliers and manufacturers as well as by the B.C.C.L. authorities that the type of drill supplied by M/s DOSCO was not suitable for Moonidih Project.

The roof drilling machines had been ordered with a view to roof bolting for supporting the exposed roof of the mines after advancement of the face. The conventional way for supporting the immediately exposed roof by steel girders was not considered by the management and the roof bolting technique was sought to be introduced instead. But the suitability of the machines imported was not given adequate consideration with the result that the entire expenditure of Rs.9.19 lakhs in procuring the machines turned out to be infructuous. The Roof Drilling Rigs could not be put to any alternative use by the Company so far (July 1991).

The management stated (April 1990) that the machines did not fail because of their technical unsuitability for usage as Dint Header attachments nor for design defect, substandard materials or poor workmanship. The reason for the failure of the machines was the very hard strata conditions of Moonidih mines which could not be envisaged due to non-availability of

geomining parameters at the time of indent and finalising orders.

The Ministry while endorsing the views of the management stated (September 1991) that following the incident of unsuccessful performance of drilling machine, Moonidih has already started determination of strata strength of roof working Coal seams through CMRS and other Scientific Institutions.

27.FERTILIZERS AND CHEMICALS TRAVANCORE LIMITED

Purchase of Polypropylene rings.

In the ammonia plant of Cochin Division of the Company, the absorber and regenerator sections were provided with a total of 10 beds originally filled with about 500 M3 (Cubic meters) of ceramic saddles which are packings, facilitating chemical reaction. During 1980 annual turn around, 2 of the beds of the regenerator were replaced with fresh ceramic saddles. No immediate replacement of saddles in the remaining beds was found necessary.

Notwithstanding the stock of 128 M3 of ceramic saddles held in January 1981, the division procured in June 1981 93 M3 of polypropylene rings (substitute for ceramic saddles) costing Rs.10.28 lakhs from a private firm in Bombay, for filling one top bed in the regenerator as and when needed. The purchase was reportedly made on the recommendation of another public sector undertaking viz., Hindustan Fertilizer Corporation Limited (Durgapur Unit). Though the material showed very high foaming tendency during laboratory tests conducted in November 1981, long after the purchase, it was accepted and no reference regarding foaming was made to the supplier. These rings were not put to use till 1985.

In 1985, when the company wanted to change two beds of the regenerator with polypropylene rings, they gathered from other fertilizer companies that they too were having foaming problems with the polypropylene rings and that it was risky to use the same in conjunction with ceramic saddles in other beds. The company thereafter gave up the idea of using polypropylene rings and went in for stainless steel rings, which material had already been suggested by the process designer.

In March 1985, the company informed the supplier about the foaming tendency of the polypropylene rings. As per the purchase order, the material was guaranteed against poor performance, defective design, workmanship, etc., for a period of 12 months from the date of commissioning or 18 months from the date of supply, whichever was earlier. The supplier expressed surprise that they were not intimated about this problem any time since their supply in June 1981. They, however, offered to find a buyer for the material lying

with the company, but ultimately did not assist the company in the disposal of the material.

The Company had to sell the usused polypropylene rings for Rs.1.30 lakhs in March 1987, resulting in a loss of Rs.8.98 lakhs (Rs.10.28 lakhs-Rs.1.30 lakhs).

The Ministry, explaining the company's decisions for procurement of polypropylene rings in the beginning and against the use of them subsequently, stated (May 1989) that in the endeavour for meeting the need for keeping in stock the packings, an attempt was made by the company to find a cheaper substitute and after knowing that foaming tendency could not be contained, it was decided that the use of material was risky.

The purchase was made without taking cognizance of the report dated 30th January 1981 of Hindustan Fertilizers Corporation Limited on the use of the rings. The procurement action appears to have been taken mainly on the basis of discussion with the supplier and no laboratory tests were conducted prior to procurement. It is not clear as to why the company had accepted the material when the laboratory test conducted on 9th November 1981 indicated high foaming tendency. Records showing the details of reaction of materials department on the qualifications contained in laboratory test report and orders passed by the authorities concerned at various stages on the laboratory report prior to its acceptance were not produced to Audit as they could not be traced out by the Management.

The failure to take adequate precautions before procurement of rings by the company led to a loss of Rs.8.98 lakhs.

28.NATIONAL TEXTILE CORPORATION (M.P.) LIMITED

Unnecessary purchase of Diesel Generating Set

With a view to counteract the effect of power cut of 25 per cent imposed by Madhya Pradesh Electricity Board (MPEB) from August 1978, the National Textile Corporation (Madhya Pradesh) Limited, (Company) installed one 250 KVA diesel generating set at its Swadeshi Cotton & Flour Mills, Indore (Mills). The set was commissioned in May 1981. From February 1981, MPEB increased the power cut to 40 per cent. In view of this and considering that the power supply position in the State was not likely to improve in the near future, the Company placed (October 1981) another order for supply of one, 250 KVA DG Set at Rs.6.99 lakhs, ex-works Bombay (excluding excise duty and sales tax etc.) on firm 'A' (agent of firm 'B'). The diesel set was to be supplied by January 1982 and commissioned immediately. As per the purchase order, the payment terms included 10 per cent advance and balance 90 per cent against documents through bank. The advance payment could not be made due to lack of funds and the company directed (16th February 1982) firm 'A' not to despatch the set till futher instructions.

From 11th Janaury 1983, there was no power cut and the existing Diesel Generating set at the Mills was also not being fully utilised. The Company, therefore, decided (23rd March 1983) to keep the order for the second D.G.Set in abeyance. However, on being approached by firm 'A' the Company made advance payment of Rs.0.70 lakh in January 1984. No fresh review of the requirement of the Diesel Generating Set by the Mills was conducted by the Company at this stage.

An internal review of the utilisation of the Diesel Generating sets installed in the various mills of the Company conducted in April, 1984 revealed that the utilisation was very low; especially during 1983-84 when the power cut imposed by MPEB was discontinued. In the mills, the utilisation of the existing Diesel Generating set decreased from 29.7 per cent in 1982-83 to as low as 1.35 per cent in 1983-84. As the existing set was sufficient to meet the requirement of standby power generation, the Company requested (May/June 1984) firm 'A' to treat the order for the second set as cancelled and to refund the advance already paid. Firm 'A' refused (May/June 1984) to refund the advance on the ground that the equipment was awaiting despatch from their Principal's works. The Company, therefore,

decided (July 1984) to go ahead with the purchase. The set was delivered to the Mills in September 1984 and commissioned in May 1985 at a total cost of Rs.7.91 lakhs. It has been lying idle since then. This resulted in unnecessary purchase of an additional Generating Set involving an expenditure of Rs.7.91 lakhs.

The Management, inter-alia, stated (April 1989) as under:

i) Procurement of second Diesel Generating set was under the modernisation programme and intention to purchase the set was to have a standby arrangement of power so as to have the maximum possible utilisation of capacities installed.

ii) This was a conscious decision taken by the Management at that time looking to the past experience of power availability; improvement in the power situation was not envisaged.

iii) Having paid the advance and party's refusal to refund the same had also contributed to the decision of going ahead with the purchase of the second set.

The Government while generally endorsing the reply of the Management further stated (January 1990) that D.G. set was maintained as captive power device in order to meet out eventualities like-power cut, power failure which is also a common feature during heavy rains, hailstorms, etc. and to ensure normal working of the Mills. Further, MPEB may impose power cut in future and in that case the D.G. sets would be completely utilised and that normal yardstick of physical utilisation cannot be used in the case of these sets.

The contention of the Management/Ministry is not tenable in view of the fact that the Company themselves wanted to cancel the order for the D.G. set in 1984. They did not cancel it mainly because the supplier refused to refund the advance of Rs.0.70 lakh already paid to them in January 1984.

29.HMT LIMITED

Avoidable Expenditure On procurement of Horological Raw Materials.

The Watch Factory, Bangalore of HMT Ltd.,established in 1961 has been procuring horological raw materials required for manufacture of hand wound mechanical watches, some from their Collaborator in Japan and some others from a Swiss firm. Another factory at Tumkur for manufacture of both hand wound mechanical and quartz watches requiring some identical raw materials was established in 1978. Even though this factory was,inter-alia, making types of watches similar to some types made in the Bangalore factory, the Company did not establish a co-ordinated system for purchasing components of common use in both factories and each factory was allowed to make its own purchases independently without adequate information about what the other factory was purchasing and from where. Consequently, though the Watch Factory at Bangalore had already established the Swiss firm as a standard supplier for certain horological raw materials, the factory at Tumkur procured such materials on limited tender basis from their Collaborator rejecting the lowest offer of the Swiss firm. The expenditure incurred on such purchases made between 1984-85 and 1988-89 was Rs.175.57 lakhs. Had the same purchases been made from the Swiss firm the expenditure would have been only Rs.85.08 lakhs.The additional expenditure as a result of overlooking the offer of the Swiss firm was, therefore, Rs.90.49 lakhs.

The Management sought to justify their rejecting the earlier offer of the Swiss firm to the high rejection percentage of the components in the trial order. This justification is, however, not borne out by facts as the defects noticed in the supply of the Swiss firm in November 1981 were fully rectified in May 1982. The entire stock of the rectified components were used in the watches manufactured by the Tumkur factory without any quality complaints. These components were also continuously used by the Bangalore factory. In spite of this, the Tumkur factory continued to procure the components at a higher price even after 1981 till the end of 1988 when the components of the Swiss firm were cleared as acceptable.

The Management further contended that the requirement of the Tumkur factory being 'inter-leaving adhesive rust preventing paper on buff finished

surface' was not being offered by the Swiss firm. The Swiss firm's quotation of September 1987 described the material as "horological brass strips bright finished with adhesive rust preventive tape.... similar to your specification RM 010100 in coils". This was the material which was, after rectification, used in 1982 in the manufacture of the watches. Material of the same description had been ordered on this firm from 1988 onwards. Therefore, the material offered by the Swiss firm was of the required specification.

An unduly long time of eight years was taken to determine the acceptability of the components offered by the Swiss firm, while the factory at Bangalore had been using the same components in the manufacture of hand-wound watches without any complaint. Inordinate time taken by the factory at Tumkur in accepting the Swiss firm as an established source of supply of components despite the Bangalore factory having recognized it as a regular source of supply has resulted in the Company incurring an avoidable extra expenditure of Rs.90:49 lakhs.

30.FOOD CORPORATION OF INDIA

Purchase of Sub Standard Paddy

The modalities to be observed for procurement of foodgrains by Food Corporation of India are laid down in the Quality Control Manual which inter-alia provides for inspection of the lots offered by the Quality Control Inspector for tendering the rates based on the specifications, drawal of samples as per norms and forwarding them for analysis to the District Laboratory and surprise checks by Senior Officers to ensure satisfactory performance of the Quality Control Inspector at Mandi.

The Food Corporation of India, District Sangrur purchased between 13th October 1984 and 14th November 1984, 2,33,785.64 quintals of paddy, PR-106 as Grade I at the rate of Rs. 145/- per quintal from Tapa Mandi. Out of this purchase, 2,12,797.92 quintals were despatched to Food Storage Depot, Tapa between January and March 1985. While no surprise checks by senior officers as required were carried out during purchase operations, on the complaint lodged by Mandi Labour Contractor that the paddy purchased was beyond permissible limits of moisture content and damaged grain, the Senior Regional Manager deputed (November 1984) a squad which on investigation found that the prescribed modalities had not been observed at the time of procurement of paddy. Laboratory tests of samples drawn from Food Storage Depot, Tapa by Sepecial Squad (Vigilence) of Head Office, Delhi, indicated (July 1985) that moisture content was within permissible limits (apparently on account of driage over six months period) but presence of foreign materials, damaged/discoloured and immature/weevilled grains was beyond tolerance limits.

Disposal of the said paddy at Food Storage Depot, Tapa revealed that it could not be used for the purpose for which it was procured and over 44% (94801 quintals) of the paddy had to be sold during 1986-87 and 1987-88 as sub-standard at a rate much lower than that at which it was purchased and the total amount realised on the sale was Rs.110.53 lakhs. The economic cost of paddy at the rate of Rs. 226 per quintal works out to Rs.214.25 lakhs. Thus the Corporation incurred a loss of Rs.103.72 lakhs on the disposal of sub-standard paddy.

The Management/Ministry stated (February/March 1991) that while the concerned Quality Control

Inspector was dismissed from service in Fabruary 1988, the Senior Regional Manager, Punjab had been asked to fix the responsibility on other delinquent officials.

Non-observance of the quality control instruction resulted in the purchase of sub-standard paddy and consequent loss of Rs.103.72 lakhs on disposal thereof.

31.VIDESH SANCHAR NIGAM LIMITED

Infructuous expenditure on power supply

The Tamil Nadu Electricity Board (TNEB) permitted high tension power supply to the Overseas Communication Service, now Videsh Sanchar Nigam Limited (VSNL), at Madras at a contracted demand of 1500 KVA from September 1980. In August 1985, TNEB decided that in respect of consumers who were not subject to any power cut, the demand charges for any month shall be based on the KVA of demand recorded in that month or 75 per cent of the contracted demand, whichever is higher. The revised orders were effective from September 1985 and the consumers had the option to reduce their contracted demand, if so desired. Prior to August 1985, the monthly recorded demand ranged between 480 KVA and 710 KVA. But VSNL did not avail of the opportunity to reduce the contracted demand. Power charges continued to be paid for 1125 KVA (75 per cent of 1500· KVA) against the maximum recorded demand ranging between 480 KVA and 740 KVA per month recorded during April 1985 to May 1989. On being pointed out by Audit in December 1987 and again in October 1988, the TNEB was approached and the contracted demand was reduced from 1500 KVA to 1200 KVA from 20th February 1990. In the meantime, the VSNL continued to pay for 1125 KVA, which was much higher than the recorded demand, leading to payment of Rs.16.29 lakhs for unutilised demand of power (difference between contracted demand and actually used demand) during September 1985 to February 1990.

The Ministry stated in July 1990 that a review of contracted demand of power was not undertaken in 1985 as some projects requiring more power were likely to be made operative. It added that a review was carried out in November 1988 as soon as it became certain that the contracated power can be reduced due to postponment/deferment of these projects.

Although contracted demand was reduced from 1500 KVA to 1200 KVA from 20th February 1990, the consumption of power continues to be very low between 460 KVA and 620 KVA in different months during the period from March 1990 to May 1991-compared to committed payment for 900 kVA (75 per cent of reduced contracted demand of 1200 KVA).The VSNL was again considering (August 1990) to reduce the maximum demand from 1200 KVA to 800 KVA.

By not reviewing timely the demand with reference to actual/probable requirements and getting it reduced after September 1985, VSNL has incurred an extra expenditure of Rs.16.29 lakhs till the date of reduction in demand, i.e., February 1990.

(P.K.SARKAR)
Deputy Comptroller and Auditor General-cum-Chairman Audit Board

New Delhi
The 13 MAR 1992

Countersigned

(C.G.SOMIAH)
Comptroller and Auditor General of India

New Delhi
The 13 MAR 1992