LT-8605/08

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

संतोष मोहन देव
SONTOSH MOHAN DEV
भारी उद्योग एवं लोक उद्यम मंत्रालय

Minister of Heavy Ind. & Public Enterprises

दिनांक/Date...

PAPERS LAID ON THE TABLE
OF THE RAJYA SABHA

ON

संसद ग्रंथालय
REPORTS
PARLIAMENT LIBRARY

Report of the Comptroller and Auditor General of India

for the year ended March 2007

Union Government (Commercial)

Compliance Audit Observations

No. CA 11 of 2008

CONTENTS

CHAPTER/ PARAGRAPH	SUBJECT	PSU	PAGE NO.
	PREFACE		ix
	OVERVIEW		xi
Chapter I	**DEPARTMENT OF ATOMIC ENERGY**		
1.1.1	Avoidable loss due to short payment of advance tax	Nuclear Power Corporation of India Limited	1
Chapter II	**DEPARTMENT OF BANKING**		
2.1.1	Loss due to non-disposal of shares	Industrial Investment Bank of India Limited	3
2.2.1	Non-recovery of contractual dues	UTI Asset Management Company Private Limited	4
Chapter III	**DEPARTMENT OF CHEMICALS AND PETROCHEMICALS**		
3.1.1	Irregular payment to employees	Hindustan Insecticides Limited	6
3.2.1	Avoidable expenditure due to non-reduction in Contracted Maximum Demand from CPDCL	Indian Drugs and Pharmaceuticals Limited	7
Chapter IV	**MINISTRY OF CIVIL AVIATION**		
4.1.1	Continued undue favour to a firm and undermining of Parliamentary control	Air India Limited	9
4.1.2	Extra expenditure due to not finalising the tender for cabin crew accommodation	Air India Limited	10
4.1.3	Avoidable extra expenditure on hotel accommodation for cabin crew	Air India Limited	12
4.2.1	Avoidable payment of sales tax at higher rate	Airports Authority of India	13
4.2.2	Loss of revenue of Rs.1.60 crore in award of car parking contract at Chennai Airport	Airports Authority of India	14

4.2.3	Loss of interest of Rs.1.42 crore due to avoidable payment of Corporate Tax	Airports Authority of India	15
4.2.4	Loss of interest due to imprudent investment in a State Financial Institution.	Airports Authority of India	16
4.2.5	Loss of revenue due to non-recovery of licence fee and royalty from the licencee of Duty Free Shops	Airports Authority of India	18
4.3.1	Rejection of Maintenance Cost Guarantee claims due to non-availability of records	Indian Airlines Limited	19
4.3.2	Irregular payment of Productivity Linked Incentive	Indian Airlines Limited	21
4.3.3	Avoidable expenditure of Rs.9.35 crore on leased aircrafts due to defective agreements	Indian Airlines Limited	22
4.3.4	Avoidable expenditure of Rs.8.39 crore on premium paid for credit risk insurance cover	Indian Airlines Limited	24
4.3.5	Wasteful expenditure on procurement and installation of Remote Air Traffic Control system for A-320 aircrafts	Indian Airlines Limited	25
4.3.6	Avoidable expenditure due to delay in finalisation of contract	Indian Airlines Limited	26
Chapter V	**MINISTRY OF COAL**		
5.1.1	Loss of Rs.9.35 crore due to pilferage of raw coal in transit	Bharat Coking Coal Limited	29
5.2.1	Loss of revenue due to shortfall in dispatch of raw coal to Gidi washery	Central Coalfields Limited	30
5.3.1	Short recovery of Burnt Oil in subsidiaries of Coal India Limited	Coal India Limited	31
5.4.1	Non-recovery of actual transportation charges	Mahanadi Coalfields Limited	36
5.5.1	Avoidable expenditure due to re-tendering	Neyveli Lignite Corporation Limited	37
Chapter VI	**MINISTRY OF COMMERCE AND INDUSTRY**		
6.1.1	Non-recovery of Rs.119.14 crore due to lapses in monitoring the execution of a contract	The State Trading Corporation of India Limited	39

Chapter VII	MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION		
7.1.1	Extra subsidy burden due to inclusion of inadmissible incidentals	Food Corporation of India	41
7.1.2	Short accountal of storage gain in wheat	Food Corporation of India	42
7.1.3	Avoidable payment of interest charges	Food Corporation of India	43
7.1.4	Excess payment of interest charges for procurement of Custom Milled Rice	Food Corporation of India	44
7.1.5	Loss in disposal of bajra in Haryana region	Food Corporation of India	45
7.1.6	Non-recovery of Value Added Tax	Food Corporation of India	47
7.1.7	Loss in disposal of maize	Food Corporation of India	48
7.1.8	Avoidable loss due to non-compliance of Government of India's instructions and excess issue of foodgrains under mid-day meal scheme	Food Corporation of India	49
Chapter VIII	**MINISTRY OF DEFENCE**		
8.1.1	Unnecessary interest payment	Bharat Earth Movers Limited	51
8.1.2	Protracted delay in amending the purchase order resulted in foregoing of income of Rs.4.44 crore	Bharat Earth Movers Limited	51
8.2.1	Incorrect evaluation of tender	Hindustan Aeronautics Limited	52
8.2.2	Forfeiture of revenue due to repair of engines on free of cost basis	Hindustan Aeronautics Limited	54
8.2.3	Procurement of unproductive inventory	Hindustan Aeronautics Limited	55
Chapter IX	**DEPARTMENT OF FERTILIZERS**		
9.1.1	Wasteful expenditure due to not utilising the repaired diesel generator engine	Madras Fertilizers Limited	57
9.2.1	Extra expenditure due to delay in acceptance of offer	Rashtriya Chemicals and Fertilizers Limited	58

Chapter X	MINISTRY OF FINANCE (Insurance Division)		
10.1.1	Loss due to charging premium at incorrect rate	National Insurance Company Limited	60
10.1.2	Under loading of premium	National Insurance Company Limited	61
10.1.3	Loss due to charging incorrect rates	National Insurance Company Limited	61
10.2.1	Excess settlement of claim	The New India Assurance Company Limited	62
10.3.1	Imprudent underwriting resulting in loss of revenue	The New India Assurance Company Limited and National Insurance Company Limited	63
10.4.1	Short recovery of premium due to violation of Tariff	The Oriental Insurance Company Limited	65
10.4.2	Loss due to undercharge of premium	The Oriental Insurance Company Limited	66
10.5.1	Avoidable excess payment of reinsurance premium	United India Insurance Company Limited	67
10.5.2	Loss due to under charging of premium	United India Insurance Company Limited	68
10.5.3	Loss due to remittances of Service Tax on provisional basis	United India Insurance Company Limited	69
Chapter XI	**DEPARTMENT OF HEAVY INDUSTRIES**		
11.1.1	Non-realisation of Rs.4.22 crore from a customer	Bharat Heavy Electricals Limited	71
11.1.2	Extra expenditure due to non-placement of order as per the tender enquiry	Bharat Heavy Electricals Limited	72
11.1.3	Avoidable extra expenditure of Rs.1.34 crore	Bharat Heavy Electricals Limited	73
11.2.1	Avoidable payment of liquidated damage of Rs.4.12 crore	Heavy Engineering Corporation Limited	74
Chapter XII	**MINISTRY OF MINES**		
12.1.1	Avoidable payment of interest of Rs.2.76 crore due to short payment of advance Income Tax	National Aluminum Company Limited	77

Chapter XIII	MINISTRY OF NEW AND RENEWABLE ENERGY		
13.1.1	Loss due to irregular sanction and disbursement of loan	Indian Renewable Energy Development Agency Limited	79
Chapter XIV	**MINISTRY OF PETROLEUM AND NATURAL GAS**		
14.1.1	Idle investment on construction of Naphtha pipeline	Bharat Petroleum Corporation Limited	81
14.2.1	Avoidable expenditure due to supply of Naphtha that did not comply with the buyers specifications	Chennai Petroleum Corporation Limited	82
14.2.2	Avoidable expenditure	Chennai Petroleum Corporation Limited	83
14.3.1	Wasteful expenditure on Liquefied Petroleum Gas marketing activities	GAIL (India) Limited	85
14.3.2	Loss of interest	GAIL (India) Limited	86
14.4.1	Unproductive payment of incentive	Hindustan Petroleum Corporation Limited	87
14.4.2	Avoidable payment of penal charges amounting to Rs.2.18 crore	Hindustan Petroleum Corporation Limited	89
14.4.3	Non-recovery of dues due to failure to encash the bank guarantee	Hindustan Petroleum Corporation Limited	90
14.4.4	Avoidable expenditure of Rs.1.32 crore due to delay in procurement of panels	Hindustan Petroleum Corporation Limited	91
14.5.1	Unfruitful expenditure on infrastructure due to unsuitable feed stock	Indian Oil Corporation Limited	92
14.5.2	Wasteful expenditure on exploration project	Indian Oil Corporation Limited	94
14.5.3	Idle investment in Sulphur Recovery Unit	Indian Oil Corporation Limited	95
14.5.4	Avoidable expenditure of Rs.9.07 crore	Indian Oil Corporation Limited	96
14.5.5	Avoidable expenditure on transportation of bulk Liquefied Petroleum Gas	Indian Oil Corporation Limited	98
14.5.6	Wasteful expenditure and idle investment	Indian Oil Corporation Limited	99
14.5.7	Loss due to payment of higher transportation rates	Indian Oil Corporation Limited	100

14.6.1	Loss due to sale of Liquefied Petroleum Gas at subsidised rate to ineligible customers	Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited	101
14.7.1	Loss due to sale of crude oil containing basic sediments and water content above the norm	Oil and Natural Gas Corporation Limited	102
14.7.2	Avoidable production loss due to delay in procurement of spares	Oil and Natural Gas Corporation Limited	104
14.7.3	Avoidable expenditure due to non-utilisation of an owned vessel	Oil and Natural Gas Corporation Limited	105
14.7.4	Wasteful expenditure on Portable Top Drive System	Oil and Natural Gas Corporation Limited	106
14.7.5	Non-recovery of flare gas due to delay in procuring lube oil	Oil and Natural Gas Corporation Limited	107
Chapter XV	**MINISTRY OF POWER**		
15.1.1	Loss of Rs.83.73 lakh due to delayed disposal of unutilised cement	North Eastern Electric Power Corporation Limited	110
15.2.1	Avoidable extra expenditure of Rs.1.12 crore	Power Grid Corporation of India Limited	111
15.3.1	Irregular payment of performance incentive/*ex-gratia*	Rural Electrification Corporation Limited	112
Chapter XVI	**DEPARTMENT OF PUBLIC ENTERPRISES**		
16.1.1	Recoveries at the instance of Audit	Airports Authority of India, Food Corporation of India, Mahanadi Coalfields Limited, Eastern Coalfields Limited, Securities Trading Corporation of India Limited, UP Industrial Consultants Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited, United India Insurance Company Limited, Bharat Heavy	115

		Electricals Limited, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, National Hydroelectric Power Corporation Limited, National Highways Authority of India, MECON Limited and Cotton Corporation of India Limited	
Chapter XVII	**MINISTRY OF RAILWAYS**		
17.1.1	Avoidable payment of Rs.3.39 crore	Railtel Corporation of India Limited	116
Chapter XVIII	**DEPARTMENT OF ROAD TRANSPORT AND HIGHWAYS**		
18.1.1	Loss due to payment for additional items of work at a higher rate	National Highways Authority of India	118
18.1.2	Payment of avoidable commitment charges of Rs.1.01 crore	National Highways Authority of India	119
Chapter XIX	**DEPARTMENT OF SHIPPING**		
19.1.1	Loss of interest due to delay in preferring escalation claims	Dredging Corporation of India Limited	122
19.2.1	Avoidable extra expenditure of Rs.1.53 crore	Hindustan Shipyard Limited	123
19.3.1	Delay in acquisition of vessels	The Shipping Corporation of India Limited	124
Chapter XX	**MINISTRY OF STEEL**		
20.1.1	Avoidable extra expenditure of Rs.12.31 crore on import of coal	Bokaro Power Supply Company (Private) Limited	127
20.2.1	Avoidable loss due to short payment of advance tax	National Mineral Development Corporation Limited	128
20.3.1	Irregular payment of Rs.21.29 crore as reward to the employees	Steel Authority of India Limited	129
20.3.2	Loss of Rs.5.37 crore due to premature failure of XLPE cables	Steel Authority of India Limited	131

20.3.3	Avoidable loss of Rs.1.23 crore due to violation of Excise Rules	Steel Authority of India Limited	132
20.3.4	Avoidable expenditure due to delay in lifting of iron ore	Steel Authority of India Limited	134
Chapter XXI	**Follow-up on Audit Reports (Commercial)**		136
	Appendix – I		138
	Appendix – II		139
	Appendix – III		142
	Glossary		156

PREFACE

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

2. The statutes governing some Corporations and Authorities require their accounts to be audited by the CAG and reports to be given by him. In respect of five such Corporations *viz.* Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation, the relevant statutes designate the CAG as their sole auditor. In respect of one Corporation *viz.* Central Warehousing Corporation, the CAG has the right to conduct a supplementary or test audit after audit has been conducted by the Chartered Accountants appointed under the statutes governing the Corporation.

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

4. The Audit Board mechanism was restructured during 2005-06 under the supervision and control of the CAG. The Board, which is permanent in nature, is chaired by the Deputy Comptroller and Auditor General-(Commercial) and consists of senior officers of the CAG. Two technical experts are inducted as special invitees, if necessary. The Assistant Comptroller and Auditor General (Commercial) of the CAG's Office is the Secretary of the Board. The Board approves the topics recommended for performance audit. It also approves the guidelines, audit objectives, criteria and methodology for conducting major performance audits. The Board finalises the stand alone performance audit reports after discussions with the representatives of the Ministry and Management.

5. Annual reports on the accounts of the Central Government Companies and Corporations are issued by the CAG to the Government. For the year 2008, these are:

Compliance Audit Reports (Yellow Series)

Report No.CA 9 - Financial Reporting by Public Sector Undertakings (PSUs): This gives an overall picture of the quality of financial reporting by PSUs and an appraisal of the performance of the Companies and Corporations as revealed by their accounts.

Report No.CA 10 - Information Technology Applications in PSUs: This gives an overall assessment of the use of information technology in selected areas of operations of selected PSUs.

Report No.CA 11 - Compliance Audit Observations: This contains observations on individual topics of interest noticed in the course of audit of the Companies and Corporations in all sectors other than the Companies in the Telecommunications Sector for which a separate report is prepared.

Report No.CA 12 - Compliance Audit Observations: This contains the observations on individual topics of interest noticed in the course of audit of the Companies in the Telecommunications Sector.

Performance Audit Reports (Blue Series)

Report No. PA 9: This contains reviews of selected activities of the Companies and Corporations.

6. The cases mentioned in this Report are among those which came to notice in the course of Audit during 2005-06 and 2006-07 as well as those which came to notice in earlier years but could not be reported.

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

OVERVIEW

I Introduction

1. This Report includes important Audit findings noticed as a result of test check of transactions of Central Government Companies and Corporations conducted by the officers of the CAG of India under Section 619(3) (b) of the Companies Act, 1956 or the statute governing the particular Corporations. The results of Information Technology Audit are included in a separate volume.

2. The Report contains 94 paragraphs relating to 50 PSUs. The draft paragraphs were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 43 paragraphs were not received even as this report was being finalised in November 2007. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of one paragraph, they did not respond despite being reminded.

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

Ministry/Department (Total number of PSUs/ **PSUs involved here**)	**No. of paragraphs**	**Financial implication in the paragraphs (Rs. in crore)**	**Number of paragraphs in respect of which Ministry reply was awaited**
1. Atomic Energy (5/**1**)	1	5.65	1
2. Banking (7/**4**)	2	22.24	1
3. Chemical and Petrochemicals (16/**2**)	2	3.76	0
4. Civil Aviation (12/**3**)	14	124.23	13
5. Coal (10/**6**)	5	101.14	3
6. Commerce and Industry (12/**1**)	1	119.14	1
7. Consumer Affairs, Food and Public Distribution (3/**1**)	8	473.83	4
8. Defence (10/**2**)	5	28.58	2
9. Fertilizers (10/**2**)	2	2.08	1
10. Finance (6/**4**)	10	19.03	4

11. Heavy Industries (54/**2**)	4	11.89	4
12. Mines (4/**1**)	1	2.76	0
13. New and Renewable Energy (1/**1**)	1	30.28	0
14. Petroleum and Natural Gas (20/**6**)	22	375.59	3
15. Power (23/**4**)	3	9.66	1
16. Public Enterprises ([1]/[2])	1	20.71	0
17. Railways (11/**1**)	1	3.39	1
18. Road Transport and Highways (2/**1**)	2	3.30	0
19. Shipping (9/**3**)	3	4.46	2
20. Steel (19/**4**)	6	42.60	2
21. Textiles (13/1[3])	0	0.00	0
Total (247/**50**)	**94**	**1404.32**	**43**

The audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- Loss of revenue of Rs.465.39 crore due to non- maintenance of proper records, non-compliance of rules, regulations and control weakness *etc.*, in 23 paras.

- Violation of contractual obligations, undue favour to contractors *etc.*, amounting to Rs.378.84 crore in four paras.

- Overpayments, wasteful, excess and avoidable expenditure *etc.*, amounting to Rs.256.01 crore in 46 paras.

- Irregular payment to employees, short accountal of inventory and non-disposal of shares *etc.*, amounting to Rs.250.46 crore in 17 paras.

- Idle investment and blocking of funds *etc.*, amounting to Rs.32.91 crore in three paras.

- Rs.20.71 crore were recovered at the instance of Audit in one para.

---

[1] *All the PSUs are under the Department of Public Enterprises.*

[2] *PSUs covered in the para are appearing in the respective Ministry/Department.*

[3] *Para has been included in the consolidated para on 'Recoveries at the instance of Audit'.*

II Highlights

Gist of some important paragraphs included in the Report is given below:

- Inclusion of 'miscellaneous/special element' in the procurement price of levy rice resulted in undue benefit of **Rs.326.21 crore** being passed on to the rice millers by **Food Corporation of India** in Andhra Pradesh, Punjab and Haryana during **2003-04 and 2004-05.**

  (Para 7.1.1)

- **The State Trading Corporation of India Limited** failed to ensure proper monitoring of the dispatches by a technically competent, independent agency resulting in non-recovery of **Rs.119.14 crore**.

  (Para 6.1.1)

- Failure to upgrade and create facilities by **Oil and Natural Gas Corporation Limited** to contain the basic sediments and water content in the crude oil supplies within limits resulted in loss of revenue of **Rs.96.96 crore** during **April 2004 to October 2007**.

  (Para 14.7.1)

- Implementation of a new incentive scheme by **Hindustan Petroleum Corporation Limited** on the basis of performance already attained by the employees and paid for under an existing incentive scheme led to payment of unproductive incentive of **Rs.76.26 crore** during **2006-07**.

  (Para 14.4.1)

- Short accountal of storage gain in wheat valuing **Rs.58.17 crore** in **Food Corporation of India** Punjab region as compared with Haryana region during **2004-05 and 2005-06.**

  (Para 7.1.2)

- Recovery of burnt oil below the achievable level of 47.70 *per cent* by seven subsidiaries of **Coal India Limited** resulted in loss of revenue to the extent of **Rs.55.30 crore** during the period **2002-03 to 2006-07**. Moreover, spilling of toxic waste would cause irreparable damage to the environment.

  (Para 5.3.1)

- The maintenance cost guarantee claims of **Rs.51.74 crore** lodged in **January 2002** by **Indian Airlines Limited** were rejected by M/s. International Aero Engines as the Company failed to furnish cost records for material and labour consumed by the Company.

  (Para 4.3.1)

- Oil Marketing Companies *viz.*, **Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited** incurred avoidable loss of revenue of **Rs.47.14 crore** on sale of liquefied petroleum gas at concessional rate to ineligible category of customers during **July 2002 to April 2003.**

(Para 14.6.1)

- **Indian Airlines Limited** made an irregular payment of Productivity Linked Incentive of **Rs.19.35 crore** *per annum* to officers of the Company in violation of the scheme approved by the Board of Directors resulting in an extra financial burden on the Company of **Rs.43.54 crore** from **January 2005 to March 2007**.

(Para 4.3.2)

- Expenditure of **Rs.43.29 crore** incurred in **March 2001** by **Indian Oil Corporation Limited** on infrastructure for production of Butene–I proved unfruitful due to failure to ensure the guaranteed quality of feed stock.

(Para 14.5.1)

- Actual period of custody and maintenance was not considered for fixation of interest charges for wheat procured by **Food Corporation of India** from State agencies in Punjab and Haryana resulting in avoidable payment of **Rs.38.68 crore** during **2002-03 and 2003-04**.

(Para 7.1.3)

- **Indian Renewable Energy Development Agency Limited** suffered a loss of **Rs.30.28 crore** between **February 2000 and April 2002** due to disbursement of loan to an ineligible borrower in contravention of its financial guidelines.

(Para 13.1.1)

- **Central Coalfields Limited** sustained a revenue loss of **Rs.29.27 crore** during the years **2003-04 to 2006-07** due to shortfall in dispatch of raw coal feed to Gidi washery from the linked mines, thereby foregoing the price advantage in supplying washed coal.

(Para 5.2.1)

- **Indian Oil Corporation Limited** incurred a wasteful expenditure of **Rs.28.44 crore** due to lack of due and diligent risk assessment before participating in an exploration and production joint venture in **2001**.

(Para 14.5.2)

- Interest charges at 9.10 *per cent* in place of **Food Corporation of India** rate of interest at 8.15 *per cent* was paid to the State Agencies for procurement of

Custom Milled Rice resulting in excess payment of **Rs.26.03 crore** during Kharif Marketing Season **2004-05 and 2005-06.**

(Para 7.1.4)

- **Indian Oil Corporation Limited** failed to assess the design parameters of available inputs realistically resulting in idle investment of **Rs.19.79 crore** since **November 2005** in Sulphur Recovery Unit and an interest liability of **Rs.1.99 crore** on the investment.

(Para 14.5.3)

- During the years **2004 and 2007 the Steel Authority of India Limited** made irregular payment of cash reward amounting to **Rs.21.29 crore** to its employees in contravention of the guidelines issued by Department of Public Enterprises.

(Para 20.3.1)

- Sixteen PSUs recovered **Rs.20.71 crore** during **2006-07** on account of non-recovery, short recovery, undue payment, excess payment, excess allowance of discount *etc*., at the instance of Audit.

(Para 16.1.1)

- **Food Corporation of India,** Haryana suffered a loss of **Rs.5.39 crore** in disposal of bajra during **2003-04** due to delay in fixation of rates. An opportunity to realise **Rs.9.57 crore** more on sale of bajra during **2004-05** was also lost due to non-consideration of market rates.

(Para 7.1.5)

- **UTI Asset Management Company Private Limited** did not allocate indirect sales administration expenses of **Rs.13.37 crore** incurred by it during **February 2003 to March 2006** to the mutual fund schemes resulting in loss of revenue.

(Para 2.2.1)

- **Bokaro Power Supply Company (Private) Limited** imported 0.46 lakh MT of coal during **2005-06** on the ground of acute shortage without reviewing the actual availability and consumption pattern, resulting in avoidable extra expenditure of **Rs.12.31 crore.**

(Para 20.1.1)

- In disregard of the recommendations of the Committee on Public Undertakings, **Air India Limited** had not quantified the excess amount paid during the years **1998-99 and 1999-2000** to a sales agent; continued to extend undue favour to the same party; did not recover an amount of **Rs.11.66 crore** out of Rs.13.82 crore.

(Para 4.1.1)

- **Air India Limited** did not finalise the tender for cabin crew accommodation despite securing a tender at rates lower than the rates payable as per the existing contract and consequent extension of prevailing contract for three years resulting in extra expenditure of **Rs.10.87 crore** for the period from **December 2004 to November 2007**.

(Para 4.1.2)

CHAPTER I: DEPARTMENT OF ATOMIC ENERGY

Nuclear Power Corporation of India Limited

1.1.1 Avoidable loss due to short payment of advance tax

The Company's failure to pay advance tax as per the provisions of the Income Tax Act in two years resulted in avoidable payment of Rs.5.65 crore towards interest under section 234B and 234C of the Income Tax Act.

Under Section 234C read with Section 208 of the Income Tax Act 1961 (Act), if in any financial year, the advance tax paid by a Company on its current income on or before 15 June is less than 15 *per cent* of the tax due on the returned annual income; that paid on or before 15 September is less than 45 *per cent*; that paid on or before 15 December is less than 75 *per cent* and the last instalment paid on or before 15 March is less than 100 *per cent* of the tax due on the returned income, the Company shall be liable to pay interest at the prescribed rates on the shortfall. Further, the assessee is liable to pay interest under Section 234B of the Act if the total advance tax paid is less than 90 *per cent* of the assessed tax.

Nuclear Power Corporation of India Limited (Company) made short payment of advance tax in all the 12 quarters of assessment years 2003-04 to 2005-06. The shortfall ranged between 6.93 *per cent* and 34.43 *per cent* as per **Appendix-I.** Consequently, the Company had to pay interest of Rs. 20.71 crore.

During Audit it was observed (December 2006) that the Company had incorrectly worked out the estimated profit resulting in short payment of advance tax in the three assessment years 2003-04 to 2005-06. In response, the Department of Atomic Energy (Department) stated (August 2007) that the estimation of income for payment of advance tax differed due to the followings reasons:

(i) Operating profit for the assessment year 2004-05 increased by Rs.460 crore due to retrospective increase in tariff and reduction in heavy water price with consequential reduction in value of inventory at various stations.

(ii) Delayed payment charges and interest thereon amounting to Rs.631.30 crore were collected in September-October 2003 as per the Ahluwalia Committee recommendations

(iii) Tax reimbursements relating to earlier years were received from State Electricity Boards as per Ahluwalia Committee recommendations to the extent of Rs.37.02 crore, Rs.191.65 crore and Rs.254.38 crore respectively for assessment years 2003-04 to 2005-06.

For the assessment year 2003-04, reply of the Department was not tenable as the reimbursement of tax might had total impact of tax of Rs.12.96 crore only while short payment of tax ranged from Rs.15.09 crore to Rs.62.07 crore. For assessment year

2004-05[1], the Company may be justified for short payment of advance tax, however, based on the experience for the assessment year 2004-05, it could have more correctly estimated its profit for the assessment year 2006-07 taking into account expected tax reimbursements.

Thus, short payment of advance tax for the assessment years 2003-04 and 2005-06 resulted in avoidable loss of Rs.5.65 crore[2] due to short payment of advance tax.

[1] ***Interest payment for the assessment year 2004-05 have been excluded from the avoidable payment of interest***

[2] ***The loss has been reduced by the amount of Rs.5.97 crore on the assumption that the Company might have earned interest on short term deposits at the rate of six per cent per annum for the funds retained by it and also the tax implication of income of Rs.37.02 crore received in assessment year 2003-04.***

CHAPTER II: DEPARTMENT OF BANKING

Industrial Investment Bank of India Limited

2.1.1 Loss due to non-disposal of shares

The Company lost an opportunity of recovering at least Rs.8.87 crore, the principal amount of a non-performing asset, by not selling the shares in time.

Industrial Investment Bank of India Limited (Company) extended three loans to Kothari Sugars and Chemicals Limited (KSCL) aggregating Rs.18.05 crore in 1990 and 1997. KSCL had been defaulting in repayment of the outstanding amount since June 1998 due to adverse operating conditions. In May 1999, the Company recalled the loans and filed an application with the Debt Recovery Tribunal for recovery of its dues. KSCL had been referred to BIFR[1] in March 1999 and was declared 'sick' in August 1999. In line with the approved (June 2004) Draft Rehabilitation Scheme of AAIFR[2], KSCL proposed a separate rehabilitation-cum-One Time Settlement (OTS) proposal which was approved (July 2004) by the Company. As per the OTS, the Company received Rs.6.51 crore upfront and 38,43,800 equity shares of KSCL at a face value of Rs.10 *per* share as full and final settlement against the outstanding dues of Rs.50.83 crore[3] as on 15 May 2004. KSCL allotted the equity shares in November 2004.

KSCL shares were listed in the stock exchange on 13 December 2004. The share price closed at Rs.117.30 on 14 December 2004 but thereafter it fell and recorded a high/low of Rs.84/67 *per* share on 16 December 2004. Taking cognisance of the sharp downward movement of the share price, the Corporate Management Team (CMT) recommended on 16 December 2004 that the share should be sold within five days at market related price but in no case less than Rs.25 *per* share. It further recommended that the Company should initially sell such number of share so as to recover Rs. nine crore, which was enough to cover Rs.8.87 crore, the unrecovered principal component of the loan.

Audit observed (November 2005) that despite the recommendation of CMT, the Company did not move into the share market for sale of shares and lost the opportunity to sell the share at a high value. The share price steadily fell to Rs.61 *per* share on 31 December 2004 and reached Rs.32.25 by 31 January 2005. The closing share price of KSCL as on 1 October 2007 was Rs.13.80. As the effective cost of acquisition was Rs.23.10[4] *per* share, it was an attractive exit opportunity.

The Management stated (April 2007) that the Company decided to wait and watch the buoyant position of the market before disinvestment of any part of the equity portfolio

[1] ***Board for Industrial and Financial Reconstruction***

[2] ***Appellate Authority for Industrial and Financial Reconstruction***

[3] ***Principal of Rs.15.38 crore, interest of Rs.27.78 crore and liquidated damage of Rs.7.67 crore***

[4] ***Principal outstanding Rs.8.87 crore (Rs.15.38 crore less Rs.6.51 crore) divided by 38,43,800 shares allotted***

due to its comfortable liquidity position. In the intervening period the share price of KSCL declined below Rs.25 and the Company could not sell the shares at the price fixed by the CMT. It also stated that sugar is a cyclical industry and the situation will improve with the buoyancy and better performance of the sugar industry.

The contention of the Management was not tenable. Despite a clear recommendation of the CMT, the Company failed to avail of the opportunity to recoup a part of its non-performing asset and cut losses. This assumed special importance in the context of the decline in the Company's financial position and its decision to focus on recoveries from non-performing assets and exiting from assets under stress as stated in the Chairman and Managing Director's message in the Annual Report 2003-04.

Thus, by not offloading the share during the opportune period the Company failed to recover at the least the principal dues of Rs.8.87 crore in December 2004.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

UTI Asset Management Company Private Limited

2.2.1 Non-recovery of contractual dues

The Company did not allocate indirect sales administration expenses of Rs.13.37 crore incurred by it during the period from February 2003 to March 2006 to the mutual fund schemes resulting in loss of revenue.

UTI Asset Management Company Private Limited (Company) was engaged (December 2002) as asset manager by UTI Trustee Private Limited to manage the funds under its various mutual fund schemes (schemes). As per clause 8.1(a)(v) of the investment management agreement, the Company was to charge to the schemes all expenses, fees, concessions, remunerations and charges paid by it, as necessary and where possible to identify, before distributing the income from the schemes to the unit holders. Further, as per SEBI's Mutual Fund Regulation 1996 (Chapter VII, Section 52(4)(b), the Company was also permitted to charge the schemes for recurring expenses like marketing and selling expenses, agent's commission and brokerage.

The Company appointed chief representatives (CR) to promote district level sale of units of the schemes and availed the services of brokers for launching the schemes. However, Audit noted (October 2006) that the Company did not allocate the recurring indirect sales administration expenses (expenses) towards payment to CRs and brokers during the period from February 2003 to March 2006 to the schemes despite SEBI's directions and aggregate amount not charged amounted to Rs.13.37 crore.

On being pointed out by Audit, the Company started to allocate the expenses to the schemes with effect from April 2006 and had recovered Rs.5.41 crore from the income of individual schemes prior to distribution of dividend till June 2007. In respect of earlier period (from February 2003 to March 2006), the Management stated (June 2007) that it was not possible to recover the expenses for the period prior to April 2006 from the schemes as accounts of the schemes relating to those years had already been finalised and

circulated to unit holders. The Ministry endorsed (October 2007) the reply of the Management.

Thus, the Company by not allocating the indirect sales administration expenses to the schemes it managed, suffered a loss of Rs.13.37 crore.

CHAPTER III: DEPARTMENT OF CHEMICALS AND PETROCHEMICALS

Hindustan Insecticides Limited

3.1.1 Irregular payment to employees

The Company made irregular *ex-gratia* payments of Rs.3.10 crore to its employees for the period 1998-99 to 2005-06.

As per the DPE's instructions (20 November 1997), no *ex-gratia*, honorarium, reward, *etc.*, was to be paid by the Public Sector Enterprises (PSEs) to their employees, over and above their entitlements under the provisions of the Payment of Bonus Act, 1965 unless the amount was authorised by the Government under a duly approved incentive scheme.

In November 1998, the Company decided to discontinue with its existing[1] PLI scheme and introduce a revised scheme. However, the Company continued to make an annual *ex-gratia* payment at a flat rate of Rs.2,000 *per* employee during 1998-99 and 1999-2000 calling it 'Festival allowance/non-recoverable advance' and between 2000-01 to 2002-03 as 'PLI advance' aggregating to Rs.2.08 crore. In March 2004 the Board of Directors of the Company decided that since the Company had been referred to BIFR[2] it would not be possible to introduce or review any incentive scheme at that stage. The payments already made in the interim were however, regularised. However, the Company continued to make an *ex-gratia* payment at the same rate to all employees during the period 2003-04 to 2005-06 aggregating to Rs.1.02 crore.

It was observed in Audit (February 2006) that the Board in approving the payment of 'Festival Allowance' for the year 1997-98 as a special case, observed that such payments in future would be made only on the basis of approved PLI scheme. Despite the observations of the Board and abandonment of the original scheme in 1998 followed by the decision of the Board not to introduce a new or revised scheme the Company continued to make irregular *ex-gratia* payments to its employees amounting to Rs.3.10 crore during the period 1998-99 to 2005-06.

The Management stated (June 2007) that the Company had a duly approved incentive scheme in operation since 1981. The revised scheme was under consideration of the Board and it had not rejected (March 2004) the PLI scheme. It felt that the proposal could be reviewed afresh only when the performance of the Company improved and the Company would be in a position to pay PLI. The Ministry endorsed (July 2007) the reply of the Management.

The reply was not tenable as the scheme of 1981 had been discontinued from 1997-98 due to change in operations of the Company. The payment of *ex-gratia* was approved by

[1] *The PLI scheme had been in operation since 1981*

[2] *Board for Industrial and Financial Reconstruction*

the Board of the Company (January 1999) as a special case with the condition that in future no such payment would be made otherwise than on the basis of approved PLI scheme. The payments were irregular as these were neither made under any approved PLI scheme nor were the recipients covered under the Payment of Bonus Act, 1965.

Thus, the *ex-gratia* payment of Rs.3.10 crore made by the Company to its employees was irregular.

Indian Drugs and Pharmaceuticals Limited

3.2.1 Avoidable expenditure due to non-reduction in Contracted Maximum Demand from CPDCL

Failure on the part of the Management in taking timely decision for reduction of Contracted Maximum Demand resulted in extra expenditure of Rs.66.39 lakh towards the minimum billing charges from April 2004 to May 2007.

The Synthetic Drugs Plant (the unit) of the Company had a power supply connection with a Contracted Maximum Demand (CMD) of 5,000 KVA. As per the tariff applicable, if the actual consumption was less than 80 *per cent* of the CMD, there was a liability to pay demand charges for a minimum of 80 *per cent* of CMD. The unit applied (March 2002) for reduction of CMD from 5,000 KVA to 1,500 KVA which was approved by the Central Power Distribution Corporation Limited of Andhra Pradesh (CPDCL) in December 2003 with effect from January 2004. During the period April 2002 to March 2004 the actual consumption showed a further declining trend. The actual consumption decreased from 1,184 KVA to 388 KVA. Despite the declining trend the Company did not assess its power requirement/consumption and did not initiate action to further revise the CMD to 500 KVA before April 2004.

The monthly consumption bills during the period April 2004 to March 2007 revealed that the actual consumption of electricity ranged between 219 KVA to 370 KVA, far lower than 1,200 KVA* and the Company incurred an avoidable expenditure of Rs.66.39 lakh considering the CMD as 500 KVA.

The Ministry in its reply stated (July 2007) that:

(i) revival of the plant was being contemplated by Government; and

(ii) Government of Andhra Pradesh had agreed to waive outstanding dues of the unit to the extent of Rs.206.77 crore, including Rs.140.05 crore to be paid to CPDCL.

The Ministry reply was not acceptable in view of the following:

(i) The unit has very few employees on its rolls. The revival of unit when undertaken would be over a period of time including recruitment and start of any substantial activities. As such notwithstanding the revival plan the Company had a

* *Eighty per cent of Contracted Maximum Demand of 1,500 KVA*

compelling need to reduce CMD as there was continuous decline in its demand for electricity and thereby save on avoidable expenditure.

(ii) The CMD charges have already been paid and hence could not be part of outstanding arrears. The benefit of waiver of dues cannot logically be extended to payments already made.

The Company had subsequently applied (May 2007) for reduction in CMD from 1,500 KVA to 500 KVA to CPDCL.

Thus, failure to take timely action for reduction of CMD resulted in avoidable extra expenditure of Rs.66.39 lakh.

CHAPTER IV: MINISTRY OF CIVIL AVIATION

Air India Limited

4.1.1 Continued undue favour to a firm and undermining of Parliamentary control

In disregard to the recommendations of the Committee on Public Undertakings, Air India Limited did not quantify the excess amount paid during the years 1998-99 and 1999-2000 to a sales agent and continued to extend undue favour to the party.

Paragraph 3.1.1 of the Report of the Comptroller and Auditor General of India, Union Government (Commercial) (No. 3 of 2002) brought out the case of undue favour by way of excess payment of Rs.57.02 crore extended by Air India Limited (Company) to its General Sales Agent *viz.*, M/s. Welcome Travels appointed for UK during 1987-2000. The excess payment included Rs. 13.82 crore paid during the three years 1997-98 (GBP£ 0.65 million), 1998-99 (£ 0.69 million) and 1999-2000 (£ 0.69 million) which was not admissible due to application of incorrect principle of calculation.

The matter was examined by the Committee on Public Undertakings (COPU), 13th Lok Sabha, in detail. The COPU in its Ninth Report (2002-03) had recommended (April 2003) that the Government should:

(i) in the first instance, quantify the amount of excess payment made to the GSA;

(ii) Make all out efforts for recovery of the excess payment; and

(iii) Terminate the existing arrangement with M/s. Welcome Travels in case the party did not agree to repay the excess amount.

The COPU also recommended that the report of an 'internal committee' appointed by the Company to explore alternative means of marketing and distribution should be finalised and implemented within two months from the date of presentation of the Report.

The Company appointed (July 2000) M/s. Welcome Travel, M/s. Travelpack and M/s. Somak Travel Limited as consolidators and switched over the sales arrangement through the consolidators with effect from July 2000.

The COPU (fourteenth Lok Sabha) in its Fourth Report (2004-05) on 'Action Taken by the Government' (ATR), on this matter expressed displeasure on the evasiveness and delay in implementation of its recommendations by the Company as well as the Government and recommended (April 2005) once again that the Company should vigorously pursue the case and make all out efforts for expediting the recovery of the excess payment from M/s. Welcome Travel besides developing alternative marketing channels within a definite time frame of two months of these recommendations.

Audit review (March 2006) revealed that the Company recovered (February 2006) an excess amount of only £ 0.27 million (Rs.2.16 crore) which had been paid to M/s. Welcome Travel for the year 1997-98 and had been established by Central Bureau of Investigation and had made no efforts to quantify and recover the excess amount for the remaining two years period 1998-99 to 1999-2000.

From December 2005, the Company appointed five consolidators *viz.*, M/s. Welcome Travels, M/s. Southall Travels, M/s. Travelpack, M/s. Somak Travel Limited and M/s. Brightsun Travel for UK region. The Consolidators were to provide a bank guarantee against their projected sales. Based on the recommendations of the Company's internal committee, all the consolidators were advised by the Company's sales office at London in December 2005 to report their sales through Bank Settlement Process (BSP).

Initially when the revised arrangement came into force in December 2005, of the five consolidators, only M/s. Welcome Travel continued to issue manual tickets obtained from the Company and settle the accounts separately through cheques outside BSP, while the others reported their sales through BSP. The Company issued manual tickets to M/s. Welcome Travel from its stock without obtaining any extra bank guarantee. However, later two more consolidators *viz.*, M/s. Somak travel and M/s. Travelpack besides reporting of their sales through BSP also started obtaining manual tickets from Air India Limited and settle the accounts separately through cheques. Other two consolidators *viz.*, M/s. Brightsun Travel and M/s. Southall Travel were reporting sales through BSP only.

Thus, in total disregard to the recommendations made by COPU, the Company failed to quantify the excess amount paid to M/s. Welcome Travel during the years 1998-99 and 1999-2000 and recover it. Further, the Company continued to extend further undue favour to M/s. Welcome Travel by allowing them to follow a different set of procedures in issuing tickets and settling payment.

In reply, the Management stated (December 2006) that there was no excess payment due for recovery from M/s. Welcome Travel beyond 1997-98. The Company however, did not provide the basis on which it had concluded that no further amount was due for recovery from M/s. Welcome Travel and, hence, the reply was not acceptable. Further, while the Company's internal committee suggested the manner of developing alternative market channels, M/s. Welcome Travel was allowed to follow a manual settlement procedure. The Management was silent on this issue in its reply.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

4.1.2 Extra expenditure due to not finalising the tender for cabin crew accommodation

Air India Limited did not finalise the tender for cabin crew accommodation despite securing a tender at rates lower than the rates payable as per the existing contract and consequent extension of prevailing contract for three years resulting in extra expenditure of Rs.10.87 crore.

Air India Limited (AIL) entered into an agreement (December 2002) with Intercontinental Hotel, Frankfurt for cabin crew accommodation at Euro 99 *per* room *per* day. The rate was subsequently (June 2004) reduced to Euro 94.36. As the agreement was to end in December 2004, AIL floated tender for cabin crew accommodation in August/September 2004. In response to the tender, eleven hotels quoted and on the basis of the services offered, capacity to provide required number of rooms, *etc.* AIL short listed eight hotels. The Hotel Evaluation Team (HET) of AIL comprising representatives from Inflight Services Department, Finance and All India Cabin Crew Association (AICCA) along with the Airport Manager, Frankfurt inspected the eight hotels in November 2004.

The HET found four of the eight short listed hotels as technically suitable. However, AICCA representative gave a dissent note on technical suitability of two of the four hotels stating that these hotels did not have proper lighting arrangements, 24 hours coffee shop, room service and availability of Indian meals in the vicinity of the hotels, *etc.* These issues had also been considered by the other members of the HET and based on their observation that sufficient eating outlets were available within the walking distance and the concerned hotel had given an assurance in writing that the lighting would be appropriately arranged, the HET included the two disputed hotels in the list of technically suitable hotels. AIL opened (November 2004) the financial bids of the four technically qualified hotels. The rate quoted by Intercontinental Hotel was the highest at Euro 101.31. The rates quoted by two hotels, objected to by the AICCA representative, were found to be the lowest (L_1) at Euro 74 and second lowest (L_2) at Euro 81.34. However, no fresh contract was awarded and instead the prevailing contract with Intercontinental Hotel at comparatively higher rates (Euro 94.36) was periodically extended with effect from 6 December 2004 onwards till date (November 2007).

Audit observed (June 2006) that despite finding the reservations of the AICCA representative unfounded and opening of the financial bids of all the four technically qualified hotels, AIL did not award the contract to the L_1 hotel which was cheaper compared to the existing rate of Intercontinental Hotel and instead, AIL continued to extend the existing contract with Intercontinental Hotel from December 2004 till date (November 2007) at the higher rates. Thus, failure of AIL in awarding the contract to the lowest bidder resulted in an avoidable extra expenditure of Rs.10.87 crore during the period from December 2004 to November 2007.

The Management in reply stated (August 2007) that the Company decided not to house cabin crew in the two hotels (which ranked L_1 and L_2 in the bidding process) in view of the objection of AICCA representative and that the contract could not be awarded to the L_3 hotel as Central Vigilance Commission (CVC)'s guidelines prohibited awarding of contract other than to L_1 party and that fresh tendering process had been initiated. The Management confirmed that interim arrangement was continuing with Intercontinental Hotel. The Ministry endorsed (November 2007) the Management's reply.

The reply was not tenable as the Management's decision to open financial bid of technical suitable hotels indicated that the objections of AICCA representative had been considered by the HET and the majority recommendation had been made. In case it felt that the issues were not resolved with AICCA and considering the CVC guidelines, the

Company could have gone in for a fresh tendering process immediately in 2004-05 to get the most economical rates.

Thus, failure to award the contract to the technically and financially acceptable offer of L_1 hotel and extensions to the prevailing contract with Intercontinental Hotel at the rate higher than that of L_1 hotel resulted in avoidable expenditure of Rs.10.87 crore from December 2004 to November 2007.

4.1.3 Avoidable extra expenditure on hotel accommodation for cabin crew

Air India Limited incurred an avoidable extra expenditure of Rs.1.33 crore during the period from December 2005 to October 2006 by not accepting the offer for a long term agreement of the hotel providing accommodation to cabin crew.

Regional office of Air India Limited (Company) at New York invited quotations (August 2004) from local hotels to accommodate its cabin crew. On the basis of the bids received, Air India accepted (October 2004) the offer of Hotel Pennsylvania at a negotiated rate of US$ 110 *per* day plus taxes for the period from 22 October 2004 to 21 March 2005. During the negotiations, the hotel offered to extend the agreement upto 22 October 2006 at the same rate *i.e.*, for two years, which was not accepted. The Company opted for a limited period agreement from 22 October 2004 to 31 March 2005.

Audit observed (December 2006) that though the offer of the hotel for a long term arrangement was not accepted, the limited term arrangement ending 31 March 2005 was extended from time to time till 30 November 2005 at the same rate *i.e.*, US$ 110. With effect from December 2005, the hotel increased the rate to US$ 125 *per* day plus taxes which was accepted by the Company. Thus, due to its failure to avail of a cheaper offer of a long term contract upto October 2006, the Company incurred extra expenditure of Rs.1.33 crore[*] approx (US$ 0.29 million) on account of rate differential on 19,442 rooms booked in the hotel from 1 December 2005 to 22 October 2006.

The Management in its reply (June 2007) stated that the long-term contract could not be accepted because of the objection of Air India Cabin Crew Association (AICCA) and also because they were making efforts to obtain cheaper rates from other hotels.

The reply was not tenable since the Technical Evaluation Committee comprised a representative of AICCA and the Committee recommended the acceptance of the hotel. Moreover, the crew had stayed in the same hotel in the past and in fact, had been staying there since October 2004 till date (June 2007). Further, the Management accepted (January 2007) that the rate offered by the hotel was the best available deal. In so far as identifying cheaper options, it was only in January 2007 that the Company initiated efforts to identify alternate accommodation.

Thus, failure of the Company to capitalise on a long term, economical offer and opting for short term arrangements at higher rates for the accommodation of its cabin crew led to avoidable extra expenditure of Rs.1.33 crore.

The matter was reported to the Ministry; reply was awaited.

---

[*] *Converted at an average rate of Rs.45.53 per US$*

Airports Authority of India

4.2.1 Avoidable payment of sales tax at higher

The Authority did not avail the benefit of l
placing order which resulted in avoidable pay

The Airports Authority of India (Authority) pla
radar equipment from Bharat Electronics Limited
on the recommendations of a negotiating comn
alia also recommended (5 December 2002) that t
to suggest ways and means of reducing the impa
its procurements. The Authority however, did r
impact of sales tax and placed an order (20 Dece
for an aggregate value of Rs.88.09 crore. As per
was Central Radio Stores Depot, New Delhi,
portion of the spares were to be delivered within

The Authority engaged a consultant, on 11 June
of purchase order and negotiating committ
recommended (30 August 2003) that to avail
electronic components, the first point of delivery
the Authority changed the delivery point fron
Pradesh and issued (21 October 2003) a suitable

However, by the time of the issue of the amendr
been delivered at New Delhi after payment of C
to Rs.5.99 crore. The balance quantity was deli
sales tax at four *per cent* (November 2005). Th
prior to 21 October 2003 amounted to Rs.3.59 cr

The Management stated (February 2007) that
Authority was required to follow due procedu
acceptable. Even though it may have taken son
consultant, the Uttar Pradesh Government no
regarding applicability of four *per cent* sales ta
goods was available in the public domain. Besi
without going through the due processes.

Thus, the failure in recognising the availabilit
instance and the delay in engaging a consultant
sales tax of Rs.3.59 crore.

The matter was reported to the Ministry in Ju
2007).

4.2.2 Loss of revenue of Rs.1.60 crore in award of car parking contract at Chennai Airport

The Authority awarded car parking contract at a lower rate on *ad hoc* basis and extended undue benefit to the contractor.

The Airports Authority of India (Authority) manages car parking facilities at airports through contractors. The Authority contracted Ravindra Joshi Medical Foundation (RJMF) for managing the parking at Kamaraj Domestic and Anna International Terminals of Chennai airport for a licence fee of Rs.21.78 lakh *per* month. The contract was upto 31 October 2002. In anticipation of expiry of the contract, the Authority invited tenders (May 2002) for new contract at Minimum Reserve Licence Fee (MRLF) of Rs.21.78 lakh *per* month. However, the contracting process could not be finalised due to the direction of the Madras High Court (May 2002) to hold in abeyance the opening of the tenders till its final decision on the appeal filed by some bidders challenging the eligibility criteria in the Notice Inviting Tenders (NIT) issued by the Authority.

Since RJMF defaulted in remitting the licence fee and was willing to continue with the contract only for a licence fee of Rs.14 lakh *per* month, the Authority decided in September 2002 to terminate the contract before the date of expiry (31 October 2002). Pending finalisation of the new contract, an *ad hoc* arrangement for managing the car park was made on 17 September 2002 with the existing cargo complex contractor M/s. Nav Bharat Enterprises (NBE) for a period of three months at a negotiated licence fee of Rs.15 lakh *per* month. The contract with NBE was renewed/extended periodically and the fee was also periodically revised[1] after negotiations with NBE and was fixed at Rs.33.03 lakh *per* month with effect from June 2005.

In the meantime, the Madras High Court dismissed the petition in August 2003 with the direction to the Authority to amend the definition of the word 'Turnover' in the NIT. The Authority after attending to the Court's direction and revising the MRLF to Rs.37 lakh *per* month, called for fresh tenders in May 2005 which were opened in September 2005. A regular contract was awarded to the existing *ad hoc* contractor (NBE) at highest quoted licence fee of Rs.70.21 lakh *per* month in October 2005.

Audit scrutiny (January 2007) revealed that though the established licence fee with the regular contractor (RJMF) was Rs.21.78 lakh at the time of rescinding the contract, *ad-hoc* contractor was engaged at the licence fee of Rs.15 lakh. Audit also observed that the rates of *ad hoc* licence fee charged from NBE from time to time were much below the contemporary MRLF which resulted in loss of revenue of Rs.1.23 crore[2]. Further, although the Court dismissed the bidder's petition in August 2003 with the direction to the Authority to amend the definition of the word 'Turnover' in the NIT, the Authority took more than one year (September 2004) to do so. It took another six months (April

[1] ***Rs.15.00 lakh w.e.f. 19 September 2002, Rs.18.75 lakh w.e.f. 1 November 2002, Rs.21.00 lakh w.e.f. 19 September 2003, Rs.23.68 lakh w.e.f. 20 September 2004, Rs.31.00 lakh w.e.f. 6 May 2005 and Rs.33.03 lakh w.e.f. 20 June 2005***

[2] ***Difference between ad hoc licence fee charged and MRLF fixed in May 2002 (Rs.21.78 lakh per month) increased at an annual rate of 10 per cent per annum as per the provision of Commercial Manual during the period September 2002 to May 2005 and thereafter at the MRLF fixed (Rs.37 lakh per month) upto 16 October 2005.***

2005) to assess through a survey, the revenue potential and fix the MRLF at Rs.37 lakh *per* month. The final contract was awarded only in October 2005. Thus, the Authority took more than two years to award the contract after the Court's verdict. It was further noted in Audit that NBE was permitted to avail 30 days gestation period after award of the regular contract in October 2005 despite there being no provision to the effect in the contract. It continued to pay licence fee at lower rate of Rs.33.03 lakh *per* month instead of Rs.70.21 lakh *per* month upto 16 November 2005 causing a further loss of revenue of Rs.37.18 lakh.

The Management stated (April 2007) that the time taken in defining the term 'Turnover' was because of the clearances required from many agencies *viz.*, corporate headquarters, Commercial Advisory Board, the Board of Directors and the committee constituted for the purpose. The Management further stated that NBE was permitted 30 days gestation time to mobilise their resources for regular contract and there was no financial loss as NBE paid the amount of pre tender negotiated licence fee of Rs.33.03 lakh during the gestation time of 30 days.

The reply of the Management was not tenable because the initial negotiated licence fee should not have been so significantly less than the licence fee paid by the regular licencee (RJMF) and MRLF fixed by the Authority. Further, the time taken in defining the term 'Turnover' was abnormally long considering that all the agencies involved were within the organisation. The Management's reply of allowing gestation period of 30 days was also not tenable because there was no provision to this effect in the contract and especially as the same contractor who was with the Authority since 2002 was being continued albeit on regular basis and on his quoted rates.

Thus, the Authority suffered revenue loss of Rs.1.60 crore due to avoidable delay in award of regular contract, ad hoc contract being engaged at a lower rate and extending undue benefit to the contractor.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

4.2.3 Loss of interest of Rs.1.42 crore due to avoidable payment of Corporate Tax

Airports Authority of India incurred loss of interest of Rs.1.42 crore due to avoidable payment of Corporate Tax on unrealised licence fee for land allotted to oil companies at Hyderabad airport.

The Hyderabad airport, prior to formation (April 1995) of the Airports Authority of India (Authority), allotted land measuring 3,283.30 square metre to Bharat Petroleum Corporation Limited (BPCL) and 4,925.17 square metre to Indian Oil Corporation Limited (IOCL) for maintaining Aviation Fuelling Service Stations and entered into agreements with the two Companies. The agreements stipulated payment of licence fee at the rate of Rs.72 *per* square metre *per annum*. The agreements expired in November 1996 and March 1998, respectively.

In March 1998, the Authority unilaterally and retrospectively from April 1997 increased the licence fee from Rs.72 *per* square metre to Rs.1,076 *per* square metre *per annum* with

ten *per cent* annual escalation. Accordingly the airport raised bills at the increased rates during November 1999 to March 2003 covering the period from April 1997 to March 2003 and accounted the same as income in its financial reports. However, both BPCL and IOCL refused to pay the licence fee at the increased rates stating that these were on the higher side and continued to pay licence fee at the old rate of Rs.72 *per* square metre *per annum*. In March 2003, the Authority decided that where there was no negotiated settlement, the licence fee from the oil companies would be accounted for at the rates agreed to by them. The rate agreed to and paid by the oil companies at the Hyderabad airport was only Rs.72 *per* square metre *per annum* since April 1992. While the Authority accounted the licence fee at this rate for the subsequent periods, it did not reverse the amount of licence fee amounting to Rs.6.44 crore already billed and accounted for at the increased rates for the period from April 1997 to March 2003.

While auditing the annual financial statements, Audit had been questioning the recognition of licence fee at unilaterally revised rates as revenue since 2000-01. The Management at that stage had assured that in case the amounts were not realised within two years, the amounts recoverable would be suitably adjusted in the accounts of the Authority. It was observed in Audit (April 2006), that by recognising revenue the recovery of which was "doubtful" *ab initio*, the Authority became liable and paid Corporate Tax of Rs.2.49 crore in the assessment years 2001-02 to 2003-04. Further, even after taking the decision to recover the licence fee only on agreed rates in March 2003, the Management did not write off the amounts that were not recoverable thereby losing an opportunity to deduct the unrecoverable amount from its taxable income for the assessment year 2004-05. Consequently, due to an outflow of cash for payment of Corporate Tax, the Authority lost interest of Rs.1.42 crore.

The Management stated (August 2006) that in consultation with other oil companies it was decided that the already billed amount need not be reversed as the Corporate Tax paid would get adjusted whenever accounting entries, if necessitated were passed. The Management's reply was not tenable as the Management had reversed the excess licence fee of Rs.6.44 crore in the accounts for 2006-07, an issue that had earlier been commented by Audit.

Thus, the decision to account for the licence fee at increased rates without valid agreement resulting in payment of avoidable Corporate Tax in the first instance resulted in blocking up of funds and loss of interest of Rs.1.42 crore* during the period 2000-01 to 2006-07.

The matter was reported to the Ministry in September 2007; reply was awaited (November 2007).

4.2.4 Loss of interest due to imprudent investment in a State Financial Institution

Imprudent investment in Pradeshiya Industrial and Investment Corporation despite poor financial indicators resulted in loss of interest of Rs.1.16 crore.

---

* *Calculated at the rate of interest received by the Authority on investment of surplus funds*

The International Airports Authority of India Employees Contributory Provident Fund (IAAI-ECPF) Trust (Trust) invests its surplus funds in designated securities and bonds[*] which are ratified and approved by the Board of Trustees.

The Trust made an investment (December 2001) of Rs. two crore in 13 *per cent* Bonds of Pradeshiya Industrial and Investment Corporation of UP Limited (PICUP), an Uttar Pradesh Government Undertaking, with maturity of seven years and interest payable at half yearly rests. PICUP stopped making payment of interest due in April 2003 and onwards due to its bad financial position and declining trend of interest rates in the market and in October 2003 sought a reduction in the rate of interest to 10 *per cent* or refund of the outstanding amount as soon as its cash flow position permitted. In October 2004, PICUP informed the Trust that it would refund only the principal amount provided the interest was foregone. The Trust did not accept the offers made by PICUP and insisted upon repayment of loan on the agreed terms and conditions. The impasse continued till January 2007, when the Trust decided in principle, to accept PICUP's offer of repayment of principal without payment of interest.

Audit observed that before investing in PICUP bonds, the Trust had not considered the poor financial position of PICUP. As on 31 March 2001, PICUP had accumulated losses of Rs.216.26 crore which were more than the paid-up Capital and Reserves and Surplus of the Company, *i.e.*, net worth was negative and had incurred a loss of Rs.70.66 crore during 2000-01. Further, the Trust did not initiate any legal action to realise the dues; principal or the interest thereon. As of August 2007 both principal of Rs. two crore and outstanding interest of Rs.1.16 crore earned upto March 2007 remained unrealised.

The Management stated (April 2007) that the decision to invest was taken since the bonds were guaranteed by the State Government and the rate of interest quoted by PICUP was the highest. And, no recovery suit was initiated as the attempt was to deal with the issue in a pragmatic way while the UP Government had not responded to the Trust.

The Management's reply was not acceptable as one of the major criteria for investment in bonds is the ability of the entity to repay. The poor financial position of PICUP was evident from its financial statements. Moreover, the PICUP bonds did not have the investment grade rating from any credit rating agency while alternate investment opportunities being considered at that point had these ratings. Despite the persistent default of PICUP and its repeated counter offers, the Trust neither took timely action to exit the investment nor sought any legal recourse to recover the dues. The Trust also did not vigorously pursue the invoking of the guarantee clause with the State Government.

Thus, poor financial appraisal and indecision in exiting the investment resulted in loss of interest of Rs.1.16 crore besides blocking funds of Rs. two crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

[*] ***Public Sector Bonds, Central Government Securities and State Government Bonds***

4.2.5 Loss of revenue due to non-recovery of licence fee and royalty from the licencee of Duty Free Shops

The Authority did not recover licence fee and royalty from M/s. Flemingo International Limited as per the terms of granting licence to run duty free shops at five airports resulting in loss of revenue of Rs.1.02 crore.

The Airports Authority of India (Authority) awarded (29 November 2002), a consolidated licence for running Duty Free Shops (DFS) at Lucknow, Amritsar, Jaipur, Guwahati and Thiruvananthapuram airports to Flemingo International Limited, Dubai, UAE (FIL). As per the terms of the award letter, the licencee was allowed a period of 90 days to start commercial operations from the date of award which was extendable by a further period of 30 days (*i.e.,* upto 28 March 2003). This included time required for obtaining all statutory clearances. The Commercial Manual of the Authority also allowed a maximum gestation period of 120 days, including 30 days, for grant of No Objection Certificate/approval of plan by the Authority for such contracts. The Authority entered (December 2002) into a licence agreement to this effect with FIL, valid for five years. Clause 3(a) of the licence agreement stipulated that the licence fee was payable from the date of taking over possession and royalty was payable after the expiry of 90 days from the date of taking over of the site or from the date of commencement of business whichever was earlier.

After entering into the agreement, FIL conveyed (February 2003) to the Authority that the business under the agreement would be carried out by its subsidiary, M/s. Flemingo DFS Private Limited. FIL further requested for permission to defer the take over of the sites for DFS sites as clearance from the Foreign Investment Promotion Board (FIPB), which was mandatory for the party having foreign holdings to begin operations, was awaited. As the Authority did not accede to this request, FIL again sought waiver (September 2003) from payment of licence fee and royalty till commercial operations commenced. The Commercial Advisory Board (CAB) of the Authority considered the request of FIL and decided (November 2003) that the applicable licence fee and royalty would be levied from the date that FIL took possession of the sites at the respective airports or the date from which FIB clearance was received, whichever was earlier.

Meanwhile, the DFS sites at Lucknow, Amritsar and Jaipur airports were made available to FIL in April 2003 and the site at Thiruvananthapuram in March 2003. The possession of these sites was taken over by FIL on 12 May 2003, 15 October 2003, 12 May 2003 and 27 March 2003, respectively. FIL received FIPB clearance on 20 October 2003.

Audit observed (March 2006) that the Authority failed to recover the licence fee and royalty from FIL from the date it took possession of sites at Lucknow, Jaipur and Thiruvananthapuram resulting in under recovery of revenue of Rs.36.37 lakh. Further, FIL was not billed for the site at Guwahati airport at all as FIL refused to inspect the site at Guwahati airport citing absence of international flight operations from that airport as the reason. Audit scrutiny revealed that international flights from Guwahati airport remained suspended between October 2003 and December 2004 but FIL did not take possession of the space even subsequent to this period. As per clause 33 of the licence agreement, the party was not entitled to any reduction in licence fee and royalty due to suspension or withdrawal of the operations by the airlines. Hence, the Authority failed to

recover licence fee and royalty of Rs.65.66 lakh from FIL for the DFS site allotted at Guwahati airport from November 2003[*] till March 2007.

The Management stated (August 2006) that as per clause 3(a) of the licence agreement, the royalty was payable after the expiry of 90 days from the date of taking over of the site or from the date of commencement of business whichever was earlier and that royalty was accordingly worked out from April 2003 for Amritsar, Jaipur and Lucknow airports. As regards Guwahati airport, the Management besides reiterating the position regarding non-operation of international flights also stated that earmarked space was utilised for operational purposes including office space for Central Industrial Security Force (CISF). The Management's reply was silent about Thiruvananthapuram airport.

The Management's reply was not acceptable as clause 3(a) in the licence agreement was deficient to the extent that it did not prescribe any time period for taking over of the sites and as such did not put limit to the time for taking possession/beginning of commercial operations. Further the licence fee/royalty was charged from dates later to the dates of taking possession of DFS sites at Thiruvananthapuram, Jaipur and Lucknow airports despite CAB's decision to levy licence fee/royalty from the date of taking over possession of space of the respective airports or date of FIPB clearance, whichever was earlier.

As regards Guwahati airport, Audit observed that international flights remained suspended only for a specific period. It can be inferred that FIL did not takeover the DFS site at Guwahati airport due to low business potential although the licence for DFS was a consolidated licence for five stations which included airports with heavy as well as low international traffic. As such it was not proper to allow FIL to start DFS operations on a selective basis. The Management's contention regarding utilisation of space at Guwahati for CISF office is also not tenable as originally the space was earmarked for commercial activity.

Thus, by not charging licence fee and royalty as per CAB's decision from the date of taking possession at Thrivananthapuram, Jaipur and Lucknow airports and from date of FIPB clearance at Guwahati airport, the Authority suffered a revenue loss of Rs.1.02 crore.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

Indian Airlines Limited

4.3.1 Rejection of Maintenance Cost Guarantee claims due to non-availability of records

Maintenance Cost Guarantee claims of Rs. 51.74 crore (US$ 12.27 million) were rejected as the Company failed to furnish records in support of the claim.

[*] *Month subsequent to FIPB clearance*

Indian Airlines Limited (Company) inducted (1989) A-320 aircraft fitted with V2500 engines manufactured by M/s. International Aero Engines (IAE). IAE provided Maintenance Cost Guarantee (MCG) on its engines for a period of ten years ending 30 June 1999. As per the agreement, the annual maintenance cost of engines would not exceed the guaranteed cost rate. If during any year, actual cost of maintenance of engines exceeded the guaranteed cost, IAE would credit the Company with 75 *per cent* of the excess cost. Further as per agreement the Company would prefer its claim within 30 days following expiry of each anniversary.

During the first eight years the engines and modules were outsourced to IAE partners for repairs and the invoices were considered for MCG claims. During the ninth year 11 engines were outsourced to IAE partners for repair while 14 engines were handled in-house at the Jet Engine Overhaul Complex (JEOC). In the absence of separate records, while settling the MCG claim for engines handled in-house, IAE accepted the average cost of material consumed in repair by outside agencies for the 14 engines repaired in-house and an average labour cost of 5,000 man hours @ US$ 50 *per* man hour for all the engines.

In the tenth year (July 1998 to June 1999) though all the engines were handled in-house at JEOC, the Company continued to maintain material consumption records as required for internal use. Prior to submission of the MCG claim by the Company, IAE released an amount of US$ four million on *ad hoc* basis between May and August 2001. In January 2002, the Company submitted working papers for claims of US$ 25.19 million computed on the basis of average rates adopted during the ninth year. While IAE released another US$ four million in March 2002, it did not agree (January 2004) for further payment in the absence of documented evidence in support of the claim. The Company submitted a revised claim of US$ 20.27 million in August 2005. However, IAE again reiterated (January 2006) its position on requirement of detailed documentation in support of the claim before any further payment could be released. The Company had not been able to submit the documentary evidence to satisfy IAE till June 2007.

Thus, due to the non-maintenance of cost records for material and labour consumed for each shop visit of the engine by the Company, there is unlikelihood of realising the balance claim of Rs.51.74 crore[1] (US$ 12.27 million). Even if the claim is reconsidered by IAE, the Company has been incurring a loss of interest of Rs. five crore *per annum* as interest on non-receipt of funds and this amounts to Rs.38.86 crore[2] during the period August 1999 to April 2007.

The Management stated (April 2007) that there were no specific guidelines set out in the MCG document in this regard and since it would have been very time consuming to extract the data, both the parties agreed to adopt the averaging method paving the way for negotiated settlement. Further loss of interest due to non-settlement of MCG claim is hypothetical since the Company at any given time owed the amount to IAE towards sale of spares and repairs.

---

[1] ***Conversion at the rate of Rs.42.18 per US$***

[2] ***Based on an average interest rate of 9.69 per cent***

The reply of the Management was not tenable as IAE has not agreed to adopt the averaging method for settlement of claim in the tenth year of the MCG. The fact was that the Company failed to develop systems of documentation maintenance costs which resulted in rejection of claims. The Management's contention that the Company always owed to IAE for purchase of spares was not acceptable as the outstanding amounts were a result of a normal credit period extended to the Company. Therefore, the argument that there was no loss of interest to the Company was not acceptable.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

4.3.2 Irregular payment of Productivity Linked Incentive

Irregular payment of Productivity Linked Incentive of Rs.19.35 crore *per annum* to officers of the Company in violation of the scheme approved by the Board of Directors.

The Board of Directors (Board) of Indian Airlines Limited (Company) approved (February 2005) an increase of 25 *per cent* to 30 *per cent* in the variable parameters[1] and 50 *per cent* increase in the fixed parameters[2] of the Productivity Linked Incentive (PLI) Scheme for the Company with effect from January 2005. The estimated financial implication of the revision was Rs.13.21 crore *per annum*.

Audit observed (September 2005) that though the revision of the PLI Scheme was approved by the Board, the Management entered into a dialogue with the Officers Association while entering into an agreement to give effect to the PLI scheme. As a result of the discussions, the parameters for payment of PLI were changed, and an agreement was reached with the Officers Association on 7 April 2005 and orders issued on 15 April 2005 to give effect to the changes. A review by audit of the agreement and orders issued revealed that the Management agreed to change the basic structure of various parameters of the scheme that had been approved by the Board resulting in additional recurring expenditure of Rs.19.35[3] crore *per annum* to the Company. The changes in parameters are discussed below:

(i) ***Flying hours:*** As per the Scheme approved by the Board, the incentive for average fleet utilisation was capped to a maximum of 2,800 hours *per* aircraft *per annum*. As per the change effected by the Management, this cap of 2,800 hours of average fleet utilisation was removed which resulted in extra burden of Rs.13.75 crore for the period January to December 2005. There was increase of 200 *per cent per* month as against 25 to 30 *per cent* approved by the Board.

(ii) ***Attendance Allowance:*** As per the Scheme approved by the Board, attendance allowance was payable at a fixed rate *per* day for the number of days a person attended office in a month. However, with the changes made subsequently, a

[1] ***Includes on time performance, flying hours and number of passengers carried***

[2] ***Includes attendance allowance and experience allowance***

[3] ***Calculated by multiplying the actual increase in PLI paid in the month of February 2005 due to the changes affected by the Management with 12***

fixed monthly allowance was introduced for different categories irrespective of the attendance. The additional burden was estimated at Rs.1.30 crore *per annum*.

(iii) ***Experience Allowance:*** The approved fixed experience allowance was replaced with a slab system of Rs.200 for every completed year of service beyond one year in the cadre along with the fixed allowance. The extra burden was Rs.2.03 crore *per annum*.

(iv) ***Productivity Allowance:*** The special productivity allowance was increased from Rs.4,500 *per* month to Rs.6,750 *per* month to Senior Manager and above though the Board had not approved any increase. The extra burden was Rs.73.17 lakh *per annum*.

(v) ***PLI for number of passengers (Pax) carried:*** The number of passengers carried by Airlines Allied Services Limited. (a wholly owned subsidiary of the Company) were included for payment of PLI for Pax carried resulting in an additional liability of Rs.1.53 crore *per annum*.

It was estimated in Audit that the total additional financial burden on the Company due to these changes in the PLI Scheme subsequently effected by the Management were approximately Rs.43.54 crore for the period January 2005 to March 2007. The Management which was not authorised by the Board to undertake such revisions, did not apprise the Board and seek its approval to the changes in the scheme especially as it had substantial financial implications. Moreover, being a beneficiary of the changes made, it was incumbent on its part to seek the Board's approval.

The Management stated (January 2006) that it was not mandatory to always put up a comprehensive note to the Board. Once Board gives in principle approval with regard to financial impact of the proposal, nitty-gritty of the settlement can only be decided after discussions with the Union. And since Airlines Allied Services Limited was using all the infrastructure of the Company it was decided to include the figures of subsidiary Company for payment of PLI to the staff of the Company.

The reply was not acceptable, as the Management was not authorised to change the structure of the parameters of the PLI Scheme approved by the Board. As the Management was an interested party, as a matter of good governance practice, it should not have signed the agreement without the Board's approval which put an extra burden of Rs.19.35 crore *per annum* on the Company.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

4.3.3 Avoidable expenditure of Rs.9.35 crore on leased aircrafts due to defective agreements

The Company incurred avoidable expenditure of Rs.9.35 crore on Phoenix upgradation of engines of leased aircrafts due to defective agreements.

Indian Airlines Limited (Company) has a fleet of 48 aircrafts fitted with V2500 engines. M/s. International Aero Engines (IAE), the manufacturer of V2500 engines introduced

the Phoenix Standard upgrade for the engines vide Service Bulletin[1] (SB) 72-0342 in November 1998. The phoenix upgraded engines as per M/s. IAE would give a 25 *per cent* longer time on wing[2] and a 26 *per cent* lower engine maintenance cost. The phoenix standard was not prescribed as a mandatory package either by Director General of Civil Aviation (DGCA) or Federal Aviation Authority (FAA) and its incorporation was totally at the option of the operator. Considering its benefits, the Company opted for the standard and compliance on its own engines started in 1999.

The Company in addition to its own aircrafts also leased four aircrafts fitted with eight engines from ORIX Aviation Systems Limited (ORIX) and seven other engines from other lessors during May 2001 to March 2005. All the leased engines were V2500 engines but of pre-Phoenix Standard since the Company did not specify in the technical requirements of the tender documents that the engines should be Phoenix Standard (SB-72-0342) compliant.

Audit observed (August 2006) that two of the ORIX engines No. VO 222 and VO 233 were removed for shop visit and sent (December 2005/January 2006) to Rolls-Royce for refurbishment. ORIX while agreeing for shop visit asked the Company to incorporate all the SBs. The Company pointed out to ORIX that these engines were pre-Phoenix standard and both these engines had one shop visit earlier during Company operations and it had maintained the same status of the engines by providing pre phoenix vanes[3] from Company's stock. While accepting the facts, ORIX, however, took a stand that as per agreement entered into in 2001, lessee was required to maintain lessor's property in accordance with manufacturer's requirements, even though the agreement was not explicit on the issue. The Company accordingly carried out phoenix upgradation for the leased engines (15) at a cost of Rs.9.35 crore[4]. The Company was unable to recover the cost of the ugradation from the lessors.

Audit observed (August 2006), that though the Company had accepted Pheonix standard for its engines in 1999, it did not specify the same as a requirement for engines leased in 2001. Further, ambiguity in the lease agreement regarding the level of compliance with SBs considering that the engines being leased were pre-pheonix standard compliant resulted in the Company incurring an avoidable expenditure of Rs.9.35 crore on the upgradation of the engines in the leased aircrafts.

The Management stated (May 2007) that Phoenix package was neither a DGCA nor FAA mandatory package-its incorporation was totally at the option of the operator. Due to lack of experience on Phoenix standard performance the same was not included in the tender specification, restricting only to DGCA/FAA mandatory modifications. Based on the experience gained, the subsequent tenders incorporated the Phoenix standard compliance clause.

---

[1] ***Service Bulletin are the changes/improvements made by the manufacturer of the engines***

[2] ***Time between two shop visits of an engine***

[3] ***Pre phoenix vanes are replacement of aircraft turbine vanes with improved versions***

[4] ***Calculated at the rate of US$ 1,40,000 per engine. US$ converted at the rate of Rs.43.98 for one engine during 2004-05, at the rate of Rs.44.86 for four engines during 2005-06 and at the rate of Rs.44.42 for ten engines during 2006-07.***

The reply of the Management was not tenable in view of the fact that the Company was aware of the Phoenix standards and had opted for upgradation of its own engines in 1999. Had the Company included the clause for post phoenix standard engines in the tender document floated in 1999 and onward the lessor would have agreed for reimbursement of the cost if they had supplied pre-phoenix standard engines as in the present case. The Company also failed to emphasise on ORIX the fact that the SB (Service Bulletin 72-0342) was introduced in November 1998 and as such should have been incorporated in the shop visits between 1998 and 2001 before the aircraft was given on lease to the Company if compliance with manufacturer's requirement was the criteria.

Thus, the Company's failure to include the clause in the terms and conditions for post-phoenix engines in the tender documents resulted in avoidable expenditure of Rs.9.35 crore on leased aircrafts.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

4.3.4 Avoidable expenditure of Rs.8.39 crore on premium paid for credit risk insurance cover

Indian Airlines Limited incurred an expenditure of Rs.8.39 crore on premium for credit risk insurance cover without recovering it from the agents.

Indian Airlines Limited appoints sales agents to widen its network for sale of air tickets. Till May 2002, such agents were eligible to retain stock and sell tickets after furnishing bank guarantee (BG) to cover risks associated with credit sales. The amount of BG was periodically reviewed on the basis of performance and quantum of business done by the agents.

In 2002-03, the Company dispensed with the system of taking BG and decided to subscribe to an insurance policy to cover the risk of default by domestic agents except for the newly appointed agents from whom BG of Rs. two lakh for two years was also to be taken. Beginning May 2002, the Company took credit risk insurance policy in respect of all agents for a sum insured of Rs.100 crore at a premium of Rs.1.58 crore, to be renewed annually. The total premium paid on annual renewals from May 2002 to May 2007 was Rs.8.39 crore*, which was borne by the Company.

It was observed in Audit (August 2006) that though the benefit of dispensing with BG accrued to the agents, the Company did not contemplate recovery of the insurance premium from them as is being done by IATA. The decision to switch over to an insurance policy was conceived as a measure to boost the sale of Company's tickets through agents as the BG system was perceived as a deterrent. It was observed in Audit that despite introduction of credit risk cover at the cost of the Company, there was no

* ***Out of the total premium of Rs.8.42 crore paid on annual renewal, the Company had received refund of Rs. three lakh in July 2007 from the insurance company from the ad hoc premium of Rs.1.40 crore paid in May 2007.***

significant rise[1] in the sale of Company's tickets by agents during the period 2002-2007. The insurance cover also did not help in expediting recovery of dues. The claims pending settlement with the insurer were Rs.11.16 crore in March 2007 as compared with Rs. three crore due from agents in March 2002.

The Management stated (December, 2006) that the decision to take insurance cover was to maintain the market share in the industry and the delay in settlement of claims was due to large pendency with the insurance Company.

The reply of the Management does not hold as the increase in the agency sales marginally fluctuated between three *per cent* in 2003-04 to ten *per cent* in 2006-07. Moreover, the Management did not review the insurance cover scheme despite the fact that there was no significant increase in agency sales in the period of cover. Hence, the decision to withdraw the system of obtaining BGs and taking the insurance cover without recovering the cost of premium from agents resulted in an avoidable expenditure of Rs.8.39 crore.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

4.3.5 Wasteful expenditure on procurement and installation of Remote Air Traffic Control system for A-320 aircrafts

Indian Airlines Limited purchased 36 Remote Air Traffic Control systems during 2003-04 for Rs.2.04 crore which were neither mandatory nor was its usefulness established. Although these systems were installed in 26 aircrafts, the entire expenditure became unfruitful due to Airbus Safety Department's strong recommendation to deactivate the same.

Indian Airlines Limited (Company) decided in March 2002 to install Remote Air Traffic Control (RATC) system on its fleet of A-320 aircrafts for uninterrupted transmission of international emergency code to the ground and placed a purchase order in November 2002 for US$ 0.45 million with M/s. Airbus Industrie for the supply of 36 RATC systems. The formal approval of Modification Committee[2] was obtained in February 2003 after the purchase order had been placed.

M/s. Airbus Industrie recommended (July 2004) discontinuation of RATC due to in-service experience of nuisance warning by operators. By that time, Indian Airlines Limited had also six times experienced inadvertent operation of RATC system. In view of the M/s. Airbus Industrie recommendation, the Company deferred installation of RATC systems though the system had already been installed on 26 aircrafts. The Company tried to return unused modification kits to M/s. Airbus Industrie but same were not accepted by them (June 2005). Audit observed (January 2007) that this modification was neither essential as per the Airbus Industrie Service Bulletin nor was it directed by Director General of Civil Aviation (DGCA).

[1] ***The percentage of domestic agency sale to total passenger sale was about 58 per cent and 53 per cent during the years 2001-02 and 2002-03 respectively and was about 56 per cent, 62 per cent, 57 per cent and 64 per cent during the years 2003-04, 2004-05, 2005-06 and 2006-07 respectively.***

[2] ***The Modification Committee approves the proposed modifications to the aircraft based on the necessity of the same.***

The Management stated (May 2007) that the purchase order of RATC system was placed in anticipation of this modification likely to become mandatory in immediate future in view of the Notice of Proposed Rule Making (NPRM) issued by Federal Aviation Administration (FAA). It further stated that necessary instructions had been issued in the month of October 2006 to carry out the installation of RATC system on all 36 aircrafts as originally planned.

The reply of the Management was not tenable as the FAA had issued the NPRM in January 2003 whereas the Company had placed the order in November 2002. The Airbus Safety Department strongly recommended in May 2006 deactivation of the RATC systems installed on the aircrafts. Further the comments received by FAA on the NPRM between January and April 2003 also confirmed that most of the operators[1] felt that installing continuous ATC transponder would not increase the safety or security and instead the unintentional hijack code selection would put passengers at greater risk. Though no modification had been carried out in the remaining ten aircrafts till August 2007, the decision to install the remaining systems and continuing with the existing systems needs to be reviewed.

Thus, the hasty decision to order for the RATC systems for all the 36 aircrafts in one go when there was no mandatory requirement to the effect and the utility of the system was still to be established resulted in a wasteful expenditure of Rs.2.04 crore.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

4.3.6 Avoidable expenditure due to delay in finalisation of contract

The Company incurred an extra expenditure of Rs.70.68 lakh due to delay in award of contract for overhaul of landing gears.

Indian Airlines Limited (Company) entered into a contract with M/s. Messier Services Asia Private Limited (Messier Services) in June 2002 for overhaul of landing gear assemblies of aircraft. The charges for main landing gear (MLG) and nose landing gear (NLG) were fixed at Rs.33.26 lakh[2] and Rs.26.03 lakh, respectively. The contract was valid upto December 2004. The Company invited bids for fresh contract in June 2005 and the commercial offers of the technically qualified parties were opened in August 2005. The rates quoted by Messier Services at Rs.32.75 lakh were the lowest for MLG overhaul and rates quoted by M/s. EADs Sogerma (Sogerma) at Rs.19.17 lakh were lowest for NLG overhaul. While analysing Sogerma's bid, the sub-committee evaluating the bids, assumed that the cost of items indicated as 'on condition' were included in the commercial bid. The tender evaluation committee proposed in November 2005 to award the work to Messier Services and Sogerma for MLG and NLG, respectively as both the parties had in the past carried out similar work for the Company. However, the contract for overhaul of the MLG was awarded to Messier Services in October 2006 and the

[1] ***126 out of 146 comments on NPRM received***

[2] ***All translations from foreign currency to domestic currency had been done at the prevailing exchange rates.***

contract for NLG was awarded to the Messier Services in June 2007 valid for a period of two and three years respectively.

Audit observed (February 2007) that during the intervening period from August 2005 to August 2006, the Company sent eight MLG and three NLG to Messier Services for overhaul at the previous contract rates which were higher than the new rates quoted by the same party against the fresh bids {Previous rates being Rs.39.38 lakh and Rs.30.82 lakh as against the quoted rates of Rs.33.83 lakh and Rs.28.42 lakh for the overhaul of MLG and NLG, respectively}. The Company also paid additional escalation at the rate of 2.5 *per cent* on previous rates for overhaul of landing gears sent after July 2006. This resulted in extra payment of Rs.57.11 lakh[1], as the fresh contract was not finalised in time.

While analysing the reasons for delay, Audit noticed that though the tender evaluation committee recommended Sogerma for award of contract for overhaul of NLG, Sogerma had indicated overhaul of hydraulic components of NLG as "On Condition" though these were a part of the original tender requirement. This variation was not noticed at the technical evaluation stage despite it being given in the variance statement submitted along with the technical bid. It was first noticed by the tender evaluation committee before making its recommendation in November 2005. However, it neither considered its financial impact on the bid nor obtained any specific clarification from Sogerma in this regard. It was only at the stage of finalisation of the contract, that a clarification in this regard was sought (April 2006) from Sogerma which led to increase in their bid price (June 2006) by Rs.7.49 lakh for overhaul of hydraulic components of NLG. The tender evaluation committee did not accept the revised offer of Sogerma and decided (August 2006) to re-tender the contract for overhaul of NLG. In the meantime, the undisputed offer of Messiers Services for overhaul of MLG remained unfinalised and the contract was finally awarded in January 2006 on the basis of the original bid *i.e.*, after a delay of approximately 12 months[2]. On the basis of fresh bids for NLG overhaul, the Company awarded the contract (June 2007) to the lowest bidder Messier Services at a price of Rs.33.50 lakh against their earlier quote (June 2005) of Rs.26.72 lakh.

Thus, the Company by failing to carefully examine the variance statement of the bidder at the initial stages of technical evaluation of Sogerma for overhaul of NLG and delay in finalising the technically and commercially acceptable bid of Messier Services for overhaul of MLG incurred an extra expenditure of Rs.57.11 lakh during the period (August 2005 to August 2006). Further the Company will continue to incur Rs.6.79 lakh extra for overhaul of each NLG to be sent during the validity of the contract. The Company has already incurred an additional expenditure of Rs.13.57 lakh[3] on the overhaul of two NLG sent during December 2006 to Messier Services at the rate higher than their previous quote that was received against bid invited in June 2005.

While the Management chose not to reply on the lapses in examination of the bids, it stated (June 2007) that Messier Services was asked to apply the newly quoted rates for overhaul of landing gears but they did not agree as the contract was not finalised. In

[1] ***Being the difference between actual amount paid and amount quoted for fresh tender***

[2] ***From November 2005 to January 2006***

[3] ***Being the difference between the amount quoted in June 2005 and the amount actually paid***

October 2007, the Management stated that Sogerma was technically qualified and admitted that any clarification and on technical offer should have been obtained at the time of evaluation of technical bids.

Thus, due to the delay in finalising the contract for MLG with Messier Services and not rejecting the incomplete bid for overhaul of NLG, the Company incurred extra expenditure of Rs.70.68 lakh.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

CHAPTER V: MINISTRY OF COAL

Bharat Coking Coal Limited

5.1.1 Loss of Rs.9.35 crore due to pilferage of raw coal in transit

The Company suffered a loss of Rs.9.35 crore due to pilferage of raw coal during transit from collieries to Bhojudih washery during the period 2003-04 to 2006-2007.

The Bhojudih washery of Bharat Coking Coal Limited (Company) received raw coal by rail from the collieries located within 20 to 25 kilometres (kms) for beneficiation (washing) of coal. The raw coal was transported by the Railways at owner's risk and weighment of coal rakes at the loading point was acceptable for all purposes. In case coal was not weighed at the loading point, weighment at the unloading point (washery end) was acceptable. No norm for transit and handling losses in transportation of coal had been prescribed by the Company or the holding company (Coal India Limited).

Audit scrutiny (December 2005/August 2007) of the records of Bhojudih washery relating to coal receipts for the years 2003-04 to 2006-2007, revealed that against the quantity of 1.82 MMT[1] raw coal despatched from Burragarh and C K East collieries, the washery actually received 1.71 MMT coal resulting in shortage of 0.11 MMT coal. The overall shortages in the dispatched quantity of coal during transit increased year after year from 4.72 *per cent* (2003-04) to 7.31 *per cent* (2005-06) with a marginal decrease to 6.12 *per cent* during 2006-07. Further, rake-wise analysis conducted by Audit revealed major shortages ranging between 8.01 *per cent* and 21.10 *per cent* in 112 rakes out of 331 rakes supplied during 2004-05. Similar trend continued during 2005-06 and 2006-07 as shortages varied from 8.05 *per cent* to 27.34 *per cent* in respect of 185 rakes out of 465 rakes supplied and 8.03 *per cent* to 22.84 *per cent* in respect of 124 rakes out of 349 rakes supplied respectively. As transportation of coal was at owner's risk, no claim could be lodged with the Railways. In the absence of any norm for normal transit shortages being fixed by the Management, based on the norm of three *per cent* as accepted by the Ministry of Steel, the abnormal loss of coal in transit worked out to Rs.9.35 crore[2] in respect of 59,163 MT[3] over a period of four years ending March 2007.

In response the Company stated (September 2006) that there were no transit shortages and the difference was on account of the different methods of weighment at loading (static weighbridge) and unloading points (in motion weighbridge). The maximum permissible error limit for a rake was (plus/minus) one *per cent* though both types of weighbridges were duly calibrated and certified. The Management's reply was not tenable because shortages had always been on a higher side and therefore, possibility of en route pilferage of coal could not be ruled out. In fact transit shortages had been a matter of concern between the washery and the collieries from 2001 to 2005 as evidenced

[1] ***Million Metric Tonne***

[2] ***Calculated on the basis of average cost of sale of raw coal during 2003-04 to 2006-07***

[3] ***Metric Tonne***

from the regular exchange of correspondence. However, the issue was not analysed further and suitable action taken at the appropriate level.

The Management further informed (June 2007) that CISF[*] had been engaged since January 2006 to escort the rakes at vulnerable points towards receiving end and as a result considerable reduction in shortages was noticed during 2006-07. The Ministry, while endorsing the views of the Company, stated (August 2007) that the Management was in the process of strengthening escorting by deployment of additional CISF personnel. It was also stated that the matter was also taken up with the Railways to check the coal pilferage en route.

The reply of the Management and the Ministry was not satisfactory since the reduction in shortages from 7.31 *per cent* in 2005-06 to 6.12 *per cent* in 2006-07 had been marginal. The matter needs more comprehensive measures to bring down and control transit losses and norms fixed after a careful study to monitor receipts of dispatched quantities of raw coal from collieries to the washery, at a distance of maximum 25 kms.

Central Coalfields Limited

5.2.1 Loss of revenue due to shortfall in dispatch of raw coal to Gidi washery

The Company sustained a revenue loss of Rs.29.27 crore during the years 2003-04 to 2006-07 due to shortfall in dispatch of raw coal feed to Gidi washery from the linked mines, thereby foregoing the price advantage in supplying washed coal.

Gidi washery (washery) of Central Coalfields Limited (Company) is a non-coking coal washery with a capacity to wash 25 lakh MT of raw coal *per* year for supply to power houses. The washery is supplied raw coal from three non-coking coal mines *viz.*, Saunda D, Urimari and Parej East. While supply of raw coal to the washery was discontinued from Saunda D mine since 2003-04 due to fire in the mine and from Parej East since 2005-06 to avoid transportation over a long distance, Urimari mine continued to supply raw coal to the washery based on an annual linkage programme.

Audit scrutiny revealed (November 2005) that despite availability of sufficient quantity of raw coal at the linked collieries, the supply to the washery was fixed at 15 lakh MT during 2003-04 and 2004-05, 17 lakh MT during 2005-06 and 14.80 lakh MT during 2006-07 against the annual capacity of 25 lakh MT. Actual annual dispatches of coal from Urimari and Parej East mines were 10.42 lakh MT (2003-04), 8.21 lakh MT (2004-05), 7.31 lakh MT (2005-06) and 7.44 lakh MT (2006-07). No supplies were made from Parej East during 2005-06. Thus, there was shortfall in supply of raw coal by 4.58 lakh MT (30.53 *per cent*), 6.79 lakh MT (45.27 *per cent*), 9.69 lakh MT (57 *per cent*) and 7.36 lakh MT (50 *per cent*), totalling to 28.42 lakh MT, from the annual linked quantity of the washery during 2003-04, 2004-05, 2005-06 and 2006-07, respectively. It was also observed that during the same period Parej East and Urimari mines supplied 60.77 lakh MT coal directly to power houses without getting it washed. The Management did not review the shortfalls or initiate any concrete action to correct the same till 2005-06 when supply from Parej East was restored to in 2006-07.

[*] *Central Industrial Security Force*

An analysis of realisable sale price[1] in Audit revealed that it ranged between Rs.520 and Rs.650 *per* MT during the years 2003-04 to 2006-07 for raw coal directly supplied to the power houses. On the other hand, washed coal[2] fetched a price ranging between Rs.677 and Rs.850 during the same period. Taking into account all variable costs like additional transportation, stores, *etc.*, for routing the coal through the washery, there was a distinct price advantage in supplying washed coal to the power houses. The Company could have earned additional revenue to the extent of Rs.29.27 crore[3] during the year 2003-04 to 2006-07 in case raw coal was not dispatched to the power houses directly without washing. Thus, despite specific directives to supply the annual linked quantity and price advantage on sale of coal after washing, there was direct supply of raw coal from the mines to the power houses.

The Management stated (June 2007) that long distance involved in respect of Parej East mine and perennial transport problems at Urimari mine were the contributory factors for shortfalls in dispatch of raw coal. It was also stated that there was no loss in dispatch of raw coal directly to power houses from the Urimari mine and the Company in fact had saved Rs.36.09 crore as the contribution earned by the Urimari mine by selling raw coal direct to power houses was more than the contribution earned at the washery by sale of washed coal to power houses.

The arguments of the Management were not acceptable since transportation of coal was controllable being an important activity in the coal sector and the fact that during 2006-07 a quantity of five lakh MT was linked from Parej East which could have been resorted to earlier also. Further, Management's contention that it had saved Rs.36.09 crore in direct dispatch of the raw coal to the power houses was based on incorrect analysis as while calculating the contribution earned at the washery, fixed cost of production at Urimari mine was considered; the same was not considered at the time of calculating contribution in respect of direct dispatches from Urimari mine. Thus, the comparison was based on unequal parameters. Dispatch of coal to the washery would have earned more revenue to the extent by Rs.29.27 crore by selling washed coal to the power houses at higher rates.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Coal India Limited

5.3.1 Short-recovery of burnt oil in subsidiaries of Coal India Limited

Recovery of burnt oil below the achievable level of 47.70 *per cent* by seven subsidiaries of Coal India Limited resulted in loss of revenue to the extent of Rs.55.30 crore during the period from 2002-03 to 2006-07. Moreover, spilling of toxic waste would cause irreparable damage to the environment.

[1] ***Excluding royalty and Stowing Excise Duty***

[2] ***Washed coal has higher sale price due to lower ash content***

[3] ***Worked out on the basis of differential realisable sale price per MT of raw coal and washed coal, reduced by variable cost per MT at Gidi washery, multiplied by shortfalls in dispatch of raw coal to Gidi washery***

Coal India Limited (CIL) is engaged in development and utilisation of coal reserves, the prime source of energy for the nation. It presently contributes about 85 *per cent* of the total coal production in India and operates through seven subsidiaries[1]. Heavy earth moving machinery (HEMM) is significant to extraction of coal and the major HEMM commonly used by the subsidiaries for opencast efficient mining operations are dragline, shovel, dumper, dozer and drill. Lubricating oil (engine oil, transmission oil, hydraulic/compressor oil and other oils like gear oil, brake oil and transformer oil) is used in the engines of these equipments and is drained out during oil change and other maintenance activities after specified hours of operation. The drained out oil (burnt oil) has disposable value and all the subsidiaries of CIL sold it regularly except for ECL which uses the burnt oil for its internal consumption. Further, the used lubricant being a major water pollutant was classified (July 1989) as a hazardous waste by the Ministry of Environment and Forests (MOEF) and the Management is required to adhere to proper handling and disposal procedures.

In order to fix the norm for recovery of burnt oil, Mahanadi Coalfields Limited (MCL) conducted (March 2004) an Industrial Engineering Study (IED). As per the study, recovery levels from 47.70 *per cent* (minimum) to 59.20 *per cent* (maximum) were considered achievable with reference to total quantity of lubricants issued. The study also highlighted that the recovery of burnt oil was not satisfactory due to negligence and improper infrastructure and lack of norms, guidance, *etc*. The Western Coalfields Limited (WCL) also conducted (June 2004) a general study in this regard based on which much lower norms for recovery of burnt oil ranging between 21.16 *per cent* and 23.65 *per cent* were fixed based on the HEMM deployment in different projects. The remaining subsidiaries did not conduct any study on this aspect. It was noticed in Audit (August/September 2007) that of the seven subsidiaries, three subsidiaries (BCCL, ECL and SECL) did not fix any norm while in MCL, CCL and NCL, the norm for recovery of burnt oil was fixed at 50 and 55[2] *per cent*.

5.3.1.1 Variations in recovery of burnt oil

Review in Audit revealed (August/September 2007) that recovery of the burnt oil in all the subsidiaries was far below the norms fixed by four subsidiaries including the low norms adopted by WCL during 2002-03 to 2006-07 as evident from the following table:

---

[1] ***Northern Coalfields Limited (NCL), Mahanadi Coalfields Limited (MCL), Eastern Coalfields Limited (ECL), Bharat Coking Coal Limited (BCCL), Central Coalfields Limited (CCL), Western Coalfields Limited (WCL), South Eastern Coalfields Limited (SECL) are the coal producing subsidiaries of Coal India Limited.***

[2] ***MCL 50 per cent (2004-05) and 55 per cent (2005-06), NCL and CCL 50 per cent***

(Quantity in lakh litre and recovery in *per cent*)

Particulars	NCL	MCL	SECL	ECL	WCL	CCL	BCCL	OVERALL
2002-03								
Lub. oil issued	51.74	17.49	32.28	22.51	50.38	29.85	20.63	224.88
Used oil recovered	14.84	2.46	5.42	1.95	3.65	4.16	0.64	33.12
Recovery	**28.68**	**14.07**	**16.79**	**8.66**	**7.24**	**13.94**	**3.10**	**14.73**
2003-04								
Lub. oil issued	55.42	21.91	33.36	22.73	54.83	29.99	20.52	238.76
Used oil recovered	16.28	2.41	6.40	2.20	3.74	2.49	0.92	34.44
Recovery	**29.38**	**11.00**	**19.18**	**9.68**	**6.82**	**8.30**	**4.48**	**14.42**
2004-05								
Lub. oil issued	55.88	20.90	33.60	23.65	58.83	32.54	26.35	251.75
Used oil recovered	18.72	2.71	6.84	2.31	4.48	2.06	1.11	38.23
Recovery	**33.50**	**12.97**	**20.36**	**9.77**	**7.62**	**6.33**	**4.21**	**15.19**
2005-06								
Lub. oil issued	56.94	20.41	33.98	22.61	56.30	32.31	24.37	246.92
Used oil recovered	18.92	3.35	6.40	2.52	5.29	1.83	1.64	39.95
Recovery	**33.23**	**16.41**	**18.83**	**11.15**	**9.40**	**5.66**	**6.73**	**16.18**
2006-07								
Lub. oil issued	58.18	18.80	31.69	20.03	54.75	31.08	21.26	235.79
Used oil recovered	19.58	3.67	5.41	2.87	6.21	1.39	2.35	41.48
Recovery	**33.65**	**19.52**	**17.07**	**14.33**	**11.34**	**4.47**	**11.05**	**17.59**

It would be seen from the above table that the overall recovery position of burnt oil in seven subsidiaries ranged from 14.42 *per cent* in 2003-04 to 17.59 *per cent* in 2006-07 against the achievable norm of 47.70 *per cent* determined by MCL as a result of an engineering study. Among the subsidiaries, recovery was lowest in BCCL ranging between 3.10 *per cent* and 6.73 *per cent* during 2002-03 to 2005-06 though it increased to 11.05 *per cent* in 2006-07. Recovery of burnt oil was highest in NCL which varied from 28.68 *per cent* to 33.65 *per cent* during the period reviewed in Audit. Taken in totality, it was noticed (August/September 2007) that during the years 2002-03 to 2006-07, against the total lubricant oil issued (1,198.10 lakh litre) in respect of the seven subsidiaries, recovery (187.22 lakh litre) of burnt oil actually was only 15.62 *per cent;* a recovery factor which was significantly low in comparison to the minimum achievable norm of 47.70 *per cent* (571.49 lakh litre) as per the IED study conducted by MCL.

Thus, there was shortfall in recovery to the extent of 384.27 lakh litre involving a loss of Rs.55.30 crore during 2002-03 to 2006-07 based on the average disposal value of the burnt oil.

5.3.1.2 Factors contributing towards low recovery

Subsidiaries considered hydraulic equipments (like excavator and shovel) as the major cause for loss of oil due to leakage. A study conducted by WCL determined the recovery factor of hydraulic oil from 17.44 *per cent* to 18.98 *per cent,* while achievable recovery was considered as 20.30 *per cent* by MCL. In the absence of detailed records, the category wise recovery of burnt oil actually made by the subsidiaries could not be ascertained in Audit. Based on the information made available by the subsidiaries for the period 2002-03 to 2006-07, NCL's recovery rate for hydraulic oil was as high as 39.77 *per cent* (2006-07) in respect of its Jhingurda project and MCL achieved a recovery rate of 23.71 *per cent* (2003-04) in respect of Samaleswari project. WCL however, could recover only two to three *per cent* in respect of Wani North Area. This indicated that higher rate of recovery was possible in respect of hydraulic oil.

The other reasons given for poor recovery of burnt oil by various subsidiaries were as under:

(i) drainage of oil caused by sudden rupture of hose assembly and 'O' rings of the running machines;

(ii) wastage during change of failed components;

(iii) lack of proper drainage facility; and

(iv) inadequate storage facility.

The records of the subsidiaries were examined in Audit to further analyse the factors contributing towards poor recovery of burnt oil and the measures that could possibly be taken to improve its recovery. The results of examination are summarised below:

(i) To check drainage of burnt oil due to failure of hose assembly, seals 'O' rings, *etc.*, of the running machines, the subsidiaries were required to set systems and controls for maintaining safety stock for parts, vigilant inspection of hoses, procurement of good quality/genuine parts, and proper supervision to check incidences of hose failure. It was noticed in Audit that there was no supervision in the second and night shifts to check incidences of failure of hose/'O' ring/other parts in WCL. In addition, WCL suffered from lack of safety stock of these items at its units/regional stores.

(ii) In most of the cases reviewed, open cast projects (OCPs) were not adequately equipped with mechanical devices like wheel mounted trolley with pump and mechanical telescopic connecting funnel (MTCF) for draining out burnt oil. In WCL and ECL, of 36 and 17 OCPs, respectively such types of devices were available in only two OCPs each of WCL (Ukni and Niljai) and ECL (Sonepur Bazari and Rajmahal); wheel mounted trolleys were available in only five big projects of the total 37 projects of CCL and no project was equipped with MTCF for draining out burnt oil. NCL was equipped with wheel mounted trolley for collecting drained burnt oil leading to better recovery of burnt oil. Thus, lack of suitable equipments adversely affected recovery of burnt oil.

(iii) Lack of infrastructure like underground storage tanks and portable oil trolleys for collection and storage of burnt oil were also factors responsible for low recovery of burnt oil. In WCL, underground storage sump for collection of burnt oil was available only at Sasti, Ukni, Niljai and New Majri projects and in 32[1] projects burnt oil was kept in barrels. In CCL wear and tear of drums used for storage at project level was noticed in Audit. Lack of proper storage facility was also noticed at Sharda and Baiga projects of the 11[2] projects of SECL reviewed on collection of information.

(iv) Theft, spillage, mis-handling, negligence, *etc.*, also contributed to low recovery of burnt oil. In SECL (Dhanpur OCP), 38 cases were registered for theft of 7,660 litre lubricating oil during 2004-05 to 2006-07. Instance of theft were also noticed in WCL (Umred area) during April 2006.

(v) In WCL lack of awareness regarding importance of recovery of burnt oil among workers was also noticed.

5.3.1.3 Environmental considerations

Hazardous Waste (Management and Handling) Rules, 1989 (Section 9) require maintenance of records for collection, receipt, treatment, transport, storage and disposal of hazardous waste. It was noticed in Audit that ECL Management was not aware of the MOEF notifications while BCCL stated that the MOEF notifications were yet to be complied with. The leakage of used lubricants into the environment cause land contamination leading to water pollution. No subsidiary had carried out any study on the extent of leakage of used lubricant into the environment and its impact. As such environmental implications could not be ascertained. No action had been taken by any of the subsidiaries to arrest the harmful impact of burnt oil on the environment except CCL and NCL where oil and grease treatment plants and affluent treatment plants had been constructed at workshops.

5.3.1.4 Conclusion and recommendations

From the foregoing paragraphs, it is evident that overall recovery of burnt oil had been poor with significant variance across different subsidiaries of CIL having almost identical topography[3] and climatic condition[4] and using similar types of HEMM. The reasons to which under recovery was attributed were largely controllable by creating infrastructural facilities, effective monitoring, adopting preventive measures, ensuring adequate awareness. There was also a need to adopt measures and establish treatment plants to mitigate risk to environment from hazardous waste.

---

[1] ***Ballarpur, N Dhoptala, Gauri-I, Gauri-II, Pauni, Bhatadi, Durgapur, H Lalpeth, Padmapur, Chargaon, Dhorwasa, Navin Kunada, Telwasa, N Majri–SEC-A, Gondegaon, Kamptee, Junad, Kolarpimpri, Pimpalgaon, Umrer Extn, Umrer, Naigaon, Ghugus, Mungoli, KDL Gaon, Neeljai (S), N Sethia, Chhnda, Shivpuri-R, Bhajpani, Barkui and Ghorawari-2.***

[2] ***Sharda, Amlai, Dhanpuri, Baga, Kurasia, Chirimiri, Rajnagar, Jamuna, Dipka, Manikpur and Gevra***

[3] ***Undulating – hilly rugged (NCL), 100-1,000 metre above sea level (MCL), gently undulating 298-550 metre above the mean sea level (SECL), rough terrain (WCL)***

[4] ***Maximum temperature 48^0 C (NCL), 50^0 C (MCL), 48^0 C (SECL), 49^0 C (WCL)***

The matter was reported to the Management and the Ministry in September 2007; replies were awaited (November 2007).

Mahanadi Coalfields Limited

5.4.1 Non-recovery of actual transportation charges

The Company charged lower rates of transportation of coal from customers resulting in short-recovery of Rs.3.67 crore in Hingula area during the period from 2002-03 to 2006-07.

According to the coal price notification effective from February 2001, coal companies were to charge transportation cost at the rate of Rs.30 *per* MT for distance of more than 3 but upto 10 kms and at the rate of Rs.50 *per* MT for distance of more than 10 but upto 20 kms for carrying coal from colliery to railway siding. In case, the distance exceeded 20 kms, the actual transportation cost was to be recovered from the customers.

The Hingula Area of Mahanadi Coalfields Limited (Company) did not have its own railway siding and coal produced by the surface miner at the Hingula open cast project (OCP) was transported, for dispatch to customers, to railway sidings at Jagannath or Bharatpur at a distance of 20 to 24 kms and 15 to 17 kms, respectively. Considering the poor off take of coal by the customers due to production of lower (F) grade coal at Hingula OCP and its higher transportation charges, the Management of the Company approached the Board of Directors (BOD) with a proposal to exempt customers from recovery of actual transportation charges beyond 20 kms distance as contemplated in the price notification as a strategic marketing policy. The BOD approved (August 2002) the proposal, stating that this could be applied in those cases where distance from surface of the quarry to the railway siding was upto a maximum of 20 kms. The transportation cost from face of the quarry to the surface of the quarry was to be borne by the Company.

Audit scrutiny revealed (March 2006) that though the distance from surface of the quarry to the railway siding exceeded 20 kms at the Hingula OCP, the Company recovered Rs.50 *per* MT instead of recovering actual transportation charges during the period from 2002-03 to 2006-07 for transporting 17.34 lakh MT coal. The Company recovered Rs.8.67 crore during the above period against the actual transportation charges of Rs.12.34 crore which was in contravention of the BOD decision and thereby sustained a loss of Rs.3.67 crore. It was also observed that this concession had an impact on the sale only in 2003-04 when it increased from 5.61 lakh MT in 2002-03 to 11.41 lakh MT in 2003-04. During 2004-05 no supplies were made beyond the 20 kms limit and coal transported during 2005-06 and 2006-07 was 27,274 MT and 5,180 MT, respectively, which was not substantial. Thus, there was no material impact of this concession from 2004-05 onwards. The matter was reported to the Management in March 2006.

The Management accepted (June 2007) the Audit viewpoint and stated (October 2007) that supplementary bills had been raised against the customers for recovery of the balance amount.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Neyveli Lignite Corporation Limited

5.5.1 Avoidable expenditure due to re-tendering

Neyveli Lignite Corporation Limited resorted to re-tendering for design, supply, erection and commissioning of a sub-station despite the Tender Committee's recommendations to place the order on the lowest bidder against the original tender. This resulted in an avoidable expenditure of Rs.3.55 crore.

Neyveli Lignite Corporation Limited (Company) floated (January 2005) a Press Tender Enquiry (PTE) for supply and erection of 120 MVA Sub-station for Mine-II Expansion at an estimated cost of Rs.16 crore (base April 2003). Four firms responded and based on techno commercial conditions, two firms were finally short-listed (September 2005). The negotiated evaluated cost quoted by the two short-listed firms *viz*., M/s. Larsen & Toubro Limited (L&T) and M/s. Siemens was Rs.25.28 crore and Rs.29.73 crore, respectively.

In April 2005 the Company updated the cost estimates to Rs.22.13 crore against the original estimates of Rs.16 crore. As such the evaluated site cost of M/s. L&T was 58.02 *per cent* and 14.26 *per cent* higher than the original estimated cost and the updated estimates, respectively. The Tender Committee in its deliberations noted that the prices had further increased between April 2005 and August 2005 and a re-tender might result in higher prices. Tender Committee also noted that the cost of transformers had increased by Rs.2.29 crore after estimates were updated in April 2005 and if this increase was also considered the evaluated site cost of lowest bidder was only three *per cent* higher than the updated cost (Rs.24.42 crore). It, therefore, recommended (September 2005) placing the order on M/s. L&T (L1) at the evaluated site cost of Rs.25.28 crore. The Board of Directors of the Company however, ignored the advice of the Tender Committee and decided (October 2005) to invite fresh tenders.

Limited tender enquiry (re-tender) was issued (November 2005) only to the four firms that had responded to the previous PTE. The Company again updated (December 2005) the cost estimates, which worked out to Rs.27.22 crore. Tender Committee recommended (February 2006) placing the order on M/s. Siemens (L1) at a negotiated evaluated site cost of Rs.28.83 crore, which was higher by 5.93 *per cent* than the last updated estimated cost (December 2005) of Rs.27.22 crore. The order was placed on M/s. Siemens at an aggregated cost of Rs.28.83 crore in March 2006. Thus, the Company's decision to re-tender resulted in an additional expenditure of Rs.3.55 crore.

The Management replied (April 2007) that re-tendering was resorted to as the lowest quoted price was 58.02 *per cent* higher than the estimated cost of Rs.16 crore and 14.26 *per cent* higher when compared with the updated estimates of Rs.22.13 crore. They further stated that bids in the re-tender may increase or decrease depending upon the market conditions and competition.

The reply of the Company was not tenable as the updated estimates indicated an upward trend in prices as noted by the Tender Committee whose recommendations were ignored by the Board. Moreover, competition was limited as the re-tendering was to the same set of firms who had responded initially. Further, the evaluated site cost of Rs.28.83 crore of M/s. Siemens was 30.28 *per cent* higher than the updated estimates of Rs.22.13 crore

(April 2005) as compared to earlier evaluated site cost of Rs.25.28 crore of M/s. L&T, which was only 14.26 *per cent* higher.

Thus, the Company's decision to re-tender against the Tender Committee's recommendations resulted in an avoidable expenditure of Rs.3.55 crore.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

CHAPTER VI: MINISTRY OF COMMERCE AND INDUSTRY

The State Trading Corporation of India Limited

6.1.1 Non-recovery of Rs.119.14 crore due to lapses in monitoring the execution of a contract

The Company could not recover Rs.119.14 crore from M/s. Metro Machinery Traders due to lapses in monitoring the execution of a contract.

The State Trading Corporation of India Limited (Company) received (April 2005) a proposal from M/s. Metro Machinery Traders (M/s. MMT) for financing the project pertaining to dismantling and disposal of the fertiliser plant of Neyveli Lignite Corporation Limited (NLC) at a cost of Rs.149.80 crore. The Committee of Management* approved the proposal and a Memorandum of Understanding (MOU) with M/s. MMT was signed on 29 April 2005. The MOU stipulated that M/s. MMT would deposit an amount of Rs.25 crore as margin money besides providing personal guarantee of the partners and post dated cheques as security. All the material of the plant was also to be pledged with the Company. The Company released (April 2005) Rs.149.80 crore on behalf of M/s. MMT to NLC.

As per the MOU, M/s. MMT was solely responsible for disposal of the scrapped plant *i.e.*, selecting the buyers and raising invoices. The Company was only to issue delivery orders to the parties nominated by M/s. MMT against the receipt of full sale value of the material towards recovery of Rs.149.80 crore along with the interest and trade margin. Upto March 2007, the Company had realised an amount of Rs.37.37 crore only and the value of the unlifted materials was assessed at Rs.1.81 crore as per the report of the surveyor appointed by the Company (June 2006).

In February 2006, Audit pointed out the slow progress of work by M/s. MMT and unrealised amount of Rs.105.48 crore. Thereafter, the Company directed M/s. MMT (14 March 2006) to deposit the balance amount due. Instead of making the payment, M/s. MMT issued a legal notice (25 April 2006) to the Company that the entire material had been sold to the Company vide invoice dated 17 May 2005 for the total contract value and sought the return of the post dated cheques. The Company's efforts to realise its dues by depositing the post-dated cheques (26 April 2006) also did not materialise as the cheques were dishonoured.

Audit while reviewing the case (March 2007) observed:

(i) As per the business arrangement, the Company was entirely dependent on M/s. MMT to find a buyer and finalise the value of the material being sold. The Company's role was limited to issue of delivery orders to the buyers identified by M/s. MMT and collection of the invoice value. The Company was to conduct

* *The Committee of Management is the approving authority for all contracts exceeding Rs. three crore*

physical inspection of the consignments being dispatched with the help of the surveyor/security agency appointed by it along with its local representative. The Company's Chennai branch had been warning the Corporate Office since July 2005 that the valuation of material being done by M/s. MMT was suspect. It was apprehended that items being disposed of were not fetching the right value. Despite repeated requests[1] by the Chennai branch to appoint a technically competent person to assess the reasonability of the valuation of the material being disposed of by M/s. MMT, the Corporate Office did not take any action on the plea that the surveyor/security agency was to discharge the functions of a technically competent person also. Moreover, the Corporate Office argued, that engaging a valuer was outside the purview of the MOU and would result in duplication of work. It was observed by Audit that the independent surveyor appointed by the Company in June 2006, after the deal with M/s. MMT had fallen apart, reported that the value of the materials left on the site was only Rs.1.81 crore. Hence, against a finance of Rs.149.80 crore for the entire plant, the Company had managed to recover only Rs.37.37 crore with materials worth Rs.1.81 crore left to be disposed of indicating gross undervaluation of the material sold.

(ii) M/s. MMT also denied liability to the Company for the remaining dues as the plant stood sold to the Company as a consideration for money paid by the Company to NLC on behalf of M/s. MMT. Audit observed, that the terms of MOU were also flawed allowing this escape route to M/s. MMT. While on one hand the plant was to be pledged to the Company (clause 4) implying M/s. MMT's liability to repay the unrecovered amount, on the other, M/s. MMT was to sell the same to the Company (clause 5) thereby discharging all its liability to the Company.

The Management replied (June 2007) that though the Company had no previous experience in such business, no specialised skill was required for the business. It was M/s. MMT's responsibility to dismantle and sell the material. The reply of the Management was not tenable as failure of the Company to ensure proper monitoring of the dispatches by a technically competent independent agency and its excessive and optimistic reliance on M/s. MMT to operate the MOU properly with due diligence led to non-recovery of Rs.119.14 crore[2] after adjusting the amount of margin money deposited by M/s. MMT with the Company.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

---

[1] ***July 2005, September 2005, December 2005 and January 2006***

[2] ***Rs.119.14 crore includes Rs.87.43 crore towards unrealised financed amount, Rs.4.49 crore towards trade margin, Rs.26.77 crore towards interest and Rs.0.45 crore being other charges***

CHAPTER VII: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

7.1.1 Extra subsidy burden due to inclusion of inadmissible incidentals

Inclusion of inadmissible incidentals in the procurement rates of levy rice resulted in undue benefit to millers and consequent extra subsidy burden of Rs.326.21 crore to Government of India.

Food Corporation of India (FCI) procures rice for the Central Pool through statutory levy on rice millers and rice dealers. The percentage of levy is fixed by State Governments with the approval of Government of India (GOI) taking into account the requirements for the central pool, domestic consumption and marketable surplus. Rates of levy rice are fixed by the GOI before commencement of every Kharif Marketing Season (KMS).

While fixing the rates of levy rice for KMS 2003-04, the GOI decided (October 2003) to exclude the following elements from the costing of levy rice:

(i)	Internal movement -	as the milling charges were inclusive of transportation charges upto eight kilometres on paddy as well as delivery of rice
(ii)	Storage and interest -	as the storage was normally in the millers own premises. The same applied to interest charges
(iii)	Sales tax at rice stage -	as millers did not necessarily purchase paddy at the minimum support price
(iv)	Gunny depreciation -	as only the cost of bags in which miller supplied rice to the Central pool was to be reimbursed

Since, the rates of levy rice calculated for KMS 2003-04, after excluding above cost elements were lower than KMS 2002-03 rates, the GOI decided to bring the rates for KMS 2003-04 at par with KMS 2002-03 and therefore, a 'miscellaneous/special element' (ranging between Rs.32 *per* quintal to Rs.37.30 *per* quintal[*]) was included, as a one time measure, in the procurement rates for levy rice for KMS 2003-04. As the rates calculated for KMS 2004-05 were found less when compared with the rates of KMS 2003-04, the 'miscellaneous/special element' (ranging between Re.0.67 *per* quintal to Rs.16.47 *per* quintal) was included in the rates of levy rice for KMS 2004-05 also.

For procurement of 68.89 lakh MT of levy rice during KMS 2003-04 in Andhra Pradesh, Punjab and Haryana, an amount of Rs.236.31 crore was paid to the rice millers towards 'miscellaneous/special element'. Similarly, for KMS 2004-05, an amount of Rs.89.90 crore was paid for procurement of 67.75 lakh MT of levy rice. This nullified the GOI

[*] ***For different varieties of rice***

decision to exclude these elements from levy cost calculations as per the deciding principles to be taken into account while calculating costs for KMS 2003-04 onwards. Consequently, undue benefit of Rs.326.21 crore was passed on to the millers in Andhra Pradesh, Punjab and Haryana for supply of levy rice during 2003-04 and 2004-05.

The Management while confirming the facts stated (September 2007) that the instructions/sanctions of the GOI were executed without any deviation.

The Ministry in reply stated (November 2007) that 'miscellaneous/special element' were allowed to compensate increase in minimum support price, taxes, *etc.*

The reply was not tenable as increase in minimum support price was considered and suitably reflected in the rates fixed for procurement of levy rice. Inclusion of 'miscellaneous/special element' had in fact negated the decision to exclude the inadmissible elements.

Thus, inclusion of 'miscellaneous/special element' in the procurement price of levy rice for 2003-04 and 2004-05 resulted in undue benefit of Rs.326.21 crore to the rice millers and an extra subsidy burden to the GOI.

7.1.2 Short accountal of storage gain in wheat

Storage gain in wheat observed during 2004-05 and 2005-06 in Punjab region compared with Haryana region showed short accountal of wheat by 59,898 MT valuing Rs.58.17 crore.

FCI procures wheat for the Central Pool directly as well as through State Governments and their agencies (State agencies). During storage wheat gains weight, particularly during monsoon season, due to absorption of moisture.

Due to operational constraints, FCI at times, is unable to take over the entire stock procured by State agencies immediately after it is procured and the stock is, thus, stored in their godowns. For recovery of storage gain in respect of wheat stocks taken over by FCI from the State agencies of Punjab and Haryana, the GOI in November 1999 had fixed the norms of storage gain at the rate of one *per cent* for stock from covered godown and 0.70 *per cent* for stock from open godown.

The GOI in August 2003, on the basis of a study conducted by Indian Grain Storage Management and Research Institute, Hapur, fixed the criteria for accountal of storage gain at 0.70 *per cent* gain in weight for every one *per cent* increase in moisture content in respect of wheat procured, stored and issued through FCI own godowns. Accordingly, the GOI requested FCI to record the moisture content at the time of procurement and transfer out/sale and account for storage gain. Cases where recording of the moisture content of the wheat was not made and storage gain not accounted for were to be investigated and action taken against the concerned staff.

It was observed in Audit that in the Punjab and Haryana regions of FCI which together procure 88.32 *per cent* of the foodgrains for the Central Pool, the instructions regarding recording of moisture contents were not followed. Further, though the climatic conditions of these regions was the same, actual storage gain on account of moisture gain accounted

for in Punjab region were very low when compared with Haryana region during 2004-05 and 2005-06. The average percentage of storage gain accounted for by Punjab region was 0.93 *per cent* only as against 2.25 *per cent* accounted for by Haryana region. There was, thus, short accountal of 59,898 MT of wheat valued at Rs.58.17 crore by Punjab region when compared with Haryana region.

The Management in reply stated (October 2007) that the storage gains in Punjab region could not be compared with Haryana region due to heavy procurements in Punjab and lack of covered storage space. The contention of the Management was not acceptable. Though the climatic conditions in both regions were similar, there was difference of nearly 200 *per cent* in the storage gain in these regions. Moreover, the storage gain was neither recorded and accounted for on the basis of the GOI instructions nor any action was taken against delinquent staff.

The matter was reported to the Ministry in August 2007; reply was awaited (November 2007).

7.1.3 Avoidable payment of interest charges

Non-consideration of actual period of custody and maintenance for fixation of interest charges resulted in avoidable payment of Rs.38.68 crore to State agencies in Punjab and Haryana during 2002-03 and 2003-04.

The State Governments and their agencies (State agencies) procure wheat for the Central Pool and the wheat so procured is stored in their godowns till it is taken over by the Food Corporation of India (FCI). To meet the expenditure for these procurements, State agencies avail cash credit from banks and the expenditure incurred is then reimbursed as 'incidentals' by the FCI at the rates fixed by the GOI for each marketing season. The incidentals include an element of inventory carrying cost in the form of 'interest charges' to reimburse the State agencies for the period for which cash credit was availed by them.

While fixing the final rates of procurement incidentals of wheat for Rabi Marketing Season 2001-02 and 2002-03, the GOI decided (July 2004) that interest charges would be payable for the period allowed for 'custody and maintenance charges'. The weighted average period of custody and maintenance of wheat in Punjab was two months and eight days during 2002-03 and two months and seven days during 2003-04. It was observed in Audit that the interest charges were actually allowed by the GOI for two months and 15 days. Similarly, against the weighted average period of custody and maintenance of two months and five days in Haryana Region the interest charges were allowed for two months and 21 days during 2002-03. This resulted in excess payment of Rs.38.68 crore to the State agencies in Punjab and Haryana for 181.62 lakh MT of wheat procured during the years 2002-03 and 2003-04.

The Minisrty in reply stated (November 2007) that the interest on monthly compound basis[*] was considered on the average period of stocks held in storage.

[*] *A charge for minimum of 15 days in a month was payable if the period of storage was less than 15 days.*

The reply was not tenable as the interest was payable on daily balances. The interest charges should accordingly have been calculated on daily average basis.

Thus, fixation of interest charges for two months and 15 days/21 days without considering the actual period of custody and maintenance of stock by State agencies resulted in avoidable payment of interest charges of Rs.38.68 crore to the State agencies in Punjab and Haryana during 2002-03 and 2003-04.

7.1.4 Excess payment of interest charges for procurement of Custom Milled Rice

Payment of interest charges at 9.10 *per cent* in place of FCI rate of interest at 8.15 *per cent* to the State agencies for procurement of Custom Milled Rice resulted in excess payment of Rs.26.03 crore during Kharif Marketing Season 2004-05 and 2005-06.

The Government of India (GOI) fixes rates of Custom Milled Rice (CMR) delivered by the State Governments and their agencies (State agencies) to central pool out of paddy procured under price support operations. The rates so fixed consist of Minimum Support Price, Statutory Charges and Non-Statutory Charges which *inter alia* included interest charges incurred by the State agencies.

The GOI in July 2003 informed the State Governments that to introduce transparency in the methodology of fixation of the procurement cost, amongst other things, the interest charges were to be calculated at the FCI's rate of interest[*] obtained on the date of commencement of Kharif Marketing Season (KMS). During discussions on procurement of paddy for KMS 2004-05 on 18 August 2004, the GOI informed the State Governments that a downward revision in the rate of interest from 9.10 *per cent* to 8.15 *per cent* on the bank borrowings for food operations should be expected. However, while fixation of the rates for CMR for KMS 2004-05 in October/November 2004 and for KMS 2005-06 in November 2005 the GOI allowed interest charges at the rate of 9.10 *per cent* for the states of Punjab, Haryana, Andhra Pradesh, Orissa, West Bengal and Bihar.

The State Bank of India on 23 February 2005 reduced the rate of interest to 8.15 *per cent* with effect from 11 August 2004 and this was communicated to FCI on 1 March 2005. By that time KMS 2004-05 was over and an amount of Rs.11.59 crore was paid in excess for the year 2004-05 at the higher rate of interest in these States. In 2005-06 also, though the interest rate of 8.15 *per cent* was well known to FCI, interest charges at the rate of 9.10 *per cent* were allowed and FCI paid Rs.14.44 crore in excess to the State agencies.

The Management in reply stated (November 2007) that CMR procurement rates as fixed by the GOI were paid by them. Further, the interest rates allowed in the GOI orders were the rates at which various agencies were borrowing funds for their procurement operations from various commercial banks and the rate of interest paid by the State Government agencies were normally more than food operations rate. The Ministry endorsed (November 2007) the reply of the Management.

The reply was not tenable as the GOI, in the methodology for fixing costs (July 2003), had clearly laid down that the interest charges were to be calculated at the FCI rate of

[*] ***Rate of interest on bank borrowing for food operations***

interest obtained on the date of commencement of KMS. Further, as FCI is the nodal agency for procurement of CMR from the State agencies, it was also for the FCI to ensure that excess payments on this account were not made.

Thus, payment of interest charges at 9.10 *per cent* in place of FCI rate of interest at 8.15 *per cent* resulted in excess payment of Rs.26.03 crore to the State agencies of six states during KMS 2004-05 and 2005-06.

7.1.5 Loss in disposal of bajra in Haryana region

Undue benefit to tenderers, delay in finalisation of rates and non-consideration of market rates resulted in loss of Rs.14.96 crore in disposal of bajra by FCI Haryana region during 2003-04 and 2004-05.

As per policy of Government of India (GOI), to extend the benefits of Minimum Support Price to the farmers, the State Governments and their agencies procure bajra on behalf of Food Corporation of India (FCI)/GOI. After retaining the stocks required for consumption under Targeted Public Distribution System, the balance stock is disposed of by the FCI through open tender. The difference between the economic cost and the amount realised from the distribution/sale of the stock is reimbursed to the State Governments as subsidy.

It has been observed in Audit that there were heavy losses in disposal of bajra during 2003-04 and 2004-05 by FCI Haryana Region as discussed in the following paragraphs.

7.1.5.1 Disposal of bajra during 2003-04

FCI decided (November 2003) to dispose of through tender, the 1.99 lakh MT of bajra procured by the State Government and its agencies in Haryana during 2003-04. The tenders were opened on 3 January 2004 with validity of the offer upto 1 February 2004 which could be extended by another 30 days *i.e.,* upto 2 March 2004. In all, 89 tenderers submitted their offers ranging between Rs.337.17 *per* quintal and Rs.452 *per* quintal. The comparative statement of the rates was forwarded by Senior Regional Manager FCI (SRM) Haryana to FCI Headquarters for approval of rates by High Level Committee (HLC) /the Ministry of Consumer Affairs, Food and Public Distribution (Ministry) on 14 January 2004 with the recommendation to accept the bids received at the rates of Rs.360 *per* quintal and above. However, HLC asked (10 February 2004), for extension of the validity period of tender by another two months from 2 February 2004.

Meanwhile, six parties withdrew their offer between 23 January 2004 and 4 February 2004 and their earnest money deposits (EMDs) amounting to Rs.1.19 crore were forfeited. Another 20 bidders withdrew their offer when asked to extend validity period of tender by another two months. Their EMD was refunded.

The HLC approved (March 2004) the cut-off rates of Rs.330 *per* quintal and stipulated that free stocks be offered to tenderers whose rates had been accepted to the extent of their requirements and they may be given an option to lift the stocks at the cut-off price fixed. Accordingly, 1.71 lakh MT of bajra was sold to 52 valid tenderers at the rates ranging from Rs.331.25 *per* quintal to Rs.401.55 *per* quintal for Rs.56.79 crore. Due to delay in finalisation of the cut off rates and consequent withdrawal of parties with higher

bid rates, FCI sustained a loss of Rs.1.15 crore being the difference between highest rates received in tender enquiry and actual rate received. Further, Rs.3.05 crore was paid to State Government as carry over charges for two months.

The remaining 0.28 lakh MT of bajra which was to be offered to 52 valid tenderers as per HLC orders was however, offered to only seven parties at the rate of Rs.402 *per* quintal. These parties included those six parties whose EMDs amounting to Rs.1.19 crore were forfeited due to withdrawal of their offer within validity period. This led the FCI to suffer a further loss of Rs.1.19 crore due to adjustment of forfeited EMDs against the sale.

7.1.5.2 Disposal of bajra during 2004-05

Similarly, tenders were invited (January 2005) to dispose of 1.30 lakh MT of bajra procured by the State Government and its agencies in Haryana during 2004-05. In all, 124 tenderers submitted their rates and the highest valid depot wise/lot wise rates ranged between Rs.463.41 *per* quintal and Rs.527.27 *per* quintal. The comparative statement of the rates was forwarded on 14 February 2005 by SRM Haryana to FCI Headquarters for approval of rates by HLC/Ministry. As the approval of rates was not received, the validity period of tender was extended by SRM Haryana till 15 April 2005 on mutual consent basis.

In the meantime, there was an upward trend in the market rates of bajra after receipt of tender rates. The rates increased to Rs.550 - Rs.552 *per* quintal (11 February 2005) and to Rs.638 – Rs.640 *per* quintal (11 April 2005). Though the increase in market rate of bajra was duly communicated by SRM Haryana to FCI Headquarters, the cut off rate of Rs.470 *per* quintal was approved by HLC/Ministry on 11 April 2005. SRM Haryana requested FCI Headquarters to reconsider the decision to dispose of stock at the rate of Rs.470 *per* quintal but this was not agreed to by FCI Headquarters. The SRM Haryana however, sold 1,28,287 MT of bajra at the cut off rate of Rs.520 *per* quintal though the average market rate during March 2005 to May 2005 was Rs.597.69 *per* quintal and 1,785 MT was considered as storage loss. Considering the average market rate of Rs.597.69 *per* quintal, FCI lost an opportunity to realise an amount higher by Rs.9.57 crore on sale of bajra during 2004-05.

The Management in reply (September 2007) stated that the request of SRM Haryana for re-consideration of cut off rates at Rs.470 *per* quintal was not considered as the rates were fixed by HLC and approved by the Hon'ble Minister. Also, the re-tendering could have taken a further period of three to four months in completing the whole process of tender.

The reply did not reflect the correct position as the increasing trend in rates was not brought to the notice of HLC. Further, the HLC had ratified (June 2005) the action taken by SRM Haryana to dispose of bajra at Rs.520 *per* quintal. Moreover, to avoid further delays due to re-tendering, the FCI could have also reduced the period of tender or gone for limited tender.

Thus, FCI suffered a loss of Rs.5.39 crore[*] in disposal of bajra during 2003-04 and lost an opportunity to realise an amount higher by Rs.9.57 crore on sale of bajra during 2004-05.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

7.1.6 Non-recovery of Value Added Tax

Non-charging of output tax on sales made to the State Government of Haryana for sale under 'Above Poverty Line' allocations resulted in avoidable subsidy burden of Rs.3.80 crore to Government of India.

The Haryana Value Added Tax (VAT) Act, 2003 came into effect from April 2003. Under the Act, Food Corporation of India (FCI) was to pay input tax at the time of purchase of foodgrains and collect output tax on all sales made, if such sales were not exempted from VAT. Section 3(5) of the Act laid down that if the output tax calculated as per Section 3(4) of the Act was more than the input tax the difference in the two was the tax payable; and if the input tax was more than the output tax calculated, the excess amount was either refundable or adjustable with future tax liability.

Foodgrains sold by FCI to the State Government of Haryana for supply under various programmes like Food for Work Programme, National Rural Employment Programme, Rural Landless Employment Guarantee Programme and World Food Programme Project 2664 were exempted from VAT in Haryana. The sale of foodgrains under the Above Poverty Line scheme in Targeted Public Distribution System (TPDS-APL) was however, not exempt from VAT under the Act.

As the Central Issue Price (CIP) of wheat for TPDS-APL was lower than the purchase price, the output tax chargeable on such sales under VAT was, thus, lower compared to the input tax and was to be collected and retained by FCI as per Section 3(5) of the Haryana Act. VAT was in force during 2003-04 and 2004-05 in Haryana unlike in other States particularly Punjab resulting in price differential in CIP in these two neighbouring States. To remove disparity in price the Haryana Government requested (January 2004) the GOI and the GOI in May 2004 issued instructions that the difference of the output tax and input tax only was to be levied on sales made under TPDS-APL. As output tax was lower than the input tax and the difference showed a negative value, FCI neither charged nor collected the output tax amounting to Rs.3.80 crore on 1.56 lakh MT of wheat stocks sold under the scheme to the State Government in 2004-05. Further, FCI did not claim the amount as refundable or adjustable with future tax liability in the VAT return filed for the year 2004-05. This resulted in non-recovery of Rs.3.80 crore as output tax from the State Government of Haryana by the FCI towards the sale under the scheme.

The Management in reply stated (July 2007) that to remove discrimination between two major food producing States, the GOI on the request of State Government had decided to give a special status to Haryana in respect of sale of wheat under TDPS-APL. The Ministry endorsed (July 2007) the reply of the Management.

[*] *Rs.1.15 crore plus Rs.3.05 crore plus Rs.1.19 crore*

The reply was not tenable. To remove the disparity in price, the State Government could have exempted the sale under the APL scheme from VAT rather than issue of instructions by the GOI which were not in consonance with the provisions of the Haryana VAT Act 2003. Further, under similar conditions during 2003-04, FCI had collected and retained the output tax amounting to Rs.2.41 crore on sale of 0.99 lakh MT of wheat under the scheme to the State Government.

Thus, non-charging of output tax by FCI in 2004-05 for sales under TPDS- APL resulted in non-recovery of Rs.3.80 crore by FCI from the State Government of Haryana and an avoidable subsidy burden to the GOI. This amounted to an indirect subsidy from the GOI to the State Government, as all deficits of FCI are made good by the GOI as food subsidy.

7.1.7 Loss in disposal of maize

Delay in approval of rates for disposal of maize procured during Kharif Marketing Season 2004-05 in Karnataka region resulted in a loss of Rs.3.10 crore to the Food Corporation of India.

During Kharif Marketing Season 2004-05, the State agencies in Karnataka procured 3.80 lakh MT of maize on behalf of Government of India under price support scheme for the Central Pool. Out of this, 20,400 MT was moved to Gujarat for issue under Public Distribution System and the balance quantity of 3.60 lakh MT was put to sale through tender by Food Corporation of India (FCI) in March 2005. The date of opening of tender was fixed for 11 April 2005 and tender was kept open for acceptance upto 10 May 2005 with the right to extend the period of acceptance of tender by another 15 days.

The Senior Regional Manager FCI (SRM) Bangalore prepared a comparative statement, showing centre-wise and bidder-wise rates received (ranging from Rs.450.00 to Rs.558.99 *per* quintal) on 15 April 2005. However, statement and other relevant documents were forwarded by the SRM to FCI Headquarters on 28 April 2005 for approval by the High Level Committee (HLC) recommending acceptance of tender quotes of Rs.500 *per* quintal and above and were received in FCI Headquarters only on 3 May 2005 *i.e.,* after 21 days from the date of opening of tender. Meanwhile, the validity of the offers was extended to 25 May 2005.

The HLC, in its meeting on 10 May 2005, agreed with the cut-off rates of Rs.500 and above for disposal of maize. The final approval however, was communicated on 28 May 2005 by FCI Headquarters *i.e.,* after the expiry of extended validity period of the tender on 25 May 2005. Highest bidders in 74 centers out of 114 centers did not agree with the extension of validity of rates beyond 25 May 2005 and withdrew their offers. Consequently, 2.34 lakh MT stock was sold to next higher (H2) or lower bidders resulting in a loss of Rs.3.10 crore to the FCI calculated on the basis of highest bid in the centre and the actual amount realised.

The Management while confirming the facts stated (November 2007) that FCI had earned profits by offering maize stock to H2, H3, H4 bidders instead of liquidating stock at cut off rates. This was not acceptable. FCI would have earned more by sale to the highest

bidder who had withdrawn their bids due to delay in acceptance of rates offered and consequent expiry of validity period.

Thus, delay in sending the details of bids obtained by SRM Bangalore to FCI Headquarters and subsequent delay in approval of rates for disposal of maize by HLC resulted in a loss of Rs.3.10 crore to the FCI and an increased subsidy burden to the GOI.

The matter was reported the Ministry in May 2007; reply was awaited (November 2007).

7.1.8 Avoidable loss due to non-compliance of Government of India's instructions and excess issue of foodgrains under mid-day meal scheme

Failure in adhering to the Government of India's instructions regarding issue of foodgrains under mid-day meal scheme resulted in excess issue of foodgrains and subsidy burden of Rs.2.88 crore.

The Ministry of Human Resources Development (MHRD), Department of Education launched the National Programme of Nutritional Support to Primary Education generally known as mid-day meal scheme (MDM) with effect from 15 August 1995. While the overall responsibility for the scheme vests with the State Governments, Central assistance is provided to the States under the scheme by way of free supply of foodgrains from the nearest godowns of the FCI. The orders of allocation of foodgrains for the scheme are issued by the MHRD for 10 academic months in a year and the quantity of foodgrains to be issued by FCI in any particular month for the scheme should not exceed one-tenth of the total allocation.

Based on the enrolment data supplied by the Government of Andhra Pradesh, the MHRD issued (June 2003) provisional allocation of 1,54,353.460 MT of rice for 10 academic months of the year 2003-04 (from July 2003 to March 2004*) for all the schools in Andhra Pradesh. This allocation was based on the number of children enrolled as on 30 September 2002 for 200 school days. In August 2003 the Government of Andhra Pradesh requested for allocation of foodgrains for 231 school days. The MHRD issued (September 2003) a revised provisional allocation of 1,78,278.246 MT of rice for the year 2003-04 specifically mentioning that the revised allocation was valid for supplies from October 2003 to March 2004 and the revised allocation should not be applied on the previous months.

The Regional Office FCI Hyderabad however, instructed its District Offices to issue the foodgrains in monthly equal instalments from October 2003 onwards, on the basis of revised allocation after deducting the issues made upto September 2003. It was observed in Audit (February 2006) that during October 2003 to February 2004 in 10 out of 23 districts of Andhra Pradesh, foodgrains were issued by FCI by including the difference of the revised and the original allotment for the months of July 2003 to September 2003. Against allotment of 39,466.490 MT of rice for the period October 2003 to February 2004 for these 10 districts, 41,917.110 MT of rice was issued. This resulted in excess issue of 2,450.620 MT of rice valuing Rs.2.88 crore in these 10 District Offices during

* ***Release of foodgrain from April 2003 to June 2003 was on the basis of last year (2002-03) enrolment data.***

October 2003 to February 2004. In the remaining 13 District Offices, the instructions of the MHRD were correctly implemented.

The Zonal Management in reply stated (April 2007) that the total release of rice during the year did not exceed the net/firm allocation made by the MHRD and the Regional Office, Hyderabad therefore, directed all District Offices to issue balance/left over quantity of allocation in equal monthly instalments from October 2003 onwards.

The reply was not tenable as the MHRD in its order (September 2003) had clearly mentioned that no claims for previous months be entertained on the basis of revised allocation. Further, this had resulted in issue of foodgrains in excess of one-tenth of total allocation, in each of the months from October 2003 to February 2004.

Thus, non-compliance of MHRD's instructions resulted in issue of excess foodgrains in 10 District Offices of Andhra Pradesh causing an extra subsidy burden of Rs.2.88 crore to the GOI.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

CHAPTER VIII: MINISTRY OF DEFENCE

Bharat Earth Movers Limited

8.1.1 Unnecessary interest payment

Acceptance of advance without confirmation of rate of interest resulted in unnecessary interest payment of Rs.7.54 crore.

The Company received (March 2002), a Letter of Intent (LOI) from the Ministry of Defence (MOD) for manufacture and supply of 75 BRS wagons and 136 DBKM wagons. The provisional price of Rs.50.39 crore for which 100 *per cent* advance was paid in March 2002 was revised to Rs.60.06 crore in January 2006. The advance attracted interest but the rate of interest and period was not specified in the LOI.

The Company invested the advance in term deposits with commercial banks at interest rates ranging between 4 to 8.55 *per cent* during the years 2002-03 to 2006-07. The final order was issued in January 2006 stipulating the rate of interest as 9.5 *per cent per annum* from the date of LOI and also the mode of adjustment of the advance. As against the completion of supplies by January 2007, the Company completed production of 75 BRS and 80 DBKM wagons so far (September 2007). The MOD has adjusted Rs.4.19 crore towards interest as on August 2007.

Audit observed that the rate of interest and period was not specified in the LOI and the Company did not effectively pursue the matter at the appropriate level in MOD regarding rate of interest applicable on the advance received. Thus, the acceptance of advance without confirmation of rate of interest resulted in the Company bearing the differential interest burden of Rs.7.54 crore upto March 2007.

The Ministry in its reply (September 2007) stated that the Company's request for revision of rate of interest was under consideration.

8.1.2 Protracted delay in amending the purchase order resulted in foregoing of income of Rs.4.44 crore

Delay in initiating action to amend liquidated damages clause as sought for by the propriety item supplier resulted in delayed receipt of CKD components and foregoing of Rs.4.44 crore.

The Company received a supply order on 16 October 2004 from South Eastern Coalfields Limited, Bilaspur (SECL) for supply of seven BH-120-E dumpers at a cost of Rs.50.07 crore. As per the terms of the order, the dumpers were to be supplied within six months from the date of the order *i.e.*, by April 2005. Delay in supplies attracted liquidated damages (LD) at the rate of 0.5 *per cent per* week subject to a maximum of 15 *per cent*.

The Company placed a purchase order on 12 October 2004 on M/s. Komatsu America Corporation, USA (KAC) for supply of seven dumpers in completely knocked down (CKD) condition with a delivery schedule of 240 days with a request to advance the

delivery schedule by 120 days. The order also stipulated the LD clause for delay in supply. Soon after the placement of order, KAC on 19 October 2004 categorically stated that the LD clause and 120 days delivery schedule were not acceptable. On 3 November 2004 it again reiterated that the CKD components would be shipped with 240 days delivery schedule after receipt of the amended order and deletion of the LD clause. However, the Central Purchase Cell (CPC) of the Company decided only on 17 November 2004 to negotiate the LD issue with KAC. The Chairman and Managing Director's approval was obtained after three and a half months on 19 February 2005 and the formal amendment deleting the LD clause was communicated to KAC on 15 March 2005; after a further delay of one month.

Even after the shipments were received from July 2005 to November 2005 the Company took three to four months to supply the equipment to SECL against which LD of Rs.7.40 crore were levied by SECL.

Audit observed that the protracted delay of four and a half months (November 2004 to March 2005) in initiating action to amend the LD clause in the purchase order could have been avoided as the Company was well aware that KAC was the single source supplier. This resulted in delayed supply of dumpers to SECL and consequent foregoing of income of Rs.4.44 crore (based on the rate of 0.5 *per cent per* week for four and a half months).

In its response, the Ministry stated (October 2007) that though the equipment was not in their regular production range, the Company had utilised the available capacity and was able to earn profit even after paying LD.

The reply was not tenable since the equipment was mainly assembled from imported CKD components. Timely response by the Company and issuance of the amendment to the purchase order would have generated additional income of Rs.4.44 crore.

Hindustan Aeronautics Limited

8.2.1 Incorrect evaluation of tender

The Company incurred avoidable expenditure of Rs.5.99 crore due to lapse in evaluation of tender and awarding the contract to SVEC Construction Limited.

The Company issued Notice Inviting Tenders (NIT) in January 2004 for construction of 326 staff quarters at its Bangalore Complex..As per the NIT the tenderers were required to quote rates for (a) upto third floor roof level and (b) extra over (a) upto fifth floor. The Company clarified through an amendment in March 2004 that the rates quoted for (a) upto third floor roof level and (b) upto fifth floor were to be independent of each other. The last date of 10 March 2004 for submission of tender was extended to 1 April 2004. Seven bids were received by the due date.

After a Techno Commercial evaluation (April 2004/May 2004) of the bids, the Company evaluated SVEC Construction Limited, Hyderabad (SVEC) as L1 at their quoted price of Rs.22.70 crore. The Company noted that SVEC's itemised quotation had a mix of very high and low rates in comparison to other bidders and sought (May 2004) confirmation from SVEC of the rates quoted. On SVEC's request, price negotiation was held on

25 August 2004. As seen from the minutes of price negotiation, the Company informed SVEC about the high freak rates in certain cases and requested them to review and reduce rates. Based on the request, SVEC offered a rebate of 2.25 *per cent* on the originally quoted high rates and the Company reworked the negotiated price at Rs.22.18 crore. There was no specific mention about low rates in the minutes of price negotiation. However, SVEC through their letter of 26 August 2004, inviting reference to the negotiations stated that the final price worked by the Company was incorrect and stated that the rates quoted for all the items above third floor should be treated as additional rate over and above rates quoted by them for the corresponding items upto third floor. The Company in response intimated (4 September 2004) that the contract value was as per the negotiated price and awarded the contract to SVEC at Rs.22.18 crore on 29 September 2004.

Disputing the contract price, SVEC moved the High Court of Karnataka to allow them to carry out the work upto third floor and keep the agreement pending till such time the issue relating to forth floor and fifth floor was resolved. The High Court, during the arguments stage (November 2004) allowed the Company to negotiate with other tenderers and award the work. The Company however, did not initiate negotiations with other tenderers.

The High Court rejected the petition filed by SVEC on 17 January 2005 and ordered that the Company was at liberty to re-tender the contract. The Company cancelled the contract awarded to SVEC in February 2005. The work was re-tendered in July 2005 and awarded in April 2006 to National Projects Construction Corporation Limited (NPCC), for Rs.30.51 crore. This work was in progress (October 2007).

Scrutiny in Audit revealed that the Company failed to make a proper evaluation, as the comparative statement prepared by the Company for itemised rates for fourth and fifth floors showed clearly that SVEC had quoted incremental rates only beyond third floor level and not independent rates. While the other bidders had quoted rates ranging from Rs.4.40 crore to Rs.6.70 crore for work relating to fourth and fifth floors, SVEC had quoted only Rs.0.12 crore. Such a huge variation in quoted rates should not have escaped the notice of the Company. Even during the price negotiations held with SVEC on 25 August 2004 the Company discussed only the higher freak rates and ignored the lower freak rates. Besides, SVEC had also pointed out the very next day on 26 August 2004 that the rates quoted by them beyond third floor were in addition to the rates quoted upto third floor. In the given situation, the Company should have enforced clauses 36 and 39 of Company's works and contract procedure regarding freak rates and rejected the quote of SVEC. Instead, the Company went ahead with the evaluation process and ranked SVEC as L1. If the Company had made a proper evaluation, URC Constructions would have been L1 at Rs.24.52 crore and negotiations, if any, should have been appropriately held with URC.

The Management stated (July 2007) that the tenders were correctly evaluated, as per rules, taking the quoted rates in tender documents with all the amendments issued to the tenderers being considered. The L1 was arrived at on the basis of a comparative statement drawn up with the quoted rates. Hence, the notional savings of Rs.5.99 crore as worked out by Audit on the premise of the offer of URC as L1 was, therefore, incorrect.

The reply was not tenable as the Company failed to recognise the rates as quoted by SVEC even after the tenderer later immediately after negotiations disputed and asserted that the rates quoted by them for beyond third floor were in addition to the rates quoted upto third floor. The Company also failed to take action against the tenderer as per its standard procurement procedure and did not utilise the additional opportunity provided by the High Court in permitting it to negotiate with other tenderers.

Thus, due to improper evaluation of tender resulting in award of the contract to SVEC, the Company had to re-tender and award the contract to NPCC leading to avoidable expenditure of Rs.5.99 crore (NPCC awarded price of Rs.30.51 crore minus URC price of Rs.24.52 crore) and delay in the completion of the project.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

8.2.2 Forfeiture of revenue due to repair of engines on free of cost basis

The Company repaired 11 engines on free of cost basis though the defects were not precisely established on its part. This resulted in forfeiture of revenue of Rs.5.53 crore to the Company.

The Engine Division of Hindustan Aeronautics Limited (Company) manufactures, repairs/overhauls Adour, Artouste, Garrett, Orpheus, and Dart engines. Air headquarters (AHQ) issues firm repair/overhaul tasks for each financial year with the prior approval of the Ministry of Defence (MOD) and the supplies and services provided by the Company are governed by the Fixed Price Quotation (FPQ) approved (August 1995) by the MOD. As per the provisions of FPQ policy, the issue regarding finalisation of warranty clause was to be considered separately. In the absence of the warranty clause, the Company was entitled to realise FPQ price for the repair/re-repair work done. The warranty clause was approved in August 2006 with retrospective effect from April 2006.

For every premature withdrawal of engines from services*, defect investigation (DI) team comprising representatives of the Company and the MOD investigated the defect and suggested remedial measures. The Company used to repair on free of cost (FOC) basis if the defect/fault in the equipment was attributable to the Company.

The Company repaired 21 engines during 2002-03 to 2004-05 on FOC basis on the ground of premature withdrawal from services. A review of DI reports indicated that in respect of 11 engines it was not precisely established that the defects were those of the Company. The Company however, repaired these 11 engines on FOC basis without claiming the FPQ price of Rs.5.53 crore. It was also observed that under the delegation of powers within the Company, the competent authority for deciding on FOC repairs was not indicated and there was no formal documentation for the decision taken by the Company to undertake repairs on FOC basis.

The Management stated (July 2007) that:

---

* *Even before completing the time between overhaul*

(i) Being a commercially oriented Government Company, rational commercial decision based on the facts and circumstances of the case, where the responsibility of the Company could not be unambiguously ruled out was taken and the FOC repair had demonstrated the Company's commitment to quality and long-term product support.

(ii) Out of 11 engines, no repair was done in respect of three engines, only stripping and testing costs were incurred while in respect of four engines, FOC repair was done as its fault could not be conclusively ruled out and in respect of the balance four engines, the defects were clearly attributable to the Company.

The Ministry endorsed the Management's reply in August 2007.

The reply was not tenable as:

(i) The failure of the Company cannot be justified as a 'rational commercial decision' as neither the FPQ terms/conditions nor the delegation of powers of the Company provided for FOC repairs. Further in view of Company's acceptance that there was no formal documentation for the executive decision to undertake the repair on FOC basis the reply appears to be an after thought.

(ii) As per the DI reports, in none of the 11 engines the defects were solely attributable to the Company. Thus, the Company was entitled to realise FPQ price. The Company has also confirmed the FPQ price of the repair of 11 engines as Rs.5.53 crore.

Thus, repairing of 11 engines during 2002-03 to 2004-05 on FOC basis though the defects were not precisely established on the part of the Company resulted in forfeiture of revenue of Rs.5.53 crore to the Company.

8.2.3 Procurement of unproductive inventory

The Company instead of restricting the procurement of SNFA bearings for service evaluation test alone went ahead and procured bulk quantity without clearance of AHQ resulting in unproductive inventory of Rs.5.08 crore.

The Company (Engine Division) manufactures, repairs and overhauls Adour engines. The sole supplier for mainline bearing used in the engines was Rolls Royce, (RR) UK the original equipment manufacturer (OEM). In order to develop alternate source, it was decided (October 2000) in a meeting with Centre for Military Airworthiness (CEMILAC) and MOD to procure six types of mainline bearings from SNFA France. It was also decided that the Company would apprise Air Headquarters (AHQ) about the introduction of SNFA bearings on Adour engines including the service sample evaluation of bearings at 600 hours and 1,200 hours, *etc.*

The Company placed two purchase orders in February and March 2001 for procurement of 240 mainline bearings on SNFA, France. AHQ however, was told about introducing/fitting of SNFA bearings in Adour Engines only in April 2001. SNFA, France supplied 235 mainline bearings between November 2002 and February 2004 at a cost of Rs.5.08 crore.

As per the requirement of CEMILAC, all mainline bearings were to be tested for service evaluation for minimum requirement of 600-1,200 flight operational hours. Though the Company fitted SNFA mainline bearings and sent three engines for service evaluation, it could not achieve the prescribed specification of 600-1,200 operational hours. Thus, in the absence of final evaluation report AHQ did not approve the fitment of SNFA bearings on in-service engines, even as of April 2007. Thus, the bulk procurement of mainline bearings was rendered unproductive, as the Company could not fit the mainline bearings in the engines even after a lapse of three years.

The Management stated (April 2007) that the requirements of the CEMILAC were complied with and clearance was given to use SNFA bearings as replacement for rejections during Defect Investigation (DI)/repair. The Company added that OEM had introduced SNFA as an alternate supplier for Adour bearings by Service Bulletin Mod AO1356. Further that the specialised and critical process of qualification of bearings involves a long period and requires additional tests/flight evaluation.

The reply of the Management regarding bulk procurement without the approval of AHQ was not tenable since:

(i) OEM had not introduced SNFA as an alternate supplier by Service Bulletin Mod AO1356.

(ii) As qualification of bearings required a long and specialised process of additional tests/flight evaluation the procurement of bearings in bulk quantity without quality clearance was imprudent.

(iii) SNFA bearings were recommended as replacement for rejections during DI/repair only on those engines with residual life of less than or equal to 300 hours and not on all service engines. The six sets of bearings were cleared by CEMILAC only for service evaluation in order to study the capabilities of bearings.

(iv) Service evaluation/sampling checks for 600 hours, 900 hours and 1,200 hours of Time Between Overhaul had not been achieved as specified by CEMILAC and final approval/clearance of AHQ had not been received (October 2007).

Thus, the Company instead of restricting the procurement of SNFA bearings for service evaluation test alone went ahead and procured bearings in bulk quantity, resulting in unproductive inventory of Rs.5.08 crore.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

CHAPTER IX: DEPARTMENT OF FERTILIZERS

Madras Fertilizers Limited

9.1.1 Wasteful expenditure due to not utilising the repaired diesel generator engine

Failure to assess the economics of operating the engine before getting it repaired rendered the expenditure of Rs.1.27 crore wasteful.

Madras Fertilizers Limited (Company) installed (April 1998) a diesel generator engine II supplied by M/s. Solar Turbine International Co., Singapore - the original equipment manufacturer (OEM). In the normal course, the engine was due for an overhaul after running for 30,000 hours but due to failure of servo actuator, the engine shut down (September 2003) after running for 27,000 hours.

Following the failure, the Company decided (December 2003) to get the engine overhauled and placed an order (November 2004) on M/s. Wood Group Engineering Services (Middle East) Limited, UAE at a cost of US$ 0.21 million on FOB Dubai airport basis. The cost was revised to US$ 0.24 million (equivalent to Rs.1.13 crore) based on joint inspection in March 2005. The Supplier furnished warranty for 8,000 fired hours or 12 months from installation or 18 months from dispatch, whichever was earlier. The overhauling was to be conducted at Dubai.

The engine after repair was brought to Chennai Air Port on 15 November 2005. The to and fro air freight for the engine was Rs.3.05 lakh. Audit observed that the engine was kept at the air cargo complex till March 2006 resulting in payment of demurrage of Rs.11.41 lakh. Since the Company could not settle the customs duty of Rs.42.00 lakh, the engine repaired at a cost of Rs.1.27 crore[*] was moved to the bonded warehouse and remained there at the time of audit (December 2006). Meanwhile, the warranty period for the repair lapsed on 15 May 2007.

The Management in its replies of January and March 2007 stated that in view of high recurring cost, estimated at Rupees three crore *per* month on High Speed Diesel (HSD), it had been decided in March 2006 not to operate the engine. The failure to take delivery of the engine after paying customs duty was attributed to the financial crunch being faced by the Company.

The Ministry while endorsing reply of the Management stated (July 2007) that innovations and formulations of procedures for sustaining the front end plant during Tamil Nadu Electricity Board power failure had in the meanwhile stopped the need for operation of emergency power generating units and saved high cost of HSD consumption and as such, the engine would not be put into use even if cleared from the customs.

---

[*] *Rs.113 lakh plus Rs.11.41 lakh plus Rs.3.05 lakh*

The replies of the Management were not tenable since the Company should have assessed the economics of operating the engine before deciding and inviting quotations to get it repaired and again at the time of exporting the engine for repairs to Dubai in February 2005 and its subsequent joint inspection in Dubai in March 2005. The Ministry's contention that the innovations carried out during May 2006 helped in stopping the use of emergency power generating units was not correct as the repaired engine was received in November 2005 and was not cleared from Chennai airport due to the Company's financial constraints, well before the innovations were carried out. Further, the decision of the Company not to use the engine even if it was cleared from the customs demonstrates that the expenditure on repairs was avoidable and unfruitful.

Thus, the Company's failure to appropriately assess the economics of running the engine before getting it repaired and non-utilisation of the overhauled engine has rendered the expenditure of Rs.1.27 crore (excluding liability for customs duty) wasteful.

Rashtriya Chemicals and Fertilizers Limited

9.2.1 Extra expenditure due to delay in acceptance of offer

Due to delay in acceptance of term loan, the Company committed itself to an additional interest burden of Rs.81.16 lakh.

For financing the technological up-gradation of its Ammonia-V plant at Trombay, Rashtriya Chemicals and Fertilizers Limited (Company) invited (3 October 2005) bids for a term loan of Rs.150 crore from 11 banks. The terms and condition of the offer *inter alia* provided that rate of interest quoted in the bid would be valid for a period of 60 days from the last date (14 October 2005) of submission of the bids. The Company received seven bids in which offer of State Bank of Hyderabad (SBH) received through HDFC Bank for a rupee term loan of Rs.100 crore[1] at interest rate of 6.90 *per cent per annum* was the lowest. Unpriced bids were opened on 18 October 2005 and priced bids opened on 24 November 2005. The committee authorised to finalise the financing submitted its report on 29 November 2005 and recommended further negotiations with the lowest bidder. The Company attempted to negotiate (7 December 2005) reduction in the rate of interest, but SBH did not agree. The Company communicated its acceptance of SBH offer to HDFC Bank on 12 December 2005 after close of business hours. On 13 December 2005, HDFC Bank communicated the same to the SBH, who rejected it on 14 December 2005 on the ground that the validity period of 60 days had lapsed. The Company renegotiated (January 2006) the loan with SBH and accepted (25 January 2006) a term loan of Rs.100 crore at an interest rate of 7.25 *per cent.*

Audit observed (June 2006) that the Company took nearly two months to finalise the loan. Moreover, it incorrectly worked out the last date of validity of offer as 14 December 2005 instead of 12 December 2005. Consequently, delayed communication of acceptance led to taking the loan at a higher rate of interest with a resultant loss of Rs.81.16 lakh over the repayment period[2].

[1] ***Balance amount of Rs.50 crore was financed through State Bank of India as foreign currency loan***

[2] ***From February 2007 to February 2010***

In response, the Company stated (May 2007) that the letter of acceptance of offer had been conveyed on 12 December 2005 within the validity period and that even if the acceptance had been communicated on 13 December 2005 it would have constituted an enforceable contract.

The reply of the Company was not tenable as the acceptance of offer was communicated to SBH on 13 December 2005 after the expiry of validity period compelling the Company to renegotiate the loan at a higher interest rate. Thus, delay in timely acceptance of offer of SBH has caused an additional interest burden of Rs.81.16 lakh to the Company.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

CHAPTER X: MINISTRY OF FINANCE

Insurance Division

National Insurance Company Limited

10.1.1 Loss due to charging premium at incorrect rate

The Company suffered a loss of premium amounting to Rs.4.41 crore due to application of incorrect rate on tank farms and associated properties of Indian Oil Corporation Limited during August 2004 to July 2005.

As per All India Fire Tariff (Section VII), premium of Rs.3.50 *per mille* was chargeable for Tank Farms/Gas holders located outside the compounds of Industrial/Manufacturing risks and containing liquids flashing at 32^0 C or below. The associated properties such as pumping stations, compressor houses *etc.*, were also to be charged at the rates at par with the tanks.

The Delhi based Divisional Office of National Insurance Company Limited (Company) issued standard fire and special perils policy to Indian Oil Corporation Limited for the period 1 August 2004 to 31 July 2005 covering the insured's property and various assets situated at their Salaya Mathura Pipeline (SMPL) for sum insured of Rs.2,651.96 crore of which Rs.2,277.84 crore was for tank farms, tank contents and pump stations and terminals at Viramgam, Vadinar and Chaksu.

It was observed in Audit (December 2004) that SMPL was a crude oil pipeline and its tank farms at Vadinar, Viramgam and Chaksu were meant for storage of crude oil which had flash point below 32^0 C. The Company however, charged premium at the rates ranging from 0.95 to 2.00 *per mille* on these tank farms, their contents and associated properties instead of prescribed rate of Rs.3.50 *per mille*. Due to charging premium at incorrect rate the Company suffered a loss of revenue of Rs.4.41 crore*.

The Management stated (July 2007) that the policy was issued on the basis of details furnished in tender documents. The tender documents issued by Indian Oil Corporation Limited did not mention the flash point of crude oil. The Ministry endorsed (July 2007) the reply of the Management.

The reply was not acceptable. As the rates were dependent on the flash point of the property being insured, the underwriting office should have ascertained this information before quoting the rates against the tender.

---

* ***Difference between the premium (including earthquake premium) chargeable by the Company after applicable discounts and the premium charged by the Company***

10.1.2 Under loading of premium

A Divisional Office of National Insurance Company Limited renewed a Group Mediclaim Policy without loading premium on account of adverse claim ratio as per the terms of the policy resulting in under charge of premium by Rs.58.16 lakh.

Durgapur Divisional Office (DO) of National Insurance Company Limited (Company) issued (February 2003) a Group Mediclaim Policy customised to the requirements of M/s. Alstom Projects India Limited at a premium of Rs.21.35 lakh. The Head Office of the Company in according the *ex post facto* sanction prescribed that the claim ratio should be maintained at 70 *per cent* on "as if" basis. The policy was renewed at a premium of Rs.28 lakh for the year 2004-05.

It was noticed in Audit (May 2006) that at the time of issuing the policy, the DO of the Company did not ascertain the incurred claim ratio (ICR) from New India Assurance Company Limited (NIA) and relied on the verbal statement of the insured that there was no adverse claim experience with the erstwhile insurer. Audit scrutiny revealed that prior to 2003-04, the insured had a Group Mediclaim Policy with NIA and the ICR for the same was 315.65 *per cent* for the year 2001-02 which was subsequently replaced by individual policies in the year 2002-03. Further, at the time of renewal of the policy for 2004-05, the DO ignored the instructions of the Head Office to maintain 70 *per cent* ICR and loaded the premium to the extent of Rs.5.27 lakh only instead of Rs.63.43 lakh[*] as warranted by the ICR of 285 *per cent* for the period 2003-04 to maintain a claim ratio of 70 *per cent*. Thus, the DO did not base its premium on a proper assessment initially and thereafter, did not observe the terms of approval of the policy at the time of renewal resulting in under charge of premium of Rs.58.16 lakh.

The Management stated (May 2007) that the Group Mediclaim Policy was issued in 2003 by relying on the insured's version regarding past ICR and the decision of under loading at the time of renewal was prompted by stiff competition, as well as expectation of obtaining other profitable business from the insured.

The reply was not tenable in view of failure on the part of the DO to comply with the specific instructions of its Head Office resulting in loss of premium of Rs.58.16 lakh.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

10.1.3 Loss due to charging incorrect rates

The Company charged fire premium at incorrect rates while issuing standard fire and special perils policies to an insured during 2003-04 and 2005-06 resulting in loss of Rs.40.91 lakh.

According to the provisions of All India Fire Tariff (Section VI), premium on the storage risks located outside the compounds of industrial/manufacturing risks is charged as per

[*] ***Worked out on the basis of 70 per cent ICR on net premium before service tax***
(285*100/70) less100=307.14
20,65,272*307.14=Rs.63,43,276

the nature of goods, *i.e.*, hazardous or non-hazardous. Based on the Tariff Advisory Committee notification regarding categorisation of paddy in June 1998 and subsequent clarification issued in July 1999 and August 2004, paddy was to be categorised as hazardous goods and the premium charged accordingly.

The Delhi based Divisional Office of the Company issued Standard Fire and Special Perils Policy to M/s. KRBL Limited for the period 2 April 2003 to 1 April 2004 covering the insured's rice mill at Gautam Budh Nagar for Rs.222.20 crore of which Rs.122.40 crore was for the stock of rice, paddy and packing materials stored at its various godowns outside the rice mill premises. A similar policy was issued covering the period 2 April 2005 to 1 April 2006 for sum insured Rs.293.90 crore of which Rs.159.90 crore pertained to stock of rice, paddy and packing materials. In these policies the Company charged premium @ Re.1.00 *per mille* (rate applicable for non-hazardous goods) on the stocks of rice, paddy and packing material at godowns outside the rice mill instead of chargeable rate of Rs.2.50 *per mille* (rate applicable for hazardous goods) and lost Rs.40.91 lakh due to application of incorrect rate[*].

The Management stated (June 2007) that the subject matter covered in various godowns was incorrectly indicated due to typographical error as 'Stock of rice and/or paddy and/or packing materials" instead of 'rice'. The Ministry endorsed (June 2007) the reply of the Management.

The reply was not tenable as the Insured had declared (2005-06) the stock held in godowns as 'Rice and/or paddy and packing material'. Thus, there was a loss of revenue of Rs.40.91 lakh to the Company due to application of incorrect rate.

The New India Assurance Company Limited

10.2.1 Excess settlement of claim

The Company admitted Rs.1.51 crore as increase in cost of working instead of Rs.4.98 lakh resulting in excess settlement of Rs.1.46 crore.

The New India Assurance Company Limited (Company) issued a Consequential Loss (Fire) Policy to Neyveli Lignite Corporation Limited (Insured) for the period from April 2002 to March 2003.

The insured preferred a claim in December 2002 towards loss of profit on account of a fire accident on 4 September 2002 and interruption in generation from 4 September 2002 to 7 October 2002. The Company settled the claim in February 2005 for Rs.16.22 crore. This included *inter alia* reimbursement of Rs.5.03 crore for increased cost of working comprising Rs.3.52 crore towards cost of Oil/Naphtha consumed and Rs.1.51 crore towards saving of gross profit by allowing incentive to the contractor for completing the repairs two days ahead of schedule.

[*] ***The policy for 2004-05 issued by the Company, however, covered the stock of 'rice' only in various godowns as against 'rice paddy and packing material' in other two policies.***

Consequential Loss (Fire) Insurance Tariff – Specification B – Insurance on Gross Profit on output basis stipulates that the insurance cover should be limited to loss of gross profit due to (a) reduction in output and (b) increase in cost of working. The amount payable as indemnity on account of increase in cost of working is the additional expenditure necessarily and reasonably incurred for the sole purpose of avoiding or diminishing reduction in output which but for that expenditure would have taken place during the indemnity period in consequence of the damage. However, it cannot exceed the sum produced by applying the rate of gross profit to the amount of the reduction in loss of output thereby avoided. This means that each item of additional expenditure incurred has to be necessarily compared and limited to the gross profit earned by incurring that expenditure.

Audit scrutiny (March 2006) revealed that the insured paid an incentive of Rs.4.98 lakh to contractor for completing the repairs two days ahead of schedule. The surveyor assessed the loss of gross profit avoided by the above expenditure at Rs.1.51 crore. Similarly, the loss of gross profit avoided by maintaining generation with Oil/Naphtha during interruption period was assessed at Rs.3.52 crore against an expenditure of Rs.13.87 crore on Oil/Naphtha. The Company while settling the claim aggregated the costs (Rs.13.92 crore) and compared these with total figure of gross profit saved (Rs.5.03 crore) and restricted the claim paid to Rs.5.03 crore instead of restricting each item of additional cost to the resultant saving in loss of gross profit *i.e.*, Rs.3.52 crore for additional cost on oil consumed and Rs.4.98 lakh for incentive paid to contractor. Hence, the Company admitted claim of Rs.1.51 crore for early completion of repairs instead of Rs.4.98 lakh by clubbing the same with cost of oil consumed.

The Management stated (May 2007) that as per the tariff expenses necessarily and reasonably incurred for avoiding or diminishing the reduction of turnover were payable. They further added that the aggregate of increased cost of working was compared with and restricted to aggregate reduction in loss of gross profit achieved.

The Management's reply was not tenable. The additional cost of fuel was incurred for maintaining production during the indemnity period whereas the incentive paid to the contractor for early completion was meant to curtail the indemnity period. Hence, the expenditure led to saving of gross profits of different nature and aggregation of costs and loss of gross profit saved was not justified. Thus, aggregation resulted in excess settlement of claim by Rs.1.46 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

The New India Assurance Company Limited and National Insurance Company Limited

10.3.1 Imprudent underwriting resulting in loss of revenue

Underwriting special contingency policy without considering claims history resulted in loss of Rs.2.60 crore.

The Haj Committee of India invited (16 September 2004) bids for obtaining insurance cover under Group Accident Compensation Scheme[1] in respect of Haj pilgrims for the year 2005. The New India Assurance Company Limited, Vile Parle Divisional Office (NIA) issued (14 December 2004) a special contingency policy for 80,000 persons for the period 13 December 2004 to 12 February 2005 at a premium of Rs.64.50 *per* person for aggregate value of Rs.51.60 lakh. The numbers of persons covered were increased to 80,800 on collection of additional premium of Rs.51,600. NIA incurred claims of Rs.1.17 crore under the cover thereby incurring a loss of Rs.76.11 lakh[2]. For the year 2006, National Insurance Company Limited, Divisional Office 12 (NIC) issued (December 2005) a policy covering 98,000 persons for the period 3 December 2005 to 18 February 2006 at a premium of Rs.76.44 lakh applying a rate of premium of Rs.78 *per* person. The numbers of persons covered were increased (January 2006) to 99,700 on collection of additional premium of Rs.1.33 lakh. Against this policy, NIC incurred claims under the cover of Rs.2.24 crore resulting in a loss of Rs.1.84 crore.

It was observed in Audit (September 2006) that in respect of special contingency policy, NIA and NIC did not specify disclosure of claim history in the proposal form. Further, for issuing the policy for 2004-05, NIA initially worked out a premium at the rate of Rs.95 *per* person with a cushion of 10 *per cent* for negotiations. However, it proposed (October 2004) a premium at a rate of Rs.91.39 *per* person which was further reduced (November 2004) to Rs.64.50 during negotiations. NIA also paid (January 2005) brokerage of Rs.6.15 lakh to M/s. Surekh Insurance Services Private Limited even though it was a direct business. For the cover for 2005-06, NIC proposed premium at the rate of Rs.85 *per* person, which was reduced (November 2005) to Rs.78 *per* person considering claim ratio of less than 80 *per cent* for 2004-05 though the actual claim ratio was more than 200 *per cent*.

In response, NIA stated (June 2007) the following:

(i) the reduced premium had been charged to compete with other insurers;

(ii) the insured had informed that in the previous cover, only a few death claims and 100 claims each under money insurance and baggage policy had been made;

(iii) obtaining written confirmation in respect of claims ratio from previous insurers was not feasible considering competition; and

(iv) the business was booked through M/s. Surekh Insurance Services Private Limited as per the letter from Haj Committee;

NIC stated (June 2007) that a large number of claims were reported, which could not be foreseen at the time underwriting the risk.

Response of the Companies was not tenable because they did not ascertain claim history for a reasonable period and negotiated premium below their internal estimates. Thus, to

[1] ***Covering death/ permanent total/ partial disablement due to accident/ fire/ stampede/ subversive activity, personal accident, in patient treatment expenses incurred in recognised hospitals for not less than 24 hours, loss of cash and loss of baggage***

[2] ***Loss = incurred claims and expenses less net premium excluding service tax***

compete with other PSUs, they fixed premium not commensurating the risk undertaken. NIC had not ascertained the previous claim history and finalised the premium on incorrect assumptions. Further, NIA had procured the business directly in response to a tender without involving the broker, therefore, the payment made to M/s. Surekh Insurance Services Private Limited was irregular.

Thus, finalising premium without considering previous claim history, the companies incurred a loss of Rs.2.60 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

The Oriental Insurance Company Limited

10.4.1 Short recovery of premium due to violation of Tariff

The Company under charged premium of Rs.1.65 crore due to incorrect application of Tariff.

A Coimbatore based Divisional Office of The Oriental Insurance Company Limited (Company) issued (June 2002) a special contingency policy to M/s. Dishnet DSL Limited (Insured) covering electronic equipment, data media, virus, hacking, business interruption, loss of profit and third party liability for the period 26 June 2002 to 25 June 2003. The sum insured was Rs.241.30 crore of which Rs.190 crore pertained to electronic equipment and data media.

The coverage of electronic equipment was governed by All India Tariff on Electronic Equipment Insurance (Tariff), which prescribes a rate of one *per cent*.

Audit scrutiny revealed (May 2005) that the Company had collected a premium of Rs.0.25 crore as against Rs.1.90 crore. This resulted in short collection of premium by Rs.1.65 crore.

The Ministry in reply stated (July 2007) that the policy was reinsurance driven and the question of breach of Tariff did not arise. The Ministry's reply was not tenable. As per Clause 6 of General Regulations of the Tariff all special contingency policies (or similar policies known by any other name) covering electronic equipment fall under the Tariff. In December 1999 the Tariff Advisory Committee decided that only Mega Risks* (fire) would be out of the purview of the Tariff.

Thus, the Company suffered a loss of premium of Rs.1.65 crore by issuing the contingency policy to the Insured at lower than the prescribed rates in violation of the Tariff.

---

* ***A risk was termed as 'mega risk' if it fulfilled the criteria of being above the threshold limit of probable maximum loss of Rs.1,054 crore or the sum insured of Rs.10,000 crore or above, at any one location.***

10.4.2 Loss due to undercharge of premium

A Divisional Office of Oriental Insurance Company Limited while underwriting a Group Mediclaim Policy allowed excess discount and under loaded the premium during the period March 1999 to February 2005 resulting in undercharge of premium by Rs.1.02 crore.

Divisional Office -II, Kolkata (DO) of The Oriental Insurance Company Limited (OIC) entered into a Memorandum of Understanding (MOU) with The Bank Employees Co-operative Bank Limited (insured) and agreed (January 1999) to issue a Tailor Made Group Mediclaim 'Excess Loss' Policy covering its employees, members and their dependants. The policy was issued in March 1999 and renewed annually upto 2004-05. The scheme, *inter alia* provided for 100 *per cent* reimbursement of medical expenses by the insurer in the first three years[1] of the cover and in the last[2] three years the insured shared the expenditure to the extent of 65 *per cent*, 45 *per cent* and 55 *per cent* respectively of the total expenditure reimbursed. The guidelines of OIC in this regard (October 1999) required that a maximum of 30 *per cent* of the basic rate of the premium could be allowed as group discount on the basis of the actual number of persons in the group at the beginning of the policy. The underwriting practices also required loading of the premium on renewals so as to maintain incurred claim ratio at 70 *per cent* on 'as if' basis.

It was noticed in Audit (April 2004) that the DO did not adhere to the extant instructions and allowed group discount at a flat rate of 80 *per cent* of the basic premium for the period from 1999-2000 to 2001-02 for which no justification was found on record. This resulted in undercharge of premium to the extent of Rs.80.09 lakh calculated on the basis of discounts admissible under the OIC guideline. The discount was subsequently reduced to 15 *per cent* in 2002-03 and 20 *per cent* in 2003-04 and 2004-05. In none of these years the group discounts allowed had any correlation with the number of the beneficiaries. It was also observed that the premium was not loaded on the basis of the claim experienced. While the premium was overloaded during 2002-03 to the extent of Rs.5.43 lakh, the same was under loaded by Rs.13.65 lakh and Rs.13.99 lakh during 2003-04 and 2004-05, respectively as worked out on the basis of maintaining 70 *per cent* claim experience ratio after considering average of claims experienced in the immediately preceding three years.

Thus, heavy discounts allowed and underloading of the premium in contravention of stated underwriting principles year after year, resulted in undercharge of premium to the extent of Rs.1.02 crore[3]. However, against a total premium of Rs.1.35 crore received during the entire period of the coverage of the policy, claims paid/incurred was Rs.1.73 crore leading to net loss of Rs.38 lakh.

The Management accepted (June 2007) that the discount allowed on the basic premium by the DO was not in conformity with the discounts permitted by the Head Office; but the Mediclaim Policy issued to bank employees and their family members was considered of great importance to the Company since it was expected that the portfolio would indirectly

[1] ***1999-2000 to 2001-02***

[2] ***2002-03, 2003-04 and 2004-05***

[3] ***Rs.80.09 lakh minus Rs.5.43 lakh plus Rs.13.65 lakh plus Rs.13.99 lakh = Rs.102.30 lakh (say Rs.1.02 crore)***

generate premia in the form of bank insurance portfolios, insurance of bank property, *etc.* However, as the experience was not on expected lines, the policy was discontinued after 2004-05.

The reply was not tenable since neither the DO observed extant instructions of its Head Office as regards group discount and loading of the premium nor sought the approval for deviations in the terms of the tailor made policy for a period of six years. This is also indicative of lack of oversight at the top management level.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

United India Insurance Company Limited

10.5.1 Avoidable excess payment of reinsurance premium

United India Insurance Company Limited obtained excess of loss reinsurance policy to cover the risk retained against the catastrophic events for a part of the year 2005-06 and paid excess premium of Rs.2.59 crore in violation of stipulated treaty conditions.

Catastrophic excess of loss (cat xl) cover is a reinsurance cover for the insurer for protection against numerous losses caused by events like cyclone, earthquake, floods, conflagration, *etc.* United India Insurance Company Limited (Company) arranged cat xl cover to protect its net account (risk retained) from any catastrophic event for the year 2005-06. The cover was to the extent of Rs.335 crore. During the year 2005, two major catastrophic events occurred in India[1], which depleted the Company's existing cat xl cover. Therefore, the Company took (October 2005) another back-up cat xl cover for the period from 14 October 2005 to 31 March 2006 for Rs.335 crore with ALLIANZ SE, Singapore as the lead reinsurer through broker M/s. Heritage Finance and Trust (I) Private Limited, Kolkata.

As per the terms of the back up cover, the estimated Gross Net Premium Income (GNPI)[2] was Rs.560 crore and the minimum deposit premium[3] was Rs.9.99 crore covering losses during the period commencing 14 October 2005 to 31 March 2006. The cover note stipulated that the minimum deposit premium was adjustable at the stipulated rates applicable on the gross net premium income accounted during the period covered by the back up reinsurance. Thus, the actual reinsurance premium payable would be the amount computed at the percentage rates indicated in the reinsurance treaty, on the actual premium accounted during the period 14 October 2005 to 31 March 2006, subject to the minimum deposit premium.

Audit scrutiny revealed (October 2006) that the Company calculated final adjusted premium with reference to the GNPI for the whole year (2005-06) and paid Rs.2.59 crore to reinsurers as adjustment premium, over and above the minimum deposit premium of

[1] ***Floods in Mumbai and Gujarat***

[2] ***Gross premium less commission paid***

[3] ***Minimum premium payable***

Rs.9.99 crore. The actual GNPI recorded during October 2005 to March 2006 was Rs.263 crore *i.e.*, much less than estimated GNPI of Rs.560 crore. Hence, only minimum deposit premium stipulated was payable.

The Ministry stated (August 2007) that the back up cover was to take care of any loss for the remaining period and was a mere pre-paid reinstatement of the original cat xl cover with same terms and conditions. As the back up cover was a mirror image of the original cover, the adjustment was done as that of the original cat xl programme.

The reply of the Ministry was not tenable as the coverage for the period 14 October 2005 to 31 March 2006 could not be viewed as a reinstatement of the original cover. The cover note clearly specified that the minimum deposit premium was adjustable for the GNPI accounted during the period of cover.

Thus, the payment of Rs.2.59 crore as adjustment premium calculated on the annual GNPI instead of the period covered by the treaty was beyond the terms of the treaty and avoidable.

10.5.2 Loss due to under charging of premium

The Company suffered a loss of Rs.2.27 crore due to inadequate revision of premium charged on renewal of group personal accident policies during 2001-04 and 2004-07.

As per the guidelines of United India Insurance Company Limited (Company) on group personal accident policies and guidelines of Inter Company Coordination Committee on the issue, premium chargeable on group personal accident policies was to be revised upward at the time of renewal so as to bring down the claim ratio to 80 *per cent* for the preceding three years.

The Delhi based Divisional Office (DO) of the Company issued group personal accident policy covering the risk of 53,000 employees of Delhi Police from 19 February 1997 to 18 February 1998 for sum insured of Rs.1.25 lakh *per* person at a premium of Rs.23.85 lakh. Subsequently, the DO renewed the policy for three periods from 1998 to 2001, 2001 to 2004 and 2004 to 2007 for sum insured of Rs. two lakh *per* person charging premium of Rs.1.03 crore, Rs.1.75 crore and Rs.2.54 crore, respectively.

It was observed in Audit (December 2005) that the Company incurred a high claim ratio of 214 *per cent*, 272.92 *per cent* and 174 *per cent* on the policies for the period 1997 to 1998, 1998 to 2001 and 2001 to 2004 respectively. Based on the experienced claim ratio, the premium for the policy covering the periods 2001-04 and 2004-07 was required to be revised to Rs.3.06 crore and Rs.3.50 crore respectively, as per the Company's own guideline as against Rs.1.75 crore and Rs.2.54 crore charged by the Company. Thus, due to inadequate revision of the premium the Company lost Rs.2.27 crore during the period 2001-2007.

The Ministry in its reply stated (August 2007) that the increase in premium did not keep pace with claims ratio due to constraints posed by severe competition and the business

was neither under tariff or market agreement but was a part of its social obligation. Further, the Company had not been able to recover the amount despite its best efforts.

The reply was not tenable as the premium was not revised as per guidelines. Further, there was no statutory requirement on the Company to meet such a social obligation or recorded evidence that the Company deliberately and consciously renewed the policy to meet any such obligation and bear the loss of Rs.2.27 crore.

10.5.3 Loss due to remittances of Service Tax on provisional basis

United India Insurance Company Limited paid penal interest and also suffered loss of interest amounting to Rs.2.04 crore on short/excess remittances of Service Tax during 2003-04 to 2005-06.

With effect from 1 July 1994 it was obligatory for general insurance Companies to collect Service Tax from the policy holders and remit it to the Government.

The United India Insurance Company Limited (Company) was paying Service Tax provisionally on the premium collected by its operating offices every month and adjusting the differences, if any, at the time of filing the return. Service Tax was to be paid to the credit of the GOI by twenty-fifth of the month immediately following the said calendar month till 2004-05; and from 2005-06 the payment was to be credited by fifth of the succeeding month.

Audit scrutiny (August 2006) revealed that provisional payments of Service Tax resulted in monthly payments falling short of the amounts due during 2003-04 to 2005-06 and therefore, to avoid short payments of the Service Tax during the year substantial amounts were paid towards the end of the respective year. This resulted in excess remittances of Rs.4.10 lakh, Rs.5.96 crore and Rs.14.00 crore during the years 2003-04, 2004-05 and 2005-06, respectively. The excess remittances were adjusted at the time of finalisation of the tax returns. While the short payments settled in subsequent months attracted penal interest of Rs.50.37 lakh for belated payment of Service Tax, the Company also suffered loss of interest to the extent of Rs.1.54 crore on excess remittances which resulted in funds remaining blocked for periods ranging from 32 days to 523 days during 2003-04 to 2006-07.

The Management stated (May/August 2007) that provisional remittances were made as it is difficult to collect data from all its offices before the stipulated date as the operating units function on Genisys, which is a stand-alone system for each unit. Further, in absence of a centralised data base, collection and consolidation was being performed at four different stages at Branch offices, Divisional offices, Regional offices and Head office which involved considerable time and work. The Ministry (August 2007) endorsed the views of the Management.

The reply was not tenable as the Company planned to procure a suitable consolidation and connectivity software as reported in the Company's Annual Report for 2001-02. With the advent of Genisys Operating System in more than a thousand operating units, the Company computerised underwriting business during 2001-02 but connectivity and consolidation software were not installed despite the same being envisaged, which would

have facilitated consolidation of data and payment of Service Tax with reasonable accuracy.

Thus, the Management's failure to establish inter connectivity with the operating units and procure suitable software to elicit information from Genisys resulted in avoidable payment of penal interest of Rs.50.47 lakh on short deposits and loss of interest of Rs.1.54 crore on funds which remained blocked due to excess remittances.

CHAPTER XI: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

11.1.1 Non-realisation of Rs.4.22 crore from a customer

The Company took an unwarranted risk and dispatched 95 *per cent* of the materials on verbal assurance which resulted in non-realisation of an amount of Rs.4.22 crore from the customer for more than six years.

Bharat Heavy Electricals Limited (Company) received an order (22 December 1999) from M/s. Arunachalam Sugar Mills Limited (ASML), Pondicherry for supply of a straight condensing turbo generator set of 4,280 KW capacity at a total value of Rs.5.46 crore (*ex*-works, exclusive of tax and other statutory levies). The supply was to be completed within 14 months of the date of order. The contract required the Company to test the equipment before dispatch for which 10 days written notice was to be given to ASML and to dispatch the equipment as per dispatch instructions of ASML.

The Company informed ASML that testing would be conducted between 16 March 2001 and 22 March 2001, but the latter did not turn up for the test. The Company conducted the test without the presence of ASML's representative and sent (29 March 2001) the test report to the latter. Thereafter, the Company without waiting for the formal approval of ASML dispatched (31 March 2001) 95 *per cent* of the materials. The dispatch was stated to be made on verbal clearance from Chairman of ASML. When the Company requested for payment of Rs.4.22 crore against the supplies made, ASML stated (April 2001) that the claims were not in order as it had not given despatch clearance.

In January 2002 ASML proposed to make payment through bill of exchange and sought the Company's help in commissioning the generator and completing all supplies. As the bill of exchange was not guaranteed by ASML's bankers, the Company (February 2002) put forth certain conditions which were not responded to by ASML.

For recovering the outstanding amount, the Company issued (September 2003) legal notices and referred (July 2004) the matter to arbitration. Meanwhile, an official liquidator was appointed by the Hon'ble High Court of Madras in winding up proceeding filed by various creditors of ASML. As the Company was only an unpaid seller and not a secured creditor, chances of recovering the amount were assessed as remote.

The Management replied (May/August 2007) that materials were dispatched to meet the target date of supply to avoid levy of the LD by ASML and that dispatch instructions as referred to in the contract pertained to furnishing the routine details like consignee address, sales tax registration numbers, contact details, *etc.*, by ASML. They added that the Company as unpaid seller has a lien over the equipment supplied by it.

The reply was not acceptable as the target date of supply had already lapsed on 22 February 2001 and the Company took a risk in dispatching equipment based on the verbal clearance of ASML and despite ASML's condition, in the absence of the buyer's representative for the pre-dispatch tests.

Thus, the Company failed to safeguard its interest by dispatching the material on the verbal clearance of the customer, which resulted in non-realisation of an amount of Rs.4.22 crore for more than six years.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

11.1.2 Extra expenditure due to non-placement of order as per the tender enquiry

The Company did not place purchase order as per delivery terms offered by a vendor for procurement of Molybdenum-Oxide resulting in extra expenditure of Rs.2.21 crore.

Central Foundry Forge Plant, Hardwar (CFFP) of Bharat Heavy Electricals Limited (Company) uses Molybdenum-Oxide and Ferro Molybdenum in manufacturing steel castings and forgings. The CFFP floated (20 April 2004) a tender enquiry on four approved vendors for supply of 32 MT Molybdenum-Oxide (MoO_3). All the four offers received (12 May 2004) were found to be technically suitable; no vendor, however, offered the full quantity. Purchase Order was placed (14 May 2004) on Electro Ferro Alloys (EFA), the lowest vendor, at a rate of Rs.7.80 lakh *per* MT for 10 MT.

It was noticed that though EFA had offered 20 MT of MoO_3, CFFP placed an order for 10 MT and with a delivery schedule other than what was offered by EFA. As the delivery schedule was not as per its offer, EFA did not accept (18 May 2004) the order. The Company subsequently accepted (31 May 2004) the delivery schedule of EFA, but EFA again refused (2 June 2004) the order as it was received after the validity period of the bid.

The Company floated a revised enquiry (12 July 2004) and received two offers, which were opened on 30 July 2004. By this time the price of the MoO_3 had risen by over 46 *per cent, i.e.*, from Rs.7.80 lakh *per* MT to Rs.11.44 lakh *per* MT. The Company placed the order on Premier Alloys at an average rate of Rs.11.44 lakh *per* MT on the last day (after business hours) of bid validity (4 August 2004). Premier Alloys refused to accept the order as it was received after the expiry of validity period. The Company now placed the order on the next vendor, Impex Metal for supply of 32 MT at an average rate of Rs.11.98 lakh *per* MT. Impex Metal could supply nine MT only, and the Company had to purchase the material from the open market at an average rate of Rs.25.30 lakh *per* MT which was higher than the rates of May 2004 and August 2004 by 224 *per cent* and 121 *per cent,* respectively.

As a result, due to not placing the order as per tender enquiry as well as the offered terms of the vendor, the Company could not obtain the material at lower rates offered by EFA. This resulted in an extra expenditure of Rs.2.21 crore on the procurement of 20 MT of MoO_3.

The Management stated (August 2007) that EFA had not accepted the order due to extraneous reasons, as the prices showed a rising trend and that EFA had also defaulted in earlier purchase orders dated 24 February 2004. They added that there was no certainty of receipt of material in the unprecedented market situation prevailing during that time.

The reply was not acceptable because the failure of vendor to supply the material against the order of February 2004 should have prompted the CFFP to either place a firm order based on the offered terms in the April 2004 bids or not consider the vendor at all in the order placement.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

11.1.3 Avoidable extra expenditure of Rs.1.34 crore

Failure to place purchase orders within validity period resulted in extra expenditure of Rs.1.34 crore.

Bharat Heavy Electricals Limited (Company) incurred an avoidable expenditure of Rs.1.34 crore due to non-placement of purchase orders within the validity period of offer in three cases as discussed below:

Case 1: Boiler Auxiliaries Plant (BAP), Ranipet

The Ranipet unit of the Company invited (21 January 2004) limited tender enquiries for procurement of various sizes of steel plates. The offer of Hansa Industries Private Limited (HIPL), Indian agents of Thyssen Krupp, Germany was the lowest for six sizes (492.741 MT) with validity of prices upto 12 February 2004. The division released the letter of intent at a belated stage on 18 February 2004 instead of before 12 February 2004. HIPL refused to accept the order. Fresh tender was invited and purchase orders placed (June 2004) on Metal One Corporation, Japan and Ferromex, Belgium at prices higher by 40 *per cent* than those offered by HIPL in February 2004.Thus, failure to place purchase order within the validity period resulted in an avoidable expenditure of Rs.38.98 lakh.

The Management accepted (May 2007) the observation.

Case 2: High Pressure Boiler Plant (HPBP), Tiruchy

The Tiruchy unit of the Company invited limited tenders (27 February 2004) for the procurement of 97.39 MT of Stainless Steel Plates (11 items) required for a Project with the tender due date as 15 March 2004 which was further extended to 25 March 2004. Response was received from two suppliers but the same were not found to be technically suitable. An offer was received from M/s. Indu Steel, France (supplier) through their Indian Agent on 26 March 2004. This was one of the parties to whom the purchase enquiry was sent and it was the only technically qualified party. The supplier quoted a price of Euro 4,240 *per* MT. The prices were valid till 2 April 2004. The Company failed to place the order within the validity period. The procurement had to be made through another bid resulting in extra expenditure of Rs.44.92 lakh.

The Management stated (March 2007) that only one vendor was technically qualified and the same was a late offer with technical deviation. It took some time for getting the approval of competent authority for these changes and for accepting the late offer.

The reply was not acceptable. The Company having decided to consider the late offer as the only technically acceptable, should have ensured that offer was processed within the validity period. Thus, failure to place the order within the validity period allowed the supplier party to increase its price resulting in extra expenditure of Rs.44.92 lakh.

Case 3: Industrial Systems Group (ISG), Bangalore

In response to a tender enquiry from the Industrial Systems Group of the Company at Bangalore for the procurement of one 2,000 KVA DG set with accessories for Western Mountain Gas Turbine Power Plant (GTPP) of General Electricity Company, Libya the lowest quotation received was from Kohler India, Bangalore (Indian agent of Kohler, USA) for a price of Rs.131.90 lakh. The price was valid till 31 May 2004. Instead of placing a firm order on the party a letter of intent was issued on 27 May 2004. Since the order was not confirmed before 31 May 2004, the party intimated that their principals refused to hold the prices. A fresh tender was floated and order was placed on Powerica, Chennai at a price of Rs.181.73 lakh resulting in extra expenditure of Rs.49.83 lakh.

The Management stated (May 2007 and July 2007) that Kohler had put one additional condition that they will supply the DG set from Singapore. As Singapore was not indicated as the country of origin by Libyan Customer in their letter of credit (LC) , same had to be taken up with the customer through International Operation Division of the Company for necessary LC amendments. On account of the above reasons, purchase order could not be immediately placed on Kohler, even though letter of intent was placed pending LC Amendment from the customer.

The reply was not tenable. The party had clearly indicated that supply would be made from Singapore and when technical / commercial bids were opened in January 2004 and this was not considered a barrier to opening of price bids. The price bids were opened on 4 February 2004 whereas the issue of amending the LC for supply from Singapore was taken up at a much later stage after the validity of offer was already over.

Thus, failure to place a firm order on lowest party within the validity period resulted in extra expenditure of Rs.49.83 lakh.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Heavy Engineering Corporation Limited

11.2.1 Avoidable payment of liquidated damage of Rs.4.12 crore

The Company suffered a loss of Rs.4.12 crore on account of liquidated damages as the Company failed to adhere to the delivery schedule in supplying Electric Rope Shovels.

Heavy Engineering Corporation Limited (HEC) entered into a contract (April 2003) with Coal India Limited (CIL) for manufacture and supply of three $10M^3$ Electric Rope Shovels at a firm and total price of Rs.43.15 crore. As per the terms of the contract, the supply of shovels was to be completed between January 2004 and March 2004 failing which the LD equivalent to 0.5 *per cent* of the price of electric shovel for each week's delay, subject to a maximum of five *per cent* of the price were recoverable from the Company.

The Company failed to supply shovels within the contractual delivery schedule and requested for extension of delivery period twice which was acceded to by the customer subject to imposition of LD as per terms of the contract. The Company supplied the shovels in January 2005 after a delay ranging from 10 months to 12 months and CIL recovered LD amounting to Rs.2.16 crore.

It was observed in Audit that the Company took 31 months in finding out the source of supply and placed order in September 2003 for procurement of electrics on M/s. G.E., USA after a delay of five months from the date of contract (April 2003) without any safeguard for prompt supply considering the tight delivery schedule.

The electrics required for these shovels were sophisticated in nature and initially the Management issued the order for commissioning of one set of electrics to M/s. G.E., USA in September 2003. However, due to the incapability of its own engineers to commission second and third set of electrics, the Management awarded the job (January 2005) to M/s. G.E. USA after passage of nine months from the contractual delivery date.

The Management stated (June 2007) that the delay in supply of shovels was mainly due to delay in supply of Electrics by M/s. G.E., USA. Further, the two sets of electrics were not commissioned by HEC engineers in view of the risk that M/s. G.E., USA would not cover the items under warranty if anything went wrong during commissioning.

The Management reply was not tenable in view of the fact that the order for procurement of electrics was placed on M/s. G.E., USA in September 2003 *i.e.*, after a delay of five months from the date of contract (April 2003) without any safeguard for prompt supply considering the delivery schedule. Further, the Company issued the order for commissioning of only one set of electrics to M/s. G.E., USA, knowing well that the Company did not have any in house expertise resulting in further delaying the supply of electric shovels to M/s. CIL.

In another case Company entered into a contract (September 2004) with Mahanadi Coalfields Limited (MCL) for manufacture and supply of eight $5M^3$ Electric Rope Shovels at a price of Rs. four crore *per* shovel with delivery schedule between December 2004 to April 2005. The customer issued (August 2005) a repeat order for two more shovels at the same price and terms and conditions with delivery to be completed by April 2006. As per terms of the contract, LD equivalent to 0.5 *per cent* of the price of electric shovel for each week delay, subject to a maximum of five *per cent* of the price would be recovered from the Company in case of delayed supplies.

The Company failed to supply the shovels within contractual delivery period and requested the customer for extension of delivery upto November 2006 which was

acceded to (September 2006) by the customer subject to imposition of LD as per terms of the contract. The Company supplied eight shovels between February 2005 and October 2006 with a delay of two months to nineteen months and two shovels in November 2006 with a delay of six to seven months. MCL deducted a sum of Rs.1.96 crore towards LD.

It was observed in Audit that the manufacturing plan for the shovels was finalised (March 2005) after a delay of six months from the date of agreement and the electrics for shovels were ordered (February 2005) after the expiry of contractual delivery dates for six shovels.

The Management while accepting (June 2007) the delay stated that delay in supply of shovels was mainly due to delay in supply of electrics by the supplier.

The Management reply was not tenable in view of the fact that there were delays in finalising the manufacture plans for the shovels and LD clause was not invoked against the supplier for delayed delivery of electrics.

Thus, due to failure to do preparatory planning and to assess its work procedures for ensuring timely delivery of the Electric Rope Shovels, Company had to suffer a loss of Rs.4.12 crore (Rs.2.16 crore plus Rs.1.96 crore) because of the LD recovered by the customer.

The matter was reported to the Ministry in August 2007; reply was awaited (November 2007).

CHAPTER XII: MINISTRY OF MINES

National Aluminium Company Limited

12.1.1 Avoidable payment of interest of Rs.2.76 crore due to short payment of advance Income Tax

Incorrect estimation of taxable income and consequent short payment of advance Income Tax by the Company resulted in avoidable payment of interest of Rs.2.76 crore in respect of the financial years 2003-04 and 2004-05.

In terms of Section 211 of the Income Tax Act, 1961 (IT Act), advance tax as calculated on current income is payable in four instalments on or before 15 June, 15 September, 15 December and 15 March of each financial year. In case the assessee does not pay advance tax or underestimates the instalment of advance tax, interest at the rate of one *per cent per* month is payable under Section 234 C of the IT Act.

Audit review (November 2006) of Income Tax returns filed by National Aluminium Company Limited (Company) for the assessment years 2004-05 and 2005-06, revealed that the Company did not correctly estimate its total taxable income and total tax payable thereon, resulting in short payment of advance tax in the different quarters. Consequently, the Company had to pay an amount of Rs.5.89 crore as interest under Section 234C due to short payment of advance tax for the financial years 2003-04 and 2004-05.

It was observed that incorrect estimation of income and consequent short payment of advance tax was due to:

(i) The rising trend in rates of the metal as reflected in the London Metal Exchange (LME) rates was not fully considered while estimating taxable income.

(ii) Deductions for depreciation allowance were included in the calculations for advance tax without taking into consideration the progress in implementing the assets and the probable deferment in the date of their capitalisation. The Company availed depreciation benefits in the first and second quarters of 2003-04 in respect of assets projected to be commissioned in the second half of the financial year. This was not realistic as actual completion and commissioning of certain project/unit took longer time than scheduled.

Incorrect estimation of taxable income and consequent short payments of advance tax instalments resulted in avoidable payment interest of Rs.2.76 crore[*] after taking into consideration the prevailing cost of capital.

The Management contended (May 2007) that due to operation in a global market, it was difficult to correctly estimate future tax liability and short payment of advance tax was

[*] *Interest paid Rs.5.89 crore minus interest saved Rs.3.13 crore*

beyond their control. The Management also stated that they considered additional increase based on LME rates and other factors in all the quarters and capitalisation amount had also been reviewed in each quarter for payment of advance tax. The Ministry endorsed (October 2007) the views of the Management.

The reply was not acceptable. Review of the taxable income calculations for 2003-04 and 2004-05 showed that the Management considered metal rates lower than the prevailing LME prices during the first and second quarters of both the years leading to underestimation of advance tax payable. Similarly, likely delays in capitalisation of assets were evident from the progress reports of the schemes and projects.

Thus, due to failure in assessing the profit with reasonable accuracy the Company made short payment of advance tax resulting in an avoidable payment of interest of Rs.2.76 crore.

CHAPTER XIII: MINISTRY OF NEW AND RENEWABLE ENERGY

Indian Renewable Energy Development Agency Limited

13.1.1 Loss due to irregular sanction and disbursement of loan

The Company suffered a loss of Rs.30.28 crore due to disbursement of loan to an ineligible Borrower in contravention of its financial guidelines.

Indian Renewable Energy Development Agency Limited (Company) sanctioned (March 1999) a term loan of Rs.45 crore (including Rs.30 crore under ADB line of credit) to M/s. Gayatri Sugar Complex Limited (Borrower) for setting up of 22 MW bagasse based cogeneration project in its existing sugar plant at Prabhagiripatnam in Andhra Pradesh at an estimated cost of Rs.60.50 crore. Between February 2000 and April 2002, Rs.31.72 crore (including loan under ADB line of credit Rs.16.12 crore) were disbursed to the Borrower.

The Borrower defaulted (June 2002) in repayment of dues and in March 2003 the Company declared the entire loan as non-performing asset (NPA). There was no progress on the Borrower's project which was abandoned. The Company issued (April 2003) a recall notice to the Borrower and guarantors and initiated recovery proceedings in the Debt Recovery Tribunal. The Borrower however, filed a reference (October 2003) before Board for Industrial and Financial Reconstruction, New Delhi for getting itself registered as a sick company. As a result, the Company could not proceed with the recovery. Meanwhile, on a request of the Borrower (December 2005), the entire outstanding dues of Rs.57.28 crore were settled by the Company under one time settlement at Rs.27.00 crore as full and final payment by waiving off dues amounting to Rs.30.28 crore (principal Rs.4.72 crore and interest Rs.25.56 crore).

It was observed in Audit (December 2005) that as per the financing guidelines of the Company, only those applicants who as on the date of tendering loan application had no accumulated losses and had earned profits in the immediately preceding year's operation were eligible for financial assistance from the Company. The Borrower having an accumulated loss of Rs.77.47 crore as of March 1998 and a loss of Rs.8.19 lakh during the immediately preceding financial year 1997-98 was ineligible for financial assistance from the Company. It was also observed that the loan was secured by the personal guarantee of the promoter director and corporate guarantee of M/s. Nagarjuna Holdings Private Limited, the promoter Company of the Borrower. The Company however, was unable to recover the amount invoking the guarantees as the promoter director had resigned (December 2001) and the Borrowing Company's management had changed through divestment of shares in violation of the terms of loan agreement. The Company was not aware of these developments until November 2002 despite having its nominee on the Board of Directors of the Borrower. The change in the management had to be accepted by the Company at the time of approving the one time settlement proposal.

The Management stated (June 2006/June 2007) that the losses in the accounts of the Borrower were mainly on trading of seed cane and pesticides and expenditure towards wages, *etc.*, which during the construction stage, were to be charged to the Profit and Loss Account of the Borrower. The Borrower was eligible for financial assistance and the proposal was approved by the Board of Directors. The transfer of management control was done without notice to the Company and new management was recognised only for the limited purpose of settlement of dues.

The Ministry stated in November 2007 that the sanction and disbursement of loans to the borrower was in accordance with the prevailing financing guidelines and with the approval of the Board of Directors of the Company.

The reply of the Management and Ministry was not acceptable and the sanction and disbursement of loan to the Borrower was not in conformity with the Company's financing guidelines. The guidelines did not lay down that the losses on account of other lines of business were to be ignored in financial evaluation of the proposal. Further the Company should have known the change in the management immediately and acted to safeguard its interests through the presence of its nominee director on the Board of Directors of the Borrower Company.

Thus, due to extension of credit to an ineligible Borrower, the Company suffered a loss of Rs.30.28 crore.

CHAPTER XIV: MINISTRY OF PETROLEUM AND NATURAL GAS

Bharat Petroleum Corporation Limited

14.1.1 Idle investment on construction of Naphtha pipeline

Bharat Petroleum Corporation Limited laid five pipelines for evacuating products from Chennai Petroleum Corporation Limited under a product marketing agreement. The pipeline laid for the evacuation of Naphtha at a cost of Rs.4.28 crore remained unutilised since its commissioning (March 2001).

Bharat Petroleum Corporation Limited (Company) entered into an agreement (July 1999) with Chennai Petroleum Corporation Limited (CPCL) for marketing their products during August 1999 to July 2009. The Company initially used the existing pipelines of Indian Oil Corporation Limited (IOCL) for evacuation of CPCL products. CPCL planned to augment its capacity from 6.5 to 9.5 MMT *per annum* (MMTPA) by 2002-03. Therefore, the Company considered it necessary to lay five product pipelines – one each for Motor Spirit, Aviation Turbine Fuel, Middle Distillates, Black Oil and Naphtha from CPCL to its Tondiarpet installation at an estimated cost of Rs.38 crore. The Company justified (December 1999) laying of pipelines on the grounds that it was essential to have total control on product evacuation in a de-regulated scenario and to function independently. The project was scheduled for completion by March 2000.

Audit scrutiny (March 2006) revealed that construction work of five pipelines from CPCL to Tondiarpet installation (4.5 kilometers) commenced in May 2000 and was completed in March 2001 at a cost of Rs.23.26 crore. Immediately thereafter, IOCL took over CPCL in April 2001 and the agreement between CPCL and the Company for the marketing rights became inoperative. While the Company was utilising* four of the five newly constructed pipelines, the pipeline laid at a cost of Rs.4.28 crore for evacuation of Naphtha remained unutilised till date (September 2007). Besides, the proportionate lease rent for the Right of Way (ROW) on Railway's land for the Naphtha pipeline amounted to Rs.1.77 crore for the period 2001-02 to 2006-07.

The Management stated (August 2006) that the product pipelines were laid to enable independent functioning in a de-regulated scenario. The handing over of the marketing rights of CPCL to IOCL was a sudden decision of the Ministry not envisaged by the Company. They further added that discussion with IOCL regarding transfer of the Naphtha pipeline was in an advanced stage and in the event of handing over of the pipeline to IOCL, lease rent pertaining to ROW for Naphtha pipeline will also be borne by IOCL.

The reply was not tenable as the CPCL planned capacity expansion from 6.5 to 9.5 MMTPA by 2002-03 as such there was no urgency in augmenting the pipeline capacity

* *Both for its own use as well as for other marketing companies*

two year in advance *i.e.*, by March 2001.Moreover, the Company was aware (December 1999) of IOCL's move to acquire CPCL. As such there was uncertainty regarding the future of the marketing rights. Considering these factors and that the estimated completion time of the project was only three months after obtaining the ROW from Railways, the Company could have deferred the investment decision till the issue of CPCL takeover was settled.

Thus, the decision of laying all the five pipelines without considering the material facts led to creation of idle capacity. IOCL has its own network of pipelines and even six years after creation of the pipeline capacity, the Company is yet to identify alternative use for the idle Naphtha pipeline. Though discussions with IOCL were stated (August 2006) to be in an advanced stage, no decision had emerged till September 2007. In the meantime, the Naphtha pipeline remains idle resulting in an unproductive expenditure of Rs.4.28 crore besides the annual payment of lease rent for ROW to Railways.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Chennai Petroleum Corporation Limited

14.2.1 Avoidable expenditure due to supply of Naphtha that did not comply with the buyers specifications

Delay in drawing the sample from the storage tank and not testing the contents of the pipeline by Chennai Petroleum Corporation Limited resulted in supply of Naphtha to the buyer that did not comply with specifications. The buyer rejected the consignment resulting in avoidable expenditure of Rs.2.97 crore on transportation.

Chennai Petroleum Corporation Limited (Company) was supplying Naphtha through a dedicated pipeline from its refinery to Indian Oil Corporation Limited (IOCL) terminal at Korukkupet. From the terminal, the product was pumped through common white oil pipeline after flushing the line to remove the product pumped earlier. As per practice in vogue, the pipeline dedicated for Naphtha was not flushed before or after completion of each pumping and hence it always contained 1,184.910 Kilolitres Naphtha.

Before pumping any petroleum product, the Company prepared batches by drawing samples from the product tanks and tested the same for compliance to the specification of the product itself and also to the customers' requirement. The methods of drawing samples and their testing were as per the standards published by the Bureau of Indian Standards, wherever applicable.

The Company pumped a parcel of 14,000 MT of Naphtha from the batches 1,345 and 1,346 between 13 and 15 February 2005 for loading into the tanker M.T. Basaweshwara for onward supply to Southern Petrochemical Industries Company Limited (SPIC), Tuticorin. In the quality control test report of these batches the parameter Residue on Evaporation (ROE)/Non-volatile Matter (NVM) was reported as 2.8 milligram (mg) *per* 100 millilitre (ml) as against the specification of five mg *per* 100 ml required by SPIC.

Audit scrutiny (August 2006) revealed that the sample for the ROE/NVM test was drawn at 0700 hours on 12 February 2005 *i.e.*, 13 hours after completion of the circulation of Naphtha (1800 hours, 11 February 2005). The prescribed gap was of two hours as per instructions of Chief Manager Operations, Maintenance and Systems. The loading was completed on 16 February 2005 and the tanker M.T. Basaweshwara sailed for Tuticorin. A sample of Naphtha drawn from the ship was tested on the same day at Regional Laboratory, IOCL Korukkupet and it was found to not meet the required specification of ROE/NVM ordered by the buyer. It was off-loaded and held in IOCL's Tuticorin terminal as SPIC refused to accept the same. IOCL could not sell the off-specification Naphtha other than 4,472 MT taken to its Kochi terminal and it asked (April 2005) the Company to take back the balance quantity. Accordingly, IOCL returned (May 2005) 8,937 MT of Naphtha and the Company re-blended (May 2005) and sold it. In this process, the Company incurred an expenditure of Rs.2.97 crore on transportation to and from Tuticorin.

The Ministry stated (September 2007) that higher ROE/NVM content was due to heavy Naphtha produced from 'Once through Hydro Cracker Unit' (OHCU) at the time of its guaranteed test run (GTR). It further added that pump had suction strainer problem two or three days before the tanker discharge and such incidents were normal with respect to pump functioning. The sample sent to lab was not representative and high ROE/NVM was not reflected in the final analysis, as homogeneity of the stock was not established. However, on the sale of the blended Naphtha, there was additional revenue due to increased price in May 2005 which set off the extra transportation cost.

The reply of the Ministry was not tenable as despite the Management being aware of the fact that pump used for circulation was malfunctioning, sample for the ROE/NVM test was drawn 13 hours after completion of circulation of Naphtha against the prescribed limit of two hours. Thus, the Management did not take due care while drawing sample for testing. Moreover, the Company besides testing the product in the storage tank neither tested the contents in the pipeline nor the output from OHCU during GTR to ensure compliance to specification regarding ROE/NVM. Realisation of higher revenue in May 2005 due to price increase was a matter of chance and cannot be accepted as a justification for the avoidable expenditure.

Thus, the Company's failure to draw sample within the prescribed time and test the product in pipeline before dispatch resulted not only in failure to assure quality but also an avoidable expenditure of Rs.2.97 crore.

14.2.2 Avoidable expenditure

Failure to reduce the contracted demand resulted in avoidable expenditure of Rs.1.22 crore towards demand charges.

Tamil Nadu Electricity Board's high tension (HT) power tariff stipulates that every HT consumer pay demand charges to the extent of 90 *per cent* of contracted demand or the actual established demand whichever is higher (Billing demand). In the event of actual demand exceeding the contracted demand, the consumer has to pay penal charges on the quantum of demand that exceeded the contracted demand.

Chennai Petroleum Corporation Limited (Company) had contracted for a maximum demand of 4,000 KVA[1] since inception for its Cauvery Basin Refinery (CBR). The Company reduced the demand to 3,250 KVA in July 1995 in view of installation of captive power plant of 4.7 MW[2] (commissioned in 1996-97). Thereafter, the Company reviewed its requirement in January 2000 and July 2001 but retained the maximum demand at 3,250 KVA.

Audit reviewed the monthly bills of CBR in respect of high-tension service connection No.27 for the period from April 2004 to March 2007 and found that the recorded demand ranged between 580 and 2,000 KVA except in May 2004, January 2007 and February 2007. The actual demand exceeded 1,000 KVA only in 10 out of 36 months during 2004-05 to 2006-07. However, the Company paid demand charges for 2,925 KVA being the billing demand (90 *per cent* of contracted demand) during the entire period despite operation of the captive plant for meeting bulk of its power requirement.

In view of the installed capacity of the captive power plant and the past experience in the actual recorded demand, the Company did not reduce its contracted demand from 3.250 KVA to 2000 KVA and thereby avoid payment of demand charges of Rs.1.22 crore[3] reckoned at Rs.300 *per* KVA on the differential billing demand of 1,125 KVA[4] for three years from April 2004 to March 2007.

The Ministry stated (October 2007) that maximum demand was reduced from 4,000 KVA to 3,250 KVA in July 1995 in view of installation of captive power plant of 4.7 MW. Power requirement was reviewed and contracted maximum demand of 3,250 KVA was kept to meet power requirement in the event of shutdown of the captive power plant. It further added that considering the present operating level of the refinery at 0.6 MMTPA, it had now been decided to reduce the contracted demand from 3,250 KVA to 2,750 KVA.

The reply was not tenable as CBR was not operated at full capacity in any of the last five years ended March 2007 for want of crude of required quality. Further, even if the reduction of maximum demand to 2,750 KVA is taken into account, CBR had already foregone savings in expenditure of Rs.58.05 lakh[5] during April 2004 to October 2007. Since operations of the refinery are pegged at 0.6 MMTPA, it is again necessary to review the proposed reduction of the contracted demand from 3,250 KVA to 2,000 KVA as reducing it to 2,750 KVA would entail recurring extra expenditure of Rs.2.02 lakh[6] *per* month.

Thus, the Company's failure to reduce the contracted demand based on past consumption pattern resulted in avoidable expenditure of Rs.1.22 crore.

---

[1] ***Kilo Volt Ampere***

[2] ***Mega Watt***

[3] ***Rs.1.22 crore = 1125x300x36 months***

[4] ***1,125 = 2,925 (90 per cent of 3,250) less 1,800 (90 per cent of 2,000)***

[5] ***Rs.58.05 =450 x 300 x 43, 450 = {2,925 (90 per cent of 3,250) less 2,475 (90 per cent of 2,750)}***

[6] ***Rs.2.02 lakh = 675 [(2,475(90 per cent of 2,750) less 1,800 (90 per cent of 2,000)]x300***

GAIL (India) Limited

14.3.1 Wasteful expenditure on Liquefied Petroleum Gas marketing activities

GAIL (India) Limited incurred an expenditure of Rs.3.07 crore on Liquefied Petroleum Gas marketing activities before the issues relating to the conditions attached to the Ministry's approval to the same were resolved. Due to non-viability of the conditions, the permission was finally withdrawn rendering the expenditure of Rs.3.07 crore wasteful.

GAIL (India) Limited (Company), engaged in the production of Liquefied Petroleum Gas (LPG) from Natural Gas, sought the approval of the Ministry of Petroleum and Natural Gas (Ministry) for venturing into the activity of direct marketing of LPG, which was being done by Oil Marketing Companies*. The Ministry conveyed (February 2005) its approval for marketing of LPG by the Company, Oil and Natural Gas Corporation Limited (ONGC), and Reliance Industries Limited with effect from 1 April 2006 subject to the condition that the sale of bulk LPG would not be more than 20 *per cent* of the total sale of LPG by the Company. In August 2005, the Ministry made the permission operative with immediate effect.

While the operational modalities for functioning of the new entrants in LPG marketing were under consideration of the Ministry, the upstream companies were asked to prepare (October 2005) specific proposal on the ratio of domestic and non-domestic sale (bulk sale to the industrial and commercial sector) of LPG to be adhered to by the new entrants. In response the Company proposed a ratio 15:85 for LPG sales in domestic and non-domestic sector for new entrants. The Company's proposal was based on the rationale that the Ministry would not intend to allow subsidy to the new entrants on the domestic segment and the Company wished to sustain the under-recoveries in the domestic segment from bulk sales, which was a profitable segment. ONGC also proposed to market its entire share to bulk consumers. The suggestion of the Company and ONGC was not accepted by the Ministry and the Government ultimately withdrew the permission for direct marketing of LPG by upstream companies in January 2006, till further advice.

It was observed in Audit (October 2006), that before the Company had comprehensively examined the viability of the scheme and the modalities of its operations were firmed up by the Ministry, it incurred an expenditure (upto January 2006) on the appointment of marketing consultant and hiring business experts (Rs.2.09 crore), payment of salaries, perquisites and providing training for five executives recruited for LPG marketing including recruitment expenditure (Rs.0.83 crore) and overseas visits for techno commercial discussion (Rs.0.15 crore) aggregating Rs.3.07 crore which was rendered wasteful due to withdrawal of the permission by the Ministry.

The Management stated (June 2007) that the matter was taken up with the Ministry to review its earlier decision but after examination of the operational issues relating to LPG marketing by new entrants the Ministry decided not to expand the list of existing LPG

* *Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited*

Marketing Companies. The Management added that the benefit of expenditure incurred on formation of LPG marketing strategy would be derived as and when the GOI decides to allow the Company to market LPG directly.

The Ministry stated (October 2007) that the Company was not ready to do LPG marketing in the expected proportion that would have resulted in reduction of subsidy burden of the Government. It was, therefore, decided not to expand the list of existing Companies marketing LPG till further advice.

The reply of the Management was not tenable. As the conditions attached to the Ministry's approval had financial implications, the Company should not have incurred or committed the expenditure on LPG marketing activities before resolution of the related issues. Under the same circumstances ONGC did not incur any expenditure on LPG marketing activities. Further, the permission having been withdrawn by the Ministry, the Company is unlikely to reap any benefit out of the consultancy and techno-commercial expenditure incurred by it at a later date in view of the dynamic nature of the market.

Thus, the Company incurred wasteful expenditure of Rs.3.07 crore on the LPG marketing activities in haste despite being aware that it was not feasible to comply with the conditions laid by the Ministry.

14.3.2 Loss of interest

The Company suffered a loss of interest of Rs.1.13 crore by keeping funds during March 2006 to March 2007 with SBI at a lower rate of interest as compared to other banks.

GAIL (India) Limited (Company), was operating non-interest bearing current account with (i) State Bank of India (SBI) since its inception in 1984 where collections of the Company were deposited and (ii) HDFC Bank since May 2002, which basically serviced employee's salary accounts. For earning interest on amounts lying idle in its current account, the Company opened an interest-bearing Corporate Liquid Term Deposit (CLTD) account with SBI in September 2002. Under this arrangement, daily closing balances in the non-interest bearing current account in excess of a minimum balance of Rs.50 lakh were transferred to CLTD account that earned an interest at the rate of three *per cent per annum* for 7 to 14 days and five *per cent per annum* for 180 days to less than one year.

In February 2003 the Company opened a current account with ICICI Bank for servicing employee's salary accounts and took up the matter (2004-05) with HDFC and ICICI banks to get a product similar to CLTD account operated in SBI.

HDFC offered (July 2005) a similar product with rate of interest of NSE MIBOR* quoted on the Reuters for that particular day less 0.25 *per cent* applicable for seven days period on amounts in excess of Rs.50 lakh in multiples of Rs. one crore each. This worked out to 4.83 *per cent* (*i.e.*, 5.08 *per cent* less 0.25 *per cent*) at that time. ICICI also offered (July 2005) a similar product with a rate of interest of 4.65 *per cent per annum* for each single deposit of Rs. one crore or above for seven day period. The rates were subject to change.

* ***National Stock Exchange Mumbai Inter Bank Offer Rate***

As the rates offered by these banks were higher compared to those offered by SBI, the Company opened CLTD accounts (February 2006) with HDFC and ICICI and also requested SBI to increase the rates but could not get the matching interest rates from SBI. However, it continued to keep funds upto Rs.120.95 crore in CLTD account with SBI at a lower rate as compared to the rates offered by ICICI and HDFC. Consequently, during the period March 2006 to March 2007, the Company earned an average rate of interest of 8.11 *per cent* (in case of HDFC) and 6.23 *per cent* (in case of ICICI) whereas it earned average rate of 3.32 *per cent* from surplus funds invested with SBI resulting in loss of interest of Rs.1.13 crore*.

The Management stated (March 2007/July 2007) that sufficient funds had to be kept at SBI as 78 *per cent* of all the payments were met through SBI. They took up the matter with SBI on regular basis for increasing the rate of interest resultantly SBI increased the rates from 3 *per cent* to 3.5 *per cent* from 23 August 2006 and to 3.75 *per cent* from 11 December 2006.

The reply of the Management was not tenable. If SBI was not agreeable to match its interest rates with those offered by other banks, the surplus funds that were kept by the Company in CLTD account with SBI after meeting the operational requirements could have been transferred to CLTD account with HDFC/ICICI after assessing the future requirements on weekly basis to earn better interest. To meet the unforeseen exigencies for meeting payments to remote locations, the funds could be transferred through RTGS system for which ICICI charged only Rs.320 *per* transaction.

Thus, by keeping surplus funds in CLTD account with SBI at a lower rate of interest the Company suffered a loss of Rs.1.13 crore during March 2006 to March 2007.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Hindustan Petroleum Corporation Limited

14.4.1 Unproductive payment of incentive

Inapt implementation of a new incentive scheme on the basis of performance already attained by the employees and paid for under an existing incentive scheme led to avoidable payment of unproductive incentive of Rs.76.26 crore.

The Government of India introduced productive incentive (PI) scheme for payment of incentive to the employees of Hindustan Petroleum Corporation Limited (Company) in 1983. The amount of incentive payable on attainment of specific milestones as per applicable parameters of the scheme was subject to ceilings for two categories of the employees *viz.*, (i) employees eligible for profit sharing bonus and (ii) employees not eligible for such bonus. The Company introduced another incentive scheme *viz.*, Performance Linked Incentive (PLI) scheme in January 1991 for the employees who

* ***Calculated on a conservative basis by reducing Rs. one crore from the amounts kept and matured in CLTD account with SBI to allow for the float in the account with the ICICI/HDFC. The lower of the rates offered by ICICI and HDFC banks had been used.***

were not eligible for profit sharing bonus. With effect from 1 January 1997, the Department of Public Enterprises (DPE) increased the limit for payment of performance linked incentives to 50 *per cent* of the basic pay and five *per cent* of the distributable profit of the PSE.

In April 2006, the Company decided to introduce a third incentive scheme *viz.*, Performance Related Incentive (PRI) scheme from the financial year 2004-05, retrospectively. The PRI scheme was justified on the grounds that the amount of incentive payable to the employees under the existing two incentive schemes was well within the ceilings prescribed by the DPE and a new and third (PRI) scheme could be introduced within the existing ceilings.

The new scheme envisaged distribution of PRI on the basis of performance of Strategic Business Unit (SBU) at first level. Incentives for team performance for all the employees was envisaged at second level. For payment of incentive for the years 2004-05 and 2005-06 under the PRI scheme, the Company adopted the parameters that were applicable for the PI scheme and disbursed Rs.16.30 crore and Rs.16.50 crore for 2004-05 and 2005-06, respectively to the employees. On finding that the said limit of 50 *per cent* had not been exceeded in the year 2002-03 and 2003-04 also, the Company decided in October 2006 to implement the PRI scheme further back in time from 2002-03 onwards. Again, the parameters applicable to the PI scheme for those years were applied and incentive of Rs.19.55 crore and Rs.23.91 crore for the year 2002-03 and 2003-04 respectively was paid under the new PRI scheme. Thus, an aggregate amount of Rs.76.26 crore was paid as incentive under the newly implemented PRI scheme. Incentive for the year 2006-07 was yet (July 2007) to be paid.

Audit observed (March 2007) that:

(i) Payment of incentive under PRI scheme by adopting the parameters applicable to the existing PI scheme was irregular since the objectives of introducing the PI and PRI schemes were different. Whereas the PI scheme was based on achievement of productivity by the employees individually, the PRI scheme envisaged payment of incentive on the basis of performance achieved by various SBUs against five clearly measurable criteria, to be approved by a Committee of Functional Directors (CFD) as a part of the first level performance. The second level performance applicable to all the employees envisaged adjudging performance of "intact teams" under major SBUs. Criteria specific to the objective of PRI scheme were not fixed by the CFD at any stage and, therefore, adoption of parameters and milestones of an existing incentive scheme for payment of incentive under the new scheme tantamount to releasing of double payment for the same performance by the employees and exceeding the ceiling prescribed under the PI scheme.

(ii) Implementation of the scheme retrospectively cannot be expected to motivate the employees for better performance than what had already been achieved and rewarded. Thus, implementation of the scheme retrospectively resulted in payment of unproductive incentive.

The Management stated (March 2007) that the introduction of the PRI scheme had its genesis in the Justice Mohan Committee Report. While distribution of PRI effective

from the year 2006-07 among various SBUs would be carried out in line with their respective performance against targets, for the period prior to April 2006 *viz.*, 2004-05 and 2005-06, it could only be linked with parameters set against the then existing scheme *i.e.*, Productive Incentive. The new incentive scheme envisaged judging the performance of all major SBUs against targets set and the quantum of PRI was in line with DPE guidelines. It further stated that the Board approved (October 2006) implementation of PRI for 2002-03 and 2003-04 as PI was restricted to 15 *per cent* as per DPE guidelines. The Ministry while endorsing (August 2007) the reply of the Management justified payment of new incentive with retrospective effect stating that the Petroleum Sector was liberalised effective 2002-03 and oil PSUs have to aggressively compete in the market to retain their market share and to sustain growth.

The reply was not tenable. Justice Mohan Committee stressed on the necessity to ensure that the total package was related more to performance and profits of the companies than it was at present. Further, the Committee observed that performance related payments in public sector undertakings existed only in form and not in substance. By rewarding the employees by payment of PRI which already stood rewarded by way of PI, the Company rewarded productivity linked performance in form and not in substance. Thus, payment of PRI on the same parameters of PI without achieving any additional benefits, that too retrospectively, was not justified. Extension of PRI scheme for 2002-03 and 2003-04 on the ground that PI was restricted to 15 *per cent* as per DPE guidelines only proved that the Company circumvented the guidelines and also Justice Mohan Committee's recommendations. Retrospective extension of the scheme from 2002-03 on the ground of liberalisation and increase in market share was not justified as there was virtually no competition in the retail and LPG segments that constituted 70 *per cent* of the Company's total turnover and in view of existence of subsidy scheme.

Thus, the manner of implementation of the PRI scheme was not in the best financial and professional interest of the Company and appeared to be aimed at distributing the amount of profits available within the overall ceiling prescribed by the DPE. The decision of Management resulted in excess payment of Rs.76.26 crore.

14.4.2 Avoidable payment of penal charges amounting to Rs.2.18 crore

Failure to enter into an agreement with Visakhapatnam Municipal Corporation for the additional requirement of one lakh Imperial Gallons *per* Day for the period June 2002 to August 2007 after the expiry of the previous agreement in May 2002 resulted in avoidable payment of penal charges amounting to Rs.2.18 crore.

A review of payments made towards water charges to Visakhapatnam Municipal Corporation (VMC) revealed that the Visakh Refinery of the Company paid an amount of Rs.8.58 crore towards penal charges[1] for excess drawal of water from Meghadri Gedda Reservoir (MGR) during the period June 2002 to August 2007. Prior to expiry of the agreement with VMC in May 2002 the agreed quantity was 17 lakh Imperial Gallons *per* Day[2] (LIGD). At the time of renewal for the additional quantity of three LIGD sought by the Company VMC agreed to supply one LIGD from MGR and two LIGD from Tatipudi

[1] *Surcharge @ 100 per cent for excess drawal of water*

[2] *Twelve LIGD from Meghadri Gedda Reservoir and 5 LIGD from Tatipudi Reservoir Scheme*

Reservoir Scheme (TRS). As the supply from TRS was erratic and the Company was not able to draw the full quantity of five LIGD and therefore the Company excessively drew from MGR but without having entered into agreement with VMC for additional quantity from MGR. Failure to do so resulted in an avoidable payment of Rs.2.18 crore towards surcharge for excess drawal of one LIGD of water from MGR during the period between June 2002 and August 2007.

The Company in its reply stated (May 2007) that renewal of the agreement was not done, considering the outgo of capital and the significant interest loss every year.

The Ministry in its reply stated (August 2007) that if an agreement had been entered into, the Company would have been required to pay additional Capital Contribution Charges (CCC) of Rs.10.20 crore and Advance Consumption Charges (ACC) of Rs.6.79 crore. The total interest on this would have worked out to Rs.13.64 crore @ 12 *per cent per annum* compounded at half yearly rests for a five year period which was higher by Rs.4.82 crore than the surcharge paid. Hence, it did not enter into agreement.

The reply was not tenable in view of the following:

(i) The values of additional deposits payable as given in the reply were not correct. Since the Company had paid CCC upto 25 LIGD in 1988 itself no further payment was required to be paid. Also no ACC was payable upto the quantity of 17 LIGD. For an additional requirement of one LIGD an amount of Rs.44.89 lakh was payable. This is also evident from the draft agreement duly signed and furnished by VMC to the Company in July 2002 and the correspondence made by the Company with VMC in September 2002.

(ii) The Company's contention that it had gained by not submitting the required deposits overlooks the fact that the benefit of interest worked out to only Rs.5.39* lakh *per annum* on the additional deposit amount of Rs.44.89 lakh as against the average penal charges of Rs.41.46 lakh *per annum*. In the process of avoiding an additional deposit of Rs.44.89 lakh the Company incurred avoidable expenditure of Rs.2.18 crore towards penal charges. Further delay in entering into an agreement would only result in additional outgo on penal charges.

Failure to enter into agreement with VMC for the additional quantity of one LIGD for the period June 2002 to August 2007 after the expiry of the previous agreement in May 2002 resulted in avoidable payment of penal charges amounting to Rs.2.18 crore.

14.4.3 Non-recovery of dues due to failure to encash the bank guarantee

Non-encashment of a bank guarantee despite the dues exceeding the value of available bank guarantees resulted in non-recovery of dues to the extent of Rs.1.91 crore.

Hindustan Petroleum Corporation Limited (Company) entered into a Memorandum of Understanding with M/s.You-One-Maharia (Customer) for supply of petroleum products. The Company obtained seven bank guarantees (BGs) worth Rs.4.25 crore from the

* *@ 12 per cent per annum*

Customer. The Customer's outstanding, as on November 2004 was Rs.4.71 crore. As one BG for Rs. one crore was to expire on 3 December 2004, the Company sent (15 November 2004) a letter to Bank for extension/ encashment of BG. This was however, not followed up by the Company to confirm before 3 December 2004 from the bank that the BG had been renewed/encashed. The BG expired and the Company could not realise its dues from the customer. As of August 2007 the amount outstanding against the customer was Rs.1.91 crore including interest of Rs.91 lakh.

The Ministry stated (August 2007) that the Company was confident of renewal of BG for Rs. one crore based on past experience where the bankers renewed BGs well after their expiry also. Moreover, the customer had given several assurances on having taken appropriate action at his end for renewal of the said bank guarantee and when the party failed to renew the bank guarantee, the other available BGs for Rs.3.25 crore were invoked. The Company has been in constant touch with the customer for recovery of outstanding dues.

The reply was not tenable as the purpose of BGs is to serve as a safeguard in the event of default in payment by the customer. It was, therefore, essential to encash/ renew the BG before its expiry especially as it was common knowledge with the Company that the party had run into financial problems since August 2004. It is pertinent to mention that the dues from the customer had exceeded the total security available with the Company.

Thus, non-encashment of a BG despite the dues exceeding the value of available BGs resulted in non-recovery of dues to the extent of Rs.1.91 crore.

14.4.4 Avoidable expenditure of Rs.1.32 crore due to delay in procurement of panels

Delay in procurement of panels resulted in extra expenditure of Rs.1.32 crore on excess fuel consumption.

The Company placed (June 2005) a purchase order on original equipment manufacturer (OEM) for supply of 240 numbers of gilled panels for replacement of damaged ones at a basic FOB* price of Euro 1,35,200 (Rs.78.44 lakh). The panels were received in December 2005 and installed and commissioned in January 2006. In April 1999 it had been decided by the Company that panels would be developed indigenously. Before these efforts could fructify the inspection department noticed deterioration in panels in May 2003 and recommended replacement of panels.

It was observed in Audit that the cost of procurement was not significant compared to extra expenditure of Rs 72 lakh *per annum* on fuel consumption. A delay by just one month would have meant extra fuel cost of upto eight *per cent* of the cost of the panels. Given the uncertainty of when the indigenous effort would fructify and the enormous benefits that would accrue from fuel saving there was a compelling need to import immediately and defer the indigenous effort for future requirements. It was only in December 2003 *i.e.*, after a delay of seven months that a decision was taken to import the items. Subsequently a period of 18 months was taken to place an order in June 2005 on

* ***Free on Board***

proprietary basis. There was, thus, a delay of 22 months[1] resulting in avoidable expenditure of Rs.1.32 crore on excess fuel consumption.

The Ministry stated (August 2007) that the procurement of panels tentatively valued at Rs.51 lakh was avoided/ deferred in April 1999 with a view to developing them indigenously. Since procurement of panels was postponed by six years from 1999 to 2005 there was a saving of Rs.65 lakh. They further stated that bonafide indigenisation attempt was made as it would have been a long term solution, resulting in considerable cost savings

The above reply was not tenable. The savings of Rs.65 lakh computed by the Company by comparing the procurement cost in 2005 with the price quoted by the supplier in 1999 was not relevant. Audit has neither commented adversely on the non procurement in 1999 nor about the indigenous efforts made subsequent to 1999. The need for procurement of panels was considered essential in May 2003 when the inspection department recommended replacement of panels and the Company needed to take urgent action for replacement of panels.

Thus, delay in procurement of panels resulted in extra expenditure of Rs.1.32 crore on excess fuel consumption.

Indian Oil Corporation Limited

14.5.1 Unfruitful expenditure on infrastructure due to unsuitable feed stock

Expenditure of Rs.43.29 crore by Indian Oil Corporation Limited on creation of infrastructure for production of Butene–I proved unfruitful due to failure in ensuring the guaranteed quality of feed stock.

Indian Oil Corporation Limited (IOCL) approved (June 1996) a project for setting up a Butene plant at Gujarat Refinery (GR) for production of Butene (C4). The Company approved (October 1997) award of the job of supply of process knowhow, proprietary catalyst and other relevant services for installation of Butene-I plant to M/s. IFP, France, the licensor. As per the Technology Transfer Agreement (TT Agreement) with the licensor, a guaranteed 'nil' level of sulphur (impurities in charge) in the raw C4 charge to the first distillation column was envisaged.

The Company commissioned (March 2001) Butene-I plant at a cost of Rs.43.29 crore with a capacity of 16,500 MT *per annum.* Between March 2001 and October 2001, the plant could produce only 250 MT of Butene-I and the sulphur level in the feed was 20 ppm[2] which the catalyst could not tolerate. Therefore, the plant was shut down from November 2001 till trials for restarting it commenced in June 2004. To bring the sulphur content within acceptable limit, the licensor provided replacement charge of catalyst free of cost in June 2004.The Company could not operate the plant from October 2004 to July 2005 when the ancillary unit *i.e.,* Methyl Tertiary Butyl Ether (MTBE) Unit was shut down due to a fire accident. After re-commissioning of the ancillary unit in August 2005,

[1] *After allowing a margin of three months for placement of order on a proprietary basis*

[2] *Parts per million*

the Company could still not operate the Butene-I plant as catalyst in another unit (SHU*) did not function due to nitrogen and sulphur contaminations. The Company loaded fresh charge of catalyst in Butene-I SHU section and started trial runs again in January 2006; however, desired results could not be achieved. Except for negligible production of 250 MT (1.5 *per cent* of installed capacity) of Butene-I in 2001-02, 6 MT (0.04 *per cent*) in 2003-04 and 35 MT (0.2 *per cent*) in 2004-05, there was no production of Butene-I since commissioning of the plant in March 2001.

In its accounts for 2004-05, the Company provided Rs.20.57 crore towards impairment of this asset mainly because of underutilisation of the capacity.

The issues of substandard quality of Butene-I produced by the plant upto October 2001 and the shut down of plant in November 2001 was first raised by Audit in March 2003. The Management stated (July 2003) that the customers demanded Butene-I product with less than one ppm of sulphur which was not possible with the available crude mix processed at Gujarat Refinery containing around 25 to 30 *per cent* weight of imported high sulphur crude processing. The Management also stated that production would re-start in 2003-04 after modifications to reduce sulphur content to acceptable levels. In a follow up, Audit observed (February 2006) that the Management did not take cognisance of the fact that imported crude with high sulphur formed a substantial portion of crude being processed at GR despite envisaging a 'nil' sulphur level in the raw Butene feed at the design stage. The Feasibility Report (FR) laid stress on supply/demand and profitability issues rather than the availability of required quality of feed.

Thus, creation of processing facilities for production of Butene-I without ensuring the quality of feed stock resulted in idling of the plant even after six years of its commissioning and consequential unfruitful expenditure of Rs.43.29 crore.

The Management stated (March 2007) that:

(i) the specification of Butene (C4) raffinate obtained from the process licensor of MTBE plant (having no specification on sulphur content) formed the basis for feed specification for Butene-I although 300 ppm sulphur was shown in the MTBE product. This was incorporated in the notice inviting tender (NIT) for selection of process licensor of Butene-I. The specifications of sulphur in feedstock for Butene-I was, therefore, of no relevance for unit design considerations;

(ii) M/s. Axens (the process licensor) had a detailed review of the upstream units and expressed that the probable solution could be installation of an efficient Merox facility at Fluidised Catalytic Cracking (FCC) Unit to bring down sulphur content in MTBE feed followed by molecular sieves for removal of residual impurities *viz.*, sulphur, nitriles and arsenic. Extractive Merox Unit for treating FCC Unit Liquefied Petroleum Gas (LPG) was approved under Residue Up-gradation Project scheduled for completion by October 2009.

* ***Selective Hydrogenation Unit***

The Ministry also replied (August 2007) on similar lines adding that for producing on grade Butene-I, number of trials were taken by the process licensor M/s. Axens including feed quality modification and change of catalyst but on grade Butene-1 product could not be produced and the process licensor, a leading licensor of international repute, was unable to pinpoint the real cause of the problem.

The reply of the Management and the Ministry was not tenable as:

(i) the TT Agreement categorically stipulated guaranteed figure of 'nil' sulphur (impurities in charge) in the raw C4 charge to the first distillation column. The Annual Operation Report of the Company for 2006-07 stated that the plant was idle and as per the licensor, suitable feed was not available for making the product.

(ii) the remedial measures taken by the Management were basically aimed at removing sulphur content in MTBE feed which would form the feedstock to Butene-I plant and, therefore, was relevant in the unit design. As such, the sulphur content in the feed, a critical input in the design was overlooked by the Management in going ahead with the project.

14.5.2 Wasteful expenditure on exploration project

Inadequate study and non-assessment of the commercial viability of the exploration project by the Company, led to wasteful expenditure of Rs.28.44 crore.

With launching of the New Exploration Licensing Policy (1999), Indian Oil Corporation Limited (Company) entered into the business of oil and gas exploration by participating in the Exploration and Production (E and P) joint ventures. Out of a total of 18 blocks where the Company had participated in E and P joint ventures, Audit reviewed the E and P joint ventures for two blocks[*] during audit in January 2007. These blocks were awarded to the Consortium of Oil and Natural Gas Corporation Limited (Operator), Oil India Limited, GAIL (India) Limited and Gujarat State Petroleum Corporation Limited, for which, Production Sharing Contracts (PSC) were signed with the Government in July 2001. The Company had a 15 *per cent* participating interest in both the blocks.

As per the PSC, the Consortium was required to complete the minimum work programme (MWP), failing which, it was liable to pay to the Government an amount equivalent to the amount required to carry out the unfinished MWP. The details of MWP for Phase-I of these blocks was as under:

Name of block	Exploration period	Number of wells to be drilled
MB-DWN-2000/1 (Block-1)	Four years (16 August 2001 to 15 August 2005)	Three
MB-DWN-2000/2 (Block-2)	Four years (16 August 2001 to 15 August 2005)	Three

[*] *MB-DWN-2000/1 and MB-DWN-2000/2*

It was noticed in Audit (January 2007) that before finalising the prospects for drilling in the above blocks, the consortium obtained the advice of the independent consultant who advised that all the prospects identified by the Operator were non-viable and recommended the Consortium to obtain additional data. The Operator, however, drilled (January 2004 to August 2004) a location identified by it as the best of the planned locations, which proved to be dry. The Consortium then planned to go for additional 2D seismic survey along with integrated regional study of the deepwater block during 2005-06 for assessing the hydrocarbon potential. This required extension of permit for exploration of the blocks till August 2006. While the extension was being pursued with the Ministry, the new extension policy was announced in March 2006 whereby the blocks stood relinquished as on 15 August 2005 and the Consortium had to pay a penalty for the cost of unfinished MWP. Thus, only one well was drilled during the phase-I of the project. The expenditure of Rs.28.44 crore[1] on the blocks, being the share of the Company, was rendered wasteful.

The Management stated (March 2007) that the operator went ahead with drilling of the best identified location as no well information was available in the entire region to validate the interpretation. Management added (July 2007) that while bidding for these deepwater blocks in 2000, the data availability was meagre and hence the interpretation was also sketchy. The Company had the participating interest and depended on the expertise of the Operator. The Ministry also furnished the same reply (August 2007).

The reply was not tenable as while exploration and production was based on many factors all not entirely known, the Company should have at its end assessed the prospects independently and more comprehensively before investing funds in E and P joint venture which had inherent risks and in which it had no operating control.

Thus, lack of due and diligent risk assessment before participating in an E and P joint venture, resulted in wasteful expenditure of Rs.28.44 crore.

14.5.3 Idle investment in Sulphur Recovery Unit

The Company's failure to realistically assess the design parameters of available inputs resulted in idle investment of Rs.19.79 crore on Sulphur Recovery Unit and interest liability of Rs.1.99 crore on the investment.

Indian Oil Corporation Limited (Company) approved the installation of Hydrotreating facilities at Digboi refinery of Assam Oil Division at an estimated cost of Rs.343 crore in February 1999 with the objectives of meeting the improved specification of cetane number[2] (48) of High Speed Diesel (HSD), reducing the sulphur content in HSD, up-gradation of Light Diesel Oil and bringing about overall reduction in emissions. The Hydrotreating facilities consisted, *inter alia,* of Hydrotreating Unit (HDT), Hydrogen Unit (HGU), Amine Absorption Unit /Amine Regeneration Unit (AAU/ARU), Sour Water Stripper Unit (SWSU) and Sulphur Recovery Unit (SRU). SRU, with a daily capacity of three MT was included in Hydrotreating facilities for recovery of sulphur

[1] ***Rs.16.89 crore towards actual expenditure on the block, Rs.11.55 crore being the penalty for unfinished MWP***

[2] ***Cetane number is a measure of the ignition quality of the fuel***

from acid gas and sour gas coming out from HDT and from SWSU respectively before flaring the gases. The design capacity of SRU was based on the assumption of an hourly Hydrogen Sulphide (H_2S) feed of 138.4 kg *per* hour and design sulphur content of 2,110 parts *per* millions in the HSD feed stock.

SRU was commissioned at a cost of Rs.19.79 crore in November 2005. As the sulphur content in the crude and hence in the HDT feed was low, H_2S content in acid gas and sour gas was considerably low at around 39 *per cent* of the design parameter. Against the design requirement of 138.4 kg *per* hour of H_2S, actual availability of H_2S at the prevailing capacity utilisation of the refinery was 37.6 kg *per* hour. Consequently, the Company could operate the unit for only 21 days since November 2005 and produced 20.6 MT of sulphur. The SRU has remained 'shut down' since January 2006 due to low feed availability. As SRU was not operational H_2S was burnt in the acid flare without recovery of sulphur. However, Digboi Refinery could meet the desired sulphur emission norms without operation of SRU.

The Ministry stated (July 2007) that SRU installed at Digboi refinery was of a very small capacity in line with feed availability. Operating such small SRU with lower feed rate had resulted in non-operation of SRU. In order to overcome the problems, process modification job was carried out at a cost of Rs.0.77 lakh and the plant was put into operation on June 2007.

The contention of the Ministry was not tenable. Actual crude availability during 2006-07 was 90 *per cent* of the installed capacity despite which it could not meet the design hourly feed requirement. The Company could not get the desired feed for running the SRU due to lower sulphur content in crude as well as in the feed to SRU as compared with the desired sulphur content. Further, problem in operation of SRU had not been removed even after process modification and the Company could operate the unit for one day only in July 2007 and the unit remained shutdown till date (August 2007). The Company should have envisaged the problem of running small capacity unit during feasibility stage itself.

The Company's failure to realistically assess the design parameters of available inputs resulted in the investment of Rs.19.79 crore on SRU which is non-operational. Besides the Company has incurred an interest liability of Rs.1.99 crore on the investment.

14.5.4 Avoidable expenditure of Rs.9.07 crore

Due to delay in augmenting the captive generating capacity to meet the demands of the new projects the Company incurred an avoidable expenditure of Rs.9.07 crore.

The Indian Oil Corporation Limited (Company) approved (1998-99) three new projects[*] for quality improvement and yield maximisation of its Guwahati refinery. The projects were to be commissioned between December 2001 and May 2002. It was envisaged (February 2000) that the additional power requirement of 6.092 MW for the new projects would be met from its captive thermal power station with two turbo generator (TG) sets of eight MW each. In February 2000, based on the Basic Engineering Design Package of

[*] ***Hydrotreating unit, ISOSIV unit and IDMAX unit along with allied facilities***

the new projects, refinery estimated a total power requirement of 15.6 MW that could be met by the existing TG sets running simultaneously. However, since this arrangement would leave the refinery with no standby arrangement and may reduce the reliability of refinery operation, the Company proposed to install one 10 MW TG set. In June 2001, the proposal was revised for a 15 MW TG which was again revised in November 2001 to 12 MW Steam Turbo Generator (STG) set. There was no change in the expected additional power demand for new projects. The proposal for 12 MW STG was approved in March 2003 with a completion schedule of December 2004 with efforts to complete the project ahead of schedule. The new STG was commissioned in December 2005 at a cost of Rs.29.70 crore after a delay of 12 months.

In the meantime, the three new projects were commissioned between January 2002 and June 2003. As there was mismatch in the commissioning of STG with the commissioning of new projects, the refinery faced continuous power shortage of around 3 MW in operating the new projects. To meet the power shortfall, in the short term the Company contracted (October 2002) diesel generator (DG) sets for one year commencing February 2003. The contract continued till February 2006 and the Company paid Rs.9.07 crore as hiring and operating costs.

It was observed in Audit (September 2004) that the Company failed to assess the power requirement at the time of approving the three new projects in 1998-99 and therefore, did not timely take action to augment its captive power generation capacity. Moreover, even after identifying the future requirement of power based on the realistic data available in February 2000, the Company took an unduly long time (37 months) to finally commence the STG project. Thereafter also, the implementation of the project was delayed by 12 months due to slippages at various stages, mainly in awarding the contract which took four months. Another eight months were lost in delivery of equipment by BHEL due to delays in finalising the pipe layout by the Company. This resulted in avoidable payment of hiring charges of Rs.5.86 crore* in addition to extra fuel cost of Rs.3.21 crore on generation of power by running DG sets.

The Ministry while accepting (July 2007) the facts stated that due to non-availability of Assam Crude during 2001-02 and 2002-03 the requirement of power was under constant review and approval of additional STG was accorded after examining all possible situations and when operation of the refinery at full capacity was assured.

The contention of the Ministry was not tenable as in approving the new projects, the need for additional power should have been integral to the projects. Also, the operation of the refinery at full capacity would have been assured only when the power requirement was assured too. Further most of the new projects are quality improvement and pollution control projects and not capacity enhancement projects.

Thus, due to failure to ensure augmentation of power generating capacity in time to meet the additional demand of new projects, the Company incurred avoidable expenditure of Rs.9.07 crore on power generation.

---

* ***After adjustment of interest saving on capital cost***

14.5.5 Avoidable expenditure on transportation of bulk Liquefied Petroleum Gas

The Company failed to remove its operational bottlenecks for optimum utilisation of unloading bays in time. Consequently, it failed to minimise transportation cost on bulk Liquefied Petroleum Gas movement and incurred avoidable transportation cost of Rs.3.60 crore.

The bulk Liquefied Petroleum Gas (LPG) requirement for the Patna LPG Bottling Plant (BP) of Indian Oil Corporation Limited (Company) was being sourced mainly from Barauni in Bihar, Mathura and Auraiya in Uttar Pradesh and Haldia in West Bengal. There are two routes from Barauni to Patna BP for movement of bulk LPG having certified Return Trip Kilo Metre (RTKM) of 344 (shorter route) and 813 (longer route) respectively. On shorter route, there is a rail cum road bridge on river Sone near Koelwar. Due to height barrier and low available turning radius on the bridge, only smaller Tank Trucks (TT) of 13 MT (carrying capacity of 12.5 MT) or less capacity are allowed to cross this bridge. Thus, the smaller TTs follow the shorter RTKM of 344 for bulk LPG transportation while bigger TTs having capacity of 18 MT (carrying capacity of 17.5 MT) follow the longer route. Thus, transportation of bulk LPG from Barauni to Patna BP through bigger TT is costlier than through smaller TTs.

Average daily bottling requirement of bulk LPG for Patna BP ranged from 403 MT to 484 MT during 2003-04 to 2005-06. Thus, unloading quantity of about 500 MT has to be maintained to avoid a possible dry out of the Plant. As worked out by the Management, 30 *per cent* (*i.e.,* 150 MT) of that requirement could have been met through smaller TTs with the existing eight unloading bays having daily unloading capacity of 32 TTs in four batches and therefore, it could transport 4,000 MT of LPG in a month using smaller TTs. However, the unloading capacity of bays was limited to 24 TTs due to the availability of only three compressors instead of four at the unloading bays. Due to this limitation, the Company was compelled to use bigger TTs following the longer route.

It was observed in Audit (May 2005) that though the Company identified the requirement of one additional vapor compressor as early as June 2003 and it was shifted from Jameshedpur bottling plant to Patna bottling plant in September 2003, it was commissioned only in October 2005. Audit analysis revealed that during the years 2003-04 to 2005-06 (upto September 2005) the Patna BP received 97,105 MT of bulk LPG from Barauni, out of which 27,390 MT of LPG was received through smaller TTs. Had the Company augmented the compressor capacity in 2003 and monitored the LPG movement properly, Patna BP could have received 77,192 MT[1] of LPG through smaller TTs. As the difference in freight charges between smaller TT and the bigger TT ranged from Rs.715.19 *per* MT to Rs.735.75 *per* MT during that period, the shortfall in transportation of 49,802 MT[2] through smaller TTs resulted in an avoidable expenditure of Rs.3.60 crore on transportation of bulk LPG.

The Ministry stated (November 2007) that though actions were initiated early for commissioning of the compressor the same could not be achieved mainly due to delay on

[1] ***Calculated based on maximum availability of 4,000 MT per month of actual LPG received from Barauni Refinery through smaller TT which ever was higher***

[2] ***77,192 MT less 27,390 MT***

the part of some of the parties engaged for the work. After augmentation of compressor capacity in October 2005, upliftment of bulk LPG *ex*-Barauni for Patna BP was being made by smaller TTs only. Thus, smaller TTs were optimally utilised to the extent feasible.

The contention of the Ministry was not tenable. Though the Patna BP identified the requirement of additional compressor in May/June 2003 and received the compressor in September 2003, action for procurement of pipelines, valves and other equipment for commissioning of compressor was not taken till January 2004. The last purchase order for spares was issued only in May 2005 and the compressor was commissioned in October 2005.

Thus, the Company's failure to timely remove operational bottlenecks and monitor the commissioning by the compressor for optimum utilisation of unloading bays led to an avoidable transportation cost of Rs.3.60 crore on bulk LPG movement.

14.5.6 Wasteful expenditure and idle investment

IBP Company Limited could not dispose of the land acquired in 1999 at a cost of Rs.4.59 crore for additional product storage project subsequently abandoned in 2002. This resulted in loss of interest of Rs.1.90 crore on idle investment on land besides wasteful pre-operative expenditure of Rs.1.14 crore.

IBP Co. Limited (Company) purchased (1999) 19.697 acres of land at Irumpanam, Kochi from Government of Kerala at a cost of Rs.2.92 crore to develop additional product tankage project. Subsequently, the compensation payable to the owners of the land was enhanced in terms of orders issued by the Sub Court, Ernakulam (July 2001) and the total payment made by the Company to the landowners as on 31 March 2007 was Rs.4.59 crore. In addition, the Company incurred Rs.1.14 crore as pre-operative expenses on security services, consultancy charges, legal fees, *etc.*, for the above project.

The Company was taken over by Indian Oil Corporation Limited (IOCL) in February 2002. In view of the adequate IOCL facilities at Kochi the Company decided in January 2003 to drop the project, write off the pre-operative expenses and surrender the land to the Government of Kerala. As the Government of Kerala did not permit surrender of land, the Company decided to dispose it of. The land was yet to be disposed of (June 2007).

The Ministry stated (August 2007) that as per the pre-feasibility report prepared in 1997 the project was technically feasible and economically viable. However when the Company was taken over by IOCL in February 2002 it was decided to drop the project as IOCL would cater to the combined needs of both IOCL and IBP.

The reply was not tenable as the Company was taken over by IOCL in February 2002 but the proposal for disposal of the land was approved finally in January 2003 after a delay of nearly one year. As of September 2007 the Company has neither disposed of the land nor has made any alternate utilisation even after a lapse of more than five years from the Company's takeover by IOCL.

Thus, non-disposal of the land acquired for a project subsequently abandoned has resulted in a loss of interest of Rs.1.90 crore* on blocked funds, excluding enhanced compensation, besides rendering the pre-operative expenditure of Rs.1.14 crore wasteful.

14.5.7 Loss due to payment of higher transportation rates

The Company did not fix separate rates for product transportation over hilly and plains terrain while road bridging resulting in extra expenditure of Rs.1.02 crore due to payment of hill rate for distance covered in the plains.

Assam Oil Division of Indian Oil Corporation Limited (Company) meets the demand for petroleum products of its Silchar Depot in Assam from Guwahati Tap Off Point (TOP). The Vairangtee Depot in Mizoram receives products from Silchar Depot through road bridging. The round trip distance in Kilometer (RTKM) to Vairangtee Depot from Silchar Depot, comprised transportation over hilly and plains terrain with plains constituting 88.88 *per cent* of the total distance.

Audit observed (March 2006) that the transportation contract for supply of products to Vairangtee Depot, effective during 2004-05, was finalised at rates applicable for hilly terrain only. In the absence of separate rates for hills and plains, payment was made at hill rate for the distance covered through plains. During the period, 2004-05 to 2006-07 (upto November 2006) the Company supplied 129130 KL of petroleum product to Vairangtee Depot *ex*-Silchar. The rates *per* KL *per* RTKM applicable for hills were higher than the rates for plains by Re.0.82 and the Company incurred extra expenditure of Rs.1.02 crore on transportation of products during the said period.

The Ministry stated (August 2007) that the Company had always maintained composite rate without considering any concept of hills or plains and, thus, the transportation payment for above road bridging had been made as per contracted rates. The Ministry's contention was not acceptable since considerable portions of the route to Vairangtee Depot *ex*-Silchar was through plains, but the Company specifically called for hill rates for the entire route and accordingly finalised the tender. Moreover, post audit, the Company finalised the transportation contract with effect from 1 January 2007 for the same route at separate rates for hills and plains.

Thus, the Company's failure to fix separate transportation rates for hills and for plains while finalising product transportation tenders resulted in extra expenditure of Rs.1.02 crore.

* ***Interest @ eight per cent per annum on Rs.2.92 crore from May 1999 (last payment made in April 1999) to June 2007***

Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited

14.6.1 Loss due to sale of Liquefied Petroleum Gas at subsidised rate to ineligible customers

Oil Marketing Companies *viz.*, IOCL, BPCL and HPCL incurred avoidable loss of revenue of Rs.47.14 crore on sale of Liquefied Petroleum Gas at concessional rate to ineligible category of customers during the period July 2002 to April 2003.

In pursuance of the GOI decision of March 1987, Oil Marketing Companies (OMCs) *viz.*, Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) were selling packed Liquefied Petroleum Gas (LPG) to seven specific categories of non-domestic customers at subsidised rates applicable to domestic customers. The concession continued even after dismantling of administrative price mechanism and de-regulation in oil sector with effect from 1 April 2002. The GOI, on 3 July 2002, withdrew the concession available to these seven categories of customers. However, the OMCs continued to sell LPG to these customers at subsidised rates.

On 29 January 2003, the GOI reintroduced the scheme of sale of LPG to three categories of non-domestic customers at domestic (subsidised) rates and on 29 April 2003 for the remaining four non-domestic categories of customers. However, the GOI rejected (September 2003) as non-admissible the subsidy claim of OMCs for the LPG sold to these seven non-domestic customers at concessional rates for the interregnum period of 3 July 2002 to 29 January/April 2003.

Audit observed (December 2006) that the Oil industry had made another request to the GOI in January 2005 for reconsidering their claim. The GOI again intimated (March 2005) the OMCs that their request of January 2005 was re-examined and that there was no change in its stand as the Oil Companies had acted against the Government's direction in the matter during the interregnum period. Consequently, the OMCs were saddled with an avoidable loss of revenue of Rs.47.14 crore[*] on account of sale of LPG at subsidised rate to ineligible category of customers during the period July 2002 to April 2003.

The Managements of the OMCs replied (March/April 2007) that on receipt of the GOI's instructions withdrawing the concessional rate, Oil industry represented for continuing the scheme for exempted category of the customers. Since no response was received from the GOI, it was presumed that the industry's proposal was under active consideration of the Government and the OMCs did not consider the list of exempted category customers as withdrawn. The OMCs further stated that as majority of these categories are Government agencies, withdrawal of subsidy from such category of customers would mean one arm of the Government collecting additional amount from the pocket of another Government organisation.

Reply of the OMCs was not tenable. The GOI order of July 2002 was very clear that the OMCs were not entitled to reimbursement of subsidy extended to the seven categories of

[*] *IOCL:Rs.31.58 crore, BPCL:Rs.9.48 crore and HPCL:Rs.6.08 crore*

consumers. It was, therefore, incorrect on the part of OMCs to extend the concession on a presumption. Even if the request for restoration of the subsidy to these customers was under consideration of the Government, the OMCs should have withdrawn the concession as a prudent management decision pending final decision of the Government.

Thus, failure to adhere to Government directions and imprudent decision to continue sale of LPG to non-domestic customers at subsidised rates resulted in loss of revenue of Rs.47.14 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Oil and Natural Gas Corporation Limited

14.7.1 Loss due to sale of crude oil containing basic sediments and water content above the norm

Failure to upgrade and create facilities to contain the basic sediments and water content in the crude oil supplies within limits resulted in loss of revenue of Rs.96.96 crore.

Oil and Natural Gas Corporation Limited (Company) entered (April 2002) into a Memorandum of Understanding (MOU) with Indian Oil Corporation Limited (IOCL) for sale of crude oil from April 2002 to March 2004. The sale price was subject to discount at slab rates in case 'basic sediment and water' (BSW) content in the crude oil exceeded 0.2 *per cent* by volume. The MOU was to be replaced by 'crude oil sale agreement' (COSA), which however, was not signed and the Company continued to supply crude oil under the terms and conditions of the MOU (October 2007).

Till March 2002 when the administered price mechanism was dismantled, the admissible level of BSW in crude oil supplies was one *per cent* and the infrastructure facilities established by the Company were designed to meet this level. In the absence of adequate facilities to contain the level of BSW at 0.2 *per cent* or below, crude oil supplied by the Company from its western onshore field (North and South Gujarat) to IOCL contained BSW ranging between 0.212 *per cent* to 1.378 *per cent* during the period from April 2002 to April 2007 and IOCL received a discount of Rs.107.41 crore from the Company on this account.

Audit observed (November 2006) that though the Company had entered into the MOU in April 2002 requiring higher quality specifications of crude oil for realising full sale price, it did not upgrade its facilities in time to contain the level of BSW upto 0.2 *per cent* in the crude oil. Supplies of crude oil, in the five years following the signing of MOU, generally exceeded this bench-mark. The supplies from North Gujarat onshore during the period exceeded this limit in 57 of the 67 months from April 2002 to October 2007; and the BSW content in the crude oil supplies from South Gujarat onshore of the Company exceeded 0.2 *per cent* in 48 of the 58 months (from April 2002 to October 2007[*]). The

[*] ***The Company was able to maintain BSW level within the agreed limit in the crude supplies from South Gujarat onshore during the period August 2006 to April 2007 by close monitoring, increasing the***

Company sustained loss of revenue of Rs.107.41 crore between April 2002 and October 2007 due to its failure to maintain the BSW level within 0.2 *per cent*. Audit observed that Eastern and Mumbai Regions of the Company also gave discount of Rs.53.32 crore to various refineries on account of high level of BSW in the crude oil during the period from April 2002 to September 2006. The Company initiated action for upgradation of its facilities in North Gujarat only in February 2004 by making a reference to its internal institute *viz.*, Institute of Oil and Gas Production Technology (IOGPT). The Company directed (December 2005) all Assets to take appropriate action to reduce BSW content. These instructions were reiterated in June 2006 and November 2006 due to continuing upward trend in discount allowed for BSW. As the corrective action was yet (October 2007) to be taken, the Company continued to sustain losses due to higher BSW levels.

The Management stated (May 2007) that in view of the high level of water content in crude oil, IOGPT conducted a study on a reference made by its Ahmedabad Asset and the Institute submitted its report in December 2004. However, before receipt of the report, action for construction of one 30,000 cubic metres tank had been initiated by the Asset which as per policy decision was referred to the Offshore Design Group, Baroda for preparation of bid document and cost estimates. Thus, the Company claimed, action had been taken to meet revised standards of BSW. The Ministry replied (November 2007) on similar lines. As regards Mumbai Region, the Ministry stated that in the given field conditions total BSW content could not be removed due to process limitations, both at offshore and at Uran plant but by and large offshore fields were able to maintain the BSW in the requisite range. In respect of Eastern Region, the total BSW content could not be removed due to process limitations. The Ministry added that the COSA could not be finalised due to various reasons. Pending fresh MOUs, existing arrangement was continued.

Reply of the Management/Ministry was not tenable, as even if we accept the claim that steps were initiated in time, fact remains that even after four years, the Company had not been able to maintain the stipulated level of BSW. The reference was made to IOGPT only in February 2004 *i.e.*, after two years from signing of MOU. Even after reckoning two years from April 2002 *i.e.*, the date of signing MOU, for upgradation of facilities, the facilities could have been put in place by April 2004 and the Company could have avoided the discount allowed to the extent of Rs.96.96 crore* from April 2004 to October 2007. Timely finalisation of COSA for replacing the MOU which expired in March 2004 would have provided an opportunity to the Company to review and, if possible, revise the stipulation of BSW and the attendant discount. The corrective action taken by the Management was not effective as BSW continued to be above stipulated level in all Regions.

Thus, after signing of MOU, the Company failed to take corrective action for reducing the BSW content in crude oil to the agreed level resulting in a loss of revenue of Rs.96.96

frequency of collection of samples and giving more retention time in the tanks for settling of water and reprocessing the bottom crude. However, the level of BSW exceeded 0.2 per cent from May 2007 to October 2007 (except June 2007).

* ***Gujarat: Rs.66.84 crore (April 2004 to October 2007); Eastern and Mumbai Regions: Rs.30.12 crore (April 2004 to September 2006)***

crore from April 2004 to October 2007. As the facilities were yet (September 2007) to be upgraded in all the Regions, the Company continued to sustain loss of revenue.

14.7.2 Avoidable production loss due to delay in procurement of spares

Due to delayed procurement of stand-by rotors for variable speed motors, the Company sustained net loss of revenue of Rs.9.12 crore.

Ethane Propane Recovery Unit (EPRU) at Uran Plant of Oil and Natural Gas Corporation Limited (Company) extracts value added products *viz.*, ethane and propane (C_2C_3) from the sweet crude of Mumbai Offshore. EPRU is run with two lean gas compressors and one propane compressor. The lean gas compressors were commissioned in 1990. These were driven by two variable speed drive motors. These motors fitted with rotors which, apart from being high value items, were critical for running the compressors. On three occasions in March 1998, February 2000 and July 2001, one or the other motor stopped functioning primarily due to defect in the rotor. Each such failure consumed four to five weeks in repairs.

The Company, with a view to reducing the idle time of the rotor while the motor was being repaired and saving the consequential production loss, decided (July 2001) to procure a stand-by rotor as it was possible to replace the defective by stand-by rotor in a week's time. However, the Company initiated action for procurement only in August 2003 and placed an order in April 2004 with a delivery schedule of 12 months. Meanwhile, the rotor of one of the motors developed fault on 5 October 2004 and the motor remained shut down till 9 November 2004 for 36 days.

Audit observed (June 2006) that though the Company realised the necessity of a stand-by rotor in July 2001, it took more than two years in initiating (August 2003) action for procurement of a stand-by rotor and almost three years in placing (April 2004) the supply order. Specific reasons for failure to act in time were not evident from the records.

As against the production target of 91,200 MT for October 2004 and November 2004, the Company could produce only 75,947 MT of C_2C_3 in these two months whereas as per the rate of production achieved in October 2004 and November 2004, the production in the two months should have been 1,02,450 MT even after allowing one week for replacement of rotor. Taking a conservative approach, audit estimates that the Company suffered a net revenue loss of Rs.9.12 crore* due to the lower production achieved. In case, the Company had acted promptly in July 2001 itself for procurement of the rotor, the revenue loss could have been avoided.

The Management stated in reply (May 2007) that Uran plant had initiated action for procurement of rotor in 2001 itself by establishing dialogue with the Original Equipment Manufacturer (OEM) for procurement of a new rotor and other spares as existing rotor was less reliable after two repairs. However, the rotor being a high value item, procurement of superior and reliable rotor was deliberated at various high levels in all its sensitivities, effectiveness and future technological perspectives. This process, the Management contended, consumed time primarily due to the laid down procedures and

* ***After reduction of variable cost to be borne by the Company***

practices. The Ministry also replied (September 2007) on similar lines and assured the Audit that in future all efforts would be taken to reduce the time taken in finalising such cases and audit observation shall be kept in focus.

The Management's justification for the delay in procurement on the ground of procedural compliance was not tenable, particularly when the requirement was critical and was being procured from the OEM. Considering the loss of production and resultant revenue loss, it was incumbent on the Management to expedite implementation of the decision for procurement of the rotor in a time bound manner.

14.7.3 Avoidable expenditure due to non-utilisation of an owned vessel

Due to non-utilisation of a self owned vessel fitted with revamped anchor handling and towing system (AHTS) for towing operations and deploying it on operations other than towing, the Company incurred an avoidable expenditure of Rs.6.42 crore on charter hiring of a vessel having AHTS for such operations.

Oil and Natural Gas Corporation Limited (Company) owned a fleet of 31 Offshore Supply Vessels (OSVs), including 14 of 'Sindhu' series, to cater to the requirements of various offshore installations. Apart from carrying material, water, fuel, *etc.*, to rigs/platforms, the OSVs also performed other important functions like rig towing, anchor handling and fire fighting. Though 'Sindhu' series OSVs were fitted with AHTS for towing and anchor handling operations, these OSVs were not utilised anytime for such operations from 1997-98 till 2004. Consequently, the AHTS fitted on the OSVs deteriorated due to non use. These operations were conducted by charter hiring vessels having AHTS facility. In September 2003, the Company decided to revive the AHTS on 'Sindhu' series OSVs to reduce the cost on charter hiring of similar vessels and four OSVs with AHTS (Sindhu- 8, 9, 10 and 11) were overhauled at a cost of Rs.4.42 crore[*] and commissioned during the period from June 2004 to December 2004.

Audit observed (June 2005) that even after revamping of the AHTS, 'Sindhu-11' OSV did not carry out any rig move job and was deployed on duties involving stand-by, supply, fire fighting which was not the objective of its revamping and the Company again charter hired a vessel in lieu thereof. The charter hiring rate of vessels having AHTS were higher than those not fitted with such a system. As a result, the Company incurred an avoidable cost of Rs.6.42 crore on charter hiring of another vessel having AHTS for rig move/towing operations from July 2004 to March 2007. The revamping cost of 'Sindhu-11' OSV was, thus, rendered unfruitful.

The Management in reply (June 2007) stated that decision of deployment of OSVs was generally based on availability of those vessels in a particular area and type of duty involved at that time. The Management also stated that not using the anchor handling tug did not mean that the vessel remained unutilised and hired AHTS vessels were already in place on a long term contract of three years. Addition of own OSV fitted with an operational AHTS provided flexibility in quickly doing a rig tow especially during monsoon when almost all rigs had to be towed simultaneously to save on rig time.

[*] ***Sindhu-8:Rs.1.19 crore, Sindhu-9:Rs.1.19 crore, Sindhu-10:Rs.1.02 crore and Sindhu-11:Rs.1.02 crore***

The Ministry added (November 2007) that 'Sindhu 11' was deployed to carry out towing job from 10 May 2005 to 17 May 2005. The vessel was also used to carry out rig move job in April 2007. The vessel was, thus, used for towing purpose as and when required and presently was used for additional capabilities.

Reply of the Management/ Ministry was not tenable as the Company had revamped four of the 14 OSVs with the specific objective to save on charter hire of vessel having AHTS. Despite availability of revamped AHTS on 'Sindhu-11' OSV, the Company deployed it on jobs other than rig move/towing, whereas these jobs could have been assigned to other OSVs not having AHTS. The AHTS on four owned OSVs had been revamped in June 2004 and, therefore, deployment of owned OSV on towing operations by corresponding reduction in charter hiring of similar vessels could have been effected by March 2007. Even after the expiry of primary contractual term of three years for hiring of such vessels, the Management did not deploy its own vessel; instead, it extended the contract for a period of one year in two instalments beginning May 2006. During May 2005, the vessel was used for towing of Neelam Single Buoy Mooring which was used for evacuation of oil from Production Complexes and not for towing of rig. The vessel had not been utilised for rig move/towing operations till November 2007 except for 98 hours in April 2007. Thus, non-deployment of the OSV defeated the very purpose of revamping the AHTS on the OSVs and resulted in incurring avoidable expenditure (Rs.6.42 crore) on charter hiring of a vessel besides rendering the investment (Rs.1.02 crore) on revamping unfruitful.

14.7.4 Wasteful expenditure on Portable Top Drive System

ONGC incurred wasteful expenditure of Rs.4.99 crore due to mismanagement of procurement and commissioning of Portable Top Drive System.

Oil and Natural Gas Corporation Limited (ONGC) decided (September 1998) to equip its rigs with Portable Top Drive System (PTDS) for drilling of high angle wells. The Company invited tenders in July 2000 and placed (October 2001) an order for Rs.4.88 crore on M/s. Varco System, USA for supply, erection and commissioning of PTDS operable on 60 Hz power. The system was supplied in March 2002. Subsequently, the Company realised that while the PTDS was operable on 60Hz power, the rigs were operating on 50Hz; therefore, to overcome the problem, it placed (November 2002) an order for a frequency converter. The frequency converter costing Rs.11 lakh was received in February 2003. During commissioning (April 2004) the PCBs (electronic cards) failed and had to be replaced by electronic cards which were taken from rig (E 2001-1). However, the PTDS could be used only sporadically due to problems encountered in different components. The PTDS remained in disuse from November 2004 due to want of spares and repairs. In September 2006, the 400 HP motor of the PTDS was removed and loaned to another Asset of the Company in the Ahmedabad region.

Audit observed (January 2006) the following deficiencies in procurement of the PTDS:-

(i) ONGC failed to specify the power requirement at the time of placing the indent and procured an equipment operable on 60Hz power whereas the operating power frequency of the rig was 50Hz. Despite the supplier seeking (September 2001) a confirmation from the Company of the power specification required before the

purchase order was placed, the Company again failed to correlate the power requirement of the PTDS with available power supply.

(ii) Though the PTDS was received in March 2002, the Company placed an order for procurement of the frequency converter in November 2002. While the frequency converter was received in February 2003, commissioning of PTDS was initiated in March 2004 by which time the warranty period for the converter had expired. Thus, two years period since procurement of the PTDS was wasted for want of frequency converter.

(iii) At the time of commissioning the PTDS, M/s. Varco informed ONGC that most of the boxes containing top drive accessories were damaged due to improper stocking and that the top drive was in a bad condition. M/s. Varco also alerted that all elastomeric seals in the system could be dry and brittle leading to potential failure during commissioning. These apprehensions proved true when the Company experienced a series of problems when the PTDS was commissioned in April 2004.

(iv) PTDS experienced frequent breakdowns after its commissioning in April 2004. It remained in disuse since November 2004 till date (October 2007). Consequently, the connected rig (BI-2000-II) remained idle from 4 November 2004 to 2 January 2005 when the well was abandoned and the rig was released resulting in idling cost of Rs.1.85 crore to the Company.

(v) Though ONGC did take up the matter of supply of spares and services with M/s. Varco, the matter was not followed up vigorously and the PTDS was lying unused since November 2004.

The Management in reply (April 2007) accepted the facts and audit observation. The Ministry added (November 2007) that all concerned Assets have been asked to return all the equipments/components which were removed. Action has been initiated for finalisation of order and air lifting of spares. The Company was pursuing with M/s. Varco to send quotation and all out efforts were being made to put the PTDS back in operation within the next three months.

Thus, mismanagement of procurement and commissioning of the PTDS resulted in wasteful expenditure of Rs.4.99 crore besides idling cost of Rs.1.85 crore of rig for 60 days.

14.7.5 Non-recovery of flare gas due to delay in procuring lube oil

Indecision and delay in procuring lube oil for running an equipment for recovery of value added product from flaring gas resulted in wastage of the gas worth Rs.4.61 crore.

As part of 'Zero Gas Flaring Project', Oil and Natural Gas Corporation Limited (ONGC) purchased 'Flare Gas Recovery Unit' for its Uran plant and commissioned it on 2 August 2003 to recover the gas being flared in normal conditions. The recovered gas was to be used as stripping gas in Crude Stabilisation Units (CSUs) for extraction of value added products *viz.,* LPG, Ethane-Propane and Naphtha. Flare Gas Recovery Unit comprised

one compressor that required lube oil for lubrication of the compressor. Thus, lube oil was critical for the smooth running of the CSU. At the time of commissioning of the compressor, OEM* supplied 31 barrels of lube oil (27 barrels for start up of the compressor to be filled in before initial start up and four barrels for topping up during running of the compressor). Uran plant used 28 barrels of lube oil for start up of the compressor and separately initiated (7 August 2003) a proposal for procuring 35 barrels of lube oil. However, the final sanction was accorded on 8 April 2004 for 31 barrels of lube oil for one time change while topping up quantity would be on yearly requirement basis. A tender for procurement was floated in August 2004. Meanwhile (17 July 2004), the flare gas compressor tripped for want of lube oil. Technical and price bids were opened in October and November 2004 respectively and supply order placed on Indian Oil Corporation Limited in November 2004. Lube oil was received on 22 December 2004 and the compressor was put back in operation on 11 January 2005. During shutdown (17 July 2004 to 10 January 2005) of the compressor, ONGC could not recover flare gas valuing Rs.4.61 crore for want of lube oil.

Audit observed (June 2006) that the stock of lube oil in the store as well as in the plant was 'nil' in December 2003. Yet, ONGC unduly delayed its procurement. It took 15 months to convert an indent into a supply order. The reasons for delay were primarily regarding the source of supply and quantity to be procured. Considering the lead time for finalising the tender and the loss involved in flaring of gas, ONGC should have resorted to emergency purchase to put the compressor back in operation. Due to the indecision and delay, ONGC lost flared gas worth Rs.4.61 crore.

The Management in reply stated (April 2007) that:

(i) A market survey was undertaken and after analysis, it was felt that synthetic oil as per specifications of OEM was available in open market at cheaper rates. Therefore, the case was processed on global tender basis.

(ii) The budgetary quote obtained from original oil supplier *viz.*, CPI Engineering Services Inc (CPI) was very high at Rs. 6.87 lakh for six barrels. However, CPI did not indicate the availability of oil in the offer. Moreover, transportation by sea and clearance of customs would have taken a minimum of 1.5 to 2 months. Thus, lube oil would have been available only in November 2004.

(iii) Processing of global tender was at an advanced stage and hence ONGC decided to wait for regular supply of equivalent grade of lube oil which was considered economical. This resulted in saving of Rs.7.23 crore in long run with development of alternate source.

Reply of the Management was not tenable as:

(i) Though, requirement for fresh supplies was initiated in August 2003, ONGC could make available lube oil only in December 2004. As the stock of lube oil was 'nil' as early as December 2003, it was incumbent on ONGC to go for emergency purchase to avoid shut down of the compressor. It obtained budgetary

---

* ***Original Equipment Manufacturer viz., Howden Compressors Limited, UK***

quote from CPI only on 19 July 2004 *i.e.*, after plant shutdown. In case CPI had not indicated availability of lube oil in its offer, it was in the interest of ONGC to get the necessary clarifications. To avoid the loss, the cost of procurement of lube oil from CPI (Rs.7.60 lakh for six barrels including air transportation) was negligible.

(ii) The Management contention on the savings that would accrue during the entire lifetime (20 years) of the compressor was independent and unrelated to the issues brought out in Audit.

The Ministry while explaining (September 2007) the circumstances of failure of the compressor and the fact that the specific oil consumption by the compressor was more than the field operating conditions, admitted that considering the circumstances and loss of production due to shut down, the case for procurement of oil on emergency basis should have been taken up with the OEM to put the compressor back in operation at shortest possible time. The Ministry also assured of taking emergent action in future.

CHAPTER XV: MINISTRY OF POWER

North Eastern Electric Power Corporation Limited

15.1.1 Loss of Rs.83.73 lakh due to delayed disposal of unutilised cement

Due to failure in processing and accepting the offer of the highest bidder within the validity period of the offer, the Company incurred a loss of Rs.83.73 lakh.

North Eastern Electric Power Corporation Limited (Company) undertook the construction of the Tuirial Hydro Electric Project (60 MW), Mizoram, which was scheduled to be commissioned in 2006-07.

The Company, against its requirement of 18,885 MT for the period from April to June 2004 procured between March and May 2004, 5854.75 MT (1,17,095 bags) of cement. The cement was purchased at rates ranging from Rs.2,824 *per* MT to Rs.3,588 *per* MT*. Of the 5,854.75 MT cement procured, 494.50 MT was transferred from Ranganadi Hydro Electric Project.

The Company could not transport 3,948.60 MT (78,972 bags) of cement to the project site due to constraints like heavy rainfall, Lok Sabha Elections and bandhs. Therefore, 28,621 bags of cement were stored at Silchar and 50,351 bags of cement were stored in Guwahati in some private godowns.

Immediate resumption of work in the project, stopped due to the agitation of Tuirial Crop Compensation Claimant Association, was uncertain. Meanwhile, the quality of cement stored in different warehouses had started to deteriorate as it has a shelf life of six month only. The Management, therefore, invited (July 2004) quotations for disposal of the unutilised cement. The proposal for disposal of the entire quantity of unutilised cement was placed (August 2004) before the Board of Directors (Board) for approval. The Board decided (August 2004) for re-tendering as the bid value (Rs.132 *per* bag for Guwahati stock and Rs.133 *per* bag for Silchar stock) was considered to be low.

Tenders were re-invited and quotations were received on 20 September 2004. The highest bids received for Guwahati and for Silchar stocks were Rs.160 *per* bag and Rs.170 *per* bag respectively. The offers were placed before the Board through circulation on 11 October 2004. Even though the validity of the offer was for one month *i.e.*, upto 19 October 2004 and the major construction agencies/ authorities in the region had shown their unwillingness to accept this cement as far back as in July 2004, the Board insisted (12 October 2004) on more efforts with the Government of Assam for disposal of the cement and called for (13 October 2004) full reports on such efforts. The Board finally approved the proposal for disposal of cement to the highest bidder on 25 October 2004. Accordingly, a formal letter was issued (26 October 2004) to the highest bidder for lifting the cement after depositing the advance payment. The highest bidder refused to lift the cement as the validity of the offer had since expired on 19 October 2004.

---

* ***Rs.141.20 to Rs.179.40 per bag***

The Company thereafter tried to sell the stock to the local retailers but failed. A committee was then constituted (February 2005) to examine the issues involving deterioration of cement. The Committee submitted its report in March 2005 based on which the Company invited (April 2005) quotations for disposal of obsolete stock of cement. The highest rate quoted for Guwahati stock was Rs.55 *per* bag. The bidder however, withdrew his offer in June 2005. Ultimately, the Company could sell only 40,350* bags of cement lying at Guwahati stock to another party in June 2005 at the rate of Rs.55 *per* bag after diverting 10,000 bags to Kameng Hydro Electric Project. Cement stock at Silchar was sold at the rate of Rs.20.50 *per* bag after diverting 954 bags to Tuirial Hydro Electric Project.

Thus, the Company's failure to process and accept the offer of the highest bidder within the validity period (19 October 2004) of the offer, led to a loss of Rs.83.73 lakh.

While detailing the background of the sale of the unutilised cement, the Ministry stated (October 2007) that the loss occurred due to sudden suspension of the Project work due to *force majeure* conditions and that approval accorded by the Board was acted upon promptly.

The Ministry's contention was to be viewed in the light of the fact that though accumulation of stock of cement was due to *force majeure* conditions, there was no such constraint in processing the re-invited tenders within their validity. Considering the exigencies of the situation, offers against the re-invited tenders needed to be approved in time. The Company's failure to do this resulted in an avoidable loss of Rs.83.73 lakh.

Power Grid Corporation of India Limited

15.2.1 Avoidable extra expenditure of Rs.1.12 crore

The Company's decision in advancing the supply of towers without synchronising it with the progress of erection, resulted in an avoidable extra expenditure of Rs.91.21 lakh on account of payment of higher price variation and also loss of the interest of Rs.20.38 lakh on the amounts released to the contractor in advance in respect of the preponed quantity.

Power Grid Corporation of India Limited (Company) awarded (January 2000) contracts for supply and erection of towers for High Voltage Direct Current Transmission system associated with East-South Interconnector–II (Talcher II) Project to Kalpataru Power Transmission Limited (contractor) at a total cost of US$ 10.38 million and Rs.20.21 crore. In April 2000, the Company finalised the details regarding delivery and erection of towers and these were issued to the contractor. In terms of price variation (PV) clause of the contract, the PV amount as on the scheduled date of dispatch or actual date of dispatch, whichever was less, was payable to the contractor. In case of early delivery of material on request or approval of the Company, the PV as on actual date of dispatch was payable.

* *One bag had been diverted for testing purpose*

According to the agreed schedule, the contractor was to supply 460 out of a total 752 towers by March 2001. However, based on the Company's request in the meeting held in September 2000, the contractor advanced the delivery and supplied 704 towers by March 2001. Audit observed that the advancement of supply of towers was not required in view of the slow pace of tower erection.

The contractor claimed PV as per the actual date of supplies, which was higher by Rs.91.21 lakh[1] as compared to what would have been applicable on the scheduled date. Initially the Company did not accept (March 2002) the claim stating that the contractor had already benefited by getting early payments for the advanced supplies and no benefit accrued to the project as the tower erection target could not be achieved till March 2002. Thereafter, based on the recommendation (October 2003) of a committee constituted by the Company, the PV bill was passed in October 2004.

The Management and the Ministry stated (September 2005 and July 2007) that the Company had requested advancement of the supplies of towers to meet MOU targets and accordingly the price variation claims were accepted and that it was not possible to predict the future trend of commodity prices.

The reply was not acceptable as the preponement of supply was not warranted because even upto March 2001, the contractor could erect only 405 towers for which original schedule of supply of 460 towers was sufficient. In fact, the advancement of supply by the contractor benefited him. No benefit accrued to the project as the tower erection could not be completed as per the given time schedule and targets. Further, the prices of steel in the international market were showing downward trend in September 2000.

Thus, the Company's decision in advancing the supply of towers without synchronising and monitoring it with erection of the towers resulted in an avoidable extra expenditure of Rs.91.21 lakh on account of payment of higher price variation and loss of interest of Rs.20.38 lakh[2] on the amounts released to the contractor in advance in respect of the preponed quantity.

The matter was reported to the Ministry in July 2007; reply was awaited (November 2007).

Rural Electrification Corporation Limited

15.3.1 Irregular payment of performance incentive/ex-gratia

The Company made irregular payment of *ex-gratia* of Rs.2.15 crore to ineligible employees and a higher performance incentive Rs.5.55 crore to its employees in spite of decline in productivity.

As per DPE guidelines (June 1999/March 2000), perquisites and allowances could be paid by the PSUs to their employees upto a maximum of 50 *per cent* of the basic pay.

[1] ***Worked out based on the number of A types towers supplied by the contractor in advance by March 2001***

[2] ***Based on the rate of 8.5 per cent per annum***

Payments over and above the ceiling of 50 *per cent* should be entirely in the nature of performance related payments and should not exceed five *per cent* of the distributable profit of the enterprise.

Rural Electrification Corporation (Company) had a performance incentive scheme for its employees since 1997-98 which provided for payment of incentive to the employees depending upon achievement of the Overall Performance Index (OPI) by the Company. Till 2004-05, for every one *per cent* increase in OPI beyond 110 *per cent* one *per cent* of the basic pay was payable as performance incentive subject to a ceiling of 50 *per cent* of the basic pay. From 2005-06 onwards, it was revised as a result of which, for achievement of OPI between the slabs of 110 *per cent* and 120 *per cent*, 120 *per cent* and 130 *per cent*, 130 *per cent* and 140 *per cent* and 140 *per cent* to 150 *per cent*, the performance incentive was scaled at 1.5 *per cent*, 2 *per cent*, 2.25 *per cent* and 2.5 *per cent*, respectively for each one *per cent* increase in their respective slabs. From 2005-06, the Company also removed the ceiling of 50 *per cent* of the basic pay.

It was observed in Audit (January 2007) that scaling of the PLI rates and removal of ceiling with effect from 2005-06 resulted in payment of higher incentive to employees despite decline in productivity as indicated below:

Year	Overall Performance Index	Amount of PLI paid (Rs. in crore)	PLI paid as a percentage of basic salary	PLI payable as per scheme in operation upto 2004-05 (per cent of basic pay)	Amount of PLI payable as per 2004-05 scheme (Rs. in crore)	Excess PLI paid as compared to 2004-05 scheme (Rs. in crore)
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(3)-(6)
2004-05	196.62	4.53	50	111.62*	4.53	-
2005-06	158.30	8.88	90	73.30	7.23	1.65
2006-07	148.22	10.11	103	63.22	6.21	3.90
Total						**5.55**

Thus, despite decline in productivity (OPI) successively in 2005-06 and 2006-07 as compared with 2004-05, the PLI paid as a percentage of basic pay continued to increase. Payment of a higher incentive to the employees in spite of a decline in the productivity was not in accordance with the DPE instructions The Report of the Justice Mohan Committee which formed the basis of the pay revision of the PSU employees also stressed that the performance related payments should be governed by a system of checks and balances as there was a possibility that performance criteria set could lead to increase in incentive payments without any improvement in performance or productivity.

Further, the Company also paid *ex-gratia* amounting to Rs.2.15 crore to its employees whose wages/salary exceeded Rs.3,500 during 1997-98 to 2005-06 in contravention of the guidelines of the DPE. As per the DPE instructions (November 1997) no *ex-gratia* was to be paid by the PSUs to their employees who were not entitled to it under the provisions of Payment of Bonus Act, 1965 (Act) on account of their wages exceeding Rs.3,500 *per* month. There was no provision in the Act or for the Ministry/DPE to approve such payment to ineligible employees.

---

* ***Restricted to 50 per cent***

The Management/Ministry stated (June 2007) that the expenditure on incentive was within five *per cent* of the distributable profit as per the DPE guidelines. In addition to OPI, some other factors like whether the Company would be able to sustain this rate of growth in the coming years, the practice followed in the sister organisations were also seen.

The reply was not tenable because the DPE had clarified (March 2000) that performance linked incentives should be within 50 *per cent* of the basic pay and if the limit was not considered sufficient to reward the employees for their work, they could go beyond 50 *per cent* of basic pay but within five *per cent* of the distributable profits. But this power was to be used by the Board of Directors with utmost caution. Payment of higher incentive despite a fall in OPI was not in accordance with the instructions of DPE. Further, payment of *ex-gratia* to ineligible employees was irregular and inconsistent with the provisions of the Act as well as instructions of DPE.

Thus, the Company made irregular payments of performance incentive of Rs.5.55 crore during 2005-06 and 2006-07 and *ex-gratia* of Rs.2.15 crore to ineligible employees.

CHAPTER XVI: DEPARTMENT OF PUBLIC ENTERPRISES

Airports Authority of India, Food Corporation of India, Mahanadi Coalfields Limited, Eastern Coalfields Limited, Securities Trading Corporation of India Limited, UP Industrial Consultants Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited, United India Insurance Company Limited, Bharat Heavy Electricals Limited, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, National Hydroelectric Power Corporation Limited, National Highways Authority of India, MECON Limited and Cotton Corporation of India Limited

16.1.1 Recoveries at the instance of Audit

During test check in Audit, several cases relating to non-recovery, short recovery, undue payment, excess payment, excess allowance of discount *etc.,* by Central PSUs were pointed out. In 30 such cases pertaining to 16 PSUs, where Audit pointed out an amount of Rs.27.16 crore for recovery, the Management of PSUs recovered an amount of Rs.20.71 crore during the year 2006-07 as detailed in **Appendix-II.**

CHAPTER XVII: MINISTRY OF RAILWAYS

Railtel Corporation of India Limited

17.1.1 Avoidable payment of Rs.3.39 crore

The Company's failure to prepare the separate accounts for Infrastructure Provider Category II licence resulted in an avoidable payment of Rs.3.39 crore towards licence fee, interest, penalty and interest on penalty.

Railtel Corporation of India Limited (Company) executed (February 2002) an agreement with the Department of Telecommunications (DOT) to obtain licence for acting as 'Infrastructure Provider – Category II (IP-II)' to establish, lease, rent out or sell digital transmission capacity. The licence was valid for a period of 20 years from the date of the agreement and was extendable for a further period of 10 years.

The agreement provided for payment of licence fee to the DOT in four quarterly instalments, within 15 days of the commencement of a quarter on self assessment basis, subject to a minimum payment of the actual revenue of the previous quarter. In case the cumulative quarterly licence fee paid for any financial year was short by more than 10 *per cent* of the licence fee, the Company was liable to pay penalty of 150 *per cent* of the amount short paid. The Company was also required to draw, keep and furnish independent accounts for the services and to maintain accounting records to show its transactions presenting the costs, revenue and financial position of its business under the licence for the quantification of revenue or for any other purpose. Such accounting statements were required to be duly certified by the Company's auditors.

The Company however, did not maintain separate accounts for the services provided under the agreement for IP-II licence and paid the licence fee on self assessment basis for the years 2001-02 to 2003-04. The DOT carried out the provisional re-assessment for these years and raised (September 2005) a demand of Rs.3.23 crore after adding back the miscellaneous income like interest and dividend in the revenue earned, on the basis that the Company had not furnished any disaggregated accounts in respect of IP-II licence.

The Company requested (November 2005) for waiver of the miscellaneous income from the total revenue for the three years ending 31 March 2004 and subsequently deposited (January and February 2006) Rs.3.39 crore with the DOT under protest towards licence fee (Rs.90.93 lakh), interest (Rs.53.98 lakh), penalty (Rs.1.39 crore) and interest on penalty (Rs.55.10 lakh). The DOT rejected the request in November 2006. The Company started preparing the separate accounts from 2004-05 onwards for segregating the revenue licence wise and apportionment of interest income.

The Management stated (May 2007) that the DOT did not agree to exclude interest income and also imposed penalty and interest on penalty, which was increased as the

demand was raised in 2005-06 *i.e.*, after four years. However, had the Company prepared the separate accounts for each licence, it could have convinced the DOT that the interest income had not arisen from the revenue of IP-II licence.

Thus, the Company's failure to prepare separate accounts for IP-II licence resulted in an avoidable payment of Rs.3.39 crore towards licence fee, interest, penalty and interest on penalty.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

CHAPTER XVIII: DEPARTMENT OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

18.1.1 Loss due to payment for additional items of work at a higher rate

National Highways Authority of India incurred a loss of Rs.2.29 crore by making payment to a contractor for additional items at higher rates, which were recommended by Project Supervision Consultant without obtaining prior approval of the Authority.

National Highways Authority of India (Authority) as implementing agency of the Government of India for National Highways Development Programme, is entrusted with the task of constructing highways through the civil contractors and Project Supervision Consultants (PSC).

The terms and conditions of the agreement entered into in August 2001 with PSC for Aluva-Angamali section provided that the PSC shall obtain prior approval of the Authority for execution of additional items of work through civil contractors including, *inter alia*, fixation of the rates for these works. The PSC was also required to take a Professional Liability Insurance (PLI) for Rs.1.41 crore being the amount equal to the contract value, valid for a period of five years after completion of the services. Since the project was completed in June 2004 the PLI cover was to be kept valid till June 2009.

Audit observed (April 2006) that during the contract period from 2001 to 2003, though the PSC authorised civil contractor to execute additional items of work (valuing Rs.6.42 crore) but did not obtain the Authority's prior approval for the rates payable for these additional items. The rates fixed by PSC were higher as compared with the schedule of rates of the concerned State Government for similar works, which was used as a bench mark for various other projects of the Authority. It was also observed by Audit that the Authority did not restrict the rates to the scheduled rates in February 2002 at the first instance itself, when the first running bill for additional works executed by the contractor was settled at Rs.18.17 lakh at the recommendation of the PSC instead for Rs.12.95 lakh eligible under the schedule of rates. The Authority went on to release full payments upto December 2002 for additional items* executed during the period May 2002 to November 2002 at higher rates as recommended by the PSC. That the payments were being made at higher rates first came to the notice of the Authority in January 2003 and instead of resolving the issue with PSC, the Authority withheld Rs.1.42 crore from subsequent bills of civil contractor.

The aggrieved contractor approached (August 2003) Dispute Review Expert who recommended (October 2003) release of pending amounts to the contractor on the ground that the contractual obligation between the Authority and the PSCs were not binding on

* *Other than Bill of Quantities items*

the contractor. Subsequent appeal (March 2004) by the Authority before Arbitration also did not succeed (December 2004). Thereafter, the Authority released (April 2005) withheld amount of Rs.1.42 crore to the contractor. As a consequence, the Authority incurred a loss of Rs.2.29 crore as the value of additional items worked out to Rs.4.13 crore on the basis of schedule of rates of the State Government as against the payment of Rs.6.42 crore made as per the award given by the Arbitrator. The Authority could not recover the loss from the PSC. Even the PLI cover which expired in March 2005 had not been renewed by the PSC.

The Ministry stated (July 2007) that the PSC's action for fixing the rates without obtaining the prior approval of the Authority was a breach of contract and that it had decided to debar the PSC from participating in the Authority's works for a period of two years.

The reply of the Ministry confirmed the Audit finding. The Authority while failing to restrict the payment to the schedule of rates, could not take any action to reduce its loss through recovery from the PSC due to the non-renewal of the PLI cover.

Thus, due to failure of the Authority in taking timely action for restricting the rates for additional items and ensuring that the PSC took prior approval to the rates, it suffered a loss of Rs.2.29 crore.

18.1.2 Payment of avoidable commitment charges of Rs.1.01 crore

Delayed decision of the Authority in cancelling the surplus loan resulted in payment of avoidable commitment charges of Rs.1.01 crore.

The Public Investment Board (PIB) approved the Surat Manor Tollway Project with an investment of Rs.867.25 crore in August 2000. For funding the project, in October 2000, National Highways Authority of India (Authority) signed a loan agreement (agreement) with Asian Development Bank (ADB) for US$ 180 million. As per section 2.03 of the agreement, the Authority was to pay commitment charges at the rate of 0.75 *per cent per annum* on US$ 27 million in the first twelve months, US$ 81 million during second twelve months, US$ 153 million during the third twelve months and thereafter on the full amount of the loan. If any amount of the loan was cancelled, the amount of each portion of the loan would be reduced in the same proportion as the cancellation bore to the full amount of the loan before such cancellation. The agreement also stipulated that ADB's funding would be restricted to 63 *per cent* of total expenditure on civil works while expenditure on consultancy services, interest and commitment charges would be funded in full.

The cost of the project was revised to Rs.937.30 crore in October 2001 and the amount eligible for funding by ADB was Rs.573.33 crore (US$ 120.70 million). As a saving of US$ 59.30 million was envisaged, ADB suggested that these savings could be utilised for enhancing the safety and operating features of the tollway. Accordingly, the Authority proposed (October 2001) additional works of Rs.278.10 crore including civil works and project supervision to improve the safety and utilisation of the above tollway. Out of this estimated cost, the amount eligible for ADB funding was Rs.185.30 crore (US$ 39 million) and the proposal was sent to PIB for its approval (January 2002).

In the Tripartite Portfolio Review Meeting (TPRM) held in September 2002 between ADB, Authority and the GOI, ADB stated that despite the execution of additional works, there would still be a saving of US$ 15 to 20 million out of the loan for the project. The GOI also urged the Authority to either utilise the savings in consultation with ADB or proceed to cancel the loan to that extent. The Authority, thereafter submitted a revised proposal for additional works (including the proposal for Highway Traffic Management System (HTMS) at Rs.25 crore - US$ 5.58 million) for Rs.307 crore.

In April 2004, the Authority sent yet another revised proposal to the competent authority in the Government for Rs.329.60 crore for additional works including work relating to HTMS and to update the costs for the entire project which now stood at Rs.1,331.35 crore. The revised proposal was approved by the competent authority in the Government in October 2004.

In the meantime, in the TPRM held in June 2004, the GOI again advised the Authority to review the status of loan savings. In November 2004, the Authority finally requested the ADB to cancel the loan of US$ 15 million which was agreed to by ADB in December 2004.

Audit observed (October 2006) that out of US$ 180 million committed loan, the Authority drew US$ 149.75 million until the completion of the project (September 2005). The Authority by its own estimate in September 2002 knew that there would be a saving of about US$ 16.12 million as the Authority was entitled for a loan of US$ 163.88 million after considering additional works. Despite repeated advise by the GOI and ADB, the Authority neither came up with a viable proposal to use the savings nor surrendered it. This resulted in payment of avoidable commitment charges of Rs.1.01 crore on US$ 15 million surplus loan for two years from December 2002 to November 2004.

The Ministry stated (July 2007) that the Authority could not anticipate the savings during September 2002 as the proposal moved for approval of PIB/ GOI was Rs.331.67 crore for additional works. The Ministry, further, stated that the estimates were likely to vary by 10 to 15 *per cent* on the basis of actual execution.

The reply was not tenable as the Authority was aware that there would be a saving of US$ 16.12 million after taking into account the additional works estimated to be executed for Rs.307.08 crore as far back as in September 2002. The proposal for implementation of HTMS was subject to recommendations of an Operational and Maintenance study which was expected to be available in the first quarter of 2005. On ADB pointing out that it would not be possible to implement the HTMS within the proposed loan closing date of December 2005, the proposal was deleted by the Authority. The increase in project cost after September 2002 was mainly due to escalation in costs. The consultant for the project had advised in October 2001 that the quantities of additional works were not expected to vary by more than five to seven *per cent*. Further, the estimates contained a provision of three *per cent* for physical variation as prescribed by the PIB.

Thus, the Authority did not assess the position of the funds required realistically and consequently delayed the decision of surrendering the loan of US$ 15 million resulting in payment of avoidable commitment charges of Rs.1.01 crore*.

---

* ***Calculated @ Rs.44.80 per US$***

CHAPTER XIX: DEPARTMENT OF SHIPPING

Dredging Corporation of India Limited

19.1.1 Loss of interest due to delay in preferring escalation claims

The Company suffered a loss of interest of Rs.2.93 crore due to delay in preferring escalation claims against Kolkata Port Trust.

The Dredging Corporation of India Limited (Company) entered (March 2002) into a contract with Kolkata Port Trust (KPT) for dredging services in the approach channels to Haldia Dock Complex. As per the contract the Company could prefer claims for fuel and material escalation at the end of every quarter. Further, for the purpose of claiming fuel escalation, any increase in the prices of fuel was to be based on rates actually paid by the Company whereas the material escalation claims were to be based on all India whole sale price index.

A review in Audit of the Company's claims for fuel escalation revealed that during the period April 2002 to March 2007 there were avoidable delays ranging from 15 to 118 days after giving an allowance of 40 days for collection of requisite data considering that Company was allowed credit upto 30 days for making the fuel payment, in preferring fuel escalation claims. In respect to material escalation the avoidable delays (during the period January 2004 to March 2007) were upto 550 days after allowing for 80 days for collection of data considering the fact that 'All India Price Indices' were available within 68 days on the web site of Ministry of Labour since 2003. By avoiding these controllable delays, the Company could have earned interest of Rs.2.93 crore*.

The delay in raising the claim for fuel escalation was attributed by the Management (May 2007) to the fact that though the supplies of fuel were made at Haldia, the bills for the same were received and paid at the Company's Headquarters at Visakhaptanam; thereafter the bills were sent to Haldia for raising escalation claims. The delay in raising the claim for material escalation was stated to be due to delay in publication of indices in Labour Journal. The Management further stated that the Company had prevailed upon KPT to accept the indices as indicated in the web site of the Ministry of Labour and the claims were being now raised within reasonable time.

The Management reply indicates that the system for preferring escalation claims was unsatisfactory. The price of fuel was known at the time of purchase and therefore, the fuel escalation claims need not have been deferred till payment for fuel was made. And the delay in claiming the material escalation bills could have been avoided by regularly checking the data relating to 'All India Price Indices' on the web site of the Ministry of Labour available since 2003. Also the Company did not streamline its procedure for

* ***Based on average rate of interest earned by the Company during the period 2004-07***

raising the claims that would have led to timely submission of claims and receipt of payments.

Thus, due to avoidable delay in preferring escalation claims against KPT, there was a loss of interest of Rs.2.93 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Hindustan Shipyard Limited

19.2.1 Avoidable extra expenditure of Rs.1.53 crore

Despite obtaining specific approval of the Chairman and Managing Director for placing order for a quantity of 1,000 MT, non-finalisation of tender within the extended validity period resulted in extra expenditure of Rs.1.53 crore.

Hindustan Shipyard Limited (Company) invited (November 2005) limited tender enquiries for procurement of 1,000 MT of Mild Steel Plates to stock it as buffer stock. The lowest offer received was from M/s. Asian Associates, Mumbai, (AAM) an Indian agent of M/s. Salgitter Mannesmann International, Germany, (SMIG) for US$ 490 *per* MT. This was 26.4 *per cent* lower than the rates offered by the second lowest party *viz.*, M/s. Igawara Industrial Services and Trading Private Limited, Singapore (IIST). M/s. AAM subsequently reduced the rate offered by them to US$ 471 *per* MT. Despite M/s. AAM extending its offer validity period at the request of the Company six times (last time upto 3 February 2006), no order was placed on it and on the seventh occasion it refused (7 February 2006) to extend the validity period of its offer.

The limited tenders were invited again (13 March 2006) and M/s. SMIG did not participate in the bid. M/s. IIST emerged as L1 party and a quantity of 460.25 MT was procured from it at the rate of 1,224.50 Singapore Dollars *per* MT. The Company also placed orders for a quantity of 1,007 MT in a staggered manner during the period February 2007 and March 2007 at rates higher than the rates offered by M/s. AAM. The total extra expenditure due to not finalising the offer of M/s. AAM was Rs.1.53 crore[*].

The Company in its reply stated (April 2007) that:

(i) There was change in the requirement of quantity of steel because of ship repair business scenario and therefore requirement was reviewed and brought down to 500 MT.

(ii) The Company sought acceptance of M/s. AAM for execution of order for reduced quantity of 500 MT, which was not acceptable to the vendor.

This reply was not acceptable in view of the following:

[*] ***Based on procurement of 1,000 MT***

(i) There was no change in the requirement of steel as the Company placed additional order of 1,007 MT during the period February 2007 and March 2007. The Chairman and Managing Director had approved purchase of 1,000 MT on 28 January 2006 whereas the approval of the Chairman and Managing Director to restrict the quantity to 500 MT was taken on 7 February 2006 only after the expiry of the revised extended date of 3 February 2006.

(ii) The Company vide its e-mail dated 19 January 2006 sought acceptance of M/s. AAM for supply of part quantity and not the specific quantity of 500 MT. This communication was unwarranted as the new quantity required was not specific and could also mean very low quantity. Before sending this communication there was no proper re-estimation of revised quantity and no approval of competent authority taken to ask the supplier for part quantity.

Thus, non-placement of order within the extended validity period of the offer despite obtaining specific approval of the Chairman and Managing Director for the full quantity of 1,000 MT resulted in extra expenditure of Rs.1.53 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

The Shipping Corporation of India Limited

19.3.1 Delay in acquisition of vessels

Delay in acquisition of six vessels resulted in additional cost.

The Company included (July 2004) acquisition of six Large Range-1 Product Tankers (vessels) in the annual plan for 2005-06 after its efforts to procure two vessels failed in 2002-03 and 2003-04. Accordingly, a proposal approved (January 2005) by the Board, was sent (February 2005) to the GOI for acquisition of six vessels at an indicative price of US$ 36 million *per* vessel, which was revised (October 2005) to US$ 43 million *per* vessel aggregating US$ 258 million equivalent to Rs.1,134.30 crore[*].

The Company floated (February 2005) global tenders for technical offers for acquisition of six vessels and short listed (July 2005) two shipyards. The GOI granted 'in principle' approval of the proposal in October 2005. The Company thereafter, invited (February 2006) commercial offers from the short listed shipyards and found the offer of STX Shipbuilding Company Limited, South Korea lowest at US$ 61.80 million *per* vessel after adjustment of cost of addition/deletion of certain items and the rebate offered by the shipyard. The Company submitted (April 2006) a proposal to the GOI seeking its final approval. The proposal justified the increase in the cost of vessels on the grounds of recent increase in shipbuilding costs mainly due to high steel prices in the international market and strong order book position of the shipyards. The GOI approved (October 2006) acquisition of six vessels at a price of US$ 61.80 million *per* vessel at a total cost of US$ 370.80 million. Accordingly, the Company entered (October 2006) into contracts

---

[*] ***At the exchange rate of one US$=Rs.43.965 prevailing in October 2005***

with STX Shipbuilding Company Limited, South Korea to acquire six vessels at a total cost of US$ 370.80 million equivalent to Rs.1,702.90 crore*.

According to the Memorandum of Understanding (MOU) for the year 2005-06 between the Company and the GOI, the Ministry would make effort to expedite the clearance of ship acquisition proposals for submission to Cabinet Committee of Economic Affairs within 14 week of receipt of the proposal (excluding time taken by the Company in furnishing information/clarifications). Audit noted (November 2006) that the proposal, initiated in February 2005, took 87 weeks to be finalised. Thirty six weeks (from 2 February 2005 to 17 October 2005) were for 'in principle' approval and another 51 weeks (from 17 October 2005 to 12 October 2006) were used in according the final approval.

At the stage of obtaining 'in principle' approval, while the Company took 18 weeks (94 days plus 35 days in the two spells) to furnish information/clarifications sought by the Planning Commission, the Planning Commission in turn called for information/ clarifications in spells over a period of 17 weeks in their examination of the proposal. It took another 51 weeks for the final approval.

In the meanwhile, the price of the vessels went up from US$ 36 million *per* vessel (February 2005) when the proposal was first sent to the Ministry for approval, to US$ 43 million *per* vessel (October 2005) when the 'in principle' approval was received. And at the time of receipt of the final approval in October 2006 (*i.e.,* after 87 weeks) the ordered price was US$ 61.80 million *per* vessel. The costs of the vessels increased primarily due to rising shipbuilding costs, a situation that was well known to the Company and the Ministry, which required processing of the proposal in a time-bound manner at each stage and level. The time for 'in principle' approval took 36 weeks. Based on the indicative price of US$ 43 million *per* vessel given in the proposal by the Company and after adjusting US$ 1.995 million *per* vessel towards the cost of items added for Common Structural Rules compliance, due to delay in the approval process the Company had to bear additional cost in the purchase of six vessels.

The Management stated (June 2007) that:

(i) it had been continuously following up the matter with the Ministry to obtain approval of the GOI;

(ii) the prices of the vessels procured and the indicative prices in the proposal were not comparable;

(iii) the offers pertained to two different periods; and

(iv) the vessels ordered by the Company were of superior technical specification and hence the prices were higher than the price of standard specification vessel.

The Ministry replied (November 2007) on the lines of the Management.

---

* ***At the exchange rate of one US$ =Rs.45.925 prevailing in October 2006***

As narrated above, there were unaccountable delays in processing of the proposal for acquisition of the vessels. More so, as it was well known that prices of steel was on the rise affecting shipbuilding costs worldover. In regard to superior technical specifications of the acquired vessels, the Management apart from this general statement, did not provide any specific details on the price differences on this account.

Thus, due to delay in the approval process for procurement of vessels, it is estimated that the Company incurred an additional cost of Rs.513.48 crore* on acquisition of six vessels.

---

* ***Estimated as follows:***

(i) ***The cost at the time of signing of the contracts in October 2006 after allowing additional cost due to items added for common structural rules compliance-Rs.1,647.78 crore (US$59.80 million per vessel at the exchange rate of one US$=Rs.45.925 of October 2006 for six vessels)***

(ii) ***Less indicative cost at Rs.1,134.30 crore at the time of receiving 'in principle' approval in October 2005 (US$ 43 million per vessel at the exchange rate of one US$=Rs.43.965 of October 2005 for six vessels)***

(iii) ***Escalation of Rs.184.65 crore, from US$ 36 million per vessel (February 2005 when the proposal was first sent to the Ministry for approval) to US$ 43 million per vessel (October 2005 when the 'in principle' approval was received) to compensate for the cost of superior specifications of the vessels as the same could not be determined by the Company, has not been included.***

CHAPTER XX: MINISTRY OF STEEL

Bokaro Power Supply Company (Private) Limited

20.1.1 Avoidable extra expenditure of Rs.12.31 crore on import of coal

The Company's decision to import 0.46 lakh MT of coal on the ground of acute shortage without reviewing the actual availability and consumption pattern resulted in avoidable extra expenditure of Rs.12.31 crore.

Bokaro Power Supply Company (Private) Limited* (BPSCL) operates the power plants at Bokaro and sells power and steam to Bokaro Steel Plant (BSL), a unit of SAIL. The monthly requirement of coal for generation of power and steam by BPSCL was around 1.40 lakh MT *per* month and the targeted average monthly stock of coal was 0.10 lakh MT.

In September 2005, the Company decided to import Chinese coal through MMTC Limited (MMTC) on the ground of acute shortage of coal and in October 2005 issued a Letter of Intent to MMTC. The Company purchased 0.46 lakh MT of imported coal of Chinese origin from MMTC at a landed cost of Rs.4,603 *per* MT, which reached BPSCL in January 2006.

During Audit it was observed that the Board of Directors did not review the actual availability and consumption pattern of coal at the time of approving the import which was as follows:

(In lakh MT)

Month	Availability of coal@	Consumption of coal	Closing stock (physically available)
June 2005	1.82	1.33	0.49
July 2005	1.96	1.48	0.48
August 2005	1.89	1.57	0.32
September 2005	1.85	1.52	0.33

@ Note: Availability of coal means stock plus receipts during the month

It would be seen that availability of coal was always much more than the consumption and there was no acute shortage of coal, which was the basis on which import of coal was resorted to. The actual closing stock was always higher than the targeted average stock of 0.10 lakh MT.

Further, the actual coal consumption upto June 2005 was below the average monthly requirement of 1.40 lakh MT. Increase in consumption of coal from July 2005 onwards

**** A joint venture Company of Steel Authority of India Limited and Damodar Valley Corporation***

was not due to excess demand for power but it was mainly due to poor performance of the power plant as the actual coal consumption *per* MT of steam generation (which was 118.37 kg[1] in April 2005) increased to 151.39 kg in September 2005 and to 157.02 kg in November 2005. The Management instead of taking action to control the excess consumption of coal decided to import the costlier coal.

However, procurement of imported coal was also not necessary as the rate for imported coal at Rs.4,603 *per* MT was much higher than the rate for indigenous coal at Rs.1,283 *per* MT. And even after considering that the quality of imported coal was better than indigenous coal by 50 *per cent* based on heat value and ash content, the cost of imported coal would be higher by Rs 2,678 *per* MT[2] than the derived cost of indigenous coal of. Rs.1,925 *per* MT, resulting in extra expenditure of Rs.12.31 crore[3].

The Management stated (June 2007) that critical stock position was reached in August 2005 and decision was taken to force reduction of generation level to 135 MW to build up stock, which reached to the level of 0.10 lakh MT by the end of October 2005. They contended that import was necessary to keep the thermal power plant running since non-supply of steam to BSL could have led to grave consequences.

The Management's reply was not tenable as at the time of the decision to import in September 2005 availability of coal was 1.85 lakh MT and consumption of coal was only 1.52 lakh MT. The closing stock of coal was 0.32 lakh MT at the end of August 2005. Import of coal was also not justified in view of the fact that when the imported coal eventually reached BPSCL in January 2006, the stock level was already 0.39 lakh MT (December 2005) and the so called critical position had ceased to exist.

Thus, import of 0.46 lakh MT of coal at the higher rate of Rs.4,603 *per* MT on the ground of acute shortage of coal resulted in avoidable extra expenditure of Rs.12.31 crore.

The matter was reported to the Ministry in August 2007; reply was awaited (November 2007).

National Mineral Development Corporation Limited

20.2.1 Avoidable loss due to short payment of advance tax

Failure to consider the published financial results for the purpose of computation of payment of advance tax resulted in an avoidable payment of interest of Rs.1.22 crore under Income Tax Act.

As per Section 208 read with Section 211 of the Income Tax Act 1961 (Act), every Company is required to pay advance tax of not less than 15 *per cent* /45 *per cent* /75 *per cent* on due dates in quarterly instalments (15 of June/September/December) in such a way that the entire tax payable for the assessment year is paid by 15 March for the respective year. According to Section 234 C of the said Act in the event of short payment,

[1] ***Kilogram***

[2] ***Rs.4,603 per MT minus Rs.1,925 per MT***

[3] ***Rs 2,678 per MT multiplied by 45,973 MT***

the Company is liable to pay interest at the rate of one *per cent per* month on the unpaid amount of advance tax.

The Act further stipulates that, if the advance tax paid by the Company on its current income on or before 15 June or 15 September is not less than 12 *per cent* and 36 *per cent* respectively of the tax due on the returned income, then it shall not be liable to pay any interest on the amount of shortfall on those dates.

A scrutiny of records relating to the payment of Income Tax revealed that the advance tax paid by the Company during each of the four quarters for the financial year 2004-05 fell short of the limit prescribed in the Act. As a result, the Company had to pay interest of Rs.6.96 crore for the year 2004-05 under Section 234C of the Act.

The Company paid (15 September 2004/15 December 2004) the second instalment and third instalment of advance tax for the financial year 2004-05 on the basis of estimated annual profit of Rs.763.30 crore and Rs.794.36 crore respectively. It was observed in Audit that the Company had declared (July 2004) a profit[1] of Rs.258.39 crore for the first quarter and profit[2] of Rs 488.58 crore for the half year (October 2004) for 2004-2005. In computing instalment of advance tax for the second and third quarter, the Company failed to consider the published financial results. Had it considered, among other factors, the published results while computing the advance tax instalment for the second and third quarter, it could have saved itself from paying penal interest of Rs.1.22 crore[3] to the income tax authorities out of the total amount of penal interest of Rs.6.96 crore.

The Ministry in its reply stated (July 2007) that in future the profits for the first quarter would be taken into account for payment of advance tax. It further added that the Company had gone (April 2006) in for an appeal to the Chief Commissioner of Income Tax to waive the penal interest charged. The Income Tax Authorities have not waived the penal interest levied under section 234C so far (November 2007).

Thus, the Company incurred an avoidable payment of interest of Rs.1.22 crore due to failure to consider its published financial results for the purpose of computation of payment of advance tax for the second and third quarters.

Steel Authority of India Limited

20.3.1 Irregular payment of Rs.21.29 crore as reward to the employees

The Company made irregular payment of cash reward amounting to Rs.21.29 crore to its employees in contravention of the guidelines issued by DPE.

According to Department of Public Enterprises (DPE)'s instructions dated 20 November 1997, no *ex-gratia*, honorarium, reward, *etc.*, would be paid by the Public Sector Enterprises to their employees over and above the entitlement under the provisions of the

[1] ***Profit before tax for the period April to June of 2004-2005***

[2] ***Profit before tax for the period April to September of 2004-2005***

[3] ***Based on yearly profit of Rs.1,034 crore and the loss has been reduced on the assumption that the Company might have earned interest on short term deposits at the rate of 5.81 per cent per annum for the funds retained by it***

Bonus Act or the executive instructions issued by the DPE in respect of *ex-gratia* unless the amount was authorised under a duly approved incentive scheme in accordance with the prescribed procedure.

It was observed in Audit (March 2007) that in July 2004, Steel Authority of India Limited (SAIL) had approved payment of an *ad hoc* cash reward of Rs.13.19 crore (Rs.1,000 *per* employee) to its 1,31,910 employees for promoting motivation and morale.

Further, the Company decided on 29 January 2007 to extend an *ad hoc* cash reward of Rs.3,000 to each employee of IISCO Steel Plant (ISP[1]) who were on the rolls in December 2006. This was done on the plea of a motivational measure to sustain the morale of employees of ISP who did not have their wages revised for more than eight years as ISP was a sick Company[2] under BIFR. The financial implication of this payment to 14,415 employees was Rs.4.33 crore.

In another case, a cash reward of Rs.1,000 to each employee of Bhilai Steel Plant (BSP)[1] of the Company amounting to Rs.3.77 crore was paid in January 2007. The payments were made to 37,688 employees who were on the rolls on 1 April 2006 plus all those who joined service thereafter, in recognition of their contribution to improved performance of the plant and to ensure high morale and motivation levels of employees to sustain performance and growth.

As payment of reward in an *ad hoc* manner without following the prescribed procedure is prohibited as per the above guidelines of DPE, the decision taken by the Company for the payment of cash reward was irregular.

The Management stated (July 2007) that payments to ISP and BSP were made to encourage efforts by employees in future. Further, payments were made as per guidelines for wage revision issued by DPE which allows payment of perquisites and allowances upto a maximum of 50 *per cent* of the basic pay. Payments over and above the ceiling of 50 *per cent* were to be entirely in the nature of performance related payments which should not exceed five *per cent* of the distributable profits in an enterprise. The Ministry, while endorsing (September 2007) the reply of the Management, stated that these one time payments were in the nature of 'recognition/reward' and had been in monetary terms.

The reply was not tenable as the the DPE's guidelines quoted in the reply were not relevant in this case as the payment of cash reward did not come within the ambit of perquisites or allowances. The payment was also not based on any duly approved performance related incentive scheme and was *ad hoc* in nature.

Thus, payment of cash reward to the employees of the Company in contravention of the guidelines issued by DPE had resulted in extra expenditure of Rs.21.29 crore.

---

[1] ***ISP and BSP are two integrated steel plants of the five integrated steel plants of SAIL.***

[2] ***Indian Iron and Steel Company (IISCO) Limited which was a 100 per cent subsidiary of SAIL has been merged with the parent company as IISCO Steel Plant with effect from 16 February 2006.***

20.3.2 Loss of Rs.5.37 crore due to premature failure of XLPE cables

Company purchased 33 KV XLPE cables, without incorporating performance bank guarantee clause, from a party against whom negative reports were available, resulting in premature failure of the cables causing a loss of Rs.5.37 crore.

The Power Distribution network of Rourkela Steel Plant (RSP), a unit of SAIL, was equipped with oil filled cables at 33 KV level since inception (35 years). The existing cables were giving trouble due to long use and hence for their replacement, RSP purchased 21,930 metres of 33 KV XLPE cable* from M/s Central Cables Limited (CCL), Nagpur at a cost of Rs.4.54 crore. The Letter of Intent was issued by Bhilai Steel Plant in May 2002, the Central Procurement Agency (CPA) and formal purchase orders were issued by RSP in December 2002 and April 2004. The purchase orders, *inter alia*, provided for a guarantee clause under which the cables were to give a trouble free performance for a period of 12 months from the date of use or 18 months from the date of supply whichever was earlier.

Cables were received during July 2003 to November 2004 and laying thereof was started from February 2004 through a separate job contract. Initially, 10,167 metres of cables were laid. The cables started failing at regular intervals soon after its commissioning. Thereafter, the balance cables were laid under the supervision of Central Power Research Institute (CPRI). Out of the balance quantity of 11,763 metres (21,930 minus 10,167 metres) of cables, 10,263 metres were laid inside the plant and the remaining 1,500 metres were kept in stores. The cables continued to fail even after they were laid under the supervision of CPRI. The cost of cable laying, supervision, testing *etc.*, was Rs.83 lakh.

The Management of RSP took up the issue of cable failure with the supplier and asked for the replacement of the entire supplied quantity in January 2005. Ruling out the possibility of manufacturing defects in the cables, the supplier attributed the failure to the cable operating and laying parameters at RSP and agreed to replace only 92 metres of cables. Subsequently, the Management decided (July 2006) to replace the laid cables with fresh procurement of 18,500 metres to take care of the critical operations inside the plant. The Management took action against the supplier by invoking the arbitration clause and appointing an Arbitrator only in July 2007 on the premature failure of the cables and their non-replacement by the supplier.

It was seen in Audit that the procurement of cables from CCL was not proper in view of the following deficiencies:-

(i) Manufacturing technology of XLPE cables of CCL was different than that of XLPE cables being used in RSP system. Further, the product of CCL was found to be unsatisfactory in other organisation where the party was debarred from conducting business, a fact known to the Management. *None the less*, order was placed without incorporating performance bank guarantee clause, on a party whose supply worthiness was not known, and against whom negative reports were available.

* ***Cross linked polyethylene insulated cable***

(ii) On the proposal for procurement of XLPE cables the Managing Director, RSP had specifically requested to go in for a proven technology or alternatively, the procurement should be made on turnkey basis for system integration with guarantee linked to payment. The Letter of Intent however, was issued by CPA on behalf of RSP without complying with the above specific requirements of the Managing Director, RSP.

(iii) There was considerable delay in laying of the cables. The first batch of cable was received in July 2003, the processing of order for cables laying was initiated in February 2004 and was charged in May 2004. Subsequently, other batches of cables were laid and charged in October 2004 and November 2004. Delay in cable laying put pressure on the products guarantee clause since by the time RSP could notice the failure, the guarantee period was about to expire.

While accepting the fact that there were manufacturing defects in the cables and there was delay in laying of cables, the Management in its reply stated (July 2007) that on the issue of premature failure of the cables, RSP had taken various actions which included sending of final demand notice (June 2007) and invoking of the Arbitration clause.

The reply of the Management was essentially a *post facto* rationalisation as had the cables been procured from a proven supplier and had there been a guarantee linked payment clause in the order, the loss could have been avoided. The process of invoking of Arbitration clause was a belated action on the part of the Management.

Thus, purchase of cables from a party, whose credentials in manufacturing of 33 KV XLPE cables were unreliable, resulted in premature failure of the cables causing a loss of Rs.5.37 crore towards cost of the cables, cost of laying and other charges.

The matter was reported to the Ministry in August 2007; reply was awaited (November 2007).

20.3.3 Avoidable loss of Rs.1.23 crore due to violation of Excise Rules

Reassessment of Excise Duty by the Company on the export surplus in contravention of the Central Excise Rules resulted in payment of penalty of Rs.1.23 crore.

The Excisable goods meant for export to other countries are cleared under bond without payment of Excise Duty under Rule-19(3) of Central Excise Rules read with notification no. 42/2001-CE (NT) dated 26 June 2001, as amended. For clearance without payment of duty, the particulars of the consignments of the goods for export including the value/quantity and amount of duty has to be declared in the application for removal of excisable goods under export (ARE-1) as provided in the rules/notification.

As per provisions in the rule, in case the excisable goods cleared under ARE-1 are not exported for any reason and the exporter intends to divert the goods for home consumption, he may be permitted to do so by the Excise authorities on request in writing. Duty as specified in the application will be payable on such diverted goods with interest at the rate of 24 *per cent per annum* on such duty from the date of removal for export from the factory/warehouse till the date of payment of duty. There will not be any

need for reassessment unless there are reasons to believe that the assessment was not correct.

It was observed in Audit that Bokaro Steel Plant (BSL), a unit of SAIL, for exporting Hot Rolled (HR) Coils/Slit Coils to National Tubes Limited, Bangladesh under several contracts, cleared 28,481.872 MT of Coils under bond. BSL sent the HR Coils to M/s. SAIL – Bansal Services Center Limited, a job worker for slitting the coils as per specification in the contract. Subsequently, BSL exported only 18,160.351 MT of Coils and diverted 10,322.796 MT for sale in the domestic market. BSL reassessed the value of the diverted quantity of goods considering rebate allowed to customers on sale prices, reclassifying a portion of the goods generated during cutting/slitting as scrap and paid Excise Duty on the reassessed value which was lower by Rs.1.23 crore than the Excise Duty assessed on the value declared earlier in the ARE-1.

Considering the unilateral reassessment of the duty as contravening the provisions of the Excise Rules, the Central Excise Deptt, Bokaro issued (March and August 2003) three show cause notices to BSL for recovery of the duty of Rs.1.23 crore along with penalty and interest on the Excise Duty. Subsequently, the Commissioner of Central Excise, Ranchi passed (August 2005) three orders asking BSL for payment of Rs.1.23 crore as Excise Duty along with interest and Rs.1.23 crore as penalty. BSL filed appeal (November 2005) against the orders before the Customs, Excise and Service Tax Appellate Tribunal (CESTAT), Kolkata and applied for the necessary clearance from the Committee of Secretaries *viz.*, "Committee on Disputes" (COD) which was necessary for pursuing the appeal as per the decision of the Hon'ble Supreme Court. The COD however, did not grant permission (June 2006) on the ground that no question of facts and laws were involved in the matter of dispute. Hence, the appeal filed by BSL at CESTAT was rejected. Ultimately the Company paid (July 2006) Rs.1.23 crore as Excise Duty and a penalty of Rs.1.23 crore. Besides, Excise Department also made a demand of Rs.1.12 crore towards interest.

The Ministry stated (October 2007) that since, the actual goods exported after processing were different from the goods removed to the job workers premises, the value of the goods were reassessed and Excise Duty was paid on the basis of reassessed value which was as per the provisions of the Trade Notice and the Excise Rules. Hence, no wrong was done while discharging its Excise Duty liability. The case had been resubmitted to the COD for reconsideration.

The Ministry's contention was not acceptable since reassessment of Excise Duty on the goods cleared under ARE-1 could be done only with the permission of the Excise Department and Trade Notice No. 19/2002 dated 16 September 2002 also did not provide for re-assessment of duties.

Thus, due to reassessment of Excise Duty on export surplus diverted for domestic consumption without proper permission and in contravention of the rules and procedures, BSL had to pay penalty of Rs.1.23 crore.

20.3.4 Avoidable expenditure due to delay in lifting of iron ore

Visvesvaraya Iron and Steel Plant placed orders in February and March 2005 on National Mineral Development Corporation Limited for supply of 35,000 WMT of iron ore but it could not lift the entire ordered quantity within the delivery schedule and incurred an additional expenditure of Rs.1.18 crore.

Visvesvaraya Iron and Steel Plant, Bhadravati (Plant), a unit of Steel Authority of India Limited, purchases iron ore from National Mineral Development Corporation Limited, Hyderabad (NMDC). The Plant placed a purchase order on NMDC in February 2005 for supply of 20,000 WMT[1] of iron ore from its Kumaraswamy mines at the rate of Rs.815 *per* WMT with delivery schedule upto 31 March 2005. The plant subsequently issued two extension orders for supply of an additional 35,000 WMT (20,000 plus 15,000 WMT) on 24 February 2005 and 24 March 2005 respectively, on the same terms and conditions of price and delivery. The Plant made an advance payment of Rs.4.60 crore between 8 February 2005 and 24 March 2005 for supply of 55,000 WMT. The Plant lifted only 33,106 WMT iron ore out of the ordered quantity of 55,000 WMT upto 31 March 2005 and 21,722 WMT out of the balance quantity of iron ore was lifted during April/May 2005.

During September 2005, NMDC revised the price of iron ore from Rs.815 to Rs.1,358 *per* WMT with retrospective effect from 1 April 2005 and claimed Rs.1.18 crore for 21,722 WMT lifted by the Plant in April/May 2005 against the above purchase orders issued in February/March 2005. The Plant settled the claim in September 2005. Thus, by failing to lift the entire quantity of 55,000 WMT of iron ore prior to 31 March 2005, the Plant incurred an avoidable expenditure of Rs.1.18 crore.

The Management stated (November 2006/March 2007) that the Plant had entered into (March 2006) a long-term agreement with NMDC with price escalation clause for a period of three years retrospectively from April 2005. The Management further added that the entire quantity could not be lifted before 31 March 2005 due to logistic problems. The Ministry stated (August 2007) that the agreement was applicable to all the materials received from 1 April 2005 irrespective of the date of Purchase Order and all the payments made to NMDC were as per the agreement.

The replies of the Management and the Ministry were not tenable because the plant should have taken action to lift the entire quantity before 31 March 2005 as per its delivery schedule and as it was aware even in February 2005 of the impending increase in price with effect from April 2005 and therefore wanted to build up a stock to the level of 1,00,000 MT of iron ore. As to the logistic problems like non-availability of rail connection and unsuitability of road the Plant should have planned the lifting of the ore as per its ordered schedule and intent to build the stock prior to price increase. In fact the plant used only 15 of the 46 days[2] in the delivery period available for actually lifting the material.

---

[1] ***Wet Metric Tonne***

[2] ***During 14 February 2005 to 31 March 2005***

Thus, the Plant's failure to lift iron ore within the delivery schedule resulted in extra expenditure of Rs.1.18 crore.

CHAPTER XXI

Follow-up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Audit Reports (Commercial) of the Comptroller and Auditor General of India as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha) while reiterating the above instructions, recommended:

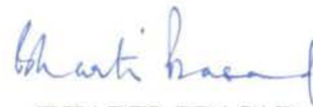
- setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- submission to the Committee, within six months from the date of presentation of the relevant Audit Reports of follow up ATNs duly vetted by Audit in respect of all Reports of the C&AG presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000 - Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the C&AG.

A review in Audit revealed that despite reminders, the remedial/corrective ATNs on the paragraphs/reviews contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in **Appendix-III**, were not received by Audit for vetting. No ATN has been received in respect of 56, 76, 80, 122 and 120 paragraphs/reviews contained in Audit Reports (Commercial) of 2002, 2003, 2004, 2005 and 2006, respectively.

For Audit Reports (Commercial) of 2007, which were presented to Parliament in March/April/May 2007, ATNs on 173 paras/reviews out of 258 were awaited from various Ministries till 22 November 2007.

Out of 627 paragraphs on which ATNs were awaited, 84 paragraphs related to PSUs under the Ministry of Finance (Banking Division), 82 paragraphs/ review related to PSUs under the Ministry of Finance (Insurance Division), 58 paragraphs/ reviews related to PSUs under the Ministry of Petroleum and Natural Gas and 53 paragraphs/ reviews related to PSUs under the Department of Telecommunications.



New Delhi
Dated: 13 मार्च MAR 2008

(BHARTI PRASAD)
Deputy Comptroller and Auditor General
cum Chairperson, Audit Board

Countersigned

New Delhi
Dated: 13 MAR 2008

(VINOD RAI)
Comptroller and Auditor General of India

Report No. CA 11 of 2008

APPENDIX -I

(Referred to in para 1.1.1)

Avoidable payment of interest

Assessment Year	Quarterly due date	Quarter ending	Tax-able Income	Advance Tax Paid	Short Payment	Advance tax due to total advance tax due for the year	Advance tax paid to total advance tax due for the year	Short payment of advance tax	Date of payment	Interest paid on shortfall
			Rs. in lakh			*per cent*				Rs. in lakh
2003-04	June 15, 2002	Jun-02	2,704.00	1,195.00	1,509.00	15.00	6.63	8.37	13-Jun-02	57.00
	September 15, 2002	Sep-02	8,112.00	3,558.00	4,554.00	45.00	19.74	25.26	13-Sep-02	171.00
	December 15, 2002	Dec-02	13,519.00	8,260.00	5,259.00	75.00	45.82	29.18	13-Dec-02	197.00
	March 15, 2002	Mar-03	18,026.00	11,819.00	6,207.00	100.00	65.57	34.43	15-Mar-03	78.00
	Interest under Section 234C of the Income Tax Act, 1961									**502.16**
	Interest under Section 234B of the Income Tax Act, 1961									**77.59**
2004-05	June 15, 2003	Jun-03	7,749.00	1,907.00	5,842.00	15.00	3.69	11.31	15-Jun-03	175.00
	September 15, 2003	Sep-03	23,248.00	15,319.00	7,929.00	45.00	29.65	15.35	15-Sep-03	238.00
	December 15, 2003	Dec-03	38,747.00	29,143.00	9,604.00	75.00	56.41	18.59	15-Dec-03	288.00
	March 15, 2003	Mar-03	51,663.00	42,901.00	8,762.00	100.00	83.04	16.96	15-Mar-04	88.00
	Interest under Section 234C of the Income Tax Act, 1961									**789.00**
	Interest under Section 234B of the Income Tax Act, 1961									**87.62**
2005-06	June 15, 2004	Jun-04	5,244.00	2,822.00	2,422.00	15.00	8.07	6.93	15-Jun-04	72.65
	September 15, 2004	Sep-04	15,731.00	9,661.00	6,070.00	45.00	27.64	17.36	15-Sep-04	182.09
	December 15, 2004	Dec-04	26,218.00	19,089.00	7,129.00	75.00	54.61	20.39	14-Dec-04	213.87
	March 15, 2004	Mar-04	34,957.00	27,671.00	7,286.00	100.00	79.16	20.84	15-Dec-05	72.86
	Interest under Section 234C of the Income Tax Act, 1961									**541.47**
	Interest under Section 234B of the Income Tax Act, 1961									**72.86**
Total interest for the three assessment years 2003-04 to 2005-06										**2070.70**
Total interest for the two assessment years 2003-04 and 2005-06 considering Ministry's reply.										**1,194.08**
Avoidable payment of interest after reducing the amount that Company might have generated at the rate of six *per cent per annum*										**597.04**
Less unavoidable loss of interest on income of Rs.37.02 crore for AY 2003-04										**32.00**
Avoidable loss of interest										**565.04**

APPENDIX -II

(Referred to in para 16.1.1)

Amount (Rs. in lakh)

Name of PSU	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Ministry of Civil Aviation			
Airports Authority of India	Non-recovery of Passenger Service Fee due on India Airlines Interline Passengers carried out by Jet Airways	12.15	12.15
Ministry of Consumer Affairs, Food and Public Distribution			
Food Corporation of India	(i) Payment of excess rentals for godowns	836.97	836.97
	(ii)Non-recovery of weighing charges	189.62	184.37
	(iii)Non-recovery of storage charges	2.19	2.19
	(iv)Excessive interest charged by bank due to erroneous applications of case credit interest	483.42	483.42
	(v)Dues recoverable from contractor	20.14	5.31
Department of Coal			
Mahanadi Coalfields Limited	Non-recovery of transportation charges from NALCO	57.20	50.10
Eastern Coalfields Limited	Undue payment to drilling and blasting contractors	127.77	127.77
Ministry of Finance (Banking Division)			
Securities Trading Corporation of India limited	Excess payment of leave travel concession to employees	0.23	0.23
UP Industrial Consultants Limited	Non-realisation of charges of space from the participants of International Trade fair organised by the Company	60.70	51.90

Name of PSU	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Ministry of Finance (Insurance Division)			
The New India Assurance Company Limited	(i) Undercharge of premium	8.42	8.42
	(ii) Excess allowance of discount	1.33	1.33
	(iii) Incorrect issue of policies	0.12	0.12
	(iv) Excess settlement of claims	10.29	10.29
The Oriental Insurance Company Limited	(i) Excess allowance of discount	0.06	0.06
	(ii) Excess settlement of claims	0.10	0.10
	(iii)Undercharge of premium	3.53	0.45
United India Insurance Company Limited	(i) Undercharge of premium	3.86	3.86
	(ii) Excess payment of agency commission	0.28	0.27
	(iii)Excess allowance of discount	8.56	8.56
	(iv)Non-recovery of Housing loan/rent from employees	4.94	4.94
Department of Heavy Industries			
Bharat Heavy Electricals Limited	Under recovery of price escalation from NTPC	118.94	113.49
Ministry of Petroleum and Natural Gas			
Indian Oil Corporation Limited	(i)Overpayment of octroi	28.56	28.56
	(ii) Loss due to non-recovery of interest	566.78	27.78
Hindustan petroleum Corporation Limited	Non-recovery of penalty from the supplier for delayed delivery of goods	8.43	8.43
Ministry of Power			
National Hydroelectric Power Corporation Limited	Short recovery in respect of departmental material issued to the contractor	50.00	39.18
Department of Road Transport and Highways			
National Highways Authority of India	Overpayment of price escalation to the contractor	72.10	21.22

Ministry of Steel			
MECON Limited	(i)Irregular payment of Leave Travel Concession	1.96	1.96
	(ii)Non-recovery of cost of erection of modified pulley from the supplier	35.00	35.00
Ministry of Textiles			
Cotton Corporation of India Limited	Irregular payment of DA, HRA CCA *etc.*, to employees	2.49	2.49
Total		**2716.14**	**2070.92**

APPENDIX -III

(Referred to in Chapter XXI)

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes were pending as on 22 November 2007

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Agriculture and Co-operation		
1. No. 3 of 2003	Transaction Audit Observations	Para 1.1.1
2. No. 11 of 2006	Comments on Accounts	Paras 1.2.1 and 1.5.1
3. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.6, 2.5, 2.6.1.5 and 2.6.1.7
Department of Bio-Technology		
1. No. 2 of 2002	Comments on Accounts	Paras 1.4.1, 2.1.2, 2.2.1, 2.3.3, and 2.8.1
2. No. 2 of 2003	Comments on Accounts	Para 2.1.2
3. No. 2 of 2004	Comments on Accounts	Paras 2.2.2 and 2.3.1
4. No. 2 of 2005	Comments on Accounts	Paras 2.1.2 and 2.2.1
5. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.6 and 2.5
6. No. 11 of 2007	Transaction Audit Observations	Para 3.1.1
Department of Chemicals and Petrochemicals		
1. No. 2 of 2003	Comments on Accounts	Paras 2.1.3, 2.2.4, 2.2.5, 2.3.2, 2.4.6 and 2.8.1
2. No. 3 of 2003	Transaction Audit Observations	Para 3.1.1
3. No. 2 of 2004	Comments on Accounts	Para 1.2.2
4. No. 3 of 2004	Transaction Audit Observations	Para 1.4.1
5. No. 2 of 2005	Comments on Accounts	Para 2.1.3
6. No. 3 of 2005	Transaction Audit Observations	Para 2.2.1
7. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.4 and 2.5
Ministry of Civil Aviation		
1. No.3 of 2002	Transaction Audit Observations	Para 3.1.1
2. No. 2 of 2005	Comments on Accounts	Para 2.1.5
3. No. 3 of 2005	Transaction Audit Observation	Para 3.2.3

No. and Year of Report	Name of the Report	Para No., if any
4. No. 11 of 2006	Comments on Accounts	Para 1.2.4
5. No. 12 of 2006	Transaction Audit Observation	Para 4.1.1
6. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4 and 2.6.2
7. No. 11 of 2007	Transaction Audit Observations	Paras 4.1.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4, 4.2.5, 4.3.1, 4.3.2, 4.4.1 and 4.5.1
8. No. 17 of 2007	Review of infrastructure and operational facilities in Airports Authority of India	Paras 1.1 to 1.10, 2.1, 2.2, 2.3, 2.4, 2.4.1, 2.4.2, 2.5, 2.5.1, 3.1, 3.2, 3.2.1, 3.2.2, 3.2.2.1, 3.2.2.2, 3.2.3, 3.2.3.1, 3.2.3.3, 3.2.4, 3.2.5, 3.2.6, 3.2.7, 3.2.8, 3.2.9, 3.3, 3.3.1, 3.3.2, 3.4, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11, 4.12, 5.1, 5.2, 5.3, 5.4, 5.5, 5.5.1, 5.5.2, 5.5.3, 5.5.4, 5.5.5, 5.5.6, 5.5.7, 5.5.8, 5.6, 6.1, 6.2, 6.3, 6.4, 7.1, 7.2, 7.2.1, 7.3, 7.4, 7.5, 7.6, 8.1, 8.2, 8.3, 9.1, 9.2, 9.3, 10.1.1, 10.1.2, 10.1.3, 10.1.4, 10.2, and 10.3
Ministry of Coal		
1. No. 3 of 2002	Transaction Audit Observations	Para 4.6.1
2. No. 3 of 2005	Transaction Audit observations	Paras 4.2.1 and 4.5.1
3. No. 4 of 2005	Review on BCCL- Performance of Madhuband Washery	Paras 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7 and 3.8
4. No. 8 of 2006	Review on Project Implementation, performance of HEMM, Manpower analysis, Fund Management and Environmental planning - MCL	Paras 3.6.1.1, 3.6.1.2, 3.6.1.3, 3.6.1.4, 3.6.1.5(i), (ii), 3.6.1.6 (i), (ii), (iii), 3.6.1.7, 3.7.1, 3.7.1.1, 3.7.2.1, 3.7.2.2, 3.8.1, 3.8.2, 3.8.3, 3.8.4, 3.9.1, 3.9.2, 3.9.3, 3.9.4, 3.10, 3.11.1, 3.11.2, 3.12.1, 3.12.2, 3.12.3, 3.12.4, 3.12.5, 3.13.1, 3.13.2 and 3.13.3
	Performance Review on Bucket Wheel Excavators of Nevyeli Lignite	Paras 4.6.2.1, 4.6.2.2, 4.6.2.3, 4.6.3.1, 4.6.3.2, 4.7.1.1, 4.7.1.2, 4.8.1, 4.8.2, 4.8.3, 4.8.4 and 4.9

No. and Year of Report	Name of the Report	Para No., if any
5. No. 11 of 2006	Comments on Accounts	Paras 1.4.3, 1.4.4, 1.4.5, 1.4.6, 1.5.4, 1.5.5,1.5.6, 1.5.7, 2.2.2, 2.2.3, 2.2.4 and 2.6.2
6. No. 12 of 2006	Transaction Audit Observations	Paras 5.1.1, 5.2.2, 5.3.1, 5.4.1, 5.5.1, 5.6.1 and 5.7.1
7. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.4, 2.4.4.6 and 2.5
8. No. 9 of 2007	Performance review of Rajrappa project – CCL	Paras 1.1 to 1.3, 1.4.1, 1.4.1.1, 1.4.1.2, 1.4.1.3, 1.4.2.1, 1.4.2.2, 1.4.2.3, 1.4.2.4, 1.4.3.1, 1.4.3.2, 1.4.3.3, 1.4.3.4, 1.4.4.1, 1.4.4.2, 1.4.4.3 and 1.4.5
	Performance review of thermal power stations - NLCL	Paras 2.1 to 2.5, 2.6.1, 2.6.1.1, 2.6.1.2, 2.6.1.3, 2.6.1.4, 2.6.2, 2.6.2.1, 2.6.3, 2.6.3.1, 2.6.3.2, 2.3.3.3, 2.6.4, 2.6.4.1, 2.6.5.1, 2.6.5.2, 2.6.6, 2.6.6.1, 2.6.7, 2.6.7.1, 2.6.8, 2.6.8.1, 2.6.8.2, 2.6.8.3, 2.6.8.4, 2.6.8.5, 2.6.8.6, 2.6.8.7, 2.6.9, 2.6.9.1, 2.6.9.2, 2.6.9.3 and 2.7
9. No. 10 of 2007	Information Technology Applications in PSU IT review on Integrated Business Solution-NCL	Paras 1.1, 1.6.1, 1.6.2, 1.6.3, 1.6.4, 1.6.5, 1.6.6, 1.6.7, 1.6.8, 1.6.8.1, 1.6.8.2, 1.6.8.3, 1.6.9, 1.6.9.1, 1.6.9.2, 1.6.9.3, 1.6.9.4, 1.6.9.5, 1.6.10, 1.6.10.1, 1.6.11, 1.6.11.1 (i), (ii), (iii), 1.6.11.2, 1.6.12, 1.6.13, 1.6.14, 1.7 and 1.8
10. No. 11 of 2007	Transaction Audit Observations	Paras 5.1.2, 5.1.4, 5.2.2 and 5.3.1
Ministry of Commerce and Industry		
1. No. 11 of 2006	Comments on Accounts	Para 1.2.8
2. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.6 and 2.5
3. No. 11 of 2007	Transaction Audit Observations	Paras 6.1.1 and 6.2.1

No. and Year of Report	Name of the Report	Para No., if any
Department of Telecommunications		
1. No. 5 of 2004	BSNL Chapter-II	 Para 2.10
2. No. 2 of 2005	Comments on Accounts	Paras 1.2.6
3. No. 5 of 2005	Chapter- I Chapter- VI	Paras 1.3, 1.4 Paras 6.1, 6.2, 6.3, 6.4, 6.13 and 6.14
4. No. 11 of 2006	Comments on Accounts	Para 1.2.12
5. No. 9 of 2006	Performance Audit of Human Resource Mgt. in BSNL	Paras 2.10, 2.10.6, 2.13, 2.13.1 (except 2.13.1.3), 2.15.4, 2.16.2 and 2.18.3
6. No. 13 of 2006	Chapter -II Chapter -IV Chapter -V Chapter -VI Chapter -VIII Chapter -XI-	Paras 2.6, 2.10 and 2.11 Paras 4.8, 4.9, 4.13, 4.16 and 4.19 Para 5.5 Paras 6.2 and 6.3 Para 8.4 Para 11.5
7. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.4, 2.4.4.6, 2.5, 2.6.1.1, 2.6.1.2, 2.6.1.3, 2.6.1.4, 2.6.1.5, 2.6.1.6 and 2.6.1.7
8. No. 10 of 2007	Information Technology Applications in PSU -Material Management and Inventory Accounting in ITI Limited	Paras 2.1, 2.7, 2.7.1, 2.7.1.1 (i), (ii), (iii), (iv), 2.7.1.2, 2.7.1.3, 2.7.2, (i), (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix), (x), (xi), 2.8, 2.9, 2.10, 2.11 and 2.12
9. No. 10 of 2007	Cellular Mobile Telephone Services in BSNL	Paras 1.9.2, 1.10, 1.10.1, 1.10.2, 1.10.3, 1.10.4, 1.11, 1.11.2, 1.11.3, 1.11.4, 1.11.5, 1.11.6, 1.11.7, 1.12, 1.12.4, 1.12.4.1, 1.12.4.2, 1.12.4.3, 1.12.5, 1.12.6, 1.12.7, 1.12.8, 1.13, 1.13.1, 1.13.3, 1.13.4 and 1.14

No. and Year of Report	Name of the Report	Para No., if any
	Billing and Customer care in MTNL	Paras 3.1 to 3.7, 3.8, 3.9, 3.10, 3.11, 3.11.1, 3.11.2, 3.12, 3.12.1, 3.12.2, 3.12.3, 3.13, 3.13.1, 3.13.2, 3.13.3, 3.14, 3.14.1, 3.14.2, 3.15, 3.15.1, 3.15.2, 3.15.3 and 3.16
10. No. 12 of 2007	Telecommunications Sector Transaction Audit Observations	Paras 2.4, 2.6, 2.9, 2.13, 2.14, 2.16, 2.21, 3.1, 3.3, 3.6, 3.8, 3.10, 3.11 3.12, 3.13, 4.1, 4.7 and 4.9
Ministry of Consumer Affairs, Food and Public Distribution		
1. No. 3 of 2003	Transaction Audit Observations	Para 7.1.3
2. No. 4 of 2003	Fraud Control in FCI	Para 2.1
3. No. 3 of 2004	Transaction Audit Observations	Para 5.2.2
4. No. 3 of 2005	Transaction Audit Observations	Paras 6.1.2, 6.1.7 and 6.1.12
5. No. 11 of 2006	Comments on Accounts	Para 1.5.9
6. No. 12 of 2006	Transaction Audit Observations	Paras 7.1.1, 7.1.2, 7.1.3 and 7.2.3
7. No. 9 of 2007	Financial Reporting by PSUs	Para 2.4.4.8
8. No. 11 of 2007	Transaction Audit Observations	Paras 7.1.1, 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7
Department of Defence Production and Supplies		
1. No. 2 of 2003	Comments on Accounts	Para 1.4.9
2. No. 2 of 2005	Comments on Accounts	Para 1.4.12
3. No. 3 of 2005	Transaction Audit Observations	Paras 7.4.1, 7.4.2, 7.4.3 and 7.4.4
4. No. 4 of 2005	Reviews on Bharat Electronics Limited (Chapter – VI) Garden Reach Shipbuilders and Engineers Limited (Chapter – VIII)	Paras 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7 and 6.8 Paras 8.1, 8.2 and 8.3
5. No. 9 of 2007 (Regularity Audit)	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.6 and 2.5

No. and Year of Report	Name of the Report	Para No., if any
6. No.9 of 2007 (Performance Audit)	Review on Outsourcing Activities in Hindustan Aeronautics Limited	Paras 4.1 to 4.6, 4.7.1, 4.7.1.1, 4.7.1.2, 4.7.2 (i), (ii), (iii), (iv), 4.7.3, 4.7.4, 4.7.4.1, 4.7.4.2, 4.7.5, 4.7.6.1 (i), (ii) and 4.7.6.2, (i), (ii), (iii), (iv), 4.7.6.3, (i), (ii), (iii), (iv), (v), 4.7.6.4, (i), (ii), (iii), (iv), (v), (vi), 4.7.6.5 and 4.7.7
6. No. 11 of 2007	Transaction Audit Observations	Para 8.2.1
Department of Fertilizers		
1. No. 3 of 2003	Transaction Audit Observations	Para 10.2.1
2. No. 2 of 2005	Comments on Accounts	Paras 1.4.3, 2.4.3, 2.5.1, 2.6.2 and 2.7.1
3. No. 3 of 2005	Transaction Audit observations	Paras 8.1.1, 8.1.2 and 8.1.3
4. No. 11 of 2006	Comments on Accounts	Paras 1.2.3, 1.4.2, 1.5.2, 1.5.3, 2.2.1 and 2.6.1
5. No. 12 of 2006	Transaction Audit Observations	Paras 10.2.1, 10.2.2, 10.2.3 and 10.2.4
6. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.4, 2.6.1.1 and 2.6.1.8
7. No. 11 of 2007	Transaction Audit Observations	Paras 9.1.1 and 9.1.2
Ministry of Finance (Banking Division)		
1.No. 2 of 2002	Comments on Accounts	Paras 1.2.24, 1.2.25, 1.2.26, 1.2.27, 2.1.14, 2.2.15, 2.2.16, 2.2.17, 2.2.18, 2.2.20, 2.6.23, 2.6.24, 2.6.25 and 2.6.27
2. No. 3 of 2002	Transaction Audit Observations	Paras 11.1.1, 11.2.1, 11.3.1 and 11.4.1
3. No. 2 of 2003	Comments of Accounts	Paras 1.2.16, 1.2.17, 1.2.18, 1.4.12, 1.4.13, 2.1.22, 2.1.23, 2.1.24,2.3.5, 2.3.6, 2.6.21, 2.6.22, 2.6.23, 2.6.24, 2.6.25, 2.6.26, 2.6.27, 2.6.28, 2.8.10, 2.8.11, 2.8.12 and 2.8.13
4. No. 2 of 2004	Comments on Accounts	Paras 1.2.13, 2.1.14, 2.1.15, 2.2.11, 2.2.12, 2.2.13, 2.3.5,

No. and Year of Report	Name of the Report	Para No., if any
		2.4.11, 2.6.12, 2.6.13, 2.6.14, 2.6.15 and 2.6.16
5. No. 3 of 2004	Transaction Audit Observations	Paras 9.1.1, 9.2.1, 9.2.2 and 9.3.1
6. No. 2 of 2005	Comments on Accounts	Paras 1.2.11, 1.4.13, 1.4.14, 1.4.15, 1.4.16, 1.4.17, 2.1.24, 2.1.25, 2.2.12 and 2.2.13
7. No. 3 of 2005	Transaction Audit Observations	Paras 1.1.1, 1.2.1 and 1.2.2
8. No. 11 of 2006	Comments on Accounts	Paras 1.2.15, 1.2.16, 1.3.1, 1.3.2 and 1.4.10
9. No. 12 of 2006	Transaction Audit Observations	Para 2.1.1
10. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.6, 2.5, 2.6.1.2, 2.6.1.5, 2.6.1.3, 2.6.1.7 and 2.6.1.8
11. No. 11 of 2007	Transaction Audit Observations	Para 2.1.1
Ministry of Finance (Insurance Division)		
1. No. 2 of 2003	Comments on Accounts	Paras 2.1.26, 2.2.16, 2.6.30, 2.8.14 and 2.8.15
2. No. 2 of 2004	Comments on Accounts	Paras 1.2.14, 1.3.12, 2.1.16, 2.2.14 and 2.6.17
3. No. 3 of 2004	Transaction Audit Observations	Paras 8.2.1, 8.2.2, 8.2.3, 8.2.4, 8.2.5, 8.2.6, 8.2.7, 8.3.2, 8.4.1, 8.5.1, 8.5.2, 8.5.3 and 8.5.4
4. No. 2 of 2005	Comments on Accounts	Paras 1.3.6, 1.3.7, 1.4.19, 2.1.26, 2.1.27, 2.1.28, 2.2.14 and 2.2.15
5. No. 3 of 2005	Transaction Audit Observations	Paras 9.2.1, 9.2.2, 9.2.3, 9.2.4, 9.4.1, 9.4.2, 9.4.3, 9.4.4, 9.4.5 and 9.6.1
6. No. 11 of 2006	Comments on Accounts	Paras 1.2.17, 1.3.3, 1.4.11, 2.2.8 and 2.6.6
7. No. 12 of 2006	Transaction Audit Observations IT Audit- Chapter-XXV	Paras 11.2.1, 11.2.3, 11.3.1, 11.4.1, 11.4.2, 11.4.3, 11.4.4, 11.4.5, 11.5.1, 11.6.1, 11.6.2, 11.6.3, 11.6.4, 11.7.1, 11.7.2, 11.7.3, 11.7.4 and 11.7.5 25.1

No. and Year of Report	Name of the Report	Para No., if any
8. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4, 2.5 and 2.6.1.3
9. No. 10 of 2007	Information Techology Applications in PSU	Paras 3.1, 3.1.1, 3.1.2, 3.5.1, 3.5.1.1, 3.5.1.2, 3.5.1.3, 3.5.2, 3.5.2.1, 3.5.2.2, 3.5.2.3, 3.5.3, 3.5.3.1, 3.5.3.2, 3.5.3.3, 3.5.4, 3.5.4.1, 3.5.4.2, 3.5.4.3, (i), (ii), (iii), 3.5.4.4, (i), (ii), (iii), (iv), (v), 3.6 and 3.7
10. No. 11 of 2007	Transaction Audit Observations	Paras 10.1.1, 10.1.2, 10.2.1, 10.2.2, 10.3.1, 10.3.2, 10.3.3, 10.3.4, 10.4.1, 10.4.2, 10.4.3, 10.4.4 and 10.5.1
Ministry of Health and Family Welfare		
1. No. 2 of 2002	Comments on Accounts	Paras 2.1.15, 2.2.27 and 2.4.20
2. No. 3 of 2002	Transaction Audit Observations	Para 12.1.1
3. No. 2 of 2003	Comments of Accounts	Para 2.6.32
4. No. 3 of 2003	Transaction Audit Observations	Para 12.1.1
5. No. 2 of 2004	Comments on Accounts	Para 2.6.18
6. No. 3 of 2004	Transaction Audit Observations	Para 10.1.1
7. No. 2 of 2005	Comments on Accounts	Paras 2.2.16, 2.4.13 and 2.6.19
8. No. 9 of 2007	Financial Reporting by PSUs	Para 2.5
Ministry of Home Affairs		
1. No. 2 of 2004	Comments on Accounts	Para 1.2.20
2. No. 2 of 2005	Comments on Accounts	Para 2.2 25
Ministry of Human Resource Development		
1. No. 2 of 2002	Comments on Accounts	Paras 2.1.21 and 2.6.42
2. No.3 of 2004	Transaction Audit Observations	Para 12.1.1
3. No. 2 of 2005	Comments on Accounts	Paras 1.4.[illegible]4, 2.1.37, 2.2.26 and 2.6.22
Ministry of Heavy Industry and Public Enterprises		
1. No. 3 of 2003	Transaction Audit Observations	Paras 13.1.1 and 13.1.2
2. No. 2 of 2004	Comments on Accounts	Para 2.3.14

No. and Year of Report	Name of the Report	Para No., if any
3. No. 2 of 2005	Comments on Accounts	Paras 1.2.13, 1.3.11, 1.4.23, 1.4.24, 1.4.32, 2.1.36, 2.2.24, 2.4.16 and 2.7.17
4. No. 11 of 2006	Comments on Accounts	Paras 1.2.19, 1.2.42, 1.2.43 and 1.5.19
5. No. 12 of 2006	Transaction Audit Observations	Paras 12.4.1 and 16.2.1
6. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.4, 2.4.4.6, 2.5, 2.6.1.1 and 2.6.1.3
7. No. 10 of 2007	Information Technology Applications in PSU	Para 4.1 (i), (ii), (iii), (iv)
8. No. 11 of 2007	Transaction Audit Observations	Paras 11.1.1 and 11.1.2
Ministry of Information and Broadcasting		
1. No. 2 of 2002	Comments on Accounts	Paras 1.3.33 and 2.5.16
2. No. 2 of 2004	Comments on Accounts	Paras 2.3.15, 2.6.27 and 2.7.6
3. No. 2 of 2005	Comments on Accounts	Para 2.7.21
4. No. 11 of 2006	Comments on Accounts	Paras 1.4.18 and 1.5.22
Department of Information Technology		
1. No. 11 of 2006	Comments on Accounts	Paras 2.4.5, 2.6.10 and 2.7.1
Ministry of Mines		
1. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4 and 2.5
2. No. 9 of 2007 (Performance Audit)	Acquisition and Operation of Rolled Product Units - NALCO	Paras 5.1.1 to 5.1.5, 5.2, 5.2.1, 5.2.2, 5.2.3, 5.2.4, 5.3, 5.3.1, 5.3.2, 5.3.3, 5.4, 5.5, 5.5.1, 5.5.2, 5.5.3, 5.5.4 and 5.6
3. No. 11 of 2007	Transaction Audit Observations	Para 12.1.1
Ministry of New and Renewable Energy		
1. No. 3 of 2003	Transaction Audit Observations	Para 16.1.1
2. No. 3 of 2005	Transaction Audit Observations	Chapter 15- Para 15.1.1
3. No. 12 of 2006	Transaction Audit Observations	Para 13.1.1

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Petroleum and Natural Gas		
1. No. 2 of 2002	Comments on Accounts	Paras 1.2.37, 1.2.40 and 2.3.16
2. No. 3 of 2002	Transaction Audit Observations	Paras 16.1.2, 16.5.1, 16.6.3, 16.6.4, 16.6.6 and 16.7.4
3. No. 2 of 2003	Comments on Accounts	Paras 1.2.27, 1.2.32, 2.5.20, 2.5.21 and 2.6.48
4. No. 3 of 2003	Transaction Audit Observations	Paras 17.6.1, 17.6.2, 17.6.6 and 17.7.4
5. No. 2 of 2004	Comments on Accounts	Paras 2.1.23, 2.6.32 and 2.7.7
6. No. 3 of 2004	Transaction Audit Observations	Paras 14.4.3, 14.5.6, 14.6.6, 14.6.8 and 14.7.2
7. No.4 of 2004	Review on GAIL	Chapter-VIII- Paras 8.1 and 8.2
8. No.4 of 2004	Review on Oil India Limited	Chapter-IX-Paras 9.1, 9.2, 9.3, 9.4, 9.5, 9.6 and 9.7
9. No. 2 of 2005	Comments on Accounts	Paras 2.2.31, 2.4.24 and 2.4.26
10. No. 6 of 2005	Follow up action on reviews in the last five years Audit Reports	Paras 2.2, 2.3 and 2.5
	Review on Arbitration Cases – ONGC	Para 3.2
	Paragraphs on transaction audit observations	Paras 4.1, 4.2, 4.3, 4.3.1, 4.4, 4.5, 4.6, 4.6.5, 4.7 and 4.8
	IT review - Payroll application in Mumbai region - ONGC	Para 5.2
11. No.11 of 2006	Comments of Accounts	Para 2.7.2
12. No.12 of 2006	Transaction Audit Observations	Paras 14.7.6, 14.7.8 and 14.8.1
13. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.5 and 2.6.1.6
14. 10 of 2007	Information Technology Applications in PSU –	
	Inventory Management system in ERP environment - HPCL	Paras 5.1 (i), (ii), (iii), (iv), (v),(vi), 5.2, 5.7.1, 5.7.2, 5.7.2.1- (i), (ii), 5.7.2.2, 5.7.3, 5.7.4, 5.7.4.1, 5.7.4.2, 5.7.5, 5.7.5.1, 5.7.5.2, 5.7.6, 5.7.6.1,

No. and Year of Report	Name of the Report	Para No., if any
		5.7.6.2, 5.8 and 5.9
15. No. 11 of 2007	Transaction Audit Observations	Paras 13.1.1, 13.3.1, 13.4.1, 13.5.9 and 13.6.1
Ministry of Power		
1. No. 2 of 2002	Comments on Accounts	Paras 1.2.44, 1.3.43, 2.6.56 and 2.8.19
2. No. 4 of 2002	Review on implementation of Rehabilitation Plan by THDC	Chapter 5
3. No. 2 of 2003	Comments on Accounts	Paras 2.1.44, 2.2.34, 2.6.57, 2.8.25, and 2.8.28
4. No. 2 of 2004	Comments on Accounts	Para 1.2.32
5. No. 2 of 2005	Comments on Accounts	Paras 1.2.20, 1.2.23, 1.4.40, 2.6.30 and 2.7.24
6. No. 3 of 2005	Transaction Audit Observations	Paras 16.1.1 and 16.2.1
7. No. 11 of 2006	Comments on Accounts	Paras 1.2.28, 1.5.25, 2.4.9 and 2.4.10
8. No. 12 of 2006	Transaction Audit Observations	Paras 15.1.1 and 15.2.1
9. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4, 2.5 and 2.6.1.3
10. No. 11 of 2007	Transaction Audit Observation	Paras 14.1.1, 14.2.1, 14.2.2, 14.3.1 and 14.3.2
Ministry of Railways		
1. No. 11 of 2006	Comments on Accounts	Para 1.36
2. No. 11 of 2007	Transaction Audit Observation	Para 16.1.1
Department of Road Transport and Highways		
1. No. 11 of 2006	Comments on Accounts	Paras 1.2.32 (5) and 1.2.33
2. No. 9 of 2007	Financial Reporting by PSUs	Para 2.6.2
Ministry of Science and Technology		
1. No. 2 of 2003	Comments on Accounts	Para 2.2.26
2. No.11 of 2006	Comments on Accounts	Para 1.2.33
3. No.12 of 2006	Transaction Audit Observations	Para 19.1.1

Department of Welfare		
1. No.2 of 2002	Comments on Accounts	Paras 2.1.34, 2.2.43 and 2.6.63
2. No.3 of 2002	Transaction Audit Observations	Para 20.1.1
3. No. 2 of 2003	Comments of Accounts	Paras 2.1.52, 2.1.53, 2.2.41, 2.2.42, 2.3.15, 2.4.38, 2.4.39, 2.5.22, 2.6.63, 2.8.30, 2.8.31 and 2.8.32
4. No. 2 of 2004	Comments on Accounts	Paras 1.2.40, 2.1.32 and 2.7.10
5. No. 2 of 2005	Comments on Accounts	Paras 1.4.45, 2.1.49, 2.1.50, 2.1.51, 2.2.36, 2.2.37, 2.2.38, 2.6.38, 2.6.39, 2.7.28 and 2.7.29
6. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4, 2.5 and 2.4.4.6
Department of Space		
1. No. 2 of 2003	Comments on Accounts	Para 2.5.19
2. No. 2 of 2004	Comments on Accounts	Paras 2.2.21 (i), 2.4.18 and 2.5.13
3. No. 2 of 2005	Comments on Accounts	Para 1.4.36
Ministry of Steel		
1. No. 2 of 2002	Comments on Accounts	Paras 1.2.54 and 2.6.12
2. No. 3 of 2002	Transaction Audit Observations	Para 21.7.1
3. No. 4 of 2002	Review on Township Management in SAIL	Chapter 6.2
4. No. 2 of 2003	Comments of Accounts	Paras 2.4.40 and 2.6.67
5. No. 2 of 2004	Comments on Accounts	Paras 1.2.45, 1.3.29, 1.4.30, 2.2.34, 2.2.37, 2.5.17, 2.5.18, 2.6.44 and 2.7.12
6. No. 6 of 2004	Steel Sector- Steel Authority of India Limited	Chapter 2
	HSCL Limited	Paras 6.1 and 6.2
	Rashtriya Ispat Nigam limited	Paras 8.1 and 8.2
7. No. 8 of 2006	Review on the working of Bharat Refractories Limited.	Paras 10.2, 10.4.1, 10.4.6, 10.5.1, 10.6.1, 10.6.3, 10.9.1, 10.9.2 and 10.11
8. No. 12 of 2006	Transaction Audit Observation	Paras 22.3.1, 22.3.2 and 22.3.3

9. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.4.4.4, 2.5, 2.6.1.1 and 2.6.1.8
10. No. 9 of 2007	Coal dust injection system in the blast furnaces	Paras 9.1 to 9.5, 9.6, 9.7.1, 9.7.2, 9.8.1, 9.8.2, 9.8.2.1, 9.8.2.2, 9.8.2.3, 9.8.3, 9.8.3.1, 9.8.3.2, 9.8.3.3, 9.8.3.4, 9.8.4, 9.8.4.1, 9.8.5, 9.9.1, 9.9.2, 9.9.3, 9.9.4, 9.10.1, 9.10.2 and 9.11
11. No. 11 of 2007	Transaction Audit Observations	Paras 18.1.1, 18.2.1, 18.3.1, 18.4.3 and 18.4.4
Department of Shipping		
1. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4 and 2.5
2. No. 9 of 2007	System of collection and accounting of freight and other charges from agents - SCI	Paras 8.1 to 8.4, 8.5, 8.5.1, 8.5.2, 8.5.3, 8.5.4, 8.5.4.1, 8.5.4.2, 8.5.4.3, 8.5.4.4, 8.5.4.5, 8.5.5, 8.5.6, 8.5.6.1, 8.5.6.2, 8.5.7, 8.5.8, 8.5.9 and 8.6
Ministry of Surface Transport		
1. No. 4 of 2003	Working of River Service Division of Central Inland Water Transport Corporation Limited	Para 4.1
Ministry of Textiles		
1. No. 3 of 2005	Transaction Audit Observations	Chapter 21- Paras 21.1.1 and 21.1.2
2. No. 11 of 2006	Comments on Accounts	Para 2.6.16
3. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.4, 2.6.1.3 and 2.6.1.8
4. No. 11 of 2007	Transaction Audit Observations	Para 19.1.1
Ministry of Tourism		
1. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.1, 2.5, 2.6.1.1, 2.6.1.4, 2.6.1.5 and 2.6.1.6

Ministry of Urban Development and Poverty Alleviation		
1. No. 3 of 2004	Transaction Audit Observations	Paras 20.1.1
2. No. 2 of 2005	Comments on Accounts	Paras 1.2.31
3. No. 11 of 2006	Comments on Accounts	Para 1.2.39
4. No. 9 of 2007	Financial Reporting by PSUs	Paras 2.4.4.6 and 2.5
Ministry of Water Resources		
1. No. 11 of 2006	Comments on Accounts	Para 1.5.36

GLOSSARY

AAM	M/s. Asian Associates, Mumbai
ADB	Asian Development Bank
AHQ	Air headquarters
AHTS	Anchor Handling and Towing System
AICCA	All India Cabin Crew Association
AIL	Air India Limited
ASML	M/s. Arunachalam Sugar Mills Limited
ATNs	Action Taken Notes
BG	Bank Guarantee
BP	Bottling Plant
BSL	Bokaro Steel Plant
BSW	Basic Sediments and Water
CCA	City Compensatory Allowance
CCL	Central Cables Limited
CEMILAC	Centre for Military Airworthiness
CIL	Coal India Limited
CLTD	Corporate Liquid Term Deposit
CMD	Contracted Maximum Demand
COPU	Committee on Public Undertakings
CPCL	Chennai Petroleum Corporation Limited
CPI	CPI Engineering Services Inc
DFS	Duty Free Shops
DI	Defect Investigation
DO	Divisional Office
DOT	Department of Telecommunications
DPE	Department of Public Enterprises
EFA	Electro Ferro Alloys
FAA	Federal Aviation Authority
FCI	Food Corporation of India
FIL	Flemingo International Limited, Dubai, UAE
FOC	Free of cost
FPQ	Fixed Price Quotation
GNPI	Gross Net Premium Income
GOI	Government of India
H2S	Hydrogen Sulphide
HET	Hotel Evaluation Team
HLC	High Level Committee
HRA	House Rent Allowance

HSD	High Speed Diesel
IAE	International Aero Engines
ICR	Incurred Claim Ratio
IOCL	Indian Oil Corporation Limited
KAC	Komatsu America Corporation, USA
KMS	Kharif Marketing Season
kms	Kilometers
KSCL	Kothari Sugars and Chemicals Limited
LD	Liquidated Damages
LIGD	lakh Imperial Gallons per day
LPG	Liquefied Petroleum Gas
M/s. MMT	M/s. Metro Machinery Traders
MCG	Maintenance Cost Guarantee
MCL	Mahanadi Coalfields Limited
MGR	Meghadri Gedda Reservoir
MHRD	Ministry of Human Resources Development
MLG	Main landing gear
MMT	Million Metric Tonne
MOD	Ministry of Defence
MOU	Memorandum of Understanding
MRLF	Minimum Reserve Licence Fee
MT	Metric Tonne
MTBE	Methyl Tertiary Butyl Ether
NBE	Nav Bharat Enterprises
NIA	New India Assurance Company Limited
NIC	National Insurance Company Limited
NIT	Notice Inviting Tenders
NLG	Nose landing gear
NMDC	National Mineral Development Corporation
NVM	Non-volatile Matter
OEM	Original Equipment Manufacturer
OMCs	Oil Marketing Companies
ONGC	Oil and Natural Gas Corporation Limited
OPI	Overall Performance Index
ORIX	ORIX Aviation Systems Limited
OSVs	Offshore Supply Vessels
PI	Productive Incentive
PICUP	Pradeshiya Industrial and Investment Corporation of UP Limited
PLI	Performance Linked Incentive
PRI	Performance Related Incentive
PSC	Project Supervision Consultants
PSUs	Public Sector Undertakings

32

PTDS	Portable Top Drive system
PV	Price variation
RATC	Remote Air Traffic Control
ROE	Residue on Evaporation
RSP	Rourkela Steel Plant
SAIL	Steel Authority of India Limited
SBH	State Bank of Hyderabad
SBI	State Bank of India
SRM	Senior Regional Manager FCI
SRU	Sulphur Recovery Unit
STG	Steam Turbo Generator
SVEC	SVEC Construction Limited, Hyderabad
TPDS-APL	Above Poverty Line scheme in Targeted Public Distribution System
VAT	Value Added Tax
VMC	Visakhapatnam Municipal Corporation
WCL	Western Coalfields Limited
WMT	Wet Metric Tonne