लोक/राज्य सभा पटल पर रखे जाने के लिए
To be laid on the Table of the Lok/Rajya Sabha

अधिप्रमाणित
Authenticated
19.7.91
उद्योग मंत्रालय में राज्य मंत्री
Minister of State in the
Ministry of Industry

नई दिल्ली
New Delhi

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT (COMMERCIAL)

NO. 7 OF 1990

AUDIT OBSERVATIONS ON INDIVIDUAL TOPICS

TABLE OF CONTENTS

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) 1990 contains 44 paragraphs. Significant Audit findings highlighted in the Report are :

I. Central Warehousing Corporation

The Corporation suffered a loss of Rs. 662.21 lakhs on account of non-realisation of dues of customs bonded warehouses due to lack of timely action to dispose of the warehoused goods and failure to keep a proper accountal of bond-wise auction conducted by Customs Authorities. (Para 1)

II. Indian Drugs and Pharmaceuticals Limited

(i) The Company suffered a loss of Rs. 207.17 lakhs as a result of entering into a collaboration agreement with the Punjab State Industrial Development Corporation to set up a subsidiary company for producing maize based products without thoroughly examining the detailed project report and disregarding the advice of the Industrial Development Bank of India. (Para 2.1)

(ii) Due to delay in taking timely action for reduction of contracted load by Rishikesh Plant, the Company incurred an avoidable expenditure of Rs. 32.30 lakhs towards unconsumed electricity. (Para 2.2)

III. Jessop and Company Limited

(i) The Company suffered a loss of Rs. 2.02 crores against the estimated profit of Rs. 34.01 lakhs mainly due to delay in approval of design and drawings, delay in placement of order for matching steel and liquidity problems on account of lack of coordination in various divisions of the Company in preparation of these bills. (Para 3.1)

(ii) The Company entered into a contract for the supply of 221 Coaches to Railways at a price of Rs. 825.50 lakhs on which the Company anticipated a profit of Rs. 30.94 lakhs. The Company, however, suffered a loss of Rs. 98.50 lakhs mainly on account of its own internal problems and its failure to procure (non-escalable) components in time with proper planning. (Para 3.2)

(iii) The Company suffered a loss of Rs. 98.00 lakhs on a contract of Rs. 106.21 lakhs (against the estimated profit of Rs. 12.79 lakhs) for supply of cranes to Fertilizers & Chemicals Travancore Ltd. mainly due to the delayed execution of contract. (Para 3.3)

(iv) The Company suffered a loss of Rs. 7.65 lakhs on account of defalcation of provident fund amounting to Rs. 12.15 lakhs due to lack of internal control and procedural deficiencies. (Para 3.4)

IV. Indian Oil Corporation Limited, Southern Region

The Company imported steel for its drum plant at Madras without due regard to the requirement based on actual consumption of steel in past years, stock position, improvement in the indigenous supply and targets fixed. This resulted in avoidable imports of steel during February to August 1986 and use of foreign exchange as well as an extra expenditure of Rs. 185.41 lakhs. (Para 4)

V. Oil and Natural Gas Commission

(i) Import of External Casing Packers (ECP) in bulk without first ascertaining the results of their experimental use or availability of necessary technical expertise, etc. resulted in non-utilisation of 117 ECPs (out of 173 ECPs valuing Rs. 174.59 lakhs) of Eastern Region of the Corporation alone. (Para 5.1)

(ii) Hiring of a disputed office accommodation and subsequent non occupation of the same resulted in an infructuous expenditure of Rs. 21.56 lakhs. (Para 5.2)

(iii) Due to delay in finalisation of tenders, the Commission had to purchase certain items at higher cost which resulted in extra expenditure of Rs. 1.07 crores. (Para 5.3)

VI. Coal India Limited

Purchase of a 45 years old Thermal Power Plant from Madhya Pradesh Electricity Board without first assessing its technical suitability, financial viability, feasibility of relocation and finally disposing it of at a loss without deriving any benefit therefrom resulted in an infructuous expenditure of Rs. 1.34 crores.

(Para 6)

VII. Central Coalfields Limited

Mention was made in Para II(i) of the Report of the Comptroller and Auditor General of India Union Government (C)—1984—Part III regarding substantial accumulation of pit head stock of coal at Rajrappa mine from 1979-80 (0.130 million tonne) to 1983-84 (0.816 million tonne) resulting in not only blocking up of capital but exposing the stocks to the risks inter-alia of spontaneous heating too. No corrective action was taken; on the contrary the stock went upto 1.543 million tonnes by 1987-88. In a spontaneous fire that occurred in 1987-88 coal valuing Rs. 12.06 crores was destroyed.

(Para 7)

VIII. South Eastern Coalfields Limited

(i) The company procured a set of Single Ended Ranging Drum Shearer and Heavy Duty Armoured Chain Conveyor mining equipments costing Rs. 60.32 lakhs in May 1982 without proper assessment of the actual geo-mining conditions of the mining area where these were to be used. This had led to the machinery being kept idle in the stores since procurement.

(Para 8.1)

(ii) The failure of the Company in entering into an agreement with the Orissa State Electricity Board within the stipulated time for drawal of outside power beyond the power quota fixed by the Electricity Board resulted in avoidable penal payment of Rs. 34.54 lakhs during March-April 1987. (Para 8.2)

IX. Eastern Coalfields Limited

Separate meters for recording industrial and domestic consumption of electricity were not installed in the Kunustoria area. Thus the whole consumption of electricity was charged at higher rate leading to avoidable expenditure of Rs. 10.57 lakhs for the period from October 1979 to July 1983. (Para 9)

X. Food Corporation of India

The Company suffered a loss of Rs. 121.60 lakhs due to under/non-utilisation of dryers set up by the Corporation to avoid germination of paddy and the delay in its disposal. (Para 10)

XI. Steel Authority of India Limited

(i) Substantial quantities of costly metallurgical coal in place of boiler/slack coal had been consumed in the power plant during the years 1983-84 to 1987-88 which resulted in an extra expenditure of Rs. 80.05 lakhs. (Rourkela Steel Plant) (Para 11.1)

(ii) The CMO of the Company reduced the quantity to be shipped from Brazil from 40,000 tonnes p.m. to 30,000 tonnes p.m. from 5/83 to 10/83 which was priced lower i.e. at an average rate of US $ 131.50 per tonne and placed another order in 10/83 on a Pakistani firm at a higher rate i.e. US $ 141.50 per tonne. Had the monthly import from Brazil not been reduced, the import of entire quantity from Pakistan could have been avoided and would have resulted in saving in foreign exchange of US $ 445620 i.e. Rs. 48.35 lakhs. (Para 11.2)

XII. Rashtriya Ispat Nigam Limited

For construction of Kanithi Balancing Reservoir, the Company awarded the work in April 1981 at a cost of Rs. 8.68 crores before the receipt of the soil investigation report. On receipt of soil investigation report, the volume of work under various items of work was reassessed and a revised work order involving a steep increase in the volume of work ranging from 40 to 555 percent of original quantities was issued to the same contractor in Nov. 1982. This resulted in about three fold escalation in contract value from Rs. 8.68 crores to Rs. 21.50 crores. The work was, however, completed at a cost of Rs. 27.92 crores by December 1985.

Though the contractor did not quote any rate for jungle clearance in his tender, a rate of Rs. 1.39 per sq. metre was provided for this item in the revised work order issued in November 1982 and on this basis, an amount of Rs. 32.86 lakhs was paid for jungle clearance in the reservoir area of 23.04 lakhs square metres. Besides, an amount of Rs 28.61 lakhs was paid towards stripping of bushes and vegetation in the borrow areas from where earth was brought for filling the embankment of the eastern compartment of the reservoir though no provision for this item existed in the revised work order. Thus the extra payment of Rs. 61.47 lakhs constituted an unintended benefit to the contractor not contemplated in the contract.

The useful soil excavated from the diversion channel was to be used as casing soil for the dyke of the reservoir. But due to delay in taking up the formation of dyke upto October-November 1981, the useful soil was dumped on its bank and subsequently the soil got compacted due to movement of vehicular traffic. The useful soil had to be re-excavated by payment of extra amount of Rs. 13.65 lakhs. (Para 12)

XIII. Bharat Heavy Electricals Limited

(i) Without properly estimating the projected use and the likely changes in designs and product mix, the Company purchased one Horizontal Offset Tube Bender (HOB) at a cost of Rs. 70.96 lakhs, which remained idle ever since its procurement in 1983 except for marginal utilisation during 1989-90. (Para 13.1)

(ii) The Company failed to assess properly the suitability of 200 ton capacity pulley blocks available indigenously, and imported 8 numbers 300 ton capacity sheave pulley blocks at a cost of Rs. 66.42 lakhs involving a substantial amount of foreign exchange. These were kept mostly idle since their procurement in January 1986. (Para 13.2)

(iii) The improper assessment of the technical requirement of the equipments supplied by the Company to Orissa State Electricity Board, resulted in the supply of a third primary air fan costing Rs. 51.48 lakhs free of cost; involving equivalent extra expenditure for the Company. (Para 13.3)

(iv) Due to delay in deciding the nature of infrared fire sensing device required for Singrauli Project of National Thermal Power Corporation and finally reverting to the same type of equipment originally ordered in June 1981 the Company incurred an extra expenditure of Rs. 7.20 lakhs. Further due to cancellation of order for Singrauli Project (an IDA aided contract) and placing a fresh order for Anpara Project, the Company could not get duty draw back of Rs. 11.44 lakhs. (Para 13.4)

XIV. Air India

Failure in awarding of a contract for accommodating cabin crew to a hotel whose rates were lowest resulted in an avoidable expenditure of Rs. 64.90 lakhs in foreign exchange. (Para 14)

XV. Hindustan Vegetable Oils Corporation Limited

(i) The hiring of a private refinery at Gurgaon even when the Company was having adequate refining capacity of its own at Delhi unit resulted in an extra expenditure of Rs. 61.53 lakhs. (Para 15.1)

(ii) The Company took on lease a private refinery and made all modifications to increase the refining capacity. The utilisation of the refinery, however, was very poor and the expenditure of Rs. 46.90 lakhs on account of equipments, rent, dismantling and transportation charges of surplus equipments was rendered infructuous. This was notwithstanding the fact that the Company failed to take into consideration the construction of their own refinery in the same area. (Para 15.2)

XVI. Rashtriya Chemicals and Fertilizers Limited

Failure to adhere to the terms of contract and financial procedure resulted in nonrecovery of Rs. 60.59 lakhs (including Rs. 27.59 lakhs as accrued interest) from a dealer. (Para 16)

XVII. National Fertilisers Limited

Non furnishing the results of sample analysis of coal within the stipulated time in accordance with the agreement, resulted in the Company making payment at a higher rate for sub-standard coal and consequently suffered a loss of Rs. 54.19 lakhs. Claims of Rs.94.26 lakhs for sub-standard coal were under dispute since 1986 due to controversy over date of despatch of sample analysis. (Para 17)

XVIII. Spices Trading Corporation Limited

The procurement of substantial quantities of black pepper without getting confirmed letter of credit from the original buyer and its consequent sale resulted in a loss of Rs. 53.03 lakhs. (Para 18)

XIX. Hindustan Aeronautics Limited

(i) The Company failed to develop a Microlight Aircraft despite considerable time and cost overrun. The project was ultimately abandoned due to unsatisfactory progress. The total expediture of Rs. 52.08 lakhs incurred upto the time of abandonment thus proved infructuous, besides potential orders for such aircraft were lost and these had to be imported and paid for in foreign exchange. (Para 19.1)

(ii) The procurement of 100 centre support bearing from USSR despite the fact that the Company had identified alternative source for the centre support bearings at cheaper rates resulted in avoidable expenditure of Rs. 44.78 lakhs. (Para 19.2)

(iii) In respect of import of raw materials, components etc. from USSR on CIF Bombay Port basis, the Company had extended the coverage of its own insurance from USSR Port to the factory at Ojhar resulting in extra expenditure and payment of overage charges of Rs. 26.46 lakhs in respect of overage ships. (Para 19.3)

XX. Shipping Corporation of India Limited

In anticipation of relief in the customs duty, which did not materialise, the Company did not accept the highest bid for scrapping and sale of the old and uneconomic vessels—M.V. Ajanta and M.V. Parvati. On retendering, the Company received a price lower by Rs. 23.09 lakhs. In addition it also incurred an expenditure of Rs. 28.50 lakhs on account of standing charges, thus leading to an aggregate loss of Rs. 51.59 lakhs. (Para 20)

XXI. National Textile Corporation Limited

(i) Even though National Co-operative Consumers Federation did not make payment to NTC (WBABO) Ltd. within the specified period the Federation deducted cash discount @ 1% amounting to Rs. 20.93 lakhs. The Federation also did not pay interest amounting to Rs. 29.10 lakhs on delayed payments for the period from 1984-85 to 1988-89 in contravention of the agreements (Para 21.1)

(ii) The Company imported cotton from Pakistan at concessional rates of customs duty. Due to delayed clearance of the consignments from Customs Bond, the Company had to incur an avoidable expenditure of Rs. 27.56 lakhs towards demurrage and container detention charges. (Para 21.2)

XXII. National Seeds Corporation Limited

The Corporation suffered a loss of Rs. 46.29 lakhs on account of its failure to supply wheat seeds to Bangladesh Agricultural Development Corporation within the stipulated date and its consequential disposal as non seed as well as storage loss.

(Para 22)

XXIII. The Minerals and Metals Trading Corporation of India Limited

The Import of Rock Phosphate which did not conform to the specifications and failure to obtain the usual performance guarantee bond from the foreign suppliers had resulted in a loss of Rs. 26.84 lakhs to the Company. (Para 23)

XXIV. Hindustan Shipyard Limited

The Company failed to make planned arrangements for payment of freight charges due to which the consignments were not cleared in time. This resulted in payment of avoidable demurrage charges of Rs. 26.67 lakhs. (Para 24)

XXV. Electronics Corporation of India Limited.

Due to delay in supplying the Data Logging Equipments, the Company suffered a loss of Rs. 22.99 lakhs including Rs. 1.56 lakhs on account of additional statutory levies, which could not be recovered from the customer as no agreement for amendment to the purchase order was obtained before completing the supplies. (Para 25)

XXVI. Mineral Exploration Corporation Limited

Inadequate field investigation and unrealistic estimation before tendering for the work executed for the Kudremukh Iron Ore Company Limited during November, 1986 to November, 1987 had resulted in a loss of Rs. 20.38 lakhs against an estimated profit of Rs. 4.74 lakhs. (Para 26)

XXVII. HMT Limited

Incorrect assessment of power load required for one of its units, led to an infructuous expenditure of Rs. 17.89 lakhs by the Company towards unconsumed power. (Para 27)

XXVIII. Heavy Engineering Corporation Limited

Due to absence of advance planning to get the release of the imported equipments soon after arrival and to ensure proper storage of the equipments, the Company had to incur an avoidable expenditure of Rs. 15.36 lakhs, besides delayed accrual of benefits from the operation of the machine. (para 28)

XXIX. Bharat Earth Movers Limited

The Company purchased/imported part of its requirements of wheel Rims at higher rates, from a firm other than the original equipment supplier, which resulted in an extra expenditure of Rs. 15.66 lakhs.

(Para 29)

1. CENTRAL WAREHOUSING CORPORATION

Non-realisation of dues of Customs bonded Warehouses in Bombay Region.

The Central Warehousing Corporation operated between 1 to 19 customs bonded warehouses from 1974 to December 1988 in the Bombay Region under the provisions of Customs Act, 1962. Under the provisions thereof, dutiable goods can be deposited without payment of duty and the owner of the warehoused goods has to pay to the warehouse keeper the rent or warehouse charges at the prescribed rates. If such charges are not paid within ten days from the date they become due as determined under Section 59 of Act ibid, the warehouse keeper may, after notice to the owner of the warehoused goods, and with the permission of customs authorities, cause to be sold, such portions of goods as the warehouse keeper may select. In case the goods are not got cleared within the time laid down under Section 61 of said Act, customs authorities may cause the goods to be sold through auction, after giving notice to the owner of bonded goods. The sale proceeds of goods are to be adjusted under Section 150 of Act ibid in the following order :—

(i) Auction charges.

(ii) Handling charges.

(iii) Customs duty.

(iv) Warehouse charges.

It was observed in Audit that the Corporation did not take timely action to recover the warehouse charges (comprising storage, surcharge and insurance charges). As a result, the warehouse charges went on accumulating amounting to Rs. 131.78 lakhs upto 1986. As no effective efforts were made by the Corporation even after 1986, the outstandings further increased and aggregated Rs. 693.51 lakhs by the end of September 1988 on 4794 bonds which became time barred under the aforesaid Act.

The customs authorities sold through auction 442 bonded consignments upto July 1989 and paid Rs. 31.30 lakhs to the Corporation on adhoc basis. The total sale proceeds through auction and the basis on which the amount of Rs. 31.30 lakhs was calculated as due to the Corporation was not made available to audit. After adjustment of Rs. 31.30 lakhs, the balance remaining unsettled amounted to Rs. 662.21 lakhs.

It was also seen in audit that whenever the customs authorities auctioned the bonded goods, the Corporation was not represented at the auction. In the framework of procedure, when any bonded goods were auctioned by customs authorities, the final bidder was issued the release order to collect the goods from the bonded warehouse. Bonded warehouse authorities, while releasing the bonds, did not maintain the records indicating the particulars of goods auctioned, total realisation thereof and amount recoverable on account of warehouse charges after adjustments under Section 150 ibid.

Thus due to lack of timely action to dispose of the warehoused goods and failure to keep a proper accountal of bond-wise auction and realisation thereof, the Corporation could not ascertain the actual amount recoverable from the customs authorities and the warehouse charges amounting to Rs. 662.21 lakhs continue to remain unsettled with concomitant financial implications (August 1989).

The Ministry (Department of Food) stated (14-08-1989) that the Corporation was vigorously following up this matter with the customs authorities.

2. INDIAN DRUGS AND PHARMACEUTICALS LIMITED

2.1 Loss on investment in subsidiary company—Punjab Maize Products Limited

Indian Drugs and Pharmaceuticals Limited (IDPL) was obtaining a major portion of its requirement of maize based materials like starch, dextrose, corn steep liquor and hydrol from starch plants located in Gujarat. Due to irregular supply and deterioration in quality on account of time taken in transportation from Gujarat, IDPL entered (October 1976) into a joint collaboration with Punjab State Industrial Development Corporation (PSIDC) to promote a separate company under the name of Punjab Maize Products Limited (PMPL) for setting up a plant at Mandi Ahmedgarh (Distt. Sangrur) for the production of maize based materials, as Mandi Ahmedgarh was a good source of maize. A sizable quantity of products of PMPL was to be consumed by IDPL and PSIDC and the balance quantity was to be sold in the market to other consumers. The estimated cost of the project was Rs. 699.40 lakhs which was subsequently revised and finally approved at Rs. 998.24 lakhs (October 1982). IDPL contributed Rs. 127.50 lakhs; being 51% of the equity capital of the project.

The factory site was later on changed to Sangrur instead of Mandi Ahmedgarh. Due to delay in purchase of land and concurrence by financial institutions, the civil construction activities could commence after a lapse of two years from the date of joint collaboration between IDPL and PSIDC. After the selection of changed site at Sangrur, it was found that it required piling foundation; which further delayed the completion of civil works. Even though the orders for the purchase of plant and machinery from Denmark were placed by PSIDC in January 1976 before entering into joint collaboration with IDPL and the plant was actually received in January 1978 i.e. even before the acquisition of the site, PMPL could commence commercial production of liquid glucose only in October 1980 and that of dextrose in May 1981. This delay was due to non-erection of starch plant because of non-availability of separators; which were to be imported from Sweden. The starch plant could be erected in November 1981 but remained on trial run till 31st March 1982. It was stopped thereafter due to teething troubles and also for want of maize. It could commence production from November 1982 after necessary modifications. Meanwhile due mainly to the delay in commissioning of the plant, the project cost went up from Rs. 699.40 lakhs to Rs. 998.24 lakhs which affected the profitability of the project.

However, even after November 1982 the plants were run on a very low capacity due to shortage of working capital resulting in an imbalance in the production. Production in all the three plants was finally discontinued in June 1983 for want of working capital.

The percentage of capacity utilisation ranged from 2 to 33 in respect of Liquid Glucose; 13 in respect of Dextrose Monohydrate and one percent in the case of Starch in the three plants from 1981-82 to the year of discontinuance of production as indicated below :—

Production	Year	Installed Capacity (MT)	Actual production (MT)	% age of capacity utilised
(i) Liquid Glucose	1981-82	3500	1143	33
	1982-83	3500	503	14
	1983-84	3500	66	2
(ii) Dextrose Monohydrate	1981-82	3000	395	13
	1982-83	3000	389	13
	1983-84	3000	—	—
(iii) Starch	1982-83	9000	69	1(*)
	1983-84	9000	47	1

(*) (Only half the capacity had been erected)

Cumulative losses suffered by the Company upto March 1984 were Rs. 380.07 lakhs including cash losses of Rs. 238.61 lakhs as detailed below :—

(Rs. in lakhs)

	1980-81	1981-82	1982-83	1983-84	Total
Losses	16.88	44.26	122.67	196.26	380.07
Cash Losses	7.31	18.23	89.46	123.61	238.61

Due to worsening financial position of PMPL and its own liquidity problem and suspension of production from June 1983 to August 1986, IDPL decided with the approval of the Government of India, Ministry of Industry to disinvest its shareholdings in PMPL in favour of PSIDC. Accordingly, an agreement for the disinvestment of shareholdings was signed on 15th September 1986 between IDPL and PSIDC. According to this agreement IDPL had to forgo Rs. 193.12 lakhs representing equity investment, temporary loans and interest on loans and Rs. 14.05 lakhs on account of interest on bridging loans given to PSIDC and agency charges for services rendered. Thus, IDPL suffered a total loss of Rs. 207.17 lakhs.

It was noted in audit that IDPL entered into the collaboration agreement with PSIDC without thoroughly examining the detailed project report prepared by a firm of private consultants in July 1974 at the instance of PSIDC. The Consultants did not favour manufacture of liquid glucose, dextrose and modified starches as the profitability in the composite plant with reference to the capital investment was very poor. Further, IDBI, who was the financer of the project, informed PMPL in 1978 that there was no justification for installing additional units for the manufacture of starches when the existing manufacturers of starch in the country were not working at their rated capacities. This advice was not heeded by PMPL/IDPL. IDPL also did not seem to have properly reviewed the working of the PMPL regularly as there was no proper planning in respect of commissioning of different plants and production programmes.

The Ministry stated (May 1988) that "IDPL had examined the report prepared by the Consultants before entering into collaboration agreement with PSIDC. The report was re-worked by IDPL taking into consideration all the relevant aspects, including demand projections of the products, availability of maize and latest prices of raw materials and finished products".

The Company, however, could not produce any paper regarding examination and re-working of the Consultant's report. Even if there was a re-working of the report, the fact remains that IDPL suffered a loss of Rs. 207.17 lakhs on this project.

2.2 Avoidable expenditure due to delay in reduction of contracted load

Rishikesh plant of Indian Drugs and Pharmaceuticals Limited (IDPL) entered into an agreement with Uttar Pradesh State Electricity Board (UPSEB) in April 1980 for supplying electricity for the factory at a load of 20,000 KVA at 6.6 KV line. Under the agreement, the Company is obliged to pay for the actual consumption or 75% of the contracted load whichever is higher. It is also provided in the agreement that the Company could reduce the contracted load by giving 12 months' notice to the UPSEB. Despite the fact that the actual consumption of electricity never exceeded 14,000 KVA, the Company obtained the reduction of the contracted load from 20,000 KVA to 17,000 KVA only in September 1986. Thus, the Company had to pay Rs. 32.30 lakhs towards unconsumed electricity for the period from April 1983 to August 1986.

The Ministry in their reply (January 1990) stated that the Plant was undergoing expansion and the expansion was completed sometime in 1982. It was, therefore, expected that power demand would go up in subsequent years due to higher production as a result of expansion.

The contention of the Ministry is not tenable in view of the fact that even after completion of expansion in 1982, the actual consumption was less than 14,000 KVA and the Company could have got the contracted load reduced to 17,000 KVA in 1982 itself by exercising the option of 12 months' notice.

Thus, due to delay in taking timely action for reduction of contracted load, the Company incurred an avoidable expenditure of Rs. 32.30 lakhs.

3. JESSOP & COMPANY LIMITED

3.1 Loss of Rs. 2.02 crores on the execution of the Madhya Ganga Barrage Project

On the basis of quotation submitted in August 1978, the Company received (February 1979) an order from the Government of Uttar Pradesh for design, supply, fabrication and erection of 28 steel gates on Madhya-Ganga Barrage Project at a total price of Rs. 211.86 lakhs with maximum 7-1/2% escalation on account of material, wages and railway freight as on 1st July 1978 price-line. The Company had estimated profit of Rs. 34.01 lakhs on the execution of the contract and the work was to be completed on or before 31st March 1982.

After finalisation of the drawings/designs and supply of material, it was observed by the Management (April 1983) that against the tender weight of 2180 tonnes, the actual utilisation of steel was 2889.769 tonnes. Consequently, there was excess consumption of 709.769 tonnes valued at Rs. 36.45 lakhs, which was due to certain major modifications made in design parameters during execution of the work to meet the requirement of the contract. The Company requested (April 1983) the client for payment of compensation on the ground of change in design parameters necessitating extra consumption of steel by 30% and causing huge cost over-run for the company. Further the Company stated that the requirement of steel for the purpose of tendering was assessed by them purely on adhoc basis pending finalisation of designs/drawings and detailed engineering. The client, however, admitted (June 1986) the claim for a token amount of Rs. 5.18 lakhs out of the total cost of Rs. 36.45 lakhs of the material consumed in excess on the ground that there was no change in the design criteria.

The Company could not supply gates within the stipulated date of completion of the order viz. 31-3-82. The Company, therefore, applied for extension upto December 1985 which was granted by the client without any benefit of cost-over-run. The work was completed by the extended period upto December 1985 (after delay of 44 months) and taken over by the client in June 1986.

The total cost of the project worked out to Rs. 5.52 crores against the total sale value of Rs. 3.50 crores. The Company, thus, suffered a loss of Rs. 2.02 crores against the estimated profit of Rs. 34.01 lakhs.

The Ministry in its reply stated (October 1989):

(i) The Company had to quote a very competitive price as it was short of orders, which were only 50% of their annual capacity. Apart from this no orders were received from the Railways as well as for coaches and rolling stock etc.

(ii) It is a common practice to have the drawings modified/re-drawn based on the detailed technical discussion between the designer and the client.

In this connection it may be stated that the Company's order position at the time of finalisation of tender was 67% of its installed capacity whereas orders actually executed during 1978-79 to 1985-86 ranged between 21% and 57% only.

It is also to be noted that the contention of the company regarding change in design parameters was not accepted by the client. The Company itself admitted that there was delay in executing the job due to various reasons mentioned below:

(i) Delay in approval of design/drawings by client;

(ii) Delay in availability of matching steel for local purchase items;

(iii) Acute liquidity problems mainly caused by delay in releasing payments by the client.

It was, however, noted in audit that the delay in approval of designs and drawings was due to Company's fault as it could not give the adequate designs and drawings in time to the customer for approval. As regards availability of matching steel for local purchase items, the delay was mainly due to belated placement of the order by the Company. As regards liquidity position, this happened due to lack of co-ordination in various divisions of the Company in preparation of bills. In a few cases, it was found that many bills were prepared which were not in accordance with the provisions of the contract.

It would, thus, be seen that the Company suffered a loss of Rs. 2.02 crores against the estimated profit of Rs. 34.01 lakhs mainly due to its own faults.

3.2 Supply of 221 M.G. Coaches to Indian Railways—Loss of Rs. 98.50 lakhs.

In February 1980, the Company received an order from the Railway Board for fabrication and supply of 270 Meter Gauge Coaches at a total contract price of Rs. 1056.75 lakhs ex-works with provision for price escalation on account of wages, components and overheads based on 1st March 1979 price level. The supply of the coaches was to be effected between February 1981 and January 1982 and the Company had estimated a profit of Rs. 37.80 lakhs on the execution of this contract. The coaches, however, could not be supplied within the stipulated delivery schedule and the order was reduced (April 1984) by the Railway Board from 270 to 221 coaches valued at Rs. 825.50 lakhs ex-works. Even on the reduced quantity the company had estimated to earn a profit of Rs. 30.94 lakhs. On the request of the Company the delivery schedule was extended by the Railway Board upto 30-6-85.

The Company attributed (July 1984) the delay to belated supply by the Railways of free issue items such as matched steel (5 months), machined wheel sets (15 months) and imposition of restriction by the Railway Board to manufacture 70 Nos. coaches each during 1982-83 and 1983-84.

The Railway Board while extending the delivery schedule upto 31-3-85 with full benefit of escalation and thereafter upto 30-6-85 without any benefit of escalation contended that sufficient wheel sets were supplied with full authorisation for grinding and machining of wheel sets. It was further stated by the Board that imposition of restrictions in manufacturing the coaches to 70 numbers during 1982-83 and 1983-84 was with reference to the Company's limited out-turn of coaches; which was only 12 numbers and 53 numbers in 1981-82 and 1982-83 respectively.

The Company estimated (July 1984) a total loss of Rs. 262.99 lakhs on account (i) component escalation (Rs. 106.08 lakhs) (ii) financial charges (Rs. 154.70 lakhs) and (iii) payment of bonus on the contract (Rs. 2.21 lakhs). The Company, therefore, sought enhancement of price on the following lines :—

1. Re-fixation of conversion cost considering the higher man-hours and adoption of new components escalation formula as accepted for wages contract, reimbursing 100% escalation of component.
2. Adoption of new wages and overheads escalation for both EMU and MG contracts taking into consideration escalation of overhead elements, on finance charges, escalation of the quantum of bonus and escalation in DLI administrative charges.

The Railway Board did not agree to the enhancement of the price on the ground that the contract was finalised after taking into account escalation factor on components, wages and overheads. The Board, however, accepted the claims subsequently (March 1987) regarding interest on working capital and statutory dues. The Company's claim for reimbursement of escalation on 100% components was then taken up (April 1987) by the Ministry of Industry with the Ministry of Railways. This was, however, rejected (October 1987) by the Railway Board on the following considerations :—

(i) That while delay to some extent took place in case of EMUs, the entire delay was on account of the Company in so far as MG coaches were concerned.

(ii) The contract provided for 100% on account payment to the Company for bought out items; had the Company planned adequately and sufficiently in advance, they could have purchased atleast non-escalable items and got reimbursement therefor from the Railways without inflationary trend affecting their purchase for execution of order.

The main internal constraints as identified by the Management from time to time were :—

(a) Erratic and delayed supply of local purchase items.

(b) Man-power shortage due to absenteeism.

(c) Shortage of space for production.

The total cost of execution of the contract was Rs. 1260.25 lakhs against which the Company actually realised an amount of Rs. 1161.75 lakhs. The Company, thus, suffered a loss of Rs. 98.50 lakhs on the contract on the reduced quantity against the estimated profit of Rs. 30.94 lakhs mainly on account of its own internal problems and its failure to procure non-escalable components in time with proper planning.

4. INDIAN OIL CORPORATION LIMITED—SOUTHERN REGION

Import of steel in excess of requirement

The drum plant of Indian Oil Corporation Ltd., (IOC) at Madras has a licenced capacity of 5,00,000 Lube barrels and 10,00,000 Asphalt drums per annum. The steel requirement of the plant was estimated at a standard rate of 1000 MT per month for each of the grades viz., 18 G and 24 G steel (i.e. 40 barrels and 97 drums out of 1 MT of 18 G and 24 G respectively). With a view to meet an anticipated shortfall of steel due to labour strike in one of the plants of Steel Authority of India Limited (SAIL) since April 1985, and the consequential decision of Oil Co-ordination Committee (OCC) to import steel for the Oil Sector as a whole, an order was placed (July 1985) for 7750 MT (4750 & 3000 MT of 18 G and 24 G steel respectively) by SAIL on a West German supplier, on behalf of the Company.

The average monthly consumption of steel for the drum plant varied between 650 MT and 850 MT of 18 G and 500 MT and 600 MT of 24 G during 1983-84 and 1984-85. The targets of production fixed for barrels were 4,02,512 nos. and 4,26,541 nos. and that of drums 4,35,881 nos. and 4,63,683 nos. respectively for the years 1985-86 and 1986-87. On the basis of these targets, the average monthly requirement worked out to 864 MT of 18 G and 386 MT of 24 G steel. Against this requirement, the Company had a stock of 2638 MT of 18 G and 2233 MT of 24 G steel as on 31st March 1985. Besides, indigenous steel of 13,089 MT of 18 G and 8188 MT of 24 G also stood indented. The stock on hand alone constituted 3 and 6 months input of 18 G and 24 G steel respectively for average targeted production of barrels and drums for 1985-86. A subsequent assessment by the plant in October 1985 revealed that the need was for import of 24 G steel alone and import of 18 G steel could be cancelled as the indigenous production of 18 G steel had improved. Efforts of the Company in this direction failed but the order was amended (October 1985) to convert 50 percent of ordered quantity of 18 G to 24 G steel. With an anticipated improved supply of indigenous steel, especially of 18 G, there was no requirement of importing either 18 G or 24 G steel keeping in view the previous years' consumption pattern, stock on hand and targets fixed for production of barrels and drums. Even between these two qualities of steel, the requirement of 24 G steel was much less. Therefore, the conversion of import order from 18 G to 24 G steel only added to the surplus inventory in the 24 G steel category.

Imported steel of 7735 MT (Rs. 928 lakhs—FE Rs. 400 lakhs) was received in batches between February 1986 and August 1986 as against delivery scheduled between November 1985 and January 1986. The imported steel stored under Customs Bond got released only in July/September 1986 and SAIL had to stop indigenous supplies from December 1985, as the stock position was found to be comfortable.

As mentioned above, the average monthly consumption during 1983-84 and 1984-85 was 650 MT and 850 MT of 18 G steel and 500 MT and 600 MT of 24 G steel respectively as against the estimated standard rate of consumption of 1000 MT per month contemplated for each type of steel at the time of decision to import 7750 MT in July 1985. The fixation of import quantities with reference to the need of steel based on licenced capacity, without due regard to past requirements and future needs resulted in avoidable import of steel and use of foreign exchange. The extra expenditure, being the difference between the cost of imported steel and indigenous steel, amounted to Rs. 185.41 lakhs.

The Ministry stated (January 1990):

— IOC's efforts to cancel completely the requirements of 18 G steel imports could not succeed and the suppliers agreed to convert only 50% of the ordered quantity of 18 G steel to 24 G steel;

— imported steel was kept normally under customs bond, as it was not required for immediate consumption;

— while planning steel requirements, a quantity of 1000 MT each of 24 G and 18 G steel per month was assumed on the basis of upliftment of 1 to 1.20 lakhs drums per month in previous years;

— IOC had to abide by the decision of OCC to import steel. OCC had fixed a norm of 5 months stock of steel to be maintained at all times.

The above mentioned contention of the Ministry is not tenable as :

(i) The Company's efforts to cancel imports of 18 G steel soon after placement of orders would indicate that the decision to import was not taken after due consideration of all relevant facts.

(ii) Even the inventory of 24 G steel was quite comfortable based on actual average monthly consumption and would have lasted for more than 5 months as per OCC's norm.

(iii) The planning of steel requirement for an upliftment of 12.00 to 14.40 lakh drums per year was on the high side, as the off-take was 8.57 lakh and 7.25 lakh drums only during 1982-83 and 1983-84. Even the targets set for 1985-86 and 1986-87 were 4,35,881 and 4,63,683 drums only.

(iv) The receipt of 24 G imported steel in January 1986—August 1986 as per purchase order of October 1985 was kept in bond upto September 1986 as it was not required for immediate use.

5. OIL AND NATURAL GAS COMMISSION

5.1 Ill-planned purchase of External Casing Packers

To prevent complications due to water coming through channels behind casings in wells, the Eastern Region (ER) of Oil and Natural Gas Commission (ONGC) had been experimenting with use of 'External Casing Packers (ECPs)' inflatable by drilling fluid. In April 1983, Additional Director, Eastern Region (Reservoir) proposed that instead of drilling fluid ECP, cement inflatable ECP might be issued as an alternative experimental system in 5 wells, as experiments on drilling fluid ECP had not been encouraging. In May 1983, the Eastern Region placed indent on Headquarters for purchase of 31 drilling fluid inflatable ECPs being their requirement for 1984-85. While tendering/re-tendering was in process, the Eastern Region sent in January 1984 their additional requirement of 100 ECPs for the year 1985-86. Indents for 15 and 24 similar ECPs were placed by Western and Central Regions respectively for 1984-85 and 12 ECPs by Western Region for 1985-86. Orders for supply of 75 ECPs against the requirement for 1984-85 (cost Rs. 87.46 lakhs—foreign exchange component Rs. 58.31 lakhs) were placed on M/s. Brown Hughes, Texas on 26th June, 1985 and another order for supply of 112 ECPs against the requirement for 1985-86 (cost Rs. 97.99 lakhs—foreign exchange component Rs. 65.33 lakhs) was placed on M/s. Tam International Pvt. Ltd. on 27th June, 1985. 131 ECPs were received in the Eastern Region against their orders for 1984-85 and 1985-86 in March-June 1986. However, the Eastern Region could use only 14 ECPs (till June 1988) and found the remaining 117 ECPs as surplus to its requirement.

The precise reasons why Eastern Region after having calculated the requirement of 131 ECPs in January 1984 found use for 14 Nos. only and could not use the remaining 117, were not furnished to Audit. Since these 173 ECPs (i.e. 117 pertaining to Eastern Region plus 56 pertaining to Western & Central Region, details of utilisation for which, have not been furnished by ONGC) costing Rs. 174.59 lakhs (foreign exchange component Rs. 116.40 lakhs) could not be utilised, the entire expenditure has proved to be infructuous. Meanwhile, Western Region had separately informed Headquarters on 10th July, 1986 and 26th August, 1986 that the ECPs received could not be used in the absence of requisite training and insufficient technical literature like operational manual and operating/tool list, etc.

ONGC, thereafter wrote in September, 1986 to both the foreign suppliers for copies of detailed literature for operation and maintenance of packers purchased and also informing them that ONGC was facing difficulty in lowering the packers and requested them to confirm whether some ONGC engineers could be trained for operation and maintenance free of charge. M/s. Hughes Texas, USA confirmed their willingness to provide two weeks training to the engineers of ONGC, in USA. The other supplier M/s. Tam International Pvt. Ltd. indicated their willingness to send their service engineer "for demonstrating how to use the packers". Four drillers were sent to the manufacturers of ECP in the month of November, 1987 and February, 1988 for training.

In the purchase of ECPs, following points were noticed :—

(a) The Commission went in for bulk purchase without considering the fact whether the Commission and its Regions possessed the requisite technical expertise to put the material to use.

(b) Eastern Region proposed to go in for cement inflated ECPs as an experimental measure for 5 wells at different locations. Accordingly, there was no justification in going for bulk purchases by the ONGC without first being satisfied about the suitability of the material. The Commission not only placed first bulk order for 75 ECPs (costing Rs. 87.46 lakhs) on 26th June, 1985 but also followed the same by a second supply order for 112 Nos. (costing Rs. 97.99 lakhs) the very next day i.e. 27th June 1985. The action was in the circumstances precipitate and lacked sound financial prudence.

The Ministry stated in February, 1988 that :—

(i) ECPs were used successfully in the Bombay Offshore Project (BOP) and hence it was not a new experiment for Eastern Region. It was expected that some engineers would be transferred from Bombay which did not materialise.

(ii) Whenever any new innovative technologies are put to use, it requires training of engineers, which was applicable in this case also.

(iii) Bulk purchase was resorted to in view of the fact that a number of wells to be drilled in Eastern Region were to use ECPs.

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

(a) The contention of the Ministry that whenever any new innovative technologies are put to use, training of engineers is required only goes to prove that in such cases before placing bulk orders it is necessary to have only a phased programme after successful experimentation. The action for calling detailed literature and arranging operational training of ONGC engineers was taken as late as September, 1986. The requisite expertise to use these ECPs was apparently not available.

(b) The reply does not give any justification for resorting to bulk procurement of these ECPs without first ascertaining the results of their experimental use or availability of necessary technical expertise, etc. for putting them to use.

The non-utilisation of 117 ECPs in Eastern Region alone even after more than two years of their purchase clearly proves that the purchases were ill-planned.

5.2 Infructuous expenditure on hiring of an office accommodation

The Oil and Natural Gas Commission (ONGC) in August, 1982 constituted a Committee with the objective to have its own buildings/land for its offices/transit accommodation at Delhi. The Committee which commenced its work with effect from 16th August, 1982 concluded on 20th August, 1982 that the acquisition of land will entail time lag. With a view to tiding over immediate paucity of office accommodation, the Committee, however, recommended hiring of 15,548 sq. feet (first floor) of a multi-storeyed building owned by a group of newspapers with full knowledge of the fact that owners of the building had been served with a demolition notice by the Delhi Administration but had obtained a stay order from the Delhi High Court and the matter was thus sub-judice. Later on, owners of the building obtained the Supreme Court's permission to rent out the building with the condition that this fact would be brought to the notice of the tenant and a letter from the tenant of his having been informed would be obtained. The owners were also to idemnify the tenant to the extent of six months' rent in case the building was vacated in between under the orders of the Court. While recommending the hiring of the building, the Committee keeping in view the short term objectives of tiding over the prevailing acute shortage of office accommodation at New Delhi, observed that 'the legal opinion with calculated risk does not constrain from hiring this premises'.

Based on this recommendation, the Commission on 8th October 1982 decided to take on lease first two floors of office space (instead of one as recommended by the Committee) measuring 25,970 sq. ft. in this building at a monthly rental of Rs. 16.50 per sq. ft. including Rs. 3 per sq. ft. for airconditioning.

The possession of the premises was taken over on 16th November 1982 without signing any formal agreement. Measurement of the premises was taken on 27th December, 1982.

Before the Commission could put the premises to office use, the Government of India, Ministry of Energy (Deptt. of Petroleum) vide its letter dated 14th March, 1983 addressed to the Commission's Chairman informed that no public sector enterprise within the jurisdiction of the Department of Petroleum should enter into any arrangement in regard to any disputed property without the prior approval of the Department of Petroleum. Although the Chairman, Oil and Natural Gas Commission vide his D.O. letter dated 11th April, 1983 sought ex-post-facto exemption from the Ministry, this was not granted by the Ministry. The premises, therefore, remained unoccupied till 5th May, 1983 when the idea of occupying the building was finally given up and the owners were informed accordingly.

Since no rent was paid to the owners for the period from taking over the possession to the date of relinquishment, the owners filed a suit in the Court against Oil & Natural Gas Commission for recovery of Rs. 40,71,614.80, which included rent for the period, penal interest, cost of the suit and additional rent for 3 months in lieu of notice. Keeping in view the opinion given by the Attorney General of India, the case was settled out of court at the instance of Commission's Advocate in September 1986 on payment of Rs. 21,03, 618.60 to the owners by Oil & Natural Gas Commission.

The Ministry to whom the para was issued stated (May, 1989) that this matter "fell within the delegated powers of ONGC/Chairman, ONGC who could take a suitable decision in accordance with competent legal advice. No concurrence from the Ministry was given to the settlement, as such concurrence was not called for".

The ONGC had thus to incur an infructuous expenditure of Rs. 21.56 lakhs (including Rs. 52,000 towards legal charges) on the whole deal.

5.3 Delay in finalisation of tenders

In August 1983, the Oil & Natural Gas Commission had invited open tenders for 14 items of seamless steel casing pipes of different specifications indicating that the offers to be opened on 19th October, 1983 should have validity upto 19th February, 1984. The tenderers from Singapore and South America were required to quote firm C&F/CIF prices and those from other sources FOB prices. For comparative evaluation, the FOB prices from sources other than Singapore and South America were envisaged to be loaded with transchart freight rates to arrive at CIF prices.

The final evaluation of the offers and recommendations thereon for the purchase from technically acceptable tenderers were arrived on 6th February, 1984 and 9th March, 1984 after scrutiny by tender committee, purchase committee and steering committee at different stages, and after obtaining the transchart freight rates to be loaded. The firms whose offers were to be accepted for different items were asked to extend the validity period of their tenders upto 31st March, 1984. Two of the firms whose offers were the lowest in respect of 9 items did not agree to extend the validity of the offers; on the other hand they revised their prices upwards with the result that they were no longer lowest. When requested by the Commission in April, 1984, the second lowest tenderer did not agree to match the lowest FOB prices of the original firms. Therefore, 8 items had to be ultimately purchased at higher costs. As a result, the Commission had to bear an additional cost of Rs. 1.07 crores in respect of these 8 items on account of delay in finalisation of the tenders within the validity period.

The Management/Ministry stated (January, 1988 and July, 1989) that certain delay in receipt of transchart rates from the Ministry of Shipping and Transport and certain confusion regarding the evaluation of the tenders on loading the freight element alongwith procedural constraints had stood in the way of early finalisation of the orders.

When a period of four months had been indicated in the tender notice to keep the offers valid, the above arguments are not tenable and decision should have been taken in time. Even later the decision was taken on the basis of the same facts which were available when the deliberations commenced.

6. COAL INDIA LIMITED

Infructuous expenditure of Rs. 1.34 crores due to ill planned purchase of second hand JESU Thermal Power Plant

In order to overcome the difficult power situation in Coal Mines of the Eastern Region of the Country, a team of Coal India Limited (CIL) visited Jabalpur for buying the second hand thermal power plant of Jabalpur Power Supply Co. (later owned by Madhya Pradesh Electricity Board). The team reported (April 1980) that the said plant had been purchased by the erstwhile Private Company at a cost of Rs. 48.33 lakhs, and was in operation till January 1980. The capacity of the plant was rated maximum 8.5 MW against the installed capacity of 15 MW. MPEB was, however, agreeable to sell the plant to CIL for Rs. 74.85 lakhs (negotiated) against the book value of Rs. 48.33 lakhs.

After obtaining formal sanction of the Government in February, 1981 the second hand Jabalpur Thermal Power Plant (JESU) was purchased from MPEB in April 1981 at the negotiated price of Rs. 74.85 lakhs plus sales tax of Rs. 8.98 lakhs. This was earmarked for installation at Eastern Coalfields Limited. However, no project report was prepared before investment in the project.

The Company, on the recommendations of the Adviser to the Bureau of Public Enterprises, decided (June 1980) to engage the services of Dishergarh Power Supply Co. (DPSC), a subsidiary of Andrew Yule & Co. (AYC), for installation and operation of the power plant. In April 1981, Andrew Yule & Co. presented a proposal for connecting the proposed power station with the existing distribution net work of DPSC. It was also proposed that there should be close tie-up amongst CIL/ECL/DPSC with a possible equity participation. However, the proposal was not acceptable to the Government and as such alternative agencies including BHEL were contacted for dismantling, transportation and installation of the JESU Power Plant.

In a meeting held in July 1983, between Chairman of CIL & AYC it was proposed that the above plant should be taken over by DPSC and installed in its licensed area for supplying the total output to ECL. As agreed, after strip examination of the plant in August/September 1983, AYC got a Project Report prepared which envisaged total capital investment of Rs. 982 lakhs. It was proposed that ECL/CIL should grant an interest free loan of Rs. 732 lakhs to DPSC in addition to their own contribution of Rs. 250 lakhs. The proposal was agreed to by ECL (December, 1984) and CIL (February, 1985). In May, 1985, Andrew Yule & Co., however, informed the company that the project for installation of the 45 years old thermal plant was not acceptable as the same was found neither technically suitable nor financially viable, due to proposed withdrawal of investment allowance and increase in the price of cement, steel, freight etc. Thereafter, possibilities of using the JESU Plant or parts thereof by other Coal companies were explored, but those were not considered technically feasible.

The Board of Directors of the Company in its 68th meeting held on 15-7-1985 decided to dispose of the plant. Accordingly, tenders for sale of the plant were floated by Eastern Coalfields Limited in April 1986. Out of three tenders received, the highest offer was less than 50% of the reserve price of Rs. 104 lakhs. Moreover, the cheque for earnest money received from the highest tenderer was dishonoured by the bank. The Plant was, therefore, withdrawn from sale and was retendered in January, 1987. The highest bid of Rs. 76 lakhs quoted by a private party against this retender was accepted and sale order was issued (July, 1987). The amount of Rs. 76 lakhs was deposited by the party between November, 1987 and July, 1988 though as per the sale contract the payment must have been completed by 31 December, 1987.

In the meantime, Eastern Coalfields Limited, had to pay Madhya Pradesh Electricity Board Rs. 30.54 lakhs being the up-keep and maintenance charges of the plant for the period from 1981-82 to November 1988. The Board directed that ground rent charges @ Rs. 1000 per month and security charges at actuals from 14-10-1987 to 19-7-1988 i.e. up to the date of full payment should be recovered from the buyer. The amount is yet to be recovered from the Company.

The Board of Directors constituted (July 1987) a Committee to probe into the circumstances and all related aspects of the purchase of 15 MW (rating about 8.5 MW) JESU Thermal Power Plant which could not be utilised at all and had to be disposed of at a loss. The Committee reported to the Board in August, 1987 that :—

> "The history of the case points to the imperative need to determine, before the purchase of such equipment, the location for the deployment of the equipment, as also the agency to run such equipment when it cannot be done by the coal company itself. As in other fresh investment projects, it was necessary even in this case to have a complete project report prepared and got approved before the purchase price was paid finally".

Thus, purchase of the 45 years old Thermal Power Plant without first assessing its technical suitability, financial viability, and feasibility of relocation, and finally disposing it of at a loss, without deriving any benefit therefrom resulted in an infructuous expenditure of Rs. 1.34 crores as shown below.

	(Rs. in lakhs)
(i) Difference between purchase and sale price	7.83
(ii) Upkeep and maintenance	30.54
(iii) Interest on blocked capital @ 18% p.a.	95.22
Total	133.59
or say	Rs. 1.34 crores

Ministry while confirming the facts, has stated (November, 1989), inter-alia, as follows :—

> "At present CIL is not taking up any power project without preparing the project report after site selection and approval from competent authority. In view of this, infructuous purchase of the above nature are not likely to recur in future".

7. CENTRAL COALFIELDS LIMITED

Loss of coal by fire—Rs. 12.06 crores

Mention was made in para II (1) of the Report of Comptroller and Auditor General of India—Union Government (Commercial)—1984, Part III about substantial accumulation of pit-head stock of coal at Rajrappa Mine from 1979-80 (0.130 million tonne) to 1983-84 (0.816 million tonne) resulting in not only blocking up of capital but exposing the stocks to the risk inter-alia of spontaneous heating too. Despite this, no corrective action was taken during subsequent years; on the contrary, the pit-head stock went upto 1.543 million tonnes of coal by 1987-88. Significantly, the company had even engaged its employees on overtime on Sundays and holidays for production, though the off-take from mine head was generally not compatible with actual production thereby resulting in increase of stock. In a spontaneous fire that occurred in 1987-88, a stock of 0.592 million tonne of coal valuing Rs. 12.06 crores was destroyed.

Management, inter-alia, stated (March 1989) that the resultant monetary loss due to stoppage of gradual development of the mine to its rated capacity, at any stage, would have been much more than the cost of coal lost in spontaneous heating.

The above view of the Management is not tenable in the face of lower off-take than the accretion to stocks (i.e. aggregate of opening balances, production and closing stock, less despatch/sale), and hence, there was no need to produce coal by paying over-time. The over-time payment for Sundays and holidays during 1984-85 to 1986-87 amounted to Rs. 96.40 lakhs. The stock of coal lost in fire being of coking variety, whose reserves in the country are limited, conserving this rare variety of coal was all the more important from the national view point.

Ministry stated (February 1990) that the washery which was expected to be completed by Mining and Allied Machinery Corporation Limited by February 1982 was actually completed by August 1986 and the development of the open cast mine had to be continued during this period so as to ensure the availability of enough coal for trial runs and to step up production when the washery got commissioned and this resulted in large scale production of coal.

The above view of the Ministry is not tenable since the company had been closely monitoring the pace of washery construction and they could have regulated the production of coal accordingly. Further, even after the risk of potential loss by fire was brought out in the Audit Report, the Company failed to take adequate safeguard against spontaneous fire.

8. SOUTH EASTERN COALFIELDS LIMITED

8.1 Idle investment on purchase of Single Ended Ranging Drum Shearer and Heavy Duty Armoured Chain Conveyor

Based on the Feasibility Report (1972) of Nandira Colliery, Coal India Limited, Calcutta (Holding Company) placed (July 1979) an order for supply of two Single Ended Ranging Drum Shearer and two Heavy Duty Armoured Chain Conveyor on Mining and Allied Machinery Corporation Limited, Durgapur (a Government of India undertaking) for use in its mining operations. Out of these, one set of Drum Shearer and a Chain Conveyor was received in Talcher area of the Company between May 1980 and May 1982 at a total cost of Rs. 60.32 lakhs.

It was observed in audit that the equipment was not utilised since its procurement and was lying in the store (January 1991).

The Management stated (March 1989) that :—

(i) as the underground development work continued for preparation of longwall panels. the actual geo-mining conditions underground were found to be adverse and that this particular low powered and single drum shearer could not be effectively utilised under the actual geo-mining conditions encountered;

(ii) the consultants have advised that only high powered (450 MW) double ended ranging drum shearer could work under the existing mining conditions instead of the low powered single drum shearer, and

(iii) possibility of utilising the equipment elsewhere in consultation with the Holding Company was being explored.

The Ministry of Energy while generally endorsing the reply of the Management stated (January 1990) that blockage of the funds should be viewed as part of the cost of experiment leading to advancement of technical know-how and that the Holding Company was being asked to ensure deployment of equipment in a suitable mine at the earliest.

Thus, injudicious purchase of an equipment at a cost of Rs. 60.32 lakhs has resulted in blocking of scarce capital resources of the Company and the equipment has been lying idle since its procurement (May 1982).

8.2 Avoidable extra expenditure on power supply

The energy quota fixed by the Orissa State Electricity Board (OSEB) on 1st November 1986 for the South Balanda Talcher Area, a Unit of South Eastern Coalfields Limited, Bilaspur (Company) for the period from 1st November 1986 to 30th June 1987 was 14.66 MKwh. In addition to this fixed quota, power could be purchased and supplied to the Area at the normal rate of 104 paise per Kwh exclusive of electricity duty and other charges provided the Company entered into an agreement to this effect with OSEB. OSEB requested the Company to intimate its monthly programme for drawal of power quota fixed by OSEB and purchased power by 15th November 1986 failing which it would be presumed that it did not require any purchased power and the permitted quota would be made available to it monthly, on pro-rata basis and any drawal of power over the fixed quota would be charged at double the highest rate (at present 160 paise per Kwh) plus demand charges and power factor penalty and other charges at normal rate of the tariff applicable for the industry.

The Company neither intimated its monthly programme of drawal of power quota fixed by OSEB and purchased power to OSEB, nor entered into an agreement with the latter. In May 1987, OSEB intimated the Company that the prescribed quota of power had already been consumed during March 1987 and since the Company had failed to enter into an agreement for drawing excess power, the excess consumption would be charged at double the rates. The agreement was, however, finally concluded on 29th May 1987 and was operative from 1st May 1987 to 30th June 1987.

During March 1987 and April 1987 the Company consumed 11.40 lakh and 35.28 lakh units respectively of outside power for which payment at penal rate resulting in an extra expenditure of Rs. 34.54 lakhs had to be made. The Company approached the Government of Orissa and OSEB in October 1987 and September 1988 for waiver of the penal rate and refund of extra amount. The amount had, however, not been refunded by OSEB so far (July 1990).

The Management, inter-alia stated (April 1989) that the matter was not clearly understood by the Area Management who thought that as there was already an agreement of power supply in vogue with OSEB, no fresh agreement was necessary.

The Ministry stated (December 1989) that the matter regarding waiver of penalty of Rs. 34.54 lakhs was taken up by the Company with the OSEB who had agreed to consider the waiver. The final decision to waive the penalty was awaited (February 1990).

Thus, delayed action on the part of the Company in entering into an agreement with OSEB for drawal of outside power resulted in an avoidable extra expenditure of Rs. 34.54 lakhs.

9. EASTERN COALFIELDS LIMITED

Avoidable expenditure of Rs. 10.57 lakhs towards higher rate of Electricity Duty due to non-installation of separate meters

As per Section 7-A of the Bengal Electricity Duty Act, 1935 separate meters for recording different kinds of consumption of electrical energy had to be installed by a consumer for purposes of calculating different rates of duty failing which electricity duty at the highest of the applicable rates would be payable. Kunustoria area of the Company did not instal separate meters for industrial and domestic power consumption due to which, as per rules, Dishergarh Power Supply Company Limited (DPSC) had been charging electricity duty at the rate of 9 paise per unit on the total power consumption of Kunustoria Area although such rates for domestic and industrial consumption were 9 paise and 1.5 paise per unit respectively. The Management approached (February 1981) DPSC requesting them not to charge electricity duty at 9 paise per unit uniformally for the entire power consumption as it included industrial consumption. The DPSC, however, expressed (February 1981) their inability to charge electricity duty at appropriate rate unless separate meters are installed. The Area, however, installed separate meters in January 1983 and got them inspected by DPSC in August 1983.

During August 1983, the company preferred a claim for Rs. 10.57 lakhs on DPSC claiming refund of the excess electricity duty charged @ 9 paise per unit on industrial consumption instead of @ 1.5 paise per unit for the period from October 1979 to July 1983, on the grounds that the domestic consumption was only 20 percent of the total power consumption. DPSC did not accept the claim from October 1979 as separate meters were installed in January 1983 and were got inspected by DPSC only in August 1983.

Thus due to delay in installation of separate meters for recording industrial consumption of power, the company had to incur avoidable extra expenditure of Rs. 10.57 lakhs on electricity duty. The Ministry stated (March 1989) that as ECL had to complete the entire job of organisation of the distribution lay out in order to comply with the statutory provisions and to complete substantial volume of associated work, delay in installation of the meters could not be avoided.

The Ministry's contention is not tenable as according to the work order of April 1982 for supplying, installation and commissioning of the meters only two months time was allowed. Further, there was inordinate delay upto August, 1983 in taking action upon the advice (February 1981) of DPSC to instal separate meters so as to get the benefit of lesser charge of electricity duty for industrial consumption of power.

10. FOOD CORPORATION OF INDIA

Under-utilisation and avoidable expenditure due to delay in disposal of paddy drying centres—Rs. 121.60 lakhs

The Food Corporation of India (FCI) set up, in 1967, 30 paddy drying centres with two dryers in each centre at various procurement centres of Thanjavur Distt., Tamil Nadu at a total cost of Rs. 1.11 crores. The purpose was to dry Kurvai Paddy immediately after harvest procurement in monsoon season as the said paddy was susceptible to germination if stored without drying.

During 1969-70, 22,616 tonnes of paddy was dried against the capacity of 160 tonnes per day of these dryers. In 1971, no paddy was dried at all. The Committee on Public Undertakings in their Twelfth Report of 1971-72 had commented on the under-utilisation of the dryers which were set up without undertaking pilot study and recommended that the Corporation should keep a close watch and ensure their maximum utilisation.

Three dryer centres out of thirty, were converted into Modern Rice Mills of the Corporation, 14 dryers from seven centres were dismantled in 1971-72 at a total cost of Rs. 0.64 lakh and sent to MRMs set up elsewhere. Thus FCI Thanjavur was left with 27 paddy drying centres out of which 20 centres had paddy dryers and 7 had no dryers, as mentioned earlier.

The percentage utilisation of the dryers in the 20 centres was less than 1 to 2.7 per cent upto 1974 and practically 'nil' in 1975. In 1976, the Tamil Nadu Civil Supplies Corporation (TNCSC) took over monopoly procurement of paddy in the State. As a result, the 27 centres (20 with dryers) became totally superfluous. It was only in 1979 that the Corporation proposed the sale/hire of 27 centres to the T.N.C.S.C. The proposal was, however, finalised as late as in June 1986 whereby the Corporation approved the sale of 27 centres alongwith 20 dryers to the T.N.C.S.C. at written down value of Rs. 9.95 lakhs (excluding cost of land) and to accept 5.81 acres of land from Tamil Nadu Government in lieu of equal area (5.81 acres) of land owned by F.C.I. at 9 centres for construction of godowns. Though the drying centres alongwith dryers were handed over to T.N.C.S.C. between March 1987 and April 1989, T.N.C.S.C. has not yet (January 1991) made available 5.81 acres of land to the Corporation.

Thus the Corporation had incurred a loss of Rs. 61.20 lakhs on sale of 27 drying centres after realisation of Rs. 15.45 lakhs on their sale against book value (excluding cost of land) of Rs. 76.65 lakhs (original book value Rs. 68.66 lakhs plus Rs. 7.99 lakhs being the book value of three godowns). It was also noted that during the period 1975-76 to 1987-88, unproductive expenditure of Rs. 60.40 lakhs towards the payment of pay and allowances and overtime allowances to the staff, electricity charges and rent was incurred consequent upon these centres becoming surplus.

The Corporation, in their reply, stated that the delay was due to rejection of their offers by the T.N.C.S.C. at various stages and opposition from the staff to the sale; that the expenditure on establishment was brought down to the minimum and overtime allowance had to be paid to the watch and ward staff as they had to be on continuous duty. The reply of the Corporation is not tenable because the proposal for lease/sale of the 27 drying centres was mooted only in 1979 even though they had become surplus in 1976 itself while the Ministry had assured the COPU in 1971-72 of keeping a close watch on the Corporation in regard to the functioning of the drying centres to ensure their maximum use and obviate any losses.

Thus, the Corporation suffered a loss of Rs. 61.20 lakhs on the sale of 27 drying centres and in addition incurred avoidable expenditure of Rs. 60.40 lakhs.

11. STEEL AUTHORITY OF INDIA LTD.

11.1 Consumption of coking coal in power plant with consequential extra expenditure of Rs. 80.05 lakhs relating to Rourkela Steel Plant

Rourkela Steel Plant (R.S.P.) produces high pressure steam by burning fuel in its power plant boilers for generation of electricity and for turbo-blowers which supply air to the blast furnaces. The boiler coal is predominantly used as fuel for this purpose. Besides the coal, blast furnace gas, coke oven gas, and coke breeze are also used for this purpose. But coking coal or metallurgical coal is not used for this purpose. The coking coal is meant for producing hot metal.

It was, however, seen that substantial quantities of costly metallurgical coal, in place of boiler/slack coal, have been consumed in the power plant during the years from 1983-84 to 1987-88 which has resulted in an extra expenditure of Rs. 80.05 lakhs.

The Ministry stated (July 1989) that due to constraint in the rail movement, there is sometimes short receipt of boiler coal against the actual requirements. If there is shortage of boiler coal, power plant generation can be maintained only by using either metallurgical coal or costly petro fuels. Further, due to imposition of heavy drawal restriction of external power by State Electricity Board it is sometimes necessary to augment the internal power generation in order to safeguard the costly sophisticated equipments which otherwise are likely to get damaged due to power failure. Under these compelling circumstances, the use of coking coal is difficult to be avoided completely. All efforts are, however, made to avoid the use of coking coal for power generation purpose in future. It is also stated that additional input of heat energy due to consumption of coking coal has resulted in higher generation of power and due to that Rourkela Steel Plant got an additional contribution of Rs. 709.51 lakhs during 1983-84 to 1985-86. The Ministry, however, observed that it would be its endeavour to avoid the use of scarce coking coal for power generation in future.

It is to be noted in this context that the use of coking coal for power generation continued for five years and the Management could have taken adequate remedial steps to prevent the use of this expensive fuel for power generation. As regards the contention that the Company, got additional contribution of Rs. 709.51 lakhs due to use of coking coal in 1983-84 to 1985-86, it may be stated that this contribution seems to have been worked out by the Company by taking the incremental value of the entire steel produced by using the coking coal. On the other hand, the extra expenditure of Rs. 80.05 lakhs for the years 1983-84 to 1987-88 has been calculated after making due allowance for lower calorific value of that quantity of non-coking coal which would have given the same additional production of steel as obtained by using the coking coal. Hence, this contention of the Ministry is not tenable.

11.2 Extra expenditure to the tune of US $ 4,45, 620 (Rs. 48.35 lakhs) due to improper planning in the import of Pig Iron relating to Central Marketing Organisation (SAIL)

In order to meet the gap between the demand and availability of pig iron in the country, the Central Marketing Organisation of the Company decided (February 1983) to import 2 lakh tonnes of pig iron @ 50,000 tonnes per month for which they floated a tender in September 1982. Accordingly a purchase order for import of 2 lakh tonnes (+/−5%) of pig iron grade 4 manufactured in Brazil was placed in February 1983 on M/s. Independent Bulk Commodity Trading Limited, London, at an average C & F price of US $ 131.50 per tonne. The shipment schedule as per the purchase order was from March 1983 to August 1983 at the rate of 40,000 tonnes per month. The Company, however, reserved the right to regulate the quantity from 35,000 tonnes to 50,000 tonnes per month. The Central Marketing Organisation amended (May 1983) the shipment schedule to 30,000 tonnes per month upto October 1983 in view of the increased availability of the material from indigenous sources. In all, the suppliers shipped 1,33,490 tonnes of pig iron upto 16-1-1984 and it was mutually agreed in January 1984 to cancel the unshipped balance of 56,510 tonnes (1,90,000 tonnes—1,33,490 tonnes).

Meanwhile, to further ease the availability of pig iron, the Company had floated another tender enquiry (July 1983). Against the latter enquiry the Company placed a purchase order on M/s. Pakistan Steel Mills Corporation Limited in October 1983 for import of

50,000 tonnes of Pakistani pig iron at a C&F price of US $ 141.50 for West Coast Ports and US $ 144 per tonne for East Coast Ports. The shipment of the material was to be completed from October 1983 to January 1984.

During intervening months the production of pig iron in the steel plants of the Company improved as a result of which the stocks went up from 48,000 tonnes in November 1983 to 1,50,000 tonnes in January 1984. Consequently the Company decided not to extend its supply period of Pakistan Company beyond January 1984.

It has, however, been observed that CMO extended the shipment period of the order placed on Pakistan firm upto February 1984 and by that time the firm had shipped a quantity of 44,562 tonnes of pig iron to India.

It is thus seen that while on the one hand the CMO reduced the quantity to be shipped from Brazil, which was priced lower, from 40,000 tonnes p.m. to 30,000 tonnes p.m. from May 1983 to October 1983 (Total reduction of 60,000 tonnes) by an amendment in the shipping schedule, the CMO placed another order for additional quantity in October 1983 on M/s.Pakistan Steel Mills at a higher rate than the Brazilian source. Had the monthly import from Brazil not been reduced, the import of extra quantity (44,562 tonnes) received from Pakistan could have been avoided. By reducing the intake of pig iron from a cheaper source and purchasing it from a costly source the company incurred a loss of US $ 4,45,620 (Rs. 48.35 lakhs) in foreign exchange.

The Ministry stated (August 1987) that production slippages in the steel plants are by and large unpredictable. Import action to correct the imbalance caused by such slippages in the availability of iron and steel for the consumers can be taken only when production slippages are at sight. In the specific case of pig iron import action was initiated in keeping with the decision of the Import Monitoring Committee only after some production slippages were identifiable.

The Ministry's reply is not tenable in view of the fact that the steel plants have definite schedules of producing steel as well as pig iron. Further, the production position had improved considerably from September 83 onwards and the CMO should have been aware about it. In any event, if the Company was so unsure of reliability of production, there was no need to reduce the imported quantities contracted from Brazil. Thus the Company incurred an avoidable loss of Rs. 48.35 lakhs in foreign exchange.

12. RASHTRIYA ISPAT NIGAM LIMITED

Construction of Kanithi Balancing Reservoir

Government of India approved in June 1979, the setting up of an Integrated Steel Plant at Visakhapatnam with a production capacity of 3.4 million tonnes liquid steel per annum. The execution of the project was initially carried out by Steel Authority of India Limited (SAIL) and later taken over by a new Company, Rashtriya Ispat Nigam Limited (RIN), formed for this purpose from February 1982.

As per the Detailed Project Report of Visakhapatnam Steel Plant, the requirement of water for the steel plant was to be met by construction of a reservoir in an area of 34 lakh square metres called Kanithi Balancing Reservoir. This was proposed to be done by widening the area of the already existing tank (12.8 lakh square metres) at Kanithi village nearby the Steel Plant and by drawing water from Raiwada and Yeluru reservoirs of Government of Andhra Pradesh. The reservoir was to have a storage capacity of water to meet 40 days requirement of the plant.

In terms of a contract concluded with SAIL, the Principal Consultants M/s. M. N. Dastur & Company were to provide engineering studies on survey and soil investigation on the reservoir, preparation of detailed tender specification and estimation of bill of quantities specifying the volume of various items of work for the construction of reservoir. This agreement also provided that the Company (SAIL), would be responsible for contour surveys and additional sub-soil investigations as may be required by the Principal Consultant. The tender documents estimating the cost of the reservoir as Rs. 11.90 crores were got prepared in January 1981. Based on these documents of the Consultants, open tenders were called for by the Company in January 1981 and the work was awarded to the lowest tenderer M/s. Gayatri Engineering Company in April 1981 at a cost of Rs. 8.68 crores with a stipulation to complete the work by July 1982. After the commencement of work by the contractor, the volume of work under various items specified in the bill of quantities was increased and a revised work order was issued in November 1982 to the same contractor for Rs. 21.50 crores with the revised due date of completion as June 1984. The work was completed, however, by the contractor at a cost of Rs. 27.92 crores by December 1985 due to further increase in the volume of work actually carried out.

A review in audit of the award of the contract and also its implementation disclosed the following :—

As provided for in the agreement with the Principal Consultants, Engicon was entrusted by SAIL with the work of sub-soil Geo Technical Investigation in September 1980. The first investigation report of Engicon received by the Company on 16th April 1981 disclosed the following abnormal geological features :—

(a) high co-efficient of permeability at the lower levels of sites;

(b) condition of rock deposit below upper horizon in an advanced state of weathering; and

(c) presence of silicious limestone in the site which were highly soluble in water and highly susceptible to acidic attack.

After further investigations by AFCON, in consultation with Central Design Organisation of Government of Andhra Pradesh, the volume of work under various items of work was reassessed. While the work entrusted to M/s. Gayatri Engineering Company in April 1981 was in progress, a revised work order involving a steep increase in the volume of various items of work ranging from 40 to 555 per cent of original quantities was issued to the same contractor in November 1982, and this resulted in about three fold escalation in contract value from Rs. 8.68 crores (April 1981) to Rs. 21.50 crores (November 1982). The tender specifications and bill of quantities prepared by the Principal Consultants and relied upon for the initial award of work in April 1981 was based on inadequate data such as (a) preliminary soil data through one or two bore holes collected at the time of preparation of feasibility report in 1976, (b) survey conducted by Survey of India by aerial photography, (c) omission to carry out any test in the area of old Kanithi tank which formed part of the widened area for the proposed reservoir, as admitted by the Principal Consultants in September 1982. The action on the part of the Company in calling for the tenders and fixing the agency for execution of work on the basis of such inadequate data even before the receipt of the final investigation report was not justified. In this process the Company lost the benefit of competitive rates, which it would have had for the quantity of work entrusted to the same contractor in the revised work order in November 1982.

The margin of difference in the contract value between the lowest tenderer M/s. Gayatri Engineering Company (L1) and next lowest tenderer (L2) which was Rs. 115 lakhs for the quantity of work specified in the original bill of quantities (April 1981) narrowed down to Rs. 10 lakhs for the revised quantity of work ordered in November 1982. For the actual quantity of work executed (December 1985), the contract value of M/s. Gayatri Engineering Company even exceeded L2 by Rs. 29.88 lakhs based on the same tendered rate without linking up escalation clauses on labour and POL. In fact, taking into account the escalation charges on labour paid to M/s. Gayatri Engineering Company (Rs. 396.01 lakhs) for which there was no provision in the tender of L2, the contract value of M/s. Gayatri Engineering Company turned out to be more by Rs. 425.89 lakhs as compared to that of L2.

The Ministry in reply, stated that there was no alternative but to call for tenders and award the work on preliminary data available at that point of time, to fit in the time schedule of getting the first stage of water in the reservoir by June 1982. The requirement of drawing water by June 1982 and also the need for soil investigation of the area was known to the Company. Timely action could have, therefore, been taken to have the detailed soil investigation and determine the correct volume of work before the tenders were called for in January 1981. The time schedule of June 1982 itself lost its relevance when the due date for completion of the reservoir was extended to June 1984 as per the revised work order of November 1982.

The first soil investigation report of Engicon bringing out the adverse geological features and the resultant changes in the earth work was received by the Company on 16th April 1981. In spite of having this report, the need for reassessment of the work and also the changes in the rates of the items were not con sidered by the Company before awarding the work to M/s. Gayatri Engineering Company on 28th April 1981.

The contractor did not quote any rate for jungle clearance in his tender of February 1981 nor did the finalised contract of April 1981 provide for any rate for that item. However, in the revised work order issued to the contractor in November 1982, a rate of Rs. 1.39 per square metre (sq. m) was provided towards jungle clearance, and on this basis, an amount of Rs. 32.86 lakhs was paid for jungle clearance in the reservoir area of 23.64 lakh sq. ms. In addition, an amount of Rs. 28.61 lakhs was also paid to the contractor towards stripping of bushes and vegetation in the borrow areas from where earth was brought for filling the embankment of the eastern compartment of the reservoir. No provision for this item existed either in the tender schedule of April 1981 or revised work order of November 1982.

The specification forming part of tender notice and the contract agreement (April 1981) stipulated the nature of work to be done by the contractor in connection with all items of earth work such as site levelling, excavation in foundation, pits, trenches, etc., and also earthern dam/embankments. According to these stipulations in the specification, "all areas to be excavated for attaining specified level, areas at the basement of the dam of the reservoir site and areas where filling up was to be done were required to be cleared of all vegetation, shrubs, bushes, trees, roots etc., and all trees stumps and roots were also to be completely excavated and removed". Further, while accepting stipulation in the bill of quantity regarding 'approved quality' earth to be obtained from approved borrow areas, the contractor did not demand any separate rate for stripping in such borrow areas. It is also confirmed by relevant provisions in the Indian Standard, Central Public Works and Andhra Pradesh Public Works specifications on the earth work that all the items of site clearance as stipulated in the specification, are deemed to have been included in the description of main item on earth work in the bill of quantities forming part of the contract, and the work of site clearance is not to be measured and paid for separately. No separate payment was, therefore, admissible for jungle clearance in the reservoir area and also stripping in the borrow areas. The extra payment of Rs. 61.47 lakhs made to M/s. Gayatri Engineering Company constituted an unintended benefit not contemplated in the contract.

In order to divert the drainage course of the already existing Kanithi tank, a diversion channel was to be dug up, which work also formed part of the same contract. This work was commenced in July 1981. The useful soil excavated from the diversion channel was to be used as casing soil for the dyke of the reservoir for which only compaction at Rs. 2.50 per cu. m. was to be paid. In view of the delay in taking up the formation of dyke up to October-November 1981 due to the non-receipt of its drawings, the useful soil obtained from diversion channel and to be used in the dyke was dumped on its bank; but the soil got compacted due to movement of vehicular traffic. The useful soil had to be re-excavated from the banks of diversion channel for use in the dyke by payment of extra amount of Rs. 13.65 lakhs (May 1987) to the contractor towards re-handling of earth.

13. BHARAT HEAVY ELECTRICALS LIMITED

13.1 Non-Utilisation of Machine

Order for one Horizontal offset Tube Bender (HOB) at a cost of Rs. 70.96 lakhs was placed by the Trichy division of the Company (November 1982) on a Japanese firm and the same was received (October 1983) and commissioned in December 1983. This machine was stated to have been purchased to meet the increased demand for offset bends in reheater and super heater coils for welding of attachments like flexible connectors between the various circuits of a spaced coil and positioning arrangement of coil in a furnace which were proposed to be produced under the expansion programme of the division for the product mix of power equipments having 4000 MW capacity per year. The product mix contemplated for 4000 MW stage included 10 Nos. of 60 and 40 MW power equipments and industrial boilers. The Management stated (September 1988) that the quantum of 60 MW power equipments and industrial boilers was considerably reduced and the machine was underloaded.

The Management further stated (October 1989) that :—

— at the time of third stage of expansion the product mix was contemplated at 4000 MW per year which required annual production of 12000 tonnes of super heater and reheater circuits involving more than 1.69 lakhs number of offset bends for which the machine was considered necessary;

— due to switching over to new type of 500 MW boilers and tower type 210 MW boilers the requirement of number of offsets per boiler was substantially reduced;

— the actual product mix has also not come up to expectations and the quantum of 60 MW and industrial boilers was also reduced; and

— though the press remained idle up to 1987-88, it was anticipated that the utilisation would be to the extent of 20% to 25% with slight modification in the layout being carried out.

It was, however, noticed in audit that this machine was not put to use and remained idle ever since its procurement except for a marginal use of 20 to 25% during 1989-90.

The Ministry while endorsing the reply of the Management stated (August 1990) that the Chairman-cum-Managing Director of the Company has been advised to issue instructions to all concerned officers to be careful while purchasing costly machines in future.

It would thus be seen that procurement of a machine at a cost of Rs. 70.96 lakhs was made without properly estimating its projected use and the likely changes in design and product mix.

13.2 Avoidable expenditure on import of 8 Nos. 300 ton capacity 15 Sheave Pulley Blocks from Japan

The Central Procurement Cell of the Company placed a letter of intent (January 1984) on a Japanese firm for supply of 8 Nos. of 300 ton capacity 15 sheave pulley blocks required for Singrauli Super Thermal Power Project of NTPC at a cost of yen 533,60,000. As per the delivery schedule the pulley blocks were expected to be received in July 1984. A formal purchase order was, however, placed only in June 1985, after a delay of eighteen months. The pulley blocks were received at Bombay Port in December 1985 at a total cost of Rs. 66.42 lakhs. As the pulley blocks required for lifting the drums at Singrauli were not received in time (in fact the formal order had not been placed until 6/85), the Site Management, Northern Region made (December 1984 to February 1985) alternative arrangements by hiring the equipment from a private party at a cost of Rs. 3.12 lakhs and requested Central Procurement Cell to cancel the said Purchase Order. The order was not cancelled as the supplier demanded 90 per cent of the cost towards cancellation charges. The company, therefore, decided to transfer the equipment (September 1985) direct from the port to Ramagundam site where work of erection and commissioning of 3 × 500 MW T.G. sets was in progress and they were received at the site in January 1986. According to the reply of the Management these could not be used at Ramagundam also due to some technical problems. Meanwhile, the Ramagundam site Management also completed the work of lifting the boiler drums by utilising the indigenous equipment brought from Korba site thereby making the imported equipment redundant. It was also noted that the cost of indigenous pulley blocks (8 Nos.) amounted to only Rs. 16.50 lakhs as against the cost of Rs. 66.42 lakhs for the imported pulley blocks.

The Ministry stated (August 1988) that :—

- M/s. NTPC placed orders for the erection and commissioning of 500 MW units at Singrauli, Korba and Ramagundam sites and the work was to run concurrently in atleast two sites, to meet project schedules.
- An order for the import of 300 ton capacity pulley blocks was placed on 13th January 1984 and another order was released on 21st July 1984 for 200 ton capacity 10 sheave pulley blocks on an indigenous firm.
- Indigenous manufacturing capability for pulley blocks for more than 100 ton capacity was not available with proven performance.

The Ministry's reply that the order for import of 300 ton capacity pulley blocks was placed on 13th January 1984 refers only to the letter of intent; the actual order was placed only in 6/85. It was also observed in this connection that scheduled starting dates for boiler erection at Singrauli were July 1983 and April 1984 for VI and VII units respectively and April 1985, January 1986 and October 1986 for Ramagundam IV, V and VI units respectively. The possibility of non-availability of the equipment for erection at Singrauli and Korba was thus known even when the letter of intent itself was placed (January 1984) as the equipment was to be delivered by July 1984 by which time erection in two units of Singrauli and one unit at Korba was expected to be completed by April 1984 and February 1984 respectively. Further, since the formal order itself was placed in 6/85, there was no question of imported equipment being used for most of the above mentioned projects. It is also relevant to mention that on an enquiry by the company (BHEL), M/s. L & T had informed the former that pulley blocks of 200 ton capacity were already available from 1980 onwards and their performance was also satisfactory.

Thus the 300 ton capacity pulley blocks received in January 1986 were kept mostly idle since their procurement and the 200 ton capacity pulley blocks procured indigenously alone were used at Korba and Ramagundam sites. Had the suitability of 200 ton capacity pulley blocks available indigenously been assessed properly, the import of 300 ton capacity pulley blocks at an expenditure of Rs. 66.42 lakhs (most of which was in foreign exchange) could have been avoided.

13.3 Avoidable expenditure due to free supply of additional PA fans to Talcher Thermal Power Station

Two Primary Air (PA) fans supplied (March 1981 and September 1982) by the Trichy division of the Company forming part of the boiler package of 5th and 6th units of Talcher Thermal Power Station of Orissa State Electricity Board (OSEB) and commissioned in March 1982 and March 1983 respectively were not providing adequate primary air supply resulting in lower plant load factor. The customer, therefore, insisted upon replacement of the same with larger size fans. When the matter was further discussed with the customer on 23rd September 1984 the division agreed to supply a third PA fan with associated auxiliaries free of cost instead of replacing the existing two PA fans. The division agreed with the contention of the customer that the requirements of satisfactory working of the boiler package would not be complete as the requisite primary air would not be met with the two existing PA fans. The division had, therefore, to supply the third package costing Rs. 51.48 lakhs free of cost as the complaint was raised by the OSEB within the warranty period.

The Ministry stated (August 1989) :—

- The two primary air fans supplied were not defective in design as they were adequately sized for full load operation and this was demonstrated to the customer.
- Additional fans were added to provide for possible additional leakages in air heaters and for flexibility of operations as a long term measure.

The reply of the Ministry is not tenable for the reason that the third PA fan was supplied for flexibility in maintenance and operation and also due to certain failures in the primary air fan drive motors which rendered one PA fan not available for use at times. If flexibility in operation as a long term measure was a requirement, it should have been taken care of at the time of designing. The want of flexibility could be attributable to design deficiency which stood confirmed by the fact that the division agreed to supply the third package free of cost to the customer. Thus improper assessment of the technical requirements of the equipment resulted in an avoidable expenditure of Rs. 51.48 lakhs.

13.4 Extra expenditure in the purchase of Infrared Fire Sensing Devices

The Trichy division of the company placed a letter of intent (June 1981) on a foreign firm USA (Collaborators for air-preheaters) for the supply of four numbers of '2 head self-test-type' infrared fire sensing device for Singrauli 4 and 5 projects of National Thermal Power Corporation (NTPC) at a total cost of US $ 1,58,800 FOB, USA.

The division had earlier supplied '3 head manual type' infrared fire sensing device to Singrauli 1, 2 and 3 projects. In order to maintain homogeneity, the letter of intent placed in June 1981 for '2 head-self-test type' devices was cancelled (July 1981) and the supplier was asked to quote for '3 head manual type' device. In response to the above, the supplier quoted (October 1981) US $ 43,800 per unit, FOB, USA. However, no action was taken to procure the device till March 1982, when the indentor desired to have the '3 head-self-test type' device in the place of '3 head manual type'. Accordingly, a telex enquiry was sent in March 1982.

The supplier quoted US $ 58,675 per unit FOB shipping point (December 1982) for the revised specification of '3 head-self-test type'.

The proposal initiated in January 1983 for the purchase of '3 head-self-test type' was not given financial concurrence on the ground that this would involve extra cost and that for Singrauli 1, 2 and 3 projects only manual type device was supplied. On enquiry the supplier revised the price (March 1983) of '3 head manual type' device and '2 head-self-test type' to US $ 56,627.50 and US $ 49,500 per unit FOB, US port respectively.

On account of the delay in procurement of the devices by 20 months from the date of cancellation of original letter of intent of June 1981 to March 1983 the delivery commitment to Singrauli 4 and 5 projects had become critical. The division, therefore, diverted '2 head-self-test type' devices earlier ordered for Anpara 2 and 3 projects to Singrauli 4 and 5 projects to meet the delivery schedule and placed a fresh order (May 1983) for 4 number of '2 head-self-test type' required for Anpara projects at the revised price of US $ 49,500 per unit FOB, US port.

The division had thus taken about two years to decide upon the nature of equipment required for the project and finally reverted to the same type of equipment originally ordered in June 1981 resulting in an extra expenditure of Rs. 7.20 lakhs.

In reply to a para the Government stated (December 1988) that :—

(i) The earlier equipment ordered in 1978 on foreign firm for Singrauli 1 to 3 Units were '3-head manual type sensing device'. The suppliers were continuously up-dating the designs of these devices and the orders placed on them in 1980 and 1981 for Korba and Anpara contracts were for their latest '2-head-self-test' system. When the requirements for Singrauli 4 and 5 came up in May 1981, the letter of intent was placed for the latest '2 head-self-test system'.

(ii) A decision was subsequently taken to order '3head manual system devices' as earlier supplied for Singrauli Units 1 to 3 to have homogeneity and uniformity for all the five sets.

(iii) The decision to divert two sets earlier ordered for Anpara Units 2 & 3 to meet the more pressing requirements of Singrauli 4 & 5 and issue a fresh order for Anpara requirement was influenced by the following :—

(a) Supplier quoted a delivery period of 36 weeks whereas the end date for receipt of fire devices at Singrauli was May 1983.

(b) The commissioning dates for Anpara 2 & 3 were re-scheduled from June 1983 and December 1983 to December 1984 and September 1985 due to financial constraints experienced by UPSEB.

The reply of Government is not tenable in view of the fact that the division has finally supplied the '2-head-self-test type' to Singrauli 4 and 5 projects and has not strictly adhered to the homogeneity aspect. The order for '2head-self-test type' could have been placed in June 1981 itself.

The Singrauli project to which the equipment '2-head-self-test type' was supplied was an IDA aided contract and the Company was entitled to export incentives viz., duty draw back. Due to cancellation of order for Singrauli Project and placing a fresh order for Anpara project, the Company could not get duty draw back of Rs. 11.44 lakhs. The division preferred a duty draw-back claim in March 1988 after a lapse of more than four years when it had become time barred.

The division thus incurred an extra expenditure of Rs. 18.64 lakhs.

14. AIR INDIA

Avoidable expenditure on hotel accommodation

Air India was accommodating its cabin crew at Meridien Hotel, Kuwait under a contract valid upto November 30, 1983. With a view to arranging hotel accommodation for the cabin crew for the period beyond November 1983, quotations were invited in July 1983 from leading hotels in Kuwait. Quotations were received from 4 five star hotels viz. Sheraton, Meridien, Hilton and Holiday Inn. Since there was a delay in taking a decision on these offers and the existing contract had also expired on November 30, 1983, the stay of the crew beyond this date at Meridien hotel was extended on short term basis. Detailed discussions/negotiations were held with all the four hotels only in January 1984 and the approximate cost of the cabin crew accommodation for the period February 1984 to November 1984 as per the final rates offered by them was as under :—

	Rs. in lakhs
1. Sheraton Hotel	34.52
2. Holiday Inn	57.66
3. Meridien Hotel	68.60
4. Hilton Hotel	70.04

The Tender Committee recommended (January 1984) award of the contract to Sheraton Hotel (1st lowest) in view of the substantial savings to the Corporation. However, Air India Management decided (March 1984) to renew the contract with Meridien Hotel (3rd lowest) for the period from 1st December, 1983 to 30th November, 1984 on the ground that Sheraton Hotel's rate would be valid only upto 30th November 1984 and thereafter these rates would be increased to fall in line with the rates of Meridien and other hotels as decided by Kuwait Hotel Owners' Association. The contractual arrangement with Meridien Hotel was further extended on a month to month basis upto May 1986 even though there was a fresh offer in October 1985 from Hilton Hotel at the same rates quoted by Sheraton Hotel for the period from December 1983 to November 1984.

Thus, due to awarding of the contract to Meridien Hotel (3rd lowest tenderer) as against Sheraton Hotel (1st lowest tenderer) the Corporation was put to an extra expenditure of Rs. 40.90 lakhs for the period December 1983 to November 1984. Similarly, continuance of the contract with Meridien Hotel during the period October 1985 to May 1986 without considering the fresh offer of Hilton Hotel received in October 1985 had resulted in a further extra expenditure of Rs. 24 lakhs to the Corporation at the rate of Rs. 3 lakhs per month.

Management in their reply (August 1988 and May 1989) stated that :—

(1) Hotel Meridien informed the Corporation on 10th February 1984 that the offer made by Sheraton Hotel deviated from a protocol enforced by the Kuwait Hotel Owners' Association and under cutting would be subjected to legal implications for all the parties. Moreover, the rates of Sheraton Hotel would be applicable only for one year upto November 1984 and thereafter the same would be increased to fall in line with the rates of other Hotels as prescribed by the Hotel Owners' Association. Also the cabin crew members were happy with the facilities available at Meridien Hotel and would not have liked to move to Sheraton Hotel. Hence it was decided to continue the cabin crew accommodation with Meridien Hotel for a further period of one year upto end of November 1984.

(2) It was only in October 1985 a fresh offer with reduction in hotel rates was received from Hilton Hotel. However the offer was not considered by the Corporation as the Hotel was not acceptable to the cabin crew. Many a time, with a view to have industrial peace, it was not advisable to shift crew against their will if their stay in a particular hotel is according to their liking.

When the matter was referred to the Ministry, they also concurred (March 1990) with the views of the Management.

The reply of the Management, Ministry is not tenable and lacks justification in view of the following :—

(1) The operating crew of Air India were being accommodated in Sheraton Hotel under a separate contractual arrangement valid upto

30th November, 1984. Sheraton Hotel had also offered to accommodate the cabin crew under the same contract without any violation of the bye-laws of the Kuwait Hotel Owners' Association. Even the Solicitors of the Corporation opined that Air India should accept the cheaper rates offered by Sheraton Hotel and Air India would not be committing any breach. When Sheraton Hotel was considered good enough for the operating crew, the management should have persuaded the cabin crew to shift to the accommodation at Sheraton Hotel.

(2) The facilities offered by Hilton Hotel were found by Air India as comparable with that of other hotels viz. Holiday Inn, Meridien and Sheraton. While the representative of crew members is to be associated with the selection of hotels, the preference of the crew for a particular hotel is not a matter of absolute right. Hence Air India could have prevailed upon the crew members to accept the accommodation in Hilton Hotel from October 1985 in view of substantial reduction in their rates quoted by them. In this connection it would be relevant to mention that though the cabin crew were satisfied with the accommodation in Meridien and preferred to continue there, they were persuaded to agree for their accommodation in Holiday Inn from June 1986 in view of the considerable savings to the Corporation in the expenditure on Hotel accommodation.

Thus, the Corporation incurred an avoidable expenditure of Rs. 64.90 lakhs in foreign exchange.

15. HINDUSTAN VEGETABLE OILS CORPORATION LIMITED

15.1 Extra expenditure on hiring of private refinery

Ganesh Flour Mills had a refinery and Vanaspati Unit at Delhi whose annual refining capacity was 30,000 MT. This capacity was sufficient to meet the requirement of refined oil for Delhi and its neighbouring States i.e. Rajasthan & Haryana. However, the Company hired another refinery at Gurgaon from a private firm (a sister concern of Company's transporter) for a period of two years with effect from 26th March, 1984. (The approval of the Board of Directors for hiring was not taken). The Company (from 23rd April, 1984) also entered into a contract with another private firm (a division of the transport contractor of the Company) on 27th August, 1984 for a period of two years from 26th March, 1984 for providing labour to carry out the job of refining and other allied manual work, in respect of operations of the refinery at Gurgaon.

It was noticed that against the annual refining capacity of 30,000 tonnes and 15,000 tonnes of Delhi and Gurgaon Units respectively, the allocation for Delhi and its neighbouring States and actual production of refined oil during 1984-85 & 1985-86 was as under:—

	Allocation (in tonnes)		Actual production (in tonnes)	
	1984-85	1985-86	1984-85	1985-86
Delhi	27630	11260	19325	7592
Gurgaon	—	—	6888	2170
Total	27630	11260	26213	9762

It may be seen, from above, that the total quantity of oil refined at Delhi & Gurgaon was well within the refining capacity of Delhi unit alone and, therefore, there was no need to hire the private refinery. The Company incurred an extra expenditure of Rs. 61.53 lakhs on hiring the refinery as follows :—

	(Rs. in lakhs)
Lease rent of refinery	36.00
Labour charges	11.76
Repairs and maintenance charges	5.96
Pay & allowances of officers & staff	7.81
	61.53

Management stated (February, 1988) that allocation of edible oil by the Ministry was around 4500 tonnes per month effective from March, 1984 and was likely to increase depending upon the capacity of the Ganesh Flour Mills Group to increase their production and this necessitated hiring of another refinery. The contention of the Management was not tenable as the above allocation of edible oil was for the month of March, 1984 only and no commitment was made to allocate the same quantity for refining to Ganesh Flour Mills Group for subsequent months. The Ministry of Food & Civil Supplies has accepted this position (August, 1989).

15.2 Infructuous expenditure due to improper planning

With a view to effect economy in the cost of transportation and sales tax charges on refined rape seed oil which was being brought from other units for packing in small tins at Calcutta for public distribution system (PDS), the erstwhile Ganesh Flour Mills, which was nationalised on 28th January, 1984 and formally converted into the Hindustan Vegetable Oils Corporation Limited (the Company) on 31st March, 1984, considered it necessary to take a suitable refinery on lease at Calcutta itself. Accordingly, on the recommendations (3-4-1984) of the local purchase committee, and after obtaining verbal consent of the Chairman, an agreement was entered into by the officer-in-charge of the Calcutta unit on 16-4-1984 with a local firm to take on lease its refinery having a capacity of 4 MT. per shift with existing equipments at Tangra in Calcutta for a period of two years with effect from 1-4-1984 at a monthly lease rent of Rs. 20,000/-. This was done without approval of the Board of Directors or Chief Executive of the Company.

The existing capacity of the refinery was, however, not considered adequate because deodorisation of only 4 MT. of oil could be done during one cycle of six hours in the existing plant. It was, therefore, decided (April 1984) to purchase certain equipment and to rectify oil vessels to make the refinery suitable for production of 50 MT. per day at an estimated cost of Rs. 60 lakhs. An order for the above items of work was placed on 3rd April 1984 (i. e. even before finalisation of the lease agreement with the owner of the refinery) without inviting tenders and without approval of the Board of Directors/Government. All the items, except boiler and generator costing Rs. 14 lakhs, were installed at Tangra by July/August, 1984. Separately, a project of the Company, to set up its own new refinery at Barasat (Calcutta) was also in the process of execution. Land for the refinery had been purchased in December, 1983 and orders for equipments and civil works for that refinery were placed in December, 1983 and February, 1984 respectively. But the refining capacity likely to be generated by this new refinery was not at all considered while deciding about the leasing of a private refinery for a period of two years and subsequent investment of Rs. 60 lakhs for increasing the capacity of the private refinery. The agreement with the owner of the refinery also did not spell out the way in which the assets created by the investment of Rs. 60 lakhs would be finally treated/adjusted after the lapse of the leasing period.

Since the new refinery of the Company set up at Barasat was expected to go on stream in March, 1986, it was decided (November, 1985) not to renew the lease agreement which was expiring in March, 1986. Consequently refining activities were stopped and the equipment costing Rs. 43 lakhs (including expenditure incurred on commissioning—Rs. 1.50 lakhs) installed at Tangra became surplus. Since the equipment was not considered useful for the Barasat Refinery due to its lower capacity and its not being technically upto the mark, tenders were invited in March and April 1986 to dispose it of. Due to poor response, the Company dismantled and shifted (May, 1987) the items of equipment to Barasat refinery premises at an expenditure of Rs. 1.80 lakhs. The Company had also to pay a sum of Rs. 2.10 lakhs @ Rs. 15000/- per month towards lease rent beyond the period of lease viz., from April, 1986 to May, 1987.

The total quantity of oil refined in the leased unit during the period July, 1984 to March, 1986 was 3610 MT. only (approx) i.e. an average 172MT. per month. This quantity of oil could have been refined within 22 days (assuming double shift) with the help of the existing plant and equipments with only minor repairs and rectifications. The estimated monthly production of 1000MT. and resultant saving of Rs. 20 lakhs per month projected in the meeting held on 3rd April 1984 on the basis of which the investment of Rs. 60 lakhs was justified, did not materialise. The decision was obviously not backed by proper action plan as the average monthly production of the refinery was only about 172 MT. This ultimately resulted in an infructuous expenditure of Rs. 46.90 lakhs (43.00+2.10+1.80) in the shape of unwanted equipments, unproductive rent and dismantling and transportation charges of surplus equipments.

The Management stated (March, 1988) that the capacity utilisation of the refinery was dependent upon the allocation of oil by the Central Government and its lifting by the State Governments.

The contention of the Management is not tenable since quantities of oil allocated by the Central Government and lifted by the State Governments during 1984-85 and 1985-86 were much more than the quantities of oil refined in Calcutta unit which continued to get the balance requirements of refined oil from other units of the Company located outside West Bengal.

The Ministry of Civil Supplies agreed with the view point of Audit and stated (October, 1988) that planning of the Company for increasing the refining capacity or installation of refinery was defective due to which the proposed refining capacity could not be achieved.

16. RASHTRIYA CHEMICALS AND FERTILIZERS LIMITED

Non-recovery of dues from an authorised dealer

The Rashtriya Chemicals and Fertilizers Limited (RCF) appointed (October 1981) Mysore Fertilizers Company (MFC) as its authorised dealer for the sale and distribution of fertilizers in certain regions of Andhra Pradesh. In terms of the dealership agreement, MFC was required to make payments to RCF for value of the goods supplied to it alongwith taxes, duties, etc. against delivery of documents of title or in such other manner as may be prescribed by RCF.

As per the marketing arrangements with MFC, RCF was holding two letters of credit of total value of Rs. 90 lakhs. RCF however, made the supplies to MFC without negotiating the documents through bank and also without correlating the L/C amount during the period March 1984 to June 1985.

At the end of June 1985, a sum of Rs. 159.32 lakhs was outstanding from MFC against which there was no collateral security and hence supplies were stopped from July 1985 onwards. When, as a last resort, documents were submitted to the bank (before expiry of L/C on 18th April, 1986), it refused to honour them as the documents were required to be submitted within 30 days from the date of invoice as per the terms of L/C. In June 1986, RCF and MFC signed a memorandum of understanding whereby it was agreed, *inter alia,* that MFC would pay interest charges on all delayed payments @ 18% p.a. in one lump-sum immediately after the entire principal amount was repaid. During the period July 1985 to March 1990 RCF could recover only Rs. 126.32 lakhs. At the end of March 1990, an amount of Rs. 33.00 lakhs towards principal remained unrecovered. In addition to this, an amount of Rs. 37.71 lakhs also accrued towards interest under the memorandum of understanding between RCF and MFC. The Board of Directors of RCF desired in February 1987 to fix responsibility for all the lapses, but no action was however taken so far (March 1990).

The Ministry stated (September 1989).

(i) There was no doubt that there had been a lapse on the part of the Regional Office of RCF in not following the prescribed procedure.

(ii) RCF's argument that this was done to increase sales with the possibility of realising the payment later is not convincing and in any case, there was no justification for violation of the prescribed financial procedure.

(iii) However, efforts were continuing to realise the balance amount from MFC through appropriate court action.

(iv) A General Manager of RCF had been appointed to conduct detailed enquiry and fix responsibility for the lapses on the part of employees concerned.

Thus, the failure to adhere to the terms of contract and financial procedure resulted in non-recovery of principal amount of Rs. 33.00 lakhs besides interest amounting to Rs. 27.59 lakhs accrued under the memorandum of understanding after adjusting certain credits due to MFC.

17. NATIONAL FERTILIZERS LIMITED

Loss on purchase of coal

National Fertilizers Limited (NFL) entered into an agreement with Coal India Limited (CIL) on 21st February, 1984 for supply of coal to its plants located in Nangal, Panipat and Bhatinda.

The agreement stipulated that samples of coal would be taken jointly by the representatives of the supplier and purchaser at the loading end. Out of three parts of the sample, one each would be taken by the purchaser and the supplier for analysis at their respective laboratories. The third part would be kept as referee sample at the colliery duly signed and sealed by the representatives of the supplier and the purchaser. In case of wide variation in the results of sample analysis carried out by the parties, referee sample would be got analysed at a mutually accepted laboratory, the results of which would be binding on both the parties. The referee sample was to be preserved for 75 days only. It was also incumbent on the part of the purchaser to intimate the supplier about the results of analysis of the joint samples collected by them within a period of 45 days (which was changed to 50 days from 1st January, 1986) from the date of collection. If the purchaser did not communicate the results within the stipulated time, the analysis results of the supplier was to be accepted. It was also stipulated that in case the monthly weighted average fell below the billed grade the purchaser would raise debit note for the difference in prices to the nominated officer of the supplier and get the payment within a period of 30 days.

Accordingly, NFL raised debit notes against CIL in respect of consignments where, on the basis of laboratory analysis of joint samples, monthly weighted average fell below the billed grade. However, the claims of Rs. 148.45 lakhs were rejected by the CIL on the ground that results were received by them after the expiry of the stipulated period of 45 days from the respective dates of collection of the samples.

Ministry stated (May 1988) that in the initial stages, after execution of the agreement there was some delay in transmitting the results of the coal samples to CIL because the procedure for intimation of results of coal samples analysed by the units and computation of price adjustment had not been firmed up. Ministry further stated that out of NFL's claims of Rs. 148.45 lakhs, Rs. 54.19 lakhs pertained to cases where the results of sample analysis were not sent within the stipulated period and Rs. 94.26 lakhs pertained to cases where results of sample analysis were sent within the stipulated period although it was being contested by the CIL. Ministry also indicated that NFL's claim fell under disputed category and would be discussed with CIL shortly and the loss contended by Audit was premature.

The contention of the Ministry that the loss was premature is not tenable as there could be no dispute about Rs. 54.19 lakhs where the samples were transmitted belatedly and NFL was not entitled to lay claim under the provisions of the agreement. In respect of Rs. 94.26 lakhs the matter could not be settled so far (December 1990) even after a period of more than four years despite number of meetings held between representatives of CIL and NFL.

Thus, by not sending the results of sample analysis within the stipulated period as per the terms and conditions of the agreement with CIL and by making payment at a higher rate for substandard coal, NFL suffered a loss of Rs. 54.19 lakhs. Further, no settlement could be reached so far (December 1990) in respect of disputed amount of Rs. 94.26 lakhs, even after a period of more than four years.

18. SPICES TRADING CORPORATION LIMITED

Avoidable loss due to procurement of Black Pepper for export.

The Spices Trading Corporation Limited, finalised a deal for supply of 660 tonnes of Black Pepper with a firm of a foreign country. Two proforma invoices, one for 160 tonnes and another 500 tonnes, at the rate of U.S. dollars 4,843.50 per tonne were issued to the firm on 2nd December 1987 to be shipped within 90/120 days of the receipt of confirmed irrevocable letters of credit for full value of the goods. The offer of U.S. dollars 4,843.50 per tonne for the second lot of 500 tonnes was declared valid only if the letter of credit was received by 15th January 1988 from the foreign buyer.

The buyer opened a letter of credit for 95 per cent of the value of 160 tonnes in January 1988 against which the supplies were made during April 1988 after sorting out some problems in the letter of credit. For the balance requirement, the Company commenced procurement in January 1988 even though the buyer had not opened the letter of credit by 15th January 1988 upto which date only the accepted price was valid. The Company continued to procure pepper till 25th March 1988 by which time 394 tonnes had been procured at a cost of Rs. 197.21 lakhs even though the market was showing a downward trend throughout. (The rate per tonne which was around Rs. 48,000 in January 1988 fell to around Rs. 38,000 by March 1988). The buyer neither opened the letter of credit nor gave any reasons for not opening the same. As there was no response from the buyer, the quantity procured for export to that buyer was exported at lower rates to different foreign buyers resulting in a loss of Rs. 46.58 lakhs. Taking into account the loss of interest and storage charges incurred, the total loss in the deal worked out to Rs. 53.03 lakhs.

Management stated (January 1989) "In Black Pepper export procurement is usually done against the confirmation of an order. L.C. will be opened normally just before the shipment. It is a well-known fact that prices of black pepper fluctuate on day-to-day basis and procurement has to be commenced immediately after the price is accepted by the buyer. The procurement operations commenced from December 1987 to take advantage of the lower prices during the season. Only ungarbled black pepper is available in the market. It requires normally 3 to 4 months for the ungarbled pepper to be dried, garbled and inspected by the International Surveyors. . . ."

The contention of the Company is not tenable owing to the following :—

(i) The company was forewarned by the officers of Indian Embassy that buyers of this country tend to delay/avoid/reject payments under the contract on technical/flimsy grounds. The fact that the buyers from this country raise flimsy objections had been proved beyond doubt when they did not accept performance guarantee opened by STCL in respect of the 160 tonnes of the first consignment but insisted on opening of performance guarantee in regard to the total supplies of 660 tonnes. It may be relevant to note that L.C. for 160 tonnes was also made non-operative by the foreign buyer on the ground that the performance guarantee established by STCL with SBI was not acceptable to their Bankers and that the performance guarantee had to be established on some other Banks and that too for the entire quantity of 660 tonnes. The Company should, therefore, have commenced procurement operations only after making it certain that the buyer would honour his commitment.

(ii) The letter of credit allowed 120 days for the execution of the contract. This period was sufficient to take care of procurement, processing etc., which even according to the Company, was around 3 to 4 months only. There was, therefore, no need to procure the material in anticipation of the opening of letter of credit especially when the market was showing a downward trend.

(iii) As the price accepted was valid only upto 15th January 1988, the Company could have revised the prices to suit the market conditions or even rejected the order if the letter of credit was unduly delayed till the season was over.

The procurement of substantial quantities of pepper before getting confirmed letter of credit from the buyer resulting in a loss of Rs. 53.03 lakhs on their disposal to other buyers was thus clearly avoidable.

19. HINDUSTAN AERONAUTICS LIMITED

19.1 Infructuous expenditure on design and development of Microlight Air Craft Project

In November 1983, the Army Headquarters suggested to the Company to explore the possibility of manufacturing microlight aircraft to popularise aviation sports. The Company intimated (December 1983) the Army Headquarters that as a follow-up of manufacture of hang gliders, the Company intended to develop a microlight aircraft also which could be expected to be in the market in about 24 months from the "go ahead". Out of this, 14 months were required for design and development and the balance for approval, certification and productionisation. The proposal to develop the microlight aircraft at a cost of Rs. 5.0 lakhs including labour cost of Rs. 3.5 lakhs submitted in January 1984 was approved by the Chairman of the Company in May 1984. The prototype was planned to undergo flight test in 18 months i.e. by the end of 1985.

Meanwhile, the Director General of NCC informed the Company in May 1984 about the requirement of 150 twin seater microlight aircraft for NCC. The Chair man informed D.G., NCC in June 1984 that the single seater aircraft design had been taken up by the Company with the first flight plan for October 1985 and expected production deliveries by end of 1986. The D.G., NCC, however, indicated that the requirement of NCC was only for a twin seater and not a single seater aircraft and that the development time was too long and should be compressed. The Company took the view that the design of the single seater was not very much different and that after the single seater was flown, the twin seater could be made to fly within three months time. But the D.G., NCC informed the Company that he was importing 32 aircrafts from abroad as their requirement was urgent and the Company was not in a position to provide them before 1986-87.

Though cost and time were of paramount importance in developing the small aircraft which was expected to be priced at Rs. 1 lakh each, the design and development wing went on incurring expenditure beyond the approved limit of Rs. 5 lakhs and also took more time than originally envisaged. While the physical progress of the project was reviewed from time to time, the expenditure incurred and the labour hours involved were not reviewed till August 1985 when it was reported that 14,110 man-hours had already been spent on the project with further requirement of 8,000 more man-hours to complete the project, making a total of 22,110 hours as against the estimate of 4,500 hours. Even at this stage no evaluation was conducted of the progress made with reference to the cost and time overrun and the estimated costs/time required to complete the project. The project which was continued till November 1987 failed as the aircraft did not take off from the ground and was abandoned in December 1987 "in view of the unsatisfactory progress on the project and the considerable expenses already incurred". The total expenditure incurred upto the time of abandonment was Rs. 52.08 lakhs which included 52,915 labour hours costing Rs. 48.58 lakhs against the estimated labour hours of 4.500 costing Rs. 3.5 lakhs.

Thus, due to the failure of the Company to develop a small aircraft despite considerable time and cost over-run, the Company had to incur an expenditure of Rs. 52.08 lakhs which was infructuous, besides losing potential orders for such aircraft, which had to be imported and paid for in foreign exchange.

19.2 Avoidable Expenditure in the Procurement of Centre Support Bearings

Centre support bearing was one of the bearings used in the manufacture and overhaul of F 25 and R 25 engines by the Koraput Division of the Company. The bearings, which were used in a set of two for each engine, were being procured from USSR The Division identified in February 1982 the centre support bearings of Italy as substitute for those of Russian origin and also established in February 1985 the application of the same on both F 25 and R 25 engines. The Italian bearings were much cheaper than those of USSR. The Division had, however, entered into a supplementary agreement in May 1985 with USSR in continuation of the indent placed in January 1984, for the supply of 100 centre support bearings at Rs. 51,089.85 per unit as against the unit price of Rs. 6312.00 for the third country (Italy) bearings. The total cost of this order was Rs. 51,08,985.00 and the materials were received in December 1985. The placement of the above order in May 1985, when a third country source of supply was available at a cheaper rate, had resulted in an extra expenditure of Rs. 44.78 lakhs.

Justifying the purchase of 100 Russian bearings in May 1985 the Company stated (February 1988), "though a third country source for the subject item was located in February 1985, it was necessary to procure 100 Nos. (50 Engine sets) from USSR in May 1985 in view of long lead time involved i.e., nearly 18 months to obtain an item from a third country source and also to have continuous availability of item for engine production. The performance of alternate item is to be examined over a period of one year before deleting the item for supply from the USSR". The Ministry further held (November 1989) that the agreement was entered into against the indent placed in January 1984 by which time clearance for usage of third country bearings was not given, that it was a prudent management decision due to uncertainty in lead time of procurement from third country source and to avoid slippage in annual production/overhaul targets and that complete deletion of centre support bearings from the supplement agreement would have closed the Soviet source for a period of at least two years which was not desirable in the absence of confirmed bulk supplies from third country source.

The replies of the Company and also Ministry were not tenable for the following reasons :—

- the indent of January 1984 was not binding and the Company had option to delete centre support bearings indented in January 1984 while finalising supplementary agreement of May 1985, as was done for four other items.
- the Company had identified alternative source for the centre support bearings as early as in 1982 and had received them in 1983 against the orders placed in 1982 (February 1982); their performance and suitability were also examined and established in February 1985.
- substantial quantity of Russian and Italian bearings were in hand and were also due on orders already placed, as on the date of agreement in May 1985, which were adequate to meet the requirement of 17-18 months.
- the lead time for the Italian bearings was 15 months from the date of placement of order, which was less than the lead time for Russian bearings. In fact, the third country on which orders were placed in August 1985 for substitute bearings to USSR items, had supplied them within ten months of placement of order.

The extra expenditure of Rs. 44.78 lakhs incurred by the Company for procuring 100 centre support bearings from USSR was not, therefore, justified.

19.3 Avoidable expenditure on extension of insurance coverage

In terms of an agreement with USSR entered into in August 1976, the Nasik Division has been importing on CIF Bombay Port basis, raw materials, components etc., required for the manufacture and overhaul of aircraft from USSR. The division had been taking further insurance cover at its own cost from Bombay Port to its factory at Ojhar till November 1982 from the New India Assurance Company Limited (NIA). As a result, the risk in the imported goods from the time of their unloading from ships at Bombay to further loading on rail/lorry for transportation to the factory remained uncovered. The division extended the coverage of its insurance with the NIA from December 1982 from the USSR port to the factory at Ojhar instead of limiting it to the uncovered portion only. Though the NIA did not charge any extra premium for the extended coverage, the division did not assess the implication of extra charges payable for shipment in overage vessels, for which there was a specific provision in the insurance cover. The liability in this regard was also specifically clarified by the NIA to the division in August 1983. During January 1983 to December 1987 the division received shipments from USSR in 106 ships, which included 8 overage ships. In respect of shipments received in these 8 overage ships, the division had to pay Rs. 26.46 lakhs to the NIA towards overage charges in addition to the normal insurance premium, though the insurance arranged by the exporter covered the risk upto Bombay Port irrespective of the age of the ships in which shipments were made.

The Management stated (June 1987) that the coverage of insurance was extended at no additional cost to avoid situations where claims were being resisted by both the Indian Insurance Company and the foreign suppliers on the ground that the damage had occurred between the time of berthing of the ship at Bombay and commencement of transhipment from Bombay to Ojhar. The details of losses suffered on this account could not, however, be furnished by the Company when called for by Audit. The Ministry stated (June 1988) inter-alia, that Hindustan Aeronautics Limited had been advised to fix responsibility for the lapse of having to pay overage charges.

From April 1988, the division has been taking insurance policy from the NIA only from the time of unloading of goods from the vessel at the Indian Port upto Ojhar and had the insurance with the NIA been limited in this manner from November 1982 onwards, the overage charges paid during January 1983 to December 1987 could have been avoided.

20. SHIPPING CORPORATION OF INDIA LIMITED

Loss of Rs. 51.59 lakhs in the scrapping of M.V. Ajanta and M.V. Parvati

The Board of Directors of the Company in the meeting held on 9th September, 1986 approved the proposal for scrapping of the old and uneconomical vessels, M.V. Ajanta and M.V. Parvati. On 15th September, 1986, the Company invited separate tenders from intending purchasers of these vessels for scrapping. After accepting the highest tenders for each of these Vessels, the Company issued orders of acceptance on 30th September, 1986 and 1st October, 1986 for M.V. Ajanta and M.V. Parvati at a price of Rs. 321.21 lakhs and Rs. 302.01 lakhs respectively.

The vessels, on sale for scrapping, were to attract customs duty. Initially, the Company decided not to beach these vessels in anticipation that certain relief in the customs duty would be forthcoming from October or November 1986. Though no announcement about such a reduction was made by Government even by November 1986, with continued expectations, the Company did not pay customs duty and sought more time from the purchasers for delivery of these two vessels. One buyer refused to give extension and terminated the contract in December 1986 (M.V. Ajanta) and another in March 1987 (M.V. Parvati).

The anticipated reduction of customs duty did not materialise at all and both the vessels were, ultimately retendered on 9th April 1987. On the sale and delivery effected thereafter (June-July 1987), the Company realised price of Rs. 311.01 lakhs for M.V. Ajanta and Rs. 289.12 lakhs for M.V. Parvati resulting in lesser recovery of Rs. 23.09 lakhs compared to earlier prices. Further, the Company also incurred standing charges of Rs. 17.50 lakhs and Rs. 11.00 lakhs from the dates of termination of the first contract up to the dates the vessels were delivered to the second buyers resulting in loss aggregating Rs. 51.59 lakhs in respect of the two vessels. The aggregate loss of Rs. 51.59 lakhs mentioned above would go up further to Rs. 96.59 lakhs in view of the fact that the earlier buyers of M.V. Ajanta and M.V. Parvati who had filed claims against the company before arbitrators on account of Company's default in delivering the sold vessels, have been awarded Rs. 22 lakhs (M.V. Ajanta) and Rs. 23 lakhs (M.V. Parvati) as compensation. The compensation in respect of M.V. Ajanta was paid in November 1987.

The Ministry stated (January 1989) that in their view there was poor judgement on the part of the Company in deferring the scrapping/sale of the two vessels against customs duty relief and that the company has been asked to enquire into this matter further to fix responsibility for losses.

The Board of Directors, however, decided (February 1990) that this was a part of Management's function and conscientious decisions were taken at that time considering profit/loss as otherwise, the Management would not be able to function. The Management had, therefore, to take a certain amount of risk and there was no question of fixing any responsibility on this account.

21. NATIONAL TEXTILE CORPORATION LIMITED

21.1 Irregular deduction of 1% cash discount on delayed payment and non-payment of interest thereon amounting to Rs. 50.03 lakhs

National Textile Corporation (WBABO) Limited, Calcutta entered into agreements with the National Co-operative Consumers Federation of India Limited (NCCF) from time to time for supply of controlled cloth. The agreements, inter-alia, provided that NCCF should make payment to the Company on or before the 31st day of receipt of despatch documents and invoice to the extent of basic value and duties thereon and claim cash discount of 1% on N.T.C. price. In case of late payments i.e. beyond 31st day of receipt of despatch documents and invoice or extended date due to lock out or strike, buyer was liable to pay interest to the Company at the normal bank rate on the amount payable from the due date of payment.

It was noted in audit that in a number of cases the NCCF did not make payment within the above specified period. Even so, they deducted an amount of Rs. 20.93 lakhs towards cash discount @ 1% of value of supplies for the years 1984-85 to 1988-89. (Management could not furnish the data prior to this due to non-maintenance of records properly for the earlier years). Further in a number of cases, the NCCF made delayed payments thereby attracting liability for payment of interest at the normal bank rate. This liability for interest for delayed payments worked out @ 19 1/2% p.a. amounted to Rs. 29.10 lakhs for the period from 1984-85 to 1988-89. The Company made a claim for the above amount of Rs. 50.03 lakhs on NCCF as late as in May 1989. The Management stated (May 1990) that due to prolonged time taken in the compilation of figures, the claim in final form could not be lodged earlier. The NCCF, however, intimated to the Company (May 1989) that according to their records no amount was payable to the Company towards discount and interest.

The Management confirmed the above facts and stated (August 1989) that they had requested the holding company to take up the matter with NCCF and the Ministry of Textiles since NCCF had refused to accept the claim. The matter has been discussed by the concerned Ministries, NTC and NCCF but NCCF has not paid any amount so far.

The replies of the Management/Ministry, however, have to be viewed in the context of the following :—

(a) The claim was lodged with NCCF only in May 1989 although the events pertained to the period starting from 1984-85 onwards. Submission of belated claim for refund indicate lack of proper system/procedure/ internal control in the organisation.

(b) Even though the matter was referred to the Ministry by N.T.C., New Delhi, no amount has been recovered so far.

21.2 Avoidable expenditure on import of cotton from Pakistan

Government of India decided (July 1985) to import one lakh bales of short and medium staple varieties of cotton keeping in view the overall demand and supply position in the country and recognising the need for stabilizing the price line. The Government of India while issuing orders inter-alia decided that the import would be made by Cotton Corporation of India Ltd. (CCI) on NTC's account and that NTC would arrange to obtain bulk import licence and sub-import licences in the name of actual user mills; that NTC and CCI would jointly approach the Finance Ministry for waiver of import duty and CCI would act as canalising agency for carrying out negotiations, contracting and selection of cotton in association with NTC.

Based on the detailed deliberations held with the Pakistani delegation on 17th and 18th July 1985, nine contracts for the import of 75,000 bales of cotton from Pakistan were signed on 26th July 1985 between CCI and NTC on one side and the Cotton Export Corporation of Pakistan on the other side.

Ministry of Finance in their order of 7th August 1985 exempted CCI from payment of duty in excess of the amount calculated at the rate of 5 per cent ad-valorem; this exemption was subsequently amended on 29th August 1985 in the name of CCI on behalf of NTC. Import licences in favour of individual mills under the control of NTC subsidiaries were obtained between 26th August 1985 and 16th September 1985.

When the actual user mills attempted to clear the consignments at concessional rates of customs duty, the Customs Authorities refused on the ground that the amended Government order of 29th August 1985 was not in the name of actual user mills. Consequently, the delay in clearance of the consignment resulted in payment of demurrage and container detention charges to the extent of Rs. 27.56 lakhs, though the goods were finally cleared at concessional rates of duty. The payment of demurrage of Rs. 14.88 lakhs and container detention charges of Rs. 12.68 lakhs could have been avoided if only the flaw in Government order was detected in time and got rectified.

The Ministry of Textiles admitted (March 1990) that the demurrage had to be paid owing to a technical flaw in the orders of the Ministry and that the case was being pursued with the Ministry of Commerce for reimbursement of demurrage.

It was, however, observed that the case for waiver/ reimbursement of demurrage was referred to the Ministry of Commerce as early as in December 1985 and there has been no result despite a lapse of over five years.

22. NATIONAL SEEDS CORPORATION LIMITED

Failure to supply wheat seeds during currency of contractual period

National Seeds Corporation, New Delhi entered into a contract with Bangladesh Agricultural Development Corporation on 1st July 1983 for supply of 3,520 tonnes of wheat seeds at the rate of Rs. 5250.00 per tonne. As per contract, no seed was to be despatched before 10th October 1983, and eighty per cent of the consignments were to reach the border by 31st October 1983 and all the consignments of seeds were to cross the Indo-Bangladesh border not later than 10th November 1983, which date was subsequently extended upto 30th November 1983. The Corporation despatched a rake of 42 wagons weighing 1007 tonnes of wheat seeds from Palwal to Chudanga, Bangladesh only on 28th November 1983 which arrived at Naihati (West Bengal) on 7th December 1983 after expiry of a week from the stipulated last date of supply. In the meantime, the Bangladesh Agricultural Development Corporation communicated (2nd December 1983) its refusal to accept the consignment of wheat seeds on the ground of agitation in Bangladesh at that time. As a consequence the entire rake (42 wagons) of wheat seeds was diverted to New Rajendranagar (Patna). Out of 42 wagons 34 wagons were diverted (33 wagons on 08-12-83 and one wagon on 12-12-83) from Naihati after payment of additional freight charges of Rs. 0.98 lakh and 8 wagons were diverted enroute to Bangladesh border from Mughalsarai to Patna. No additional freight charges on diversion of 8 wagons were stated to have been incurred. While diverting the rake, instructions were issued to the Regional Office, Patna (3rd December 1983) that the stock should be disposed of by 10th January 1984; despite the fact that the Regional Manager, Patna had earlier requested (14th November 1983) its Head Office not to send any stock beyond 30th November 1983 as the sowing season would be over thereafter. Regional office, Patna, however, received 996 tonnes of wheat seeds in 42 wagons thus diverted against despatched quantity of 1007 M.T. treating shortage of 11 tonnes as transit loss against Railways. The claim for shortage was still pending (15-01-91).

As the consignment could not be disposed of, it was kept in a cold storage at Purnea between April 1984 and November 1985 on payment of rental charges of Rs. 6.73 lakhs apart from transportation charges of Rs. 0.83 lakh incurred on the movement of stock to Purnea with a view to disposing the same during next season. But neither the State Government of Bihar nor the dealers agreed to take the revalidated seeds during next season. Finally, out of the stock of 996 tonnes of seeds, a quantity of 956 tonnes valued at Rs. 50.19 lakhs was sold as non-seed at a price of Rs. 14.54 lakhs; thereby incurring a loss of Rs. 35.65 lakhs. After disposal of the stock, the balance quantity of 40 tonnes valued at Rs. 2.10 lakhs was found as storage loss.

Thus, the failure on the part of the Corporation in effecting supply of wheat seeds to Bangladesh Agricultural Development Corporation within the stipulated date as contractually agreed upon resulted in a total loss of Rs. 46.29 lakhs on different counts.

The Corporation stated that the original plan to move the rake from earmarked stations had to be rescheduled in order to obtain the required quantity for despatch to Bangladesh.

23. THE MINERALS AND METALS TRADING CORPORATION OF INDIA LIMITED

Avoidable loss on the sale of Rock Phosphate

The Minerals and Metals Trading Corporation of India Ltd. (MMTC) entered into a contract in September 1986 with M/s. China National Metals and Minerals Import Export Corporation, Shanghai for import of 12,000 metric tonnes Rock-Phosphate of lime of friable nature at the rate of US $ 28 per metric tonne, F.O.B. S.T. Shanghai for sale to SSP Units. The SSP units normally use Rock-Phosphate of powdery nature which is usually imported from Jordan by the Company. The size of Rock-Phosphate that can be used by SSP units is 12 mm (1.2 cm.) and any size exceeding this requires crushing involving double handling and extra cost. According to the contract with the Chinese supplier, minimum 95% of the material was to be in the size of 5 cm. maximum. The material was to be supplied by January 1987. The contract was awarded without obtaining the usual performance guarantee bond for 5 per cent of the contract value. The bond was dispensed with on the plea that the supplier was a Government Corporation in China.

The analysis of the material at the time of loading (19.1.87) was conducted by M/s. Shanghai Import and Export Commodity Inspection Bureau of the People's Republic of China who were appointed as analysts by the supplier with the consent of the MMTC. The inspection carried out by the analysts before loading revealed that the size of the lot shipped was in accordance with the contractual specifications. Against this contract, 11993 MT material costing Rs. 71.27 lakhs (CIF) was shipped by the supplier in January 1987 and was received at Bombay in February 1987.

On inspection of the material, by the representatives of the consumers to whom the material was sold on high seas, big lumps exceeding 5 cm. were found. In March 1987 a joint inspection carried out by the representatives of the high-seas allottees, MMTC samplers and analysts revealed that 75.2 percent material was over 5 cm. size. This fact was intimated by the Company to the suppliers on 12-3-1987.

As the Company entered into a contract for the import of Rock-Phosphate of the size of 5 cm. exceeding the required size 1.2 cm. and the actual size received exceeded even 5 cm., the Company had to crush the material to bring it to the acceptable size for delivery to the customers. The Company incurred an expenditure of Rs. 41.37 lakhs on crushing the material, demurrage, stevedoring and transportation charges in addition to the CIF cost of Rs. 71.27 lakhs for 11993 tonnes bringing the total cost of the Rock-Phosphate to Rs. 112.64 lakhs. The sale proceeds for 11,205.820 tonnes sold were Rs. 85.80 lakhs as against the total cost of Rs. 112.64 lakhs thereby resulting in a loss of Rs. 26.84 lakhs (including loss on shortage of 247.520 MT noticed at the port of discharge, handling and crushing loss of 534.850 MT and a quantity of 4.810 MT consumed in chemical analysis).

After continuous pressure and persuasion, the suppliers through their representative in India made a fresh proposal for sale of 50,000 MT of Rock-Phosphate with the same specifications as before except that the size of material offered was 1 cm. and below. In this consignment, they agreed to supply 4000 MT of Rock-Phosphate free of charge in two separate lots. But the company insisted on settlement of its claim in cash instead of kind and hence the supplier's proposal was not accepted. Subsequently, it was decided (December 1987) to refer the case for arbitration as per provisions of the contract. Before doing so the matter was referred to the Ministry of Commerce (December 1987) for their advice. The Ministry in turn referred the case to the Indian Embassy in China for taking it up with the Chinese Government to explore the possibilities of amicable settlement so as to make arbitration the last resort. The Ambassador inter-alia replied in March 1988 that MINMETALS of China informed him that;

(i) the amount claimed by MMTC was high,

(ii) they wanted business to go on as usual and that settlement for this be adjusted against future supplies.

He also opined that taking the case for arbitration would involve longer delays and the result need not necessarily be very favourable to MMTC.

The Management stated (November 1989) that the total expenditure involved in clearance of goods, transportation and crushing over sized material was Rs. 28.97 lakhs and claim thereof was lodged on the Chinese supplier who initially disagreed with the contention that the material was not of friable nature and did not conform to specification but later came with an alternative offer for supply of 4000 MT of Rock-Phosphate free of cost. This offer was not acceptable to MMTC who reiterated that the settlement of their claim could not be linked with further import of Rock-Phosphate from China.

The actual expenditure involved in retrieving the material meant for high seas sale as seen in Audit was, however, Rs. 41.37 lakhs and not Rs. 28.97 lakhs as stated by the MMTC.

The Ministry endorsed (June 1990) the Management's reply and stated further that the company had been given clearance for initiating arbitration proceedings in terms of the contract against the Chinese suppliers for claiming compensation for supplying Rock-Phosphate of specifications other than those provided for in the contract and that the Management was also directed simultaneously to pursue the matter with the supplier for amicable settlement.

The matter had not been referred to arbitration so far (January 1991).

Had the Company entered into contract for import of Rock-Phosphate of the size of 12 mm. (1·2 cm.) maximum, deputed its own representative for inspection of the material before shipment and not waived the performance guarantee bond, the net loss of Rs. 26.84 lakhs could have been avoided.

24. HINDUSTAN SHIPYARD LIMITED

Avoidable expenditure towards demurrage charges

The Company paid an amount of Rs. 33.59 lakhs in 1985-86 to Visakhapatnam Port Trust as demurrage due to delay in clearance of consignments. Despite payment of such huge amount in 1985-86, the Company had not taken corrective measures and paid demurrage charges of Rs. 78.57 lakhs in 1986-87 also to the Port Authorities due to delay in clearance of consignments. An analysis of six consignments received in 1986 (on which demurrages of Rs. one lakh and above were paid) revealed that although the consignments were received between March 1986 and November 1986, they were cleared only in March 1987 involving a payment of Rs. 26.67 lakhs additionally as demurrage charges against the freight element of Rs. 20.20 lakhs, as per details given below :—

Sl. No.	Name of the ship on which consignment was received	Particulars of consignment	Freight (Rs.)	Date of arrival of consignment	Date on which freight was paid	Demurrage charges paid (Rs.)	Percentage of Demurrage charges paid to freight
1.	Vishwa Mamta	202 Bundles Ship building Quality Plates.	13,11,530.50	30-7-86	3-3-87	15,33,555	116.93
2.	Viswa Karuna	65 Bundles MS Angles	83,097.99	15-7-86	3-3-87	1,61,739	194.64
3.	Viswa Anurag	121 Bundles MS Angles	2,08,890.17	16-6-86	3-3-87	4,45,174	213.11
4.	Jala Yamuna	8 Colli Mechanical Components	93,689.34	16-9-86	16-3-87	1,35,628	144.76
5.	Cape Monterry	25 Colli stud link Chains	52,257.55	4-3-86	31-3-87	1,78,095	340.80
6.	Viswa Anurag	MS Plates	2,70,371.37	4-11-86	3-3-87	2,12,746	78.69
	Total :		20,19,836.92			26,66,937	

The Company attributed (September 1987) the delay in clearance of consignments to its critical ways and means position.

The contention of the Management is not tenable as the freight charges in respect of all these cases were not that significant when viewed against the turnover of the Company having been Rs. 10,320.61 lakhs during 1986-87. Thus, the Company has failed to pre-plan arrangements for payment of freight charges and also to realise the pace of build up of demurrage charges on these items.

25. ELECTRONICS CORPORATION OF INDIA LIMITED

Loss in the manufacture of Data Logging Equipment

The Company received (May 1980) a purchase order from Bharat Heavy Electricals Limited for supply of 6 Nos. Data Logging Equipment alongwith one unit of commissioning and diagnostic spares at a total price of Rs. 41.81 lakhs inclusive of central excise duty and sales tax (subject to a maximum of Rs. 3.78 lakhs), packing and forwarding charges, freight, insurance, system engineering, software development etc. The supply was to be completed between March 1981 and June 1981 failing which the customer was entitled to recover liquidated damages subject to a maximum of 5 per cent of the order value. The Company informed the customer (June 1980) that the conditions relating to ceiling of Rs. 3.78 lakhs on excise duty and central sales tax and levy of liquidated damages were not acceptable to it and the statutory levies would be payable at actuals. However, no agreement for amendment to the Purchase Order was obtained from the customer before completing the supplies of main equipment by March 1985 and airconditioners and technical documentation by March 1986.

It was observed that as against the realisable value of Rs. 38.03 lakhs (excluding statutory levies) the actual costs incurred were Rs. 59.46 lakhs. The Company thus incurred a loss of Rs. 21.43 lakhs on the supply. The Company had also paid Rs. 5.34 lakhs towards central excise duty (Rs. 3.90 lakhs) and central sales tax (Rs. 1.44 lakhs) against the reimbursable amount of Rs. 3.78 lakhs. This resulted in the Company bearing the burden of additional statutory levies to the tune of Rs. 1.56 lakhs (central excise duty Rs. 1.07 lakhs) and central sales tax (Rs. 0.49 lakh) raising the total loss to the Company to Rs. 22.99 lakhs (Rs. 21.43+Rs. 1.56). The BHEL had also withheld Rs. 1.87 lakhs towards liquidated damages but agreed (November 1987) to refund the same as and when the same was waived by Bokaro Steel Plant.

It was stated by the Ministry in April 1988 that :—

- the systems were still to be installed by the Company as site was not ready.
- the actual expenditure of Rs. 59.46 lakhs includes the cost of fabrication of spares which would be supplied to the customer and charged for on receipt of an order from the customer.
- the statutory duties would be payable by BHEL at the rates and as per the rules prevailing on the date of despatch of the equipment and the matter was being followed up with BHEL.

To a query from audit (August 1990) as to whether the spares manufactured in the absence of any order from the customer have been reflected in the accounts, the Management clarified (September 1990) that the spares were produced as an after sales support. The Management also stated that since the spares were manufactured as a part of the system in anticipation of orders the cost of spares was to be considered as part of the total cost of the system and that the value of these spares was not shown in the accounts as no evaluation is possible in the absence of a firm order.

It was, however, noticed in audit that no documentary evidence was made available to show that these spares were in fact produced and available in stock. It was also not known when the equipment supplied would be installed and as no orders for these spares had been received so far (January 1991), the value of spares reportedly included in the total cost of the system had to be construed as a loss. Thus the total loss sustained on the supply of the equipment amounted to Rs. 22.99 lakhs (Rs. 59.46—Rs. 38.03 lakhs plus excess statutory levies paid Rs. 1.56 lakhs).

26. MINERAL EXPLORATION CORPORATION LIMITED

Avoidable loss in the execution of drilling work at Kudremukh Project

In response to tender invited by Kudremukh Iron Ore Company Limited (KIOCL) in May 1986 for exploratory drilling of 2800 metres in Ore body at Kudremukh, the Mineral Exploration Corporation Limited (Company) submitted (August 1986) its quotation for drilling by coring method @ Rs. 1425 per metre. The Company, in its quotation, also suggested an alternate method of Down The Hole (DTH) drilling at the rate of Rs. 975 per metre of drilling. The Company had estimated that per metre drilling cost under DTH drilling method would be Rs. 805.75 and the contract would give a profit of Rs. 4.74 lakhs. KIOCL, after negotiations with the company's representatives, accepted the alternate method and issued (October 1986) a Letter of Intent for 2800 metres of drilling by DTH method @ Rs. 975 per metre (total value Rs. 27.30 lakhs) with the scheduled date of completion as 30th June 1987. The Company commenced the work in November 1986.

The Company, in May 1987, pointed out to KIOCL that drilling of about 900 metres could be completed upto April 1987 against a target of 2800 metres by June 1987. The slow progress of work was attributed to the fact that the Company had originally contemplated conducting this drilling programme by combination of DTH and coring method of which coring method was further sub-divided into dry and wet methods. But inspite of the repeated efforts, the DTH drilling was not successful in the area inter alia on account of intersection moistuie of shallow levels, extra time required in shifting of drill from site to site on account of extremely difficult terrain conditions, frequent unauthorised absenteeism of large number of local workers, etc. It was further stated that the total work would be completed by January/February 1988. The Company also requested for upward revision of the rate from Rs. 975 per metre to Rs. 1700 per metre on the consideration that the entire drilling work was being done by coring method (for which the Company had quoted the rate of Rs. 1425 per metre) and cost of bits, expenses on road making and rental charges for Company's staff at Kudremukh had increased substantially.

KIOCL, did not agree (July 1987) to the Company's proposal on the following grounds :

(i) As per general conditions of the contract the Company was supposed to familiarise with site conditions before submitting the quotation.

(ii) It was clearly confirmed by the Company's representatives in September 1986 that they had satisfied themselves fully before submit ting their quotation in regard to the requirements viz. formation of approach roads, availability of local labour, availability of housing facility with tariff thereon, etc. and

(iii) The Company itself after detailed field examination preferred to follow the DTH/coring method at a rate of Rs. 975 per metre.

However, subsequently KIOCL agreed in September 1987 to grant extension up to November 1987 without levy of liquidated damages but declined to increase the contracted rate.

The Company completed the work in November 1987 at a total cost of Rs. 47.68 lakhs and suffered a loss of Rs. 20.38 lakhs against an estimated profit of Rs. 4.74 lakhs mainly due to inadequate field investigation and unrealistic estimation before tendering for the work.

The Ministry stated (June 1990) that various observations made in the audit para had been carefully noted by the Company for further guidance so that as much care as possible would be taken at the time of assessing cost and conducting field investigations prior to tendering of work. The Ministry attributed the following main reasons for the loss in the execution of drilling work :

(i) excess consumption of material;

(ii) prolongation of the project because of non-achievement of contracted quality within the stipulated time;

(iii) introduction of Down The Hole method (DTH) for the first time on experimental basis and non-achievement of expected productivity by DTH methods as the ground conditions were different.

The Ministry also stated that it was for the first time that DTH method was tried by the Company on an experimental basis and this experience is to be taken as a learning developmental effort which will stand the Company in good stead while taking up similar assignments in future.

The above reply of the Ministry is to be viewed in the light of the fact that, as mentioned earlier, the loss was incurred owing to inadequate field investigation and unrealistic estimation before tendering for the work, as a result of which the final cost went up to more than twice the original estimate.

27. HMT LIMITED

Infructuous expenditure due to incorrect assessment of requirement of power

On the basis of the application made by the Company in September 1982 Uttar Pradesh State Electricity Board (UPSEB) sanctioned in April 1983 power load to Ranibagh unit of HMT Limited in the following phases :

(i) 1000 KVA in 12/83

(ii) 2200 KVA in 8/84 and

(iii) 3500 KVA in 12/85.

The Unit entered into a formal contract with UPSEB on 12 March 1985 for a contract demand load of 3500 KVA. The contract was to remain in force for two years from the date of commencement of supply (10 May 1985) and thereafter from year to year basis. The agreement provided for payment of minimum guarantee charges at 75% of the contract demand after a period of one year from the date of supply if the recorded actual load fell below that level. Despite the fact that the Unit needed the load of 3500 KVA only in 1987-88 to produce full complement of 20 lakh sets of watch components in 1987-88 it had taken this load (3500 KVA) from UPSEB from May 1985 itself. Consequently, excess load could not be utilised. The consumption of power load ranged between 26% to 47% of the contract demand as the Unit could not achieve the targetted production and no annual review was carried out since then to reduce the contract demand.

The actual consumption of power load ranged between 894 KVA to 1632 KVA per month. The Company, however, had to pay minimum guarantee charges @ 2625 KVA per month during May 1986 to March 1988. Thus, the Company incurred an avoidable expenditure of Rs. 17.89 lakhs towards unconsumed electricity charges. In April 1988, the contract demand was reduced to 2250 KVA on reassessment.

Ministry while endorsing (January 1990) the reply of the Management stated that proposal of the Company was to release power in phases-1000 KVA in the first year, additional 1200 KVA in the subsequent year and finally 3500 KVA. However, at the time of commissioning of the plant, the power was released by the local UPSEB authorities, at the maximum sanctioned load i.e. 3500 KVA despite their reiteration that the factory needed power only in a phased manner as per their original proposal.

The contention of the Ministry is not tenable in view of the fact that the Company had itself in its letter dated 15-9-1982 requested for the phased supply of electricity of 1000 KVA in 1983-84, additional 1200 KVA in 1984-85 and additional 1300 KVA in 1985-86 i.e. 3500 KVA by 1985-86. Therefore, the UPSEB cannot be found fault with for releasing full 3500 KVA from May 1985, which was much in excess of the requirement for production of 5 lakh sets of watch components in 1985-86 and 12 lakh sets of watch components in 1986-87.

Thus, due to incorrect assessment of power load required for the Unit, the Company had to pay Rs. 17.89 lakhs towards unconsumed power during the period from May 1986 to March 1988.

28. HEAVY ENGINEERING CORPORATION LIMITED

Avoidable Extra Expenditure of Rs. 15.36 Lakhs due to delay in releasing equipment

As a part of providing balancing facilities to Heavy Machine Building Plant of the Company, an order was placed (July 1979) on a German firm for supply, erection and commissioning of double column plano milling and boring machine at a cost of Rs. 96.38 lakhs (FOB). As per supply order, the shipment was to be made within 10-12 months of estabilishing letter of credit, but the company persuaded the supplier to ship the equipment earlier than schedule. The Company opened letter of credit in favour of the supplier in February, 1981. The supplier shipped the equipment in April, 1981 and this arrived at Calcutta Port in June, 1981. Though the company opened letter of credit in February, 1981 and had earlier persuaded the supplier to ship the machine earlier, the Management did not drawup any forward plan and time-table with regard to arrangement of funds for payment of custom duty, inspection of the equipment immediately on landing, transport of the same to the site of erection, installation and other matching steps/action to be taken after the consignment landed. The Company did not pay custom duty (Rs. 61.51 lakhs) soon after arrival of the consignment the reason attributed being shortage of funds and kept the cases containing the equipments in a bonded warehouse at Calcutta for long.

The consignment was debonded and taken to erection site at Ranchi only in February, 1982 (i.e. after 7 months of arrival). When the erection of the equipment was taken up during May-September, 1982, it was noticed that some cases containing gear boxes and other equipments were full of water damaging the components. The attempts of the Company to get the damaged components replaced free of cost by the supplier did not fructify as the supply was on FOB basis. No insurance claim could also be lodged by the company as the same was to have been preferred within 60 days of arrival of the goods at the port. Under the circumstances, the company had to procure (May 1982 and January 1983) the required components by incurring additional expenditure of Rs. 15.36 lakhs and commissioned the machine in March 1984.

The Ministry stated (September, 1988) that the delay in getting the consignment cleared from the port was due to shortage of funds with HEC at that point of time and the damage of the material occurred during storage at Calcutta due to seepage of flood water into boxes and corrosion. The reply of the Ministry has to be viewed with reference to :

(i) Absence of advance planning to arrange funds to pay customs duty to inspect the equipments immediately on landing etc. even though the Management was aware after opening letter of credit in February, 1981, that the goods would arrive earlier than scheduled and also in April, 1981 that the equipment had already been shipped;

(ii) This led to avoidable import of components valued at Rs. 15.36 lakhs. The Indian agent of the foreign supplier had even cautioned the Management in December, 1981, that the goods having been stored in the open space very near to marshy land and due to severe cyclonic storm in the second week of December, 1981, water might have seeped into the boxes of equipments and corroded the machine parts;

(iii) The consequential delay in commissioning the machine not only resulted in blocking up of funds (Rs. 1.63 crores) leading to a loss of interest, but also deprived the company of the benefits that would have accrued from the machine like reducing the machining time of roll chocks from 1200 hours to 250 hours; increased rate of production in gear boxes, large module racks, pinion stands etc., reduction of constraints in machining of mill stands, manufacture of sophisticated items of continuous casting machine.

Thus, absence of advance planning to get the release of the imported equipments soon after arrival and to ensure proper storage of the equipments, the company had to incur an avoidable additional expenditure of Rs. 15.36 lakhs besides delayed accrual of benefits from the operation of the machine.

29. BHARAT EARTH MOVERS LIMITED

Extra Expenditure on import of wheel rims

The production of 85 ton HD785 Dump Trucks commenced during the last quarter of 1984-85. The wheel rims required for the manufacture of these Dump Trucks were being imported from the Japanese Collaborator "K". In order to explore alternative sources of supply and get rims at cheaper prices, the Company floated a limited telex enquiry in July 1987 i.e. more than two years after the commencement of the production of the Dump Trucks.

Firm "T" of Japan which quoted a price of US $ 11220 per set C&F Madras in response to the limited enquiry reduced its price to US $ 9504 per set FOB Japan after negotiation. Based on this the Company placed its order in January 1988 for 30 sets on the firm "T" at US $ 9504 per set. Despite this lower offer available, the Company placed another order in March 1988 for supply of 15 sets on firm "K" at US $ 13398 per set. This resulted in extra expenditure of Rs. 15.66 lakhs which could have been avoided if the Company had placed the entire order for 45 sets on the firm "T".

The Company clarified that they had noticed a few dimensional deviations from that of the wheel rim drawings of the firm "K" and had to correspond with the firm "T" and in the circumstances they had no alternative but to 'double bank' with the collaborating firm "K". It was seen in audit that the Company had taken up with "M", agent of firm "T" for clarification, the issue of dimensional deviation on 23rd September 1987. It is evident that the dimensional deviations noticed did not stand in the way of the Company placing firm orders on the firm "T" for supply of 30 sets of wheel rims in January 1988, which as well could have been for the full requirement of 45 sets. Further the firm "T" is the original equipment supplier of the firm "K" who are the collaborators of the Company for the manufacture of HD785 Dump Trucks. In view of these facts, the reason adduced by the Company and endorsed by the Ministry for 'double banking' is not tenable.

The Ministry stated (February 1990) that the suitability and fitment of components from a new source of supply could be fully established only after regular assembly on the equipment and field trial. The contention of the Ministry is again not tenable due to the fact that the firm "T" is not a new source of supply but the original equipment supplier to firm "K". The question of field trial after fitment of the rims to the equipment, therefore, does not seem to be relevant.

A. C. Tiwari

(A. C. TIWARI)
Deputy Comptroller and Auditor General (Commercial)-cum-Chairman, Audit Board

New Delhi,
Dated: 07 MAY 1991

Countersigned

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

New Delhi,
Dated: 7 मई MAY 1991

MGIPF—795 CAG/90—2050.