

**Report of the
Comptroller and Auditor General
of India**

for the year ended March 2001

Union Government (Commercial)
Public Sector Undertakings
Reviews on some of the activities of selected PSUs
No. 4 of 2002

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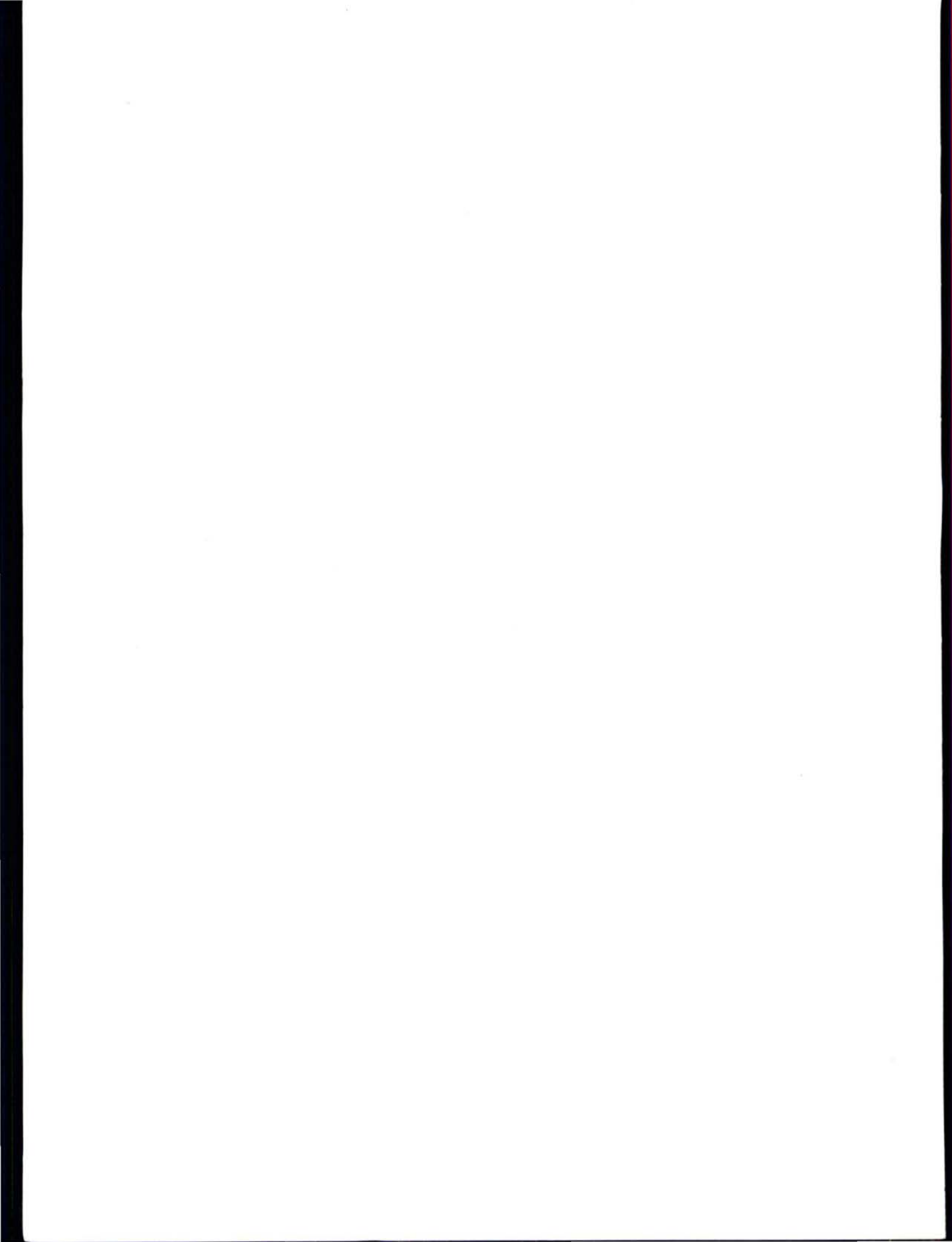
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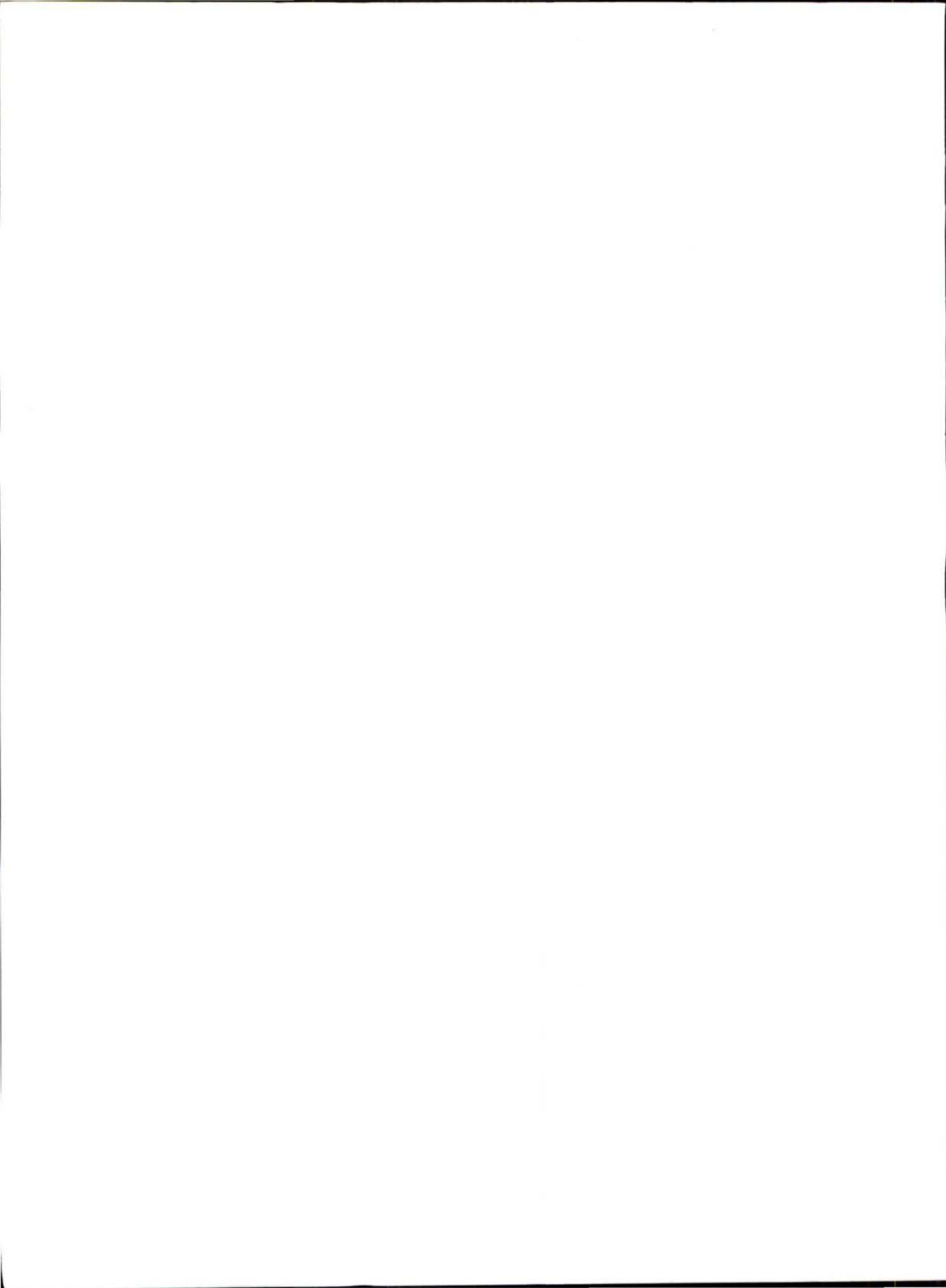


PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India – Union Government No.1 (Commercial) 2002 where a mention was made that reviews of the performance of Companies/ Corporations by the Comptroller and Auditor General of India are presented in separate Reports.

This Report contains the reviews on some of the activities of the following PSUs:

Name of the Ministry/Department	Title of the Review
Ministry of Civil Aviation	Revenue Management
Ministry of Coal	Expenditure on foreign travel
Ministry of Commerce	Import and domestic distribution of fertilisers
Ministry of Petroleum and Natural Gas	Marine Logistics Support Services
Ministry of Power	Implementation of rehabilitation plan for displaced persons
Ministry of Steel	a) Modernisation of Bokaro Steel Plant b) Township Management c) Working of Research and Development Centre for Iron and Steel



OVERVIEW

I Revenue Management in Airports Authority of India

Test check revealed that during 1997-98 to 1999-2000 delays in raising bills for traffic revenue resulted in loss of interest of Rs.75.28 lakh.

(Para 1.1.4.1)

The Authority did not raise bills for traffic revenue for Rs.2.26 crore for the services rendered at Cochin International Airport during the period from June 1999 to March 2000.

(Para 1.1.4.2.1)

Non-raising of bills on Druk Air for overflying Indian air space resulted in loss of Rs.56.14 lakh.

(Para 1.1.4.2.2)

Raising of bills for RNFC on Indian Airlines Limited at incorrect rates led to excess billing for Rs.1.59 crore and under-billing for Rs.7.83 crore.

(Para 1.1.4.2.5)

Considerable delays in realisation of traffic revenue against bills raised led to loss of interest of Rs.5.95 crore.

(Para 1.1.4.4.1)

Security deposits collected from various airlines was less than the norms to the extent of Rs.29.47 crore and required upward revision.

(Para 1.1.4.5.3)

Significant delays in raising bills for the non-traffic revenue viz. licence fee and delay in realisation of dues resulted in blockage of funds besides loss of interest of Rs.20.30 crore.

(Para 1.1.5.2 and 1.1.5.3)

Due to failure of the Authority in entering into agreements with the Central/State Government departments for the recovery of lease rent, licence fee etc., recovery of revenue of Rs.401.50 crore remained outstanding as on March 2000.

(Para 1.1.5.4)

Failure to raise bills for licence fee with reference to the gross turnover of the licencees resulted in raising of adhoc bills, short billing to the extent of Rs.7.95 crore. The

Authority did not take any penal action against the defaulting parties who had not intimated their turnover figures.

(Para 1.1.5.4.14.1)

The Authority did not recover passenger service fee of Rs.42.94 crore for the years 1997-98 and 1998-99 from Indian Airlines Limited who had collected the same from the passengers on behalf of the Authority.

(Para 1.1.5.5)

Test check of bills for the cargo revenue revealed non-realisation of cargo revenue of Rs.77.72 lakh.

(Para 1.1.6.2)

Of the 897 cargo revenue bills test checked revealed significant delays in 94 per cent cases in raising of bills. Delays resulted in blockage of revenue of Rs.81.28 lakh and loss of interest of Rs.30.64 lakh.

(Para 1.1.6.3.1)

Proper procedure for disposal of unclaimed cargo was not being followed.

(Para 1.1.6.3.2)

Failure of the Authority in raising bills on Air India Limited and Indian Airlines Limited for licence fee towards ground handling services rendered by these airlines to others at the airports resulted in non-realisation of revenue of Rs.71.74 crore.

(Para 1.1.6.4)

Delay in realisation of cargo revenue from Air India Limited resulted in loss of interest of Rs.8.76 crore.

(Para 1.1.6.4.1)

II Expenditure on foreign travel by officials of Coal India Limited and its subsidiaries

Non-formulation of guidelines regulating foreign travel of officials in accordance with Government of India guidelines resulted in payment of daily allowance in excess of limit, reimbursement of expenses incurred on unauthorised visits to foreign countries, payment of inadmissible daily allowance during training period, release of advance in foreign currency without insisting on detailed account, etc.

(Para 2.1)

III Import and domestic distribution of fertilisers by MMTC Limited

The Company was a canalising agency for the import of fertilisers from 1970 onwards. The Company as per requirements specified by the Department of Fertilisers (DOF) undertook the import under the Ministry of Agriculture. Consequent upon decontrol and decanalisation (August 1992) of phosphatic and potassic fertilisers, the Company entered into the import of Di-Ammonia Phosphate (DAP) and Muriate of Potash (MOP), for its

own distribution. The Company ventured into domestic distribution of fertilisers on a commercial scale from the year 1995-96 onwards and also entered into pool handling arrangements of imported urea for distribution in the domestic market.

(Para 3.1.1)

The Company did not draw up any procurement plan for import of fertilisers for distribution/domestic sale before commencement of each cropping season. The Company did not prepare any annual sales/ purchase budget.

(Para 3.1.3.1)

Though the Company was dealing in fertilisers since 1970, no Purchase Manual had been prepared by it. In most of the cases, open tenders were not called for and purchases were made without taking approval of the Sale Purchase Committee.

(Para 3.1.3.2.1)

Despite having huge stocks of fertilisers at the end of 1994-95, the Company went into heavy purchases in the following year, due to which stock accumulations at the end of 1995-96 increased considerably, resulting in heavy inventory carrying cost amounting to Rs.26.91 crore during 1994-95 to 1996-97.

(Para 3.1.3.3.1 to 3.1.3.3.3)

The Company suffered a loss of Rs. 2.16 crore due to sale of DAP at a price lower than the cost price.

(Para 3.1.3.3.4)

The working results of the Company in respect of non-canalised fertilisers during the 6 years ending 31 March 2000 showed that it had incurred huge losses.

(Para 3.1.3.4.1)

During 1995-96, the Company imported 107470 MT of DAP. Letters of credit were opened under Bankers Acceptance Facility (BAF) with 180 days. The Company could have saved Rs.7 crore towards exchange fluctuations by taking a forward cover.

(Para 3.1.3.4.2)

The Company incurred losses of Rs.33.98 crore in handling of pool urea during the years 1995-96 to 1999-2000. Besides, the Company incurred inventory-carrying cost of Rs.24.58 crore up to 1999-2000.

(Para 3.1.4.2)

The Company did not obtain the Sale Purchase Committee/Board's approval while entering into the business of pool urea for the years 1995-96, 1996-97 and 1997-98.

(Para 3.1.4.3.1)

No proper guidelines were laid down by the Company regarding appointment of clearing, forwarding and stevedoring agents and the agents were appointed without calling for quotations/tenders or formally executing any agreements with them.

(Para 3.1.5.1)

In the absence of adequate financial security, dues of the Company to the tune of Rs.1.12 crore and Rs.45.19 lakh in two cases could not be recovered from the handling agents.

(Paras 3.1.5.1.1.1 and 3.1.5.1.1.2)

Lack of adequate security and appointment of a stockist without verification of his antecedents resulted in misappropriation and shortage of stocks valuing Rs.1.79 crore.

(Para 3.1.5.2.1.1)

Appointment of a stockist without specifying the terms of the contract resulted in non-realisation of dues of Rs.44.74 lakh from the stockist.

(Para 3.1.5.2.1.2)

Another stockist misappropriated stock worth Rs.40 lakh. An amount Rs.1.11 crore was outstanding against the stockist as on 31 March 2001.

(Para 3.1.5.2.1.3)

Non-implementation of the terms of contract and misappropriation of stock by a stockist resulted in non-realisation of dues of Rs.1.09 crore.

(Para 3.1.5.3.2)

There was a shortage of 16558 MT of fertiliser valuing Rs.9.00 crore during the years 1995-96 to 1999-2000.

(Para 3.1.5.4.2)

There was an avoidable expenditure of Rs.20.94 crore due to a faulty decision of the Sale Purchase Committee in the purchase of urea.

(Paras 3.1.6.4.2.1 and 3.1.6.5)

The Company could not recover its claim of Rs.2.53 crore including demurrages incurred from a supplier whose whereabouts were not known.

(Para 3.1.6.5.3)

The Company incurred a loss of Rs.2.36 crore due to failure to insure cargo.

(Para 3.1.7.1)

There was a loss of Rs.1.10 crore and blocking of funds of Rs.1.58 crore due to entering into a venture with a sick company.

(Para 3.1.7.2)

Dues amounting to Rs.1.40 crore could not be recovered after allowing unauthorised credit sales against post-dated cheques to a party.

(Para 3.1.7.3)

Failure to invoke performance guarantee and allowing the same to expire resulted in non-recovery of claims amounting to Rs.1.29 crore.

(Para 3.1.7.4)

The Company utilised HDPE bags in excess of the norms resulting in extra expenditure of Rs.44 lakh.

(Para 3.1.7.5)

IV Marine Logistics Support Services in Oil and Natural Gas Corporation Limited

Since late seventies when Oil and Natural Gas Corporation struck oil in Mumbai offshore region the requirement of marine logistics support services of off shore operation of the ONGC were being met through off shore supply vessels (OSVs). OSVs are deployed for constant vigil to meet contingencies such as fire, emergency, and evacuation of personnel besides deploying on standby, cargo and rig move duties. The requirement of OSVs under the jurisdiction of the Mumbai Region Business Centre of the ONGC are being met through a mix of owned and hired OSVs.

(Para 4.1.1 and 4.1.1.2)

Over the years, ONGC Management had attempted to fix the norms or standards regarding the number of OSVs required to be deployed per off shore duty stations. In spite of entrusting this job to different consultants and also to its own institutions from time to time, ONGC could not fix the specific norms for hiring the OSVs. ONGC justified its non acceptance of norms recommended by various consultants on the grounds that the owned OSVs could not be disowned and the charter hired Indian National Ship owners Association vessels operating under the formula approved by the Government could not be de hired without referring the same to the Government. Consequently the actual deployment of OSVs for the period from 1995-96 to 1998-99 remained 57 though the number of duty stations have decreased from 45 to 42.

(Para 4.1.4)

Incorrect application of ceiling rates in respect of two vessels hired from M/s. Essar Shipping by ONGC resulted in overpayment equivalent of Rs. 4.86 crore over a period of seven years.

(Para 4.1.5.6.3)

Against the total requirement of 22 stand by vessels worked out by an in house study report of May 1992, further revised to 25 OSVs in October 1996, the actual deployment of OSVs on stand by duties for the period from 1995-96 to 1998-99 exceeded the norms by 4 to 7 OSVs. However the deployment of OSVs during 1999-2000 was actually less than the requirement. Based on per day hire charges as of first day of April of the relevant year the cost of excess deployment of these OSVs amounted approximately to Rs. 85.61 crore.

(Para 4.1.6.2)

The quantity of cargo delivered per trip to rigs/installation was much below their storage capacity and also well below the deliverable capacity of OSVs. OSVs thus made more

number of trips and resultantly more number of OSVs were deployed for supply duty than required as the quantity of cargo delivered by OSVs fell well below the storage capacity of rig/installation. The cost of such excess trips to rigs and platform during the five years ending 1999-2000 amounted to Rs. 101.60 crore. Besides 40 to 60 per cent of the cargo loaded was returned to the base undelivered resulting in infructuous expenditure of Rs. 104.81 crore on unfruitful OSV carriage.

(Para 4.1.7)

Facilities for generating potable water (PW) through water maker (WM) were installed on all own/hired rigs as well as platforms to cater to the requirement of PW as the supply of PW by OSVs is an expensive proposition as compared to production of PW through WM. However, in most of the platforms and owned rigs these WM were either not in operation or water generation was insufficient as such ONGC had to make the shortages of PW good by supplying water through OSVs. Expenditure incurred on the supply of PW through OSVs to platforms during the five years period ending March 2000 amounted to Rs. 63.83 crore besides Rs. 11.66 crore incurred on the supply of PW on its own rigs during the years 1997-98 and 1998-99.

(Para 4.1.7.8)

The percentage of 'cargo remained on board' to 'cargo loaded' during the period from 1995-96 to 1999-2000 ranged between 58.21 and 36.06 per cent. In three vessels reviewed in audit the number of sailings without delivering the cargo were very high which indicated complete lack of planning for assessing the requirement vis a vis delivering the cargo. Besides cases of discrepancies were noticed between the quantity delivered by OSVs and the quantities acknowledged by the rigs. Such discrepancies in respect of bulk commodities noticed during the review of five rigs during the period from 1997-98 to 1999-2000 amounted to Rs. 3.07 crore.

(Para 4.1.7.10)

With a view to improving navigation, reporting position of cargo and traffic management, Global Positioning System –Assisted Improved Navigation System was handed over to the user department (Logistics) of ONGC in May 1997 after its commissioning by M/s Industries and Engineering Corporation, Ahmedabad at a total cost of Rs. 3.75 crore. In spite of this the daily activities still continue to be regulated entirely on radio and the GAINS had not been put on effective use. Thus, non utilisation of the GAINS for the intended purpose resulted in infructuous expenditure of Rs. 3.75 crore.

(Para 4.1.9)

Prior to 1990-91, contract for the operation of owned OSVs were awarded to private operators and the maintenance repairs were on ONGC's account. Since 1990-91 the operators were awarded a combined contract of the operation and maintenance of these vessels. The defects noticed in OSVs at the time of handing over and taking over (HOTO) from old contractors to new contractors of the OSVs were normally the

responsibility of the outgoing operator. It was noticed in audit that there were abnormal delays in the settlement of HOTO defects resulting in poor upkeep of OSVs for prolonged period leading further to deterioration of OSVs and increase in downtime. Even responsibilities in respect of defects noticed during HOTO in 32 ONGC vessels between August 1996 and June 1997 were not decided up to November 1998. As of September 1998, Rs. 66.71 lakh had been spent on rectification of these defects by ONGC and estimated expenditure of Rs. 2.80 crore was yet to be incurred. This indicated that only bare minimum repairs had been carried out and the major repairs were yet to be done for which no liability was fixed on the contractors.

(Para 4.1.10)

In terms of the agreement entered with M/s. Urmila & Company for operation and maintenance of ONGC owned vessels, the operator was required to keep the vessels in good running orders and substantially the same condition as were received by them. Further the operator was required to pay for the cost of repair and replacement of all such equipment, tool spares which were damaged as against the inventory handed over on delivery to the operator and also to bear all charges which were required to be incurred to bring the vessels fully operational and in the same shipshape conditions. ONGC officials while inspecting the vessels from time to time brought out unsatisfactory performance of the contractor regarding the maintenance of the vessels. In spite of this the vessels remained inoperative for long period due to non-repair of defects by the operator and ultimately the contract had to be terminated. ONGC instead of getting them repaired from the operator as per the agreed terms and conditions got these vessels repaired at a cost of Rs. 14.02 crore after taking over from the operator so as to bring them back in shipshape condition.

(Para 4.1.10.10)

ONGC deployed higher capacity Anchor Handling Tug cum Supply vessel hired for deep water drilling for regular supply and stand by duty during the period from December 1997 to March 1998. The supply and stand by duties were normally performed by the lower capacity vessels; therefore the deployment of higher capacity OSV on normal duty resulted in an extra expenditure of Rs. 5.30 crore.

(Para 4.1.12.1)

Annual O&M rate paid to operators included dry docking expenditure of OSVs. Although no dry docking was to be carried out by the operators for the extended period of the contract during 1991-1996 the daily rates payable were not correspondingly reduced by the ONGC to the extent of element of dry docking expenses built in to the daily operating rates. Thus non-adjustment of daily rates payable in respect of dry docking expenses resulted in overpayment of Rs. 1.62 crore.

(Para 4.1.12.2)

ONGC owned OSV Sindhu-12 operated by M/s Orient Ship Management and Managing Private Limited caught fire in November 1996. The services of the vessel could not be

utilised since then, pending decision for its repair. The delay in repair has resulted in further deterioration of the vessel thereby increasing the repair cost to Rs. 19.59 crore (quoted by Mazagon Dock Limited in December 1999) from original survey estimate of Rs. 5.00 crore besides recurring expenditure on maintaining the vessel as per the statutory requirements.

(Para 4.1.12.3)

V Implementation of rehabilitation plan for displaced persons of Tehri Hydro Project

Tehri Dam project, which envisaged generation of 600 MW of electricity, was cleared by the Planning Commission in June 1972 at an estimated cost of Rs.197.92 crore as a state sector project. The administrative approval of the Government of Uttar Pradesh for the project was accorded in July 1976. The project, however, made little progress till June 1989 when it was transferred to Tehri Hydro Development Corporation Limited (Company).

The total cost of the project had been revised by Uttar Pradesh Irrigation Department in 1983 to Rs.1065.86 crore at 1983 price level so as to enhance the generation capacity of the powerhouse envisaged under the project to 1000 MW. Later the project cost was estimated at Rs.5583 crore (at the March 1993 price level) adding another 1400 MW and thus increasing the projected generation capacity from 600 MW as planned earlier to 2400 MW. Construction of Tehri and Koteshwar dams involved dislocation of 14581- (including 3998 families not requiring displacement) families living in 125 villages and Tehri Town. In order to rehabilitate the affected families, requirement of funds, which was estimated at Rs.414 crore in 1994, went up to Rs.875.06 crore by March 2001. During the years from 1990 to 2001, the Company acquired 992.43 acres of land in 23 villages against the requirement of 3291.53 acres of land in 102 villages.

As the rehabilitation work done by THDC was unsatisfactory, it has been transferred back to the State Government of Uttar Pradesh in January 1999 under the supervision of the Commissioner, Garhwal Mandal with effect from March 1999 on the recommendation of Professor Hanumantha Rao Committee. Consequent upon the reorganisation of State of Uttar Pradesh and formation of Uttaranchal State the work has been transferred to the State of Uttaranchal with effect from January 2001.

(Paras 5.1.1.1, 5.1.1.2 and 5.1.1.3)

By keeping its Corporate Office away from the scene of action despite creation of facilities at New Tehri Town/Rishikesh at a cost of Rs.3.13 crore, the Company had lost an opportunity of interacting closely with the population likely to be affected by the project though such interaction with local population could have speeded up the project work, more particularly the rehabilitation of affected families.

(Para 5.1.2)

Under the earlier rehabilitation policies up to 1995, the family included only the husband and wife and their entitlement was determined with reference to land owned by them as per revenue records. This failed to take into account the total number of adult family members like major sons and daughters as well as dependent parents living under the

umbrella of a joint family. To that extent, the need for their rehabilitation was not recognised. This shortcoming in the policy generated resentment amongst the affected families and resistance against the relocation/rehabilitation process.

(Para 5.1.3.4 (a))

The policy evolved in 1995 gave, rural families affected by the project, an option to receive cash in lieu of land surrendered by them. Since only 565 out of 5012 rural families opted for cash compensation it is clear that the cash compensation was not sufficiently attractive.

(Paras 5.1.3.4 (b) and 5.1.5.1)

Though the policy of 1995 stated that local population was to be consulted while deciding upon the rehabilitation package, no steps were taken in this regard.

(Para 5.1.3.4 (d))

The co-ordination mechanism for speedy implementation of the project including rehabilitation of families likely to be affected by the project was restructured and downgraded after formation of THDC. The new set up for coordination could not expedite the resettlement process as its decisions lacked finality. The decisions taken by the Co-ordination Committee were not implemented effectively because the various constituents of the Co-ordination Committee were functioning at cross-purposes.

(Para 5.1.4.3)

Against total requirement of acquisition of 5354.01 acres of land in 125 villages of 9290 families, only 3054.91 acres of land was acquired in 46 villages (2062.48 acres by Uttar Pradesh Irrigation Department and 992.43 acres by THDC) leaving a balance of 2299.10 acres of land yet to be acquired in 79 villages of 6198 families. The main reason for slow acquisition was non-fulfillment of various provisions of Land Acquisition Act, 1894 by SLAOs/State Government.

(Para 5.1.4.5)

The SLAO-II, Tehri made fraudulent payment of Rs.34.30 lakh to three non-existing families by manipulating relevant records like survey sheets, valuation sheets, award etc.

(Para 5.1.4.5 (ii))

SLAO II, Tehri had not given detailed accounts for Rs.6.55 crore claimed to have been paid by him to affected families of Old Tehri Town.

(Para 5.1.4.5 (v))

THDC accepted Rs.24.23 crore claimed to have been paid by Uttar Pradesh Irrigation Department for compensating landowners without insisting on any details in support of such payments.

(Para 5.1.4.5 (vi))

THDC had to pay Rs.89.69 lakh on account of interest on delayed payment of compensation to the affected families in 6 villages although the responsibility for delay in declaration of awards was attributable to the SLAOs.

(Para 5.1.4.5 (vii))

The District Magistrate of Dehradun who was a member of the Co-ordination Committee, allotted 2 acres of land which was meant for rehabilitation of displaced families to the National Airports Authority of India and also failed to prevent it from taking possession of additional 26.5 acres of land earmarked for rehabilitation of oustees. The Commissioner of Garhwal Division who was the Chairman of the Co-ordination Committee also did not take any action to correct the situation created by the order/inaction of the District Magistrate.

(Para 5.1.4.5 (ix))

Out of the 2255 developed plots 220 plots were not allotted to displaced families. These were instead allotted by the Uttar Pradesh Irrigation Department to outsiders.

(Para 5.1.5.1(ii))

157.676 acres of land acquired by Uttar Pradesh Irrigation Department/THDC for rehabilitation of families during 1988 to 1992 at a cost of Rs.73.14 lakh in Renapur, Central Hope Town, Ranipur Roh and Rudrapur could not be allotted due to litigation in regard to title of the land under acquisition/non-demarkation of land etc.

(Para 5.1.5.1(iii))

13 contracts valued at Rs.8.96 crore were awarded on limited tender basis even though there was no urgency thereby depriving THDC of most competitive rates.

(Para 5.1.5.4.1)

A cost over run of Rs.52.87 crore was noticed in 21 contracts for institutional buildings, Roads, Hospital etc.

(Paras 5.1.5.4.3 and 5.1.5.4.4)

Rs.77.01 crore incurred for construction of additional residential and non-residential covered space measuring 146338.11 sq. mts built by Uttar Pradesh Irrigation Department/THDC for various Government and semi-Government departments could not be recovered by THDC.

(Para 5.1.5.6)

Public utility buildings i.e, bus stand, temples, mosque, fire station, post office etc. constructed at New Tehri Town, Bhagirathipuram during the period 1992-97 at a cost of Rs. 16.40 crore, were not taken over by the concerned authorities/ local bodies.

(Para 5.1.5.7)

VI (a) Modernisation of Bokaro Steel Plant of Steel Authority of India Limited

Government of India approved in July 1993 a modernisation scheme for reconstruction of Steel Melting Shop (SMS) No. II, installation of Continuous Casting Department in SMS II, Modification of Hot Strip Mill etc. Its objective was to increase the capacity of production of liquid steel from 4.08 MTPA to 4.50 MTPA at a capital cost of Rs.1625.79 crore. It also aimed at reduction in energy consumption and improvement in quality of finished product. The cost was revised to Rs.1792.90 crore in August 1994 and further to Rs.2468.18 crore in October 1999.

(Paras 6.1.2 and 6.1.8.2)

The modernisation proposal submitted by SAIL in February 1990 was deferred by the Ministry of Steel (MOS) in September 1990 mainly on the ground of poor production performance of BSL, a large number of modernisation programme already undertaken in other steel plants and severe resource constraints. However, the MOS revived the scheme in January 1992 although the conditions on which the scheme was deferred were still prevalent at the time of revival. Further, MOS did not take into account at the time of approval of the modernisation programme, the likely competition BSL was expected to face due to liberalisation of steel industry. As a result thereof, the assumption of 100 per cent capacity utilisation and full net sales realisation, taking marketability of the products as granted, proved to be unrealistic as SAIL had to close down its one blast furnace and two coke oven batteries for want of demand.

(Para 6.1.2.2(a))

As per the original proposal, the project was to be implemented with Tiazpromexport (TPE) as turnkey contractor. However, at the instance of MOS, the implementation strategy was revised from single turnkey mode to competitive global bidding due to non-availability of Rouble credit from USSR. However, no credit was made available by the other bidders who participated in the global bidding. This resulted in increase in project completion schedule by 6 months and increase in capital cost by Rs.1497.23 crore due to change in the implementation strategy, devaluation of Indian currency, higher incidence of interest, price escalation between the intervening periods.

(Para 6.1.2.2(b))

In the note submitted to the Government in April 1993, SAIL/MOS *inter-alia* mentioned that the production of saleable steel during 1992-93 was 95 per cent of the rated capacity and the project would be financed through external borrowings and internal sources in the ratio of 1:1. Based on these parameters, the Internal Rate of Return (IRR) of the scheme was estimated to be 22.6 per cent. However, the actual position prevalent at the time of approval of project by Government was different. The actual production of saleable steel during 1992-93 was 87.27 per cent and not 95 per cent of the rated capacity. Further, SAIL could raise only less than 2 per cent from internal sources. The actual debt equity requirement of the fund for capital work projected for VIII plan clearly indicated that 77 per cent of the fund would be made available mainly through commercial borrowings only, yet the project was approved with debt equity ratio of 1:1.

(Para 6.1.2.2 (c))

The offers of EPI and MECON for Re-heating furnace (RHF) were evaluated considering the heat consumption as 260 tonnes per hour instead of 300 tonnes per hour. The offer of EPI would have been cheaper considering the capacity as 300 tonnes per hour as required under tender specification. However, order was placed on MECON resulting in a loss of Rs.13.22 crore.

(Para 6.1.3.1.1 (b))

The contract for HSM package was awarded to M/s. SMS (AG), Germany combining 12 AMR schemes which were not part of modernisation scheme. The company could have saved an amount of Rs.7.13 crore, had order for AMR schemes been awarded separately.

(Para 6.1.3.1.3 (a))

The contract for structural work relating to CCD package was awarded to HSCL on single tender basis without considering their earlier offers. This resulted in loss of Rs.10.07 crore. Further, HSCL (a PSU under the same Ministry) off loaded major portion of civil work to a private contractor on nomination basis.

(Para 6.1.3.2 (a) and (b))

Work order for DART TYPE slag stopper system was awarded to M/s. Indomag Steel Technology at a cost of Rs.5.16 crore on single tender basis as against Pneumatic type for which tender was invited. No opportunity was given to other parties to quote for DART TYPE system.

(Para 6.1.3.3 (B))

No uniformity was maintained in formulating terms and conditions of the contract with different parties. This led to financial benefit of Rs.13.14 crore to MECON.

(Para 6.1.4 (A) (a))

There was no provision of binding quantities in CCD package for civil work, which resulted in loss of Rs.17.09 crore.

(Para 6.1.4 (A) (b))

BSL paid an escalation of Rs.76.38 crore to the Indian Associates of M/s. VAI and SMS (AG) although it was not contractually payable as per the opinion of the Solicitor General of India.

(Para 6.1.4(C))

Operational and maintenance spares valuing Rs.7.21 crore for CCD and Rs.17.06 crore for HSM package were procured much before the requirement in 1996-97 resulting in blocking of fund and consequent loss of interest thereon.

(Paras 6.1.5.1 (A) (i) and 6.1.5.1 (B) (i))

Rs.32.69 crore, being the 5 per cent of contract price of CCD package, was to be released after issue of Preliminary Acceptance Test (PAT). Disregarding the above provisions, the

plant released Rs.28.28 crore (86.5 per cent of the amount payable after PAT) although as many as 20 defects noticed during PAT remained unattended.

(Para 6.1.5.1 (A) (iii))

There was infructuous expenditure of Rs.4.29 crore on construction of foundation for Coiler No.5, which was not required under the modernisation scheme.

(Para 6.1. 5.1 (B) (ii))

The extra shut down period consumed for the modernisation of Hot Strip Mill resulted in loss of production of 1.21 lakh tonnes of HR coil during 1998-99 and consequent loss of contribution of Rs.77.44 crore.

(Para 6.1.5.1 (B) (iii))

SAIL incurred a loss of Rs.2.11 crore due to non-replacement of prematurely failed load cells supplied by M/s. ABB Limited, Bangalore.

(Para 6.1.5.1 (B) (v))

An amount of Rs.2.41 crore being the extra cost incurred by the company in executing civil works relating to RHF package (excess over binding quantity) was not recovered from the principal contractor.

Para 6.1.5.1 (C) (i)

There was a blocking of capital amounting to Rs.19.34 crore for last 7-10 years due to injudicious decision of the management to upgrade/modify RHF no.1 just before the upgradation/ modification of RHF 2,3, and 4.

(Para 6.1.5.2 (b))

The improper functioning of Mechanised Work Roll changing system resulted in extra expenditure of Rs.11.76 crore due to increased consumption of bearings.

(Para 6.1.5.2 (c) (ii))

LD amounting to Rs.19.07 crore was not recovered from foreign contractors, although none of the global packages could be completed within the contractual completion period.

(Para 6.1.6 (i))

LD amounting to Rs.11.40 crore recovered from the Indian Associates of global suppliers were refunded subsequently and further recovery of LD was postponed on the plea that recovery of LD would be decided after completion of the contract.

(Para 6.1.6 (ii))

Consultancy work was awarded to MECON at a total fee of Rs.42 crore despite SAIL was having its in-house consultancy wing viz, Centre for Engineering and Technology (CET).

(Para 6.1.7 (i))

As per the sanction of the Government, the project was to be completed by July 1997. However, even after a lapse of 50 months, the project could not be completed in full. The extent of delay in completion of the different packages ranged between 3 and 39 months. Although all the indigenous packages were completed by September 1999, one global package was yet to be completed (September 2001).

(Para 6.1.8.1)

The cost of the project increased from Rs.1625.79 crore to Rs.2468.18 crore mainly due to escalation, interest and under estimation of costs. In spite of clear indication that the project would be funded mainly through borrowings, the MOS went ahead for clearance of the project with debt equity ratio of 1:1. The actual debt equity ratio worked out to 59:1 due to SAIL's inability to provide funds from internal sources. Consequently, the burden of interest had gone up from Rs.90.91 crore to Rs.551.56 crore. Further, based on the current price of finished goods, the IRR had come down to 7 per cent from 22.6 per cent envisaged.

(Paras 6.1.8.2 and 6.1.9)

The envisaged production of 45 lakh tonnes of crude steel and 37.80 lakh tonnes of saleable steel after modernisation was not achieved and the actual production stood at 33.53 lakh tonnes and 32.46 lakh tonnes during 1999-2000 and 36.35 lakh tonnes and 33.13 lakh tonnes during 2000-01 respectively. In fact, it registered negative growth over pre-modernisation period of 1993-94.

(Para 6.1.10)

BSL sold 3.59 lakh tonnes of Slab directly from the plant during 1999-2000 at an average net sales realisation of Rs.7877 per tonne as against Rs.8359 per tonne realised by the Central Marketing Organisation of the company during the same period. This resulted in loss of revenue of Rs.17.30 crore. The actual production of HR coil (having the highest profit margin of Rs.2173 per tonne) was 6.56 lakh tonnes against the production plan of 10.10 lakh tonnes during 1998-99. The shortfall in the production of HR Coil resulted in a loss of profit margin by Rs.76.92 crore. Further, production of 1.33 lakh tonnes of Thick Plate during 1998-99 to 2000-01 resulted in loss of Rs.43.61 crore.

(Para 6.1.10.1)

Various techno-economic parameters envisaged after modernisation could not be achieved. The specific heat consumption per tonne of HR Coil was abnormally high at 1.075, 0.974 and 1.03 G Calorie during 1998-1999, 1999-2000 and 2000-01 respectively against 0.576 G. Calorie envisaged. This resulted in excess consumption of heat valuing Rs.120.98 crore during 1998-1999 to 2000-01. The yield from liquid/ingot steel was 82 per cent during 2000-2001 as against 84 per cent envisaged. Tap to tap time in SMS-II have also increased from 71 minutes (1993-1994) to 99 minutes (2000-01) against 60 minutes as envisaged.

(Para 6.1.10.2)

The plant had been earning profit for the past several years and the cumulative profit up to 1997-98 stood at Rs.4304.71 crore. However, it suffered a loss of Rs.164.61 crore during 1998-99 mainly due to higher incidence of interest and depreciation after

modernisation. The loss was understated by Rs.34.47 crore due to delayed capitalisation of CCD and treatment of revenue expenditure as capital expenditure. The plant registered profit of Rs.119.88 crore and Rs.49.17 crore in 1999-2000 and 2000-01 respectively due to financial relief granted by the Government of India and due to overstatement of sales, undercharge of depreciation, non-provision against stores and spares declared surplus/not moved for more than ten years.

(Para 6.1.11)

Engagement of Voest Alpine Industrial Service (VAIS) at a cost of Rs.26.26 crore for providing operational and maintenance support services at Continuous Casting Department and experts from VAI, (Austria)/ GFA (Germany) for improvement and stabilisation of production at Hot Strip Mill at a cost of Rs.8.73 crores lacked justification as the scope of supply of the package suppliers under the contract included, inter alia, testing, commissioning, training of SAIL's personnel and demonstration of performance guarantee.

(Para 6.1.12 (a))

VI (b) Township Management in Steel Authority of India Limited

Steel Authority of India Limited (SAIL) has four integrated steel plants located at Bokaro, Rourkela, Bhilai and Durgapur for producing Iron & Steel. Each plant has a separate township, which contains *inter-alia* residential quarters, shopping complexes, educational institutions, etc. The management ipso facto provides basic amenities like electricity, water, sewerage, roads etc. in the township.

(Para 6.2.1)

The Company acquired land measuring 113307 acres through Land Acquisition Act for construction of 4 integrated steel plants and township. However, as per Government records total area of land transferred to the plants was 112560 acres. The discrepancies in land records have not been reconciled with the respective State Governments. Further, the Company could not so far get the title deeds in respect of 53979 acres of land transferred to it.

(Para 6.2.2.1)

Government of Bihar claimed Rs. 52.17 crore from Bokaro Steel Plant towards additional compensation paid to the landowners in excess of the ceiling price fixed by the State Government. However, as per the agreement reached between the Central Government and the State Government, any amount paid in excess of ceiling price was to be borne by the State Government. As such, the Company did not pay the amount, as their liability was restricted up to the ceiling price. Non-settlement of the issue would delay the transfer of title of the land to Bokaro Steel Plant.

(Para 6.2.2.1(c))

825 acres of land was not delivered to Bokaro Steel Plant although compensation for the same had already been paid.

(Para 6.2.2.1(d))

Out of total 113307 acres of land acquired, 14117 acres were transferred to Central, State Government and Semi-Government organisations and 18713 acres have been lying vacant.

(Para 6.2. 2.2)

Bokaro Steel Plant sub-leased 418 acres of Government land to various agencies without the permission of the State Government although the plant itself did not possess the title of the land.

(Para 6.2.2.3.1(i))

In Bokaro Steel Plant, 90 acres of land was allotted to a co-operative housing society without the permission of the State Government. Further, the society encroached 13 acres of land illegally.

(Para 6.2.2.3.1(ii))

Bhilai Steel Plant transferred 1920 acres of land to an autonomous body at a price much lower than the minimum upset price fixed by the Government of Madhya Pradesh.

(Para 6.2.2.3.3(i))

In 1980, Bhilai Steel Plant constructed 2000 dwelling units under non-Company housing scheme for allotment to its employees without the permission of the State Government. Of this, 1986 units could not be got registered so far.

(Para 6.2.2.3.3(ii))

The condition relating to allotment of land to outside parties was revised in July 1997. Durgapur Steel Plant leased out 10 acres of land in November 1998 to a cultural organisation at pre-revised rate.

(Para 6.2.2.3.4(ii))

1466 acres of land valuing Rs. 387.04 crore was unauthorisedly occupied by various agencies at Durgapur, Rourkela and Bhilai Steel Plant. No survey was conducted in Bokaro Steel Plant to find out the actual quantum of land held under unauthorised occupation.

(Para 6.2.2.4)

Out of 118155 residential quarters held by the four integrated steel plants, 9906 quarters were allotted to outsiders. The Company has not yet evolved any uniform policy for allotment of quarters to outsiders.

(Paras 6.2.3.1 and 6.2.3.2)

1192 residential quarters were unauthorisedly occupied by various agencies. Of these 811 quarters belong to Bokaro Steel Plant.

(Para 6.2.3.3)

As on 31 March 2001, an amount of Rs. 35.99 crore remained outstanding on account of licence fee, electricity, water and other service charges.

(Para 6.2.3.5)

The standard licence fee of residential quarters was not revised during the last twenty years by BSL and BSP. In RSP the standard licence fee for employees (executives/non-executives) has not been revised in last 28 years since 1973, though in case of non-employees, licence fee was revised in 1996. Similarly, in DSP the licence fee of newly built houses for executives was revised in 1993 and 1999 but for other employees/non-employees, no such revision has been taken place so far since inception.

(Para 6.2.3.6.1)

Till 31 January 2000, no recovery of water charges from the employees as well as non-plant agencies was made by BSL although other sister plants like DSP had been making cost recovery of water charges from non-plant agencies since long ago.

(Para 6.2.3.6.4)

The license fee of shops was neither revised regularly by the steel plants nor they adopted any uniform policy.

(Para 6.2.4 (i))

640 shop owners of Durgapur Steel Plant and 71 shop owners of Bokaro Steel Plant had not been paying rent and other charges for the last 5-6 years. The total outstanding dues worked out to Rs. 1.13 crore in Durgapur and Rs. 0.72 crore in Bokaro Steel Plant.

(Para 6.2.4 (ii))

Rourkela Steel Plant could not get possession of 303 shops from the Notified Area Council.

(Para 6.2.4 (iii))

Under self-financing rehabilitation scheme, 940 unauthorised temporary shops in Durgapur Steel Plant were regularised by converting them into permanent shops.

(Para 6.2.4(iv) b)

The total amount of Rs. 4.51 crore (BSL-Rs. 1.35 crore; RSP-Rs.1.19 crore and DSP-Rs.1.97 crore) was outstanding towards shop rent, electricity and water charges as on 31 March 2001.

(Para 6.2. 4(v))

The annual average deficit suffered by plants on maintenance of township during the last 7 years ended 31 March 2001 worked out to Rs. 198 crore. Expenditure per quarter per year varied widely from Rs.11405 (Durgapur) to Rs 39810 (Bokaro) during 2000-01.

(Para 6.2.5)

Durgapur Steel Plant had been paying Rs. 86 lakh annually towards holding tax since April 1992 due to the plant's inability to obtain the status of Industrial Township from the State Government. The 74th amendment of the Constitution of India came into force with

effect from 1 June 1993 which allowed Industrial Establishment providing municipal services to be exempted from the payment of holding tax if the said area is declared as Industrial Township Incidentally, it may be mentioned here that RSP had already got the status of Industrial Township from the Government of Orissa with effect from 15 April 1995.

(Para 6.2.6.2)

VI (c) Working of Research and Development Centre for Iron and Steel of Steel Authority of India

The need for corporate research and development centre in the Public Sector in iron and steel industry in India was recognised for the first time in the late 1950. Accordingly, a Central Research & Development Organisation was set up at Durgapur Steel Plant in 1967 and was revitalised and made functional at Ranchi in 1972. Over a period of time, it has grown into a full-fledged centre as Research and Development Centre for Iron & Steel (RDCIS).

(Para 6.3.1)

RDCIS is headed by a Director (presently part time) who is assisted by two Executive Directors and eight General Managers.

(Para 6.3.2)

The Board of Directors in a meeting held in June 1973 envisaged that investment in R&D would be increased to 1 per cent of the gross sales turnover within next 5 years i.e. by 1978-79. This has, however, remained around 0.25 per cent only.

(Para 6.3.3)

There is no established system of appraisal of the performance of the R&D projects by the qualified and eminent scientists of the reputed national and international research laboratories or institute of technology on the pattern of other R&D Centres.

(Para 6.3.4.1)

RDCIS has been reorienting its thrust areas during last few years primarily as a result of the present market scenario from the BSR projects to PPI projects and ICA projects in order to face competition from domestic as well as global players.

(Para 6.3.4.2)

During the period 1994-95 to 2000-2001, 663 projects were completed. Of this, only 307 i.e. 46.30 per cent projects could generate monetary benefits. Further 132 projects executed at direct cost of Rs. 17.43 crore though generated monetary benefits were discontinued mid-way. Of these, 35 projects generated only one time benefit although they were expected to generate annual recurring benefit in the micro plan documents.

(Para 6.3.5.1)

24 projects were abandoned mid-way during 1994-95 to 2000-2001 after incurring Rs. 60 lakh.

(Para 6.3.5.2)

48 projects were completed between 1995-96 to 1998-99 after incurring expenditure of Rs.4.49 crore but could not be evaluated due to non-submission of completion reports by the Group leaders. Further, 7 projects lying unevaluated after completion between 1999-2000 to 2000-2001 were due to non-submission of completion report.

(Para 6.3.5.3)

During the period from 1994-95 to 1999-2000, incremental benefit of more than one crore of rupee was established in respect of 95 projects. Of these, 18 projects were discontinued subsequently.

(Para 6.3.5.4)

The project for improvement in naphthalene yield was stage closed after incurring direct expenditure of Rs.32.85 lakh without assigning any reasons. A project on stabilisation of combined blowing technology was stage closed due to non availability of Argon reservoir and non-receipt of statutory permission from Explosive Department at Nagpur after incurring an expenditure of Rs.11.13 lakh.

(Para 6.3.5.6)

A project on production of impregnating pitch was completed at a total direct expenditure of Rs.40.98 lakh without yielding any commercial benefit to the user plant.

(Para 6.3.5.7)

RDCIS has so far commercialised only six out of 41 patents sealed since inception and generated income of Rs.79.62 lakh up to November 2000. The achievement in this regard was poor when compared to other reputed research and development institutions where 20 per cent of funds required are generated by royalty on patents.

(Para 6.3.5.8)

The average output of scientific publications worked out to 0.15 papers per scientist per annum during the last 7 years.

(Para 6.3.5.9)

The major purchases were on single tender basis while the remaining purchases were done through limited tender enquiries issued to the manufacturers/traders.

(Para 6.3.6.1)

There were delays ranging between two months to three months in conducting final inspection after receipt of goods in the stores.

(Para 6.3.6.2)

Although RDCIS was envisaged to be a flat organisation with a minimum of hierarchy, it has grown into a typical hierarchy based organisation over the years with 10 tiers of

executives. In April 1996, the Board had decided to induct qualified and well-motivated scientists not only from the reputed research organisations within the country but also from abroad at middle level. However, no such recruitment has been made during last five years. Although long-term human resources plan envisaged continuous flow/redeployment of executives at senior level to plants/units, no such redeployment has been done during last five years. The Board decided to increase executive strength in technical areas as a part of the long term plan. However, no large perceptible shift has taken place from RDCIS to Plant/Units during last five years.

(Para 6.3.7.1)

The percentage of engineering days planned for research work to total available engineering days ranged between 55.45 per cent (2000-2001) and 60.58 per cent (1997-98) only. There are no norms for the utilisation of engineering days for development of professional skills, co-ordination, meeting, administration, organising corporate life etc. However, it ranged around 25 per cent. There is no system of identification of the actual deployment of engineering days with reference to planned allocation against each project.

(Para 6.3.7.3)

The Board desired to re-deploy the surplus non-executive to other units of SAIL at Ranchi and in the areas where contract labour was engaged. However, no such efforts were made.

(Para 6.3.7.4)

Although the management had surplus non-executives, it employed private contractors for routine nature of jobs and paid a sum of Rs.48.31 lakh for maintenance of two sub-stations and operation of D.G sets in the Township during the period from 1992-93 to 2000-2001.

(Para 6.3.7.5)

The allocation towards capital expenditure as compared to the revenue expenditure was declining rapidly and ranged between 41.95 per cent (1994-95) and 6.15 per cent (2000-2001). Actual expenditure was lower than the amount allocated.

(Para 6.3.8)

Although the meter installed by BSEB for recording units of power supplied to RDCIS was not working since July 1997, no effort was made to replace the meter. RDCIS continued to pay the electricity bill on the basis of the peak period consumption resulting in excess payment of Rs. 79.68 lakh

(Para 6.3.9.1)

RDCIS created a facility for supply of power during break down period by installing an additional D.G. set at an investment of Rs.1.44 crore from borrowed fund bearing an annual interest burden of Rs.23 lakh which was avoidable as the unit already had 7 DG sets and the new equipment was hardly utilised.

(Para 6.3.9.2)

Standard license fee in many cases was not fixed in terms of the cost of construction and the existing rate applicable for old construction were being recovered.

(Para 6.3.9.3)

Although the nature of work of majority of the officials/employees of the RDCIS was confined within the office premises, almost all officials and employees are claiming maximum amount permissible under the scheme every month. Due to inherent shortcomings of the scheme, the RDCIS had to admit irregular and patently fraudulent claims of Rs.5.69 crore during a period of four years when its finances were facing severe constraints and liquidity crisis.

(Para 6.3.9.4)

Injudicious decision to procure land close to Ranchi Air Port has resulted not only in blocking up of capital of Rs. 72.11 lakh but also the Company had to bear loss of interest to the extent of Rs.1.41 crore (March 2001).

(Para 6.3.9.5)

CHAPTER 1: MINISTRY OF CIVIL AVIATION

Airports Authority of India

1.1 Revenue Management

1.1.1 Introduction

The Airports Authority of India (Authority) came into existence on 1 April 1995 as a result of the merger of the International Airports Authority of India (IAAI) with the National Airports Authority (NAA) with a view to accelerate the integrated development, expansion and modernisation of the operational, terminal and cargo facilities at the airports in the country conforming to international standards. The Authority is presently the owner of 95 airports spread all over the country. The Authority is also operating 28 Civil Enclaves at Defence airfields. The Management of 5 international airports at New Delhi, Mumbai, Kolkata, Chennai and Thiruvananthapuram lies with the International Airports Division (IAD), whereas the National Airports Division (NAD) manages 7 international airports at Amritsar, Ahmedabad, Bangalore, Cochin, Goa, Guwahati and Hyderabad, apart from domestic airports.

The revenue sources of the Authority can be broadly classified into the following categories:

- (a) Traffic revenue, which is received from Route Navigational Facilities Charges (RNFC), Terminal Navigational Landing Charges (TNLC), Landing, Parking and Housing Charges (LPH) etc.
- (b) Non traffic revenue, which comprises Passenger Service Fee (PSF), Foreign Travel Tax, public admission fee, trading concessions, rent received for the use of land, space, hangars etc. and revenue received from the grant of exclusive advertisement rights, car parking contracts, restaurants etc.
- (c) Cargo revenue, which is earned as a result of handling of cargo.

The table below indicates the quantum of revenue accounted for, in respect of all the categories, during the last three years:

	1997-98		1998-99		1999-2000	
	Rs. in crore	Percentage of total revenue	Rs. in crore	Percentage of total revenue	Rs. in crore	Percentage of total revenue
(a) Traffic Revenue						
(i) RNFC	366.10	29.92	445.68	30.26	504.89	31.92
(ii) Landing Fee	287.75	23.52	322.13	21.87	346.44	21.90
(iii) Parking and Housing Fee	20.36	1.66	19.59	1.33	18.05	1.14
(iv) TNLC	62.51	5.11	64.25	4.36	73.14	4.62
Total Traffic Revenue	736.72	60.22	851.65	57.82	942.52	59.59
(b) Non Traffic Revenue						
(i) Passenger Service Fee	142.07	11.61	139.28	9.46	142.09	8.98
(ii) Public Admission Fee	7.75	0.63	8.76	0.59	7.88	0.50
(iii) Trading Concessions	59.58	4.87	85.74	5.82	95.02	6.01
(iii) Rent and Services	74.57	6.10	84.80	5.76	92.80	5.87
(iv) Misc. Income	52.60	4.30	35.14	2.39	50.85	3.21
Total Non Traffic Revenue	336.57	27.51	353.72	24.01	388.64	24.57
(c) Cargo Fee	150.16	12.27	267.65	18.17	250.44	15.84
TOTAL REVENUE	1223.45	100	1473.02	100	1581.60	100

1.1.2 Organisational structure

The Authority is headed by a Chairman who is assisted by four members, holding the charges of Planning and Engineering, Finance, Personnel and Administration and Operations apart from one Chief Vigilance Officer and one Executive Director (Consultancy). The Members are assisted by Executive Directors and General Managers who carry out the various activities of the Authority.

Member (Finance) is the Head of the Finance and Accounts Wing of the Authority and is assisted by Executive Director (Key Infrastructural Division), Executive Director (Finance and Accounts) and Executive Director (Internal Audit).

NAD has 6 Regional Accounting Units (RAUs) in addition to one headquarters unit. Similarly, IAD has 11 Accounting Units besides one headquarters unit. The Accounting Units of NAD and IAD are headed by Regional Executive Directors (REDs) and Airport Directors respectively.

1.1.3 Scope

To provide facilities for safe and efficient operations of aircraft within the air space of the country, the Authority levies RNFC, TNLC, LPH and cargo related charges on aircraft handled at the airports. RNFC charges are also recovered from aircraft using

communication and navigational facilities *en route* to other countries without landing in India. The fixation and revision of these charges for the last 5 years from 1995-96 to 1999-2000 was reviewed with a view to ascertain their correctness. The levy and collection of these charges for two months selected at random for the years 1997-98, 1998-99 and 1999-2000 in respect of airports and offices of IAD and NAD at Delhi, Mumbai, Kolkata and Chennai along with airports at Guwahati, Hyderabad and Bangalore were examined.

Besides, records/ files/ contracts related to the grant of licences for the operations of restaurants, shops, hotels, car parking, entry to airports, advertisement rights etc. for the years 1997-98 to 1999-2000 were also reviewed. Documents relating to leasing of land, hangars etc. were also examined. The results of the audit have been discussed in the succeeding paragraphs.

1.1.4 Traffic revenue

1.1.4.1 Raising of bills

As per the rules framed by the Authority, the traffic bills against all scheduled airlines/State Government etc. with credit facilities are to be raised once in a fortnight. The bills for the period from 1st to 15th are to be raised before 25th of the same month and bills for the period 16th to end of the month are to be raised before 10th of the following month.

It was, however, noticed that the Authority had not been following this schedule strictly, leading to delays in raising of bills. The review of bills for selected months of IAD (Mumbai, Kolkata, Delhi and Chennai) revealed that there were delays ranging from 1 to 183 days. Similarly, in NAD (Delhi, Mumbai, Kolkata, Chennai, Hyderabad and Bangalore), the delays ranged between 1 to 223 days. These delays in raising bills resulted in loss of interest amounting to Rs.75.28 lakh (IAD: Rs.32.57 lakh and NAD: Rs.42.71 lakh)

The Management attributed (March 2001) the delays to the non-availability of proper addresses of the airlines and lack of manpower. They also stated that the Airport Directors/REDs had been instructed to cut short the delays in raising the bills.

1.1.4.2 Non-billing of revenue

1.1.4.2.1 The new international airport at Cochin was to be operated by Cochin International Airport Limited (CIAL), a joint venture company incorporated to run the airport. As per the MOU signed between CIAL and the Authority, all the aeronautical charges except RNFC were to accrue to CIAL. The airport became operative from June 1999. However, due to the desire of CIAL to amend the MOU, it was noticed that neither CIAL nor the Authority raised bills amounting to Rs.2.26 crore for the period from June 1999 to March 2000 on various parties for the services rendered at that airport. The Management, while confirming the facts (March 2001), did not advance any reason for not raising the bills amounting to Rs.2.26 crore.

1.1.4.2.2 Druk Air overflew Indian air space while going to Paro Airport at Bhutan from Kathmandu and vice versa. It was observed that while bills for RNFC (overflying) were being raised against Druk Airlines for flights going to Paro Airport, no bills were raised for the flights going to Kathmandu due to lack of proper communication from Paro Airport. This resulted in loss of Rs.56.14 lakh for the period from January 1996 to March 2000. The Management, while confirming (March 2001) the facts, informed that the bills would be raised for all the preceding years against Druk Air.

1.1.4.2.3 It was noticed that the Eastern Region of the Authority did not raise bills amounting to Rs.50.98 lakh for the period from 1996 to 2000 for RNFC in respect of non-scheduled overflying aircraft belonging to foreign countries due to non-availability of certain vital information like names, addresses of operators and registration for identifying the type/series of aircraft. The Management, while confirming the facts, stated (March 2001) that bills amounting to Rs.37.12 lakh had been raised.

1.1.4.2.4 NAD, Chennai, could not deliver 54 bills amounting to Rs.26.34 lakh for the period from 1994-95 to 1999-2000 to various parties due to non-availability of their addresses. The Management while confirming the facts (March 2001) stated that assistance of embassies concerned was being taken to minimise the delay in raising and realising the bills.

1.1.4.2.5 The Authority had been charging RNFC at lesser rates for aircraft exceeding weight of 60,000 kg and overflying within a distance of 500 km. compared to those overflying beyond 500 km. This concession in the rates was withdrawn from 1 February 1996. It was, however, noticed that the Chennai Region of the Authority had charged normal rates instead of concessional rates for the period from January 1992 to February 1996 from Indian Airlines Limited (IAL) for aircraft overflying within 500 km. This resulted in excess billing of Rs.1.59 crore. It was also noticed that IAL had not been paying bills at the normal rates from February 1996 i.e. when the concessional rates for the aircraft overflying within 500 km. were withdrawn by the Authority. This resulted in the non-recovery of bills amounting to Rs.7.83 crore till March 2001. The Management stated (March 2001) that the difference resulting out of excess billing had been returned to IAL. They also stated that IAL was being persuaded to make the payment for the period when the concession was withdrawn. However, on verification it was found in Audit that the refund of Rs.1.59 crore to IAL and recovery of Rs.7.83 crore from IAL were pending as on June 2001.

1.1.4.3 *Despatch of bills*

For the prompt realisation of bills, it is necessary that bills must be despatched immediately to user airlines without any delay. Shortcomings noticed in the despatch of bills are discussed below:

1.1.4.3.1 The RNFC section of NAD, Palam is responsible for raising traffic bills (except those in respect of overflying) on the airlines using IGI airport, Delhi. It was noticed that the section did not maintain any despatch register till April 2000. Similarly, IAD Chennai had also not maintained any despatch register, with the result that the actual date of despatch/receipt of bills by the airlines having offices at various airports could not

be ascertained in Audit. The Management, while admitting the lapse, stated (March 2001) that proper despatch records were being maintained from May 2000 onwards.

1.1.4.3.2 There were delays in despatch of bills at NAD Chennai, Guwahati and Kolkata upto 40 days, 22 days and 64 days respectively leading to loss of interest of Rs.21.15 lakh.

The Management stated (March 2001) that effective steps had been taken to ensure despatch of bills within the stipulated time.

1.1.4.4 Collection of revenue

As per the rules of the Authority, traffic bills raised for the first fortnight of the month are to be collected by the tenth day of the following month. The bills for the second fortnight are to be recovered by the twenty-fifth day of the following month. In cases of delay in collection, deterrent interest at the rate of 1.5 per cent per month is to be recovered.

A review of the system of revenue collection revealed the following:

1.1.4.4.1 Detailed examination of the months selected randomly during the last three years showed that there had been considerable delay in the recovery of the bills from various airlines. In NAD and IAD the delays were upto 1139 days and 1052 days respectively. This resulted in loss of interest amounting to Rs.5.95 crore.

The Management, while confirming the facts, stated (March 2001) that the delay in the collection of revenue was mainly in respect of the national carriers with whom the matter was being taken up constantly for settlement of the bills. They also stated that delays in respect of raising of overflying bills on foreign airlines were mainly due to non-availability of their addresses. They further stated that necessary instructions were being issued to the regions to collect revenue within the scheduled time.

1.1.4.4.2 Depositing of collected amount

To avoid any loss of interest, cheques received by the Authority from various parties are to be deposited in the banks without any loss of time. Cheques/demand drafts are collected either directly by the Regional Accounting Unit (RAU) or by the RNFC section at Palam airport. The receipt of these cheques/demand drafts is recorded in the RNFC section against the bills, after which the demand drafts/cheques received are sent to the RAU for collection. Cheques/demand drafts received at various airports are sent to the Regional Headquarters by post. These are received in the Despatch section and then handed over to the RAU for collection. A review of these sections revealed the following:

- (i) The dates of receipt of the cheques/demand drafts were not recorded in the receipts issued to the airlines; and

- (ii) In IAD, Chennai, no records were maintained to show the dates of receipt of cheques from various airlines. As such, delays, if any, in depositing the collected amounts, could not be ascertained.

The Management while accepting some delays in depositing cheques stated (March 2001) that instructions were issued for prompt depositing of cheques/demand drafts. The requisite register was also being maintained.

1.1.4.5 Lack of internal checks

Accurate and timely realisation of traffic dues is dependent on correct recording in aircraft movement records, prompt issue of bills, constant follow up and close monitoring of recovery. The rules laid down regarding security deposits and delays in executing payments should be strictly followed in order to safeguard the interest of the Authority.

Details of the lapses/irregularities observed on scrutiny of the transactions of the randomly selected months during the last three years were as follows:

1.1.4.5.1 The Guwahati Regional office was not being intimated the data related to aircraft movements at its outstations. As such, correctness of the bills raised by this office for aircraft movements at outstations could not be verified. The Management did not reply to this point.

1.1.4.5.2 NAD, Bangalore collects data regarding arrival, departure time, weight of aircraft etc. for all the aircraft landing at Bangalore Airport from Hindustan Aeronautics Limited (HAL), Bangalore since the Air Traffic Control (ATC) tower is maintained by HAL. On the basis of information collected from HAL, NAD, Bangalore raises bills for RNFC and TNLC charges against flight operators. It was observed that there were delays in raising the bills due to delayed collection of information from HAL as HAL made the information available after 10 to 15 days from the flight dates. The Management stated (March 2001) that the problem had now been overcome by improving the rapport with HAL.

1.1.4.5.3 As per the rules, the Authority was collecting 15 days' revenue towards RNFC, TNLC, LPH and PSF from the Air Taxi Operators as security deposit. However, similar security deposits were not being collected from international airlines, national carriers (Indian Airlines Limited, Air India Limited and Alliance Air) and aircraft of departments of Central/ State Governments. It was noticed that the security deposits obtained from Air Taxi Operators (ATOs) fell short of the amount recoverable in a number of cases. A few examples are given below:

Name of the ATO	As on 31.1.2001 (Rupees in lakh)		
	Security Deposit receivable on the basis of 15 days' revenue	Security Deposit received	Shortfall
M/s. Jet Airways	973.63	595.53	378.10
M/s. Sahara airlines	355.09	102.71	252.38
M/s. East West airlines	1758.12	1.57	1756.55
M/s. Modiluft	126.54	2.26	124.28
M/s. UP Airways	28.47	4.24	24.23
M/s. NEPC Airlines	284.86	2.14	282.72
M/s. Continental Aviation	12.71	0.00	12.71
M/s. ACE Airways	2.96	0.00	2.96
M/s. Archana Airways	5.07	0.58	4.49
M/s. Bengal Airways	12.22	0.00	12.22
M/s. Mesco Airlines	61.62	5.09	56.53
Total	3621.29	714.12	2907.17

The amount of security deposit to be collected, therefore, required upward revision.

1.1.4.5.3.1 The traffic revenue and cargo related charges constitute 70 to 75 per cent of the total revenue of the Authority (refer table given in para 1.1.1). A major part of this revenue is contributed by foreign airlines and national carriers (viz. Indian Airlines Limited and Air India Limited) from whom no security deposit was obtained. It was also noticed that these airlines constituted approximately 60 per cent of the total debtors. It was noticed that the Authority had been allowing them to operate on credit basis. Had the Authority taken security deposits from these airlines also in terms of rules stated in para 1.1.4.5.3 above, the outstandings from them could have been reduced.

The Management stated (March 2001) that their credit policy was under review.

1.1.5 Non-traffic revenue

1.1.5.1 As per the commercial manual applicable to international airports, the licencees have to make payments of licence fee by the tenth day of the respective month. It was, however, noticed that a similar manual applicable to domestic airports or a commercial manual applicable to both the divisions of the Authority to regulate payment of licence fee from the licencees had not been framed by the Authority. The Management stated (March 2001) that the manual was under finalisation. The fact remains that the Authority has so far failed to prepare a common manual applicable to the both the divisions of the Authority though the Authority was formed in April 1995.

A review of the bills raised by the Authority in this regard revealed the following:

1.1.5.2 Delay in raising the bills

There had been significant delays in the raising of bills on various licencees which resulted in the blockage of funds with consequent loss of interest amounting to Rs.2.80 crore during the last three years as per details given below:

1.1.5.2.1 IAD, Delhi failed to raise bills for telephone (72 cases) and electricity charges (73 cases) within the due dates, resulting in interest loss of Rs.36.76 lakh. The Management stated (March 2001) that these bills were raised regularly and the amounts collected. The reply is not tenable as the Authority had not been raising bills as and when the respective authorities had billed them.

1.1.5.2.2 Delays in communicating/fixing the rates of licence fee for the year concerned by IAD Kolkata resulted in delay of 57 days in 1997-98, 59 to 83 days in 1998-99 and 230 to 239 days in 1999-2000, leading to loss of interest amounting to Rs.13.66 lakh. The Management did not reply to this point.

1.1.5.2.3 The Guwahati Regional office delayed the raising of non-traffic bills from 3 to 12 months in 1997-98, 2 to 7 months in 1998-99 and 2 to 13 months in 1999-2000, resulting in loss of interest of Rs.28.61 lakh. The Management did not reply to this point.

1.1.5.2.4 The Authority did not raise bills for interest on delayed payment by Government departments/parties. This resulted in loss of interest of Rs.2.01 crore (March 2000) in respect of allotment of land at Mumbai airport. The Management stated (March 2001) that certain Government departments were occupying the space prior to the formation of the Authority, without any contract/agreement for licence fee charges. They further stated that these departments were not paying licence fee at revised rates. They also stated that in view of the fact that the issue of basic licence fee remained to be sorted out, no bills for interest were raised.

1.1.5.3 Delay in realisation of bills

As per the policy of the Authority, non-traffic bills must be realised by the tenth day of the respective month. However, a review of the bills in respect of Delhi, Kolkata, Mumbai and Guwahati airports for the last three years revealed that there were delays upto 1080 days in realising non-traffic bills, resulting in blockage of substantial funds of the Authority with a consequential loss of interest of Rs.17.50 crore till 31 March 2000.

The Management stated (March 2001) that the delays in realisation of revenue were mainly from Indian Airlines Limited and Air India Limited due to their financial constraints. The Management also promised to look into the delays in the realisation of dues and avoid them in future.

1.1.5.4 Lapses in entering into/execution of agreements

In order to secure its commercial interests, the Authority is required to enter into agreements with various parties to whom lease rights for land and space, advertisement rights and other concessions are granted by it. The terms of payments are, to be regulated as per the agreed terms of the agreements. However, it was noticed that the Authority did not enter into any agreement with the Central/State Government departments.

A review of the records revealed that a large quantum of revenue of the Authority remained unrealised from various parties as on 31 March 2000 as per details given below:

Parties	(Rupees in crore)		
	NAD	IAD	Total
1.Airlines	143.21	93.63	236.84
2.Air Taxi Operators	22.68	9.90	32.58
3.Private Parties	15.56	28.81	44.37
4.Government departments	24.18	63.53	87.71
Total	205.63	195.87	401.50

The main reasons for these outstandings were (i) non-execution/non-renewal of agreements, (ii) unilateral increase in rental charges, (iii) raising of bills in contravention of agreements, as discussed in the succeeding paragraphs. The Management did not offer any comments to the Audit observations except paragraphs 1.1.5.4.5, 1.1.5.4.10, 1.1.5.4.13, 1.1.5.4.14.1 to 1.1.5.4.14.3 and 1.1.5.5.

1.1.5.4.1 Hangar space measuring 642 square metres (sq. m.) at Guwahati airport was allotted (December 1995) to the Government of Assam (licencee) for housing a helicopter, without any formal agreement. The Authority did not raise bills against the licensee till March 1996, as it assumed that the Government of India would allow the licensee to use the land free of cost. However, when the Authority received no such directives, it claimed licence fee amounting to Rs.20.09 lakh for the period 1 March 1996 to 31 March 1998. The licensee, without clearing the bill, sold the helicopter to M/s. Pawan Hans Helicopters Limited (PHHL) and as such, the hangar space came under the occupation of PHHL with effect from 1 April 1998. The Authority raised (October 1999) a bill amounting to Rs.16.93 lakh for the period 1 April 1998 to 31 March 2000 against PHHL as licence fee for use of the hangar space. M/s. PHHL refused to pay the dues on the plea that they did not have any formal agreement with the Authority. This resulted in the non-realisation of licence fee amounting to Rs.37.02 lakh.

1.1.5.4.2 The Authority had not raised bills for licence fee amounting to Rs.1.69 crore recoverable from various Government parties viz. Coast Guard, Indian Air Force, Indian Navy, Customs Department and National Cadet Corps for the space allotted to them.

1.1.5.4.3 The Authority failed to enter into an agreement with the Central Public Works Department (CPWD) in respect of land at Agartala, Silchar, Guwahati and Dibrugarh airports under their possession even though the Government decided (February 1986) to levy licence fee at market rates for the land allotted to CPWD for construction of

their residential quarters/stores and offices etc. The Authority did not raise bills for quite a long period due to non-availability of market rates, non-production of documents regarding allotment of land etc. to CPWD. As a result, licence fee amounting to Rs.95.09 lakh excluding interest for the period 1 April 1992 to 31 March 2000 could not be recovered from CPWD.

1.1.5.4.4 Licence fee amounting to Rs.78.85 lakh, excluding interest on account of land allotted to the India Meteorological Department at Guwahati, Dimapur, Dibrugarh and Agartala Airports for the period January 1993 to March 2000 were yet to be recovered.

1.1.5.4.5 Even though agreements (13 cases) for allotment of space/land to various agencies/airlines expired in March 1998, no action was taken by IAD, Delhi to renew them. These agencies were occupying land/space at the airport, even after the expiry of their agreements (June 2000). The Management stated (March 2001) that action for renewal of agreements was being taken.

1.1.5.4.6 A review of 202 major agreements (21-NAD, Mumbai and 181-IAD, Mumbai) relating to the three years ended March 2000 revealed that in 127 cases, valid agreements were yet to be executed (September 2000).

1.1.5.4.7 The lease agreement for two pieces of land measuring 8677.615 sq.m. and 3650 sq. m. allotted to the Oil and Natural Gas Commission (ONGC) for construction of a helipad and a base hangar expired in March 1985 and August 1985 respectively. Without renewing the lease agreement, the Authority increased the lease rent unilaterally from 15 January 1994. Against the lease rent of Rs.505 per sq.m. per annum revised by the Authority with effect from 1 April 1997, ONGC had agreed to pay at the pre-revised rate of Rs.411 per sq.m. *per annum*. In the absence of revised agreement, the Authority had not been able to realise an amount of Rs.80.29 lakh from ONGC for the period from April 1997 to June 2000.

1.1.5.4.8 The Authority had not taken any final decision so far (August 2000) on the rates since June 1996 in respect of land (for hotel/restaurant business) given to M/s. Shady Grove Hotel, who were earlier granted lease of 667.32 sq. m. of land by the Government of India (218 sq. m. in 1949 and 449.32 sq. m. in 1980). This resulted in the non-raising of bills amounting to Rs.24.06 lakh for the period from June 1996 to August 2000. Similarly, in the case of land measuring 1958 sq. m. allotted to M/s. Hem Chand and Company since 1946, the Authority failed to decide the matter regarding extension of the agreement after its expiry in August 1994, despite the fact that the rates offered by the party were much above the prevailing market rates determined by the Authority from April 1996 onwards. This resulted in non-raising of bills of dues amounting to Rs.60.76 lakh for the period from July 1996 to August 2000.

1.1.5.4.9 The car parking contract at Hyderabad airport had been continuing on adhoc basis since 1992, even though the rates quoted by some of the parties at the time of tender called for in March 1997, were higher than that of the adhoc contract. This resulted in revenue loss of Rs.25.72 lakh to the Authority during the period May 1997 to March 1999.

1.1.5.4.10 IAL was allotted (December 1960) a piece of land measuring 439.80 sq. m for a "Sports Club" at the old airport at Mumbai by the Civil Aviation Department for a period of 10 years. This allotment was further extended (May 1980) for a period of 10 years upto November 1980. However, in a survey conducted (1992) by the Mumbai airport, the total area occupied by IAL was found to be 22803 sq. m. As the Authority continued to levy licence fee for 439.80 sq. m. only, it had to suffer a loss of Rs.97.97 lakh for the period from January 1993 to March 2000. The Management stated (March 2001) that the case was under review for collection of charges as per the occupied area.

1.1.5.4.11 Government of India, Ministry of Civil Aviation allotted (November 1975) two plots of land measuring 1125.62 sq. m. to M/s. Kirloskar Oil Engines Limited for a period of 5 years from the date of taking over the possession (15 November 1975) for construction of hangars and apron at the Civil Enclave, Pune. The Authority, however, noticed (June 1990) that the total area occupied by M/s. Kirloskar Oil Engines Limited was 2356.06 sq. m. including the area for taxi track and the enclosed land south of the hangar. The Authority had neither executed any lease agreement for the additional land, nor raised any bills for additional land resulting in a loss of Rs.89.14 lakh.

1.1.5.4.12 The modification work at the international terminal building of Thiruvananthapuram airport was completed on 31 March 1998. As a result of the modification, the area hired by various agencies at the airport also increased. The Authority neither executed any revised agreement with the allottees for the enhanced area nor billed the allottees accordingly resulting in a loss of Rs.62.51 lakh.

1.1.5.4.13 M/s. A.S. Irani was allotted (November 1959) a plot of land measuring 240 sq. m. for a period of 3 years by the Government of India for running a restaurant at Mumbai airport. After the formation of the erstwhile IAAI in 1972, the party was given extension upto May 1977. When the Authority decided to award the contract for the space on open tender basis, the party approached the Court, which permitted (31 July 1978) the party to run the restaurant until evicted by process of law. The Authority initiated action under the Public Properties (Eviction) Act but later on, held it in abeyance. It was also noticed that besides the area of 240 sq. m., the party was also occupying an additional area of 373.72 sq. m. and had constructed 4 rooms on the first floor for boarding and lodging purposes. The Authority gave (1995) another extension to the party for a period of three years from May 1996 to May 1999 at the rate of Rs.111.32 per sq. m. However, while granting the extension, no decision was taken to (i) regularise/charge the licence fee for the additional area (ii) initiate action on the unauthorised construction of the 4 rooms (iii) initiate action for eviction of the area in possession of M/s. A.S. Irani for the last 41 years. The Management stated (March 2001) that the case was being reviewed for collection of charges as per the area occupied.

1.1.5.4.14 The Authority had been allotting land to various parties on licence/lease basis for a fixed period of time for running hotels/restaurants. As per terms of the agreements entered into with the parties, in addition to the normal licence fee/lease rent the latter were to pay royalty being higher of (i) a certain percentage of gross turnover of the hotel/restaurant and (ii) minimum guaranteed amount. In order to ensure correct billing of royalty, the parties were required to intimate to the Authority the figures of their gross

turnover. However, in a number of cases, the parties did not intimate the figures of their gross turnover to the Authority with the result that correct billing/recovery of dues from the parties could not be ensured. The Authority continued to raise bills on adhoc basis and did not take any penal action against such defaulting parties with a view to realise the correct amount from them. Details of a few cases examined during review are given hereunder:

1.1.5.4.14.1 M/s. A.B. Hotels was allotted (January 1992) 21350 sq. m. of land for setting up a motel at Mahipalpur in Delhi. As per the agreement, in addition to the normal lease rent, the lessee was required to pay royalty at the rate of 7.20 per cent of the gross turnover (GTO) of the hotel or a minimum guarantee amount, whichever was higher, from the expiry of three years from the date of taking over of land (1 January 1995). The lessee started operations from 26 March 1998. However, it was noticed that the Authority did not bill the lessee as per the terms of the agreement as it did not obtain the details of GTO to arrive at the correct figure of royalty. This resulted in the short billing of royalty by Rs.7.95 crore. The Management accepted (March 2001) that the bills could not be raised for want of the figures of the certified turnover.

1.1.5.4.14.2 The Authority allotted (1982) land measuring 14720 sq. m. at New Delhi to M/s. Mohan Hotel Private Limited (Ambassador Group), now M/s. Narang International Hotel Private Limited, at the rate of Rs.50 per sq. m. per annum. The rates were further revised (April 1990) to Rs.70 per sq. m. per annum. As per the agreement, in addition to the licence fee, the lessee was required to pay royalty on the gross turnover of the hotel. It was, however, noticed that the Authority did not obtain the details of the gross turnover of the hotel to arrive at the correct figures of royalty. The lessee, on its own, paid Rs.20.16 lakh and Rs.20.21 lakh for the years 1996-97 and 1997-98 respectively. It was also noticed that the bills for the years 1998-99 and 1999-2000 had not been raised so far. It was not clear how the Authority had ensured that the correct payment of royalty was made by the lessee in the absence of the details of GTO. The Management accepted (March 2001) that in the absence of details, bills could not be raised and stated that the matter was being pursued.

1.1.5.4.14.3 The Authority allotted (April 1990) 15000 sq. m. of land to M/s. Oberoi Flight Kitchen (lessee) for operating a flight kitchen at IGI airport, New Delhi at a licence fee of Rs.70 per sq. m. per annum. As per the agreement, in addition to the above licence fee, the lessee was required to pay royalty on the gross turnover of the flight kitchen. It was noticed that bills for the years 1998-99 and 1999-2000 had not been raised against the lessee (August 2000). The provisional amount of these bills based on the payment made by the party according to their own computation worked out of Rs.78.23 lakh. The Authority did not have any mechanism to verify the figures of gross turnover furnished by the lessee. The Management confirmed (March 2001) that in the absence of certified GTO details, payment on GTO as worked out by the licensee, was being received. Thus, the chances of short billing by the Authority could not be ruled out.

1.1.5.4.15 The erstwhile NAA allotted (April 1989) a site measuring 8000 sq. m. consisting of a hangar, a club house, an administrative office, a car park, an apron and a taxiway to M/s. Ajantha Flying Club (AFC) to start flying activities at Aurangabad airport

for a period of three years from the date of taking possession at the then prevailing market rate. However, later on, the Authority decided (November 1991) to charge a nominal licence fee of Rs.1 per sq. m. per annum from AFC subject to the use of the site exclusively for training activities of the club as per the approval of the Director General of Civil Aviation (DGCA) and as long as the club was covered by the subsidy scheme of DGCA. The licence was renewed from time to time till March 1998. Thereafter, no decision had been taken by the Authority to extend the licence (August 2000). It was noticed that even though AFC had not carried out any training activities from the beginning of the licencing period and was also not covered under the subsidy scheme of DGCA, the Authority continued to charge a nominal licence fee of Rs.1 per sq.m. per annum resulting in a loss of Rs.74.27 lakh.

1.1.5.4.16 The Chairman of the Authority allotted (October 1997) 3500 sq. m. of land at Mumbai international airport to M/s. Raymond Limited (lessee) at the rate of Rs.495 per sq. m. per annum which as per delegation of powers should have been allotted by the Board of Directors. The Authority had to cancel (July 1997) the allotment as it was in contravention of the AAI Act and delegation of powers. The lessee went for arbitration against the termination of the contract. The arbitrator directed (August 1999) the Authority to allot the lessee one vacant hangar at Juhu Airport. Accordingly, the Authority allotted (September 1999) a plot measuring 259.17 sq. m. at the rate of Rs.373 per sq. m. per annum for a period of one year. Thus, the irregular allotment, which had to be cancelled subsequently, resulted in non-utilisation (from August 1997 to August 1999) of the land measuring 3500 sq. m. with a consequent loss of revenue amounting to Rs.36.09 lakh.

1.1.5.4.17 Fourteen plots of land measuring 19553 sq. m. at different pockets of Mumbai airport were lying vacant from August 1996. The Commercial Advisory Board of the Authority approved (April 1999) the proposal for the commercial uses of these plots. However, the plots were yet to be put to commercial use (June 2001).

1.1.5.5 On behalf of the Authority, the various airlines collected Passenger Service Fee (PSF) at the rate of Rs.125 per passenger uplifted by them in the domestic sector. The collection made by the airlines was to be paid to the Authority after deducting collection charges of Rs.1 per passenger. Certain categories of passengers such as staff on duty, staff on leave, dollar paying passengers and infant passengers were, however, exempted from paying PSF.

It was observed in Audit that in respect of the passengers uplifted by Indian Airlines Limited, no data existed in the Authority to ascertain and verify the actual number of PSF paying passengers uplifted by the airlines so as to determine the amount of PSF recoverable from that airline.

However, on the basis of data in respect of such passengers provided by the airline and relied upon by the Authority, it was also noticed that there had been excess recovery of PSF amounting to Rs.4.07 crore in 1996-97 and short recovery of Rs.30 lakh and Rs.3.34 crore in 1997-98 and 1998-99 respectively from various ATOs. It was also observed that the Authority had been relying upon the data received from IAL and Air India Limited in this regard without any verification. A review of the records relating to PSF paid by IAL

to the Authority indicated that IAL had made short payment of Rs.42.94 crore for the years 1997-98 and 1998-99.

The Management stated (March 2001) that based on the reconciliation statement furnished by IAL, the Management and the Board of the Authority had agreed that there was no short payment of PSF by IAL.

The reply of the Management is not tenable as no data existed in the Authority to ascertain the actual amount of the PSF recoverable from airlines and they had to rely on data furnished by the IAL in this regard. As such under the existing arrangement, the Authority had no independent mechanism to ascertain the accuracy of the amount due from the airlines towards PSF.

1.1.6 Cargo revenue

1.1.6.1 The Authority (erstwhile IAAI) was appointed custodian of air-cargo complexes with effect from 1975 at Calcutta airport, 1977 at Mumbai airport, 1978 at Chennai airport and 1986 at New Delhi IGI airport under Section 45 of the Customs Act 1962. Now, IAD of the Authority handles the cargo meant for import and export and collects the charges for the same. However, at Mumbai, the Authority had appointed Air India Limited as its ground handling agent (GHA) with effect from May 1977.

The main sources of cargo revenue were:

- (i) Cargo terminal and handling charges which included terminal storage and processing charges (TSP), carting and X-ray charges etc.
- (ii) Demurrage charges on imports and exports.

Cargo terminals at various airports were collecting TSP charges on cash basis. Similarly, demurrage charges on import were also collected on cash basis from the importers. The bills for demurrage, utilisation and palletisation charges on the exports and destuffing, transshipment and X-ray charges on the imports were, however, being raised on the airlines.

1.1.6.2 A test check of bills for cargo revenue raised by the IGI Cargo terminal, New Delhi for two selected months of each of the three years ended 1999-2000 revealed non-realisation (Rs.77.72 lakh)/delay in collection of revenue and loss of interest of Rs.5.31 lakh (Annexure 1).

1.1.6.3 The bills for cargo revenue are generated by the Computers and Documentation Centres of the Authority and are sent to the Finance and Accounts Department for despatch to the various airlines on a monthly basis. The Finance and Accounts Department is responsible for monitoring the collection of the bills. The bills are delivered to the concerned airlines directly by hand, as almost every airline has its office in the cargo terminal complex. A review of these bills revealed the following:

1.1.6.3.1 As per the agreements signed with the airlines, the Authority is to raise bills on a monthly basis and the airlines are to make payment within 30 days. A review of the

records relating to the receipt of dues in respect of the 897 bills revealed that in the case of only 6 per cent of the bills, the payment was received by IGI Cargo, New Delhi in time. In respect of the remaining 94 per cent bills, there were significant delays as per the details given below:

Years	Total Bills	In Time	Delay in days					Bills Outstanding as on 31 March 2000
			1-15	16-30	31-50	51-100	101-285	
1997-98	258	--	41	53	23	51	47	43
1998-99	331	32	70	50	37	40	74	28
1999-2000	308	21	92	65	30	25	38	37
Total	897	53	203	168	90	116	159	108

From the above, it would be observed that in respect of 82 per cent of the bills, delays ranged upto 285 days. This resulted in loss of interest of Rs.30.64 lakh. Payments amounting to Rs.81.28 lakh in respect of the remaining 12 per cent were still outstanding. (July 2000). The Management assured (March 2001) that they would look into the delays and instruct the concerned officers to avoid them.

1.1.6.3.2 As per Section 48 of the Customs Act 1962, imported consignments are to be cleared within 30 days from the date of landing at the airport. If the consignments are not cleared within the stipulated period, the Authority is authorised to dispose off the same through auction after observing the procedure laid down in this regard in Section 150 of the Act *ibid*. Under the provisions of Section 150 of the Act *ibid*, the balance, if any, of proceeds obtained from the sale of the goods is required to be paid to owner of the goods after applying these proceeds towards (i) expenses relating to sales; (ii) freight and other charges payable to the carrier of the goods; (iii) duty payable on the goods sold; (iv) charge payable to the person having the custody of the goods; and (v) dues of the Central Government recoverable from the owner of the goods in the order given herein. It was noticed that IAD Kolkata was holding such cargo weighing 92075 kg (July 2000) beyond the stipulated period. The Management stated (March 2001) that in future, efforts would be made to auction the left over cargo within the stipulated time limit.

It was also observed that IAD, Delhi realised a sum of Rs.5.03 crore from the sale of unclaimed/leftover cargo from April 1998 to August 2000 and apportioned the amount on 50:50 basis with the Customs department without following the procedure prescribed under Section 150 of the Customs Act. The Management stated (March 2001) that apportionment had been done as per the provisions of the Customs Act as amended. The reply of the Management is not tenable because the charges were apportioned equally between the Customs Department and the Authority in contravention of Section 150 of the Customs Act.

1.1.6.4 Ground handling activities and other ancillary services provided at international airports by various agencies including airlines were regulated under the International Airports Authority of India (General Management, Ground Handling of Air Transport Services) Regulations 1984.

The Authority increased (September 1984) the licence fee from 2 per cent to 10 per cent of the turnover achieved from the ground handling services by the service providers at the international airports. Subsequently, in response to the Authority's seeking (December 1997) approval of the Ministry of Civil Aviation for increasing the fee to 11 per cent, the Ministry decided that until appointment of outside agencies for providing ground handling services at the airports, Air India Limited and Indian Airlines Limited would pay licence fee of 5 per cent of their said turnover from 1 February 1998.

Whereas Air India Limited and Indian Airlines Limited continued to render the ground handling services at the airports till the end of the year 1999-2000, the Authority did not raise any bills for licence fee on these airlines. Except for payments of Rs.37.75 lakh by Air India Limited and Rs.59,000 by Indian Airlines Limited for the year 1987-88, no other payments were made by these airlines on this account to the Authority.

A review of the annual accounts of the last five years ended 1999-2000 of Air India Limited and Indian Airlines Limited revealed that these airlines had disclosed in their annual reports the year-wise turnover achieved by them by providing the ground handling services and the turnover of the two airlines for these five years aggregated to Rs.1070.67 crore and Rs.364.10 crore respectively. Considering the licence fee even at the rate of 5 per cent for the period prior to the Ministry's decision, the Authority could have earned licence fee of at least Rs.71.74 crore from 1995-96 to 1999-2000.

Thus, failure of the Authority to raise bills on Air India Limited and Indian Airlines Limited for the licence fee resulted in non-realisation of revenue of Rs.71.74 crore.

The Management contended (July 2001) that bills could not be raised due to non-availability of official figures of gross turnover from these airlines. They also stated that the matter had been taken up both with the Ministry and these airlines. The reply is not acceptable as the Authority could have raised ad hoc bills on the basis of the figures given in the annual accounts of these airlines. In fact, the Authority took up the matter with the two airlines in April 2001 only after the Audit pointed out the lapse in October 2000 and March 2001.

1.1.6.4.1 In Mumbai, the handling of cargo is being done by Air India Limited, which acts as the GHA of the Authority. As per the terms of agreement, the cargo charges in respect of cargo which is less than 14 days old is to be levied and collected by the GHA. The revenue so collected was to be shared between the Authority and the GHA in the ratio of 70:30. Cargo remaining uncleared for 14 days and above was to be transferred by the GHA to the custody of the Authority. The charges were to be collected by the Authority and the revenue so collected was to be shared between the Authority and GHA in the ratio of 70:30.

A review of the revenue transferred by the GHA during the last 3 years revealed that the GHA was not transferring the full share of the Authority. On an average, the monthly amount withheld by the GHA worked out to Rs.15.39 crore (67.3 per cent) in 1997-98, Rs.17.30 crore (31.6 per cent) in 1998-99 and Rs.15.96 crore (30.3 per cent) in 1999-2000. As per the terms of the agreement, the Authority was entitled to interest at the rate of 18 per cent per annum on the amount withheld by GHA. However, the Authority did not raise any bills for interest amounting to Rs.8.76 crore on the amount held in excess by Air India Limited during the last 3 years ended March 2000. The Management stated (March 2001) that efforts were being made to realise the outstanding amount from Air India Limited. They, however, did not explain the reasons for not raising the interest bills as per the terms of agreement.

The matter was referred to the Ministry in September 2001; their reply was awaited (October 2001).

CHAPTER 2: MINISTRY OF COAL

Coal India Limited

2.1 Expenditure on foreign travel by officials of Coal India Limited and its subsidiaries

Non-formulation of guidelines regulating foreign travel of officials in accordance with Government of India guidelines resulted in payment of daily allowance in excess of limit, reimbursement of expenses incurred on unauthorised visits to foreign countries, payment of inadmissible daily allowance during training period, release of advance in foreign currency without insisting on detailed account, etc.

With a view to bring about economy in expenditure on foreign travel by officials of Public Sector Undertakings (PSUs), Department of Public Enterprises, Government of India (GOI) issued certain instructions in September 1995. According to these instructions, the consolidated amount of per diem allowance (PDA) was payable as per Reserve Bank of India (RBI) guidelines to cover room rent, taxi charges, entertainment, if any, telephone and other contingent expenditure and daily allowance (DA). The PSU officials were to render account on return from tour for all items other than DA which normally covers food, etc., as per Ministry of External Affairs (MEA) rates and refund unspent exchange, if any.

The foreign travels of employees of Coal India Limited (CIL) and its 8 subsidiaries* were governed by the instructions issued by CIL in November 1995. According to these instructions the officials deputed abroad were entitled to consolidated amount (PDA) at prescribed rates applicable for the country of visit. The circular was, however, silent about rendition of account for the advance drawn and return of unspent balance, if any. These instructions were revised in November 1997 according to which the officials were entitled to draw PDA in advance at rates prescribed by RBI to cover expenditure on hotel, transport, telephone, etc., and DA at MEA rates. The reimbursement of expenditure on hotel, telephone, etc., was subject to rendition of account supported by documentary proof on return from tour.

During the period from 1996-97 to 1999-2000, the employees of CIL and its subsidiaries had undertaken 346 tours (including 26 tours undertaken by Government employees as delegates of CIL) to attend training programme, conferences, seminars, business meets, etc., as per the records made available to Audit. Out of 346 cases, details of only 214 tours were available. The expenditure by way of Air fare, daily allowance, entertainment, etc., incurred on 214 of these cases test checked in Audit was Rs 2.14 crore.

* 1. Central Coalfields Limited (CCL), 2. Northern Coalfields Limited (NCL), 3. South Eastern Coalfields Limited (SECL), 4. Mahanadi Coalfields Limited (MCL) 5. Eastern Coalfields Limited (ECL), 6. Western Coalfields Limited (WCL), 7. Bharat Coking Coal Limited (BCCL), and 8. Central Mine Plannings & Design Institute Limited (CMPDIL).

Examination of records of CIL and its subsidiaries covering the period from 1996-97 to 1999-2000 revealed violation of guidelines/instructions regulating expenditure on foreign travel as discussed in the following paragraphs:

2.1.1 Excess payment of per diem/daily allowance and entertainment allowance

2.1.1.1 As per GOI guidelines, the period of deputation abroad was to include only the period of effective duty in the country to which the officials were deputed and was deemed to commence from the date on which they arrived in the foreign country and end on the day on which they departed from there. CIL and its 8 subsidiaries paid PDA/DA in foreign currency for the journey period also resulting in over payment of US \$37369.75 (equivalent to Rs 13.89 lakh) in respect of 99 foreign travels undertaken by their officials for the period from 1996-97 to 1999-2000.

The Management stated (May 2000) that till November 1997 the PDA was guided by CIL circular of November 1995 according to which officials were entitled to PDA from the date of departure to the date of arrival. The reply is not factually correct as there was no mention in the said circular about payment of allowance in foreign currency for the journey period also. One subsidiary (CMPDIL) had so far recovered Rs. 9000 (appx) from one of the official to whom PDA was paid for journey period.

2.1.1.2 According to CIL guidelines of November 1995 the executives of the rank of M2 and above were entitled for PDA at US \$300 per day for all other countries excepting Commonwealth of Independent States (CIS) (excluding Russia) East European countries, Bangladesh and Nepal.

(i) In contravention to the above guidelines, Sri B.C Mishra, the then Chairman cum Managing Director (CMD) of CMPDIL had drawn PDA @ US \$ 400 per day for 94 days for his visits to various foreign countries during the period from April 1995 to May 1997 resulting in over drawl of US \$9400. The Company had so far recovered US \$ 2900 (equivalent to Rs 1.04 lakh). The recovery of the balance US \$ 6500 (equivalent to Rs. 2.24 lakh) was doubtful as the CMD had retired from service in July 1997.

(ii) The CMD (Sri B.C.Mishra) had drawn PDA of US \$ 4400 for 11 days tour to Tanzania and Oman commencing from 25 June 1995. He, however, returned from Tanzania after 7 days of tour on 1 July 1995. DA for the balance 4 days totalling US \$ 1600 (equivalent to Rs 0.51 lakh) had not been refunded/recovered.

(iii) An entertainment allowance of Rs. US \$ 27000 (equivalent to Rs 9.40 lakh) was drawn by the CMD (Sri B.C.Mishra) during the above tours for which no account of expenditure was submitted. In absence of any account supported by vouchers, the correctness of expenditure incurred on entertainment could not be vouchsafed.

2.1.2 Excess payment of Air port free allowance

CIL paid Airport free allowance of US \$ 50 along with PDA to 61 officials including officials of subsidiaries on deputation abroad though there was no provision for payment of the same as per RBI/CIL guidelines. This resulted in an inadmissible payment of US \$ 3050 (equivalent to Rs 1.08 lakh). In view of this observation of Audit, CIL had so far

recovered Rs. 0.61 lakh from 32 officials and action for recovery of the balance Rs. 0.47 lakh was in progress (October 2001)

2.1.3 *Payment of personal expenses*

Examination of statement of expenditure rendered by 20 Senior executives of CIL and 6 of its subsidiaries (CMPDIL, NCL, MCL, BCCL, SECL and WCL) in respect of 30 foreign tours revealed that expenses aggregating US \$ 7295 (equivalent to Rs 3.14 lakh) were purely of personal nature such as laundry/pressing charges, mini bar beverage, breakfast, movies, trolley charges, etc., which were not admissible. While accepting the observation of Audit, the Management stated (May 2000) that recoveries would be made in due course after examination of records.

2.1.4 *Excess payment of DA during training period*

GOI as well as CIL's guidelines stipulate that in respect of persons deputed on training abroad, full DA shall be applicable for the first 14 days, and 75 per cent and 60 per cent of full DA would be admissible for the next 14 days and thereafter respectively. Where the person was treated as State guest and was provided with meals free of cost only 25 per cent of full DA was admissible. Contrary to this, full DA for the entire period of training from January 1997 to June 1997 was paid by CIL and its 8 subsidiaries to 47 officials who were deputed to Australia and China for training and whose expenses were borne by the sponsors. This resulted in over payment of US \$ 27380 (equivalent to Rs 9.37 lakh).

The Management stated (May 2000) that the DA for the sponsored programme of training abroad was paid as per CIL circular of November 1995. The reply is not tenable, as the payment was contrary to GOI guidelines

2.1.5 *Non-remittance of accounts*

As per GOI guidelines of September 1995 employees of PSUs on return from tour abroad were to render account for all items of PDA (excluding DA paid at MEA rates) and refund the unspent balance in foreign currency. A test check of records revealed that in respect of 74 foreign tours undertaken by the officials of the CIL and its subsidiaries during the period from April 1996 to September 1997 no account was rendered for an advance of US \$ 126305 (equivalent to Rs 45.26 lakh) drawn by them to defray expenses on hotel accommodation, transport, telephone charges, etc. This was due to non-framing of instructions by CIL as per GOI guidelines regarding remittance of account.

CIL issued instructions for rendering account on return from tour for the PDA drawn for the first time in November 1997. In spite of these instructions 37 officials did not render account for US \$ 66790 equivalent to Rs 26.02 lakh drawn by them during the period from November 1997 to May 1998. The Company did not take any action against the defaulting officials. Thus, failure of the CIL and its subsidiaries to insist upon submission of detailed account for the advance paid in contravention of the GOI guidelines resulted in irregular payment of Rs.71.28 lakh.

While admitting that systematic records with regard to advances allowed on foreign travel were not maintained, the Management stated (May 2000) that adjustment of expenses on foreign tour prior to November 1997 was guided by CIL circular of November 1995. Thus the failure to insist upon submission of account for the advance paid in foreign currency, resulted in violation of the GOI guidelines in this regard.

2.1.6 Adjustment of expenses incurred on visits to countries not authorised

2.1.6.1 Examination of records of SECL revealed that Shri GK Jha, CMD of the Company was nominated to attend 17th Congress of World Energy Council meet at Houston, USA scheduled to be held on 14 September 1998. His tour was approved from 10/11 to 16/17 September 1998. On his way to Houston the Officer visited Tokyo, Honolulu, Dallas and stayed there from 10 September to 13 September 1998 and reached Houston on 14 September 1998. Again on way back he visited New York, Paris, and London and returned to India on 24 September 1998. There was no approved programme to visit all these countries. At the time of rendering account in December 1998 against advance drawn the CMD included expenses of hotel accommodation for stay at Tokyo, Honolulu, New York, London and for transport at Tokyo, New York and London. Similarly on foreign travel to China from 8 November 1997 to 17 November 1997 and UK from 3 December 1998 to 5 December 1998 the CMD included in his account expenses on hotel accommodation at Singapore for other members of the delegation. The personal expenses like purchase of mementoes, etc., and his over stay at UK from 5 December 1998 to 7 December 1998 were also adjusted in the account rendered for the amount drawn against the above tour. The total unauthorised expenses adjusted by the CMD during the above travels worked out to US \$ 8638.79 (equivalent to Rs. 3.50 lakh).

2.1.6.2 A team of 5 executives of CIL and its subsidiaries on return from tour to Russia for procurement of spares adjusted US \$ 803.75 (equivalent to Rs. 0.34 lakh) for stay and transport at Paris on way back to India.

2.1.6.3 Similarly the Director (Personnel and Industrial Relations) of CIL on return from tour to Bratislava adjusted US \$ 480 (equivalent to Rs. 0.21 lakh) for stay and transport at Paris.

The Management stated (May 2000) that after examination of all cases recovery would be effected from officials if found to have been adjusted wrongly.

2.1.7 Tour without approval of competent authority

Examination of records revealed that during the years 1997-98 to 1999-2000, 11 officials of MCL and CMPDIL visited Nepal, Tanzania, Indonesia and Philippine without the approval of competent authority. This resulted in unauthorised expenditure of Rs 8.66 lakh. The Management of MCL contended (August 2000) that sponsoring to Nepal was in practice since long and none had objected. It was further stated that in future all nominations to Kathmandu will only be made after approval of Chairman, CIL.

2.1.8 *Non- submission of TA adjustment bills*

As per codal provisions of CIL, travel allowance (TA) bills were to be submitted immediately after completion of tour. It was observed that out of 346 TA bills due for submission by the officials of CIL and its subsidiaries for the years 1997-98 to 1999-2000, TA adjustment bills were received only in 52 cases. The Management stated (August 2000) that upto 1997-98 payments for foreign travel were made on lump sum basis and there was no system of submission of TA bill. Even after 1997-98 detailed TA bills were not forthcoming in all cases as only 11 out of the 110 bills due for submission were received for the years 1998-99 and 1999-2000.

The matter was referred to the Ministry in May 2001; their reply was awaited (October 2001).

CHAPTER 3: MINISTRY OF COMMERCE

MMTC Limited

3.1 Import and domestic distribution of fertilisers

3.1.1 Introduction

MMTC Limited (Company) was the canalising agency for import of fertilisers from 1970 onwards and was undertaking the import of fertilisers as per the requirements specified by the Department of Fertilisers (DOF) under the Ministry of Chemicals and Fertilisers. Consequent upon the decontrol and decanalisation of phosphatic and potassic fertilisers in August 1992, the Company began importing Di Ammonia Phosphate (DAP), Single Super Phosphate (SSP) and Muriate of Potash (MOP) and distributing the same through distributors appointed by them. The Company, however, continued to procure urea as per the requirements of DOF. The Company ventured into domestic distribution of fertilisers during 1994-95. From 1995-96 onwards, it entered into pool handling* arrangements of imported urea on a commercial scale for distribution in the domestic market. Fertilisers distributed in the domestic markets were received in bulk at the ports, unloaded from the vessels, bagged under the Company's trade name and despatched to consuming centres for final distribution to the farmers through appointed dealers/distributors.

3.1.2 Scope of Audit

The review covers the fertiliser transactions of the Company, bringing out the trading performance of the Company for the years 1993-94 to 1999-2000. Almost all the regional offices (ROs) carried out some activities relating to import and domestic distribution of fertilisers but the major activities in this area were carried out by six ROs at Delhi, Kolkata, Chennai, Ahmedabad, Mumbai and Hyderabad. Out of the above, the ROs at Delhi, Ahmedabad, Chennai and Visakhapatnam were selected for test check by Audit. The Company's trading activities in fertilisers can be mainly classified under the following categories:

- (i) Import of non-canalised fertilisers;
- (ii) Pool handling of imported urea;
- (iii) Domestic distribution of non-canalised fertilisers and pool urea; and
- (iv) Import of canalised urea on behalf of Government.

* Domestic distribution of urea imported on behalf of the Government

The working of the Company in respect of these areas has been discussed in the succeeding paragraphs.

3.1.3 Import of Non-Canalised Fertilisers

3.1.3.1 The Company did not draw up any procurement plan for import of fertilisers for distribution/domestic sale before commencement of each cropping season by obtaining the projected sales figures from the various ROs and taking into consideration, the anticipated domestic consumption of fertilisers. No annual sales/purchase budget was drawn up by the Company.

The Management stated (September 1999) that the Company definitely made plans for import of fertilisers for distribution/domestic sale. They also stated that before going into each purchase, a justification was included in the related Sale/Purchase Committee (SPC) note. The Ministry stated (June 2001) that as a matter of fact all decisions of purchase of fertilisers were always preceded by detailed study and procurement plan based on market feed back. Moreover, the justification for purchases based on demand was always contained in the proposals before SPC. The contention of the Management/ Ministry is not tenable because the Company's fertiliser division itself had confirmed (July 1999) that they were not aware of any annual procurement plan for these years. Further, preparation of justifications in SPC notes on adhoc basis for each purchase was not a substitute for overall annual procurement planning.

3.1.3.2 As evident from Annexure-II and Annexure-III, the Company's share in import of DAP during 1993-94 (25240 MT) with reference to all India import (1569000 MT) of this fertiliser was 1.59 per cent. Due to lack of planning in the procurement plans without taking into account the prospects of marketing, the Company resorted to heavy imports of this fertiliser during 1994-95 (54962 MT) and 1995-96 (228109 MT) in its endeavour to achieve the targets of imports and raised the Company's share of imports to 6.94 per cent and 15.45 per cent respectively. As a result of heavy imports in excess of requirement and Company's failure in marketing this quantity, the Company did not import any quantity of DAP during 1996-97. During the subsequent three years ended 1999-2000, the Company's share of import in DAP ranged between moderate levels of 3.35 to 4.80 per cent.

Similarly, the Company's share in import of MOP commenced with 7.40 per cent in 1994-95 (157446 MT). Despite having not been able to market this quantity, the Company maintained the trend with the import of 145346 MT of MOP in 1995-96 registering 6.15 per cent share with reference to all India imports of this fertiliser.

Excessive imports of the fertilisers in disregard to marketing arrangements resulted in avoidable piling up of inventory and inventory-carrying cost as discussed in the subsequent paragraphs of the review.

The Ministry stated (June 2001) that as the Company's share of import of DAP/MOP went up during 1995-96, it ventured for full-fledged domestic distribution of fertilisers. Therefore, building up of stocks was essential for positioning the fertilisers at the point of sales before the season. However, due to subsequent market conditions and other

logistical factors the sales were not as expected. As such the stocks had to be carried over to subsequent seasons and further imports reduced. The reply of the Ministry is not convincing as heavy procurements were made by the Company only to achieve the targets for imports without considering the market trends.

3.1.3.2.1 The Company had not prepared any purchase manual of its own. However, the Board had delegated powers to the SPC to consider and approve all commercial transactions exceeding the value of Rs.5 crore. Further, the Company also approved (December 1995) a policy according to which no *ex-post facto* approval was allowed in regard to purchases. However, in contravention of the above, in most of the cases (a) no open tenders were invited; and (b) purchases above the value of Rs.5 crore were made without taking approval of the SPC. As a result, *ex-post facto* approvals of SPC were obtained in a number of cases.

The Management, in its reply (September 1999) which was also endorsed (June 2000) by the Ministry, stated that wherever approvals of the SPC were not obtained due to urgency, *ex-post facto* approvals were taken. The fact remains that the Management did not follow its policy regarding standardisation of purchase proposals.

3.1.3.3 Performance Analysis

3.1.3.3.1 During the year 1994-95, the Company purchased a quantity of 54962 MT of DAP valuing Rs.42.15 crore and 157446 MT of MOP valuing Rs.49.93 crore, out of which, sales amounted to only 27134 MT of DAP valuing Rs.21.14 crore and 15307 MT of MOP valuing Rs.5.02 crore, leaving unsold stocks of 32989 MT of DAP valuing Rs.26.43 crore and 140620 MT of MOP valuing Rs.58.98 crore as on 31 March 1995 (Annexure-II).

3.1.3.3.2 Additional tonnage of 228109 MT of DAP valuing Rs.186.19 crore and 145346 MT of MOP valuing Rs.51.53 crore were purchased during 1995-96, out of which sales amounted to 114897 MT of DAP valuing Rs.107.76 crore and 137156 MT of MOP valuing Rs.52.25 crore were effected. Thus, the closing stock was 142568 MT of DAP valuing Rs.131.40 crore and 147650 MT of MOP valuing Rs.72.29 crore (Annexure-II).

3.1.3.3.3 Despite having huge stocks at the end of the year 1994-95, the Company went into heavy purchases in the following year, due to which stock accumulations at the end of the year 1995-96 increased considerably, resulting in heavy inventory carrying cost amounting to Rs.26.91 crore during the years 1994-95 to 1996-97 in respect of DAP and MOP (Annexure-II).

The Management stated (September 1999) that in order to achieve corporate targets, it was necessary to make the purchases. The Management's reply overlooks the fact that trying to achieve purchase targets, while facing the risk of accumulating stocks, was not a commercially judicious decision and resulted in heavy inventory carrying cost.

The Ministry also stated (June 2001) that the imports made during 1995-96 were, mainly, for domestic distribution during the Kharif and Rabi Season. Prior procurement was

essential to position the products well in advance as per plan of distribution for domestic fertilisers. It was further clarified that the purchases were not being made to fulfill purchase plan only but to meet the market requirement which, however, did not materialize due to subsequent developments in the domestic market of fertiliser and logistical problems.

The reply of the Ministry is not tenable in view of the fact that the Company could have deferred the shipments* and prevented accumulation of stocks, as the fact of pace of movement of stock was below expectations and position of unsold stocks at the end of 1994-95 was in its knowledge. While allowing the imports of the fertilisers, the Management did not take into account the availability of these fertilisers in the country.

3.1.3.3.4 The Company entered into a contract with M/s. Cargil Fertilisers Inc. USA (seller) in June 1995 for the import of two consignments of cargo of DAP. Each consignment was to be of a minimum of 22500 MT and a maximum of 33000 MT at seller's option, with the delivery schedule of one shipment each in August and September 1995 at US \$ 241.80 PMT and US\$ 243.80 PMT respectively. The rates were enhanced to US\$ 250.30 PMT and US\$ 252.30 PMT respectively in August 1995 with 180 days free credit from the date of bill of lading. However, in terms of the contract, the seller did not guarantee any date or period for arrival of cargo in India.

The first shipment of 28897.96 MT of DAP was despatched on 4 September 1995 by the seller against the lot of August 1995. The second shipment was despatched on 21 September 1995 with a quantity of 22755.92 MT against the September lot. Although the vessel arrived at Kandla on 23 October 1995, it could not get a berth upto 15 December 1995, due to heavy congestion at the port. At this stage, the position was reviewed and it was observed that the availability of DAP in the country was in excess of the requirement. The SPC, therefore, decided to sell the cargo on high seas on 'no-profit no-loss' basis and absorb the demurrage incurred upto 17 December 1995. The Company realised an amount of Rs.15.87 crore after adjusting demurrage and other losses against the cost price of Rs.18.04 crore. The Company, thus, sustained a loss of Rs.2.16 crore in the transaction.

At the time of entering into the contract (June 1995), the Company had a stock of 41390 MT of DAP and that at the time of amendment of the contract (August 1995), the Company had a stock of 159285 MT of DAP available with it. Thus, considering the low sales of DAP during the previous years as well as during 1995-96 and the availability of 159258 MT of stock with it, the decision to import more DAP and set out a plan for marketing 3 lakh MT of DAP during 1995-96 was overoptimistic.

The Management stated (September 1999) that in order to avoid further losses to the Company, it was decided to sell the material on 'no-profit no-loss' basis. The Ministry stated (June 2001) that had the Company decided to receive the said cargo the loss could have been much higher on account of heavy demurrage and subsequent problem in disposal of stocks due to lack of demand for DAP in the country. The fact remains that

* *Report of the Subgroup headed by the CMD as constituted by the Board of Directors in their 287th meeting to study the draft Audit Report.*

the Company should not have opted for the import, which resulted in an avoidable loss of Rs.2.16 crore.

3.1.3.3.5 Majority of vessels carrying fertilisers, handled at Kandla port, completed discharge during August-November 1995. Subsequently, bulk cargo was despatched to hinterland areas, which took 2 to 9 months to reach their destinations.

The Management, while accepting the delay, stated (September 1999) that it was mainly due to unseasonal rains, congestion at Kandla Port and delay in allotment of rakes. The Ministry stated (June 2001) that the circumstances, were unforeseen in nature and, therefore, such situations, could not have been anticipated in advance and planned. The replies are not tenable as delay in respect of only 2 vessels out of 7 cargos of DAP and MOP was due to unseasonal rains. The Company could not clear the other cargos due to (a) rebagging of cargos necessitated by the extremely poor quality of HDPE bags supplied by the suppliers and (b) non-removal of fertilisers from a previous cargo, as the Company could not arrange trucks well in time. This also showed lack of planning at the time of fixation of the delivery schedule, keeping in view the congestion at the port, already known to the Management and making necessary prior arrangements for rakes well in time.

3.1.3.4 Working results

3.1.3.4.1 Working results of the Company in respect of MOP, DAP and SSP for the last six years ending 31 March 2000 (Annexure-IV) show that the Company incurred recurring losses in disposal of SSP in all the six years. Except in the case of DAP during 1994-95, 1998-99 and 1999-2000 and in the case of MOP during the years 1995-96, 1997-98 and 1998-99, the Company sustained heavy losses during these six years. These losses were attributable, mainly, to higher cost of procurement and distribution. Excessive purchases resulted in piling up of inventory. Consequently, the Company had to bear avoidable inventory carrying cost besides loss in selling the fertilisers at reduced selling prices.

The Ministry stated (June 2001) that the reduction in maximum retail price (MRP) by the Government during 1995-96 and 1996-97 particularly for Rabi period, which was the main consuming period of DAP and MOP, was unforeseen. The Company had to sell the maximum tonnage during the above period to avoid inventory carrying cost and further reduction of MRP.

The reply is not tenable in view of the fact that the scheme of special concession on phosphatic and potassic fertilisers was continued during 1995-96 and the Government further increased the rate of special concession from 6 July 1996.

3.1.3.4.2 During 1995-96, the Company imported four vessels of DAP (107470 MT) from two suppliers viz. M/s. Arab Potash Company (APC), Jordan and M/s. Cargil of USA. Letters of credit (LCs) were opened under Banker's Acceptance Facility (BAF) with 180 days credit. The Company paid Rs.11.03 crore due to the exchange fluctuation in the currency. Had the Company opted for forward cover to hedge the fluctuations in

currency, the Company could have saved a net amount of Rs.7 crore after adjustment of forward cover charges.

The Management stated (September 1999) that no forward cover was provided by the bank for covering the payments under the BAF scheme. The reply is not tenable since taking of forward cover was the responsibility of the Company itself and was not to be provided by the bank on their own.

The Ministry stated (June 2001) that the exchange fluctuations of such violent nature were unforeseen. Moreover, as the imports were covered under BAF scheme, forward cover facility was not available for the same. The Ministry's reply is not correct as risk in respect of unforeseen fluctuation of violent nature in the foreign currency was normally covered by obtaining a forward cover for the period of credit facility on payment of premium to the bank in advance.

3.1.3.4.3 There was a stock of 140620 MT of MOP as on 31 March 1995, which was sufficient for the Kharif 1995 marketing season (The previous year's sale was 15307 MT for both Rabi and Kharif seasons). Ignoring this fact and departing from established procedures like tendering, comparative analysis of rates, mandatory approval of the SPC etc., the Company ordered for purchase of a further quantity of 125000 MT hurriedly on 29 May 1995 from Israel when the Chairman-cum-Managing Director (CMD) of the Company was on his visit to that country. The Company obtained *ex-post facto* approval of the SPC on 30 May 1995 i.e. after placement of the purchase order. Of the opening stock of 140620 MT and further purchases of 145346 MT of MOP, the Company could dispose of only 137156 MT of the fertiliser leading to increased closing stock of 147650 MT as on 31 March 1996.

The Ministry stated (June 2001) that the deal with Israel was finalised to meet the requirement of Rabi 1996 (October 1995 to March 1996). Reply of the Ministry overlooked the fact that in view of reduced demand of MOP, the stocks of MOP remained in hand and hence fresh import for Rabi 1996, should have been reviewed in the light of the above. It is pertinent to mention that deal of MOP from Israel was finalised during the visit of CMD to that country in May 1995 whereas the projected demand was to be met during October 1995 to March 1996, and there was no urgency in issuing purchase order without the approval of SPC.

3.1.3.4.4 The Company procured (March 1996) 1720 MT of granulated single super phosphate (GSSP) for export to Bangladesh. The Company's export licence was valid upto 31 March 1996. Though there was no firm order from Bangladesh, the material was procured and despatched to Kolkata (March 1996) to be kept in the West Bengal State Warehousing Corporation godown with instructions to the RO Kolkata to explore the possibilities of exporting this material to Bangladesh before 31 March 1996. The landed cost of GSSP at Malda was Rs.3279 PMT. The GSSP could not be exported to Bangladesh till November 1996, when an offer from M/s. APNACO Corporation was received for uplifting of material for export to Bangladesh at US\$ 96 (Rs.3408) PMT to which the Company did not agree in the hope of getting a better price ranging from US\$ 105 to 108 PMT. Meanwhile, the Bangladesh Government imposed a ban (February 1997) on the import of GSSP. The material deteriorated with the passage of time and

1500 MT of substandard GSSP was ultimately sold in the domestic market (February/March 1998) for Rs.30 lakh at a reduced price of Rs.2000 PMT. The remaining 220 MT could fetch (August 1998) just Rs.3.68 lakh at a further reduced rate of Rs.1673 PMT. Thus, the Company sustained a loss of Rs.28.01 lakh on the sale of 1720 MT of GSSP due to procurement of the material in haste without confirmed export orders in hand. This loss could have been avoided, had the Company accepted the offer of APNACO for US\$ 96 per MT in November 1996.

The Ministry stated (June 2001) that the procurement of GSSP was planned for export to Bangladesh. However, due to sudden change in the policy of Bangladesh, GSSP could not be exported to Bangladesh and ultimately the material was sold in domestic market, which resulted in loss. Reply of the Ministry is not tenable as the ban on import of GSSP was imposed by the Bangladesh Government much after the procurement of GSSP by the Company.

3.1.4 Pool handling on imported urea

The Company diversified into the business of domestic marketing and distribution of pool urea from 1994-95 when it handled 41000 MT of urea of Paradeep Phosphates Limited (PPL). Tenders for domestic distribution of canalised urea called 'pool urea', imported at various ports, were invited by DOF every year. The handling agents appointed by DOF were required to handle imported fertilisers on the basis of ownership of material under the overall guidance of DOF. The ownership was to be transferred to the agents while the vessels were on high seas. The handling agents were to make all the arrangements for unloading, bagging and movement of material from the ports. The table below indicates the total quantity of pool urea (port-wise) handled from 1995-96 to 1997-98 subsequent to which the Company withdrew from this trade:

(Quantity in lakh MT)

Year	Chennai	Kandla	Visakhapatnam	Paradeep	Total
1995-96	2.41	2.44	-	-	4.85
1996-97	-	-	1.76	1.02	2.78
1997-98	-	-	-	0.97	0.97

3.1.4.2 Working results

3.1.4.2.1 The table below indicates the working results of the Company in respect of pool urea during the years 1995-96 to 1999-00:

(Rupees in crore)

Year	Turnover	Profit(+)/Loss(-)	Percentage of loss to Turnover
1995-96	93.94	(-) 8.55	9.10
1996-97	111.80	(-) 10.33	9.24
1997-98	33.17	(-) 6.18	18.63
1998-99*	13.53	(-) 5.29	39.09
1999-00*	5.36	(-) 3.63	67.72
Total	257.80	(-)33.98	13.18

* The figures against these years relate to disposal of old stock of urea.

3.1.4.2.2 The Company sustained recurring losses aggregating Rs.33.98 crore from 1995-96 to 1999-2000 in pool urea without taking into account the inventory-carrying cost of Rs.24.58 crore. The main reasons for the losses in handling pool urea were (i) higher cost of secondary transportation; (ii) higher cost of bags; and (iii) lesser realisation than estimated earnings on account of despatch and freight reimbursements. Despite losing Rs.8.55 crore and Rs.10.33 crore in the 1995-96 and 1996-97, the Company continued with the business till the end of 1997-98 and suffered further losses of Rs.15.10 crore. The Management accepted (September 1999) that the secondary transportation cost was higher as the Company was a new entrant and had to transport the material to distant places as well. They also stated that a conscious decision was taken to enter into the area of pool handling. It was unwise on the part of the Company to continue in this field when it was incurring losses from the very beginning.

The Ministry stated (June 2001) that keeping in view the practical difficulties of pool handling of urea operations together with the profitability, the Management purposely reduced its exposure gradually and closed the operation after 1997-98.

3.1.4.3 During 1995-96, the contract for domestic distribution of urea was bagged by PPL. The Company (MMTC) acted as a consignee agent on behalf of PPL and undertook domestic distribution work. Subsequently, during 1996-97 and 1997-98, the Company secured the contract itself for pool urea.

3.1.4.3.1 It was seen in Audit that the approval of the SPC/Board was not obtained while entering into the business of pool urea in the capacity of consignee agent for and on behalf of PPL during the year 1995-96. The Memorandum of Understanding (MOU) with PPL was signed on 9 November 1995 and the *ex-post facto* approval of the SPC was obtained on 16 January 1996. Similarly, approvals of the SPC were not obtained before participation in pool urea distribution and marketing for the year 1996-97. For the year 1997-98 also, the SPC accorded *ex-post facto* approval.

3.1.4.3.2 From the above, it would be seen that the very purpose for which the SPC was constituted and delegated powers by the Board was defeated. The Committee had been giving *ex post facto* approvals for what had already been done by the Division and that too, in contravention of the policy of the Company regarding *ex-post facto* approvals.

The Management stated (September 1999) that *ex-post facto* approvals of the SPC were obtained so as to ensure that only the complete and factual position was placed before the SPC. The contention of the Management is not tenable as seeking *ex post-facto* approval for matters relating to purchase proposals were in contravention of declared policy guidelines of the SPC. The Ministry stated (June 2001) that once the tender was awarded in favour of MMTC, all the facts were put before SPC and necessary approvals were obtained for the arrangement. The fact remained that the Company entered into the business of pool urea with PPL on 9 November 1995 overruling the deficiencies in the arrangement pointed out by Finance Division of the Company. The Ministry did not also clarify the reasons for entering into similar arrangement for the year 1996-97, despite the fact that SPC had given specific directives to obtain prior approval.

3.1.5 Domestic distribution of non-canalised fertilisers and pool urea

The Company started the distribution of non-canalised fertilisers including pool urea on a commercial scale in the domestic market from 1995-96 onwards.

3.1.5.1 Appointment of handling agents

During a test check of cases of appointment of clearing, forwarding and stevedoring agents, it was noticed that:

- (a) no proper guidelines were laid down by the Company regarding appointment;
- (b) they were appointed without quotations/tenders being called; and
- (c) work orders were issued without executing formal agreements.

The Management stated (September 1999) that the instructions relating to appointment of clearing and handling agents were issued in August 1998. They also stated that in semi-urban/rural areas, agents had to be appointed from locally available options. While accepting that in some cases, agreements were executed at later stages, the Management stated that its interests were not affected due to non-execution of contracts. The Management also confirmed that all these standard formats were generally vetted by their legal department. The reply of the Management is not tenable as non-execution of contracts was a system lapse, which resulted in losses and legal complications as discussed in succeeding paragraph 3.1.5.1.1. Management's reply clearly brings out the fact that the instructions regarding appointment of agents were issued at a time when the Company had stopped participating in pool handling tenders.

The Ministry stated (June 2001) that in certain locations where rakes were moved to semi urban/ rural areas, clearing and handling agents had to be appointed from the local available options. In such cases, quotations/offers were obtained from parties having experience in handling such rakes and contract awarded to meet the exigencies of work. The Ministry further stated that agreements were finalized with the handling agents but sometime for want of one reason or other, signing of the agreements was delayed. However, with a view to ensuring that the operations were not affected, work orders were issued and agreements were executed subsequently. They also added that the Management had issued instructions (August 1998) wherein proforma for entering into agreement had been devised and circulated to all the Regional Offices. The Ministry's reply confirms the deficiencies pointed out by Audit and also that instructions regarding appointment of agents were not issued at a time when the Company was in the business of import and domestic distribution of pool urea.

3.1.5.1.1 Excess payments were made to clearing, forwarding and stevedoring agents, recovery of which was not certain, as the Company was not holding adequate security. Some examples of such cases are discussed below:

3.1.5.1.1.1 M/s. J.M. Bakshi was appointed as a clearing, forwarding and stevedoring agent for handling domestic fertilisers at Kandla Port for 1995-96. The work order for DAP handling was issued without executing any formal agreement.

During 1995-96, 10 ships of urea and 5 ships of DAP were handled by the agent. The agent was found responsible for huge shortages totalling 2306 MT of the fertilisers valuing Rs.1.57 crore* over and above the allowable shortage of 0.5 per cent. After adjusting the amount of Rs.66.44 lakh payable to the party, the balance of Rs.90.92 lakh was still unrecovered/unadjusted (31 March 2001). Besides that, the agent owed to the Company Rs.17.06 lakh towards railway freight and Rs.4.06 lakh towards wharfage refunds received by him from Kandla Port Trust on behalf of the Company. Thus, funds of the Company totalling Rs.1.12 crore could not be recovered since 1996. Arbitration proceedings against the party were initiated only in May 1999, and were in progress (March 2001).

The Ministry stated (June 2001) that necessary action for recovery of its dues of Rs.1.12 crore would be taken as soon as the arbitration award was announced.

3.1.5.1.1.2 M/s. Sanco Trans Limited was appointed as a clearing, forwarding and stevedoring agent for handling urea on 18 July 1995 and for handling MOP/DAP on 15 September 1995 at Chennai port for the year 1995-96. During the year, the agent handled several vessels of urea and DAP/MOP. The Company incurred a loss of Rs.80.95 lakh in the handling of urea, mainly due to shortages and shortfall in sale price of urea on account of discolouring, caking up attributed by the Management to the negligence of the agent. In case of MOP, the Company had to pay demurrage of Rs.1.03 crore to the supplier due to delay in discharge of the cargo caused by the handling agent. After adjusting the handling charges payable (Rs.1.39 crore) to the party, the net recoverable balance of Rs.45.19 lakh still remained unrecovered (March 2001) apart from loss of interest. Arbitration proceedings were initiated in March 1999 (MOP) and June 1999 (urea), and were in progress (June 2001).

The Management stated (September 1999) that arbitration cases were still pending to recover the above mentioned amount. The Ministry stated (June 2001) that the Company's claim against the handling agent M/s. Sanco Trans Limited was mainly on account of demurrage for MOP vessel for which settlement with the suppliers was made in January 1999 and its claim for urea could be quantified only on liquidation of urea stocks. Accordingly, arbitration proceedings were initiated against M/s. Sanco Trans Limited only in March 1999 and June 1999 for MOP and urea respectively. The Ministry's reply does not address the issues relating to loss that arose due to shortage and shortfall in sale price of urea on account of discolouring, caking up. Notwithstanding the fact that the Company made the payment of Rs.1.03 crore to the suppliers towards demurrage in January 1999, the handling agent was responsible for the same and the Company had not been able to recover the balance of dues of Rs.45.19 lakh from him so far (June 2001).

* The Company lodged claims for recovery of Rs.1.48 crore for shortages of 2202.49 MT.

3.1.5.2 Appointment of stockist/distributors

The Fertiliser Manual of the Company stipulated that dealers were to be appointed after due selection. However, it was observed in Audit that the antecedents of the parties were not verified before entering into agreements with them. In several cases, stock was handed over to the parties without obtaining adequate security to safeguard the interest of the Company. This resulted in several court cases. Twenty-three court cases involving dues/claims of Rs.8.06 crore were pending (March 2001).

3.1.5.2.1 A review of some of the cases revealed the following:

3.1.5.2.1.1 The Company entered into an agreement with M/s. Vridhishree Marketing and Services Limited (VMSL), Patna for handling and storing its fertilisers in Patna Division. As per the agreement, the party was required to give a bank guarantee for Rs. 5 lakh as security deposit and blank cheques with a covering letter as security for stored goods. Subsequently, in November 1997, the bank guarantee amount of Rs.5 lakh was raised to Rs. 15 lakh.

On receipt of a complaint regarding misappropriation of stock by the party, an enquiry was conducted which revealed (December 1997) that (i) the Managing Director of VMSL had earlier defrauded Hindustan Fertiliser Corporation Limited, a public sector undertaking, to the tune of Rs. 20 lakh and (ii) several other irregularities viz. stock worth Rs.5 crore being held by M/s. VMSL against the bank guarantee of Rs. 5 lakh, shortage in the number of bags, return of 700 MT of old stock by VMSL, etc. The enquiry officer suggested that all fertiliser stock lying in private godowns should be transferred to Central Warehousing Corporation (CWC)/State Warehousing Corporation (SWC) godowns immediately. However, the Management neither shifted the material nor liquidated it. A task force formed (September 1998) for disposal of fertilisers noticed (February 1999) a shortfall of over 4000 MT with VMSL and served a notice on them for shifting the material from their warehouses. On 5 February 1999, VMSL accepted that they sold 4434 MT of urea valuing Rs.1.49 crore on credit basis from various godowns. This sale was done without the concurrence of the Company. On shifting of material in March 1999, it was found that there was a shortage of 5327.92 MT of fertilisers including the credit sales effected by VMSL.

Thus, lack of control over the stock lying with the handling agent, resulted in the misappropriation of 4434 MT of urea valuing Rs.1.49 crore and a shortage of 893.92 MT of urea valuing Rs.30.07 lakh. Such a situation could have been avoided by (i) verification of the antecedents of the party before entering into the agreement, (ii) obtaining adequate security against stock and (iii) taking custody of the material immediately on conclusion of the enquiry.

The Management stated (September 1999) that the case was being investigated by the Vigilance Division and legal action for recovery of the Company's dues had also been initiated.

3.1.5.2.1.2 M/s. Lucky Trading Corporation (LTC), Bhopal, a pharmaceutical stockist and distributor, was appointed (April 1995) dealer and liaising agent of the Company at Bhopal for sale of fertilisers. While awarding the work, the specific description of duties to be performed by M/s. LTC, the quantum of orders to be obtained and the time frame for realisation of proceeds against the material sold were not decided. The arrangement with the agent was finalised on the basis of discussions held with them and no tenders/offers were invited from any party before their appointment. However, a formal work order was issued to them on 28 August 1995 appointing them marketing-cum-liaising agent for the year 1995-96. The agreement was renewed for 1996-97 in October 1996. Though the party was required to furnish a security deposit of Rs.5 lakh, the same was not obtained by the Company.

M/s. LTC proposed to purchase the stock of DAP, MOP and SSP at the prevailing rate in order to liquidate the old stock and the Company sold material worth Rs.42.63 lakh to them on credit basis against a bank guarantee of only Rs.25 lakh. As the Company did not reconcile their accounts periodically after allowing unsecured credit, the outstandings against M/s. LTC went upto Rs.85.97 lakh in September/October 1997, when M/s. LTC indicated that they were no longer interested in working as the liaison agent of the Company. After partial recovery and invoking of bank guarantee of the party in October 1997, an amount of Rs.44.74 lakh was still outstanding against the party as on 31 March 2001.

The Management stated (September 1999) that the matter was under vigilance scrutiny.

3.1.5.2.1.3 M/s. S.R. International, Karnal were appointed as stockist-cum-distributor by the Company for sale of fertilisers in some districts of Haryana including Karnal. The party misappropriated about 1500 MT of urea valued Rs.40 lakh stored in the godown during October 1995. A total amount of Rs.1.11 crore (including interest) was outstanding against the party as on 31st March 2001. Further, it was observed that the party had been appointed as buffer stockist-cum-distributor with a dealer margin of Rs.250 PMT even though another party had offered to accept a dealer margin of Rs.210 PMT.

The Management stated (September 1999) that the case was under vigilance investigation.

3.1.5.2.1.4 The Company appointed (October 1995) M/s. Gold Star Enterprises, Ludhiana as stockist/distributor for sale of fertilisers in some districts of Punjab. The party was stated to have sold about 12,000 MT of fertilisers in and around Ludhiana on credit basis for which payments to the tune of Rs.20 lakh were pending on account of disputes about the quality of the material. An amount of Rs.23.73 lakh had been outstanding against the party since February 1998.

The Management stated (September 1999) that the case was under vigilance investigation.

3.1.5.3 *Hiring of godowns*

3.1.5.3.1 The Company hired private as well as institutional godowns for keeping its fertiliser stocks. It was observed that (i) agreements with private godown owners were signed after storing the materials in their godowns, (ii) work orders had been issued before signing the final agreements and (iii) availability of space at the godowns of CWC/SWCs was not ascertained before hiring private godowns.

The Management stated (September 1999) that the godowns were hired from private parties as well as institutions for storing their goods in various districts at predetermined terms and conditions and rates duly accepted by the parties. In some cases, rakes arrived at destinations before formal agreements could be executed and in such cases, the work was allotted to the agents due to urgency. The agreements were entered into and got signed at a later stage in all such cases.

The Management's reply is not convincing as handling of fertilisers was a regular business of the Company and as such, action for inviting tenders/quotations and signing agreements should have been completed well in time i.e. before placement of letters of indent for purchase of fertilisers.

The Ministry, while endorsing the reply of the Management added (June 2001) that while all efforts were made to store the material at CWC/SWC godowns, there was no option but to store the material in private godowns in a few cases where availability of CWC/SWC godowns was not there. The contention of the Ministry is not tenable, as non-availability of capacity with CWC/ SWC godowns was not ascertained prior to hiring of private godowns.

3.1.5.3.2 The RO Kolkata appointed (April 1996) M/s. Narayanpur Agri and Agricultural Development Project (NAADP) as handling agents in a number of cases. They also hired their godowns. In terms of the agreement signed in June 1996 and valid till 9 January 1997, M/s. NAADP were required to furnish to the Company an interest free security deposit of Rs. 10 lakh, a bank guarantee of Rs.5 lakh and a fidelity bond of Rs.50 lakh to cover any probable loss/damage etc. NAADP executed two bank guarantees for Rs. 8 lakh and Rs.2 lakh only but did not furnish the cash security and fidelity bonds. The agreement was extended upto 9 January 1998. The Company issued a delivery order in favour of the agent in the last week of November 1996 for lifting the Company's DAP, MOP and urea from the SWC godown and their own godown. Cheques for Rs.50.19 lakh given by NAADP in this regard bounced (March 1997). In June 1997, NAADP approached the Company and issued fresh cheques in lieu of dishonoured ones for Rs.43.03 lakh being the final price but asked the Company to present them in July/August 1997. However, these cheques were also not cleared by the bank. In October 1997, the party again requested for extension of the time for payment. However, as NAADP had also misappropriated 284.85 MT of DAP and 1178.65 MT of urea valuing Rs.68.70 lakh, the Company invoked the bank guarantees of Rs.10 lakh in November 1997 and served a notice (November 1997) on the party to make the payment of Rs.1.09 crore towards the material lifted (Rs.40.43 lakh) alongwith the value of the fertilisers misappropriated (Rs.68.70 lakh) by them. Further, a civil suit as well as a criminal suit was filed against NAADP for the recovery of dues.

Thus, due to non-implementation of the terms of agreement, recovery of substantial dues of Rs.1.09 crore was involved in a legal tangle. The Management confirmed (September 1999) that criminal suits had already been filed against the party for recovery of the Company's dues.

3.1.5.4 Inventory

3.1.5.4.1 Annexure-V indicates the position of closing stocks of finished fertilisers for the last six years ending March 2000.

3.1.5.4.1.1 Annexure-V and Annexure -II read with paragraph 3.1.3.3 on 'Performance Analysis' reveal that excessive procurement of fertilisers by the Company during 1994-95 in the absence of an efficient mechanism for assessment of the requirements and to dispose of the stocks created a position wherein closing stock of MOP in terms of months' sale was as high as 141 during 1994-95 and 16.6 during 1995-96. In quantitative terms, the Company had to carry-over 140620 MT and 147650 MT of MOP at the end of 1994-95 and 1995-96 respectively. The closing stocks at the end of these years were more than the sales effected in the corresponding next year.

Inventory of SSP at the end of 1994-95 was equivalent to 86.85 months' sales and ranged between 3.82 and 17.21 during 1995-96 to 1999-2000. The closing stock of urea in terms of months' sales was 66.52 at the end of 1994-95 and ranged between 4.88 to 9.64 at the end of next five years ending 31 March 2000. Similarly, closing stock of DAP at the end of 1994-95 was equivalent to 15 months' sales

The Management/ Ministry offered no comments.

3.1.5.4.1.2 The Company constituted (September 1998) a task force for the liquidation of stock lying at various regions. At that time, the CMD of the Company directed the task force to liquidate the entire stocks of urea lying at all the places except Orissa by 31 January 1999. Despite this, as on 25 July 2001, the Company had 9604 MT of old urea the value of which had declined from Rs.2.88 crore* to Rs.1.81 crore resulting in loss of almost one crore of rupees.

The Ministry stated (June 2001) that despite efforts made by the task force for liquidation, the entire quantity could not be liquidated as the material being very old.

3.1.5.4.1.3 Age-wise analysis of the stock revealed that the movement of fertilisers was slow. In September 1998, the Company had more than 3 years old stock of fertilisers at a depleted value of Rs.4.52 crore. Similarly, the depleted value of the stock lying for (i) more than three years and (ii) the stock lying for more than two years was Rs.2.29 crore and Rs.1.35 crore respectively (March 2001).

The Management, while accepting the facts, stated (September 1999) that the slow movement of stocks was caused by the age of the stock and even after giving discount, the stock could not be liquidated. Reply of the Management confirms the fact the initial

* At a normal average price of Rs.3000 per MT

failure in disposal of the stock rendered it old which resulted in further slow movement and depletion in the value thereof with the passage of time.

3.1.5.4.2 In addition to the allowable shortage of 0.5 per cent in the handling/distribution of fertilisers, there was a shortage of 16558 MT of fertilisers valuing Rs.9 crore during the years 1995-96 to 1999-2000 (Annexure-VI).

The Management accepted the Audit observation and stated (September 1999) that the above shortages were due to misappropriation by certain parties for which claims had been lodged with the defaulters.

3.1.5.4.3 The major shortages occurred in RO, Delhi valuing Rs.2.71 crore (1614 MT of DAP and 3458 MT of urea) during the years 1995-96 to 1997-98 followed by RO, Mumbai with shortage of 1234 MT of DAP valuing Rs.1.15 crore during the year 1995-96, RO, Visakhapatnam valuing Rs.94 lakh (1825 MT of MOP) during the period 1995-96 to 1997-98 and RO, Calcutta valuing Rs.67 lakh (690 MT of DAP) during 1995-96 and 1996-97. It was observed that the RO Delhi was absorbing the shortages as a normal trading loss without carrying out detailed analysis and fixing responsibility.

3.1.5.4.4 Major shortages in private godowns were as follows:

S. No.	Name of the Party	Type of fertiliser	Quantity of shortage (MT)	Value (Rupees in lakh)
1.	Kiran Rama Fertilisers Barabanki	DAP	771	72.00
		Urea	1207	39.00
2.	Vinod Trading Company, Deoria	DAP	274	25.00
		Urea	27	0.85
3.	Daruka Fertiliser, Sitapur	Urea	499	16.00
4.	Narendra Kumar Raghav Kumar, Farrukhabad	Urea	517	17.00
5.	Radhey Shayam Trading Co., Hardoi	DAP	65	6.00
6.	Ghury Lal Mahesh Chandra, Agra	Urea	86	3.00
Total				178.85

The Management stated (September 1999) that criminal suits in respect of 2 parties, mentioned at sl. no. 1 and 4 in the above table had already been filed. In respect of the others, appropriate action for recovery was being considered.

In its subsequent reply (June 2000), the Management/Ministry did not report the progress in regard to (i) two criminal cases that had been filed and (ii) action taken for recovery from rest of the parties.

3.1.6 Import of canalised urea on behalf of GOI

3.1.6.1 Until 1993-94, the Company was the sole canalising agency for the import of urea. In 1994-95, National Fertilisers Limited (NFL) and Pyrites Phosphate and

Chemicals Limited (PPCL) were also authorised to import urea on behalf of the GOI. Due to failure of these companies to import urea as per the Government allocations during 1994-95, the Government authorised (April 1995) the State Trading Corporation of India Limited, (STC) also as the fourth canalising agency for the import of urea. Subsequently, Indian Potash Limited (IPL) was also nominated as a canalising agency during the year 1995-96. The Government also laid down (April 1995) a uniform procedure for procurement of urea to be followed by the canalising agencies which stipulated, *inter-alia*, that the contracts should be on free on board (FOB) basis and where the companies considered cost and freight (C&F) basis to be more profitable, they should obtain permission from Transchart, a department under the Ministry of Surface Transport.

3.1.6.2 To meet the requirements of DOF, the Company had been floating limited/global tenders from time to time with minimum 10 to 14 days' time for suppliers to furnish their bids. The tender notices were published in all leading newspapers. The bids were invited for supply on FOB basis and any supplier could participate in the tender. Bid bonds at the rate of US \$ 1 PMT were, however, required to be furnished by all the bidders. In the absence of bid bonds, the offers were not considered to be valid.

3.1.6.3 Working results

3.1.6.3.1 Annexure-VII indicates the gross profit earned by the Company in import and distribution of urea as a canalising agency on behalf of GOI during 1993-94 to 1999-2000. During this period, there was a nominal gross profit was Rs. 19.06 crore against the turnover of Rs.5904.03 crore. It would be seen from the Annexure that the percentage of profit to the turnover was very negligible throughout these seven years. The Company worked out the profit by taking into account the service charges received from DOF at the rate of Rs.17 PMT for these imports. No effect was given to the expenses incurred by the Company in meeting other overheads relating to these imports.

The Management stated (December 1999) that DOF did not take any decision to increase their service charges from time to time despite repeated requests made by them.

3.1.6.3.2 A review of the records by Audit revealed that the calculation of the gross profit did not take the following facts into account:

- i) Demurrage of Rs.1.41 crore paid to various suppliers in respect of various vessels for the period prior to the year 1994-95, which could not be recovered from the then Ministry of Agriculture, mainly due to non-reconciliation of lay time. The amount was adjusted by the Company from the dues payable to the GOI without obtaining consent of the GOI in this regard.
- ii) Despatch charges of Rs.45 lakh paid to various suppliers in respect of various vessels for the period prior to the year 1994-95, which could not be recovered from the DOF, mainly due to non-reconciliation of lay time. This amount was also adjusted against the dues payable to the GOI without obtaining any consent.
- iii) Despatch charges of Rs.6 lakh deducted by the Ministry of Agriculture in respect of various vessels for the period prior to 1994-95, which could not be recovered

from various suppliers, mainly, due to non-reconciliation of lay time.

- iv) Despatch charges of Rs.3.46 crore deducted by the DOF in respect of various vessels for the period from 1994-95 to 1997-98, which could not be recovered from various suppliers mainly due to non reconciliation of lay time.
- v) Non-recovery of the award amount of Rs.2.53 crore in respect of demurrage awarded and decreed (January 1997) against M/s. Quodros International, as the party's whereabouts remained untraceable.

If the above facts were accounted for in the working results, the gross profit of Rs.19.06 crore would be reduced to Rs.11.14 crore.

3.1.6.4 Physical performance

3.1.6.4.1 The year-wise quantities of urea imported by the Company vis-a-vis the requirements intimated by the GOI during the last 7 years ending 31 March 2000 was as follows:

Year	(Lakh MT)	
	Quantity to be imported as per Government of India	Quantity actually imported
1993-94	26.44	26.40
1994-95	28.90	28.88
1995-96	24.00	25.42
1996-97	14.50	12.58
1997-98	11.00	10.73
1998-99	3.50	2.57
1999-00	1.50	2.33
Total	109.84	108.91

The monthly requirements intimated by the GOI to the Company vis-à-vis actual arrivals thereagainst are available in Annexure-VIII.

The above table shows that the Company imported 142000 MT and 83000 MT of urea during 1995-96 and 1999-00 respectively in excess of the requirement indicated by the GOI. As regards, actual imports against monthly requirement, there were variations between the two, especially during October 1993 to March 1994, the whole of 1994-95 and 1995-96.

The Management attributed (December 1999) these variations to delayed procurement of vessels by Transchart and delayed arrivals of vessels at the discharge ports. The Ministry stated (June 2001) that in import of bulk quantity it was always not possible to import quantity accurately to the last tonnage as vessels were nominated on "plus minus" basis. Contention of the Ministry though valid for 1993-94 and 1994-95 is not applicable in respect of subsequent years when significant variations to the extent of (-) 26.57 per cent to (+) 55.33 per cent occurred between quantities imported by the Company and the quantity indented by the GOI.

3.1.6.4.2 A detailed analysis of the year-wise import of urea by the Company revealed the following:

3.1.6.4.2.1 To meet the requirement of the 1994-95 Kharif season, the Company floated (22 February 1994) a tender for import of 1 lakh MT of urea on FOB basis for shipment during 15 March to 30 April 1994. The Company received a total of 18 offers. The 10 lowest offers out of the above 18 had quoted derived landed price in the range of US\$ 130.5 to US\$ 144.35 PMT. It was noticed that one of the bidders had quoted for the full tendered quantity of one lakh MT at an FOB cost of US\$ 98.50 PMT. However, the SPC decided (15 March 1994) that since the rates quoted by the suppliers were on the high side, attempts should be made to get cheaper rates. It is interesting to note that even at that time, the SPC had felt that the prices may increase further. In this connection, it was also noticed that the SPC had earlier approved (from October 1993 to March 1994) purchases of urea at landed costs ranging from US\$ 128 PMT to US\$ 131 PMT.

The Company again issued (24 March 1994) a limited tender enquiry, inviting offers for import of urea on FOB basis for shipment during April/May 1994. As per the quotations received, the landed cost was in the range of US\$ 135 to US\$ 148 PMT. The SPC, considering these rates to be high, instructed to call for revised competitive offers. Accordingly, global tender was issued on 22 April 1994. As per the revised offers, the lowest landed cost was US\$ 143 PMT. Once again, the SPC did not approve the imports, considering the prices to be still on the higher side and decided (4 May 1994) to give counter offer to all the bidders working backwards on landed cost of US\$ 137.50 PMT. As the offers were on higher side, SPC on 5 May 1994 authorised CMD, Director (Finance) and CGM to negotiate the best possible prices for purchase of urea for prompt shipments along with finalisation of terms and conditions on long term basis. Following this, the SPC authorised the Company on 17 May 1994 to enter into a contract for import of 2.30 lakh MT urea at the rate ranging from US\$ 121 PMT FOB to US\$ 123 PMT FOB.

Thus, the decision of the SPC in February 1994 not to import urea at the FOB cost of US\$ 98.50 resulted in avoidable extra expenditure of US\$ 2.30 million (equivalent to Rs.7.14 crore) for one lakh MT.

The Management stated (December 1999) that Gulf producers had quoted prices, which were not in line with the prevailing market prices. The Management also stated that since the inventory of urea was comfortable, the Ministry told them to offer resistance to the suppliers and check the rising prices. They also stated that had they not shown resistance, the subsequent prices would have been much higher.

The reply of the Management is not tenable since the prices quoted by various suppliers were within the prevailing market rates as indicated in a chart prepared by them. No record was shown to indicate that the urea position was comfortable in the country. Due to less procurement of urea by the Company, the GOI had to nominate more agencies to import urea as stated in para 3.1.6.1 above. Even after showing 'resistance', the Company could not to keep the prices of urea at low levels and had to incur an extra expenditure of Rs.7.14 crore.

The Ministry stated (June 2001) that MMTC tried to negotiate with Gulf producers to get the price further reduced but they did not reduce the price by more than one dollar. The reduction in price was not upto the expectations of MMTC. Therefore, the Management in their meeting held on 15 March 1994 decided not to make any purchase and tried to source the material even outside the tender at a lower price. However, no contract could be concluded.

Thus, the fact remains that the Company incurred extra expenditure of US\$ 2.30 million (equivalent to Rs.7.14 crore).

3.1.6.5 DOF asked (February 1995) the Company to make necessary arrangement for importing 9 lakh MT of urea in the first quarter of 1995-96 at the rate of 3 lakh MT per month. Subsequently, DOF authorised (April and June 1995) the Company to import an additional quantity of 5.5 lakh MT urea for arrival between July to September 1995.

3.1.6.5.1 Against the target of 9 lakh MT for the quarter ending June 1995 as directed by the DOF, the Company actually imported 10.66 lakh MT. Further, in order to procure additional quantity of 5.5 lakh MT for the second quarter ending September 1995, the Company held negotiations with various parties without inviting tenders and could not finalise any contract as the offered rates of US\$ 181 to 182 PMT FOB were considered high. Besides, the Company even did not consider two offers of US\$ 185 and 190 PMT C&F.

3.1.6.5.2 The Company imported 1.53 lakh MT of urea at the rate of US\$ 192 PMT C&F from other suppliers (without inviting tenders) for the second quarter which resulted in net shortage in procurement of urea by 2.31 lakh MT. This also deprived the Company the benefit of economic offers during earlier negotiations. In order to procure urea on urgent basis, the Company negotiated contracts in September 1995 for purchase of 5.1 lakh MT at the rate of US\$ 210 PMT FOB.

The Management stated (December 1999) that there was no pending allocation from DOF in the month of July 1995. They also stated that they had only tested the market in that month. The reply of the Management is not tenable as DOF had allocated 14.5 lakh MT to be imported by the Company upto September 1995 against which, the Company could import only 12.19 lakh MT resulting in a shortfall of 2.31 lakh MT. Thus, by not purchasing the short quantity of 2.31 lakh MT required to be purchased in July 1995 at the prevalent rate of US\$ 182 PMT FOB, the Company incurred an avoidable extra expenditure of US\$ 6.47 million (equivalent to Rs.20.05 crore) on the procurement of this quantity, subsequently.

The Ministry stated (June 2001) that the Company had to make up the shortfall by entering into long-term contracts with Gulf suppliers @ US\$ 210 PMT FOB. MMTC procured 6.55 MT of urea for shipment upto March 1996 when three foreign suppliers failed to supply 1.5 lakh MT of urea at US\$ 199 C&F PMT. The reply of the Ministry overlooked the fact that the Company did not place order when two suppliers offered to sell urea at the rate of US\$ 185 and US\$ 190 PMT C&F as stated above.

3.1.6.5.3 The Company placed (15 July 1993) an order on M/s. Quadros International, Hong Kong (supplier) for supply of 25000 MT + 5 per cent of urea at a price of US\$ 78 PMT FOB. In accordance with the contract, the vessel Jag Shakti was nominated by the Company/Transchart, which was accepted by the supplier. The said vessel arrived at Yuzhny port on 29 September 1993 and waited for the loading of cargo. The vessel had to incur demurrage of US\$ 286640 for 44 days 10 hours and 18 minutes before cancelling of the fixture. The following amount was recoverable from the supplier due to non-performance of the contract.

a)	Difference in the contract price and the price on which the urea was purchased at risk and cost of M/s. Quadros	US\$ 3,02,513.95
b)	Demurrage incurred on the vessel Jag Shakti due to failure to load the material	US\$ 2,86,640.00
c)	Charges for establishing L/C	US\$ 5,788.45
	Total	US\$ 5,94,942.40 (Rs.2.53 crore)

The Company could not recover the above amount and went into arbitration. The arbitration award was given in favour of the Company on 10 October 1995 ex-parte and the same was made a ruling of the Court.

It was observed in Audit that the party was not in existence since beginning of the arbitration. Further, while entering into the contract, the Company did not verify the antecedents of the party. The case was also referred to the vigilance division in July 1997 when the alleged employees had either retired voluntarily or superannuated.

The Management stated (December 1999) that efforts had been made to locate the whereabouts of the supplier without any success.

The Ministry stated (June 2001) that the party had performed successfully four contracts earlier and this time only they could not perform and added that efforts were being made to locate whereabouts of the supplier. However, the fact remains that the party with whom the Company contracted was not an established one, which led to a loss of Rs.2.53 crore.

3.1.7 Other topics of interest

3.1.7.1 Loss due to failure to insure cargo

In 1995-96, the Company took a number of marine insurance policies for import of DAP/MOP cargos from different parts of the world to anywhere in India. As per the terms of the insurance policies, validity of the policies expired 60 days from the completion of discharge. During a test check of insurance claims, it was observed that the inland despatches were continued after expiry of 60 days. There were inland shortages and the Company lodged claims on the insurance company. The insurance company, however, repudiated the claims on the ground that the policies had expired before despatch to inland destinations. The Company neither despatched cargo within 60 days of completion of discharge nor extended the policies to cover despatches to inland destinations. Due to

failure to extend the insurance cover for the cargos, the Company could not recover legitimate claims and lost Rs.2.36 crore.

The Management stated (September 1999) that all the claims with the insurance companies were being pursued. The reply of the Management is not to the point as it failed to state the reasons for not insuring the cargo after expiry of the period of despatch.

The Ministry stated (June 2001) that the claims for shortages were being pursued with the concerned insurance companies and some of the claims have already been settled. Simultaneously, they have initiated arbitration proceedings against the handling agent holding them responsible for all these shortages. Arbitration awards were awaited. Contention of the Ministry that some of the claims had already been settled is not tenable, as the Audit scrutiny revealed that evidence to prove receipt of any amount out of Rs.2.36 crore, in respect of which insurance cover was available could not be produced. The details of the parties held responsible for these shortages and claims under arbitration had not been supplied.

3.1.7.2 Loss resulting from contracting with a sick processing unit

The Company entered (January 1995) into a contract with a processor viz. M/s. Trimurti Fertilisers Limited (TFL) for production of 49000 MT of SSP and 21000 MT of GSSP against supply of raw material* by the Company. The total cost of the venture was more than Rs.20 crore.

Accordingly, the Company supplied raw material worth Rs.2.89 crore which was sufficient to manufacture 13275 MT of SSP and GSSP. At the time of entering into the contract, the processing company was a sick unit registered with BIFR. Against the above quantities, the processor could process only 6217 MT of finished product, which was substandard and there were various complaints from consumers as well as the Ministry of Agriculture. The Company disposed off 5623.5 MT in the domestic market by incurring a loss of Rs.1.10 crore. Further, the processor also did not return the remaining material (including bags) worth Rs.1.58 crore. It is interesting to note that no SPC approval was obtained even though the transaction was above Rs.5.00 crore. Thus, despite knowing the fact that the party was a sick Company, the Company entered into an agreement without the approval/concurrence of the SPC/Finance Division and also did not take any insurance cover to safeguard its interest and suffered a huge loss. Its funds were blocked to the tune of Rs.1.58 crore and it had to enter into litigation.

The Management stated (September 1999), *inter-alia*, that most of the companies had gone sick due to withdrawal of subsidy immediately after decontrol of phosphatic fertilisers in 1992. Further, they stated that supply of raw material against which finished products were available for export was found to be a commercially prudent venture, and that their claim was pending with BIFR/arbitration. The reply is not tenable, as the Audit observation was regarding the selection and entering into the arrangement with a sick Company.

* Rock Phosphate and Sulphur

The Ministry stated (June 2001) that though the total quantity required to manufacture the yearly quantity of 70000 MT was above Rs. 20 crore, stockpiling of such huge quantities of raw material/ finished goods was never the intention of the Company. The intention was to restrict the exposure by supplying minimum quantities required to meet MMTC's export obligations. The value of raw material supplied had never exceeded Rs.2.88 crore, which was within the powers of the Director. No insurance of the stocks of raw material/finished goods was considered in view of the provisions in the agreement binding M/s. TFL responsible for the quality and quantity of the goods supplied. They were to give quantities of finished goods proportionate to the quantity of raw material supplied as per the norms fixed in the agreement. Arbitration award in this case had since been pronounced but a copy of the same was awaited. Further necessary action would be taken on receipt of the same. Reply of the Ministry overlooked the fact that being an unsecured creditor, it would not be able to recover the outstanding amount from a party that had reported itself to be a sick unit.

3.1.7.3 Credit sales and dishonoured cheques

The credit policy of the Company envisaged that it could offer secure credit at the prevailing interest rate with the approval of the competent authority. Security could be in the form of LCs* or bank guarantees or banker's certified cheques. Acceptance of post-dated cheques had also been banned by the Company from August 1992. In gross violation of these instructions, various ROs of the Company allowed fertiliser sales on credit basis by accepting post-dated cheques from various stockists/dealers. The Company received post-dated cheques amounting to Rs. 1.40 crore as part payment in liquidation of outstanding dues, which were dishonoured. Thereafter, the Company initiated criminal cases against the concerned parties. The Company could not recover its legitimate dues to the tune of Rs.1.40 crore besides loss of interest of approximately Rs.83.05 lakh thereon upto 31 March 2000 and also had to enter into avoidable litigation.

The Ministry stated (June 2001) that MMTC had to allow fertilisers sale on credit as per the practice prevailing in this trade. In most of the cases, the sales were made against payment of LCs, in few cases the sales were effected against post-dated cheques. Wherever such post-dated cheques were dishonoured suitable action has already been initiated against the party for recovery of amount. Contention of the Ministry is not tenable as approval of the competent authority viz. Board of Directors had not been obtained to extend unsecured credit sale to the private party. Further, receiving of postdated cheques had been prohibited by the Company in August 1992.

3.1.7.4 Loss due to non-encashment of performance bank guarantee

During the period November 1993 to June 1994, the Company entered into 3 contracts with M/s. G. Premji for purchase of 117000 MT of urea valuing US \$ 15million. The Company obtained 3 performance guarantee bonds (PGBs) aggregating US\$ 0.45 million. The Company was to recover/adjust US\$ 0.32 million from the supplier on account of claims relating to quality deviation already deducted by the Ministry, load port demurrage, share of despatch earned in respect of these contracts. The Company decided

* Letters of credit

(December 1994) to invoke PGBs to adjust their dues. However, on the request of the supplier, the Company extended the validity period of the PGBs instead of invoking the same and allowed the same to expire resulting in non-recovery of claims amounting to US\$ 0.32 million (Rs.1.29 crore).

The Management/Ministry did not offer any comments.

3.1.7.5 Excess utilisation of HDPE bags

The Company imported 131865 MT of DAP during 1995-96 to 1997-98. Out of this, 122983.10 MT of DAP was despatched by rail/road using 2975423 HDPE bags against the requirement of 2582643 bags* for packing. This resulted in the excess consumption of 392780 bags costing Rs.44.23 lakh.

The Management stated (September 1999) that the HDPE bags were with the handling agents and arbitration proceedings were going on.

3.1.7.6 Vigilance cases

During the period from 1993-94 to 1998-99, 9 cases (Annexure-IX) relating to fertiliser transactions were referred to the vigilance division for investigation. Out of these, 3 cases were under various stages of investigation as on August 2001. Two cases were settled after imposing penalties on the employees as mentioned against each case in the Annexure. No action could be taken in respect of 2 cases as the alleged officials had retired by the time any action could be taken against them. Two cases were closed by the CBI.

* As per norm of 21 bags per MT

CHAPTER 4: MINISTRY OF PETROLEUM AND NATURAL GAS

Oil and Natural Gas Corporation Limited

4.1 Marine Logistics Support Services

4.1.1 Introduction

4.1.1.1 In the late seventies, Oil and Natural Gas Corporation Limited (ONGC) struck oil in the Mumbai offshore region. Since then, the offshore operations of the Corporation have increased manifold requiring multifarious marine logistics support through offshore supply vessels (OSV). OSVs are also deployed for constant vigil to meet contingencies such as fire, emergency, evacuation of personnel, safety of helicopters etc. Such support is mainly provided by OSVs from Nhava Supply Base (NSB) and 12-Victoria Dock (12-VD). The supply bases are focal points of supply of materials to offshore installations, drilling rigs, Single Buoy Mooring (SBM) and special vessels. These provide material handling, transit storage and berthing facilities for loading/unloading of OSVs and are manned round the clock. Presently, Marine Logistics unit in ONGC is providing services in following areas:

- (i) 35 to 160 nautical miles (NM) into Arabian Sea from Mumbai Coast;
- (ii) 600 NM Western South Coast (Konkan-Goa Area); and
- (iii) 350 NM South- Eastern Coasts (Madras-Vishakhapatnam).

The services provided by OSVs are mainly of the following nature:

(a) Standby duty: In view of the remoteness of the offshore installations from the shore, it is a common practice in oil industry world-wide to deploy suitable standby vessels near these installations to carry out functions such as rescue of personnel from the sea in the event of an emergency and provide first aid to the injured personnel retrieved from the water.

(b) Cargo supply duty: Supply of cargo to drilling rigs/offshore installations from supply base is another major service performed by OSVs. OSVs carry materials viz. potable water, drill water, bulk material (cement and barytes), mud chemicals, fuel, food boxes, tubular (casing pipes), equipment and spares, etc. During return voyage to supply base OSVs bring cargo, also termed as 'back-load' from offshore.

(c) Rig move duty: OSVs are utilised for towing the drilling rigs from one location to another location.

4.1.1.2 The number of duty stations under the jurisdiction of Mumbai Regional Business Centre (MRBC), the requirement of which were met through the mix of owned and hired OSVs during the last five years ending 1999-2000 are tabulated below:

Year	Number of duty stations in MRBC					Number of OSVs for operation					
	Rigs	Platforms	SBM	Special Vessels	Total	Owned	Long Term Hired	Short term Hired	Total	In MRBC	In other Regions
95-96	22	16	5	2	45	32	25		57	55	2
96-97	21	16	5	2	44	32	25		57	55	2
97-98	21	16	5	2	44	32	25		57	55	2
98-99	19	16	5	2	42	31	25	@1	57	56	1
99-00	20	16	5	2	43	31	21	@1	53	52	1

@ Anchor Handling Tugs specially hired for deep water drilling support

4.1.2 Organisational set up

4.1.2.1 The marine logistics unit is under the overall control of Executive Director, MRBC who is assisted by the Group General Manager (Tech). GGM (Tech) in turn is assisted by the General Manager (Logistics) posted in MRBC. Under the GM (Logistics), three DGMs are responsible for various functions like Planning and Contract Management, Nhava Supply Base and the OSV Cell.

4.1.3 Scope of Audit

4.1.3.1 Audit reviewed the assessment of requirement of OSVs and the deployment and performance, upkeep and maintenance of owned OSVs, Operation and Maintenance contracts of owned vessels for the last five years ended on 31 March 2000. Fixation of charter hire rates for Indian National Shipowners Association (INSA) vessels from inception to date has also been reviewed in Audit.

4.1.4 Assessment of requirement of OSVs

4.1.4.1 The requirement of OSVs in MRBC started during 1977 and increased rapidly due to increase in offshore exploration. Initially, ONGC had provided the support by hiring foreign vessels. In April 1981, the Corporation obtained the approval of Public Investment Board (PIB) for the acquisition of OSVs and supply orders were placed for construction of vessels during 1982. The delivery of these vessels was completed between February 1984 and September 1987 (30 vessels) and between June 1992 to December 1993 (3 vessels). In addition, ONGC hired 25 more OSVs from members of INSA on charter hire basis initially for 5 years during 1983-84 and 1984-85. However, GOI continued to extend the period of charter hire from time to time.

4.1.4.2 Over the years, ONGC had attempted to fix norms or standards regarding the number of OSVs required to be deployed per offshore duty station. In 1980, ONGC employed M/s. Intercom Marine consultants to examine this aspect. They recommended the following norms, which were accepted by the Management in principle:

- a) 2 vessels for platform complex;
- b) 2.25 vessels per rig operating at Bombay High; and

c) 3.25 vessels per rig isolated areas.

4.1.4.3 In June 1982, ONGC entrusted M/s. Engineers India Limited (EIL) to establish norms of requirement of services for offshore installations. EIL conducted this study and finalised its report in May 1985. Instead of fixing any static norm, they developed a dynamic general-purpose simulation model to ascertain the number of OSVs with 95 per cent confidence level.

4.1.4.4 In July 1995, again a detailed study for assessing the OSVs requirement of future years was conducted by the Institute of Engineering and Ocean Technology, which is ONGC's own institution. The study report submitted in October 1996 recommended fresh norms and OSVs requirement for future years based on functional requirements. As per the allocation of OSVs for the various duties according to the recommendations, the total requirements of OSVs stood at 53 as against 57 OSVs available with the Corporation.

4.1.4.5 The report though finalised in October 1996 was not approved. ONGC justified its non-acceptance on the grounds that the owned OSVs could not be disowned and the charter hired INSA vessels were operating under a formula approved by the GOI and could not be de-hired without referring to the GOI. Thus, a fleet of 57 OSVs was maintained despite scope of reduction in OSV norms and resultant fleet requirement. Further, as regards the long-term charter, ONGC created an inflexible situation for itself by not incorporating suitable de-hiring clause in charter hire contract with INSA members. The matter was further compounded as the GOI continued to extend the arrangements without even assessing the fresh requirements or fresh market rates. The actual deployment of OSVs for the period from 1995-96 to 1998-99 remained at 57, even though the number of duty stations decreased from 45 to 42.

4.1.4.6 As against so many studies and recommendations, ONGC followed an *ad hoc* single index norm of OSV per duty station from 1986-87, which was based on the thumb rule rather than any sound operational parameters. In 1987, Chairman, ONGC approved an overall norm of 1.45 per duty station revised in April 1988 to 1.20. Since ONGC could not sustain the operations at the desired level, the norm was revised upwards to 1.3 OSV per duty station in April, 1989, and further reduced to 1.23 in 1990-91. Based on the single index norm ONGC in fact even hired additional vessels over and above the owned and long-term charters upto 1994-95. From 1995-96, the vessels as also the duty stations showed a declining trend due to accidents and withdrawals in case of vessels and less rigging activities, in case of duty stations, thus, showing a decline in the single index norm. Such decline in the norm was not due to any major operational improvement. Hence adopting such an index for the purpose of sanctioning expenditure was more a *fait accompli* rather than a tool for any significant managerial control. The rationale for having so many studies when ONGC was neither able nor willing to reduce the number of vessels and indeed increased it from time to time on annual charter hire was not clear.

4.1.5 Long term charter hire of INSA vessels

4.1.5.1 To indigenise the offshore services, ONGC acquired 33 OSVs (including Sindhu 7 which sank in 1989) and hired 25 OSVs from the Indian Ship owners being members of INSA. At the time of induction of these vessels during 1983 to 1985, the charter rates, which were earlier around US\$ 4500 per day crashed to below US\$ 3000 per day. The Indian ship-owners approached the Ministry of Surface Transport (MOST) and Ministry of Petroleum and Natural Gas (MOP&NG) for relief in view of crashing of the international rates. The MOP&NG set up a Committee in October 1983 under the Director General, Shipping (DGS) to examine the representations of the ship-owners.

4.1.5.2 The Committee's report submitted in March 1984, evolved a formula, which was market driven with a floor rate operating during depressed markets and ceiling rate during boom markets. The general principles adopted by the Committee in its report and approved by GOI in August 1984 included a day rate for a particular vessel consisting of financing cost which included Capital Recovery Factor (CRF) for loan repayment, owners' contribution and operating cost comprising wages, victualling, stores, repairs, insurance, and Management expenses. In addition, in respect of each OSV, a 'Floor Rate' and a 'Ceiling Rate' were to be calculated and a market rate to be derived by ONGC every year. The calculation of day rate made by the Committee on normative basis for the first year of operation ranged from US\$ 3093 to US\$ 3603, as against the anticipated market rate of only US\$ 2450 calculated by the same Committee in the same report.

4.1.5.3 As the first five-year term was drawing to a close, the international charter rates registered a further weakening. Therefore when INSA vessels completed their first five-year term, ONGC approached GOI for closure of DGS formula and requested that INSA vessels should compete in ONGC's International Competitive Bid tender. The request was turned down by GOI, which extended the arrangements and set up a Committee under the Additional Secretary and Financial Advisor (AS&FA Committee 1989-90) to recommend the operating cost norms for the next five years. The recommendations of the Committee though accepted by GOI in February 1991 were not accepted by the INSA members and they demanded an upward revision of the operating cost norms. GOI appointed another Committee under Joint Secretary and Financial Advisor (JS&FA Committee) to revise the operating cost norms. The Committee adjusted the floor rates with escalation in various cost parameters in such a way that ONGC was to reimburse the actual expenses on account of insurance and wage cost element rather than paying fixed charter rates on normative basis. These recommendations were made applicable for the second term of five years (i.e. 1988-90 to 1993-95) and also for next two years charter period (i.e. 1993-95 to 1995-97). As GOI extended the arrangements beyond 12 years, yet another Committee under the JS&FA (JS&FA-97 Committee) were set up to formulate charter rates payable beyond the twelve-year period. The DGS Report 84 was further diluted by this Committee by adding the repair and maintenance cost element also to be compensated on actual basis.

4.1.5.4 Thus, what started off as a kind of market-driven formula got converted into a formula which increasingly resembled a cost-based one with all the protections for the operators against a volatile market. GOI continued to extend these arrangements without

going for any fresh market rates, depriving ONGC of the market price, which for most of the period was weak. Since during this period, ONGC was also under a cost plus regime, the price for this policy confusion was ultimately paid for by the consumers.

4.1.5.5 DGS as part of the Committee report had also provided a model contract to be signed between the ship owners and ONGC. One of the important provision of the contract was a *force majeure* condition, which prescribed that in the eventuality of vessels being rendered surplus due to substantial reduction in the requirements of OSVs, they could be de-hired in the inverse order of their hire dates. However, in the actual contract signed between ONGC and the ship owners, this provision was omitted, thus, depriving ONGC of the opportunity to reduce the fleet size for its offshore operations. Further, though 25 OSVs (15 OSVs belonging to 4 private sector INSA members and 10 OSVs of SCI*) began operating from 1983-84 onwards and continued operations for next 16 years, contracts were signed with INSA members except SCI for the first five years only. For the remaining years, MOP&NG issued orders for extension and no fresh contract was signed. In case of SCI, no contract was signed at all at any time on account of a dispute relating to interest rate to be adopted on one particular loan in the determination of CRF element.

4.1.5.6 *Over payment due to incorrect application of DGS formula to 'A' class vessels*

4.1.5.6.1 The essence of fixing the rate for the INSA vessels was determining the international charter rates and then operating at the floor rate or the ceiling rate should the international rate fall below the floor rate or rise above the ceiling rate. In case the rate was below the ceiling rate, payment was to be made at the international rate. As is evident, determination of the prevailing international rate was a critical factor for this arrangement to work. No international rate, however, could be determined by ONGC. While, the agreements with INSA members were signed on the basis of 'floor rates' for 23 OSVs, in case of 2 A class OSVs (belonging to Essar Shipping) contract was signed at 'ceiling rate' in the absence of international charter rates.

4.1.5.6.2 The DGS report contemplated that the ceiling rate for each vessel would be computed each year by adding to the 'floor rate', a rate of return as follows:

- (i) in the case of Public Sector vessels (SCI) at a rate of 3.55 per cent of the total capital employed (i.e. including loan portion of acquisition cost plus pre-delivery expenses); and
- (ii) in the case of private sector vessels at a rate of 3.55 per cent of the owner's contribution only.

4.1.5.6.3 The day rate for above two Essar Shipping vessels being in the private sector and having been fixed at 'ceiling rate' by ONGC, allowed a rate of return of 3.55 per cent on the owner's contribution. However, the same was paid on total capital employed including the loan portion for the first term of five years (July 1984 to July 1989) and also for 11th and 12th years of operation commencing from July 1994 and July 1996. The over

* Shipping Corporation of India

payment due to incorrect application of DGS formula amounted to US\$ 2.57 million (equivalent to Rs. 4.86 crore) to M/s. Essar Shipping over the 7 years period (Annexure-X).

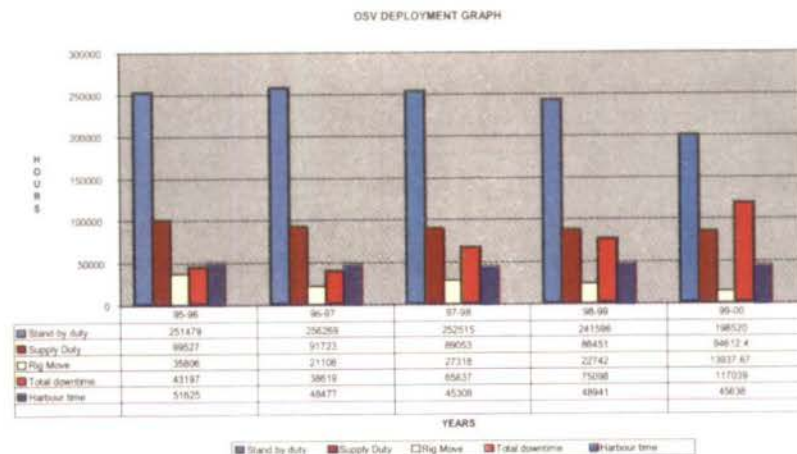
4.1.5.7 Swapping of loans

4.1.5.7.1 The day rate included a capital recovery factor for loan repayment calculated on the basis of 12 years' repayment period and actual interest rate subject to maximum of 11 per cent. During the operation of these OSVs, INSA members had swapped the original loans taken for acquiring the OSVs with different lower interest bearing loans and currency swaps. ONGC raised the issue before MOP&NG for reduction in charter hire rate due to swapping of higher interest loans with lower interest loans by INSA members and withheld an amount of Rs. 8.25 crore on this account. However, it could not succeed in availing the benefit of reduction in charter hire rates in the absence of any provision for the same either in DGS report or in the subsequent signed contracts and had to finally pay this amount to INSA members.

4.1.6 Deployment of OSVs

4.1.6.1 Duty composition

4.1.6.1.1 The details of the OSVs deployment for the various duties during last five years ending 1999- 2000 are shown in following graph:



4.1.6.2 Deployment on Stand by duty

4.1.6.2.1 The task force report of October 1989 on Emergency Responses System in MRBC stated that it was not the international practice to use OSV/Multipurpose Supply Vessels (MSV) as standby vessels (Clarkson's Offshore Service Vessel Register, 1988). This is because a vessel may be required at the scene of emergency for a prolonged period; whereas a standby vessel has first to move around on its Save and Rescue (SAR) mission and finally sail to a safe haven with the survivors. Further, it is required under law that standby vessels should be stationed within a specified distance from offshore installation (one nautical mile (NM) in Norway and five NM in UK). There is no such

mandatory requirement for fire-fighting and pollution control vessels but these also should be so located that a vessel can reach the scene of emergency in less than an hour. The number of the vessels required for the standby duty is worked out on the following factors:

- (i) one standby vessel within 5 NM every rig or platforms; and
- (ii) one standby vessel at each drilling rigs on exploratory location where there is no installation within 5 NM.

4.1.6.2.2 An in-house study report of May 1992 worked out a requirement of 22 standby vessels including 10 per cent on account of down time. This was based on the number of drilling rigs deployed at the time of finalisation of report. Further, another study report (October 1996) on optimal requirement of OSVs worked out that a total of 25 OSVs, required for standby duty. This was worked out considering the deployment of 22 drilling rigs at the time of finalisation of the said report.

4.1.6.2.3 It was observed in Audit that standby duty ranged between 43.18 per cent and 56.18 per cent during above period. The actual deployment of the OSVs during the period under review exceeded the norms given by the above two study reports except for the year 1999-2000 when the deployment was actually less than what was recommended as would be evident from the details given below:

	95-96	96-97	97-98	98-99	99-00
No of OSVs as per norms for standby duty	22	25	25	25	25
No of OSVs actually deployed on standby duty	29	31	29	29	23
Excess no of OSVs actually deployed as standby	7	6	4	4	(2)

Based on the day rate[▲] the cost of excess deployment of OSVs for the first four years amounted to approximately Rs. 85.61 crore.

4.1.6.2.4 Excess deployment on standby duty was not due to any conscious operational decision but because OSVs were available. In 1999-2000, when the downtime was high, ONGC did not hesitate to reduce the deployment even below the level of norms accepted by the Corporation itself. In 1996-97, for instance, the increase in the standby duty was due to reduction in rig move and down time as compared to the previous year. Similarly, in 1997-98 sudden increase in down time was made good by reducing standby duty. Again in 1998-99 the deployment structure was comparable with 1995-96 position but in the very next year i.e.1999-2000 the increase in the downtime was compensated by all time low deployment for standby duties and the marginal increase in supply duty was due to lesser requirement for rig moves. In short, any surplus position of OSV availability was diverted towards standby duty and shortcoming in the OSV availability was at the cost of reduction in standby duty.

4.1.7 Deployment on supply duty and cargo handling

4.1.7.1 It was noticed by Audit that the quantity of cargo delivered per trip to rigs/installations was much below their storage capacity and also well below the

[▲] Daily hire charges of SCI-01 OSV as on 1 April of the relevant year

deliverable capacity of OSVs. OSVs thus made more number of trips and resultantly more number of OSVs were deployed for supply duty than required because the quantity of cargo delivered by OSVs fell well below the storage capacity of rigs/installations.

4.1.7.2 Normally, a rig can store consumables that can last 36 days and BHS and BHN platforms can store consumables to suffice 16 days. The designed storage capacity of platforms and rigs are sufficient normally to store enough bulk material such as fuel and water to fulfil the requirement for at least a month. It was noticed that due to improper planning, OSVs visited platforms and rigs more frequently. The number of visits of OSVs to particular rigs and platforms during 1998-99 and 1999-2000 are given in Annexure-XI. During 1998-99, the highest number of 187 trips was made to the rig PN-3 and in case of platforms, the maximum number of 135 trips was made to BHN platform. Similarly, during 1999-2000 the maximum number of 146 trips was to the rig Sagar Jyoti and BHN. Further analysis revealed that for instance during December 1998, OSVs made as many as 26 trips to rig PN-3 and during July 1999 the rig Amsterdam was provided OSVs support with 23 trips. Assuming that one trip of OSVs require 15 days out of which 3 days were utilised for supply duty and it covers four locations the cost of the excess trips to rigs and platforms during the five years under review worked out to Rs. 101.6 crore*.

4.1.7.3 An analysis of the number of trips made by OSVs to the rig Sagar Samrat during 1999-2000 for ferrying major consumables further revealed that on an average 8 KL of fuel was consumed daily by the rig and it's storage capacity was 1343 KL. Therefore, fuel storage space available in the rig worked out to 168 days of requirement. Audit scrutiny revealed that OSVs made 126 trips to Sagar Samrat during the year, of which 43 trips were made for delivering fuel only.

4.1.7.4 The average cargo deliverable capacity of the OSVs ranges from 650 to 1000 MT per sailing. The details of total cargo loaded, cargo delivered and remained on board (undelivered) and number of sailing for the last five years ending 1999-2000 were as under.

Year	Cargo loaded	Cargo delivered	Cargo on board	% of Cargo delivered to total cargo loaded	No. of Sailing	(Cargo in MT)		
						Average cargo loaded per sailing	Average cargo delivered per sailing	Average cargo on board per sailing
1995-96	715114	298850	416264	41.79	1381	517.82	216.40	301.42
1996-97	789245	435735	353510	55.21	1333	592.08	326.88	265.20
1997-98	772560	424761	347799	54.98	1283	601.21	330.55	270.66
1998-99	769809	440812	328997	57.26	1379	558.24	319.66	238.58
1999-00	759592	485670	273922	63.94	1264	600.94	384.23	216.71

4.1.7.5 It can be seen that around 40 to 60 per cent of the cargo loaded was returned to base undelivered. This amounted to unfruitful OSV carriage resulting in infructuous expenditure to the tune of Rs. 104.81 crore*.

* The excess expenditure had been worked out based on daily rate of SCI-01 as on 1 April 1998

* The quantification of OSVs expenditure for undelivered cargo had been made considering supply duty hours, number of OSVs, day rate for OSV and percentage of undelivered cargo

Further as against their deliverable capacity of 650 to 1000 MT per sailing, the actual cargo loaded on OSVs ranged between 517.82 and 601.21 MT and actual cargo delivery ranged between 216.40 and 384.23 MT. This indicated under-utilisation of OSVs' deliverable capacity.

4.1.7.6 The total composition of cargo handled for the last five years ending 1999-2000 were as under:

Year	Cargo handled (in MT)							
	Pot Water	Drill Water	Fuel	Bulk	Deck	Total	Back Load	Total Cargo
1995-96	289182	94494	161254	62818	107366	715114	73405	788519
1996-97	328629	136946	151609	65735	106326	789245	64217	853462
1997-98	333352	147196	132292	57700	102020	772560	61536	834096
1998-99	342297	144569	125197	55240	102506	769809	62044	831853
1999-00	326187	120662	138110	62803	111830	759592	72287	831879

4.1.7.7 The commodity-wise cargo handled and related issues have been discussed in the succeeding paragraphs.

4.1.7.8 Potable Water

4.1.7.8.1 Facility of generating Potable Water (PW) through Water Maker (WM) had been installed on all owned and hired rigs as well as platforms to cater to the requirement of water supply, as supply of water by OSVs is an expensive proposition as compared to production of PW through WM. The installed capacity of WM, average production and daily consumption of PW in respect of platforms is tabulated below:

Installation	No. of WM	Installed capacity of Water-Makers (per day)	Daily Production	Average daily consumption
		(in MT)		
BHN	1	40	0.00	31.20
NQO	2	50	5.50	34.00
WIN	2	76	35.00	39.90
BHS	3	80	33.50	62.30
SCA	2	22	5.70	6.90
ICP	3	120	29.00	51.30
SHP	4	135	19.60	62.40
BPA	2	76	13.50	32.60
BPB	1	110	31.20	32.80
WIH	3	150	45.00	45.00
NLM	2	90	35.60	35.60
SLX	2	80	19.00	19.00
TOTAL	27	1029	272.60	453.00

4.1.7.8.2 However, in most of the platforms and owned rigs these WM were either not operational or water generation was insufficient. As a result, the shortage in PW was made good through supplies by OSVs. Following table indicates quantity of PW produced at the platforms, quantity supplied through OSVs and expenditure incurred on the supply of the PW through OSVs during the last five years ending 1999-2000:

Year	PW Produced at Platforms through WM	PW supplied through OSVs	Percentage of PW supplied through OSVs to total requirement at Platforms	Expenditure on PW supplied through OSVs (Rs. in crore)
	(in MT)			
1995-96	121284	28524	19	4.33
1996-97	98760	62289	39	9.47
1997-98	96060	62933	40	14.79
1998-99	98820	72835	42	18.57
1999-00	110535	58494	36	16.67
Total				63.83

4.1.7.8.3 Similarly, the production and supply of potable water on owned rigs during 1997-98 and 1998-99 indicated identical situation as shown below:

	1997-98	1998-99
Total requirement in MT	54000	61200
Water Produced through WM in MT	29500	38000
Water taken from OSVs in MT	24500	23200
percentage of Water requirement made by OSVs	46	38
Cost of PW supplied through OSVs (Rs. in crore)	5.75	5.91

4.1.7.8.4 ONGC deployed five OSVs viz. Sindhu-5, 6, 15, 16 and 17 exclusively for water supply to meet the shortfall of water production through WMs and for supply of Drill Water (DW) to rigs. The deliverable capacity of each specially modified, water-dedicated OSV had been considered as 56143.6 MT/year. During 1997-98, 1.56 OSVs (62933 MT for platforms plus 24500 MT for rigs/56143.6 MT) and in 1998-99, 1.71 OSVs were utilised exclusively for supply of PW. The main cause for this was non-functioning of WMs. The requirement of OSVs could have been reduced to the extent of above by making WMs functional.

4.1.7.8.5 The scrutiny of records relating to water supplied through OSVs revealed that the quantity of water supplied to different rigs during 1998-99 as per bulk delivery statements of OSVs was 1,17,677 MT whereas the water quantity received by the rigs during the same period as per the Drilling Business Group's (DBG) monthly report was 86,395.9 MT. The value of lesser quantity of 31281.1 MT acknowledged by the rigs was Rs.8.91 crore.

4.1.7.9 *Delivery of fuel*

4.1.7.9.1 The detailed review of bulk voyage statements relating to five OSVs out of 52 OSVs for the year 1999-2000 and 2000-2001 showed discrepancies worth Rs. 12.85 lakh between the delivery of fuel by OSVs and acknowledged by the installations/rigs as given below:

(Quantity in KL)

Name of Vessel	Date of Supply	Installation	Qty supplied as per OSV	Qty received as per installation	Difference	Cost of fuel discrepancy (in rupees)
FM Juwale	30.07.00	Sagar Vijay	20	15.24	4.76	78018
FM Juwale	27.05.99	Sagar Kiran	50	47.00	3.00	36380
Nand Krishna	6.05.99	Garaware-4	100	92.00	8.00	97014
SCI-4	24.07.00	Samudra Sevak	16	1.50	14.50	237662
SCI-4	13.01.00	PPL	60	58.00	2.00	32781
SCI-4	13.01.00	Sagar Laxmi	20	18.70	1.30	21307
SCI-5	17.11.99	Sagar Ratna	75	72.00	3.00	49171
SCI-5	17.11.99	Sagar Shakti	75	70.00	5.00	81952
Maersk Feeder	28.08.00	Kedarnath	100	99.00	1.00	16390
Maersk Feeder	2.09.00	Sagar Kiran	100	96.15	3.85	63103
Maersk Feeder	18.08.00	Kiran	100	94.00	6.00	98342
Maersk Feeder	31.07.00	Sagar Uday	50	48.00	2.00	32780
Maersk Feeder	3.08.00	Sagar Gaurav	40	37.00	3.00	49171
Maersk Feeder	5.10.00	Trident-II	100	95.00	5.00	96450
Maersk Feeder	5.10.00	Sagar Pragati	40	39.00	1.00	192170
Maersk Feeder	19.09.00	Kedarnath	99	94.76	4.24	69450
Maersk Feeder	28.08.00	Sagar Kiran	75	73.00	2.00	32781
Total						1284922

No corrective action had been taken to resolve such discrepancies and OSVs figures were taken for the purpose of accounting the fuel consumption/issue. The in-house energy audit also pointed out the non-operation of receipt/issue fuel flow meters in some of the OSVs.

4.1.7.10 Handling of bulk cargo

4.1.7.10.1 The bulk cargo consisting of barytes and cement is loaded at Nhava Supply Base. It was noticed in Audit that this loading was done without regard to the specific requirements or requisitions from rigs. The barytes and cement tanks in the OSV were loaded to capacity on arrival of OSV at NSB. These items were delivered to rigs on high seas by OSVs on demand from rig in-charge. No papers regarding planning for loading these materials with reference to the demands received from offshore were made available to Audit.

4.1.7.10.2 The percentage of cargo remaining on board to cargo loaded constituted 58.21 per cent of cargo handled during 1995-96, 44.79 per cent in 1996-97, 45.02 per cent in 1997-98, 42.74 per cent in 1998-99 and 36.06 per cent in 1999-2000. Instances of bulk cargo (cement and barytes) carried but received back at base were reviewed for 3 selected vessels and the following emerged:

S. No.	Particulars	1995-96	1996-97	1997-98	1998-99	1999-00
Neel Kamal						
1.	No. of Sailing	23	19	17	14	23
2.	Load carried (MT)**	4140	3420	3060	2520	3645
3.	Load Delivered (MT)	1421	1376.9	791	948	1687
4.	Percentage of Delivery (3 to 2)	34.32	40.26	25.85	37.62	46.28
5.	Backward 100 per cent return					
	(i) Cement (Sailing)	15	13	14	10	13
	(ii) Barytes (Sailing)	09	05	07	07	10
Samudrika-5						
1.	No. of Sailing	11	17	16	23	25
2.	Load carried (MT)**	1530	2475	2520	3870	3285
3.	Load Delivered (MT)	709	921	895	1778	850
4.	Percentage of Delivery (3 to 2)	46.33	37.21	35.51	45.94	25.88
5.	Backward 100 per cent return					
	(i) Cement (Sailing)	06	09	13	13	15
	(ii) Barytes (Sailing)	01	06	08	06	15
Samudrika-15						
1.	No. of Sailing	09	20	15	21	14
2.	Load carried (MT)**	1600	3240	2160	3400	2025
3.	Load Delivered (MT)	802	1879	1291	1093	527
4.	Percentage of Delivery (3 to 2)	50	57.99	60	32.15	26.02
5.	Backward 100 per cent return					
	(i) Cement (Sailing)	05	05	05	13	12
	(ii) Barytes (Sailing)	01	03	01	10	09

** Considering Tank Capacity as 45 MT.

It may, thus, be seen that in case of these OSVs, the number of sailing without delivering the cargo were very high. This would indicate complete lack of planning for delivering cement and barytes.

4.1.7.10.3 It was further observed that in the manifest the cement and barytes loaded in the vessels were accounted in terms of the tanks. The capacity of the tank was predetermined and after delivery, rig in-charges were expected to give acknowledgement of the quantity received. The quantity acknowledged by the rigs for receipt of tank load of bulk (cement and barytes) varied from voyage to voyage even though the same OSV delivers the tank loads to rigs. The instances of different quantity acknowledgement for delivering tank load by same OSV are given in Annexure-XII. In the absence of quantity reconciliation the accounting of the material and its receipt to the location could not be ensured.

4.1.7.10.4 Audit took up the detailed review of five rigs out of 19-21 rigs during the period 1997-98 to 1999-2000 to ascertain the discrepancies between quantity delivered by OSVs and the same acknowledged by the rigs. In case of all the rigs and all the bulk

commodities, discrepancies were noticed which amounted to Rs. 3.07 crore. The following table shows the difference between the quantity delivered and accounted for by these five rigs for last three years ending 1999-2000:

Name of Rig	Quantity delivered by OSVs (as per Log record)			Quantity received by the Rig (As per DBG)			Difference in quantity delivered by OSVs and received by rigs (- less/(+) excess		
	97-98	98-99	99-00	97-98	98-99	99-00	97-98	98-99	99-00
Kedarnath									
Fuel (KL)	989.12	3209.45	2173.73	799.38	3210	2173.44	(-)189.74	0.55	(-)0.29
PW(MT)	120	699	2586	--	--	*	*	*	*
DW(MT)	3415	6676	4496	603	7436	6972	*(-)2932	(+)*61	(-)110
Neat Cement (MT)	409	569.83	1032.7	249	563	962	(-)160	(-)6.83	(-)70.7
Blended Cement (MT)	253	417	--	118	420	--	(-)135	(+) 3	--
Barytes (MT)	672.5	2694	1963	272	2859	2080	(-)400.5	(+) 165	(+) 117
Ed-holt									
Fuel (KL)	3460.5	2906	3018	3264	3079	3138	(-)196.5	(+) 173	(+) 120
PW (MT)	1171	2355	3010	*	*	*	*	*	*
DW (MT)	11391	11516	10892	12736	12641	14433	(+)*174	(-)1230	(+) 531
Neat Cement (MT)	413	1356	986	328	1093	695	(-)85	(-)263	(-)291
Blended Cement (MT)	522	617	257	340	442	330	(-)182	(-)175	(+) 73
Barytes (MT)	2750	7506	4338	2727	7194	3750	(-)23	(-)312	(-)588
PN-III									
Fuel (KL)	2472.39	3035.17	2759	2487	2430	2294	(+) 14.61	(-)605.17	(-)465
PW (MT)	*		*	0	0	0	*	*	
DW (MT)	8869	16150	13117	9177	16003	11453	(+) 308	(-)147	(-)1664
Neat Cement (MT)	219	546	585	189	470	460	(-)30	(-)76	(-)125
Blended Cement (MT)	445	275	148	419	165	138	(-)26	(-)110	(-)10
Barytes (MT)	1334.5	1566	1962	1244	1573	1658	(-)90.5	(+) 7	(-)304
S.Samrat									
Fuel (KL)	2720.81	2620.5	2884.5	2471	2545	2610	(-)249.81	(-)75.5	(-)274.5
PW (MT)	12865	9247	9364	11940	9552	9353	(-)925	(+) 305	(-)11
DW (MT)	7503	6675	7651	8358	5735	1256	(+) 855	(-)940	(-)6395
Neat Cement (MT)	696	445	712	871	446	652	(+) 175	(+) 1	(-)60
Blended Cement (MT)	195	192	105	130	137	105	(-)65	(-)55	-
Barytes (MT)	2178	1450	1575	2058	1647	1451	(-)120	(+) 197	(-)124
S.Ratna									
Fuel (KL)	2964.51	2793.1	2584.78	2891.11	2931.88	2363.5	(-)73.4	(+) 138.78	(-)221.28
PW (MT)	4857	8584	6425	3855	7376	5700	(-)1002	(-)1208	(-) 725
DW (MT)	9945	11358	8090	10945	10860	7015	(+)1000	(-)498	(-)1075
Neat Cement (MT)	577	337	480	609	391	526	(+)32	(+) 54	(+) 46
Blended Cement (MT)	360	227	128	445	132	187	(+)85	(-)95	(+) 59
Barytes (MT)	1077	1242	1272	934	1390	1505	(-)143	(+) 148	(+) 233

* PW taken in DW

4.1.8 Fuel consumption by the OSVs

4.1.8.1 As per contractual provision in respect of operation and maintenance of owned OSVs and charter hire of OSVs, ONGC was responsible for supply of fuel and lubricants to operator and charterer respectively. In addition, ONGC also supplied fuel to its platforms/rigs for offshore operations. Further, fuel was also being consumed at supply bases by owned departmental cranes, cementing section and electricity section. The fuel consumption for last three years ending 1999-2000 for owned and hired supply vessels was as under:

Years	Owned Supply Vessels				
	Total OSV hrs.			Qty. of fuel consumed in KL	Qty. of fuel consumed in Litres per OSV hrs. 5 / 4 x 1000
	Total hrs.	Down time hrs	Available hrs.(2 - 3)		
1.	2.	3.	4.	5.	6.
1997-98	277138	48240	228898	35843.89	156.59
1998-99	271511	35078	236433	36822.69	155.74
1999-00	264338	84945	179393	30180.72	168.24
	Hired Supply Vessels				
1997-98	202893	17597	185296	26691.52	144.05
1998-99	198863	40020	158843	27717.96	174.50
1999-00	195409	32094	163315	26384.78	161.56

4.1.8.2 The above table would reveal that during 1997-98 and 1999-2000 the fuel consumption per hour by owned vessels was more as compared to hired vessels but in 1998-99 hourly fuel consumption by hired vessels was much higher than owned. The Management stated (May 2000) that there was no measuring device for fuel consumed by owned or INSA vessels. ONGC further stated that there was no norm of consumption of HF/HSD by OSVs and it has carried out no study to optimise fuel consumption. In addition to absence of measuring devices on OSVs, the Management exercised no control on consumption of fuel at any point.

4.1.8.3 Besides there was a wide variation of fuel consumption at port. The fuel consumption of owned OSVs were substantially higher than that of chartered OSVs. It is interesting to note that the port consumption in respect of chartered hired vessel 'Maersk Feeder', which had the highest BHP capacity among all other OSVs, was the lowest.

Vessel	BHP	Port fuel consumption per hour/litres		
		Minimum	Maximum	Average
Maersk Feeder	7200	19.23	56.22	36.43
Nand Krishna	6120	24.85	184.73	49.64
Samudrika-11	3120	23.47	340.65	67.45
Sindhu-6	5440	29.56	95.76	67.96
Sindhu-8	5440	28.82	137.93	63.64
Sindhu-16	5440	20.29	102.56	50.37
Sindhu-17	5449	17.35	123.81	41.11
Samudrika-17	3120	28.86	49.75	35.55
Garware-IV		6.55	88.79	23.81

4.1.8.4 The Management stated (October 2000) that fuel consumption was bound to change due to different nature of duties, standby duty, rig tow duty, supply duty etc. and recommended to constitute a Committee to study the actual consumption under different conditions to help fix consumption norms. The data for five years included different

modes of duty structure and even then the minimum and maximum of each years revealed a wide-ranging consumption pattern. Failure to fix norms even after 15 years of owing/hiring OSVs had deprived ONGC in exercising effective control over fuel consumption.

4.1.8.5 Analysis of consumption of fuel by the departmental cranes deployed at Nhava Supply Base considering its availability for operation for the period from April 1999 to March 2000 showed that there was no check on consumption of fuel. The details of issue of fuel to the departmental crane *vis a vis* its utilisation was as under.

Crane/Particular	TATA-A	TATA-B	HM
No. of hours used	0	2005.8	66
Fuel supplied (in litres)	1200	5400	1600
Percentage utilisation of crane considering availability of 2920hrs/year i.e.8 hours/365 days	0	69	2.26
Off road/break down (in days)	365	--	352
Total cost of fuel at the rate of Rs. 16329.51 per KL	19595	88179	26127

It may be seen from the above table that fuel was issued on a several occasions to a departmental crane TATA-A that was not even in operation for the full year. Similarly, another departmental crane HM worked for only 66 hours during the year, yet 1600 litres of fuel was issued to it. This indicated lack of control over fuel consumption.

4.1.9 Loss due to non-utilisation of GAINS (Global Positioning System-Assisted Improved Navigation System)

4.1.9.1 In March 1995 ONGC placed an indent for supply, installation and commissioning of GAINS for 52 OSVs and base station at Nhava to monitor and control the activities of OSVs for improving operational efficiency. The main objectives of GAINS were to improve navigation, reporting position of cargo and traffic management. Among other things, the traffic management software was required to store and generate reports of location with respect to time, geographic position of various ships as well as their cargo reports. These reports were expected to help better traffic management resulting in optimisation of OSVs' movement. As per cost benefit analysis the payback period for the system was envisaged as 42 months. Accordingly, in February 1996, ONGC placed supply order on M/s. Industries and Engineering Corporation, Ahmedabad for supply installation and commissioning of the system at a total cost of Rs. 3.75 crore. GAINS was installed and commissioned in May 1997 and was handed over to user department (Logistics) in April 1998 after testing.

4.1.9.2 At present the GAINS was situated independently and was being used for very limited purposes by Logistics section. Daily activities still continue to be regulated entirely on radio system. The operator on duty records reports from vessels manually in a register. The cargo position reports as incorporated in the system were obtained sporadically through GAINS and the user department made no effective use of these reports.

4.1.9.3 The Management stated (November 2000) that since the system was not being utilised frequently by Logistics section; the expenditure on polling and data reporting through Videsh Sanchar Nigam Limited had been gradually reduced for saving

the recurring cost of INMARSAT bills. At present GAINS had not been put in effective use by the Logistics section and had only resulted in additional recurring cost. Thus non-utilisation of the GAINS for intended purpose had resulted in infructuous expenditure of Rs.3.75 crore.

4.1.10 Upkeep and maintenance of owned OSVs

4.1.10.1 Prior to 1990-91, contracts for the operation of the 33 owned OSVs were awarded to private operators and the maintenance repairs of the OSVs were on ONGC's account. Since 1990-91 the operators were awarded a combined contract of the operation and maintenance (O&M) of these vessels. It was also seen in Audit that the number of operators was limited and the O&M contracts were rotated amongst them and very few vessels had been given to the same operator in consecutive contractual terms. The operators were responsible on complete maintenance of all equipment and machinery on board including preventive maintenance and dry-docking of the vessels. The defects noticed in OSVs at the time of handing over and taking over (HOTO) from old operator to new operator of the OSV was normally the responsibility of outgoing operator. However, the defects due to normal wear and tear on account of rescue boats, life raft, propeller blades, anchor chain and steel renewal were on ONGC's account. Details of annual O&M rate including dry-docking charges during the period 1994-2000 were as under:

(Rs. In lakh)

Sl. no.	Period of contract	Annual O&M rate	Dry dock expenditure within O&M rate
1	1994-1996	81.00	15.00
2	1996-1998	80.95	19.00
3	1998-2000	103.00	23.00

4.1.10.2 In addition to above ONGC also undertook the responsibility of upgradation/repairs of major critical equipment such as main engine, auxiliary engine, gyro and radar. Similarly consumer durable which had outlived their life were considered ONGC's liability under normal wear and tear for their replacement, along with replacement due to wear and tear of sea-water pipeline of sanitary system, fire water system, drench water system and air condition trucking. The new operator's responsibility was limited to normal repair and maintenance to keep the equipment going. As regards repair and maintenance of chartered OSVs the chartered hired rates were inclusive of this element and as such the responsibility of getting repairs done rested with owner of chartered hired OSVs.

4.1.10.3 The Technical Audit wing of ONGC carries out audit of owned OSVs to assess the status of health of equipment and systems of OSVs. For evaluating OSVs, it assesses *inter-alia* equipment availability and system availability, downtime trend, and periodical maintenance schedules (PMS) practices followed, system of condition monitoring, documentation and store. Technical Audit has brought out poor upkeep of owned OSVs (Annexure XIII and XIV). The rating given by technical audit revealed a downward trend in the rating of the owned OSVs. The rating in respect of PMS, condition monitoring and performance review was not maintained at satisfactory level. To monitor the conditions of the OSVs and to perform the responsibilities relating to

repairs and maintenance (R&M) of the owned OSVs, a separate R&M cell headed by Chief Manager (Logistics) had been in operation.

4.1.10.4 Scrutiny of records maintained by R&M cell, Nhava revealed that it had prepared no repair plans. Revalidation of various licenses for owned OSVs had taken more time as compared to hired OSVs indicating that the repairs necessitated by surveys were serious and took much longer time. Defects were attended to after considerable delay and thus, obviously O&M contractors ran these vessels with absolutely bare essential repairs only. This had resulted in neglect of long term upkeep of vessels. History sheets containing record of all repairs/modification carried out during the life period of the vessel were also not properly maintained.

4.1.10.5 It was also noticed that there were abnormal delays in settlement of HOTO defects resulting in poor upkeep of OSVs for prolonged period leading to further deterioration of OSVs and increase in downtime. Even the responsibilities in respect of defects noticed during handing over - taking over of 32 numbers ONGC vessels between August 1996 to December 1996 and June 1997 could not be decided upto November 1998. Audit was not apprised of the progress after November 1998. As of September 1998, Rs. 66.71 lakh had been spent on rectification of these defects by ONGC and an estimated expenditure of Rs. 2.80 crore was yet to be incurred. This indicated that only bare minimum repairs had been carried out and major repairs were yet to be done for which no liability was fixed on contractors.

4.1.10.6 It was also noticed in Audit that as per practice in vogue the current operator carried out the repair of the OSVs and ONGC reimbursed him for the same. The operator collected three quotations from any yard approved by Mumbai Port Trust of his choice and awarded the repair job to the lowest bidder at his discretion. ONGC then reimbursed the operator for the repair bills by obtaining the *post facto* sanction. As such it had no control over the price reasonability for the repair job carried out and selection of repair yard. There was no schedule of rates in existence so as to compare the reasonability of the rates.

4.1.10.7 Indian Register of Shipping (IRS) surveys ships to ensure their proper upkeep and maintenance. Its main aim is to ensure that vessels are maintained in good condition and owners carry out preventive maintenance. It issues a quarterly status report indicating items to be surveyed. It also indicates the condition of certain items – termed as “condition of class” which are indicators of whether the particular vessel can carry out the particular duty assigned to it. If an item indicated in the survey is not repaired punctually, IRS can even suspend the vessel class. The statutory certificates issued by IRS are deemed to be invalid in case of imposition of the suspension of the class by IRS.

4.1.10.8 The Review of Quarterly Status of Surveys assigned by IRS indicated condition of class had been applied to ONGC’s owned OSVs indicating that ONGC could ply its vessels for very limited operations as some of the equipment had not been found suitable. Further, during 1999-2000 the class of the following vessels was suspended.

Sl no.	Vessel Name	Date of suspension of class
1	Samudrika-1	1.06.99
2	Samudrika-2	1.07.99
3	Samudrika-3	1.03.99
4	Samudrika-5	1.03.99
5	Samudrika-5	1.01.00
6	Samudrika-8	1.05.00
7	Samudrika-11	1.01.00
8	Samudrika-18	1.07.99
9	Sindhu-1	1.03.99
10	Sindhu-4	1.03.99
11	Sindhu-6	1.12.99
12	Sindhu-12	1.12.99
13	Sindhu-14	1.12.99

Note: The class assigned to OSV for trading/operating is suspended by surveyor society as the defects in hull and machinery noticed by the surveyor were not attended to punctually. The vessels are not operated under the class suspension period for the specific duties and are under down time till the required repairs are carried out or the requirements of the classification society met. After completing the repairs the class is reinstated. Non-compliance with classification requirements had jeopardised the validity of the classification and this may lead to withdrawal of society's classification of statutory certification of Government authorities. The class of the vessels is automatically suspended if the annual survey or special survey has not been completed. The condition of the class which was required to be dealt with on due dates have not been complied with which has resulted in jeopardising the class. This indicates that ONGC took undue time in attending to the upkeep and maintenance of their owned vessels, which has further damaged the health of the vessels. It also means that ONGC may not be allowed to sail these vessels.

4.1.10.9 The operations and maintenance contracts of ONGC owned OSV's were reviewed and the following inconsistencies in the contract clauses were noticed:

4.1.10.9.1 Lack of provisions in the O&M contracts for reduced rates during inoperative periods of vessels

Until 1999, O&M contracts lacked provision for restricting the payment of O&M charges at reduced rates when the OSVs remain inoperative. During this inoperative period the contractor's expenditure on the vessel was appreciably less as compared to the periods when the vessels were in operating condition. Effectively this meant that the operator earned the same rates from ONGC irrespective of whether the vessel was operating or not. On this being pointed out by Audit the contracts had been modified from 1999 onward whereby operators receive payment at the rate of 90 per cent to 60 per cent of the O&M rate during the periods when vessels remain inoperative.

4.1.10.9.2 Payment under downtime (HOTO defects) period

The downtime clause for HOTO defects in the 1999 O&M contract for vessels Sindhu 15, 16 and 17 stipulated that ONGC would compensate the contractor for the scheduled repair period if it had approved the defects. Payments for this period of repairing HOTO defects would be made at the rate of 60 per cent of the normal day rates without any restriction of number of days. However, a table was attached to clause 12, which laid down contradictory conditions. As can be seen from the table given below, the percentage of downtime compensable for HOTO defects was payable at different rates depending on the time taken to rectify the defects:

Period of rectification	Percentage of O&M rate payable
1 to 20 days	90
21 to 40 days	75
41 to 60 days	60
Beyond 60 days	Nil

It is pertinent to mention here that O&M contracts of other vessels did not reveal such inconsistencies.

4.1.10.9.3 On-hire and off-hire survey

While taking over vessel by new contractor from out going contractor at the time of change of the contact, the survey is conducted so as to confirm the on board inventory position and its status. This survey is called on-hire survey by new contractor and off-hire survey by out-going contractor. The off hire survey refers to handing over vessel to new operator or owners nominated contractor/representative. It helps in fixing liability and cut off point to demarcate the new and old contractors' responsibility. On the basis of this survey the responsibility/cost for getting repairs done is fixed between ONGC, new operator and old operator.

Clause 7.2 VIII of the contract specifies that overhauling and repairs of main and auxiliary engines steel renewal, etc. would be borne by ONGC. The O&M contracts for the year 1999 of ONGC's owned vessels including the Sindhu 15, 16 and 17 contained clauses (3.1.1 and 3.2.1) for on-hire and off-hire survey. The cost of on-hire survey as per the above mentioned clause was to be borne by the incoming operator and the cost of off-hire survey was to be borne by the owner (i.e. ONGC). The provisions contained in these two clauses *ibid* regarding cost of survey on delivery/re-delivery of the vessel appeared contradictory. The justification being that the re-delivery by outgoing partner and its delivery to the new operator constituted one action only. Hence the cost of off hire survey borne by ONGC was in fact the cost of on hire survey of the incoming operator.

4.1.10.10 Avoidable expenditure incurred on repairs of six vessels given for operation and maintenance to M/s. Urmila and Company

4.1.10.10.1 ONGC entered (May 1991) into six separate agreements with M/s. Urmila and Company for operation and maintenance of ONGC owned vessels (SAM-11, 12, 16, SIN-2, 5, and 14). As per these agreements, the contractor was to operate and maintain these vessels to the satisfaction of ONGC for a period of two years from the date of taking over. ONGC extended the contract for a further period of one year in the spells of three months each on the same terms and conditions, but without finalising mutually agreed rates. In terms of clauses 7 and 8 of the agreement, the operator (M/s. Urmila and Company) was required to keep the vessels in good running order and in substantially the same condition as received by them. Further, in terms of clause 3 of the contract, the operator was required to pay for the cost of replacement/repair of all such equipment, tools, spares which were damaged as against the inventory handed over on delivery to the operator. The clause further provided that the operator shall pay any/all charges of repair and survey, which were required to be carried out to bring the vessel fully operational and in same shipshape condition as it was at the time of delivery except normal wear and tear.

4.1.10.10.2 The primary contract for these vessels expired between January and March 1993. ONGC invited tenders (November 1992) for subsequent term for operation and maintenance of these owned vessels along with other owned vessels. ONGC could not finalise the tender prior to expiry of the old contract due to prolonged discussions/negotiations with the bidders. The new contract could be finalised only in January 1994. ONGC had to extend the previous contract for a total period of one year at fixed intervals of three months each without even finalising the mutually agreed rate. ONGC officials inspected the vessels in terms of the contract from time to time and

brought out unsatisfactory performance of the contractor regarding maintenance of the vessels. The downtime availed by the operator was also abnormal. ONGC had stressed upon operator for improvement in the performance through various letters issued from February to December 1993. However the vessels remained inoperative for long periods as various equipment, viz. port main engine, auxiliary engine, CPP cooler were in a damaged condition and those were not repaired by the operator. ONGC ultimately issued termination notice to the operator on 7 December 1993 and finally terminated the contracts between February and March 1994. ONGC got these vessels repaired at a cost of Rs. 14.02 crore after taking over from the operator to bring them back in ship shape condition.

4.1.10.10.3 The Management justified (July 1999) extending the contract despite its knowledge about poor performance of the operator on the ground that ONGC did not have the necessary infrastructure/manpower to take on the operation themselves and the vessels could not be left unmanned as per statutory requirements. It also stated that other operators were not likely to be willing to accept additional vessels from M/s. Urmila and Company specially when they were not in good condition and rates for the extended period were not finalised.

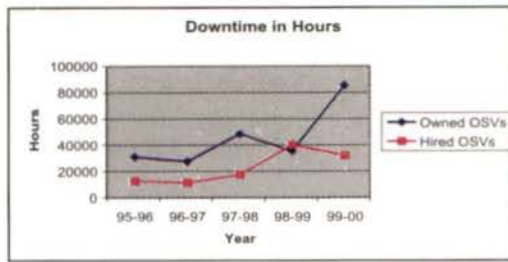
4.1.10.10.4 The reply of the Management brings out helplessness of ONGC in tackling the situation created due to inadequate infrastructure/ manpower, though ONGC utilises a large fleet of OSVs for its offshore oil and gas production operations. The provision regarding termination of the contract without any alternate arrangement like infrastructure to take over the vessel in case of unsatisfactory performance/default by the operator had proved to be only ornamental.

4.1.11 Non-availability of OSVs

4.1.11.1 Following table indicates the non-availability of OSVs, in number of vessel days, on account of downtime, operational breakdown, dry docking, major accident repair etc during the last five years ending 1999-2000:

Year	(Percentage of total OSVs days)									
	Downtime revalidation of statutory certificates		Operational breakdown		Dry docking		Major accident repair		Non-availability due to other reasons	
	Owned	Hired	Owned	Hired	Owned	Hired	Owned	Hired	Owned	Hired
1995-96	5.20	3.42	1.39	1.33	2.01	1.66	2.35	0.37	1.04	0.00
1996-97	3.77	3.67	1.04	0.45	2.87	1.73	1.98	0.44	0.00	0.00
1997-98	6.32	4.94	2.27	0.40	6.47	3.81	1.30	0.00	0.00	0.00
1998-99*	7.60	9.16	2.57	2.32	2.76	6.75	0.00	0.00	0.00	0.00
1999-00	24.43	8.96	3.40	0.18	2.20	9.09	0.00	0.00	0.00	0.00

* For 1998-99 data relating to downtime of hired vessels revealed a distorted picture as one of the vessels Nand Godavari was out of operation for the whole year during 1998-99. The vessel was, however, not de-hired and has been shown under downtime in the statistics of NSB under downtime. Thus, the downtime of hired vessels in 98-99 revealed a grossly exaggerated picture.

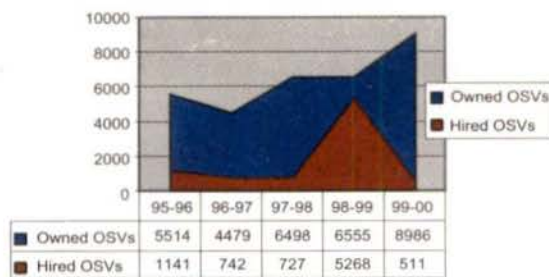


4.1.11.2 A comparison of downtime between the owned OSVs and chartered OSVs generally in all the last five years with the exception of 1998-99, indicated that the downtime of the owned OSVs was considerably higher. The cost of the total downtime worked out to Rs. 179.36 crore^{*}. A further cause wise analysis

revealed the following:

4.1.11.2.1 Downtime due to operational breakdown had been very high in case of owned OSVs compared to the same in case of hired OSVs.

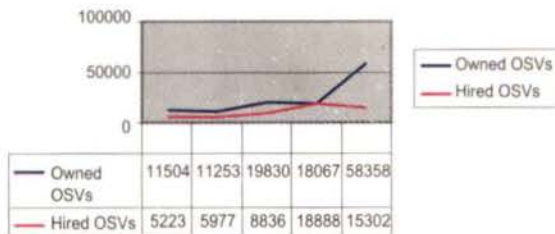
Downtime due to operational breakdown



OSVs compared to the same in case of hired OSVs. In case of owned OSVs, ONGC had to pay anyway to the O&M operators the charges during the downtime period as per contractual provisions, whereas in case of hired OSVs, the same was to be borne by the owner of the ship.

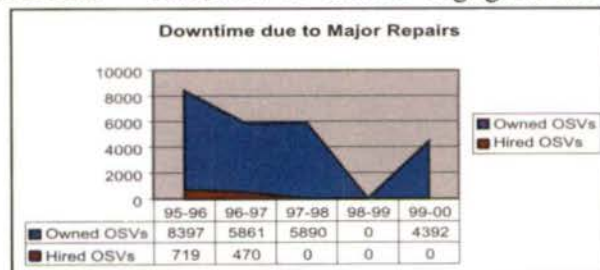
4.1.11.2.2 Again it would be seen that the owned OSVs had taken much more time than hired OSVs (with the exception of 98-99) to revalidate statutory certificates.

Downtime due to Revalidation of Statutory certificates



hired OSVs (with the exception of 98-99) to revalidate statutory certificates. This indicated that the ships were in bad condition and took more time to repair to satisfy statutory authorities.

4.1.11.2.3 Compared to almost negligible downtime of hired OSVs due to major repairs, the downtime due to the same reason in case of owned OSVs had been considerable.



repairs, the downtime due to the same reason in case of owned OSVs had been considerable. This again indicated the bad condition of the ship.

^{*} The downtime loss had been worked out based on charter hire day rate of SCI – 01 for April of relevant year

4.1.11.3 Poor maintenance of the OSVs by the operators is discussed below:

(i) ONGC's vessels suffered considerable damage under O&M contracts as the contractor always endeavoured to run the vessels for maximum days even when repair and maintenance was overdue. Many a time, vessels were run despite defects pointed out by ONGC's maintenance wing at Nhava. ONGC recovered some nominal charges at rates provided in contracts for the damages. But this did not act as a deterrent since the penalty was very nominal.

(ii) Certain elements like dry docking were also made part of the O&M contract at a fixed rate which was not appropriate, as the quantum of dry docking expenses could only be ascertained after the vessels actually dry-docks. Maintenance of OSVs was being compromised by putting dry-docking on contractor's account. The operator was likely to compromise on the quality of the repairs and maintenance of ONGC's vessels, which reduced the efficiency and life of the vessel significantly.

(iii) Under O&M contracts vessels run with minimum preventive maintenance for maximum number of days so that contractors could earn maximum operative charges. This resulted in long-term damage to vessels. The reduced life of vessel offset the benefit derived by ONGC in the form of lower operating cost.

(iv) The spare parts and machinery were removed from OSVs and sent for repairs but the receipt back of these materials had not been watched properly. Audit noticed the cases of such material sent out way back in 1998 but was not received back until December 2000.

(v) The OSVs defects were not attended to in time and same were noticed only at the time of HOTO. The outgoing operator was supposed to keep the OSV in ship shape condition as per the contractual obligations. The OSVs were run with these defects for prolonged period.

4.1.12 Other topics of interest

4.1.12.1 Extra expenditure due to non-utilisation of Anchor Handling Tug cum Supply Vessels for intended purpose

ONGC charter hired (December 1997) 'Maersk Leader' an Anchor Handling Tug cum Supply Vessel (AHTS) from M/s. Maersk Company Limited, London at daily rate of US\$ 22500 initially for a period of one year expiring 19 December 1998 for carrying out deep water drilling by drilling rig Sagar Vijay.

As per the drilling plan of 1997-98, ONGC had planned deep water drilling from October 1997. However, due to delay in dry-docking of the Sagar Vijay the vessel could not be deployed for the intended purpose of deep sea drilling until March 1998. During this intervening period i.e. from December 1997 to March 1998 the vessel was deployed by ONGC in MRBC for doing regular supply/stand by duty as under.

(Figures in hours)

Month	Supply Duty	Standby Duty	Rig Tow Duty	Downtime	Harbour Time
January 98*	258	193	128	0	164
February 98	211	164	320	0	49

*Period-21 December 1997 to 20 January 1998

OSV normally deployed by ONGC for supply and stand by duty had a BHP of 5400 and 3200 respectively whereas Maersk Leader's capacity was 12000 BHP, which was especially suitable for deep water anchor handling and towing purpose. Therefore, the deployment of high capacity OSV to normal duty had resulted in extra expenditure of Rs. 5.30 crore.

4.1.12.2 *Loss due to payment for non-executed dry-docking included in composite rate*

Annual O&M rate paid to operators includes dry-docking expenditure of OSVs. As per clause 2.3 of the contracts signed with various parties in 1991, an operator was to undertake dry-docking of the OSV. In case dry-docking of the vessel was not possible due to exigencies of ONGC within the contract period of two years, operators would have to refund notional dry docking charges.

The primary duration of the contracts entered into in 1991-92 was extended by one year at the same, terms and conditions, but at mutually agreed rates. The O&M contracts for the years 1991-93 and 1994-96 were extended for a total of 11,560 days, as shown in the table below. Although no dry-docking was to be carried out by the operators during the extended period of the contract the daily rates payable were not correspondingly reduced by ONGC to the extent of element of dry-docking expenses built into the daily operating rates.

Contract year	Primary duration of the contracts (in months)	Notional dry-docking amount built into the annual O&M rate (Rs. in lakh)	Notional dry-docking amount built into the day-rate (Rs.)	Total no. of days for which O&M contracts extended (in days)	Total overpayment (Rs. in crore)
1991-93	24	10.00	1369.86	10950	1.50
1994-96	30	18.10 {15.0 + 3.10 (14 days downtime)}	1984.31	610	0.12
Total overpayment					1.62

Due to non-adjustment of daily rates payable for extended duration of the contract in respect of dry-docking expenses for the above period resulted in overpayment of Rs. 1.62 crore.

The Management stated (June 1999) that on expiry of primary period of 1991-93 contract; the contract period was extended after protracted negotiation at the rate of Rs.78.60 lakh without dry-docking. Similarly for 1994-96 contract extension was to be at

mutually agreed rates. After expiry period the rate was negotiated for extension period at the rate of Rs. 80.95 lakh as finalised against 1996-98 tender.

The Management reply does not address the core issue that the daily rates payable should have been correspondingly reduced to the extent of element of dry-docking expenses.

4.1.12.3 Damages due to fire to OSV (Sindhu-12) due to delayed decision process

ONGC owned OSV (Sindhu-12) operated by M/s. Orient Ship Management and Managing Private Limited, caught fire on 22 November 1996 and sustained extensive damage due to fire. The OSV was insured with Oriental Insurance Company Limited under ONGC's fleet policy for Rs. 6.64 crore. The estimated cost of repairs as per the underwriter's surveyor's report (October 1997) was around Rs 5 crore. The Committee formed by the ONGC (November 1996) to enquire into the fire incident concluded that there was failure on the part of the operator, as the safety standards were not adhered to.

ONGC requested the operator to undertake the repairs of the damaged OSV under the contract. The operator declined in May 1997 to undertake the repair and stated that ONGC may terminate the contract under force majeure conditions or make all the arrangements for the repairs, and a new service contract be drawn for the period of vessel under repairs.

In December 1997, ONGC sought legal opinion in order to sort out the issue relating to the liability. In the first legal opinion of January 1998 it was stated that ONGC could force the contractor to undertake repairs. In July 1998, another legal opinion, given by the same expert who gave the first opinion, spelt out that the case was within the purview of Constructive Total Loss (CTL) as the cost of repairs was more than or equal to the insured value of the asset which was Rs. 6.64 crore, thus, effectively absolving the operator from any responsibility to repair the vessel. Meanwhile, the cost of repair as estimated by MDL in November 1998 also went upto Rs. 6.66 crore. It being a CTL the operators' liabilities was limited only to the extent of insurance deductibles being Rs. 6 lakh as per contract clause 8.4.2. Since the residual value of the OSV was around Rs. 8 crore (i.e. Market price Rs. 15 crore less cost of repairs: Rs. 7 crore) ONGC could not decide whether to treat this as a CTL or to get it repaired for future use. Decision on repairs was still pending and ONGC has not got any money from insurance also.

A comparison of surveyors' estimates of Rs. 5 crore for fire damages with insured value (Rs. 6.64 crore) revealed that ONGC had no option of CTL since the surveyor's estimated repair cost prevalent at the time of accident did not exceed insured value of the vessel. Hence based on contractual provisions (clause 8.4.2) ONGC should have passed on the repair responsibility to operator and got the vessel repaired.

The services of the vessel could not be utilised since 1996 pending decision for its repairs and was manned by skeleton staff upto August 1999 of the same operator as per statutory requirements and thereafter with the help of a security guard. The delay in repair had resulted in further deterioration of the vessel. Thereby the repairs cost estimate had also shot upto Rs. 19.59 crore (as quoted by MDL in December 1999) from original surveys estimate of Rs. 5 crore. Even though no repair had been carried out, the vessel was dry-

docked in November 1999 for survey and emergency repairs costing Rs. 78 lakh and also in order to determine the exact repair expenditure to be now incurred.

Thus delay in decision making had resulted in extra estimated repairs expenditure of Rs. 14.59 crore (Rs. 19.59 crore less Rs. 5 crore) besides expenditure of Rs. 33.83 lakh on manning the vessel from January 1997 to February 1999.

The study was referred to the Management and Ministry in March 2001 and October 2001 respectively; their replies were awaited (November 2001).

CHAPTER 5: MINISTRY OF POWER

Tehri Hydro Development Corporation Limited

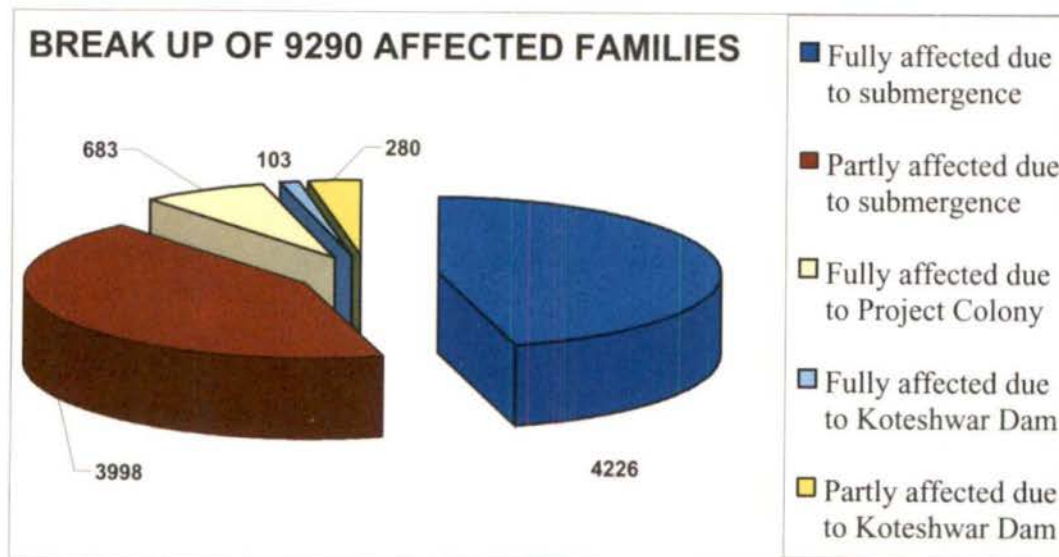
5.1 *Implementation of rehabilitation plan for displaced persons of Tehri Hydro Project*

5.1.1 *Introduction*

5.1.1.1 The Planning Commission approved in June 1972 Tehri Dam Project for generation of 600 MW of electricity at an estimated cost of Rs.197.92 crore as a State Sector project. The Government of Uttar Pradesh accorded administrative approval in July 1976 for construction of the project for generation of electricity to provide irrigation facilities for 2.7 lakh hectares of land, to stabilise irrigation facilities in 6.04 lakh hectares of cultivated land and to supply 270 million gallons of drinking water to Delhi and towns of Uttar Pradesh. In 1983 the generation capacity of the project was increased to 1000 MW with an estimated cost of Rs. 1065.86 crore (1983 price level). As little progress was made in the project, it was decided to implement the project as a joint venture of Government of Uttar Pradesh and Government of India. Accordingly, Tehri Hydro Development Corporation Limited (THDC) was incorporated as a Government Company on 12 July 1988. Work of construction of dam and rehabilitation of affected people was entrusted to THDC in June 1989 and February 1990 respectively. The generation capacity of the project was further revised to 2400 MW at estimated cost of Rs.5583 crore (March 1993 price level) for stage-I and stage-II. The estimated cost for stage-I of Rs. 2963.66 crore (1993 price level) was further revised to Rs.5209.10 crore (August 1999 price level) in March 2000. The approval of the Government of India for revised cost was still awaited (March 2001). The actual expenditure incurred upto March 2001 was Rs.3265.72 crore. The increase in cost was due to substantial increase in generation capacity (from 600 MW to 1000 MW for stage-I) and enhanced cost of rehabilitation package. The estimated cost of rehabilitation which was Rs.414 crore in 1994 was further revised to Rs.875.06 crore in March 2001. The actual expenditure incurred against this was Rs.585.18 crore (March 2001).

5.1.1.2 The construction of Tehri dam involved submergence of a total area of 5,200 hectares of land. This included 1600 hectares of cultivable land spread over 96 villages providing habitation to 8224 families (4226 families fully affected requiring displacement and 3998 families partially affected not requiring displacement) as well as the Tehri Town consisting of 5291 families[#]. The chart given below gives the break up of families affected due to construction of dam, dislocation of villages for construction of New Tehri Town and project colony at the dam site as well as construction of a smaller dam at Koteswar, 20 KM downstream of Old Tehri Town.

[#] included 1907 families of Government/ Semi Government employees who are not entitled to any kind of compensation.



5.1.1.3 The rehabilitation work was handed over to THDC in February 1990 and by that time Uttar Pradesh Irrigation Department had acquired 23 villages and substantially constructed the buildings of New Tehri Town. Government of India decided (December 1998) that Government of Uttar Pradesh should take over the direct responsibility for entire rehabilitation task. Accordingly, in March 1999 the responsibility of entire rehabilitation work was re-transferred to the Government of Uttar Pradesh and later to State of Uttranchal in January 2001 under the overall supervision and control of Commissioner, Garhwal Mandal with funds being provided by THDC.

5.1.1.4 The Company had acquired 992.43 acres of land during the period from March 1990 to March 2001, while 2299.10 acres of land was still to be acquired as on March 2001. The progress of acquisition was far from satisfactory.

5.1.1.5 The objective of this Review is to evaluate the overall progress of rehabilitation process and the manner of its implementation.

5.1.2 Organisational set up

The work of rehabilitation in THDC was being looked after by the Director (Personnel) based at Noida. He was assisted by the General Manager (Project) Tehri, the Additional General Manager (Urban Rehabilitation) and Deputy General Manager (Rural Rehabilitation) all stationed at Tehri.

The Corporate Office of the Company was initially set up (July 1988) in Delhi. In December 1994/May 1995 Government of India directed the Company to shift its Corporate Office to New Tehri Town (subsequently to Rishikesh) but the Company did not act on these directives and instead shifted its office to Noida in August 1997 and paid a rent of Rs.1.37 crore from August 1997 to March 2001 which could have been avoided had the Company utilised the facilities created for Corporate Office at New Tehri Town/Rishikesh at a cost of Rs.3.13 crore.

The Ministry stated (November 2000) that the Delhi Office had been closed down and a functional office opened at NOIDA in Uttar Pradesh with minimum complement of staff required for liaison with Government of India and other organisations. Also, the project authorities at Tehri had to face repeated agitations and dharnas from time to time adversely affecting the work. Further, if the Company did not have its own office at a place in close vicinity of Delhi the quantum of expenditure on hotel accommodation, TA and DA etc. would have been many fold higher than the expenditure now being incurred as rent for office accommodation.

The reply of the Ministry is not tenable as the Company had violated the directives of the Government of India and continue to incur avoidable expenditure on office rent. It was also observed that the minimum complement of Executives and Supervisors at Noida had steadily increased from 40 in March 1995 to 52 in March 2001. The top Management was required to be located at Tehri/Rishikesh, so that the day to day problems faced by the work site officers and genuine difficulties of the local population could have been solved in a better and efficient manner. As regards TA/DA, the actual expenditure increased from Rs.70.59 lakh in 1994-95 to Rs. 2.71 crore in 2000-01.

Further, despite bungalows at Rishikesh earmarked for office and residential accommodation for Chairman and Managing Director and all Directors, they continue to function from Noida office. Moreover, the Company was also incurring expenditure on leased accommodation provided to its employees posted at Noida, which could have been avoided, if Corporate Office had been shifted to Tehri.

5.1.3 Rehabilitation Policy

5.1.3.1 Policy for rehabilitation of families likely to be displaced by the construction of Tehri Dam initially formulated by Uttar Pradesh Irrigation Department in 1976, was adopted by THDC and was improved upon in October 1995. The same was further improved upon in December 1998 as per the recommendations of Professor Hanumantha Rao Committee.

5.1.3.2 Rural oustees* were to be compensated through allotment of agricultural land or cash in lieu thereof and to be settled in large blocks to keep intact the fabric of their social life. Representatives of oustees were to be involved in selecting the rehabilitation centre, as far as possible and community facilities were to be provided at each of the rural rehabilitation centre at the cost of THDC even if these did not exist in the earlier settlements. The Rehabilitation plan was to be executed in two phases. In Phase-I families fully affected by the construction of Coffor Dam, Project Colony works and New Tehri Town were to be rehabilitated and in Phase-II, the families to be affected by the construction of dams at Tehri and Koteshwar were to be rehabilitated.

5.1.3.3 The families whose land was being acquired to the extent of 50 per cent or more were to be treated as fully affected families and those families whose land was being acquired upto less than 50 per cent were to be treated as partially affected. In the

* *Ousteess means family/individuals who were affected and being displaced as a result of construction of dam*

villages where 75 per cent or more families were treated as fully affected the remaining families though affected only partially were also to be treated as fully affected subject to the condition that they would be entitled to payment of cash compensation for their entire holding and would not be entitled for allotment of any land.

5.1.3.4 A review of the Rehabilitation Policies of THDC revealed the following deficiencies:

- a) Under the earlier rehabilitation policies upto 1995 the family included only the husband and wife and their entitlement was determined with reference to land owned by them as per revenue records. This failed to take into account the total number of adult family members like major sons and daughters as well as dependent parents living under the umbrella of a joint family. To that extent, the need for their rehabilitation was not recognised. *Ex-gratia* compensation to adult members of family other than husband and wife was authorised under the revised policy of 1998 and added to the rehabilitation package of the fully affected families.
- b) The policy evolved by THDC in 1995 gave rural families affected by the project an option to receive cash in lieu of land surrendered by them. Since only 565 out of 5012 rural families opted for cash compensation it is clear that the cash compensation was not sufficiently attractive (see para 5.1.5.1).
- c) According to the rehabilitation policy of October 1995, the minimum cash compensation in lieu of land upto 2 acres, admissible to those oustees who opt to draw cash compensation instead of land allotment, was increased from Rs. 60,000 to Rs. 2 lakh. In the same policy, there was another provision that those oustees who wished to purchase land would be reimbursed cost of land upto Rs.1 lakh on production of proof of purchase of 2 acres of land. As the minimum cash compensation was Rs. 2 lakh, there was no incentive for the oustees to purchase the land themselves. Eventually, this provision had to be excluded from the Policy enunciated in December 1998. Had the reimbursement of cost of land also been increased reasonably in October 1995 itself, the oustees would have been motivated to purchase land themselves. The Ministry admitted (November 2000) the facts.
- d) Though the policy of 1995 stated that local population was to be consulted while deciding upon the rehabilitation package, no steps were taken in this regard. Considering that displacement from an existing habitat was not a monetary problem alone but was also a social and humanitarian problem, this was a major weakness in the rehabilitation effort on the part of Uttar Pradesh Irrigation Department/THDC. In this context, Audit observed that neither any non-governmental organisation nor Panchayat Samities were associated in planning and implementation of rehabilitation package.
- e) The different rehabilitation policies failed to contemplate a time table for execution of different tasks of rehabilitation viz. completion of acquisition of the land of oustees, construction of flats, shops, acquisition of rehabilitation sites and its development and shifting of the affected families to the new rehabilitation sites.

The Ministry stated (November 2000) that the shifting of population was programmed in two phases and was to be completed well before impoundment of water in the reservoir. The shifting of Tehri Town was scheduled to be completed in June 1996 but due to agitation by the local people, Government of India enforced (May 1996) a ban on shifting of Tehri Town. The ban was lifted in January 1997. The ban impeded the process of shifting. The Ministry also stated (November 2000) that the new Rehabilitation policy had to be announced due to passage of time and increase in demands of affected persons and not due to deficiency in the old rehabilitation policy.

The reply is not acceptable as the target dates for different phases of acquisition, construction, shifting etc. were never fixed except for Tehri Town which was also not adhered to. Had this been adhered to, the majority of population of Tehri Town would have been shifted by May 1996.

Further, Government of India had sanctioned an additional package of Rs.12.49 crore in March, 2001 for shifting of the population of Old Tehri Town to facilitate closure of diversion tunnels (T-3 and T-4).

The above deficiencies led to substantial delay in carrying through the rehabilitation process and the project as a whole. The project which was to be completed by 1989 is now scheduled to be completed by December 2002. This also substantially increased the estimated cost of rehabilitation package from Rs. 414 crore in 1994 to Rs. 875.06 crore in March 2001.

5.1.4 Acquisition of villages/Tehri Town

5.1.4.1 According to the Detailed Project Report (DPR) of 1969 the project was to be completed by 1989. After being taken over by THDC, the year of completion of the project was re-scheduled to 1996. Consequently, the acquisition of properties of affected families and their rehabilitation was to be initially completed before 1989 and later by 1996.

5.1.4.2 Government of Uttar Pradesh had appointed (April 1973) a high power Tehri Control Board (TCB) with the Chief Minister of UP as its Chairman to eliminate delays in taking major policy decisions connected with the execution of the dam and implementation of the rehabilitation plan prior to the transfer of rehabilitation work to THDC. A Standing Committee of the TCB with Irrigation Minister as its Chairman had a Land Acquisition and Rehabilitation Wing. The Commissioner, Garhwal Division based at Dehradun was the part time Administrator of the wing and was assisted in discharging his task by a whole time Joint Administrator cum Director Rehabilitation, stationed at Tehri.

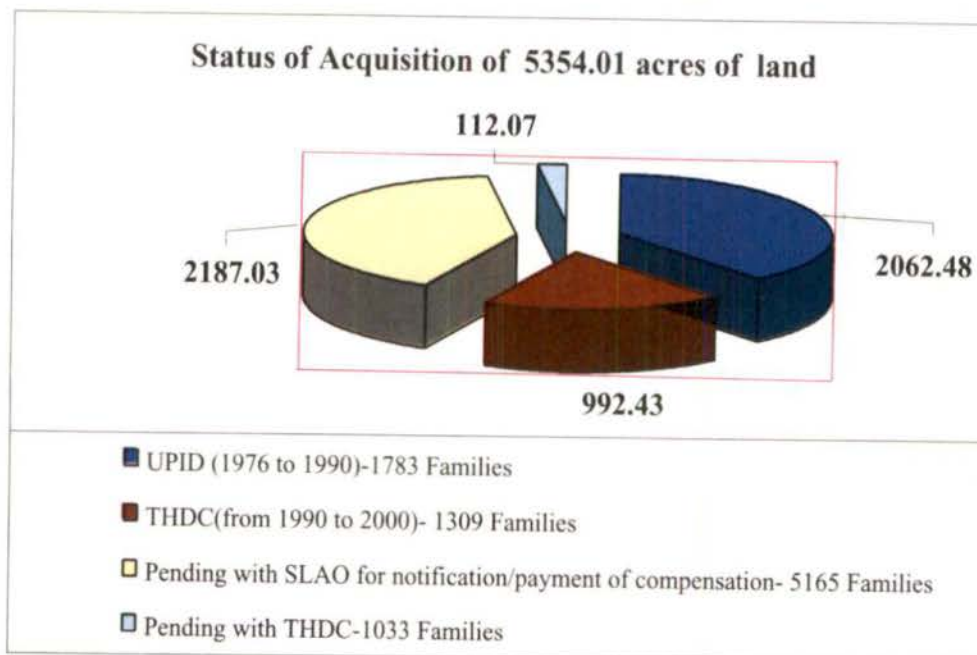
5.1.4.3 After transfer of the project to THDC, a relatively junior Co-ordination Committee substituted (May 1990) the TCB. The Committee comprised of Commissioner, Garhwal Division as its Chairman, Chairman-cum-Managing Director (CMD) THDC as Co-Chairman and the District Magistrates of affected districts i.e. Dehradun, Tehri, Uttarkashi and Haridwar, as its members. These officials were assisted by the Special Land Acquisition Officers (SLAOs) at the operational level.

As a result of downscaling the management of the rehabilitation process there was very slow progress in the acquisition of land, shifting of population from Old Tehri Town to New Tehri Town as well as in relocation and rehabilitation of affected families as brought out in the succeeding paragraphs.

5.1.4.4 3 SLAOs viz. SLAO-I, SLAO-II posted at Tehri and SLAO, Narendra Nagar were assigned acquisition of land and property at dam and reservoir sites whereas the acquisition of land at rehabilitation sites i.e. Dehradun and Haridwar is being done by SLAO Dehradun and SLAO, Saharanpur respectively. The proposals initiated by Uttar Pradesh Irrigation Department/THDC are examined by the SLAOs with reference to the Land Acquisition Act, 1894 and on finding the proposal in order, a demand for 10 per cent of the assessed value is raised before issuing Gazette Notification under section 4(i) of the Land Acquisition Act,1894 (Act) declaring that the specified land is required for public purposes. Notification under section 6(i) is required to be issued within one year from the date of notification under section 4(i). Before issuing notification under section 6(i) a further demand for 70 per cent of the value is to be raised. The Gazette Notification is issued only after the deposit of requisite amounts in advance. The awards were required to be declared within 2 years from the date of notification under section 6(i) otherwise the whole process would lapse and would be required to be processed ab-initio.

In case of delay penal interest @ 15 per cent under section 34 of the Act was also payable from the date of award to the date of actual payment.

5.1.4.5 Out of 125 villages inhabited by 9290 families comprising 5354.01 acres of land, the land and property in 79 villages inhabited by 6198 families comprising 2299.10 acres of land was still (March 2001) to be acquired and only 23 villages comprising an area of 992.43 acres of 1309 families only could be fully acquired by THDC after it took over the rehabilitation work in February 1990 to March 2000. The graphical presentation below gives the status of acquisition of land as on 31 March 2001.



Thus the progress made by THDC in the acquisition of land for settlement of affected families was tardy and poor. It was also noticed that out of 2187.03 acres of land pending with Special Land Acquisition Officers (SLAOs) 936.20 acres (34 villages) was pending for issue of notification under Section 4 (i) of the Act 301.11 acres (11 villages) was pending for finalisation of acquisition under Section 6 (i) of the Act and remaining 949.72 acres (20 villages) was pending for declaration of award under Section 11 of the Act. Further the proposals for acquiring 112.07 acres of land relating to 14 villages had still not been submitted to the SLAOs so far (March 2001).

The payments made by THDC to SLAOs were not being properly monitored. The SLAOs were not even required to report on the expenditure incurred by them on rehabilitation nor did THDC institute a procedure for regular and timely reconciliation of outstanding advances *vis-a-vis* payments made by the SLAOs. A system was, however, introduced belatedly in 1998-99 at the instance of Audit. The year wise position of outstanding with SLAOs was as under:

(Rs. in crore)

Year	Opening Balance	Deposits	Adjustments	Closing Balance
1991-92	30.85	3.72	2.24	32.34
1992-93	32.34	4.56	-	36.90
1993-94	36.90	2.28	-	39.18
1994-95	39.18	3.16	-	42.34
1995-96	42.34	12.59	1.28	53.65
1996-97	53.65	19.43	6.63	66.4.6
1997-98	66.45	1.59	5.98	62.06
1998-99	62.06	8.74	11.27	59.54
1999-00	59.54	17.72	4.78	72.48
2000-01	72.48	6.69	19.32	59.85

Records relating to Rehabilitation maintained by THDC have since been transferred to Director of Rehabilitation, a State Government Agency during 2000-01. Now, the amount towards compensation etc. is paid to SLAOs through Director of Rehabilitation.

Even the Commissioner Garhwal Division and the District Magistrate of affected Districts being members of the Coordination Committee, did not ensure that the SLAOs render the accounts of advances and adjustments made by them nor did the Company seek their intervention on the matter. Resultantly delays and financial irregularities arose. Audit observed that (a) the funds of the Company to the tune of Rs.14.12 crore were blocked since last 1 to 10 years (Para 5.1.4.5(i), (iii) and (viii)); (b) fraudulent payment of Rs.34.30 lakh was made by SLAO-II Tehri (Para 5.1.4.5 (ii)); (c) detailed accounts for Rs.30.78 crore were not received from Uttar Pradesh Irrigation Department and SLAO-II, Tehri (Para 5.1.4.5(v), (vi)); and (d) the Company had to suffer a loss of Rs. 89.69 lakh on account of payment of penal interest (Para 5.1.4.5(vii)).

Details of specific cases test checked are as below:

(i) Between August 1991 and July 1993 THDC had deposited with SLAOs Rs.5.83 crore being 80 per cent of the total compensation payable for acquisition of land in 12 villages. The amount was still lying unutilised (March 2001) with the SLAOs because the necessary notifications under section 6(i) of Land Acquisition Act, 1894 were not issued within the prescribed time limit of 2 years as a consequence of which the earlier notifications issued under Section 4(i) of the Act *ibid* lapsed. Hence, the entire process of acquisition had to be started afresh and THDC had to resubmit the proposals in respect of all these cases. This led to further delay in acquisition of those villages. The Ministry admitted (November 2000) the facts.

(ii) On an investigation by SLAO-II in January 1996, it was found that the former SLAO-II, Tehri had made a fraudulent payment of Rs.34.30 lakh to three non-existing families (stated to have resided in ward No.10 of Old Tehri Town) by manipulating relevant records like survey sheets, valuation sheets, award documents etc. In this connection, FIR was lodged in September 1997 against 8 persons. The case was still under investigation (March, 2001) even after a lapse of more than 3 years. THDC could not monitor/detect the fraudulent payment in time, as there was no system to carry out regular reconciliation of outstanding advances *vis-a-vis* payments made by SLAO. The Ministry admitted (November 2000) the facts and stated that SLAO was an independent agency working under the Collector.

(iii) While SLAOs during 1988-89 to 2000-01 had shown in their reports to THDC that Rs.1.77 crore were paid to oustees towards compensation, the above amount was actually lying unpaid with the State Government under Civil Deposits. The incorrect reporting could have been detected by the Company, if details of payments to oustees were obtained regularly and reconciled with THDC records. The Ministry stated (November 2000) that it was as per the Act. The reply is not tenable as there was no provision in the Act for keeping funds under Civil Deposits. The fact remains that the report of the SLAO showing payment made to oustees was not correct as no payment was actually made to them and such advances should have been shown under Personal Ledger Account.

(iv) SLAO Tehri awarded lower rates of compensation i.e. Rs.5.50 per sq. ft. to ten families as compared to the rate of Rs.30 per sq. ft. paid to other oustees in the same locality. THDC neither took cognisance of it nor objected to this. The oustees to whom compensation was awarded at lower rates went in appeal against the award. On going into the facts the District Court enhanced (December 1998) the compensation payable to all the ten oustees from Rs.19.72 lakh to Rs.62.68 lakh. In addition to above 30 per cent solatium plus 12 per cent additional compensation and interest from the due date to the date of payment were also payable to them. THDC had filed an appeal in the High Court against the orders of the District Judge. The case was still pending (March 2001) in the High Court. This could have been avoided had THDC taken due cognisance of payment of different rates for the same locality. The Ministry admitted (November 2000) the facts and stated that different rates were applied because of different awards and different dates of acquisition.

(v) The SLAO II Tehri had not given detailed accounts for Rs.6.55 crore shown to have been paid by him to the affected families of Old Tehri Town before February 1990. The case was under investigation by CBI (March 2001). The present status of the case was not available with THDC. The Ministry stated (November 2000) that status would be known when final investigation by CBI was over and records returned to SLAO.

(vi) THDC accepted a claim of Rs.24.23 crore stated to have been paid by Uttar Pradesh Irrigation Department before February 1990 for compensating the landowners without insisting on details of oustees to whom payments were made, to support such payments. The Ministry's reply that the figure was adopted as per assets and liabilities transferred to THDC, is not tenable as the details of the assets acquired etc. were not available with THDC.

(vii) THDC had to pay Rs.89.69 lakh during the period 1991 to 1996 on account of interest on delayed payment of compensation to the affected families in 6 villages although the responsibility for delay in declaration of awards was attributable to the SLAOs as sufficient funds were already deposited by THDC with SLAOs.

The Ministry's replied (November 2000) that the payment of interest was made under the provisions of the Act was undeniable. However, inordinate delays on the part of SLAOs rendered THDC to a *fait accompli* whereby interest of Rs. 89.69 lakh had perforce to be paid by them to the affected families. Thus, the system of coordination with SLAOs was severely deficient and lacked adherence to basic principles of financial accountability.

(viii) An advance payment of Rs.8.13 crore (Rs.3.55 crore being 10 per cent under section 4 (i) and Rs. 4.58 crore being 80 per cent under sections 4 (i) and 6 (i) of the Act) was made to Special Land Acquisition Officers of Dehradun and Saharanpur between November 1996 to June 1997 against proposals for acquisition of 1749 acres of land in 11 villages of Dehradun and Haridwar for rehabilitating about 875 families. No acquisition of land took place at either of the two places so far (March 2001) and acquisition of land proceedings were dropped in respect of 8 villages details of which are as under:

(a) SLAO, Dehradun to whom a sum of Rs.1.64 crore had been advanced in July 1997 for acquisition of 439 acres of land in 6 villages covered by tea garden had refunded a sum of Rs.1.61 crore in September 1999 because the permission of the Chief Secretary of the State for this purpose could not be secured. The reason for non-acquisition of these villages was reported to be their location in a city, which would be costly in financial terms. The Ministry stated (November 2000) that the proposals had not been agreed to by the State Government citing the reason of Land Ceiling Act. The reply is not tenable, as the matter should have been sorted out before advancing money so that blockade of money could have been avoided.

(b) In respect of 378 acres of land proposed to be acquired in two villages* of Haridwar district, proceedings for land acquisition were dropped by the Rehabilitation Director after issuing notification under Section 4 of the Act.

* Hansawala and Kheri-Sikohpur

The Ministry in their reply stated (November 2000) that these proceedings were dropped due to apprehension of law and order problem. However, no such correspondence to corroborate the statement was shown to Audit during verification of reply of Ministry.

(ix) Uttar Pradesh Irrigation Department had acquired and allotted 115.35 acres of forestland at Jolly Grant for rehabilitation of oustees of Tehri Dam. However, in November 1992, District Magistrate (DM), Dehradun who was also a Member of the Coordination Committee, allotted 2 acres of land at market rates to the National Airports Authority (NAA) which, however, actually took over the possession of 28.5 acres by encroaching the area with barbed wire fencing without any prior approval or consent from either the THDC or the DM. The land taken over by NAA could have rehabilitated 15 displaced families. The Chairman of the Coordination Committee did not take any action to correct the situation created by the order of the DM Dehradun, even though the matter was formally reported to him in May 1993. The efforts made by THDC had not yielded any fruitful results and land continues (March 2001) to be under unauthorised occupation of NAA. The Ministry admitted the facts. Thus, the coordination committee constituted was not effective and failed to perform its responsibilities.

(x) It was observed that the Company/SLAO had not acquired any land/villages during the period 1992-93 to 1994-95, although funds ranging between Rs.36.90 crore to Rs.42.34 crore were lying with SLAO I and II Tehri during this period for the said purpose.

5.1.4.6 Delay in acquisition of land for quarrying rip-rap material #

Rip-rap material was one of the most important inputs for the construction of the coffer dam scheduled to be completed under Phase-I of the Project. However, Village Asena (in Bhilangana Valley) identified (March 1992) for quarrying the rip-rap material for construction of coffer dam as well as main dam, to be constructed in Phase-II was not acquired because it failed to be included in the list of villages likely to be affected fully or partially during Phase-I of the project. This resulted in non-acquisition of required land in this village. The Technical Advisory Committee (TAC) reiterated (June 1999) its direction of February 1999 that Asena quarry should be brought into production without delay and directed that shell material might be placed upto EL* 680 meters and rip-rap material beyond EL 680 meters. Thus, TAC's advice to place rip-rap material beyond 680 meters was not acted upon due to non-acquisition of Asena Village on priority. Due to failure of the Company to acquire Asena village, TAC again revised the schedule in March 2001 and advised that the rip-rap material be placed beyond EL 700 meters on the surface of the dam. The progress in acquisition of Asena village as on 31 March 2001 is indicated in the table below:

Quartzite and dolomite stones required to be placed upstream and down stream surface of the dam to protect it from erosion

* *EL- Earth Level from Sea*

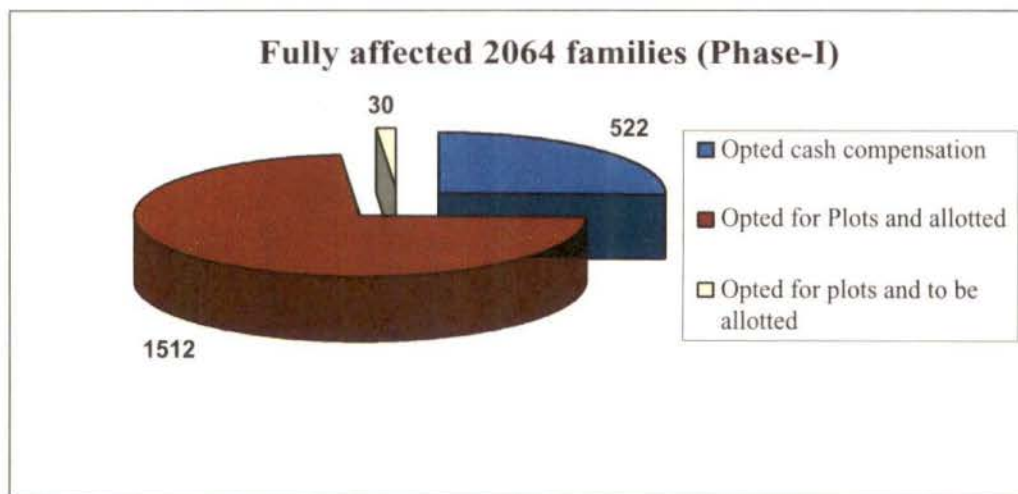
Phase	Acres of land to be acquired	Date of submission of proposals	Date of notification under Section of the Act		Date of	
					Award	Possession
			4(i)	6 (i)		
ASENA-I	7.33	30.08.91	16.10.93	15.10.94	30.03.98	5.10.97
ASENA-II	104.32	19.09.98	21.01.99	23.01.99	Award yet to be declared	

The District Magistrate, Tehri had, however, ordered (6 September 1999) that all the affected families might not be shifted till alternative land was given to them. Further, delay in acquisition of land was likely to hamper progress of dam construction beyond EL 700 meters as far as placement of rip-rap material was concerned.

The Ministry in its reply stated (November 2000) that the dam was progressing as per schedule but the fact remains that rip-rap material scheduled now to be placed beyond EL 700 meters had not been placed so far (March 2001) even though the main dam had reached EL 754 meters. The delay in acquisition of village for quarrying rip-rap material was likely to entail extra expenditure on lead from alternative sources. If the rip-rap material is not placed, it may jeopardise the safety of the dam structure.

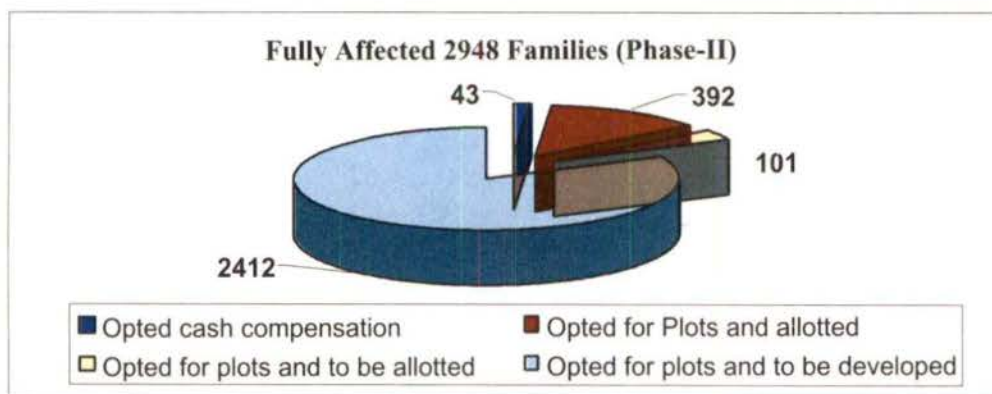
5.1.5 Settlement of affected families

5.1.5.1 The position of requirement of plots for affected rural families in the event of displacement *vis-a-vis* fulfilment of such requirement as on March 2001 is indicated in the chart given below:



From the above it would be seen that 30 families who opted for plots were yet to be allotted the same.

Similar position in respect of 2948 fully affected families in Phase-II is given below:



From the above, it is evident that 2412 families in Phase-II were yet (March 2001) to be rehabilitated, for which 5000 acres (approx.) of land would be required. The process of acquisition of 2387.46 acres of land in Districts Dehradun and Haridwar was at different stages of acquisition. The pace of acquisition was very slow as only 2387.46 acres (47.75 per cent) against 5000 acres (approx) of land required was under the process of acquisition.

In addition, Audit observed the following: -

(i) 30 families to be rehabilitated under Phase-I were not allotted plots as reportedly, no claims were received from them.

The Ministry stated (November 2000) that these families were not traceable and hence no allotment could be made to them. However, no details of documentary evidence to show the efforts made to locate them were made available to Audit.

(ii) Land for 2255 plots was transferred to THDC by Uttar Pradesh Irrigation Department including 220 plots in Pathri Roh allotted by Uttar Pradesh Irrigation Department to outsiders in January 1984 on lease/Patta.

The Ministry replied (November 2000) that these plots were allotted by Uttar Pradesh Irrigation Department and THDC had taken up the matter with Government of Uttar Pradesh either for getting the land vacated from the patta holders or giving alternative land.

(iii) 157.676 acres of land acquired by Uttar Pradesh Irrigation Department/THDC for rehabilitation of families during 1988 to 1992 at a cost of Rs.73.14 lakh in Renapur, Central Hope Town, Ranipur Roh and Rudrapur could not be allotted due to litigation with regard to title of the land under acquisition and non-demarcation of land etc. as it was pending in different courts. The Ministry admitted (November 2000) the facts and stated that additional land had now been acquired and plots would be given after developing the land.

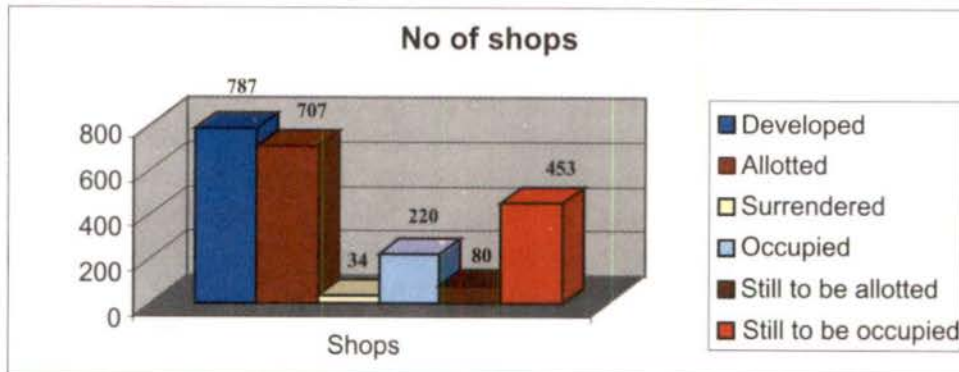
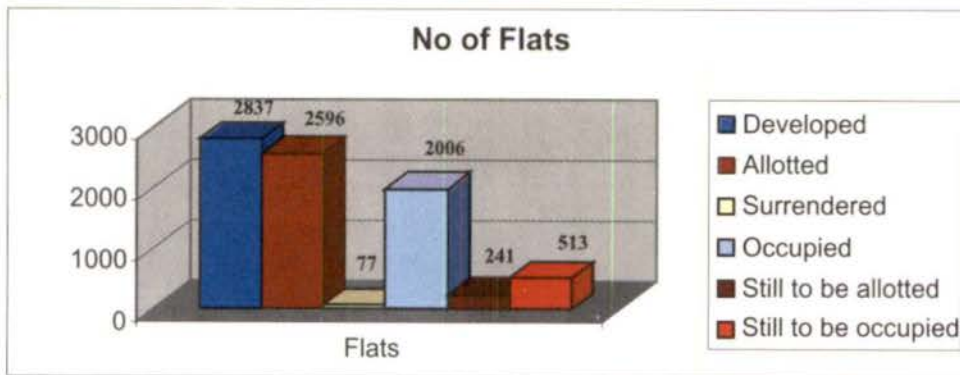
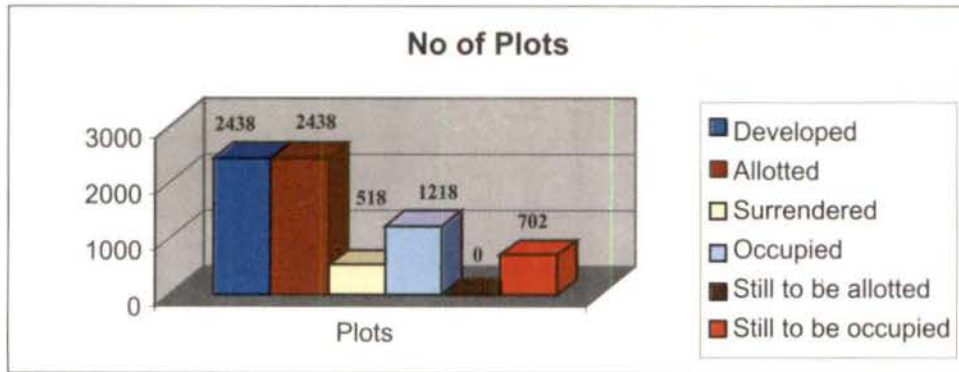
5.1.5.2 Status of rehabilitation of urban population of Old Tehri Town as on 31 March 2001 was as follows: -

Sl.No	Classification of Oustees	No. of Families/ Units	Requirement			Developed		
			Plots	Flats	Shops	Plots	Flats	Shops
1.	Nazul and Landowner	2035	2035	-		2035	-	
2.	Benap House owners*	384	52	332	784	52	332	787
3	Central Govt/ Institutions	351	351	-		351		
4	Tenants	442	-	442		-		
5	U.P. Govt./ Semi Govt.	1605	-	1605	-	-	1605	-
6	Institutions	302	-	302	-	-	286	-
7	House on Fathers' Land	140	-	140	-	-	140	-
8	Others	32	-	32	-	-	32	-
	Total	5291	2438	2853	784	2438	2837	787

A total requirement of 2853 flats and 784 shops was assessed without taking into account the willingness of the oustees. THDC had actually constructed 787 shops as against 784 assessed and 34 allottees surrendered their shops after allotment. As a result 37 shops had become surplus. Similarly, 518 developed plots and 61 flats also became surplus against the assessment of 2438 plots and 2853 flats as allottees surrendered the plots after allotment (see para 5.1.5.3). The Ministry stated (November 2000) that as per recommendations of the Hanumantha Rao Committee about 200 more shops would be required and due to shortage of shops it was proposed to pay cash compensation in lieu of shops.

5.1.5.3 Charts given below indicate the position of plots, flats, and shops developed and allotted for rehabilitation of affected families:

* Those house owners who had unauthorisedly constructed houses on Government/municipal land.



It would be seen from above that 241 flats and 80 shops were still (March 2001) to be allotted. Further, 702 plots, 513 flats and 453 shops were still to be occupied (March 2001) as the allottees were, reportedly reluctant to take possession of the plots, flats and shops allotted to them due to the fact that Old Tehri Town was still the hub of activities in the region and the allottees expected higher compensation.

The Ministry stated (November 2000) that as per policy, willingness was not required at that time because every entitled person was to be provided with flats/shops as per his entitlement. The Ministry further stated that at present position of surplus developed plots could not be ascertained as oustees of Tehri Town were still to be shifted. The fact remains that surrender of plots/shops was due to non-obtaining of any option/willingness from oustees before proceeding towards development.

5.1.5.4 A general review of records of execution of various works revealed as under:-

5.1.5.4.1 According to the works policy of the Company, open tenders were to be invited above the value of Rs.1 lakh. It was observed that 13 contracts valued at Rs.8.96 crore (4 contracts in respect of construction of flats for Rs.4.09 crore, 2 contracts in respect of development of plots for Rs.1.10 crore, 6 contracts in respect of drainage works for Rs.3.45 crore and 1 contract in respect of construction of road for Rs.0.32 crore) were awarded on limited tender basis even though the individual cost of each contract was above Rs.30.00 lakh. Thus, the procedure for obtaining competitive rates on open tender basis as provided in work policy was not followed. Ministry stated (November 2000) that these contracts were awarded on limited tender basis on the grounds of urgency, which was as per the works policy. The reply is unconvincing as keeping in view the slow pace of rehabilitation there was no urgency.

5.1.5.4.2 The Company decided to construct 24 suite Field Hostel at New Tehri Town, which was 20 kms away from works site, at an estimated cost of Rs.98.21 lakh to be completed by June 1993 and placed a letter of intent on UP Rajkiya Nirman Nigam. Though Chairman-cum-Managing Director, THDC had ordered (February 1995) not to go ahead with the construction, it was continued at the instance of DM Tehri and completed in December 1997 at a cost of Rs.1.94 crore. The Field Hostel taken over by THDC in December 1997 was still to be put to use (March 2001). The Ministry stated (November 2000) that as the work of Rs.1 crore had already been done, it was continued on the request of DM Tehri and these facilities would be utilised in future. The fact, however, remains that the decision to construct a field hostel 20 kms away from work site was not justified and the Company's funds were blocked since 1997.

5.1.5.4.3 The table given below shows the comparative position of estimated cost and actual cost of work done by UP Rajkiya Nirman Nigam (UPRNN), UP Jal Nigam (UPJN) in completion of work:

S.No	Name of the work	Original estimated cost	Final cost	Cost over-run	Escalation in percentage
		(Rs. in crore)			
1	BTC (Boys)	0.68	2.20	1.53	226.34
2	BTC (Girls)	0.78	1.56	0.78	99.50
3	ITI	3.93	8.14	4.21	106.97
4	GITI	1.27	5.35	4.08	320.75
5	Administrative Block-University	2.00	8.61	6.61	330.61
6	Sanskrit Vidyalaya	1.21	2.08	0.87	72.17
7	Type II Quarters	1.49	2.06	0.57	38.14
8	Post office	0.41	0.91	0.50	121.42
9	Field Hostel	0.98	1.94	0.96	97.79
10	Boys Hostel Badshahi Thaul	2.40	3.59	1.19	49.63
11	Girls Hostel Badshahi Thaul	1.46	2.03	.57	38.81
12	Residential Block University Badshahi Thaul	5.72	8.10	2.37	41.42
13	Shopping Complex New Tehri	2.16	4.13	1.97	91.56
14	Sewerage Treatment Plant	3.36	9.08	5.73	170.63
	Total	27.85	59.78	31.94	

From the above it is evident that escalation ranged from 38.14 per cent to 330.61 per cent.

5.1.5.4.4 The table given below shows the comparative position of original estimated cost vis-à-vis revised estimated cost of the works being executed by UPPWD and private contractor in execution of the works, which have not been completed so far (March, 2001) and are under execution:

A. Works being done by Uttar Pradesh, Public Works Department

	Name of work	Year of original estimate	Original estimated cost (Rs. in crore)	Year of revised estimate	Revised Estimate (Rs. in crore)	Cost over run	Years elapsed so far	Percentage of escalation
1	Chamba - Dharasu Road	1978	11.90	1999	19.47	7.57	23	63.60
2	Ghansali -Pratap Nagar Road	1979	2.74	1999	11.83	9.09	22	331.50
3	Tipri-Gadoliya Road	1979	1.32	1999	1.97	0.65	22	49.33
4	Gadoliya Pilkhi Road	1979	1.23	1999	2.76	1.53	22	124.68
5	Gadoliya Asena Road	1993	0.32	1999	0.66	0.34	8	105.63
6	Chamba -New Tehri Road	1991	0.57	1996	1.99	1.42	10	250.45
	Total		18.08		38.68	20.60		

B. Work being done by Private Contractor

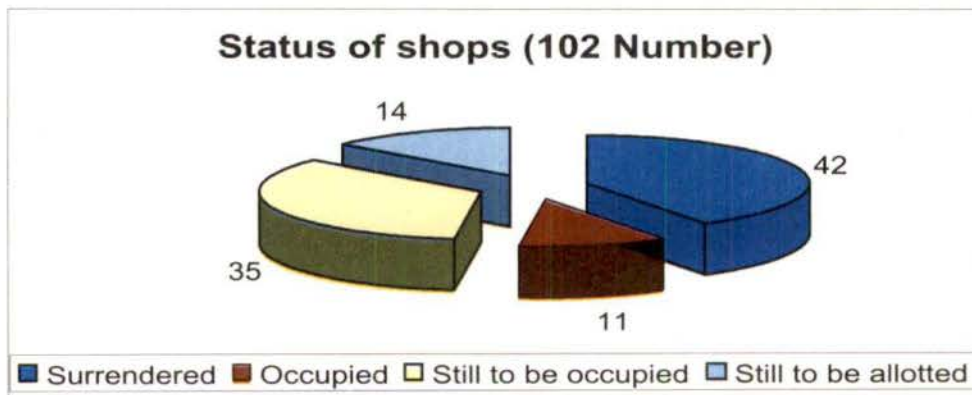
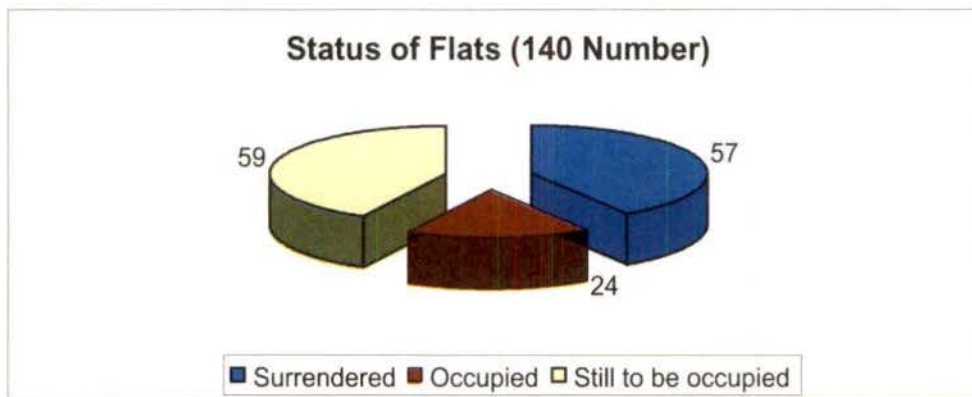
1	75 Bedded Hospital, New Tehri	1992	2.72	1997	3.06	0.34	9	12.45
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From the above it is clear that the executing agencies had not completed the assigned works even after a lapse of 8 to 23 years. This led to escalation ranging from 12.45 per cent to 331.50 per cent.

The Ministry stated (November 2000) that price escalation was due to passage of time leading to revision of schedule of rates. However, the fact remains that in-ordinate delay in completion of works resulted in escalation which the Company had to bear.

5.1.5.5 Non-allotment of flats, shops constructed by Development Authorities

5.1.5.5.1 The Company entered into (July 1991) an agreement with Mussorie Dehradun Development Authority (MDDA) for providing land for residential purpose at Ajabpur Kalan and construction of flats/shops at Nehrupuram, Dehradun for the oustees of Tehri Dam. A sum of Rs.6.27 crore was advanced to MDDA during the period September 1990 to March 1995. The MDDA adjusted a sum of Rs.2.81 crore towards the cost of land at Ajabpur Kalan. The balance sum of Rs.3.46 crore represented land development charges and 30 per cent of the cost of construction of 140 flats and 102 shops at Nehrupuram. The balance cost of construction was yet to be paid to MDDA. The status (March 2001) of allotment and occupation of flats and shops is given below:-



From the above, it would be seen that the Company had already decided (October 1998) to surrender 57 flats and 42 shops to MDDA due to poor response of the oustees. Of the remaining, 59 flats and 35 shops were yet to be occupied (March 2001).

The Ministry stated (November 2000) that with a view to motivate the rehabilitees to occupy these flats and shops, Government of Uttar Pradesh had decided to reduce the cost of flats/shops to be charged from the allottees which would pick up possession. The fact remains that these flats and shops had not been taken over by the allottees so far.

5.1.5.5.2 The Company entered into an agreement (September 1992) with Haridwar Development Authority (HDA) for construction of apartments, shops and development of plots for allotment to the outstees of Tehri Dam at Rishikesh. The requirement was worked out without obtaining their consent. Besides, the community centre, roads, parks and drainage were also to be constructed. Accordingly, 18 three storied apartments, 12 single storied shops and 51 number of plots were constructed/developed by HDA at a cost of Rs.99.94 lakh upto March 1994. Most of the apartments, shops and plots were yet to be given to the oustees so far (March 2001). Further due to increase in amount of cash compensation some of the allottees of plots had even surrendered their plots. Consequently, a major portion of Rs. 99.94 lakh incurred on the construction of flats/shops/plots had been blocked and the related expenditure was likely to prove infructuous.

The Ministry stated (November 2000) that 5 shops and all the apartments and plots had been allotted and oustees were expected to deposit the initial cost before possession. The reply of the Ministry is not tenable as the Company by its own admission was in the process of allotment of shops and apartments even in March 2001. Moreover, none of the oustees had taken possession (March 2001) even though over 7 years had passed since construction.

5.1.5.6 *Blocking of funds on providing additional space*

According to the policy for construction of residential and non-residential accommodation for Government and Semi-Government Departments decided (August 1997) by the erstwhile Tehri Control Board and subsequently adopted by THDC, various Departments of State Government, Schools, Colleges etc. situated in Old Tehri Town were to be provided residential and non-residential space equal to the space earlier occupied by them at the cost of the project. Cost of extra space was to be borne by the respective Departments. The policy further provided that the construction would be taken up without waiting for funds from the Departments of the State Government in respect of additional space, if any, required. Payment for additional space was expected to be made after making necessary budget provision by the respective Government Departments. However, extra space for other government agencies like Jal Nigam, UPSEB, Jal Sansthan etc. was to be constructed after getting the necessary cost in advance from the concerned offices/undertakings.

The requirement of residential and non-residential accommodation for various Government and Semi-Government Departments etc. was worked out by a Committee constituted in 1979 and headed by the Director (Rehabilitation) of the Government of UP. Joint Planner, Town Administrator and Executive Engineer were members of this Committee. The construction was carried out by Uttar Pradesh Irrigation Department as recommended by the Committee without obtaining the formal clearance from the concerned departments for construction of extra space. Besides, the decision of the erstwhile Tehri Control Board regarding receipt of advance payment from Semi-Government Departments for additional space was altogether ignored. The additional residential and non-residential covered space measuring 146338.11 sq. meters constructed at a cost of Rs.77.01 crore for the concerned Government, Semi-Government and Private

Institutions had not been paid by them so far (March, 2001). This resulted in blocking of funds to the extent of Rs.77.01 crore and loss of interest of Rs.35.49 crore @ 14.5 per cent during the period from October 1989 to March 2001.

The Ministry stated (November 2000) that it was neither practicable nor advisable to construct only that much area which a particular department was occupying at Old Tehri Town and construct the additional space after receipt of cost. The Company was constantly following up the matter for recovery of dues. The reply is not tenable as the additional area was constructed without realistically assessing the requirement of each Department and which should have been done considering the large amount involved in construction. Further the Company could not recover the cost of extra space already handed over to concerned departments so far (March 2000).

5.1.5.7 Non-allotment-handing over of public utility buildings at New Tehri Town

Public utility buildings i.e. bus stand, temples, mosque, fire station, post office etc. constructed at New Tehri Town during 1992 to 1996 at a cost of Rs.13.40 crore were not taken over by the concerned authorities/local bodies. Besides, some of the infra-structure like roads, primary health centre, schools, tube wells, community centre etc. created by the Uttar Pradesh Irrigation Department/THDC upto 1991 as part of the rehabilitation effort were yet to be handed over to respective State agencies even though ten years had elapsed since their construction. Further, a school building, hostel and staff quarters at Bhagirathipuram which were constructed in July 1995, April 1996 and October 1997 respectively at a cost of Rs.3 crore were also yet (March 2001) to be handed over to the school management of Narendra Mahila Vidyalaya resulting in idle investment.

The Ministry's reply (November 2000) was silent about the transfer of public utilities created at New Tehri Town.

5.1.5.8 Delay in conferring land rights to the oustees

Although 1909 rural families had been allotted plots at different places yet land rights under the provisions of UP Government Grants Act, 1895 had not been conferred on 1100 families upto March 2001.

The Ministry stated (November 2000) that the case of conferring land rights through land record operation to remaining families was in progress.

CHAPTER 6: MINISTRY OF STEEL

Steel Authority of India Limited

6.1 Modernisation of Bokaro Steel Plant

6.1.1 Introduction

Bokaro Steel Limited (BSL) was incorporated as a Company in January 1964 for setting up a steel plant with a capacity of 4 million tonnes per annum (MTPA) of ingot steel in collaboration with the erstwhile Soviet Union (USSR). The plant became a constituent unit of Steel Authority of India Limited (SAIL) with effect from 1 May 1978.

The construction of Bokaro Steel Plant (BSL) was completed in February 1978 with a capacity of 1.7 MTPA and at a cost of Rs. 981 crore. This was further expanded to 4 MTPA at a cost of Rs. 2141 crore by June 1985. The Cold Rolling Mill (CRM) was commissioned in November 1990. In July 1993, Government of India approved the proposal for modernisation of Bokaro Steel Plant at a cost of Rs.1625.79 crore.

A review of modernisation of Bokaro Steel Plant was conducted during 1999-2000 and updated thereafter. It covered 4 global and 11 indigenous packages and 4 AMR (Addition, Modification and Replacement) schemes related to modernisation. It was issued to the Ministry in November 1999 and their reply was received in August 2000.

6.1.2 Modernisation scheme

An inter-governmental agreement on technical and economic co-operation was signed on 27 November 1986 between erstwhile USSR and India. This included rouble 1200 million credit to Government of India. Modernisation of BSL was one of the four projects included in the above agreement. In accordance with the above agreement, M/s. Tiazpromexport (TPE) of erstwhile USSR submitted a techno-economic offer in October 1987 for modernisation of the plant. The offer included:

- (a) reconstruction of Steel Melting Shop (SMS) I and II;
- (b) construction of Continuous Casting Department (CCD) in SMS-I and II; and
- (c) modernisation of Hot Strip Mill (HSM).

SAIL approached the Government in July 1988 for in-principle clearance of the modernisation scheme as recommended by TPE. The Government accorded stage-I clearance in October 1988 and sanctioned Rs. 5 crore for preliminary work/preparation of Detailed Project Report (DPR) and directed SAIL to seek a firm investment decision by June 1989. The DPR was submitted by TPE in December 1989 and on the basis of which, an investment proposal for Rs.1600 crore for modernisation of BSL was sent to the Ministry of Steel (MOS) in February 1990 for approval.

The proposal for investment was deferred in September 1990 by MOS since BSL had not achieved the expanded capacity of 4 MT. Therefore, MOS directed that BSL should first achieve 4 MT production before addressing itself to the task of modernisation. However, in January 1992, reversing its earlier stand, MOS directed SAIL to reconsider its proposal to modernise BSL. Accordingly, SAIL submitted a proposal in April 1992 for Rs.2754.95 crore (including Rs. 1547.03 crore for stage-I) with MECON, a PSU as the principal consultant.

The proposal for modernisation (stage-I) consisting of modification of SMS II, introduction of Continuous Casting facilities in SMS II, conversion of existing Reheating Furnaces 3 and 2 into Walking Beam type and up gradation of HSM was approved by the Government in July 1993 at a cost of Rs.1625.79 crore (including foreign exchange Rs.283.50 crore). The main objectives of the modernisation scheme included:

- (i) Increase in the production of liquid steel, slab, Hot Rolled (HR) coil and saleable steel from 4.08 MT to 4.50 MT, 3.45 MT to 4.06 MT, 3.36 MT to 3.95 MT and 3.19 MT to 3.78 MT per annum respectively.
- (ii) Reduction of energy consumption from 0.905 to 0.576 G.Calorie/tonne of HR products and improvement in the quality of saleable steel.

6.1.2.1 Strategy

The main features of the implementation strategy were as follows:

The project would be implemented with MECON as the prime consultant;

- SAIL would be fully responsible to the Government for timely completion of the project within the sanctioned cost;
- There would be a fixed point of responsibility either on SAIL or MECON or both;
- The project would be implemented with four global technological packages and suitable indigenous packages;
- In respect of indigenous packages, offers would be invited from parties with proven experience and capability of fulfilling their targets efficiently and within the stipulated time;
- The contracts with global bidders would provide for performance guarantees and penalty for performance failures;
- The project in charge as well as senior members would remain in project until its commissioning so that in case of over-run on time or costs, the persons responsible could be held accountable.

However, the directives given by the Government were not strictly adhered to, the impact of which had been commented at appropriate places in this review.

6.1.2.2 Approval of the scheme

Scrutiny of the records/files of the MOS /SAIL revealed the following:

(a) Revival of the deferred proposal

The MOS deferred (September 1990) the modernisation proposal submitted by SAIL in February 1990 due to poor performance of BSL, a large number of modernisation programmes already undertaken at Durgapur, Rourkela, Salem, VISL, the resource constraints of Government and SAIL's difficulties in generating internal resources of such high order. However, the MOS revived the scheme (January 1992) even though conditions under which it had been deferred in September 1990 were still prevalent. Further, due to liberalisation of economy and opening of steel sector in 1991, the market had become competitive and the Company had lost the luxury of administrative prices and a captive market. Thus, the overall situation required careful examination of financial viability of each investment proposal.

The Ministry stated (August 2000) that the entire policy of the Government regarding steel had undergone a sea change during this period. Due to opening of the steel sector, it was essential for BSL to go in for modernisation programmes to face likely competition especially in flat products.

However, MOS did not take into account the crucial factors such as likely competition it would face in the coming years from the private sector. It also assumed 100 per cent capacity utilisation and full net sales realisation by taking the marketability of the products for granted while doing the sensitivity analysis for evaluating the scheme. As a result, when foreign manufacturers swamped the Indian market and dumped the quality steel products at cheaper rates, BSL did not have any option but to close down one blast furnace (no.-5) and two coke oven batteries for want of demand. Further, due to creation of surplus indigenous capacity for flat products in view of the entry of private sector, the sale realisation had also gone down.

(b) Implementation Strategy

The project was to be implemented with TPE as turnkey contractor but at the instance of the MOS the implementation strategy was revised in May 1992 under which the main units of the project were to be executed through competitive global bidding instead of one turnkey contractor. However, no cost benefit analysis was made to assess the impact of change in the implementation strategy from single turnkey mode to global competitive bidding.

It was noticed that cost of modernisation (inclusive of AMR schemes) of Rs. 1600 crore (as estimated by TPE in February 1990) increased to Rs. 3097.23 crore (estimated by SAIL in May 1992) i.e. an increase of Rs. 1497.23 crore (93 per cent) due to change in the implementation strategy, devaluation of Indian currency, higher incidence of interest cost, and price escalation between the intervening periods. Further, the implementation period was increased by 6 months (from 42 months to 48 months) for finalisation of global tenders and award of work.

The Ministry stated (August 2000) that due to disintegration of Soviet Union, rouble credit was not available from USSR. In the absence of any credit, the only alternative was to go in for global tendering to select latest technology and get competitive prices. They further added that cost benefit analysis for assessing the change in the implementation

strategy was not felt necessary as there was no alternative available with SAIL but to go for global tendering.

Cost benefit analysis had become particularly imperative at a time when no credit was available even from other global bidders. Further, there was no reason for excluding TPE on grounds of non-availability of cheap credit in the post-liberalisation era. In addition, there was inordinate delay at various levels in clearing the project. Otherwise, the question of revising the implementation strategy vis-à-vis cost over run would not have arisen.

(c) Commitment by SAIL/MOS

At the time of approval of project by Government in April 1993, SAIL/MOS *inter alia* intimated that:

- production of saleable steel during 1992-93 was 95 per cent of its rated capacity;
- taking into account own generation of power between 190-200 MW, the shortfall in power availability would be met by purchase from Damodar Valley Corporation (DVC);
- entire cost of the project would be repaid back within a period of 2.9 years (pay back period) with Internal Rate of Return (IRR) at the rate of 22.6 per cent;
- MOS proposed to finance the project with a debt equity ratio of 1:1. It was envisaged that the 50 per cent of the capital cost would be met from internal source;
- requirement of 7.487 MTPA of iron ore would be met from Kiriburu/Meghahatuburu Iron Ore Mines in addition to 0.6 MT from Gua;
- definite plans had been made to increase the availability of limestone.

However, on verification, the position at the time of approval of project by Government was found to be as under:

- As against the reported production of 95 per cent (including semis) of the rated capacity in 1992-93, the actual production of saleable steel (excluding semis which did not fall under the category of saleable steel) was 87.27 per cent. But the same was neither taken into account nor brought to the notice of Government.

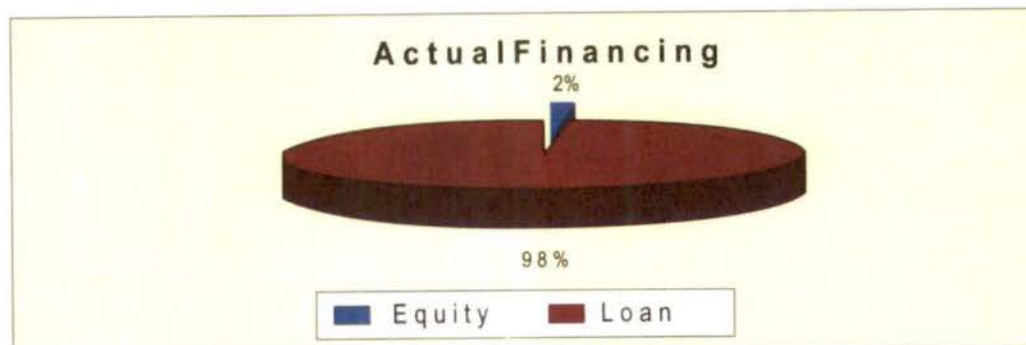
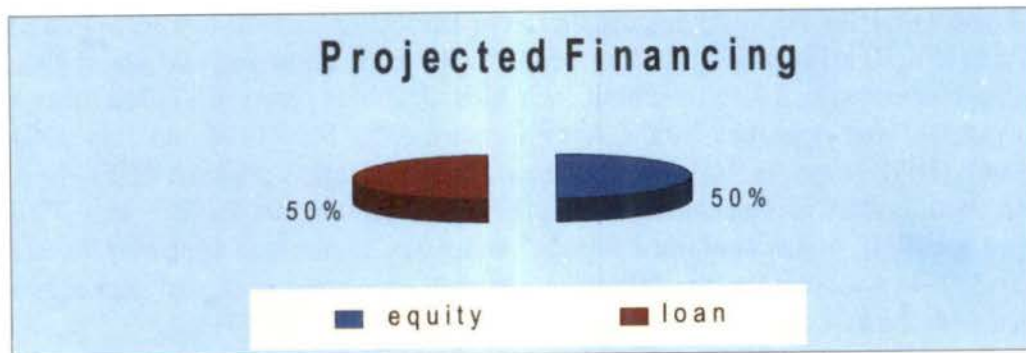
The Management stated (September 1999) that although the Soviet DPR of 1964 did not consider semis as saleable steel, these were treated as saleable steel in view of change in the market scenario. The reply of the Management is not correct as semis were not treated as saleable steel even under the modernisation scheme sanctioned by the Government in July 1993.

- The actual generation of power during 1991-92 and 1992-93 was about 150 MW as against 190-200 MW contemplated.

The Ministry stated (August 2000) that due to abnormal frequency situation in grid, power plant was required to be isolated from the grid very frequently. Thus, it could not generate power to the full extent.

It was observed that due to abnormal frequency in the DVC grid, there was shortfall in captive power generation resulting in loss of revenue amounting to Rs. 54.60 crore during the year 1997-98 to 2000-2001. The Company took up the matter with DVC for compensating the loss. However, no amount could be recovered from DVC so far (September 2001). Further, one of the conditions behind the sanction of the project by the Government was availability of cheap and assured supply of power through in-house generation. However, the Company is in the process of disposing of its captive power plant to a Joint Venture. In the event of sale of power plant, the Company will have to depend upon outside organisations to meet its entire requirement of power.

- Although there was clear indication that SAIL would not be able to arrange Rs.812.84 crore from its internal sources, the MOS went ahead for clearance of the project with a debt equity ratio of 1:1. Finally, SAIL could raise merely Rs. 36 crore (less than 2 per cent of actual expenditure) from internal sources. Interestingly, the actual debt equity ratio of BSL modernisation came out to be 59:1.



- Further, MOS had envisaged that entire debt would be made available at the cheap/ low rate of interest. However, it was found that 52 per cent of the debt was arranged through commercial borrowings/ public deposit scheme at high rates of interest.
- The pay-back period (2 years 9 months) and Internal Rate of Return (IRR) (22.6 per cent) were calculated on the assumption that the 100 per cent capacity utilisation and full sales realisation would be achieved even in post-liberalisation era. However, SBI

Caps had estimated the IRR of 7 per cent only on the basis of current prices in October 1999. The situation of sales realisation had worsened since then.

- The average availability of iron ore from captive mines during 1992-93 to 2000-01 was 6.007 MTPA resulting into a shortfall of 0.880 MTPA. As a result, 0.639 MT were purchased from private sources at an extra cost of Rs. 8.23 crore.
- As a result of decline in the production of limestone from Kuteshwar mines during 1997-2001, 7.78 lakh tonnes of low silica limestone (SMS grade) was procured from Jaisalmer during 1997-98 to 2000-01 involving an extra expenditure of Rs.28.07 crore.

6.1.3 Award of work

6.1.3.1 Global Packages

As per implementation strategy approved by the Government in July 1993, modernisation scheme was to be grouped into four global packages and suitable indigenous packages. 5 parties were short-listed for each of the three global packages (G-01 for CCD, G-03 for HSM-I and G-04 for HSM-II) against the pre-qualification bids issued in March 1993. After providing clarification regarding scope and specification for the job in October 1993, the bidders were asked to submit their bids. The bids received in December 1993 were evaluated and approved by the Apex Committee in May 1994 and July 1994 for CCD and HSM respectively. Global tender for Reheating Furnace (RHF) 4, AMR scheme, was issued in December 1992. The work relating to RHF 2 and 3 (G-02 package) and RHF 4 was combined together and Apex Committee approved the bids in February 1994. Accordingly, the following contracts in respect of global packages were awarded with the approval of the Board.

(Rs. in crore)

Package	Sanctioned cost	Name of the Parties		Contract price	Date of contract
		Leader	Associates		
Continuous Casting Department (CCD)	567.55	Voest Alpine, Industrieanlagenbau, Austria	L&T & ABB	653.73	11.6.1994
Reheating Furnace (RHF) 2&3 (incl. RHF4)	155.49	MECON	Italimpianti, Italy.	173.80	25.3.1994
Hot Strip Mill (HSM) I & II	381.11	SMS (AG) Germany.	VAI, GFA, Simplex, Tata, ABB & SMS (I)	457.51	14.8.1994

In this connection, it was observed that:

(a) No criteria for short listing of bidders: No criteria were fixed by the Board of Directors of SAIL for short listing of bidders. The criteria adopted by the Plant Level Committee (PLC) were modified by the Apex Committee by incorporating two additional conditions viz. (i) wherever two bidders selected each other as one of the associates for the package, only the bidder possessing his own state of art technology and process know-how would be considered for short-listing and (ii) only such parties who possessed state-of-the-art technology and process know-how or had collaboration agreement with such associates in possession of requisite latest technology and process know-how would be considered for short listing.

However, these criteria were not consistently followed. TPE's offer for HSM package was rejected by the Apex Committee (July 1993) on the ground that TPE did not have the latest technology and their performance had also not been satisfactory in Durgapur Steel Plant (DSP) modernisation. However, the same criteria was not applied in case of Mannesmann Demag Huttentechniks (MDH), Germany who was short listed for CCD package even though their performance was also not satisfactory in DSP.

The Ministry stated (August 2000) that MDH was short listed for the package as they had the latest technology and their individual performance in DSP consortium was not questionable. The contention of the Ministry is not correct as there was delay of more than two years in completion of the packages awarded to MDH under the DSP modernisation plan.

(b) Award of work on nomination basis: In the HSM package, civil and structural works were also included under the scope of the package suppliers whereas these were not included in respect of CCD and RHF. These works were entrusted to Hindustan Steelworks Construction Limited (HSCL) on single tender (nomination) basis for execution based on the drawing and specification to be provided by the global package suppliers.

The Ministry stated (August 2000) that in case of CCD, major civil works were involved and considering the infrastructural facilities available with HSCL, the work was awarded to them in order to ensure better co-ordination for execution. The reply of the Ministry is not tenable as HSCL off-loaded a major portion of civil and structural work in favour of a private party without following any transparent tendering procedure and the work was delayed by about 6 months. The work in respect of RHF had not yet been completed. Further, by excluding the civil work from the global packages in case of CCD and RHF, no uniformity was maintained in the award of contract as directed by the Government.

6.1.3.1.1 Reheating Furnace

Global tender enquiry was floated in December 1992 for installation of Reheating Furnace (RHF) No.4 at an estimated cost of Rs. 82.38 crore as an Addition, Modification and Replacement (AMR) scheme. Six parties submitted tenders, of which offers of two parties i.e. MECON/ Italimpianti, Italy and M/s. EPI/Stein-Heurtey, France were considered technically acceptable by the PLC.

Before the award of work could be finalised, Government approved (July 1993) conversion of existing Pusher Type Reheating Furnaces No. 2 and 3 into Walking Beam

type furnaces as part of the modernisation. As this work was identical to the work of RHF No.4, the Board decided (August 1993) that order for conversion of RHF- 2 and 3 should be finalised along with RHF-4, in order to avail the benefit of likely reduction in price due to similar and repetitive nature of work. Accordingly, MECON and EPI were asked to submit price bids for RHF-2, 3 and 4 combined together as a package.

The following points were noticed:

(a) No Pre-Qualification Bids: The contractors for the global package were to be selected through pre-qualification bids as per the directive issued by the Government of India but disregarding the same contract was finalised on LTE basis.

The Ministry stated (August 2000) that even if fresh pre-qualification bids were issued, no new party was likely to submit offers. As such calling of fresh bids would have only delayed the order placement. The reply is unacceptable as fresh tendering should have been resorted to in order to be transparent, to avail benefits of competitive prices and likely reduction in price due to similar and repetitive nature of work.

(b) Faulty Evaluation of Offer: The offers of MECON and EPI were evaluated by the Company considering the fuel cost as under:

(Rs.in crore)

	MECON	EPI
Price bid	176.35	160.58
Add : loading for fuel cost	6.44	24.03
Total	182.79	184.61

After negotiation, the work order was placed on MECON in March 1994 at a price of Rs.173.80 crore.

It was observed that the Company had projected the capacity of the furnace in their Notice Inviting Tender (NIT) as 300 tonnes/hour but for calculating the fuel cost, the capacity of the furnace was taken as 260 tonnes/hour instead of 300 tonnes/hour. The evaluated price taking fuel cost on furnace capacity of 300 tonnes/hour, worked out to Rs.180.64 crore for MECON and Rs. 174.74 crore for EPI. Thus, the evaluated offer of EPI was lower by Rs.5.90 crore in comparison to MECON and placement of order on EPI, the lowest tenderer, could have saved an amount of Rs.13.22 crore (Rs.173.80 crore minus Rs.160.58 crore).

The Management stated (September 1999) that loading for fuel cost was done on the basis of guaranteed specific fuel consumption as indicated by the parties. The reply of the Management is not acceptable as financial evaluation of the bids should have been done on the basis of actual capacity of the proposed furnaces that were to be constructed by the bidders.

The Apex Committee in its meeting dated 7 February 1994 noted that final price of Rs.173.80 crore offered by MECON was lower than the estimated cost of Rs.177.48 crore. This was not factually correct as SAIL's estimated cost included civil works, expenditure during construction, contingencies etc., but these did not form part of

MECON 's price bid. The final price of MECON including these costs came to Rs.195.79 crore i.e. an excess of Rs.18.31 crore over the estimated cost of Rs.177.48 crore. The Ministry accepted (August 2000) that the final price of MECON (including contingencies etc.) was more than the estimated cost.

(c) Incorporation of lower capacity for Performance Guarantee of RHF: According to clause 1.5.1 (Schedule-9) of contract with Italmimpianti, Italy dated 25 March 1994, the supplier was required to give a Performance Guarantee (PG) of the RHF at the rate of 260 tonnes/hour as against 300 tonnes/hour contracted to them. Thus, the liability of the supplier towards PG was restricted to 87 per cent of the capacity.

The Ministry stated (August 2000) that the increase in capacity from 260 tonnes/hour to 300 tonnes/hour was dependent on supply of fuel of CV 2300 K cal /T/cum in future. The exact time frame as to when the fuel of that value would be available was not fixed. Hence, the parameters of inputs for PG test were fixed based on the achievable conditions. The Ministry's reply is not tenable as the package of Gas Mixing and Boosting Station for producing fuel of CV 2300 K cal/T/cum given to NICCO in September 1996 had already been completed in September 1999.

6.1.3.1.2 Continuous Casting Department (CCD)

The contract for installation of CCD in SMS-II, was signed on 11 June 1994 with Voest Alpine Industrieranlagenbau GmbH, Austria (VAI) being principal contractor along with Larsen & Toubro Limited, (L&T) and Asia Brown Boveri Limited (ABB) as its associates, at a total price of Rs.653.73 crore (including foreign exchange of Rs.152.42 crore) with a completion period of 33 months.

Audit scrutiny revealed the following:

Unfair treatment to a PSU: The total package cost of Rs.606.43 crore offered by HEC was lower than the VAI's offer of Rs. 615.56 crore. However, during evaluation of the prices, taxes and duties amounting to Rs. 117.70 crore was added in case of HEC and Rs. 84.57 crore in case of VAI. This made the offer of HEC higher than that of VAI. Analysis of the taxes and duties revealed that the component of excise duty/countervailing duty loaded for evaluation was Rs. 61.32 crore in case of HEC and Rs. 40.60 crore in case of VAI. However, the benefits due to introduction of MODVAT on capital goods from March 1994, were not considered for bid evaluation by the Apex Committee.

The Ministry stated (August 2000) that the evaluation of bids was done without considering MODVAT benefits, as the quantum of benefits and time of receipt of those benefits was uncertain. The Ministry's contention is not tenable, as the Company could have easily worked out the quantum of benefit by taking out the component of excise duty/countervailing duty while evaluating bids. Regarding time of receipt of benefits, there was no uncertainty when there was time bound programme for installation of CCD and the production therefrom.

6.1.3.1.3 Hot Strip Mill

The global packages relating to the modernisation of HSM-I, reconstruction of existing coilers (1,2 and 3) and installation of new coiler no.4 (HSM-II) were combined together and offer was invited. The contract for the combined package was awarded to SMS Schloemann Siemag, Germany along with their associates in August 1994 at a total price of Rs.457.51 crore (including foreign exchange of Rs.178.78 crore) with a completion schedule of 33 months.

The following points were noticed:

(a) **Inclusion of AMR Schemes:** The evaluated price bids for HSM package combined with 12 AMR schemes were as under:

(Rupees in crore)

Name of the Contractor	HSM-I & II package	12 AMR schemes	Total
SMS, Germany	449.37	77.94	527.31
Davy, U.K.	467.15	70.81	537.96

The Company awarded the work to SMS and its associates in July 1994 as SMS had quoted the lowest price inclusive of AMR schemes. As AMR schemes did not form part of the modernisation package, the award of contract for these schemes could have been dealt with separately, which would have saved an amount of Rs. 7.13 crore.

The Ministry stated (August 2000) that all these schemes were to be implemented in the same mill during the same period and same shutdown. It was also necessary to complete all these schemes in tandem with completion of HSM. The reply of the Ministry is not tenable as the completion of all these schemes was planned prior to the completion of modernisation of HSM. Further, in other cases such type of schemes (11 AMR schemes costing Rs. 342.28 crore – refer para 6.1.3.3) initially part of the modernisation project were deleted from its scope and were executed later on separately.

(b) **Non-adherence to Implementation Strategy:** Clause 3 (iv) of the Government's sanction of July 1993 stipulated that civil and building structural works for the units would be carried out under separate contracts. However, the strategy was not adhered to and the civil and building structural works amounting to Rs.60.79 crore relating to the package were also awarded to SMS (I).

The Ministry stated (August 2000) that in order to ensure completion of the work during the short implementation period, civil works were kept within the scope of the SMS (I). The argument of the Ministry does not hold good as even by entrusting the entire work to SMS (I), HSM package was completed in January 2000 only i.e. after a delay of 32 months.

6.1.3.2 Indigenous Packages

Indigenous tenders were invited during 1994-95 for 35 packages amounting to Rs. 236.87 crore (approx.). Of this, contracts for Rs.97.59 crore were finalised on single tender basis.

Public Sector Undertakings bagged 9 packages individually and 2 packages jointly with other contractors.

Some of the interesting points noticed were as under:

(a) No Open tenders: Open tenders were not invited although a substantial amount was involved (Rs.236.87 crore). Instead, limited tender enquiries for each package were issued to the parties ranged between 4 and 9, while the offers received there against ranged between 2 and 6. Out of 35 indigenous orders, 9 orders were awarded on single tender basis and rest 26 orders on limited tender.

The Ministry stated (August 2000) that the work being of specialised nature, limited tenders were invited. The reply of the Ministry is not convincing as open tender could have ensured transparency of the tendering procedure, objectivity in the decision-making process and more competitiveness in the bidding particularly when the amount involved was substantial.

(b) Award of work on nomination basis: The Ministry of Steel directed (July 1993) that for indigenous packages, the short listing/limited tendering must be carried out in a manner so as to ensure reasonable competition. However, the above directives of the Government were not followed as civil work and structural work relating to CCD package were awarded to Hindustan Steelworks Construction Limited (HSCL) on single tender basis at a price of Rs.39 crore and Rs.30.16 crore respectively on the ground that HSCL was a resourceful contractor.

It was, however, observed that:

(i) Lack of uniformity in terms and conditions: During execution of civil work by HSCL, the value of work increased by Rs.26.97 crore including escalation of Rs.3.26 crore. In this connection clause 3.9 of the contract with global package suppliers may be referred to which reads as under:

'If delay is on account of purchaser and extension had been granted, the same shall be taken into account for price variation. If there is delay on account of any other reasons not withstanding the extension granted, price variation shall not apply'.

In the absence of similar clause in the indigenous contract, escalation amounting to Rs.3.26 crore paid to HSCL could not be avoided though there was delay of 6 months in execution of work by HSCL. The Ministry stated (August 2000) that the contract for civil work was an "item rate contract" and that could not be compared with global contract for supply of equipment.

The Ministry, however, assigned no reasons for non-incorporation of such clause in the contract with HSCL particularly when the latter off-loaded the work to a private contractor. Interestingly, the scope of work awarded to the private contractor increased by more than 25 per cent during execution. Thus, BSL allowed itself to be a conduit for award of a work order of the magnitude of more than Rs. 32 crore (completion cost) to a private party without following any tendering procedure.

(ii) Imprudent decision-making: In May 1993, HSCL submitted an offer to carry out the structural work at a rate of Rs. 26085 per tonne (Rs. 15960 per tonne for cost of steel and Rs. 10125 per tonne for fabrication and erection charges). HSCL showed its willingness to carry out the job again in November 1993 at the rates it had offered of May 1993 but the offer was not considered. Subsequently, order for structural work was issued to HSCL in December 1994 on single tender basis at a price of Rs.30.16 crore (Rs.15300 per tonne for fabrication and erection). This was much higher than the rates offered by HSCL in May 1993 and confirmed in November 1993. Thus, due to non-consideration of the earlier offer of HSCL, the plant had to suffer a loss of Rs.10.07 crore on award of structural work to HSCL at a higher rate.

The Ministry stated (August 2000) that HSCL's offer was not considered as it was of an exploratory nature and was submitted by HSCL on their own even before the scope of work was frozen. The contention of the Ministry is not tenable as HSCL submitted their offer in May 1993 after several rounds of discussion with BSL. The scope of work was not frozen even at the time of award of the contract in December 1994 as the work was completed at a cost of Rs.69.30 crore against the awarded value of Rs.30.16 crore. Thus, SAIL could have availed of the advantage of lower rates.

6.1.3.3 AMR Schemes related to Modernisation

11 schemes costing Rs.342.28 crore, although part of the modernisation project, were deleted from its scope by SAIL Board in May 1992 and executed separately as AMR schemes. Of 11 schemes, 2 were dropped, 1 was deferred and the balance 8 were completed between December 1994 and December 1999. The extent of delay in execution of these schemes ranged between 9 and 55 months.

A. Argon Gas

For meeting the requirement of Argon gas in CCD, limited tender enquiries (LTE) were issued in September 1994 to 3 parties. Of these, only 1 responded. The Board of Directors of SAIL approved the scheme for recovery of Argon gas from Air Separation Unit (ASU) No.4 in September 1995 and the order was placed on Bharat Heavy Plates and Vessels Limited on single tender basis in November 1995 at a cost of Rs.41.80 crore.

Scrutiny of records revealed that:

- It took Management about a year to finalise the contract even on single tender basis. The scheme was completed with a cost escalation of Rs. 3.09 crore in December 1999 against scheduled completion period of August 1997. The increase in cost was mainly on account of delay in completion of the scheme;
- Changes made by CET in the design after award of work resulted in further delay of the project with additional expenditure of Rs. 1.75 crore. As a result of delay and inadequate production after commissioning, the plant had to purchase 1950 tons of Argon gas during the period from July 1997 to March 2001 at a cost of Rs.5.53 crore to meet the requirement of CCD.

The Ministry stated in August 2000 that the delay in award of work for laying pipeline was due to delay in assessment of total requirement of water because of the increase in the capacity of ASU. The reply of the Ministry is not convincing, as total requirement of water should have been assessed well before award of contract.

B. *Pneumatic Slag Stopper System*

Offers from Voest Alpine (India) Private Limited (VAIL) and Indomag Steel Technology (IST) were received against LTE issued to four bidders for installation of pneumatic slag stopper system. However, the work was awarded on IST for dart type slag stopper, a technology different from that specified in the LTE, at a cost of Rs. 5.16 crore after rejecting the offer of VAIL on technical ground. The action of the Management, therefore, effectively resulted in award of the work on single tender basis as no opportunity was given to other bidders to bid for dart type slag stopper.

The Ministry stated (August 2000) that due to slag arrestor system in SMS, being a new technology, parties in the field were limited and re-tendering might have led to increase in the prices. Further, the scheme was a modernisation linked AMR scheme and was required only after completion of CCD. Hence, there was ample time for re-tendering which would have given a chance to obtain competitive rates.

6.1.4 *Terms and conditions of contracts*

An examination of terms and conditions of the contracts entered into with various package suppliers showed the following deficiencies:

A. *Lack of uniformity in terms and conditions*

(a) *Undue Financial Benefit:* There was no uniformity in terms of the payment of contracts which were entered into with various contractors. This resulted in undue financial benefit of Rs.13.14 crore to MECON and its associates. The Ministry stated (August 2000) that payment terms were depended on commercial conditions offered by the tenderers and were subject to mutual agreement between seller and the purchaser and it might not be possible to ensure uniformity in this regard.

While it is admitted that the terms and conditions depended on mutual agreement between the buyer and the seller, it was also important to ensure that there was general uniformity in payment terms particularly in a project where a large number of executing agencies were involved. This was particularly necessary to ensure that no undue financial benefit had passed on to any single agency. Stipulating uniform payment terms in the tender documents could have enforced this.

(b) *No binding quantity in contract with Voest Alpine:* The contract with MECON/Italimpianti (for RHF package) provided for a binding quantity for civil and structural jobs and in case of the quantity exceeded the binding quantity, the cost of excess quantity would have to be borne by the package supplier. However, contract with Voest Alpine (CCD package) did not stipulate any binding quantity. In the absence of such a provision, the value of excess quantity executed over the scheduled quantity amounting to Rs.17.09 crore could not be recovered from the package supplier.

The contention of the Ministry that it was not possible to fix a condition of binding quantity for civil works in a green field area is not tenable as quantity-wise detailed estimates were available with the Company before award of work.

B. No liability for timely and successful completion of the package as a whole

For global packages, the Company executed contracts with the principal contractors and their associates separately and the contractors were made liable for their own portion of work only. Thus, no principal contractor was made liable for completion of the packages as a whole within the sanctioned frame of time and cost.

The Ministry stated (August 2000) that clause 1.8.1 of the contract provided that the principal contractor should be solely responsible and undertake full, sole and exclusive responsibility towards the purchaser for the integration, interface and co-ordination of all activities of the package including establishment of performance guarantee under all the contracts. The reply of the Ministry is, however, silent about making the principal contractor liable for timely and successful completion of the package as a whole.

C. Irregular and unjustified payment of escalation

Unlike the firm price clause in respect of foreign contractors (clause 3.9) the contracts signed with the Indian associates of the global packages provided for price escalation as follows:

“If delay is on account of the purchaser and extension has been granted, the same shall be taken into account for price variation. If there is delay on account of any other reason notwithstanding the extension granted, price variation shall not apply.”

It was noticed that escalation amounting to Rs.76.38 crore was paid to the Indian associates of VAI (L&T and ABB) and SMS (AG), Germany (Simplex, Tata, SMS (I) and ABB) even though the project was delayed by more than three years due to reasons not attributable to the purchaser (BSL). The learned Solicitor General of India had opined (August 1998) that in cases where there had been delay due to any other reason, even if SAIL had extended the period of the contract, the contractors stand to lose the benefit of the price variation clause right from the beginning of the contract. Thus, no escalation was payable right from the beginning of the contract and payment of escalation amounting to Rs.76.38 crore was irregular and unjustified.

The Ministry stated (August 2000) that further payment of escalation had been stopped. However, recovery of earlier escalation payment had been deferred to ensure progress of work at site.

6.1.5 Execution

6.1.5.1 Global packages

A. Continuous Casting Department

Voest Alpine Industrieanlagenbau, Austria (VAI) as a leader of the consortium with Larsen & Toubro Limited, (L&T) and Asia Brown Boveri Limited, (ABB) bagged the

order for Continuous Casting Department (CCD) at a total value of Rs.653.73 crore. As per contract signed on 11 June 1994, the job was scheduled to be completed by March 1997. The following interesting points were noticed:

(i) Premature procurement of spares: The plant was installed in March 1998 but the operational and maintenance spares worth Rs. 7.21 crore required after commissioning of the plant, were imported during 1996-97.

The Ministry stated (August 2000) that the billing schedules were finalised keeping in view the scheduled date of commissioning of the project and the spares were supplied as per the schedule of despatch specified in the approved billing schedule. The reply of the Ministry is not convincing as there were slippage in the commissioning of the project and the actual delivery of the spares should have been monitored and could have been deferred to avoid blockade of funds for about two years.

(ii) Changes in models/make: During execution of CCD project, L&T made certain changes in make/model of some of the plants and equipment without ascertaining the financial implication thereof.

The Ministry stated (August 2000) that some changes were essential due to site conditions/technical requirements and financial impact thereof would be settled at the time of closing of contract. The reply of the Ministry is not acceptable as financial impact of any changes in make/ model should have been worked out and got settled immediately so as to avoid litigation/dispute in future.

(iii) Major defects remained unattended: As per schedule 6 of the contract, 5 per cent of the contract value (Rs.32.69 crore) was to be released after successful completion of the Preliminary Acceptance Test (PAT) of the plant and machinery installed. The PAT of CCM-I and CCM-II were conducted in November 1997 and March 1998 respectively with 20 defects. However, the Company released Rs. 28.28 crore (86.5 per cent of amount payable after PAT) although a number of defects remained unattended.

The Ministry stated (August 2000) that the contract permitted issue of PAC with minor defects that did not affect the commissioning of the unit. The reply of the Ministry is not convincing as there were major defects in (i) Torch Cutting Machine, (ii) Pneumatic Transport System, (iii) ROT Motors, (iv) 3.3 KV Vacuum Circuit Breaker, (v) Tundish Car etc. As such, appropriate amount should have been withheld from the bills of the contractor until the defects were rectified.

B. Hot Strip Mill

SMS Schloemann Siemag, Germany as a leader of the consortium with six other associates viz, VAI, GFA, Simplex, TISCO, ABB and SMS-(I) bagged the order in August 1994 for Hot Strip Mill modernisation package including 12 AMR schemes at a total value of Rs.457.51 crore.

It was observed that:

(i) Premature procurement of spares: Hot Strip Mill modernisation was completed in July 1998 but the operational and maintenance spares worth Rs.17.06 crore were procured during 1996-97 i.e. much ahead of their requirement.

(ii) Unnecessary construction: As per the contract, SMS (India) was to construct foundation for coiler no.4 only. However, at the instance of BSL/MECON, the party also constructed foundation for coiler no.5 and claimed Rs.4.29 crore. Since there was no proposal for construction of coiler no.5, construction of its foundation was premature and uncalled for.

The Management stated (September 1999) that claim of the party on this account was being examined and would be settled as per procedure. The claim of the contractor had not yet been settled (March 2001).

(iii) Loss of Contribution: As against the planned shutdown of 21 days for carrying out work, the work was completed in 38 days (10 May 1998 to 17 July 1998) due to delay in equipment erection by the contractors. The extra shutdown period of 17 days resulted in loss of production of 1.21 lakh tonnes of HR coils and consequent loss of contribution amounting to Rs.77.44 crore. However, in the absence of any suitable provision in the contract, no amount could be recovered from the contractors.

(iv) Non-recovery of Rs 1.14 crore: An amount of Rs.1.04 crore being the cost of hydraulic oil supplied by plant beyond contractual obligation and double payment of customs duty amounting to Rs.10 lakh could not be recovered from the contractor (March 2001). The Ministry stated (August 2000) that the cost of hydraulic oil supplied by BSL and the customs duty paid on Radioactive source would be recovered from the party before release of final payment.

(v) Non-replacement of prematurely failed load cells: 12 load cells worth Rs.2.11 crore out of 18 nos. supplied/erected by ABB Limited were damaged prior to issue of PAC/FAC and could not be replaced (March 2001).

C. Reheating Furnaces

Work order valuing Rs.173.80 crore for conversion of Reheating Furnaces No. 2 and 3 from pusher type to walking beam type and installation of a new RHF No.4 was awarded to MECON (principal contractor) on 25 March 1994 with M/s. Italiampiant of Italy as its associates.

The following interesting points were noticed:

(i) Non-recovery of Rs.2.41 crore: MECON had indicated the binding quantity in respect of earth work, RCC, reinforcement of steel etc. and cost of any excess quantity was to be borne by the principal contractor. It was observed that the actual quantity relating to RHF 4 exceeded the binding quantity but the cost of extra quantity amounting to Rs.2.41 crore could not be recovered from MECON (March 2001). Management stated (September 1999) that a committee had been constituted in August 1997 to ascertain the actual excess quantity on account of RHF-4 and after receipt of committee's report, action would be

taken as per provision of the contract. However, the report is yet to be finalised (March 2001) despite the passage of four years.

(ii) Non-reduction in scale loss: With the commissioning of RHF scale loss was to come down to 0.6 per cent of the slab rolled. Two RHF's were commissioned but the scale loss remained at 1.02 per cent during the year 1998-99 to 2000-2001. Thus, the expected benefits of Rs.48.77 crore could not be achieved.

6.1.5.2 Indigenous Packages (including AMR schemes)

(a) The civil work of CCD was awarded in September 1994 to HSCL on single tender basis at a value of Rs.39 crore.

It was observed that:

(i) Infructuous expenditure on CCM III: The modernisation scheme sanctioned by the Government envisaged installation of two Continuous Casting Machines (CCM-I and CCM-II) in SMS-II. However, at the instance of BSL/MECON, foundation/concrete work for installation of third slab caster for CCM-III was also made at a cost of Rs.70 lakh.

The Ministry stated (August 2000) that the foundation work for CCM-III was done to ensure that there was no production loss in a running plant when construction work of CCM-III was taken up. It was observed that the construction of foundation work was not required as there was no proposal for construction of CCM-III in near future. This resulted in infructuous expenditure of Rs.70 lakh.

(ii) Premature Back Filling: The civil work for CCD included excavation and back filling of 2,50,000 cum. of earth at a cost of Rs.4.20 crore. In the course of execution, HSCL had to backfill 72,000 cum. of excavated quantity without completion of civil work to facilitate movement of mobile cranes near to the foundation. The back filled area was again excavated and finally back filled after completion of civil work which resulted in avoidable expenditure of Rs. 80 lakh.

The Ministry stated (August 2000) that the premature back filling was inescapable technological requirement keeping in view the longer interest of the timely completion of the project.

(iii) Non-Reconciliation/ Adjustment of Material Accounts: Cement and steel material worth Rs.19 crore were supplied by BSL to HSCL on cost recoverable basis. Of this, the plant could recover only Rs.14.34 crore leaving a balance amount of Rs.4.66 crore unrecovered. The reason for non-recovery included non-reconciliation/ adjustment of material account. The Ministry stated (August 2000) that the entire amount would be recovered before final payment was released.

(b) Infructuous expenditure of Rs.19.34 crore on RHF-I: Government of India approved installation of walking beam type Furnace no.4 and conversion of Furnaces no. 3 and 2 into walking beam type in December 1992 and July 1993 respectively. However, in the mean time an order for up gradation of RHF no.1 (old model) was placed on L&T

Ltd in January 1993 at a cost of Rs.13.02 crore. In the meantime, RHF 4 and 3 have already been commissioned and the dismantling work relating to RHF-2 had also been taken up. The equipment and spares worth Rs.11.33 crore received for RHF-1 as well as materials worth Rs.8.01 crore for modification of skids for RHF-1 through another scheme undertaken in August 1991 had been lying idle (March 2001).

The Ministry stated (August 2000) that the schemes for up-gradation/ modification of RHF-1 would be taken up after completing the job of RHF 3 and 2. It was however, observed that although the modification of RHF-3 had already been completed (January 2000), dismantling of RHF 2 was still to be done (March 2001). Further, the Company does not have any plan / programme to take up of the modification of RHF-I in the near future due to severe financial constraints. In view of above, there was blockade of Rs.19.34 crore incurred on RHF-I.

(c) Mechanised Work Roll Changing system

In order to reduce the roll changing time from 90-120 minutes to 15 minutes and thereby increase the productivity of Hot Strip Mill, an order for installation of Mechanised Work Roll Changing system was placed on MECON in December 1991 at a cost of Rs.29.65 crore.

It was observed that:

(i) The system was commissioned in November 1997 after a delay of 4 years and 7 months without auto operation system. Consequently, the desired benefit of reduction in roll changing time could not be achieved and the actual time ranged between 20 –25 minutes as against 15 minutes envisaged which resulted in loss of production of 14.61 lakh tonnes of HR coil during the years 1997-98 to 2000-01.

(ii) As the system was not working properly, the consumption of bearing increased by 294 numbers during the period from 1995-96 to 2000-01 resulting in an extra expenditure to the extent of Rs.11.76 crore.

6.1.6 Liquidated Damages

The contract provided for levy of liquidated damages (LD) at the rate of 5 per cent for time over-run and at the rate of 7.5 per cent for non-fulfilment of performance guarantee subject to an overall ceiling of maximum liability of 10 per cent of the contract value. All the packages except one global package (RHF-2) were completed by January 2000 and the extent of delays ranged between 3 and 39 months. As such, LD recoverable for delays worked out to Rs.76.10 crore being 5 per cent of the ordered value of Rs.1521.91 crore. Against this, an amount of Rs. 30.63 crore only was recovered (March 2001).

The following interesting points were noticed:

(i) Undue favour to the foreign suppliers: Undue favour was shown to the foreign suppliers as no LD was recovered from them although no global package was completed within the contractual completion period. The amount of LD not recovered worked out to Rs. 19.07 crore being 5 per cent of the ordered value of Rs.381.36 crore.

The Ministry stated (August 2000) that no LD was leviable on overseas suppliers as the FOB supplies were generally made as per approved schedule. The reply of the Ministry is not factually correct as there was delay in supply of drawings and specifications by VAI, delay in supply of equipment by VAI and SMS (AG) and Italimpianti and the extent of delay ranged between 12 to 21 months. Similarly, there was delay of 17 months in supply of mechanical equipment by SMS (AG). Therefore, non-recovery of LD tantamount to undue favour to the foreign contractors

(ii) Irregular refund of LD: In three global packages, LDs amounting to Rs.24.13 crore were recovered from six Indian associates during 1995-96 to 1997-98. Subsequently, Rs.11.40 crore was refunded to them during 1998-99 and 1999-2000 and further recovery was postponed on the plea that the matter regarding recovery of LD would be decided after the completion of the contract.

It was observed that in almost all cases, LD was refunded at a time when the work was already completed (except RHF-2).

(iii) Short recovery of LD: Even in the cases where LD was recovered on account of delay, the same was limited to 5 per cent of the contract price. No provision was made in the contract for levying LD for the subsequent increase in the contract price. Consequently, there was short recovery of LD amounting to Rs. 15.63 crore, (5 per cent of Rs. 312.58 crore) being the increase in the ordered value (i.e. Rs. 1834.49 crore- Rs. 1521.91 crore).

The Management stated (September 1999) that refund of LD was made with a view to complete the project at the earliest by improving the liquidity position of the executing agencies. Further, as per established practice in SAIL, liquidated damages as well as escalations were worked out on the basic contract price. The Ministry added (August 2000) that SAIL had informed that LD was being recovered on the escalated contract prices in respect of major contracts.

The reply of the Management/Ministry is not tenable as on verification of records, it was observed that recovery of LD was postponed in 1999-2000 and no LD was recovered on escalated contract price from any major contractors.

6.1.7 Role of consultant

Government while conveying the approval of the modernisation scheme in July 1993 indicated that SAIL should implement the project with MECON as their prime consultant. It was also prescribed that the relationship and distribution of functions between SAIL and MECON for the implementation of the project should be determined by mutual agreement in such a way that for each activity in the project implementation, there was a fixed point of responsibility either on SAIL/BSL or on MECON or both. Accordingly, an agreement was entered into with MECON on 4 July 1994 at a consolidated consultancy fee of Rs.42 crore. The agreement was made effective from 1 January 1992 for a period of 87 months ending on 31 March 1999.

The following points were noticed:

(i) In-house consultancy wing overlooked: SAIL could have assigned the consultancy work to its in-house technical consultancy wing CET (Centre for Engineering and Technology) instead of MECON. However, only a small portion of consultancy work relating to Reheating Furnaces was given to CET.

The Ministry stated (August 2000) that since consultancy service for 4 MT expansion of Bokaro Steel Plant was also provided by MECON, it was deemed fit to select them as consultant for the modernisation project. The reply of the Ministry is not convincing as the in-house consultancy wing of SAIL had developed expertise in steel technology over the years and their involvement in BSL modernisation in a bigger way would have minimised the project cost.

(ii) Consultancy with retrospective effect: The modernisation project was approved by the Government in July 1993 but the agreement was entered into with MECON only in July 1994 and made applicable for a period of 87 months from January 1992. Thus, the consultant was engaged one and half years before the approval of the project, which resulted in expiry of the agreement period before completion of the project (March 2001).

(iii) No clause for imposition of liquidated damages: No clause for imposition of liquidated damages or penalty was incorporated in the agreement in case of delay on the part of the consultant.

The Ministry's contention that the consultant would continue to provide consultancy services during the extended period of project as the delay was attributable to them is not tenable. In the absence of a suitable penalty clause, there is no safeguard available with the Company for compensating the financial loss due to failure of the consultant.

(iv) Other shortcomings: In the following areas the consultant failed to recommend the optimal facilities/equipment which could have been beneficial to the Company.

- For steel refining, one Ladle Heating Furnace (LHF) and one Ladle Rinsing Furnace (LRF) were installed in September 1997 under CCD package. However, in January 2001, SAIL decided to convert LRF worth Rs.48.16 crore into LHF at an additional cost of Rs.15.30 crore as the latter displayed certain technical distinct advantages over the former such as lower of tapping temperature, increase in lining life of converter, reduction in return heats etc.

- The newly constructed CCD in TISCO and RINL adopted hot tundish lining practices because of its superiority over cold lining practice which was adopted by BSL. RSP is also contemplating to switch over from the cold tundish to hot tundish lining. This is now being envisaged to be taken up at BSL as an AMR scheme.

6.1.8 Delay in completion

6.1.8.1 Time overrun

As per the sanction of the Government in July 1993, the modernisation process of BSL was to be completed within 4 years i.e. by July 1997. However, even after a lapse of 50 months from the scheduled date of completion, the project still lies incomplete

(September 2001). None of the packages was completed in time and the delay ranged between 3 and 39 months as per the details given in Annexure-XV. It would thus be seen that although all the indigenous packages were completed by September 1999, one global package (RHF-2) remains to be completed (September 2001).

The main reasons for delay as reported by the Management were delay in submission of drawings and specifications by VAI, ABB, MECON and L & T, delay in supply of equipment by VAI/L&T, ABB, SMS (AG), delay in equipment erection by VAI/L&T and TGS, delay in replenishment of stocks for missing /damage items, delay in testing and trial run, delay in execution of civil work by HSCL and SMS (India) etc. In addition to above, acute cash problem, inadequate mobilisation of manpower and construction equipment by some of the major contractors like HSCL, HEC, BHPVL, lack of co-ordination between principal contractors and their associates, failure of the principal contractors in their leadership role to motivate and organise the resources efficiently and effectively were also responsible for overall slippage.

The time over-run could have been avoided to a great extent, had the Company taken the measures like (a) proper scrutiny regarding capability and competence of the parties, (b) strict adherence to the terms and conditions of the contract, (c) retaining one officer as project in charge until completion of the project, (d) fixation of responsibility of the core group members for each package and utilisation of their services uninterruptedly without any transfer to other departments until completion of the package and (e) fixation of responsibility among various agencies for each stage of delay.

The Ministry stated (August 2000) that the project in charge and other officer/core group member for each packages were generally not shifted / transferred / disturbed mid-way except either on superannuation or in special circumstances. They further added that unless the whole project was completed and detailed analysis of delay on overall basis was made, exact responsibility for delay could not be pinpointed.

The reply of the Ministry is not tenable as two project in-charge officers and one core group member each from CCD and HSM packages were transferred/retired mid-way before completion of the project. Detailed analysis for delay in respect of completed schemes, could have been done and necessary steps to fix the responsibility for the delay initiated so that a procedure could be set for others.

It was observed that SAIL suffered a loss of contribution amounting to Rs.1161.50 crore during the period from August 1997 to March 1999 due to delay in completion of the project.

6.1.8.2 Cost overrun

The Ministry of Steel, while conveying the sanction of the Government in July 1993 for Rs.1625.79 crore, had indicated that SAIL would be fully responsible to the Government to complete the project within the time and cost estimate ensuring at the same time that there was no loss in the current production.

In June 1994, SAIL submitted a Revised Cost Estimate (RCE) of Rs.1792.90 crore to the Ministry of Steel based on tenders finalised. The increase in the project cost was mainly

on account of price escalation and under-estimation. The RCE was approved by the Ministry of Steel in August 1994. In this connection it may be mentioned that as per the guidelines of the Ministry of Finance dated 24 August 1992, Administrative Ministries were competent to sanction the revised cost estimate provided the project was completed within the original approved time cycle. In respect of the change in the project time cycle, the normal procedure of referring the RCE to Government would be required.

It was observed that in respect of Reheating Furnaces no. 2 and 3 package, the contractual completion period was reckoned as September 1997 as against the overall approved commissioning date of July 1997 for the modernisation scheme. Thus, there was a change in the project time cycle for which approval of Government was necessary. However, MOS approved the RCE of Rs.1792.90 crore in August 1994 without referring the matter to Government. Interestingly, the work of RHF no. 2 had not yet been commenced (March 2001) while RHF no.3 was commissioned in January 2000 only (i.e. after a delay of two years and four months).

The Ministry stated (August 2000) that there was no shift in the project time cycle as RHF-4 and RHF 3 or 2 would be available within 31 months from the effective date of contract i.e. by October 1996 against the project completion schedule of July 1997. The reply of the Ministry is not tenable as the modernisation scheme envisaged conversion of two RHF's (No. 2 and 3) which were to be completed within 42 months i.e. by September 1997. Thus, there was shift in the project time cycle at least by 2 months for which approval of the Government was necessary. But this was not obtained. Incidentally, work of RHF-2 had not yet been completed (March 2001).

The cost over-run of Rs.842.39 crore as per second RCE of Rs.2468.18 crore approved by SAIL in October 1999 was attributed to the following reasons:

A.	Physical reasons	(Rs. in crore)	
	Change in scope	1.39	
	Change in volume/Qty.	29.78	
	Under / over estimation	114.64	145.81
B.	Monetary reasons		
	Escalation	179.65	
	Foreign Exchange parity	82.29	
	Taxes and duties	46.47	
	Interest	445.99	
	Others	3.20	757.60
C.	Contingencies		(-) 61.02
	Total		842.39

The package-wise break-up of sanctioned cost, ordered value, expenditure upto March 2001 and the anticipated cost is indicated in Annexure-XVI. Package-wise break-up of

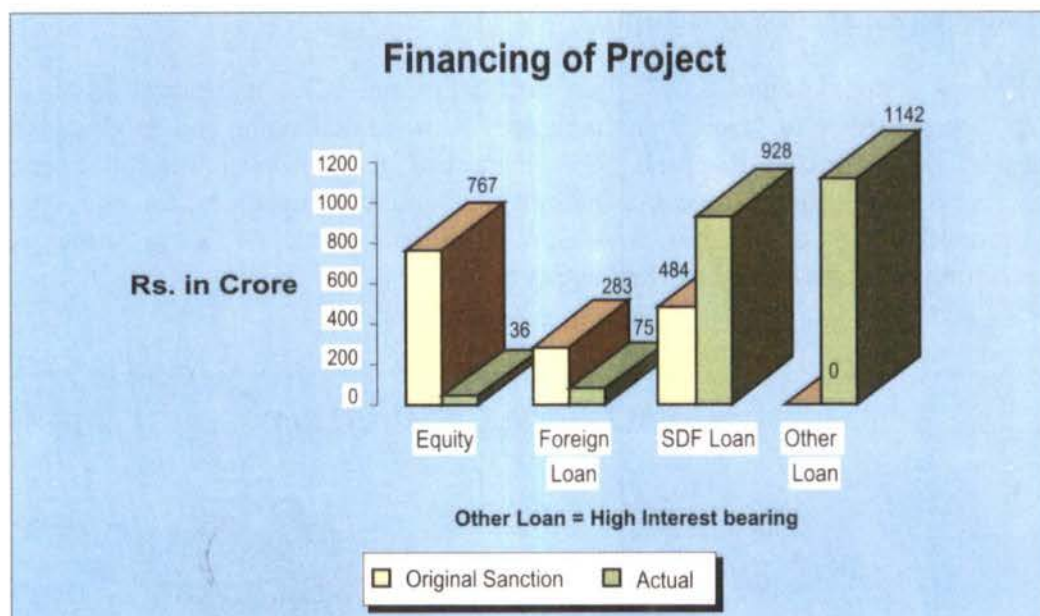
sanctioned cost of indigenous packages, though called for, had not been furnished by the Management.

6.1.9 Financing of the project

At the time of approval of project by Government in April 1993, the cost of the modernisation amounting to Rs.1625.79 crore was to be financed from internal sources of SAIL and borrowing from Steel Development Fund (SDF)/ external sources in the ratio of 1:1. SAIL indicated that it would arrange Rs. 812.84 crore from internal sources and the foreign currency requirement of Rs. 283.50 crore would be met through External Commercial Borrowings (ECB). The balance fund would be arranged from SDF loan/external borrowings.

SAIL also indicated the total fund requirement for capital projects during 8th plan period (1992-97) as Rs. 12480 crore. Of this, only Rs. 2844 crore was to be met from internal source and the rest Rs. 9636 crore from borrowings. Despite this, the Ministry of Steel proposed clearance of the project with a debt equity ratio of 1:1, which was approved.

The funding pattern of the project approved by the Government, the actual mode of financing as on 31 March 2001 and the rate of interest thereon were as under:

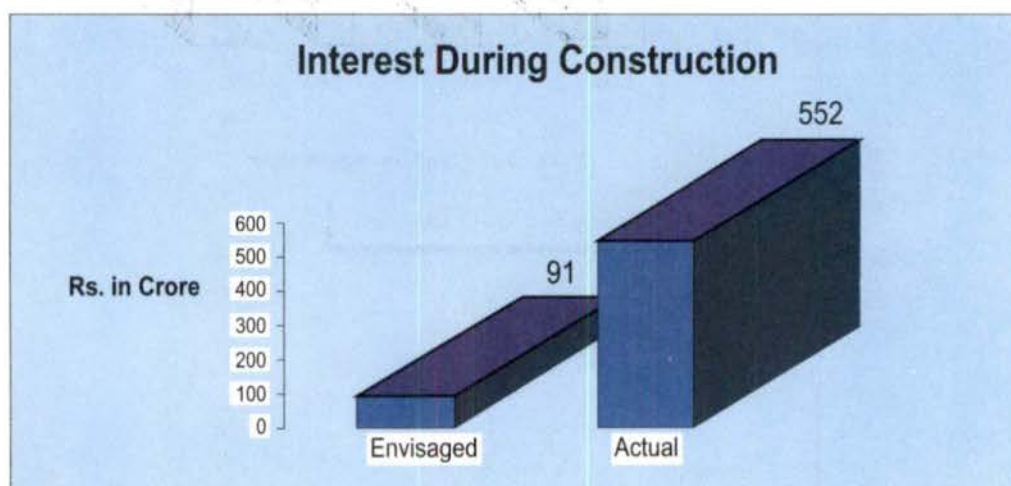


(Rs. in crore)

Source		Original sanction (Excluding interest)	Actual as on 31.3.2001	Rate of interest (Average percent)
Equity		767.44	36	-
Loan				
(i)	Foreign borrowings	283.45	75	6.44
(ii)	Steel Development Fund	484.00	928	8.00
(iii)	Public Deposit Scheme	-	4	14.50
(iv)	Bonds	-	826	15.52
(v)	Term Loan/other	-	312	15.50
Total		767.45	2145	-
Grand total		1534.89	2181	-

SAIL contributed only Rs. 36 crore from its internal sources against Rs.767.44 crore (excluding interest) as committed by them. Consequently, the debt equity ratio increased to 59:1 from 1:1 originally envisaged.

The Ministry stated (August 2000) that decline in net sales realisation from steel products, continued cost escalations coupled with capitalisation of modernisation schemes of Durgapur and Rourkela Steel Plant had given rise to difficult financial position of SAIL leading to non-availability of internal resources for the capital expenditure of BSL modernisation. As such most of the expenditure had to be met from borrowed fund resulting in adverse debt equity ratio.



- The burden of Interest During Construction (IDC) resultantly increased substantially from Rs.90.91 crore originally envisaged to Rs.551.56 crore (March 2001). This had obviously put the viability of the project in doubt.

- Unlike Durgapur and Rourkela, suppliers' credit at a relatively lower rate of interest could not be arranged from the global contractors. Foreign currency amounting to Rs. 75 crore (ECB) could be arranged against the requirement of Rs.283.45 crore.
- At the time the project was selected for approval, its viability was very attractive with an IRR of 22.6 per cent. This was highly optimistic as the IRR was calculated on the assumption of 100 per cent capacity utilisation and full sales realisation even after the decontrol of the Steel sector. The effect of liberalisation i.e. increased competition was not considered and visualised at the time of approval of the project.

The Ministry stated (August 2000) that the project was appraised by SBI Caps, an independent financial agency and was found to be viable with IRR at 17.79 per cent. It was however, observed that SBI Caps report further stated that based on the current prices of finished goods, the IRR would be 7 per cent only and project was highly sensitive to sales realisation. With the present down turn in the sales realisation due to excessive capacity building in HR products, there is no likelihood of changes in the fortune of this project in foreseeable future.

6.1.10 Production performance

The table below indicates the installed capacity and production of major products there against during pre-modernisation and post modernisation period:

(In lakh tonnes)

Pre-Modernisation				Post- Modernisation			
Sl. No.	Product	Capacity	Production 1993-94	Capacity	Production 1998-99	Production 1999-2000	Production 2000-01
1	Crude/Liquid steel	40.80	37.12 (91 %)	45.00	30.85 (69 %)	33.53 (75 %)	36.35 (81 %)
2	HR coil	33.65	29.85 (89 %)	39.55	22.85 (58 %)	28.91 (73 %)	32.27 (82 %)
3	Concast slab	--	-	21.60	8.54 (40 %)	14.93 (69 %)	19.70 (91 %)
4.	Saleable steel	31.90	32.05 (100 %)	37.80	25.41 (67 %)	32.46 (86 %)	33.13 (88 %)

Figures in the bracket indicate percentage of capacity utilisation.

It would, therefore, be observed that:

- envisaged production of 45 lakh tonnes of crude steel and 37.80 lakh tonnes of saleable steel after modernisation was not achieved due to closure of a BF and 2 coke oven batteries 5 years ago primarily as a result of sluggish market conditions and stiff competition not only from indigenous private firms but also from foreign companies. The actual production of crude steel and saleable steel stood at 33.53 lakh tonnes and 32.46 lakh tonnes during 1999-2000 and 36.35 lakh tonnes and 33.13 lakh tonnes during

2000-01 respectively. In fact, during 1999-2000 it registered a negative growth rate of 16 per cent and 14 per cent respectively (with respect to capacity) over pre-modernisation period of 1993-94;

- basic objective of introducing the continuous casting technology was to bring about improvement in the quality of steel products. However, even after modernisation of the plants, 3.27 lakh tonnes of defective/off-grade steel were produced during the year 1998-99 and 1999-2001;
- during 1999-2000 and 2000-01, 2.74 lakh tonnes of defective products were sold at a loss of Rs. 59.75 crore as compared with the net sale realisation value (NSR) of good products.

6.1.10.1 Product Profile

The main saleable steel products of the plant are HR plate/coil, HR sheet, CR coil/sheet and galvanised plain/corrugated sheet. The envisaged production as per modernisation scheme, production/sales plan, actual production and despatch of these products during 1998-1999 to 2000-2001 were as under:

(In lakh tonnes)

S. No	Item	Production after Modernisation scheme*	Sales/ Production Plan			Actual Production			Despatch		
			98-99	99-00	00-01	98-99	99-00	00-01	98-99	99-00	00-01
1.	Slab (for sale)	-	0.8	0.6	1.0	2.2	3.7	1.4	2.2	3.7	1.4
2.	HR plate sheet	12.0	8.5	8.5	7.4	6.5	5.8	6.3	6.5	5.8	6.1
3.	HR coil (for sale)	9.2	10.1	10.1	13.1	6.5	12	13	7.0	12	12.8
4.	CR coil	4.1	5.7	7.3	7.5	6.6	7.4	7.7	6.3	7.2	7.4
5.	CR sheet	9.8	1.8	2.5	2.4	1.0	1.2	1.2	1.1	1.2	1.1
6.	GP/GC	1.7	1.9	1.9	1.7	1.5	1.5	1.8	0.7	1.5	1.8

* Total capacity of product

The following points deserve mention:

- modernisation scheme did not envisage sale of slab. However, 7.36 lakh tonnes of slab were produced between 1998-99 and 2000-01 against the annual plan of 2.50 lakh tonnes during these period. Of this, 3.59 lakh tonnes of slab were sold directly by the plant during 1999-2000 at an average NSR of Rs.7877 per tonne which was far below the average price of Rs.10016 per tonne fixed by the Central Marketing Organisation (CMO) of the Company.

The Ministry stated (August 2000) that the prices fixed by CMO and BSL could not be compared on like to like basis since BSL prices were generally firm, while CMO offered various rebates, discounts, incentives etc. to push up the sale.

The reply of the Ministry is not acceptable as it was observed that even after allowing various rebates / discounts etc., the NSR of BSL slab sold by CMO during 1999-2000 through its stockyards was Rs. 8359 per tonne. Thus, sale of slab by the plant at a lower price resulted in a loss of revenue of Rs.17.30 crore.

- analysis of cost of production and NSR of finished products (including semis) for the year 1998-99 revealed that the profit margin in case of HR coil was highest at Rs. 2173 per tonne whereas it was negative (Rs.958 per tonne) in case of slab. Despite this, only 6.56 lakh tonnes of HR coil was produced for sale during 1998-99 against the plan of 10.10 lakh tonnes. It was observed that entire quantity of HR coil produced by BSL during 1998-99 and 1999-2000 could be sold within the respective years. Thus, failure of the plant top Management to produce 3.54 lakh tonnes of HR coil less for sale during the 1998-99 resulted in a loss of profit margin of Rs.76.92 crore;
- plant also produced 1.33 lakh tonnes of HR thick plates (sub-standard quality) during 1998-99 to 2000-01, which was not envisaged in the modernisation scheme. Since the NSR of HR thick plate is much lower than that of HR Coil, the production of 1.33 lakh tonnes of HR thick plates resulted in a loss of Rs.43.61 crore during 1998-1999 to 2000-01.

6.1.10.2 *Techno-economic parameters*

The major techno-economic parameters as envisaged in the modernisation scheme, actual position before modernisation in 1993-94 and after modernisation i.e. during 1998-99 to 2000-01 are indicated below:

S. No	Parameters	Envisaged in Modernisation	Before Modernisation 1993-94	After Modernisation		
				98-99	99-00	2K-01
(i)	Tap to tap time in SMS-II (Minutes)	60	71	84	76	99
(ii)	Average yield CCD (per cent)	96	-	97.50	98.08	97.00
(iii)	Yield from liquid/ingot steel to saleable steel (per cent)	84	79.8	83.80	82.70	81.60
(iv)	Specific heat consumption in modernised units (G. Calorie/T HRC)	0.576	1.210	1.075	0.974	1.032
(v)	Labour productivity of saleable steel (tonnes/man/year)	113.18	109	74.55	105.00	115.00

It would be seen from above that the plant could not achieve the projected norm in any of the parameters except in the yield of CCD and labour productivity (2000-2001).

- specific heat consumption per tonne of HR coil was abnormally high at 1.075, 0.974 and 1.032 G. calorie during 1998-99 , 1999-2000 and 2000-01 respectively as against 0.576 G. calorie envisaged. This resulted in an excess consumption of heat to the tune of 3.77 million G. calorie valuing Rs.120.98 crore during 1998-99 to 2000-2001;
- labour productivity during 1998-99 was far below the projected norm of 113.18 tonnes/man/year and was even below the productivity level achieved during pre-modernisation period;
- tap to tap time in SMS-II have also increased from 71 minutes in 1993-94 to 99 minutes in 2000-01.

The Ministry stated (August 2000) that labour productivity during 1998-99 was low on account of less volume of production due to gestation period of ongoing modernisation activities as also depressed market conditions.

6.1.11 Financial performance

The financial performance of the plant since 1992-93 was as under:

(Rs. in crore)

Year	Net Sales	Cost of Sales	Net Profit/loss (-)	Cumulative profit	Percentage of Cost of Sale to Net Sales
1992-93	3277.11	2897.27	379.84	1644.33	88.40
1993-94	3796.86	3329.04	467.82	2112.15	87.70
1994-95	4486.07	3823.86	662.21	2774.36	85.20
1995-96	4606.19	3800.24	805.95	3580.31	82.50
1996-97	3892.85	3535.62	357.23	3937.54	90.80
1997-98	4073.38	3706.21	367.17	4304.71	91.00
1998-99	4038.49	4203.10	(-) 164.61	4140.10	104.10
1999-20	4793.72	4673.84	119.88	4259.98	97.50
2000-01	4396.24	4347.07	49.17	4309.15	98.90

The following points deserve mention:

- plant registered a loss of Rs.164.61 crore in 1998-99 after 18 years of earning profit due to capitalisation of CCD and HSM which resulted in increased incidence of interest and depreciation that stood at Rs.501.96 crore and Rs.199.49 crore respectively as against Rs.391.94 crore and Rs.140.49 crore during 1997-98. The loss of Rs.164.61 crore during 1998-99 was understated by Rs.34.47 crore due to under-charge of depreciation and other expenses due to delayed capitalisation of CCD (Rs.32.54 crore) and capitalisation of revenue expenditure (Rs.1.93 crore)
- during 1999-2000, the plant received financial relief aggregating Rs.917.80 crore from the Government of India. The financial impact of such relief in the profitability of BSL worked out to Rs.264.46 crore;
- plant made a profit of Rs.49.17 crore during the year 2000-01. This profit was overstated by Rs.180.19 crore due to non-provision against stores/spares declared surplus/ not moved for the last ten years, overstatement of sales, non-provision against outstanding advances, valuation of mixed coke, non-provision of depreciation etc;
- as against the envisaged sales realisation of Rs. 5178.59 crore after modernisation, the actual net sales was only Rs. 4396.24 crore.

6.1.12 Other topics of interest

(a) Avoidable Engagement of Foreign Experts: A contract with Voest Alpine Industrial Service (VAIS), Austria was signed on 9 December 1997 for engagement of VAIS's experts for a period of 15 months at a cost of Rs.26.26 crore for providing technological, operational and maintenance support services for stabilisation of CCD.

The scope of supply and services of Voest Alpine Industrieanlagenbau, Austria (VAI) under CCD package included *inter alia*, design, engineering, testing, commissioning, training and demonstration of performance guarantee. Accordingly, 105 personnel were sent to Austria and Germany for undergoing training in CCD and HSM operation. Some employees were also trained at Bhilai Steel Plant where CCD was already in operation. Further, CCDs were already in operation in other steel plants of SAIL. In view of above, engagement of VAIS for operational and maintenance services at a cost of Rs.26.26 crore lacked justification. Of this, an amount of Rs.21.94 crore had already been paid to VAIS.

The Ministry stated (August 2000) that deployment of VAI's personnel was made to ensure early stabilisation and achievement of rated capacity of CCD. It was, however, observed that VAI's personnel took up the work at CCD in December 1998 when the production had already stabilised i.e. it reached a production level of 76 per cent of the budgeted production. As such, engagement of VAI's personnel for stabilisation of production in CCD was not justified. It is interesting to mention here that performance of VAI's experts in CCD was not found to be satisfactory by the plant Management.

Similarly, experts from VAI, Austria and GFA, Germany were engaged in November 1998 for improvement and stabilisation of production of Hot Strip Mill (HSM) at a cost of Rs.8.73 crore. HSM was under hot trial run between July 1998 and October 1998 and

within a period of less than 3 months, it reached a production level of 2.25 lakh tonnes of HR coil against the rated capacity of 3.29 lakh tonnes per month. The Company incurred an expenditure of Rs.10.56 crore on engagement of experts.

The Ministry stated (August 2000) that in order to overcome various post commissioning problems and also to ensure early achievement of rated capacity and stabilisation of the new system, it was felt necessary to take the help from SMS (AG) and VAI.

It was observed that Final Acceptance Certificate (FAC) in respect of HSM package had not yet been issued. As such rectification of post-commissioning defects, if any, lies with the package suppliers. Further, the plant had already achieved 68 per cent of its capacity by October 1998 and as such engagement of foreign experts in November 1998 for stabilisation and improvement of production at a cost of Rs.10.56 crore was avoidable. Of this, an amount of Rs.7.28 crore had already been paid to foreign experts although FAC had not yet been issued.

(b) Financial Assistance to PSUs: A Public sector undertaking viz. HSCL faced acute financial problem in executing their work and asked Management to provide them with financial assistance. Although BSL had to borrow substantial funds at commercial rate of interest (12.5 per cent average), financial assistance amounting to Rs.15.33 crore was provided to HSCL between April 1996 and November 1998 without any specific work. Further, no effort was made for recovery of interest amounting to Rs. 7.46 crore from the contractors.

It was also observed that ad-hoc advance amounting to Rs.18.33 crore was paid to two PSUs - HSCL (Rs.8.80 crore) and HEC (Rs.9.53 crore) for the release of payments to their sub-contractors beyond the contractual obligation.

The Ministry stated (August 2000) that the advances were released in the interest of the work. Had such advances not been paid, progress of work at site would have suffered.

(c) Non-utilisation of trained manpower: The manpower requirement of modernised units was proposed to be met by deployment of personnel from the existing work force after providing training. Accordingly, 105 personnel were trained by package suppliers at a cost of Rs.4.50 crore. It was observed that of the 105 personnel, 6 had already retired before issue of FAC, 12 personnel were continuing in project division and 2 persons from CET, not related with the operation and maintenance of the plant, were also given training.

6.1.13 Conclusion

The modernisation programme of BSL which was conceived in 1987 so as to encompass entire mid-stream facilities like Steel Melting Shops I and II and introduction of continuous casting facilities in both SMS units and up gradation of Hot Strip Mill had neither been completed fully as yet (September 2001) nor have the entire envisaged benefits have accrued to the plant. Though the original proposal approved by SAIL Board in February 1990 aimed at modernisation of BSL in two stages at a cost of Rs. 1600 crore, even the stage-I of the modernisation programme had not been completed as on date. Due to radical changes in the steel sector consequent upon liberalisation of the

Indian economy in 1991-92, the investment in stage-I of the modernisation programme of BSL had not yielded results as the net sales realisation envisaged at the time of approval by Government of India in July 1993 has come down in absolute term also during last eight years due to excess capacity building of flat products in the country, fall in the international prices of Hot Rolled coils and import restrictions on steel in some of the foreign countries.

Thus, BSL have neither achieved its objective nor have improved its financial position after an investment of nearly Rs. 2346.45 crore in modernisation programme as compared to its position before modernisation era.

6.2 Township Management

6.2.1 Introduction

6.2.1.1 Steel Authority of India Limited (SAIL) has four integrated Steel Plants located at Bokaro in Jharkhand (BSL), Rourkela in Orissa (RSP), Bhilai in Chattisgarh (BSP) and Durgapur in West Bengal (DSP) for producing Iron and Steel. The steel plants have separate townships for employees.

The townships contain, *inter alia*, residential quarters, shopping complexes, community centres, educational institutions, hospitals and public gardens. The construction of townships and their further development and maintenance are the sole responsibility of the plant management under the overall guidance of Board of Directors of the Company. Management provides basic infrastructure amenities like electricity, water, sewerage and roads etc. in the township. The Company has also been providing official as well as residential accommodation to Central/State Government officials residing in the townships.

The Board of Directors decided in January 2001 to give on lease/sub-lease the vacant/surplus quarters in the steel townships to employees/ex-employees of the Company so as to generate financial resources. The Company plans to generate Rs 500 crore during 2001-02.

6.2.1.2 *Scope of audit:* A review of Management of plant townships located at Bokaro, Rourkela, Bhilai and Durgapur was conducted and the system of acquisition/leasing/sub-leasing of land, allotment of quarters / shops and maintenance of township were audited. The review was issued to the Ministry in December 1999 and their reply was received in January 2001, which has been incorporated in the report. The review has been updated until 2000-2001. The audit findings are given in the following paragraphs:

6.2.2 Land

6.2.2.1 Acquisition of land and payment of compensation

Land measuring 113307.26 acres (as on 31 March 2001) was acquired at various stages from different State Governments as well as private parties for construction of steel

plants and townships. The Acts governing the acquisition were Land Acquisition Act, Bihar, 1894 (for BSL), Orissa Development of Industries, Irrigation, Agriculture, Capital construction and Resettlement of Displaced Person (Land Acquisition) Act, 1948 (for RSP), Land Acquisition Act, Madhya Pradesh, 1894 (for BSP) and Land Acquisition Act, West Bengal 1894 (for DSP). The land acquired included both forest and non-forestland.

(Area in acres)

LAND	BSL	RSP	BSP	DSP	TOTAL
Area acquired (in acres)					
As per Management's records	31287.24	32217.30	33378.34	16424.38	113307.26
As per Government records	33640.70	32217.30	30829.99	15871.87	112559.89
Compensation paid (Rs. in lakh)	1155.04	132.48	196.52	320.66	1804.70
Area of land in respect of which title deed is yet to be transferred in Company's name	31287.24	13117.70	262.57	9311.77	53979.28
Area under dispute	824.85	NIL	NIL	NIL	824.85
Compensation claimed by owners/State Government not paid (Rs. in lakh)	5217.18	130.54	NIL	33	5380.72

Note: State Government gifted to BSL 4378.675 acres of land.

It would be observed from the above table that:

a) There was discrepancy in the area of land acquired by BSL and BSP to the extent of 2353.46 acres and 2548.35 acres respectively. The Company has not reconciled this with the respective State Governments even after lapse of about 41 years. In DSP, 531.23 acres of land acquired were transferred back to the Government of West Bengal between 1959 to 1983 for various purposes viz. setting up of colleges, city centres, housing, etc. and 21.28 acres of land is in litigation.

The Ministry stated (January 2001) that reconciliation was done in September 1999 in respect of BSL and difference has now come down to 221.52 acres.

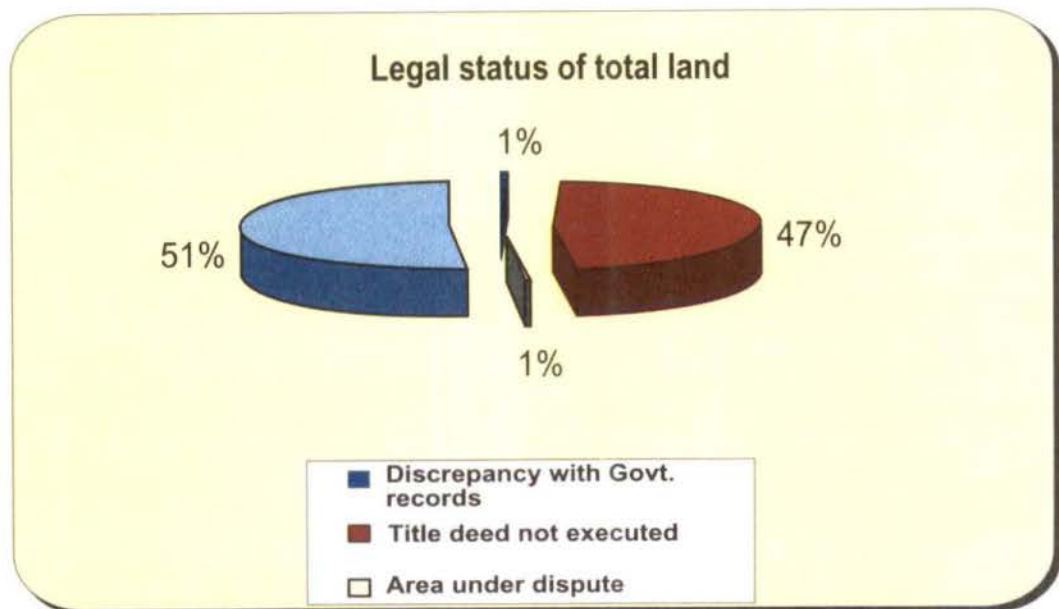
b) Under the provision of Land Acquisition Act, the Company was required to enter into an agreement with the State Government in the shape of deed of conveyance, which is a transfer of right to enjoy such property, by the transferee/lessee. The Company was not able to get the title deeds for the 47.64 per cent area of land although the land acquisition process started in late fifties and early sixties. Deeds of conveyance were not executed for 13117.70 acres, 262.57 acres and 9311.77 acres of land in respect of RSP, BSP and DSP respectively. In BSL, deeds of conveyance were not executed for the entire land held by it.

The Ministry stated (January 2001) that all efforts were being made to get the title deeds of the land in the Company's name. The fact however, remains that entire land had not been registered in Company's name.

c) For construction of steel plant at Bokaro, Government of Bihar proposed to give Government Land (Gair Mazarua and Forest Land) free of cost and Raiyati land (from private landowners) at a ceiling price to be paid by the proposed steel plant (Bokaro). It was also agreed that any amount paid to the private landowners beyond ceiling price would be borne by the State Government. The ceiling price for land under 1956 notification was Rs.1900 per acre and that under 1964 notification was Rs.3800 per acre.

Consequent to the amendment of Land Acquisition (LA) Act in 1984, the landowners filed suit in Court of law for additional compensation, which was granted by the court. Thereafter, Government of Bihar claimed Rs.52.17 crore towards decretal demand (Rs.10.07 crore) and due to amendment of LA Act (Rs.42.10 crore) from BSL. Although the State Government's claim was not accepted by the Company on the ground that the plant's liability was restricted to the ceiling price only and any amount in excess of ceiling price was to be paid by the State Government on account of a decision conveyed by the Government of India to Bihar Government in 1955, the issue has been left unattended until now. As a result, deed of conveyance had not been executed in favour of BSL. In reply, SAIL stated that as for Raiyati land, Government of Bihar had put condition of payment of decretal amount before signing the deed during discussions.

The Ministry stated (January 2001) that claim of Bihar Government had not been accepted and State Government had been requested for review of their stand. The fact however, remains that non-settlement of claim during last four decades had been delaying the execution of title deeds.



(d) In BSL, State Government did not deliver 824.85 acres of land although the Company had paid compensation for the same. Special Land Acquisition Officer of the

State Government stated that all the raiyats of the land were not ready to vacate the land before getting benefit in the form of decretal amount and a job in the plant and as such the matter was pending. Thus possibility of getting the possession of 824.85 acres of land from the State Government in future appeared to be bleak.

The Ministry, however, did not agree to the contention of Special Land Acquisition Officer and stated that employment to the displaced persons had already been provided. The fact, however, remained that BSL is yet to get the possession of 824.85 acres of land from State Government due to lack of effective follow up action.

(e) The land utilised by RSP did not include 11,871.30 acres used for the Mandira Dam Project. The Hirakund Dam Project constructed this dam and subsequently RSP was allowed to utilise the project for its water requirement. No formal ownership was available with the plant Management.

The Ministry stated that there was no precondition for execution of any agreement. Hence, no agreement was made with State Government. However, at the instance of the State Government, RSP was in the process of finalising terms and conditions of agreement.

The Ministry's reply is not convincing as RSP had already entered into agreement with the State Government for most part of land already acquired and the plant should have entered into an agreement for Mandira Dam as well.

(f) BSL deposited Rs.11.55 crore during the period 1963 to 1992 in the revolving fund of State Government for payment of compensation to landowners. Out of this, the State Government could not utilise Rs.3.68 crore for payment of compensation beyond the ceiling price, which was required to be refunded to the Company. The amount could neither be realised so far nor adjusted with other claims of State Government (September 2001).

6.2.2.2 Utilisation of land

Out of the total 113307.26 acres of land acquired by the four integrated Plants, 36218.60 acres of land could not be utilised for the purposes for which it was acquired. Unutilised area of the land was either leased out to other agencies or transferred to Government agencies or were still lying vacant until date as indicated in the table below: -

(Area in Acres)

Utilisation of land	BSL	RSP	BSP	DSP	TOTAL
Area acquired	31287.24	32217.30	33378.34	16424.38	113307.26
Area transferred to Central, State Government and Semi Government Agency	2246.01	4517.93	4535.21	2818.23	14117.38
Area available for plant	29041.23	27699.37	28843.13	13606.15	99189.88
Area actually utilised for plant (in acres)	19187.94	23699.33	26518.64	7682.75	77088.66
Area leased out	417.66	571.77	713.16	1686.02	3388.61
Area lying vacant	9435.63	3428.37	1611.33	4237.38	18712.61

6.2.2.3 Lease/Sub-lease/Sale of land

As per provisions of the various Land Acquisition Acts of State Governments, sub-lease/sale of land was not permissible without prior approval of the Government. However, the Company had leased out 3388.61 acres of land to State Government, Central Government Department, Public Sector Undertakings, Educational and Cultural Organisation, Co-operative Societies of employees/ex-employees of SAIL and various private bodies for the purpose of construction of office, school, housing complex, shopping complex, residential hotels, petrol pumps and cinema houses etc., in violation of norms and legal provisions. The Plant wise position is indicated below:

(Area in acres)

Sub-lease of land	BSL	RSP	BSP	DSP	Total
Area leased out to Government/Semi- Government/ public bodies etc.	84.51	544.36	708.16	1558.53	2895.56
Area leased out to private agencies for commercial purposes.	248.52	7.63	5.00	70.17	331.32
Area leased out to co-operative societies for constructing colonies for ex- employees of SAIL etc.	90.00	19.78	NA	192.32	302.10
Grand Total	423.03	571.77	713.16	1821.02	3528.98

6.2.2.3.1 Bokaro Steel Plant (BSL)

(i) As per provisions contained in Land Acquisition (Companies) Rules, 1963 and model form of agreement for acquisition of State land incorporated in Bihar Government Estate (Khas Mahal) Manual, 1953, the grantee shall not use the land for any purposes other than those for which the land was acquired. In event of non-execution of deed of conveyance, the industry concerned was not authorised to deviate from the purpose for which the land was granted except with the previous sanction of the Government.

However, it was observed that BSL sub-leased 423.03 acres Government land to various agencies for purposes other than the stated objectives of the plant without the State Government's approval although no legal ownership vested with the Company. Of this, 248.52 acres were sub-leased to private agencies for various purposes including commercial use viz. marketing complex, residential hotels, petrol pumps, cinema houses etc.

The Ministry stated (January 2001) that the land was leased out for providing civic amenities and development of infrastructure facilities in the township. The fact remains that legal provision regarding utilisation of Government land was violated and no

previous sanction of the Government was obtained. The Government had also objected to such sub-leasing of land from time to time.

(ii) 90 acres of land was allotted to the Bokaro Steel Employees' Co-operative House Construction Society Limited on lease basis in September 1968 for construction of houses for serving and retired employees without approval of the State Government. It was found that in addition to this, the Secretary of the Society occupied 13 acres of land, which were distributed among the members in May 1992 for Rs.59.61 lakh. The amount has not deposited with BSL. No action was taken by the Company to evict the unauthorised persons.

The Ministry confirmed that society had encroached land for distribution among members.

(iii) A piece of land measuring 21600 Sq. ft. was leased out in May 1967 in favour of two private individuals namely Shri Damadar Sahay and Shri M.M.P. Verma jointly. The Company fixed a monthly licence fee of Rs.500 each renewable twice in a year for construction of a temporary Cinema Hall without the approval of State Government. Subsequently, the party was allotted another piece of land measuring 61200 sq. ft in April 1976 for constructing a permanent cinema hall on 30 years' lease again without the approval of the State Government. BSL also asked the party to convert the temporary cinema hall into a permanent one. As the party did not show any interest in this regard the lease agreement was terminated with effect from 5 October 1980. Management obtained eviction order from the Estate Court. However, the party obtained stay order from the Higher Court. The party had not vacated the land so far (March 2001)

(iv) Non-revision of charges for allotment of land at BSL: In 1979, the Company approved guidelines for allotment of land to private parties/government departments/PSUs/educational, religious, cultural organisations. As per guidelines, on allotment of land, cost of land (Rs.4500 per acre), land development charges (Rs. 1 lakh per acre), land premium (Rs.25, 000 per acre to Rs. 2 lakh per acre), and annual ground rent (1 per cent to 10 per cent of land premium) were payable. Plots of BSL lands ranging between 0.25 acre and 10 acres were allotted to various organisations.

It was found that the rates were not revised for 18 years until July 1997. In July 1997, the SAIL Board revised the rates of cost of land and land development charges by 900 per cent. A new rate of premium for land and infrastructure was introduced in case of private parties/government departments stipulating minimum premium as Rs. 1 lakh per acre for land and Rs. 24 lakh per acre for infrastructure. Annual ground rent was revised and fixed at a flat rate of 2 per cent of premium. A further revision in rates of premium was made in September 2000.

6.2.2.3.2 Rourkela Steel Plant

The Plant collected Rs. 2 crore from lessees viz. central and quasi- government departments, commercial establishments, cinema halls and educational institutions as premium. As per lease agreement, 50 per cent of the premium collected i.e. Rs.99.99 lakh was to be deposited with State Government. However, an amount of Rs.85.75 lakh only was deposited leaving a balance of Rs.14.24 lakh (31 March 2001).

The Ministry stated (January 2001) that some parties had asked for refund of premium before execution of sub-lease agreement. As such, advance payment of Government share of premium may create complications.

6.2.2.3.3 Bhilai Steel Plant

(i) Bhilai Steel Plant transferred (on freehold basis) 4132.98 acres of land between 15 February 1961 and 23 September 1991 to 30 different government/semi-government departments/organisations and autonomous bodies. It was observed that the rates at which the land was transferred by BSP were much lower compared to the Minimum Upset Price (MUP), i.e. the minimum rates which the MP Government would have charged for the cost of land fixed from time to time as per Para 23 of Part-4 of Section-1 of MP Revenue Book Circular. Of this, 1920 acres were transferred in October 1977 and 290.26 acres in October 1989 to Special Area Development Authority (SADA), Bhilai, an autonomous body constituted by the Government of Madhya Pradesh at the rate of Rs.561 and at the rate of Rs.744 per acre respectively against the minimum upset prices of Rs.40,075 and Rs.2,17,748 per acre prevailing on the said dates of transfer. The under-valuation of property with reference to the minimum upset price of MP Government worked out to Rs.13.89 crore. The price was also much lower than the BSP's own rate of one lakh per acre (prior to 1979) and two lakh per acre since 1979. Thus the plant incurred a loss of Rs.24.88 crore due to under-valuation of land.

The Ministry stated (January 2001) that SADA was treated as an integral part of the MP Government. Hence the system followed for transfer of land to MP Government was followed for transfer of land to SADA. The Ministry's reply is not tenable as SADA was an autonomous body and not a part of the Government.

(ii) In June 1980, SAIL approved construction of 2000 dwelling units at BSP for its employees on lease basis under non-Company housing scheme for which 172.54 acres of land was utilised. The dwelling units were constructed under AMDI Housing Scheme between December 1985 and December 1988 with the assistance of HUDCO. It was observed that the Company did not obtain State Government's permission before taking up the scheme.

It may be mentioned here that the Government of West Bengal had not agreed to a similar proposal sent by DSP. In fact, it had directed DSP (March 1981) to relinquish the required land in favour of the State Government who in turn allotted the land directly to the employees of Government departments. The same procedure was not followed in BSP. Incidentally, the Government of Madhya Pradesh had also refused to give permission to BSP for the second phase of AMDI Housing Scheme and directed it to surrender the excess land holding.

Further, out of the 2000 dwelling units constructed at BSP only 24 units were registered and the Company could not collect ground rent and service charges from December 1988 onwards.

The Ministry stated (January 2001) that no permission of State Government was necessary as the land was given by Central Government to BSP. The Ministry's reply is

not tenable as the lease deed could not be registered in absence of prior permission and plant could not collect the ground rent and service charges.

(iii) BSP allotted 23100 Sq. ft. of land to a private party in 1982 for construction of a permanent cinema hall. Subsequently, another piece of land measuring 8400 Sq. ft. adjoining the above area was also allotted to the party in 1987. Approval of the State Government was not obtained in both the cases. Further, the owner of the hall started screening Video shows and opened a restaurant and Gymnasium in the Cinema hall complex violating the provision of the MP Cinema (Regulation) Rules 1972.

The Ministry stated (January 2001) that prior to allotment of land, NOC was obtained under Urban Land Ceiling Act. Examination of NOC however reveals that NOC was issued for allotment of land on lease without specifying the purpose for which the land was to be used. The restaurant has since ceased to function but the gymnasium is still functioning.

(iv) Shop-owners of BSP Township requested the Company in 1989 to change their status from licensee to lessee. The Company agreed to their request in 1991 and 1992 and accorded lessee status to 550 shop-owners. This process had also passed the legal right of the land on which the shop was constructed to the shop-owners. The grant of leasehold status to the shop-owners was irregular as section 44A of the Land Acquisition Act 1894 did not authorise the plant management to sell, mortgage, gift or lease any part of the acquired land without the permission of the State Government.

The Ministry stated (January 2001) that the land for Bhilai was not acquired under Section 44A of Land Acquisition Act, 1894. Hence no prior permission is required. The contention of the Ministry is not tenable, as the deeds of conveyance could not be executed without the prior permission of the State Government.

6.2.2.3.4 Durgapur Steel Plant

(i) The Plant Management decided in 1972 to create a zonal shopping complex in Zones A and B, where shop-owners would be permitted to construct residential accommodation on the first floor of the shop. Open tenders were invited in 1974 but as there was poor response in respect of B Zone, and the proposal was subsequently dropped. On the basis of offers received, 23 plots were allotted to 16 persons in Zone A. State Government's permission was also not obtained before leasing the land. The plots were leased out to private parties without incorporating a clause prohibiting third-party transfer of the plots. Subsequently Management noticed that a large number of third-party transfers had actually taken place and none of the allottees were carrying out business for the purpose of which the land was allotted.

The Ministry stated (January 2001) that eviction action for third-party transfer could not be effected as there was no clause in the lease deed barring such transfer. Action was being taken to make the scheme purposeful. Thus, due to defective lease deed, unauthorised transfers were made.

(ii) Land measuring 70.17 acres was allotted to various institutions on lease basis without approval of the State Government. Out of this, 10 acres was allotted to a cultural organisation Durgapur Children Academy of Culture in November 1998 at pre-revised

rate even though the allotment rules were revised in July 1997. The Ministry stated that land was allotted at pre-revised rates with the approval of SAIL's Board of Directors.

6.2.2.3.5 Other Irregularities

(a) DSP leased out to various educational institutions without State Government's permission and without charging any premium and only negligible annual rent. Further, the terms and conditions for lease deed with each organisation were not similar. A test check of records revealed that the lease deed signed with Aurobindo Vidyamandir (1996) stipulated that 60 per cent of SAIL wards must be admitted in the school subject to fulfilling normal admission criteria. No such clause was incorporated in the lease agreement with St. Xaviers School signed in 1973 and Carmel Convent in 1976.

Further, in respect of the following educational institutions, no lease deed was registered:

Name of the Institution	Area involved (in acres)	Date of allotment
School of Music	0.75	24.12.75 and 22.2.79
Durgapur Women's College	14.00	4.1.80
Kamalpur Primary School	1.00	11.3.82
Ispat Urdu Academy	1.00	23.3.80
Benachity High School	1.60	4.12.85

The Ministry stated (January 2001) that the terms of lease was in accordance with the approved policy in vogue at the time of allotment and are therefore not similar.

(b) As on 31 March 1999, ground rent of various plots of land amounting to Rs.12.11 lakh was outstanding. Of which, 12.03 lakh pertained to government institutions. Out of Rs. 12.03 lakh, Rs.10.34 lakh remained outstanding for more than 3 years. The main defaulters were Regional Engineering College (Rs. 5.58 lakh), South Bengal State Transport Corporation (Rs. 1.62 lakh) and Mining and Allied Machinery Corporation Limited (Rs.1.15 lakh). The departments disputed the dues and the matter was unresolved. (March 2001)

The periods of lease for different institutions were not uniform and ranged between 30 years and 99 years. No rational basis was on record for determining the lease period. It was seen in audit that out of the 192 nos. of leases executed for allotment of lands, lease period in respect of 5 lessees had already expired, as indicated below:

(Area in acres)

Sl. No	Name of the Party	Area involved (in acres)	Date of Expiry of lease deed
1	P & T Department (Microwave Link)	0.25	25.02.94
2	P & T Department (Microwave Link)	0.08	04-05-94
3	Joint Director of Animal Husbandry.	4.00	01-09-88
4	Director of Veterinary Services Government of West Bengal	0.75	02-04-92
5	United Bank of India (Extension Counter)	0.28	31-03-98

The lease agreements were neither renewed so far nor any action taken to get the land vacated. The Ministry stated that action for renewal of lease agreement has been taken.

(c) DSP transferred 1039.25 acres of land to Alloy Steels Plant (ASP). ASP, in turn, leased out 4.834 acres, 0.29 acres and 2.7 acres to Damodar Valley Corporation (DVC), United Bank of India (UBI) and Indian Oxygen Limited (IOL) respectively. All the lease deeds expired long back. The deeds have neither been renewed nor lessees been evicted by the lessor so far.

6.2.2.4 *Unauthorised occupation of land*

Non-utilisation of vacant land for a long time led to encroachment/unauthorised occupations by various agencies for construction of jhopris, shops, khatalas etc. The plant-wise position is indicated below: -

(Area in acres)

Name of Steel Plant	Total Land as on 31 March 2001	Area of unauthorised occupation (in acres)	Percentage of unauthorised occupation to total land.
BSL	31,287.240	Not furnished	-
RSP	32217.300	207.790	0.64
BSP	33,378.340	94.000	0.28
DSP	16,424.380	1165.000	7.09
TOTAL	113307.260	1466.079	

It would be observed from the above that the DSP was having the highest percentage of unauthorised occupation, where 1165 acres of land had been unauthorisedly occupied by various agencies as per the latest survey of land. However, BSL conducted no such survey to find out the quantum of land held under unauthorised occupation although the plant management admitted that encroachers had occupied some portion of land.

The value of the land unauthorisedly occupied by the various agencies in the three plants of SAIL excluding BSL worked out to Rs.387.04 crore as per the Company's own valuation rate.

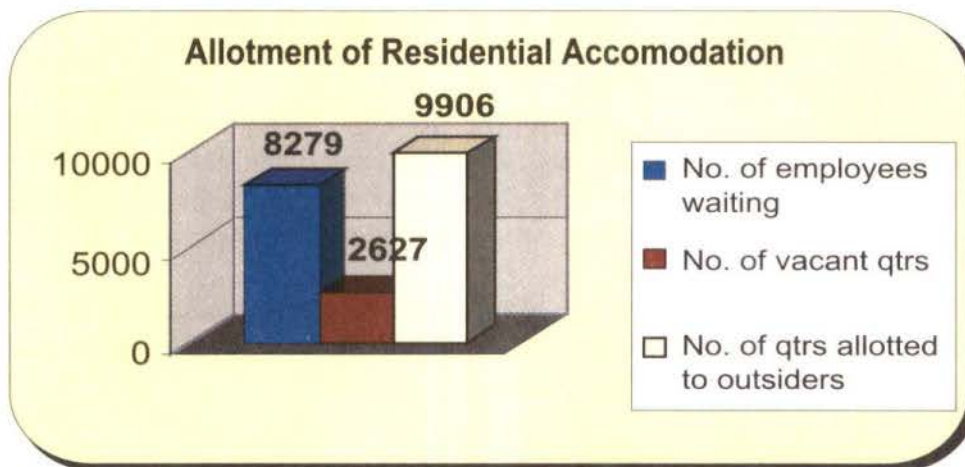
The Ministry stated (January 2001) that efforts were being made to curb/control the encroachment with the help of law and order authorities. However, it was seen in audit

that there has been no improvement in the situation and a large area continues to be under unauthorised occupation.

6.2.3 Residential Accommodation

6.2.3.1 Total number of residential quarters available, quarters allotted, quarters lying vacant and the number of employees in the waiting list as on 31 March 2001 is indicated below:

	BSL	RSP	BSP	DSP	TOTAL
Quarters available	37350	25553	36111	19141	118155
Quarters Allotted	36879	24530	36041	18078	115528
Quarters Vacant	471	1023	70	1063	2,627
No. of employees in waiting list	6800	—	232	1247	8279



The Ministry stated (January 2001) that quarters of the area, which is in low demand remains vacant for longer period. In fact quarters are now surplus to the requirement, as such Company had initiated action to lease out the quarters to employees / outsiders. The reply of the Ministry does not explain the reasons for having such a large number of employees in the waiting list for allotment of quarters.

6.2.3.2 Allotment to outsiders

The Company had allotted 9906 residences to central and State Government departments, PSUs and others. The plant-wise position is indicated below:

Organisations	BSL	RSP	BSP	DSP	TOTAL
Central/State Government/ PSUs	2802	1747	2922	641	8112
Non-Government Commercial Organisation	8	48	Nil	43	99
Others	196	122	1077	300	1695
No. of quarters allotted to non-SAIL organisations	3006	1917	3999	984	9906
Percentage of allotment to total quarters	8.05	7.50	11.07	5.14	8.38

It may be observed from above that:

- 1372 quarters (13.85 per cent) were allotted to others. Of this, 1021 quarters pertained to BSP, which were allotted to educational institutions (201), co-operatives/ employees' co-operatives (673) and miscellaneous organisation (147).
- 74 residential quarters of DSP have been allotted to Police personnel. A sum of Rs.13.24 lakh was outstanding against police personnel /Superintendent of Police, Burdwan as on 31 October 1999 towards licence fee, electricity charges etc.

The aforesaid analysis shows that there is variation from plant to plant on allotment of quarters to different outside organisation. The Company had not fixed any norms for allotment of quarters to outsiders and there appears to be no uniform policy in all plants. The Ministry stated (January 2001) that allotment of quarters to outside organisations depended on local circumstances and no uniform policy could be followed.

The reply of the Ministry is not tenable as a multi-unit Company like SAIL should have corporate guidelines for allotment of quarters to outside agencies depending on the nature and activities of the allottees and their relation with the steel plant.

6.2.3.3 Unauthorised Occupation

The plant wise details of unauthorised occupation as on 31 March 2001 were as under: -

Unauthorised occupation by		BSL	RSP	BSP	DSP	TOTAL
1.	Employees	704	246	Nil	43	993
2.	Others	107	19	71	2	199
TOTAL		811	265	71	45	1192

Out of the total 1192 quarters unauthorisedly occupied, 811 quarters (68 per cent) pertains to BSL. Total no. of 993 quarters are occupied unauthorisedly by their employees and 199 by others.

The Ministry stated (January 2001) that the matter of unauthorised occupation was handled through Estate Officers (Court) and eviction of unauthorised occupation was

carried out regularly. The fact remains that even after the effort of Management, unauthorised occupation is still very high.

6.2.3.4 Sub-letting

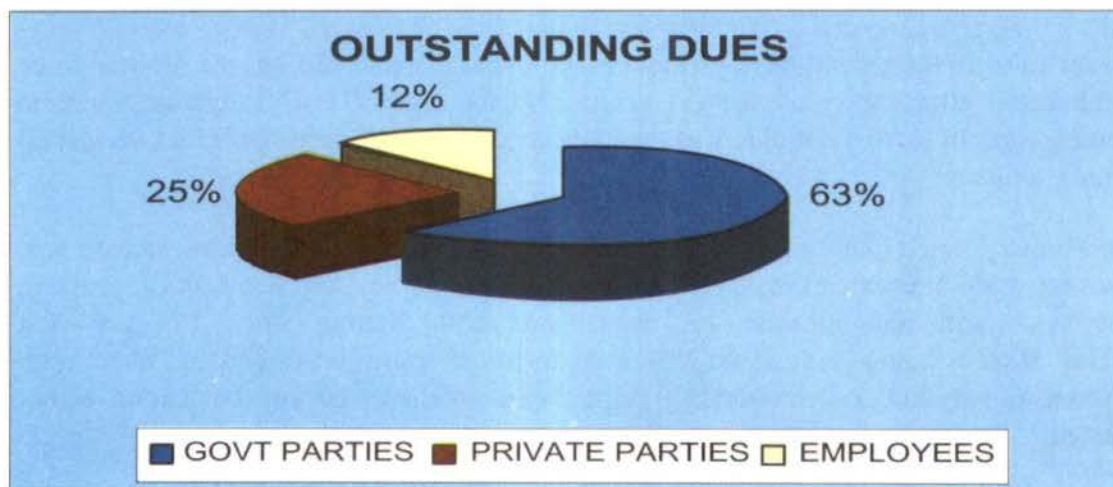
The DSP management had identified 695 cases of subletting of quarters during the period from 1994 to 1998. Similarly 704 cases were identified in BSP, 155 cases in RSP and 95 cases in BSL.

6.2.3.5 Outstanding Dues

(a) In each plant, there exists Accounts and Revenue Section, which are entrusted with the work of raising bills towards licence fee, water tax, electricity charges and service charges etc. The bills are raised in the first week of the months subsequent to the month to which the bills relate. The total outstanding dues as on 31 March 2001 was Rs.35.99 crore as detailed below:

(Rs. in crore)

	BSL	RSP	BSP	DSP	TOTAL
Government Parties	12.28	1.61	3.96	4.83	22.68
Private Parties	4.88	0.28	2.91	0.98	9.05
Employees	2.00	1.46	0.39	0.41	4.26
Total	19.16	3.35	7.26	6.22	35.99



It would be observed from above that: -

- Government parties are the main defaulters (63 per cent). Out of total outstanding dues of all four plants, Rs.12.28 crore (53 per cent) pertained to BSL only.

- Outstanding from Private parties in BSL and BSP was 53.89 per cent and Rs.32.17 per cent respectively.
- 11.83 per cent of the dues were pending from the employees.

The Ministry stated (January 2001) that measures like recovery from bills of private parties, disconnection of service connections, etc are taken for recovery of dues. The amount of outstanding dues has however not reduced but has been increasing.

(a) In BSP, an amount of Rs. 1.05 crore was recoverable from South-Eastern Railways on account of water-charges since 1991-92. The amount was recovered after being pointed out by audit.

6.2.3.6 Recovery of Licence Fee

6.2.3.6.1 Non revision of standard licence fee

Standard licence fee of different types of quarters in respect of RSP, BSP and DSP were fixed by the erstwhile Hindustan Steel Limited (HSL) long back. The standard licence fee for quarters constructed after formation of SAIL was fixed by the respective plant on completion of construction.

It was observed that though the salary revision for executives and non-executives has been taking place regularly every five years, BSL and BSP did not revise the standard licence fee during last twenty years. In RSP the standard licence fee for employees (executives/non-executives) has not been revised in last 28 years since 1973, though in case of non-employees' licence fee was revised in 1996. In DSP the licence fee for new built houses and for executives was revised in 1993 and 1999 respectively but for other employees/non-employees, no such revision taken place so far.

Similar rules in the Government of India provide that the standard licence fee was to be re-calculated after expiry of every 3 years from the date of last calculation, such an exercise was not carried out in any of the Plant (except in the case of DSP for executives) by the Company.

The Ministry stated (January 2001) that due to objections from trade unions, license fees have not been revised. Standard licence fee should be revised every three years in accordance with the increase in maintenance cost. Further since 100 per cent neutralisation is being given to employees to meet the rise in cost of living, there is no reason as to why full cost recoveries in respect of maintenance cost of the quarters be not effected.

6.2.3.6.2 Loss due to non-billing

The Accounts and Revenue Department of each plant is entrusted with the work of presenting the bills for license fee, water charges, electricity charges and other charges on regular basis.

The following points were noticed:

- As per the rules an employee who has resigned/retired/discharged/terminated/transferred was not allowed to retain the quarters for a period exceeding two months from the date of superannuation or otherwise except with the permission of Management. Violation of this procedure attracts penal rent and the occupants are treated as holding the quarter unauthorisedly.
- There were 44 cases of unauthorised occupation at BSP as on 31 March 1999 by others i.e. not directly related to the plant and consequently rent and other charges amounting to Rs.1.53 lakh were not recovered.
- The Bills in respect of 15 quarters occupied by retired/superannuated employees of DSP were not raised. The period of such occupation ranged between 6 months and 36 months.
- The Rent and other charges in respect of 141 quarters allotted or retained by widows/dependants of deceased employees of DSP were not billed. The retention period of these quarters ranged between 6 months and 40 months.

The Ministry stated (January 2001) that the rent of retired / superannuated employees and also from the widow/dependent is recovered from the final payment of the concerned employees. As regards 44 cases of unauthorised occupation at BSP by non-employees, the Ministry has not stated anything.

6.2.3.6.3 Recovery awaited

The Enforcement/Eviction Department of Bhilai Steel Plant has set up Estate Court under the Public Premises Act, 1971 to prevent cases of unauthorised occupation of quarters, plots and lands. During 1994 and 1996, the Estate Court settled 52 cases of unauthorised occupation. An amount of Rs. 16.14 lakh was to be recovered as 'dues and damage' in 38 cases for the year 1994 and 1996 as per section 14 of Public Properties Act, 1971, for which a copy of the order was sent by the Estate Court to the Tehsildar, Durg, Madhya Pradesh. Due to lack of proper follow up of the case by the Estate Department, the entire amount in respect of 38 cases is yet to be recovered (March 2001). The Ministry stated (January 2001) that BSP has been following up with the Tahsildar, Durg for recovery of the dues.

6.2.3.6.4 Non-recovery of Water charges amounting to Rs.20.74 crore at BSL

Bokaro Steel Limited (BSL) supplied water at a total cost of Rs. 20.74 crore, to quarters allotted to employees/non-employees during 1997-98 to 2000-2001. Until 31 January 2000, no recovery of water charges from the employees as well as non-BSL agencies was made though other sister plants like DSP had been recovering water charges from non-plant agencies since long.

Bokaro Steel Limited (BSL) started raising the bills for water charges @ from Rs. 12/- to Rs. 35 per month with effect from 1 February 2000 from non BSL agencies to whom quarters were allotted. However, the water charges are not being recovered in respect of 32577 quarter allotted to own employees despite the fact that a large amount is being incurred in purchase, treatment and supply of water.

Had the full cost recovery of supply of potable water for domestic consumption from employees /non-employees been made, the loss during last 4 years could have been reduced by Rs.20.74 crore.

6.2.3.6.5 Disposal of Company's quarters/flats on lease basis

With a view to raise additional resources and to reduce maintenance cost of houses, a scheme to dispose of 25 per cent of Company's houses through leasing/licensing to its employees/ex-employees was introduced by the Company in May 2001. As per terms, the houses would be leased out initially for 33 years extendable for two further tenures of 33 years each on payment of one time premium. In addition, annual lease rent, service charges etc. would also be payable during the pendency of the lease. The average cost of one dwelling unit was assessed to be Rs.1.88 lakh by HDFC. The Company planned to raise Rs.500 crore during 2000-2001.

The scheme was launched on 1 June 2001 in Bhilai, Bokaro and Durgapur townships. However, the Company received only 939 applications from interested parties during the implementation period of the scheme. To get positive response, the scheme was further extended with some modifications.

Despite these changes, the Company could allot 707 quarters and mobilise Rs15.88 crore only upto September 2001.

6.2.4 Shopping Complex

All the steel plants of the Company had constructed shopping complexes for the benefit of the employees. Total number of shops in various plants as on 31 March 2001 was as under:

	BSL*	RSP	BSP*	DSP	TOTAL
No. of shops allotted by SAIL	490	2223	367	1571	4651
No. of shops constructed by shop owners on allotted/ leased land.	521	Nil	2613	18	3152

* As on 31 March 1999

Following irregularities were noticed in the administration of the Shopping Complex:

(i) Non-revision of licence fee

RSP and BSP did not revise the licence fee of shops regularly and the last revision was made in 1996 and 1997 respectively. BSL has revised the same in January 2000 after initial fixation of rent in 1982 and DSP has revised only once in 1994. Thus, the license fee was neither revised regularly by the steel plants nor they adopted any uniform policy.

(ii) Non-payment of licence fee

(a) The licence fee of 640 shops belonging to DSP was fixed at the rate of Rs.0.18 per sq. ft. in early sixties and was enhanced to Rs.2.50 per sq. ft. from August 1994. However, no shop owner paid the enhanced rate of licence fee, and the amount not

recovered worked out to Rs.113.28 lakh. The Ministry stated (January 2001) that on request from the shop owners the revised rates had been reduced and as such outstanding dues had also reduced. Although dues had reduced due to reduction in rate, the same had also not been realised.

(b) 71 shop-owners in BSL had not been paying the rent and other charges since 1995 and amount outstanding against them was Rs.71.50 lakh as on 31 March 1999. The Ministry stated (January 2001) that after March 1999 Rs.9.5 lakh has been realised.

(c) RSP management have failed to bill 87 shops and attached flats for licence fee for a period ranging from 3 to 304 months. This has resulted in less revenue to the extent of Rs.13.93 lakh.

The Ministry had not accepted the audit comment and stated (January 2001) that bills were raised periodically and licence fees realised.

(iii) Non-allotment of shops

The Notified Area Council, (Steel Township) NAC (ST) came into existence with effect from 17 June 1963, which also took up development work in RSP township. Consequent on the declaration of RSP as an Industrial township from 15 April 1995, the NAC (ST) became defunct. In an agreement reached in October 1996 between SAIL and NAC (ST), RSP agreed to pay Rs.5.75 crore for the assets of the Council which existed within the steel township. The assets consisted of immovable assets (512 shops, including plots for shop), on-going works and public utilities. Although RSP made full payment as per agreement in August 1997 it (RSP) got possession of only 209 shops until November 1999. This resulted in blocking up of capital to the tune of Rs.1.13 crore being the *pro-rata* value of 303 shops not handed over to RSP and resultant loss of interest of Rs.33.99 lakh at the rate of 18 per cent per annum from August 1997 to March 1999. The Company also could not recover license fee and other charges from the shops originally allotted by NAC (ST), which amounted to Rs.6.08 lakh until March 1999.

The Ministry stated (January 2001) that out of 512 shops, 375 shops owners have made payment until 31 January 2000 and that there is no blocking up of capital. The Ministry's reply is not tenable as out of 512 shops, RSP has taken over only 375 shops until January 2001 and possession of the balance 187 shops (pro-rata value Rs.82.77 lakh) have not been taken by RSP, the cost of which is blocked from November 1997 which resulted in loss of interest of Rs.35.87 lakh upto February 2001.

(iv) Unauthorised occupation

(a) Out of 1581 shops, 41 shops were under unauthorised occupation at DSP. The annual loss of revenue in this regard worked out to Rs.7.20 lakh per annum.

The Ministry stated (January 2001) that licences of 41 no. of shops have been cancelled and cases filed with the Estate officer. However, 7 shops have so far been taken over by the plant.

(b) A large number of unauthorised structures and stalls grew up all over the Township of DSP. Keeping in mind the unemployment situation, a self-financing rehabilitation scheme (SFRS) was drawn up with the approval of Managing Director. The schemes *inter alia*, envisaged cost of construction to be borne by the shop owners, which was to be deposited to DSP in advance and adjusted against the monthly licence fee. Under this scheme, 940 nos. of unauthorised temporary shops were converted into permanent shops. Thus through SFRS scheme the unauthorised shops were regularised by Management instead of evicting the unauthorised occupants. The Ministry stated (January 2001) that 940 shops under SFR schemes were built after due assessment of the situation and subsequent survey on this issue was conducted. Hence, there was no question of encouragement for further encroachment of land. The Ministry's contention is not tenable as regularisation of unauthorised occupation certainly encourages further encroachment in anticipation of regularisation.

(v) **Outstanding dues**

Shop rent, electricity and water charges recoverable from shop-owners as on 31 March of the last 8 years were as under: -

(Rs. in lakh)

Amount outstanding as on	BSL	RSP	BSP	DSP
31.03.1994	132.29	28.33	---	4.31
31.03.1995	163.40	27.99	---	17.94
31.03.1996	293.33	33.46	---	44.10
31.03.1997	397.08	49.86	---	69.05
31.03.1998	402.55	50.22	--	98.16
31.03.1999	327.89	90.47	178.72	113.28
31.03.2000	110.75	110.20	N.A	162.65
31.03.2001	134.52	119.05	N.A	197.48

BSP Management expressed their inability to furnish the outstanding dues from the shop-owners upto 31 March 1998 on the ground that their records were not maintained to show the dues of all shops together.

It may be seen from above that there have been steady and steep increase in outstanding dues over the years in RSP and DSP. The Company failed to recover even the electricity and water charges, which are procured on payment from outside agencies. In RSP outstanding dues from shop-owners increased abruptly from Rs.50.22 lakh in 1997-98 to Rs.1.19 crore in 2000-2001. While in DSP these have been three-fold increase in the last five years.

The Ministry stated (January 2001) that serious attempts are being made for realisation of dues. The fact, however, remains that large amounts are still outstanding.

6.2.5 Loss on Maintenance of Township

The year-wise net deficit suffered by the steel plants on running the township during the last seven years ended 2000-01 was as under:

(Rs. in crore)

Steel Plants	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
BSL							
Expenditure	59.24	71.03	64.89	65.31	62.79	132.93	148.69
Receipts	10.27	11.99	11.30	9.96	20.16	29.08	34.02
Deficit	48.97	59.04	53.59	55.35	42.63	103.85	114.67
RSP							
Expenditure.	23.29	23.79	44.68	24.40	56.31	57.10	55.22
Receipts	5.56	5.74	6.39	6.85	10.91	8.95	11.85
Deficit	17.73	18.05	38.29	17.55	45.40	48.15	43.37
BSP							
Expenditure.	67.42	67.27	89.71	97.25	103.25	95.54	110.67
Receipts	8.16	8.85	9.42	10.30	11.95	15.32	16.82
Deficit	59.26	58.42	80.29	86.95	91.30	80.22	93.85
DSP							
Expenditure.	22.47	28.32	27.50	26.03	24.60	19.84	21.83
Receipts	4.45	5.25	7.19	6.61	7.13	7.59	7.97
Deficit	18.02	23.07	20.31	19.42	17.47	12.25	13.86
GRAND TOTAL							
Expenditure.	172.42	190.41	226.78	212.99	246.95	305.41	336.41
Receipts	28.44	31.83	34.30	33.72	50.15	60.94	70.66
Deficit*	143.98	158.85	192.48	179.27	196.80	244.47	265.75

*Average annual deficit comes to Rs. 198 crore

Loss on township has almost doubled in view of large losses incurred by SAIL there is a need for a fresh look at township expenses.

Year-wise maintenance expenditure per quarter incurred by the Steel Plants:

(Rupees)

Steel Plants	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
BSL	15867	19025	17382	17494	16819	35590	39810
RSP	9049	9243	17360	9480	21960	22269	21536
BSP	18670	18629	24843	26391	28592	26457	30647
DSP	11739	14795	14367	13599	12853	10365	11405

It would be observed that there is a wide variation in respect of expenditure per quarter among various steel plants during the period from 1994-95 to 2000-01. It ranges from Rs.11405 in respect of DSP to Rs.39810 in respect of BSL (2000-01). The expenditure at

BSP had all along been very high as compared to other plants except during 1999-00 and 2000-01, when expenditure at BSL was the highest. The expenditure per quarter at BSL had increased abruptly during 1999-00 and 2000-01 as compared to earlier years.

The Ministry stated (January 2001) that expenditure has increased in BSP due to the fact that quarters have become old and as such, more maintenance was required.

The Ministry's contention is not acceptable, as quarters of other steel plants are also old. Moreover, BSL is the latest of all Steel Plants developed, and yet expenditure in this plant had increased abruptly during 1999-00 and 2000-01.

6.2.6 *Estate taxes and duties on township property*

6.2.6.1 *Non recovery of Rs. 34.78 lakh against property Tax of Bhilai Steel Plant*

BSP paid Rs.34.78 lakh for the first time towards property tax for the year 1966-67 to 1968-69 under Section 4 of the Madhya Pradesh Nagariya Sthawar Sampatti Kar Adhiniyam 1964. The payment was made under protest as the Bhilai Township was not specified as urban area under the notification dated 20 January 1967 issued by the Madhya Pradesh Government. The Honourable High Court quashed (1980) the order of levy of property tax for the year 1966-67 to 1968-1969 when BSP management in 1972 filed a petition. As Bhilai Township has not been specified as urban area, no property tax was paid after 1968-69 and the amount of Rs.34.78 lakh could not be adjusted/recovered. The amount was written off in 1997-98 with the approval of Chairman, SAIL.

6.2.6.2 *Non-declaration of DSP township as Industrial Township resulting in expenditure of Rs.86 lakh annually*

DSP falls under the jurisdiction of Durgapur Municipal Corporation (DMC). The annual valuation of DSP holding was assessed at Rs.2.25 crore (approx.) with effect from 1 April 1992 and holding tax was computed at 40 percent of the assessed value i.e. Rs.90 lakh annually. The 74th amendment of the Constitution of India came into force with effect from 1 June 1993 which allowed Industrial Establishment providing municipal services to be exempted from the payment of holding tax if the said area is declared as Industrial Township. The matter was taken up by DSP with the Corporate office and also with the State Government, but the plant did not succeed in get the status of an Industrial Township and accordingly DSP had been paying holding tax at the rate of Rs. 86 lakh annually since April 1992. Incidentally, it may be mentioned here that RSP had already got the status of Industrial Township from the Government of Orissa with effect from 15 April 1995.

The Ministry stated (January 2001) that the matter of declaring DSP Township as an industrial township is being pursued at appropriate level in the State Government. The fact, however, remains that due to delay in declaration of Durgapur township as industrial township, DSP had to pay holding tax every year.

6.2.7 *Other Topics of Interest*

(i) *Undue Favour to Private Societies*

Scrutiny of records of Bokaro Steel Plant revealed that BSL has allotted 46.41 acres of land on lease for 33 years to five private educational/cultural societies for construction of buildings comprising four Degree/ Teachers training/Law colleges, one Engineering college, one-Higher Secondary School and 2 Nursery Schools. The lease was at a nominal rent of Re.1 per acre per annum. Subsequently, BSL sanctioned and paid (1991 to 1994) a sum of Rs.52.80 lakh as long-term loan recoverable in a maximum of twenty instalments to eight organisations.

It was observed that:

- The Company had not invited any applications for grant of land/financial assistance through open advertisements for setting up educational institutions during last two decades since inception of the education policy.
- The Company has considered only those applications, which were submitted *suo moto* by private societies. These societies have defaulted in refunding the loan and the amount outstanding as on February 2001 was Rs. 71.01 lakh including interest/penal interest of Rs. 18.21 lakh.
- By charging interest only 4 per cent per annum (after moratorium of 3 years) against 15 percent paid on Government loan, interest subsidy allowed to the borrowers on aforesaid loan of Rs. 52.80 lakh worked out to Rs. 63.89 lakh on normal repayment basis.
- As per the terms of agreement, the Company was entitled to discontinue lease and take possession of the land/building erected by the borrower in case the borrower defaults in payments of loan instalments together with interest. However, Management has not taken such action against any defaulter so far.

(ii) *Favourable treatment to Chas Bokaro Vikash Samiti*

- Bokaro Steel Plant has given a total loan of Rs.20.00 lakh to Chas Bokaro Vikash Samiti in the year 1994 and 1995. Though more than 5 years have elapsed, the Samiti/Institution had neither paid any interest on the loan nor a single instalment of the principal amount of the loan.
- They neither submitted any annual accounts nor came forward for mortgaging the building etc. as required under rules. In spite of this, the Board of Directors of SAIL approved (September 1998) an allotment of land measuring 17.297 acres at a token annual lease rent of Re. 1/- only, without premium, for a lease period of 33 years to the Bokaro Institute of Technology (BIT), established by the same private society. The land, actually allotted on 13 May 2000, had commercial value (total premium) of the Rs.5.79 crore at the rate of Rs.33.50 lakh per acre.

The Management stated (June 2001) that facilities of land and loan were extended to reputed institutions as per SAIL guidelines to discharge a major non-Company welfare

function. Mortgaging of the buildings as security to loan has been pursued with the institutions and this has also started yielding results. As regards repayment of loans and interest, it was stated that the matter is being pursued and it will be realised in due course. But Management has so far not succeeded in getting the mortgage of the building as security to loan as well as repayment of loan and interest.

(iii) Injudicious capital expenditure of Rs. 57.37 lakh on DSTV

With the twin objectives of (a) internal communication through cable network and (b) external communication i.e. feeding other electronic media, a channel namely the Durgapur Steel Television (DSTV) was set up in DSP township at a capital cost of Rs. 57.37 lakh in November 1989. The expenditure on publication of house journals was also proposed to be reduced with the expansion of DSTV network. The TV network did not get the popularity and there were only 243 subscribers.

The Ministry stated (January 2001) that Cable TV networks had grown substantially and DSTV programmes were available in one of the cable channels. The fact however is that due to its non-viability, the Cable TV network was off loaded to Catvision (a private party) in 1996 and out of subscription fee of Rs.132 per month, the share of DSP is only Rs.9.90 (7.5 per cent).

6.3 Working of Research and Development Centre for Iron and Steel

6.3.1 Introduction

The Estimates Committee of Parliament recommended, in 1950, the setting up of a well-equipped and organised research establishment in the steel plants for commercial and technical research on the operational side. Consequently, a Central Research and Development Organisation was set up by the erstwhile Hindustan Steel Limited (now Steel Authority of India Limited) at Durgapur Steel Plant in 1967. This was shifted to Ranchi in 1972 as a full-fledged Research and Development Centre for Iron and Steel (RDCIS).

The Memorandum of Association of SAIL describes, *inter alia*, the objectives of RDCIS as following:

- To establish, provide, maintain research laboratories and experimental workshop for scientific, technical or research experiments
- To undertake directly or in collaboration with other agencies scientific and technical research, experiments and tests of all kinds
- To process, improve and invent new products and their techniques of manufacture
- To assist, encourage and promote rapid advances in technologies, economies, import substitution.

In the post-liberalisation era, RDCIS has re-oriented its efforts to provide greater thrust to plant performance improvement projects, evolution of technology packages for the

production of new and special steel, process and system modelling. It has also enhanced collaborative efforts with other research institutes, academia etc. in order to sharpen the competitive edge so as to face domestic as well as global competition.

6.3.2 Organizational set up

6.3.2.1 A Director (presently part-time) assisted by two Executive Directors and eight General Managers, heads RDCIS with its headquarters at Ranchi. The organisation with its plant centres in each steel plant of SAIL, works in close inter-action with the steel plants and Central Marketing Organisation of the Company to achieve its objectives.

6.3.2.2 Scope of Audit

The working of RDCIS between 1994-95 to 2000-2001 was reviewed by Audit. The findings were communicated to the Ministry of Steel in January 2001, and their comments received in October 2001.

6.3.3 Investment in Research and Development (R&D)

In a note to a meeting of the Board of Directors held on 19 June 1973, it was envisaged by the Company that investment in R&D would increase to 1 per cent of the gross sales turnover within next 5 years i.e. by 1978-79. However, even after two and half decades of establishment of R&D Centre, the level of investment in R&D activities has remained around 0.25 per cent of the gross sales turnover of the Company. Of this, more than 3/4 of the expenditure was incurred on salaries, maintenance of buildings, administrative support system, etc. As a result, investment on the real R&D activities is barely 1/50 of 1 per cent of gross sales of the Company as against average R&D expenditure of 1 per cent of the turnover by major steel companies across the world.

The Ministry stated (October 2001) that resources had seldom been a constraint to meet plant needs. The reply of the Ministry does not address the point raised in audit.

6.3.4 Project formulation, approval and implementation

RDCIS undertakes new and innovative R&D projects with the objective of reducing cost, energy consumption, rejections and to improve quality, yield, productivity, equipment availability and add value on a continuous basis in the steel plants of SAIL. The selection of R&D projects begin with the process of identification of the problem areas jointly by the research scientists of RDCIS and engineers of the steel plants, followed by the preparation of an outline on each project called 'Project Profile' which is approved by the Plant Management. Only mutually agreed projects are selected for preparing Project Micro Plan Document (PMD) which is subsequently submitted to an in-house expert committee consisting of senior executives known as Approval Committee.

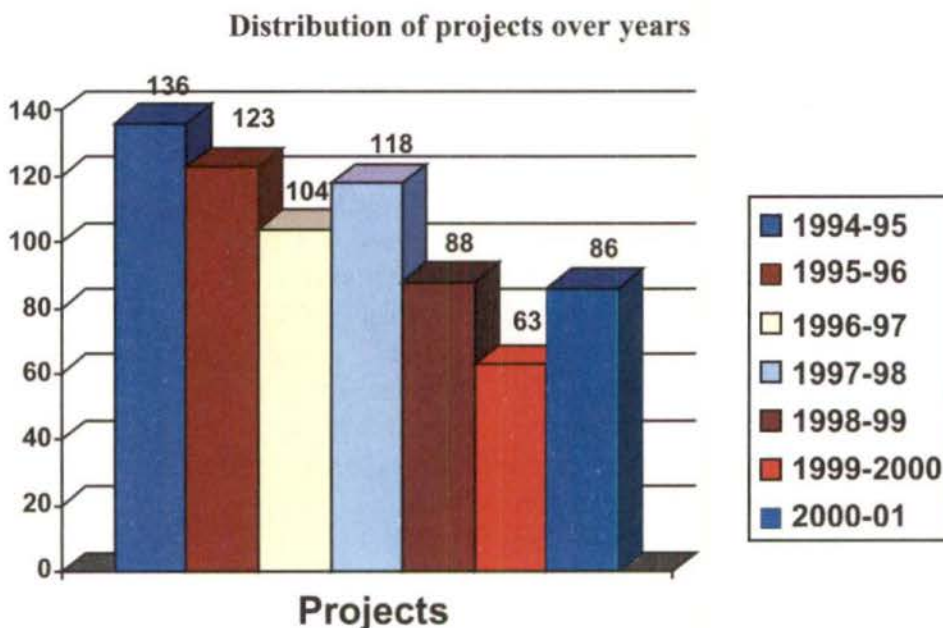
The projects are categorised under the following heads:

- Basic and Scientific Research (BSR)
- Major Technology Development (MTD)
- Equipment and Instrument Development (EID)
- Short Term Assignment (STA)

- Plant Performance Improvement (PPI)
- Investigation and Consultancy Assignment (ICA)

Among the various kinds of projects undertaken by the RDCIS, the PPI and the ICA projects were introduced as the new emerging areas in order to face competition from domestic as well as global players. The project, once approved by the plant management, is undertaken under the leadership of a spokesperson. The progress of projects is monitored through in-house committees consisting of members from the RDCIS as well as steel plants.

The Ministry accepted (October 2001) the facts.



6.3.4.1 *No peer review of projects*

Although the RDCIS formulates the projects in close inter-action with plant managements and executes them under their joint supervision, there was no involvement of outside experts, scientists or technologists etc., from reputed national and international research laboratories or Institutes of Technology either in determining the thrust areas of the R&D activities of the RDCIS or in formulation of the projects.

Further, the performance of the RDCIS was being monitored in the meeting of Board of Directors (BOD) only through the monthly/quarterly reports highlighting the achievement and target fulfilment of the Centre. As users of the benefits, both BOD as well as steel plant managements could certainly appraise the performance of the Centre, but they were hardly equipped to judge the quality of the scientific research undertaken in the Centre. RDCIS had undertaken 12 projects in all in collaboration with other research institutions between 1995-96 to 2000-01, as against 582 projects undertaken during this

period. Thus, the level of inter-action with other institutions of higher learning appeared to be nominal (2 per cent) only.

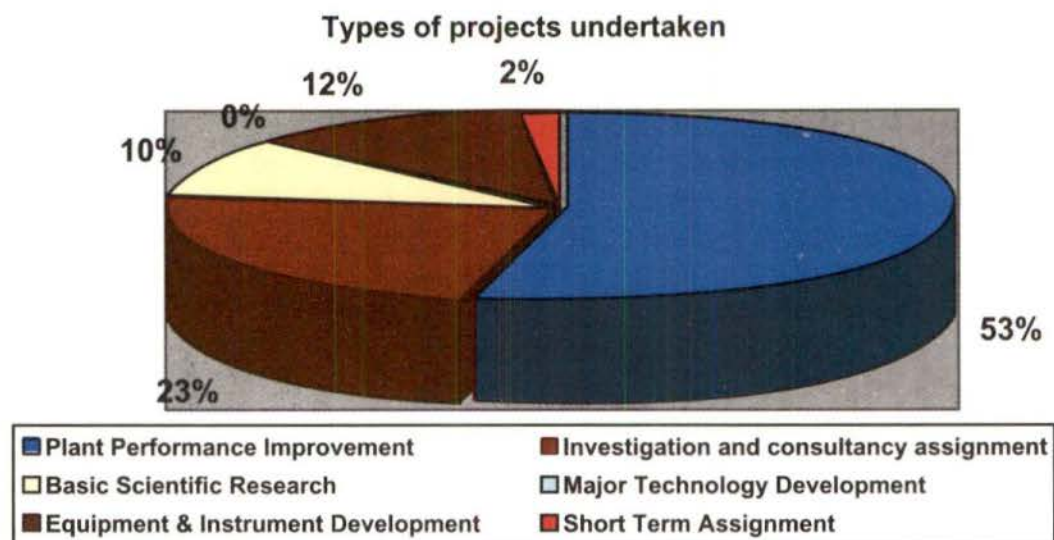
The Ministry stated (October 2001) that projects undertaken by RDCIS were reviewed by the Head of the Department (HODs), Head of Accounts (HOAs) and Directors regularly and team of scientists across divisions quarterly. The Ministry added that the RDCIS had been directed to work out a mechanism for inviting outside experts, institutes. In view of the competition from other foreign/domestic steel companies, SAIL had to look beyond the in-house mechanism for formulation, appraisal and monitoring of the Projects so as to derive rich dividends.

6.3.4.2 Implementation

The following projects have been undertaken during last seven years:

(Figures in numbers)

Year	PPI	ICA	BSR	MTD	EID	STA	Total
1994-95	72	30	31	0	3	0	136
1995-96	65	27	12	0	13	6	123
1996-97	51	22	6	1	24	0	104
1997-98	63	33	5	0	14	3	118
1998-99	47	21	5	0	13	2	88
1999-2000	41	14	2	0	6	0	63
2000-2001	48	19	8	-	10	1	86
Total	387	166	69	1	83	12	718



It is evident from the above that RDCIS had been re-orienting its thrust areas during last few years primarily as a result of the present market scenario from the BSR projects to PPI projects and ICA projects in order to face competition from domestic as well as global players. The Management justified (June 2000) the apparent decline in the number of basic and scientific research projects during last few years by stating that the reduction in number of BSR projects was due to the combination of small projects into larger ones to give a focused impact of its output.

Since the primary goals of a Centralised Industrial Research and Development Organisation were medium and long-term research for in-depth study of process analogy, evaluation of technologies and likely innovations so as to reduce production costs, enhance the value of the products and make the Company competitive internationally by introduction of new technologies and/or process improvement, overall decline in the number of BSR projects indicated that the RDCIS has been ignoring its long term objectives and concentrating only on immediate needs.

6.3.4.3 *Non-Maintenance of Project-wise expenses*

Prior to 1994-95, RDCIS had no system to account for the direct cost and total cost of the project undertaken. However, since 1994-95 the Management had started keeping records of product-wise direct cost. The sanctioned budget of each individual project included the likely amount of expenditure to be incurred on equipment, consumables, travel/tour etc. But audit scrutiny revealed that actual expenditure incurred on travel/tour was not reflected in the final project cost to keep a control over expenditure.

The Ministry stated (October 2001) that expenditure on travel/tour was treated as a part of overhead expenditure which was recovered from projects based on engineering day cost.

6.3.4.4 Consultancy services

RDCIS had also undertaken consultancy projects/jobs for other public and private organisations and generated total revenue of Rs. 3.20 crore (Public-Rs.1.94 crore and Private-Rs.1.26 crore) during the year 1995-2001. However, test check of the records revealed that Company was not maintaining any costing record to ascertain and analyse the job-wise actual loss/gain. It is, thus, not possible to find out as to whether the RDCIS had made any profit out of these consultancy projects.

The Ministry stated (October 2001) that the consultancy assignments required very small proportion of direct cost. The cost of engineer days is a fixed cost and as such there was no possibility of incurring loss in consultancy services. The Ministry's reply is not acceptable, since, had the engineer days not been spent in the consultancy job, it would have been used for a project which would have generated Certified Annual Benefit (CAB).

6.3.5 Project evaluation

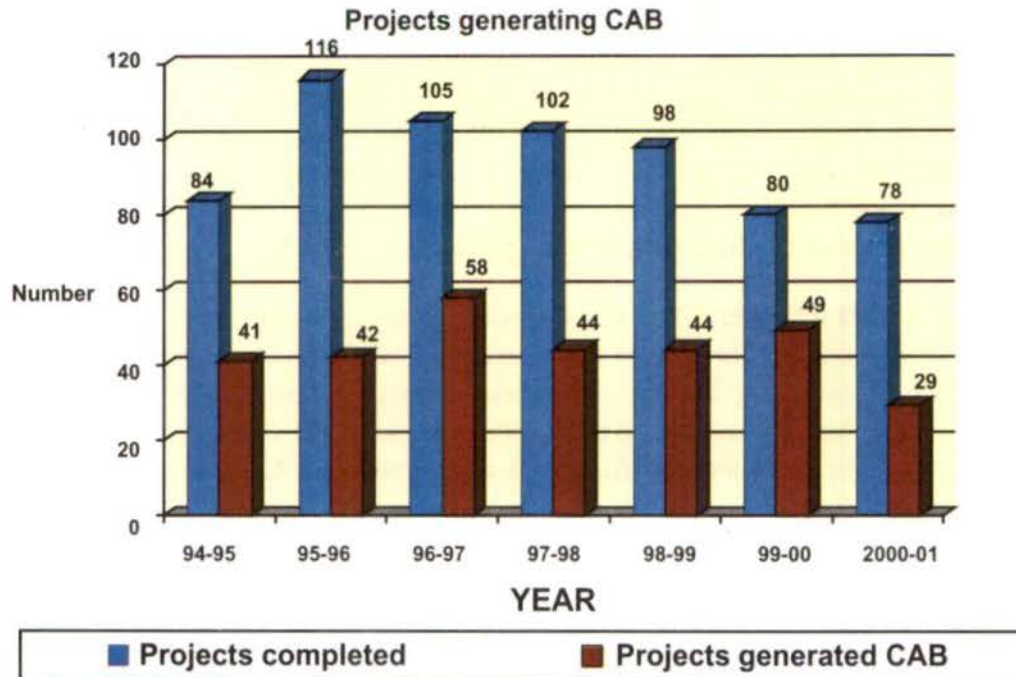
There had been a system of joint financial evaluation of completed projects with the participation of user plants since 1993-94. Under the system, the incremental CAB as well as recurring annual benefit for subsequent two years were ascertained by the standing committee headed by the Head of Works of concerned plant.

The incremental CAB is the additional annual monetary benefit generated on the implementation of R&D projects. This was being done for each completed project for a period of first 12 months of its use. The recurring annual benefit represented the annual monetary benefit assessed for next two years after establishing incremental benefit.

6.3.5.1 Performance

During the period 1994-95 to 2000-01, out of 718 projects taken up, 663 projects were completed. Of this, only 307 i.e. 46.30 per cent could generate monetary benefits.

Further 132 projects which were executed at a direct cost of Rs. 17.43 crore and generated monetary benefits were discontinued mid-way. Of these, 35 projects generated only one time benefit although they were expected to generate annual recurring benefit in the micro plan documents. Thus, it may be construed that the performance of the completed projects was not satisfactory, as it did not meet the expectations of the Management.



Summary of projects

Sl. No	Description	Nos.
1.	Total projects taken up	718
2.	Total projects completed	663
3.	No. of projects generating monetary benefit	307
4.	No of projects completed but not generating benefits	304
5.	No of projects abandoned	24
6.	No. of projects for which completion report not submitted	28

The Ministry stated (October 2001) that RDCIS and steel plants jointly worked to solve a problem faced by shop either in diagnosis of malfunction or development of superior materials or technique. Later on, the plants followed the system of their own. Hence, RDCIS could not evaluate the recurring benefits.

The reply is not tenable in view of the fact that all the projects were selected jointly by RDCIS and steel plants as such the mid-way discontinuation of the project which generated benefits to the plant indicates that there were loopholes in the system which needed to be plugged.

6.3.5.2 Projects Abandoned Mid-way

It was observed that 24 research projects were abandoned mid-way between 1994-95 to 2000-01 without any reason being assigned, although an amount of Rs. 60 lakh had been incurred. This showed that these projects were approved without proper screening and thus indicated poor performance of project approval mechanism. Abandonment/discontinuance could have been avoided by careful selection of the projects based on peer review and close monitoring by eminent scientists from reputed national research laboratories, IITs etc. as the reasons attributed by the Management for non-utilisation of projects were of such nature which could have been foreseen.

The Ministry stated (October 2001) that these projects were stage-closed due to market constraints such as order position, discouraging results in initial trial and availability of better alternative. However, RDCIS had been directed to work out a mechanism for inviting outside experts, institutes.

The reasons for stage-closing as stated by the Ministry indicated lack of foresight of the Company in taking up the projects or failure in proper guidance of the research work.

6.3.5.3 Non-submission of Completion Report

48 projects were completed between 1995-96 to 1998-99 after incurring expenditure of Rs.4.49 crore but could not be evaluated due to non-submission of completion reports by the Group leaders. However, evaluation reports in respect of 27 projects were submitted. The reasons attributed for non-submission of evaluation reports in respect of remaining 21 projects were due to either part fulfillment of the stated objectives or their desire to extend the scope of work. Further, 7 projects lying unevaluated after completion between 1999-2000 to 2000-01 were due to non-submission of completion report.

Thus the fact, however, remains that due to non-submission of reports and non-implementation of these projects on time, the usefulness of direct expenditure of Rs. 4.49 crore incurred on these projects could not be determined.

The Ministry accepted the facts and stated (October 2001) that SAIL had been directed to expedite the completion reports.

6.3.5.4 Projects not in use

Even though projects were successfully completed, a number of them were not utilised in the steel plants and as such monitoring the implementation for the subsequent three years was discontinued by RDCIS. It was noticed that from 1994-95 to 1999-2000, in respect of 95 projects, although incremental benefit of more than one crore of rupee was established by RDCIS, 18 projects (Annexure XVII) were found to have been discontinued, after its successful completion had been certified by RDCIS at the implementation stage. The reasons attributed for the same were either low utilisation period, process not being stabilised, non-improvement in performance indices or availability of one-time benefit. Perusal of Annexure XVII indicates that these projects were not utilised mostly because they were actually taken up without being related to actual needs and due to non co-operation by the plant authorities. Reasons assigned for its

non-utilisation itself speak of the failure of the Management to achieve objectives. As a result, the very purpose of creating a separate RDCIS was defeated, as even for good projects, the benefits could not be obtained for a longer period.

The Ministry stated (October 2001) that benefit calculation based on budgeted financial figures give a better indication of the usefulness of the project, than when the calculation was based on the actual cost/financial figures. The reply of the Ministry was not specific relating to the projects discontinued.

6.3.5.5 Irregularities in Certified Annual Benefits (CAB)

The table below indicates the number of projects completed, number of projects generating incremental CAB, monetary value of incremental CAB and recurring annual benefit for the years 1994-95 to 2000-01.

(Rs. in crore)

Year	No. of projects completed	No. of projects which generated Incremental CAB	Monetary value of Incremental CAB certified	Monetary value of recurring benefit	Total benefit certified	Expenditure incurred (Revenue + Capital)
1994-95	84	41	44.55	21.30	65.85	43.49
1995-96	116	42	61.22	96.70	157.92	48.51
1996-97	105	58	71.19	115.88	187.07	53.86
1997-98	102	44	62.30	110.95	173.25	36.62
1998-99	98	44	57.56	88.92	146.48	46.05
1999-00	80	49	63.85	123.43	187.28	34.39
2000-01	78	29	58.40	122.02	180.42	46.36
TOTAL	663	307	419.07	679.20	1098.27	309.28

During the course of Audit, 20 cases were examined in detail. The comparative position of the benefits certified by RDCIS management were scrutinised and Audit findings based on scrutiny are given in the table below:

(Rs in lakh)

S. No	Project No.	Direct Cost	Engg. Days Cost	Anticipated Annual benefit	Annual Benefit certified by RDCIS (based on budgeted figure)			Annual actual benefits based on Audit findings. As per Plant records.		
					1 st Yr.	2 nd Yr.	3 rd Yr.	1 st Yr.	2 nd Yr.	3 rd Yr.
	RSP									
1.	50.03.27 @	22.07	NA	Not worked	33.92	92.59	----	----	81.26	Not in use
2.	54.30.60 @	22.05	NA	567.70 ★	164.74	356.66	----	145.02	202.93	Not in use
3.	23.41.34 @	15.42	9.28	200.00 ★	98.31	15.33	74.98	70.40	----	----
4.	86:47:47 @	407.41	27.14	114.62	377.69	321.59	691.09	275.43	213.29	507.21
5.	32:46:32 @	13.72	12.46	99.00	408.57	380.11	345.27	191.96	254.18	----
6.	Achievement of 2 MT hot metal production. @	78.76	NA	3266.00 ★	259.30	--	--	-33.99	----	----

S. No	Project No.	Direct Cost	Engg. Days Cost	Anticipated Annual benefit	Annual Benefit certified by RDCIS (based on budgeted figure)			Annual actual benefits based on Audit findings. As per Plant records.		
	DSP									
7.	13:11:80 @@	4.60	22.40	667.00 ★	526.00	648.36	793.51	While calculating the benefits the Reduction in coke rate due to use of good quality of imported coal was not considered. As such the benefit is hypothetical.		
8.	12:06:46 @@	12.33	31.97	159.47	563.67	850.29	494.33	Wrongly adopted the contribution margin of pig iron instead of decrease in fixed overhead due to increase in production		
9.	55:32:31 @@	12.67	15.47	16.68	16.83	40.79	38.70	Benefits wrongly calculated by taking net sales realisation instead of saving due to reduction in refractory consumption and generation of skull on cost basis.		
10.	54:30:63 @@	40.70	12.46	64.00	353.07	285.39	70.53	Realisable price of pig iron has been considered instead of reduction in cost of hot metal due to increase in lining life of rocking runner.		
11.	RDTP/92-29 @@	18.50	NA	Not worked	270.00	----	----	Benefit is not based on actuals		
	BSL									
12.	17:02:76.@	7.80	8.43	40.00	96.10	186.42	212.96	24.49	62.31	121.32
13.	20:34:66@	7.50	NA	70.00	118.00	292.95	194.27	70.20	(-) 81.57	105.32
14.	34:35:13 @@	1.00	11.20	250.00 ★	87.80	198.18	161.73	Absence of data to assess the actual benefit.		
15.	50:04:74 @@	3.75	15.03	637.50	845.04	934.00	582.27	Absence of standard norms to assess the actual benefit.		
16.	17:02:80@	6.60	6.71	73.53	284.30	330.39	298.58	96.97	34.34	175.94
	ASP									
17.	28:38:82 @@	6.00	NA	100.00 ★	87.70	82.78	19.18	The benefit is based on sales realisation before and after yield improvement as against actual reduction in cost due to increase in production.		
18.	25:21:02 @@	32.00	NA	21.6	209.90	134.48	136.44	Difference in total cost of two period has been considered instead of reduction in consumption of Alumina per tonne production.		
19.	25:23:12 @@	9.00	32.95	67.50 ★	166.50	13.77	3.13	Base period was adopted 1992-93 in stead of 1994-95.		
20.	36:56:26	6.12	12.29	68.82 ★	65.58		5.76	Stage closed	Stage closed	Stage closed
	Total	728	217.8		5033	5164.1	4122.73	840.48	766.74	909.79

Note :- (i) N.A. represent not available with the Management
(ii) (---) represent benefit not obtained

It would transpire from the table that:

- The annual benefit certified by RDCIS in respect of 18 projects except the projects at Sl.No.1 and 11 was Rs. 47.29 crore, Rs.50.71 crore and Rs.41.22 crore during the three years as against anticipated annual benefits of Rs. 64.83 crore. Of these, in 8 cases (marked ★) as against anticipated annual benefit of Rs.51.87 crore the benefit certified by RDCIS was Rs.14.76 crore, Rs.13.15 crore and Rs.10.58 crore during the three years, falling short by Rs. 37 crore. In one project (S.No.6) comprising 18 separate projects, benefit of Rs.32.66 crore was anticipated in the micro plan documents at a direct cost of Rs.79 lakh. Although the Management's records indicated a benefit of Rs.2.59 crore on

the basis of higher contribution of pig iron, examination in audit indicated a loss of Rs.34 lakh. Further, out of 18 individual projects, not a single project was in use at present;

- The actual incremental benefit of 9 projects marked @ as per audit was Rs.8.40 crore, Rs.7.67 crore and Rs.9.10 crore as against the certified benefits of Rs.18.41 crore, Rs.19.76 crore and Rs.18.17 crore respectively. The annual incremental benefit in respect of 10 projects marked @@ though certified by RDCIS as Rs. 31.27 crore, Rs. 31.88 crore and Rs.22.99 crore, the same could not be confirmed as per the plant records. Further, one project had been closed (Sl.No.20) for which RDCIS had wrongly calculated CAB for three years;
- In two projects (Sl.No. 4 and 5) the benefits of Rs 13.90 crore and Rs.11.34 crore for three years were worked out erroneously by taking higher rate of contribution as against actual contributions of Rs.9.96 crore and Rs 4.46 crore only;
- In one project (Sl. No.16), the benefits were worked out in four areas e.g (i) skull reduction, (ii) reduction in coal heats, (iii) heating green ladles and (iv) heating repaired ladles. Examination in audit indicated that the savings in heating green ladles and heating repaired ladles did not crystallise. The benefits assessed in other two areas such as saving due to skull reduction and reduction in coal heats were also found to be on higher side.

The Ministry stated (October 2001) that in the absence of actual data, budgeted data was used for calculation which caused minor variations.

The reply of the Ministry is not tenable as there were substantial variation between the certified benefits and the actual benefits.

- Although the projects (Sl. No. 13 and 19) commenced during 1995-96, the Management worked out benefits on the basis of data relating to the years 1993-94 and 1992-93 respectively.

The Management stated (June 2000) that the base period was chosen jointly by shop head and the project team. The Ministry offered no further comment on this.

6.3.5.6 Projects stage-closed

(i) Naphthalene is second largest by-product of coal. The yield of hot pressed naphthalene at Bhilai Steel Plant varied from 3.0 to 3.5 per cent of Crude Tar where as naphthalene content in crude Tar is 6.5 per cent to 7 per cent. A project (51:03:35) was taken up in July 1995 with the scheduled completion month of July 1996 at an estimated direct cost of Rs. 23.00 lakh. The object was to improve the yield of naphthalene from 3 per cent to 4 per cent The project was stage closed in January 1996 after incurring direct expenditure of Rs.32.85 lakh without assigning any reasons.

The Ministry stated (October 2001) that the capital expenditure incurred towards this project was transferred to another project in this area. The reply of the Ministry that the capital expenditure had been transferred to another project in this area indicates that the existing project was taken up without examining all the pros and cons.

(ii) A project on stabilisation of combined blowing technology (project No.24-19-22) at Bokaro Steel Plant was taken up in April 1993 without obtaining statutory permission of the Explosives Department. The first completion date of the project (June 1994) was rescheduled to March 1996. However, due to non-availability of Argon reservoir and non-obtaining of statutory permission from Explosives Department at Nagpur, the project was stage closed after incurring an expenditure of Rs.11.13 lakh. The Ministry confirmed (October 2001) the facts of the case.

6.3.5.7 *Infructuous expenditure*

A project (51:03:36) on production of impregnating pitch was taken up in October 1995 at an estimated direct cost of Rs.45.00 lakh with an anticipated annual benefit of Rs.1.44 crore in micro plan document to be completed within 12 months. The project although completed on scheduled date at a total direct expenditure of Rs.40.98 lakh could not provide any commercial benefit to the user plant. Thus entire expenditure proved infructuous.

The Ministry stated (October 2001) that the production of impregnating pitch was deferred due to changed market conditions.

The fact, however, remains that the project is still not in use (October 2001).

6.3.5.8 *Patents and Copyrights*

All research works which result in the development of a new process of production can be patented if the conditions necessary for grant of patent are satisfied. The main criteria of a patentable invention is that it should be novel. The primary objective of filing patent is to seek protection of the intellectual property. The details of patents and copyrights filed and sealed during 1994-2001 are as under:

Particulars	94-95	95-96	96-97	97-98	98-99	99-00	00-01
No. of patents filed	34	37	41	42	45	30	30
No. of patents sealed	--	--	14	4	2	4	4
No. of copyrights filed	--	11	12	16	15	15	15
No. of copyrights obtained	--	--	--	4	--	16	--

The number of patents sealed is a measure of the efficacy of R&D efforts. RDCIS have so far acquired 41 patent rights since its inception, which also included 28 patents sealed during 1994-2001. Of these, 23 patents sealed pertained to research activities conducted prior to 1992-93. RDCIS has, however, so far commercialised only six patents, generating an income of Rs.79.62 lakh upto November 2000.

It would be interesting to note that other reputed research and development institutions have been able to generate 20 per cent of their fund requirements by means of royalty on patents.

The Ministry stated (October 2001) that in addition to income generated from six sealed patents, an amount of Rs 27.04 lakh was also generated out of 8 patents not yet sealed. It added that that efforts were being made for generation of revenue from external sources through R&D consultancy, specialised testing services, know-how transfer of developed technologies whether patented or not.

Even if it is accepted that RDCIS had been making efforts to generate revenue even from technologies not patented, the primary objective of seeking protection of its intellectual property in a highly competitive market remained unfulfilled.

6.3.5.9 Publication of Research papers

Details of papers published and scientists engaged during 1994-2001 are as follow:

Year	94-95	95-96	96-97	97-98	98-99	99-00	00-01	Total
Research papers published in journals	37	60	59	36	43	30	39	304
Research papers presented	67	90	129	115	93	103	80	677
No. of scientists engaged	286	296	298	309	293	278	272	2032

The average output of scientific publications worked out to 0.15 papers per scientist per annum during the last 7 years.

Of 663 in-house projects completed during 1994-2001 (refer table under para 6.3.5.5), scientific publications were brought out from only 304 projects. Thus, number of scientific publications reflect on the quality of work undertaken by RDCIS.

6.3.5.10 Financial Evaluation

It was observed that the role of Finance Department of RDCIS or SAIL in certifying/ascertaining the incremental CAB/recurring CAB is minimal. Further, there is no direct linkage between the results exhibited by RDCIS with the figures appearing in the summarised working results of SAIL. The analysis of such working results did not indicate the monetary benefit either in terms of reduction in cost or increase in revenue consequent on implementation of R&D projects in plants.

The Ministry stated (October 2001) that the benefits generated by RDCIS innovations were actually generated on shop floor and were included in the financial results of individual plants.

It is, however, felt that the ultimate effect on profitability arising out of use of projects/innovations should be analysed separately and highlighted.

6.3.6 *procurement*

6.3.6.1 The 'Open Tender' system i.e. invitation to tender by public advertisement should be used as a general rule with certain exceptions in order to get competitive prices for making purchases.

- During 1996-97 to 2000-2001, not a single item was procured on Open Tender basis;
- Major purchases were done on single tender basis (ranged between 33.04 per cent to 54.50 per cent) which was against the basic principle of financial propriety;
- Regarding limited tender enquiry, the said procedure provides that the party shall be selected out of the registered suppliers/traders etc. maintained by the Material Management Department of the RDCIS. The registration of manufacturers is required to be done after proper appraisal of their capabilities through inspection of the manufacturing facilities etc., wherever necessary. It further stipulates that the validity of such registration should be three years for traders and five years for manufacturer. Before expiry of this period, the traders/manufacturers should be asked to get their registration re-validated.

The following table indicates the number of purchase orders issued by RDCIS during last five years:

Year	No. of orders	Single tender		Limited Tender		Open Tender
		No.	Per cent	L1 basis	L2 basis	
1996-97	1033	563	54.50	413	5	-
1997-98	919	447	48.64	423	6	-
1998-99	764	331	43.32	386	5	-
1999-00	698	288	41.26	383	2	-
2000-01	690	228	33.04	437	1	-

The Ministry stated (October 2001) that the items procured by RDCIS were unique in nature and not off-the-shelf items and were generally procured for the first time. That is why open tendering was not resorted to all the time, and RDCIS made most of the purchases by limited tender enquiry. The reply of the Ministry is contrary to the basic canons of financial propriety. In cases of items of unique nature for which supplier was not known and purchase was being done for the first time, open tender was the only rational way of purchasing.

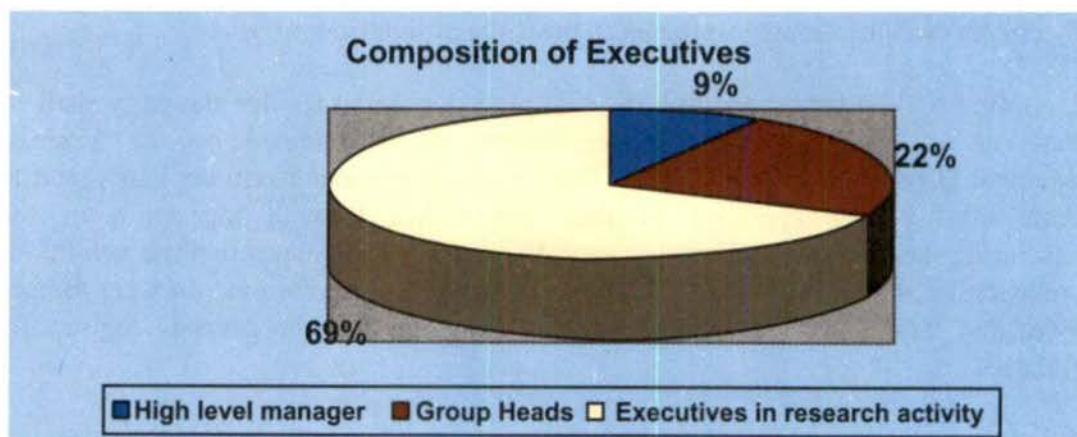
6.3.6.2 *Delay in inspection*

There were delays ranging between two months to three months in conducting final inspection after receipt of goods in the stores. One printer model imported from Mitsui and Co., Japan at a cost of Rs. 52 lakh on 27 June 1997 was inspected on 31 March 1998 i.e. after a delay of nine months. During inspection it was found that the equipment was partially damaged. The Company lodged a claim of Rs.1.22 lakh on the supplier as well as on Insurance company. The claim was, however, not entertained by the Insurance

company due to abnormal delay in submission of the claim. The Ministry stated (October 2001) that they requested the supplier for free replacement. However, the same is yet to be replaced. This indicated that the chance of replacement of a costly equipment was remote due to negligence of RDCIS in inspecting the received equipment in time.

6.3.7 Human resources

6.3.7.1 Organisation structure



RDCIS has 32 executives (9 per cent) above the level of Deputy General Manager which are predominantly administrative positions. There are 75 executives (22 per cent) in group head positions above the level of Assistant General Manager who carry out a mix of research and administrative functions. 69 per cent of the total executive strength is involved in research activity, which is the primary function of RDCIS.

(i) Although RDCIS was envisaged to be a flat organisation with a minimum of hierarchy, it has grown into a typical hierarchy based organisation, over the years, with 10 tiers of executives. There is virtually no difference in the organisational structure of RDCIS and other steel plants. Although the Board of Directors of the Company had decided in April 1996 to reduce the levels of executives/hierarchy below Director, no change was discernible even after the passage of five years.

The Ministry stated (October 2001) that the RDCIS had been re-organised as a three-tier structure. The fact remains the existing hierarchy system is similar to other units/plants of SAIL although the Board of Director decision of April 1996 had envisaged otherwise.

(ii) The Board had decided in April 1996 to induct qualified and well motivated scientists not only from the reputed research organisations within the country but also from abroad at middle level. No such recruitment has been made during last five years. As a result thereof, the RDCIS is being managed by engineers who were either recruited directly 15 years back or those from plant units who opted to join the RDCIS. Incidentally, only 1 out of every 5 R&D personnel had a doctorate degree.

The Ministry stated (October 2001) that soon after 1996, the business scenario after globalisation changed completely. The focus of SAIL shifted to restructuring for survival, from the earlier planned path of high growth.

(iii) The Board of Directors decided in April 1996 to induct Management Trainees (Technical) from IITs and Engineers with postgraduate qualification for posting in RDCIS. No recruitment has been made in this direction as yet.

The Ministry stated (October 2001) that the IITs were approached but there was no suitable response.

(iv) The long-term human resources plan envisaged continuous flow/redeployment of executives at senior level to plants/units. No such redeployment has been done during last five years.

The Ministry stated (October 2001) that exchange of manpower had not been at a steady rate due to shifting of focus on survival.

(v) The Board decided to increase executive strength in technical areas as a part of the long term plan. It directed that the same should not result in large increase in the numbers of the executives at RDCIS headquarters and increase in research personnel should be utilised for strengthening the sub-centres at plant locations. However, no perceptible shift had taken place from RDCIS to Plant/Units during last five years.

The Ministry stated (October 2001) that most of the yardsticks on manpower that were formulated earlier had to be evaluated.

(vi) Though the Board approved (April 1996) redeployment of the non-executives to the jobs where contract labour was engaged, no such redeployment had taken place during last five years. Interestingly, the number of contract labourers had gone up from 240 to 265 during the period.

The Ministry stated (October 2001) that strength of non-executives was getting reduced due to promotion/VRS and no fresh recruitment had been made.

Thus, the long term human resource plan approved by the Board of Directors nearly five years back had remained on paper only.

6.3.7.2 Manpower Profile

The manpower resources of the RDCIS both technical and non-technical is given below:

(Figures in Numbers)

Year	Technical			Non-technical			Grand Total
	Executives	Non-Executives	Total	Executives	Non-Executives	Total	
1994-95	355	340	695	124	148	272	967
1995-96	369	335	704	121	149	270	974
1996-97	365	323	688	118	144	262	950
1997-98	357	314	671	131	133	264	935
1998-99	354	215	569	114	226	340	909
1999-00	345	209	554	108	203	311	865
2000-01	344	206	550	105	201	306	856

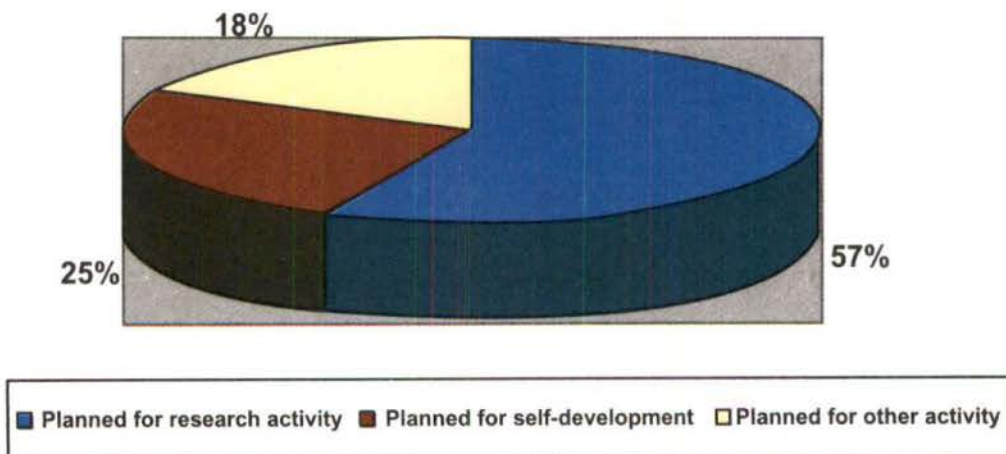
The Board of Directors identified (April 1996) some broad principle for developing long term human resources plan for RDCIS which, *inter alia*, included increase in technical executive strength to 384 by 2005, reduction in executive strength in non-technical areas to 59 by 2005 and reduction in the strength of non-executives (non technical) category to the level of 173 by 2005.

Scrutiny of the records, however, revealed that actual executive manpower in technical areas has been going down and stands at 344 as on 31 March 2001. Further, no recruitment has been made for the last 15 years in RDCIS. The induction during 1980's was only at the junior most level of the executives cadre

The Ministry stated (October 2001) that efforts were being made to arrive at an optimal manpower mix in keeping with the Corporate manpower strategies.

6.3.7.3 Use of Scientific and technical manpower for non-R&D work

Planned Distribution of work by Technical Executive



Years	Actual strength of technical executives	Total Engg. days available (Col.2 x 245 days)	Net Engg. days planned for research work	Engg. days set aside for self development etc	Engg. days planned for other than research activities and self development
1	2	3	4	5	6
1994-95	355	86975	49049	21021	16905
1995-96	369	90405	50764	21756	17885
1996-97	365	89425	51107	21903	16415
1997-98	357	87465	52993	22712	11760
1998-99	354	86730	50249	21536	14945
1999-00	345	84525	47677	20433	16415
2000-01	344	84280	46734	22029	17640

It may be observed from the table that:

- There was no system of identification of the actual deployment of engineering days with reference to planned allocation against each project
- The percentage of net engineering days planned for research work to total available engineering days ranged between 55.45 per cent (2000-01) and 60.58 per cent (1997-98) only during the period
- The utilisation of engineering days for development of professional skills, co-ordination, meeting, administration, organising corporate life is 25 per cent. There are no norms for this and no comparative analysis had been made with the position existing in other Industrial Research and Development Institutions
- It was also found that in spite of passage of nearly three decades, the Management had no fixed norms for deployment of technical manpower for research or up gradation of professional skills, self-development and for work other than research.

The Management stated (June 2000) that month-wise milestone plans for the groups were derived from plant-wise engineering days and monitored accordingly. The system was in use since 1994-95 and had helped a reasonably high level of compliance.

6.3.7.4 High dependence on casual labourers

The Board desired (April 1996) to re-deploy the surplus non-executives to other units of SAIL at Ranchi and in the areas where contract labours were engaged. The decision of the Board has not been implemented as yet. Even after lapse of nearly five years the number of contract labourers was 265 i.e. for every five technical executives there are 4

casual labourers in the RDCIS. The annual average financial burden on deployment of such labour amounted to Rs.87.38 lakh.

The Ministry stated (October 2001) that efforts were continuously on to reduce the contract labour gradually by redeployment. Accordingly, the contract labour strength had been frozen for the last two years.

6.3.7.5 *Undue favour to private contractors*

Although the Management had excessive non-executives, it employed private contractors for routine nature of jobs and paid a sum of Rs.48.31 lakh for maintenance of two sub-stations and operation of Diesel Generating (DG) sets in the Township during the period from 1992-93 to 2000-01. The deployment of private contractors for such work could have been avoided in view of surplus manpower.

The Ministry accepted (October 2001) the facts and stated that efforts were on to re-deploy the existing non-executives to this area.

6.3.7.6 *Payment of overtime allowances despite excess staff*

As per the directions issued in November 1985, engagement of personnel beyond office hours and on holidays was to be managed by granting compensatory days off. However, RDCIS paid Rs.19.15 lakh as overtime to personnels deployed beyond normal office hours/holidays during 1994-95 to 2000-2001 in security, AC plant, water supply, 33 KVA sub-station and pumping set departments.

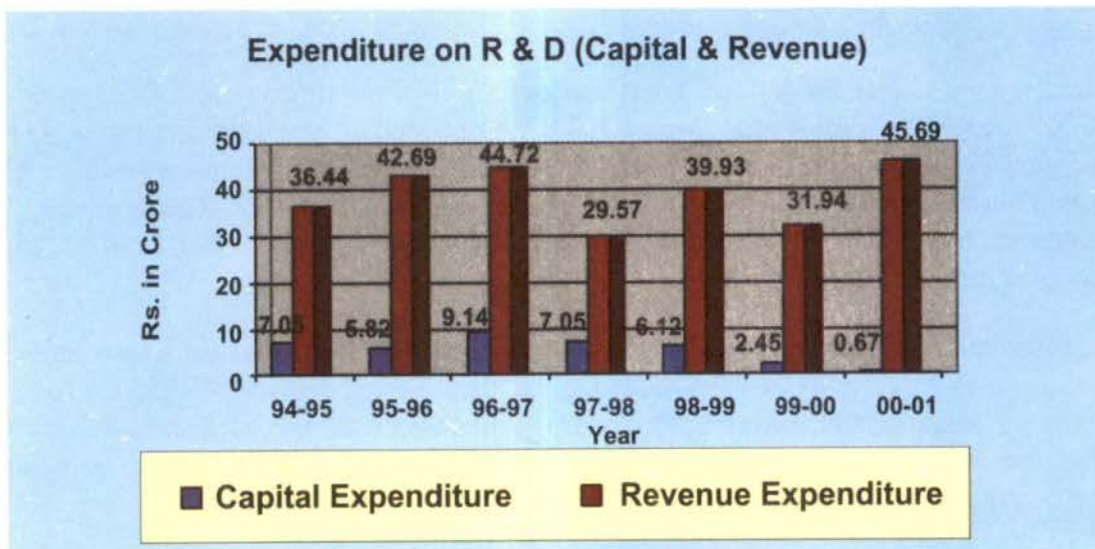
The Ministry stated (October 2001) that attempts were being made to re-deploy surplus staff having appropriate qualifications to alleviate the need for extra wage payments.

6.3.8 *Budget*

Perusal of the budget allocation vis-à-vis actual expenditure (as evident from the following table) towards revenue and capital items during the period under review indicated that the allocation towards capital expenditure as compared to the revenue expenditure was declining rapidly. It ranged between 41.95 per cent (1994-95) and 6.15 per cent (2000-01). Actual expenditure was even less than the amount allocated. The component of the revenue expenditure mainly comprises salaries and allowances of the unit. This further indicated that major portion of the expenditure of the unit was in providing salaries and allowances to supporting manpower. However, allocation of actual resources towards basic research was fast declining.

(Rs. in crore)

Year	Revenue Budget	Capital Budget	Per cent of Capital Budget to Revenue Budget	Actual Expenditure		Per cent of actual expenditure to Budget	
				Revenue	Capital	Revenue	Capital
1994-95	35.76	15.00	41.95	36.44	7.05	101.90	47.00
1995-96	35.96	9.80	27.25	42.69	5.82	118.72	59.39
1996-97	42.39	9.75	23.00	44.72	9.14	105.50	93.75
1997-98	46.14	9.00	19.50	29.57	7.05	64.09	78.34
1998-99	49.51	11.00	22.22	39.93	6.12	80.65	55.64
1999-00	35.19	3.00	8.53	31.94	2.45	90.76	81.67
2000-01	48.77	3.00	6.15	45.69	0.67	93.68	22.33



The Ministry stated (October 2001) that capital budget was on a declining trend as laboratory based infrastructure facilities required for the organisation has been built up over the years to cater to the needs of the organisation. The fact remains that RDCIS incurred more expenditure on salaries and establishment and less on basic researches, which is the business goal of the organisation.

6.3.9 Other topics of interest

6.3.9.1 Non-replacement of defective meter

It was detected during Audit that the meter installed by Bihar State Electricity Board (BSEB) for recording units of power supplied to RDCIS was not working since 17 July 1997. As a result, payment was being made on the average consumption (412400 units) of the corresponding three months of the previous year consumption as per the provision

of the Tariff Act. Scrutiny of the relevant records, however, revealed that for the purpose of working out average consumption, the peak period consumption was selected which resulted in an excess payment of Rs.79.68 lakh upto December 1999. It was also noticed that although BSEB had advised (February 1998) RDCIS to replace the meter at a cost of Rs.0.56 lakh, the unit did not agree and continued to make extra payment. The electric meter was installed in January 2000 by the Electricity Board and charges for electricity was being paid on the basis of meter reading which on an average worked out to 351209 units only.

The Ministry stated (October 2001) that the delay in replacement could not be anticipated when RDCIS refused to make the payments. Since BSEB charged tariff as per rule, there was no overpayment to BSEB and as such there was no question of fixing responsibility. Had the proper action been taken by RDCIS, the excess payment could have been minimised particularly when the Company has been incurring huge losses.

6.3.9.2 *Idle capacity*

Sanction for one DG set of 1000 KVA capacity (in addition to existing 7 DG sets, 3 of 425 KVA each to supply a peak load of 750 KVA obtained in June 1995 apart from 4 DG sets lying in stores). RDCIS awarded the contract to Genset (I) Pvt. Limited in July 1995 on turnkey basis at a total contract price of Rs.1.44 crore with the scheduled date of completion by April 1996. However, the same was installed in September 1999 i.e. after a delay of more than 3 years from scheduled date of completion.

The installation of additional DG set of 1000 KVA was not justified as there were already 7 DG sets having capacity of 1785 KVA against the projected demand of 1750 KVA. The maximum demand load including the load of township never exceeded the 1440 KVA. Thus, the installation of this DG set at an investment of Rs.1.44 crore from borrowed fund bearing an annual interest burden of Rs.23 lakh was avoidable.

The Ministry stated (October 2001) that the combined load of existing DG sets were not sufficient and considering the complexities of laboratory working, decision was taken to purchase the new set. The reply is not tenable as the existing capacity was sufficient to meet the emergent requirement.

6.3.9.3 *Recovery of rent at a rate lower than the licence fee*

In 1978 when the right, title and interest of the erstwhile Hindustan Steel Limited in the immovable property located at Ranchi were transferred to MECON, 209 quarters of various categories as well as 4 single room hostels situated in Shyamali township of Ranchi then under the occupation of SAIL employees were left at the disposal of RDCIS. However, the rent deducted from the occupants was to be deposited to MECON. Subsequently in 1982-83 and 1989-90, it further constructed 212 and 508 quarters at an average cost of Rs.1 lakh and Rs.2.5 lakh per quarter respectively in Shyamali township itself. Examination of the records, however, revealed that standard license fee in these cases was not fixed in terms of the cost of construction and the existing rate applicable for old construction were being recovered. In 1990, in the name of uniformity, the

RDCIS further reduced the license fee and adopted a lower rate of recovery for those residing in Shyamali than that applicable for the employees of MECON the owner of the township, residing in the same colony

The Management, however, never considered the deduction of concessional/ subsidised standard license fee from occupants of residential accommodation as a taxable perquisite under Section 17(2) of the Income Tax Act. The value of such concessional rent worked out to Rs.1.02 lakh per annum. Non-consideration of taxable perquisites while deducting tax at source has made the Management liable to various penal provisions under Income Tax Act.

The Ministry stated (October 2001) that efforts were being made to enhance the rates of licence fee.

6.3.9.4 Irregular Reimbursement of local travel expenses

The scheme for reimbursement of local travelling expenses (LTE) to executives was introduced by SAIL in April 1978 which was later on extended to non-executives as well. The objective of the scheme was to assist the employees to meet the expenditure incurred on maintenance and use of the vehicles in the performance of official duties, thereby reducing the pressure on company's vehicles. Under this scheme, employees were allowed to claim the reimbursement of actual expenses wholly, exclusively and necessarily incurred by them on utilising their own vehicles in performance of official duties, on the basis of a certificate to be given by them. Rules also provided that journey from residence to office and vice-versa will not be considered as official duty. While the executives were allowed reimbursement of LTE upto Rs. 1600 p.m. non-executives were permitted reimbursement of LTE upto Rs. 350 p.m. The officials and employees of the Company were required to certify that the vehicle was owned by them and the expenditure was incurred on the maintenance and running of the vehicle in connection with the official duty. During the years 1997-98 to 2000-2001, RDCIS had paid a sum of Rs.5.69 crore on account of LTE to its officials /employees.

Scrutiny of records revealed the following:

- almost all officials and employees claimed the maximum amount permissible under the scheme every month, although nature of work of majority officials and employees posted in RDCIS were such which did not require them to leave their place of work during the working hours. Such claims were being admitted in a routine fashion
- none of the executives indicated the nature of official work done by them, the date and time of departure and return, number of KMs. covered by own car/vehicle etc., during the month while claiming the reimbursement of travel expenditure. No verification was ever done by the Management to find out the details of official work done by the executives/non-executives daily outside the office premises

- copies of R.C. book, insurance papers etc. of the personal vehicles owned by the executives, were not available in the personal files/records etc. produced to audit. Hence, it is not clear what checks were being exercised by the Company in this regard
- rules allowed the executives to take reimbursement of LTE even when they went on leave, training, temporary transfer etc. for more than 15 days, at full rate
- although the reimbursement of LTE on certificate basis justified its treatment as taxable income on par with that of payment of transport allowance, no income tax was being deducted from the amount paid to the employees/officers.

Thus, due to inherent shortcomings of the scheme, the RDCIS had to admit fraudulent claims of Rs.5.69 crore during the period of four years when its finances were facing severe constraints and liquidity crisis.

The Ministry stated (October 2001) that the technical executives were required to go out of the office premises on various official purposes. Other executives moved out of the office premises on various jobs like local purchases, discussion in connection with Income Tax and Sales Tax officials etc. It added that LTE was sanctioned after ascertaining road-worthiness of the vehicles and after verification of necessary documents.

The fact remains that LTE was allowed in a routine manner to all the employees without examining the actual need or movement of the official.

6.3.9.5 Land

RDCIS acquired 64.24 acres of land from HEC on lease basis for a period of 30 years in November 1986 for construction of its own township. Another plot of 29.66 acres near Ranchi Airport at a total cost Rs. 72.11 lakh was purchased in auction from other parties in November 1987 for the same purpose.

The Company developed its township on the land leased from HEC which rendered the land acquired near Ranchi Airport as surplus. Accordingly, a Committee was constituted to take necessary action for disposal of the land. RDCIS had been in possession of 23.11 acre of land as the remaining land (6.55 acre) was under dispute. The Management apprehended that disposal might not be commercially beneficial until possession of entire plot was obtained.

The Ministry accepted (October 2001) the facts and stated that it had been the considered view for some time that the land might be disposed of but because of dispute it was not disposed of.

The fact, however, remains that due to injudicious decision to procure land, not only the Company's capital blocked up but it also suffered a loss of interest to the extent of Rs.1.41 crore (March 2001) particularly at a time when its finances were in poor shape.



(T.S. NARASIMHAN)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi

Dated: 13 MAR 2002

Countersigned



(V.K. SHUNGLU)
Comptroller and Auditor General of India

New Delhi

Dated: 13 MAR 2002

Annexure-I

(Referred to in para 1.1.6.2)

**Results of test check showing non-realisation/delay in receipt of cargo revenue by
IGI cargo terminal and consequential loss of interest**

Sl.No.	Particulars of the irregularity detected in Audit	Amount involved (Rs. in lakh)
1.	Issue of erroneous bills by the Finance and Accounts department in routine as generated by the computer centre leading to disputes, non-payment/delay in payment of whole amount of the bills by the airlines even on account of small errors despite provision of agreement with the airlines calling for receipt of 80 per cent of the payment from them even in respect of disputed bills. The Management did not enforce the provision of the agreement.	Non-realisation of revenue of Rs.77.72 lakh for an average period of 62 days in 41 cases leading to loss of interest of Rs.2.39 lakh.
2.	Delay of 2 to 16 days in raising of bills in 46.5 per cent cases leading to loss of interest on the delayed collection of revenue.	Loss of interest of Rs.0.77 lakh.
3.	Of the total of 897 bills for the two selected months reviewed in Audit, delay in delivery of bills to the airlines located even in the same complex ranged between 1 to 5 days in 285 bills, and 6 to 27 days in case of another 377 bills which resulted in delay in collection of revenue and consequential loss of interest.	Loss of interest of Rs.1.32 lakh.
4.	Of the total of 789 cheques for the two selected months received by the Terminal from the airlines towards payment of bills, delay in depositing these cheques into the bank ranged between 1 to 5 days in respect of 296 cheques and 6 to 12 days in respect of 52 cheques which led to loss of interest.	Loss of interest of Rs.0.83 lakh.

Annexure-II

(Referred to in para 3.1.3.2, 3.1.3.3 and 3.1.5.4.1.1)

Position of Opening Stocks, Procurements, Sales and Closing Stocks of non-canalised fertilisers

(Value in crore of rupees, Quantity in MTs)

Year	Commodity	Opening Stock*		Purchases*		Sales*		Closing Stock*	
		Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
1993-94	DAP	-	-	25240	13.26	22287	14.25	2191	1.27
	MOP	-	-	-	-	-	-	-	-
	SSP	-	-	-	-	-	-	-	-
	Urea	-	-	-	-	-	-	-	-
1994-95	DAP	2191	1.27	54962	42.15	27134	21.14	32989	26.43
	MOP	-	-	157446	49.93	15307	5.02	140620	58.98
	SSP	-	-	22640	5.32	3006	0.80	19587	5.79
	Urea	-	-	41928	13.48	6259	2.06	35601	11.42
1995-96	DAP	32989	26.43	228109	186.19	114897	107.76	142568	131.40
	MOP	140620	58.98	145346	51.53	137156	52.25	147650	72.29
	SSP	19587	5.79	49875	10.77	42148	10.15	31184	7.56
	Urea	35601	11.42	374443	117.71	288835	93.94	118911	38.22
1996-97	DAP	142568	131.40	-	-	123997	93.42	16546	14.39
	MOP	147650	72.29	15750	7.06	142517	53.66	19280	9.02
	SSP	31184	7.56	-	-	15320	3.86	13800	3.50
	Urea	118911	38.22	391585	103.71	355348	111.80	151225	49.28
1997-98	DAP	16546	14.39	59251	48.91	67992	51.42	6325	4.41
	MOP	19280	9.02	25973	11.30	45253	15.32	64	0.06
	SSP	13800	3.50	-	-	5636	0.99	7699	1.42
	Urea	151225	49.28	96822	22.61	157434	51.37	85587	28.79
1998-99	DAP	6325	4.41	35021	31.16	35925	27.94	4822	4.01
	MOP	64	0.06	3991	1.44	4044	1.48	11	0.03
	SSP	7699	1.42	-	-	5350	0.92	2309	0.39
	Urea	84625	28.47	116	1.16	41482	13.52	34611	10.86
1999-00	DAP	4822	4.02	157401	135.46	141317	110.20	19722	18.24
	MOP	11	0.01	106259	53.72	102215	37.00	3790	2.27
	SSP	2309	0.39	-	-	1737	0.22	572	0.07
	Urea	34611	10.86	-	-	20815	5.36	13469	3.20

* Opening and Closing Stocks include Goods-in-Transit.

* Purchases and Sales exclude 'Stock Transfers' and Claims

Annexure-III

(Referred to in para 3.1.3.2)

Position of all India import of fertilisers vis-à-vis imports by the Company
(Qty. in '000 MT)

	All India import		MMTC's import		Percentage of MMTC's import vis a vis all India import	
	DAP	MOP	DAP	MOP	DAP	MOP
1993-94	1569	1428	25	Nil	1.59	Nil
1994-95	792	2120	55	157	6.94	7.40
1995-96	1476	2356	228	145	15.45	6.15
1996-97	475	1101	Nil	15	Nil	1.36
1997-98	1536	2380	59	26	3.84	1.09
1998-99	2091	2580	70	4	3.35	0.16
1999-00	3268	2898	157	16	4.80	3.66

Annexure-IV

(Referred to in para 3.1.3.4.1)

Working results of the Company in respect of MOP, DAP and SSP

(Rupees in crore)

Year	Turnover			Profit (+)/Loss (-)			Per cent of Profit/Loss to Turnover		
	MOP	DAP	SSP	MOP	DAP	SSP	MOP	DAP	SSP
1994-95	5.02	21.14	0.80	(-)0.42	(+)1.22	(-)0.11	(-)8.36	(+)5.77	(-)13.75
1995-96	52.25	107.76	10.15	(+) 0.31	(-)3.75	(-)1.48	(+)0.59	(-)3.48	(-)14.58
1996-97	53.66	93.42	3.86	(-)3.27	(-)9.46	(-)0.06	(-)6.09	(-)10.12	(-)1.55
1997-98	15.32	51.42	0.99	(+)1.17	(-)0.10	(-)1.06	(+)7.63	(-)0.19	(-)107.07
1998-99	1.48	27.94	0.92	(+)0.13	(+)2.40	(-)0.23	(+)8.78	(+)8.59	(-)25.00
1999-00	37.00	110.20	0.22	(-)0.02	(+)2.66	(-)0.19	(-)0.05	(+)2.41	(-)86.36

Annexure -V

(Referred to in para 3.1.5.4.1)

Value of closing stock of finished fertilisers

(Rupees in lakh)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
DAP						
Sales	2114	10776	9342	5142	2794	11020
Closing stock	2643	13140	1439	441	401	1824
Closing stock in term of month sale	15	14.63	1.85	1.03	1.72	2
MOP						
Sales	502	5225	5366	1532	148	3790
Closing stock	5898	7229	902	6	3	227
Closing stock in term of month sale	141	16.6	2.02	0.05	0.24	0.72
SSP						
Sales	80	1015	386	99	92	22
Closing stock	579	756	350	142	39	7
Closing stock in term of month sale	86.85	8.94	10.88	17.21	5.09	3.82
Urea						
Sales	206	9394	11180	5137	1352	536
Closing stock	1142	3822	4928	2879	1086	320
Closing stock in term of month sale	66.52	4.88	5.29	6.73	9.64	7.16

Annexure-VI

(Referred to in para 3.1.5.4.2)

Position of shortages in the fertilisers' stocks

(Rs. in lakh)

Commodity	1995-96		1996-97		1997-98		1998-99		1999-2000		Total	
	Quantity MT	Value	Quantity MT	Value	Quantity MT	Value	Quantity MT	Value	Quantity MT	Value.	Quantity MT	Value
DAP	2990	280.74	1289	125.60	320	29.93	-	-	415	43.67	5014	479.94
MOP	1320	61.12	1404	75.49	(-) 5	(-) 0.35	-	-	-	-	2719	136.26
Urea	1881	64.69	3336	111.30	833	25.87	268	10.60	317	9.93	6635	222.39
SSP	2058	57.64	44	0.91	88	2.53		-	-	-	2190	61.08
Total	8249	464.19	6073	313.30	1236	57.98	268	10.60	732	53.6	16558	899.67

Annexure-VII

(Referred to in para 3.1.6.3.1)

Working results of canalised imports of urea in terms of gross profit

Year	(Rupees in crore)		Percentage of Gross Profit to Turnover
	Turnover	Gross Profit	
1993-94	832.50	4.68	0.56
1994-95	1551.92	5.03	0.32
1995-96	1897.55	4.32	0.23
1996-97	849.40	2.14	0.25
1997-98	561.90	1.83	0.33
1998-99	125.35	0.60	0.48
1999-00	85.41	0.46	0.54
Total	5904.03	19.06	0.32

Annexure-VIII

(Referred to in para 3.1.6.4.1)

Monthly requirements of Urea intimated by the Government of India to the Company vis-à-vis actual arrivals there against

Month	1993-94		1994-95		1995-96		1996-97		1997-98		1998-99		1999-00	
	Quantity to be imported as per Govt. of India directives	Actually imported by MMTC	Quantity to be imported as per Govt. of India directives	Actually imported by MMTC	Quantity to be imported as per Govt. of India directives	Actually imported by MMTC	Quantity to be imported as per Govt. of India directives	Actually imported by MMTC	Quantity to be imported as per Govt. of India directives	Actually imported by MMTC	Quantity to be imported as per Govt. of India directives	Actually imported by MMTC	Quantity to be imported as per Govt. of India directives	Actually Imported by MMTC
	(Quantity in lakh metric tonnes)													
April	-	-	-	0.10	3.00	3.44	-	0.61	1.50	1.46	2.50	-	-	-
May	0.76	0.76	4.00	0.51	3.00	3.29	-	-	1.75	1.34	-	-	-	-
June	2.55	2.55	2.10	1.82	3.00	3.93	-	0.32	1.75	2.58	-	0.25	-	0.25
July	3.26	3.26	2.10	1.27	1.25	0.74	5.00	0.36	1.25	1.07	-	0.82	-	1.57
Aug	2.10	2.31	2.35	1.19	1.25	-	-	1.17	1.50	0.99	-	1.50	1.50	0.51
Sept	2.75	2.97	2.35	4.18	3.00	0.79	-	2.79	0.50	0.50	-	-	-	-
Oct	3.00	2.32	4.00	3.02	3.25	2.96	2.00	1.28	0.50	1.33	-	-	-	-
Nov	3.00	2.13	4.00	2.85	3.25	2.37	2.00	2.17	1.25	-	-	-	-	-
Dec	3.50	3.00	4.00	5.92	3.00	3.79	1.50	1.43	1.00	1.17	1.00	-	-	-
Jan	3.50	3.00	-	3.62	-	2.30	2.00	2.18	-	0.29	-	-	-	-
Feb	1.02	0.73	-	2.66	-	0.23	2.00	0.27	-	-	-	-	-	-
March	1.00	3.37	-	1.74	-	1.58	-	-	-	-	-	-	-	-
Total	26.44	26.40	28.90	28.88	24.00	25.42	14.50	12.58	11.00	10.73	3.50	2.57	1.50	2.33

Annexure-IX

(Referred to in para 3.1.7.6)

Details of Vigilance Cases

Category	Sl. No.	Brief Particulars
I Cases in which penalty was imposed	1.	Non-recovery of dues of Rs.44.74 lakh from M/s. Lucky Trading Corporation due to extending facility of unsecured credit. (Referred to in para 3.1.5.2.1.2) One increment of a Senior Manager was stopped in January 2001.
	2.	Non-recovery of dues of Rs.23.73 lakh from M/s. Gold Star Enterprises towards sale of fertiliser (Referred to in para 3.1.5.2.1.4). Following vigilance investigations, one Deputy General Manager was censured.
II Cases where no action was taken due to retirement of the officials	1.	Import of potash from M/s.Canpotex during ten years prior to 1994. 14 employees involved in the case retired during June 1988 and July 2000.
	2.	The Company failed to recover an amount of Rs.2.53 crore from M/s. Quadros International, Hong Kong (supplier) towards non-performance of a contract relating to supply of urea and demurrage on the vessel borne by the Company (Referred to in para 3.1.6.5.3). The case was referred to vigilance division in July 1997 but no action could be taken as the alleged employees had either retired voluntarily or superannuated.
III Closed cases	1.	After investigating into a case relating to loss of urea at Paradip port, the CBI submitted its report in July 1999 confirming that there was no loss of stock.
	2.	Another case relating to shortage of 2364 MT of urea dispatched by road to godowns in Madhya Pradesh was referred to CBI in July 1999. CBI closed the case in June 2001.
IV Pending cases	1.	Misappropriation and shortage of urea by M/s. Vridhishree Marketing and Services Ltd. (VMSL), Patna worth Rs.1.79 crore (Referred to in para 3.1.5.2.1.1)
	2.	Non-recovery of dues of Rs.1.11 crore including Rs.40 lakh towards misappropriation of urea by M/s. S.R.International, Karnal (Referred to in para 3.1.5.2.1.3). One Deputy General Manager was censured in June 2001 and action against one Deputy Manager was under process.
	3.	Based on vigilance investigations relating to abnormal shortages of fertilisers stock at different godowns in Uttar Pradesh, departmental proceedings were initiated against one Deputy General Manager, one Deputy Manager and one Field Officer. The case was referred to CBI during February/March 1998 and the CBI report was awaited (August 2001).

Annexure-X

(Referred to in para 4.1.5.6.3)

Excess ceiling rate paid to M/s. Essar in respect of 2 'A' class vessels

1	Excess Ceiling rate per day allowed for Borrowed Capital		US\$ 515.32
2	Total no. of Operating Days		
	365 x 7 years =	2555	
	Less non-compensable day	60	
			2495 days
3	Total no. of Vessels		2
	Overpayment of Ceiling Rate in US\$ (1 x 2 x 3)		US \$ 2.57 million
	Equivalent to Rupees		Rs. 4.86 crore

Annexure-XI

(Referred to in para 4.1.7.2)

Number of trips made by OSVs to various rigs and platforms

RIGS	1998-99	1999-2000	PLATFORM	1998-99	1999-2000
S/SAMRAT	117	126	BHN	135	146
S/SHAKTI	148	95	BHS	11	5
S/PRAGATI	140	112	ICG	48	23
S/JYOTI	154	146	ICP	7	3
S/VIJAY	22	28	ICW	52	21
S/UDAY	98	112	NQO	108	109
S/BHUSHAN	97	113	SH	1	2
S/KIRAN	64	72	SCA	14	34
S/GAURAV	1	122	SHP	3	11
PN-3	187	114	SHQ	15	7
HITDRILL-1	137	75	SHG	6	5
TRIDENT-II	60	108	SHW	88	74
NS BOSE	5	0	WIN	48	38
ABAN-II/GA-3	46	28	WIS	2	10
AMSTERDAM	176	116	NLM	13	3
ED HOLT	106	102	NLM-2	2	2
E/EXPLORER	0	0	NLM-4	1	4
MAT DRILL	107	89	NLM-5	2	2
P STENA-I	29	28	NLM-6	2	3
P STENA-II	31	40	NLM-7	9	9
P/STENA-III	35	15	NLM-8	1	3
KEDARNATH	101	73	NLM-9	2	3
BADRINATH	48	48	NLM-10	4	4
			NLM-11	3	1
			HEERA	51	20
			BLQ-1	75	56
			BLQ-2	33	31
			S.LAXMI	74	-
			HPC	1	1
			SLQ	69	116

Annexure-XII

(Referred to in para 4.1.7.10.3)

Details of quantity loaded *vis-a-vis* quantity acknowledged

Name of the vessel	Date of delivery	Particulars of material	Quantity in terms of tanks	Material received by	Quantity acknowledged (in Mts.)
Neel Akash	18.06.99	Blended Cement	1	Trident	40
	04/5.06.99	Blended Cement	1	Matdrill	54
	25.05.99	Neat Cement	1	Trident-2	40
	29.06.99	Neat Cement	1	P-Pennsylvania	43
	10.08.98	Neat Cement	1	GA-3	47
	22.05.98	Neat Cement	1	PN-3	42
	23.05.98	Neat Cement	1	NJP	45
	11.10.99	Neat Cement	1	Ed-Holt	40
	29.09.99	Neat Cement	1	Ed-Holt	43
	26.07.99	Neat Cement	1	S/Pragati	45
	09.07.99	Neat Cement	1	PN-III	31
	29.06.99	Neat Cement	1	P-Pensylvena	43
	07.07.99	Barytes	1	S/Samrat	40
	14.07.99	Barytes	1	IDA	30
	11.02.99	Barytes	2	Ed holt	129
	22.05.98	Barytes	1	PN-3	50
	08.07.00	Barytes	2	Aban-II	99
	26.12.99	Barytes	1	NJP	52
	20.11.99	Barytes	1	Trident-II	60
	20.07.98	Barytes	1	Matdrill	57
	22.07.98	Barytes	1	Matdrill	72
	02/5.06.99	Barytes	1	Matdrill	66
	26.05.99	Barytes	2	S/Gaurav	120
Garaware-5	17.06.00	Blended Cement	2	Badrinath	1037 SXS = 50
	24.05.00	Neat Cement	1	Matdrill	25
	27.03.00	Neat Cement	1	IDA	36
	28.03.00	Barytes	1	Badrinath	1072 SXS = 53
	06.02.00	Barytes	1	Aban-II	37
	31.05.00	Barytes	1	Badrinath	1086 SXS = 54
	20.05.00	Barytes	1	Aban-II	48

Annexure-XIII

(Referred to in para 4.1.10.3)

Technical assessment of Sindhu vessels by Technical Audit and Energy Management Group

No	Appraisal of objective	Weight age	Sin-1	Sin-2	Sin-3	Sin-4	Sin-5	Sin-6	Sin-8	Sin-9	Sin-10	Sin-11	Sin-14	Sin-15	Sin-16	Sin-17
			92-93	98-99	93-94	99-00	99-00	99-00	99-00	99-00	00-01	00-01	99-00	00-01	99-00	99-00
1	System Availability	20	18.00	17.00	18.00	18.00	18.00	18.00	14.00	16.00	14.00	10.00	18.00	16.00	18	20.00
2	Equipment Availability	15	13.50	12.00	14.50	13.50	13.50	13.50	12.00	13.50	9.00	7.50	13.50	13.50	13.50	13.50
3	PMS*	10	9.00	8.00	8.40	NA	6.80	6.00	7.40	6.80	8.00	5.80	7.40	8.00	8.20	7.80
4	Condition Monitoring	10	0.80	0.50	0.80	0.80	0.50	0.80	0.80	0.80	0.80	0.50	0.50	.50	.80	3.10
5	Safety Standards	10	8.50	6.77	8.46	7.89	6.85	6.39	7.60	6.69	8.15	6.25	7.76	7.75	7.92	8.38
6	Performance Review	10	6.00	6.90	8.50	7.25	7.37	6.22	7.25	6.00	5.78	4.33	7.75	7.25	7.22	6.00
7	RAMS**	5	2.60	2.32	2.60	NA	2.42	2.33	3.10	3.25	3.58	2.08	3.10	2.25	2.67	4.25
8/9	SSTC***	5	4.00	3.35	4.00	3.38	3.71	3.25	3.33	2.50	4.25	3.46	3.71	3.70	3.71	4.04
10	Documentation	5	4.50	4.35	3.55	3.70	3.39	3.61	3.39	3.39	4.33	3.56	3.56	3.50	3.44	4.05
11	Manpower and Training	5	4.00	3.70	4.50	4.25	3.60	3.60	3.90	3.90	3.90	3.60	3.90	3.90	3.90	4.30
12	House Keeping	5	4.00	3.70	5.00	3.10	3.50	3.50	3.90	3.10	3.50	3.90	3.70	3.90	4.40	3.40
	Total	100	74.90	68.14	77.41	61.87	69.64	67.20	66.67	65.93	65.29	50.98	72.78	70.25	73.76	78.82
	Grading		B	B	B	C	B	B	B	B	B	C	B	B	B	B
	Rating Compared to previous years		Up ward	Down ward	Up ward	Down ward	Down ward	Down ward	Down ward	Down ward	Down ward	Down ward	Same	Down ward	Down ward	

*Preventative Maintenance Schedule
 **Reliability, Availability and Maintainability
 ***Stores, Spare parts and Tool Control

Annexure-XIV

(Referred to in para 4.1.10.3)

Technical assessment of Samudrika vessels by Technical Audit and Energy Management Group

No	Appraisal of objective	Weightage ↓ Year →	Sam-1	Sam-2	Sam-3	Sam-4	Sam-5	Sam-6	Sam-7	Sam-8	Sam-9	Sam-10	Sam-11	Sam-14	Sam-15	Sam-16	Sam-17	Sam-18
			00-01	00-01	99-00	99-00	00-01	00-01	00-01	98-99	97-98	99-00	99-00	98-99		99-00	98-99	99-00
1	System Availability	20	2.00	2.00	18.00	18.00	18.00	14.00	16.00	20.00	18.00	16.00	18.00	18.00		18.00	16.00	16.00
2	Equipment Availability	15	1.50	1.50	12.00	13.50	12.00	10.50	12.00	13.50	13.50	12.00	12.00	13.50		13.50	9.00	12.00
3	PMS*	10	7.40	5.40	6.20	8.00	4.80	6.20	7.80	7.20	6.00	6.60	7.40	6.80		8.00	8.40	8.80
4	Condition Monitoring	10	0.80	0.80	0.80	0.50	0.80	0.50	0.80	0.80	5.00	4.10	0.80	0.80		0.80	0.80	1.40
5	Safety Standards	10	8.08	8.25	7.33	7.83	7.33	7.08	7.62	7.33	9.42	5.41	7.91	7.46		7.17	9.15	6.912
6	Performance Review	10	5.00	4.80	6.56	7.56	6.56	6.25	7.78	8.00	7.00	3.88	7.40	7.80		7.63	5.66	6.33
7	RAMS**	5	2.92	3.91	2.17	2.33	2.00	2.10	3.41	2.60	3.08	2.33	2.67	3.00		2.00	3.25	3.66
8/9	SSTC***	5	4.12	3.62	4.00	3.70	3.66	3.70	3.87	4.50	4.71	3.70	4.11	4.25		3.58	4.00	3.54
10	Documentation	5	3.44	3.00	2.71	4.05	2.33	3.89	3.11	4.00	3.00	2.38	3.12	4.50		4.11	3.60	3.72
11	Manpower and Training	5	3.90	3.70	3.60	3.60	3.60	3.60	3.70	4.40	4.50	4.30	3.60	4.10		3.90	3.10	4.10
12	House Keeping	5	4.20	3.90	3.10	3.10	2.90	3.50	4.30	4.70	3.00	4.10	3.90	4.30		3.80	4.50	3.50
	Total	100	43.36	40.58	66.47	72.17	63.98	61.32	70.59	77.03	77.21	64.80	70.91	74.51		72.49	67.46	69.97
	Grading		D	D	B	B	C	C	B	B	B	C		B		B	B	B
	Rating Compared to previous years		↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓

*Preventative Maintenance Schedule

**Reliability, Availability and Maintainability

***Stores, Spare parts and Tool Control

Annexure-XV

(Referred to in para 6.1.8.1)

Statement of package-wise delay analysis

Sl. No	Name of package	Agency	Contractual Completion date	Actual date of Completion	Delay (month)
	GLOBAL				
1.	Continuous Casting Department (G-01)	VAI L&T ABB	March,97	Mar,98	12
2.	Installation of Reheating furnace No.4 and Conversion of RHF 3and2 (GO2)	MECON Italimpianti	RHF -4- Oct,95 RHF - 3 Oct,96 RHF - 2 Sept,97	Nov,96 Jan,00 - -	13 39. -
3.	a) Modernisation of Hot Strip Mill (HSM) b) Installation of Coiler-4 c) Conversion of Coiler-3 (GO3and4) Coiler-2 Coiler-1	SMS (AG) SMS(I) SIMPLEX TGS ABB VAI GFA	Nov, 96 June,96 Nov,96 Feb,97 May,97	Jul,98 Sep,97 Jun,98 Feb,99 Jan,00	20 15 19 24 32
	INDIGENOUS				
4.	Slab Transfer Car and BOI wagons (E-01)	NIRMAL and OTHER	June,96	June,98	24
5.	Dumpers (E-02)	Askok Leyland	Sept,95	Dec,95	3
6.	Trucks (E-03)	Telco	Dec,95	Feb,97	14
7.	Truck & Semi Trailor (E-04)	Ashok Leyland	May,96	Aug,96	3
8.	Dumper Placer (E-05)	Hydromech	Oct,96	Feb,97	4
9.	Fire Extinguisher (E-06)	Steelage	Jan,97	Aug,97	7
10.	Fork Lifts (E-07)	Godrej	Aug,97	Apr,98	8
11.	Addl. Equipment and Modi. of Existing eqpt. (IE-01)	HEC	March,96	Oct,98	31
12.	30T Crane with Magnet (IE-02)	HEC	July,96	Mar,99	32
13.	Trolley Line. illumination (IE-03)	MJ Engg.	March,96	Aug,97	17
14.	Lab. Facilities (IE-04)	TTG Indias	Aug,96	Feb,98	18
15.	Inter Plant Services (IE-05)	HSCL	Aug,96	Sep,97	13
16.	Power Supply Facilities (IE-06)	ABB	Sept,96	Mar,99	30
17.	Territory Lighting (IE-07/1)	General Electricals Apar	Sept,96	Feb,99	29
18.	Building illumination (IE-07/2)	Bajaj Elect. .	Aug,96	Nov,97	15
19.	Chilled Water Plant IE (08/02)	NICCO	Aug,96	Aug,97	12
20.	Compressed Air Station (IE-09/01)	Kirloskar	July,96	Mar,99	32
21.	Oxygen Compressor Plant (IE-9/02)	Sulzer	Oct,96	Aug,97	10
22.	Gas Mixing and Boosting Station(IE-10)	NICCO	Sept,96	Sep,99	36
23.	Telecom Facilities (IE-11)	Philips	August 96	Mar,98	19
24.	Scada System (IE-12)		Aug,96	Apr,98	20

Annexure XV (continued)

Sl. No	Name of package	Agency	Contractual Completion date	Actual date of Completion	Delay (month)
25.	Railway Signalling (IE-13)	Railway Products (P) Ltd.	Oct,96	Feb,99	28
26.	EOT Cranes and Hoists (IE-14)	Braithwaite	Oct,96	June,98	20
27.	Slag forming Mixer and Graphite Storage Fac. (T-01)	Geetanjali	Oct,96	Nov,97	13
28.	Cooling Tower (T-02)	Paharpur Cooling Tower	Aug,96	Sep,97	13
29.	Acetyline Plant (T-03)	British Oxygen Company	Sept,96	Jan,98	16
30.	Ladle Driers, and Coolers (T-04)	Wellmen	Sept,96	Mar,99	30
31.	132 KV SWITCH YARD (T-05)	Siemens	May,96	Sept,97	16
32.	Water Supply Facilities (T-06)	Bakhtawar Singh Balkishan	Aug,96	Sep,97	13
33.	Civil work for G-01 (C-01)	HSCL	Dec,96	Jun,97	6
34.	Civil work for Scrap yard (C-01/01)	HSCL	June,95	Apr,95	0
35.	Civil work for indigenous packages (C-01/02)	HSCL	June,96	June,97	12
36.	Building Structures for G-01 (S-01)	HSCL	Sept,96	Sep,97	12
37.	Structural work for scrap yard Ext. (S-01/01)	HSCI	May,95	Jul,95	2
38.	Structural work for indigenous packages (S-01/02)	HSCL	Dec,96	Nov,97	11

Annexure-XVI

(Referred to in para-6.1.8.2)

Statement of package-wise analysis of cost

(Rs. in crore)

Sl. No.	Name of package	Name of the suppliers	Sanctioned Cost	Ordered Value	Expenditure incurred (March 01)	Anticipated cost
1	2	3	4	5	6	7
	GLOBAL					
1.	Continuous Casting Department (G -01)	VAI L&T ABB	567.55	653.73	742.74	791.10
2.	Installation of Reheating furnace No.4 and Conversion of RHF 3and2 (GO2)	MECON Italeam Piante	155.49	173.80	155.28	216.19
3.	a) Modernisation of HSM b) Installation of Coiler - 4 c) Conversion of Coiler - 3 Coiler - 2 (GO3 and 4) Coiler - 1	SMS (AG) SMS(I) SIMPLEX TGS ABB VAI GFA	382.11	457.51	488.98	513.54
	Sub Total		1104.15	1285.04	1370.74	1520.83
	INDIGENOUS					
4.	Slab Transfer Car and BOI wagons E-01	SIMPLEX HEC APVL BURN STD NIRMAL ENTERPRISES		26.47	25.97	26.47
5.	Dumpers E-02	Askok Leyland		0.75	0.75	0.75
6.	Trucks E-03	Telco		0.17	0.17	0.17
7.	Truck and Semi Trailor E-04	Ashok Leyland		0.54	0.54	0.54
8.	Dumper Placer E-05	Hydromech		0.47	0.45	0.47
9.	Fire Extinguisher E-06	Steelage		0.03	0.03	0.03
10.	Fork Lifts E-07	Godrej		1.50	1.50	1.50
11.	Addl. Equipment and Modi. of Existing eqpt. IE-01	HEC		3.95	3.20	3.31
12.	30T Crane with Magnet IE-02	HEC		2.11	1.64	2.22
13.	Trolley Line extn. and Bldg. illumination IE-03	MJ Engg.		0.28	0.25	0.28
14.	Lab. Facilities for Slab samples	TTG Indias		1.14	1.00	1.16
15.	Inter Plant Services IE-05	HSCL		9.05	8.15	9.82
16.	Power Supply Facilities IE-06	ABB		19.36	18.92	20.63
17.	Territory Lighting IE-05/01	General Electricals Apar		0.93	0.68	0.93
18.	Building illumination IE-07/2	Bajaj Illumination		3.00	2.62	3.48
19.	Chilled Water Plant IE-08/02	NICCO		3.96	3.68	4.18

Continued

Annexure XVI (Continued)

Sl. No.	Name of package	Name of the suppliers	Sanctioned Cost	Ordered Value	Expenditure incurred (March 01)	Anticipated cost
20.	Compressed Air Stn. IE-09/01	Kirloskar		11.83	10.80	12.38
21.	Oxygen Compressor Plant IE-09/02	Sulzer		8.69	8.69	9.14
22.	Gas Mixing and Boostin IE-10	NICCO		6.24	6.11	6.72
23.	Telecom Facilities IE-11	Philips		5.93	5.45	6.23
24.	Scada System IE-12	Electronics Corp. of India Ltd. NELCO		4.25	3.45	4.47
25.	Railway Signalling IE-13	Railway Products (P) Ltd.		1.05	1.11	1.26
26.	EOT Cranes and Hoists IE-14	Braithwaite		1.40	1.33	1.4
27.	Slag forming Mixer and Graphite Storage Fac. T-01	Geetanjali		3.07	2.59	3.07
28.	Cooling Tower T-02	Paharpur Cooling Tower		5.55	5.88	5.91
29.	Acetyline Plant T-03	British Oxygen Company		1.17	1.13	1.27
30.	Ladle Driers, and Coolers T-04	Wellmen		2.92	2.89	3.06
31.	132 KV Switch Yard T-05	Siemens		13.31	14.35	14.35
32.	Water Supply Facilities T-06	Bakhtawar Singh Balkishan		21.40	21.45	22.50
33.	Civil work for G-01 C-01	HSCL		39.00	62.21	65.97
34.	Civil work for Scrap yard C-01/01	HSCL		1.20	0.84	1
35.	Civil work for indigenous packages C-01/02	HSCL		3.30	6.12	7.28
36.	Building Structures for G-01 S-01	HSCL		31.69	65.20	69.30
37.	Structural work for scrap yard Ext. S-01/01	HSCL		0.27	1.70	1.57
38.	Structural work for indigenous packages S-01/02	HSCL		0.83	0.79	0.83
	Sub Total			236.87	287.96	313.66
	GRAND TOTAL			1521.91	1658.7	1834.49

Annexure-XVII

(Referred to in para 6.3.5.4)

(Rs. in lakh)

Sl. No	Name of Project	Plant	Year of Certification	Incremental CAB	Reasons recorded for non-utilisation
1	Gas dynamic study of sintering machine and suction track of M/c. nos. 1, 2 and 3.	BOSP	1994-95	138.90	Low utilisation of sintering machine
2	Improvement in internal soundness in concast slabs and coils of ferritic stainless steel.	ASP	1994-95	184.00	New R&D project taken superseding the recommendation of the old project
3	Process intensification and modification of thermal regime in BF-5.	BOSP	1995-96	545.40	Recommendations not practised
4	Development of SAIL COR (Cold Rolled) through ASP-BSL route.	BOSP	1994-95	200.10	Recommendations not practised
5	Improvement in metallurgical properties of sinter and undergrate suction in M/c. No. 1 and 2.	DSP	1994-95	185.80	Recommendations not practised
6	Improvement in consistency of coal blend and upgradation of coke quality.	IISCO	1996-97	304.60	Deterioration in coal quality
7	Improvement in dimensional tolerance of 90 UTS rails confirming to 1 RST 1288.	BSP	1995-96	208.20	New project undertaken
8	Optimisation of blowing parameters of BF-2 with optimisation of burden distribution with MTA.	DSP	1995-96	775.10	Recommendations not in use
9	Achievement of 2 MT production of hot metal.	RSP	1996-97	259.30	Recommendations not in use
10	Experimental production of spade M-1 plates through new walking beam furnace.	RSP	1997-98	274.50	Low utilisation period
11	Process intensification in BF-5.	BOSP	1996-97	411.00	BF-5 is not in use
12	Improvement in performance of BF-6 compensator to facilitate increased blast temperature.	BSP	1997-98	242.50	Process not stabilised
13	Aerodynamics study of Sinter Machine No.1 and 2.	BOSP	1997-98	293.00	One time benefit obtained

Annexure-XVII (Continued)

Sl. No	Name of Project	Plant	Year of Certification	Incremental CAB	Reasons recorded for non-utilisation
14	Improvement in Sinter Making Operation & Machine No.3 & Sinter Mix Balling Region.	BOSP	98-99	197.07	One time benefit obtained
15	On-line voucher management system for financial accounting.	BSP	97-98	108.00	One time benefit obtained
16	Improvement in performance of BF-6 compensator to facilitate increased blast	BSP	97-98	242.50	Process not stabilised
17	Enhancement maintenance practice through contaminant analysis in lubricants and hydraulic fluids.	BOSP	99-00	125.90	One time benefit obtained
18	Improvement in oven through put & tar quality.	DSP	99-00	158.72	No improvement in performance indices

GLOSSARY

AFC	Ajantha Flying Club
DW	Drill Water
ABB	Asia Brown Boveri Limited
AHTS	Anchor Handling Tug cum Supply Vessel
AMR	Addition, Modification and Replacement
APC	Arab Potash Company
APNACO	APNACO Corporation
AS&FA	Additional Secretary and Financial Advisor
ASP	Alloy Steels Plant
ASU	Air Separation Unit
ATC	Air Traffic Control
BAF	Banker's Acceptance Facility
BCCL	Bharat Coking Coal Limited
BIFR	Board for Industrial and Financial Reconstruction
BOD	Board of Directors
BSEB	Bihar State Electricity Board
BSL	Bokaro Steel Limited
BSP	Bhilai Steel Plant
BSR	Basic and Scientific Research
C&F	Cost and Freight
CAB	Certified Annual Benefits
CBI	Central Bureau of Investigation
CCD	Continuous Casting Department
CCL	Central Coalfields Limited
CET	Centre for Engineering and Technology
CGM	Chief General Manager
CIAL	Cochin International Airport Limited
CIL	Coal India Limited
CIS	Commonwealth of Independent States
CMD	Chairman cum Managing Director
CMO	Central Marketing Organisation
CMPDIL	Central Mine Plannings & Design Institute Limited
CPWD	Central Public Works Department
CRF	Capital Recovery Factor

CRM	Cold Rolling Mill
CTL	Constructive Total Loss
CWC	Central Warehousing Corporation
DA	Daily Allowance
DAP	Di Ammonia Phosphate
DBG	Drilling Business Group
DGCA	Director General of Civil Aviation
DGS	Director General, Shipping
DM	District Magistrate
DMC	Durgapur Municipal Corporation
DOF	Department of Fertilizers
DPR	Detailed Project Report
DSP	Durgapur Steel Plant
DSTV	Durgapur Steel Television
DVC	Damodar Valley Corporation
ECB	External Commercial Borrowings
ECL	Eastern Coalfields Limited
EID	Equipment and Instrument Development
EIL	Engineers India Limited
EL	Earth Level from Sea
FAC	Final Acceptance Certificate
FOB	Free on Board
GAINS	Global Positioning System-Assisted Improved Navigation System
GC	Galvanised Corrugated
GGM	Group General Manager
GHA	Ground Handling Agent
GOI	Government of India
GP	Galvanised Plain
GSSP	Granulated Single Super Phosphate
GTO	Gross turnover
HAL	Hindustan Aeronautics Limited
HDA	Haridwar Development Authority
HDPE	High Density Poly Ethylene
HEC	Heavy Engineering Corporation Limited
HOAs	Head of Accounts
HOD	Head of the Department

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HOTO	Handing over taking over
HR	Hot Rolled
HSCL	Hindustan Steelworks Construction Limited
HSL	Hindustan Steel Limited
HSM	Hot Strip Mill
IAAI	International Airports Authority of India
IAD	International Airports Division
IAL	Indian Airlines Limited
ICA	Investigation and Consultancy Assignment
IDC	Interest During Construction
IIT	Indian Institute of Technology
INSA	Indian National Shipowners Association
IOL	Indian Oxygen Limited
IPL	Indian Potash Limited
IRR	Internal Rate of Return
IRS	Indian Register of Shipping
IST	Indomag Steel Technology
JS&FA	Joint Secretary and Financial Advisor
L&T	Larsen & Toubro Limited
LA Act	Land Acquisition Act, 1984
LC	Letter of credit
LD	Liquidated damages
LHF	Ladle Heating Furnace
LPH	Landing Parking and Housing Charges
LRF	Ladle Rinsing Furnace
LTC	Lucky Trading Corporation
LTE	Local travelling expenses
MP	Madhya Pradesh
MCL	Mahanadi Coalfields Limited
MDDA	Mussorie Dehradun Development Authority
MDH	Mannesmann Demag Huttentechniks
MEA	Ministry of External Affairs
MOP	Muriate of Potash
MOP&NG	Ministry of Petroleum and Natural Gas
MOS	Ministry of Steel
MOST	Ministry of Surface Transport

MOU	Memorandum of Understanding
MRBC	Mumbai Regional Business Centre
MRP	Maximum Retail Price
MSV	Multipurpose Supply Vessels
MTD	Major Technology Development
MTPA	Million Tonnes Per Annum
MUP	Minimum Upset Price
NAA	National Airports Authority
NAADP	Narayanpur Agri and Agricultural Development Project
NAC (ST)	The Notified Area Council, (Steel Township)
NAD	National Airports Division
NCL	Northern Coalfields Limited
NFL	National Fertilisers Limited
NIT	Notice Inviting Tender
NM	Nautical Miles
NSB	Nhava Supply Base
NSR	Net Sales Realisation
O&M	Operation and Maintenance
ONGC	Oil and Natural Gas Commission
OSV	Offshore Supply Vessel
PDA	Per diem allowance
PG	Performance Guarantee
PGB	Performance Guarantee Bond
PHHL	Pawan Hans Helicopters Limited
PIB	Public Investment Board
PMD	Project Micro Plan Document
PMS	Periodical maintenance schedule
PMT	Per Metric Tonne
PPCL	Pyrites, Phosphate and Chemicals Limited
PPI	Plant Performance Improvement
PPL	Paradeep Phosphates Limited
PSF	Passenger Service Fee
PSU	Public Sector Undertakings
PW	Potable Water
R&D	Research and Development
R&M	Repairs and maintenance

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RAU	Regional Accounting Unit
RBI	Reserve Bank of India
RCE	Revised Cost Estimate
RDCIS	Research and Development Centre for Iron and Steel
RED	Regional Executive Director
RHF	Reheating Furnace
RINL	Rashtriya Ispat Nigam Limited
RNFC	Route Navigational Facilities Charges
RO	Regional Office
RSP	Rourkela Steel Plant
SADA	Special Area Development Authority
SAIL	Steel Authority of India Limited
SAR	Save and Rescue
SBM	Single Buoy Mooring
SCI	Shipping Corporation of India Limited
SDF	Steel Development Fund
SECL	South Eastern Coalfields Limited
SFRS	Self-financing rehabilitation scheme
SLAO	Special Land Acquisition Officer
SMS	Steel Melting Shop
SPC	Sale/Purchase Committee
SSP	Single Super Phosphate
STA	Short Term Assignment
STC	The State Trading Corporation of India Limited
SWC	State Warehousing Corporation
TA	Travel Allowance
TAC	Technical Advisory Committee
TCB	Tehri Control Board
TFL	Trimurti Fertilisers Limited
THDC	Tehri Hydro Development Corporation Limited
TNLC	Terminal Navigational Landing Charges
TPE	Tiazpromexport
UBI	United Bank of India
UP	Uttar Pradesh
UPJN	UP Jal Nigam
UPPWD	Uttar Pradesh, Public Works Department

UPRNN	UP Rajkiya Nirman Nigam
VAI	Voest Alpine Industrieanlagenbau GmbH
VAIL	Voest Alpine (India) Private Limited
VMSL	Vridhishree Marketing and Services Limited
WCL	Western Coalfields Limited
WM	Water Maker

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