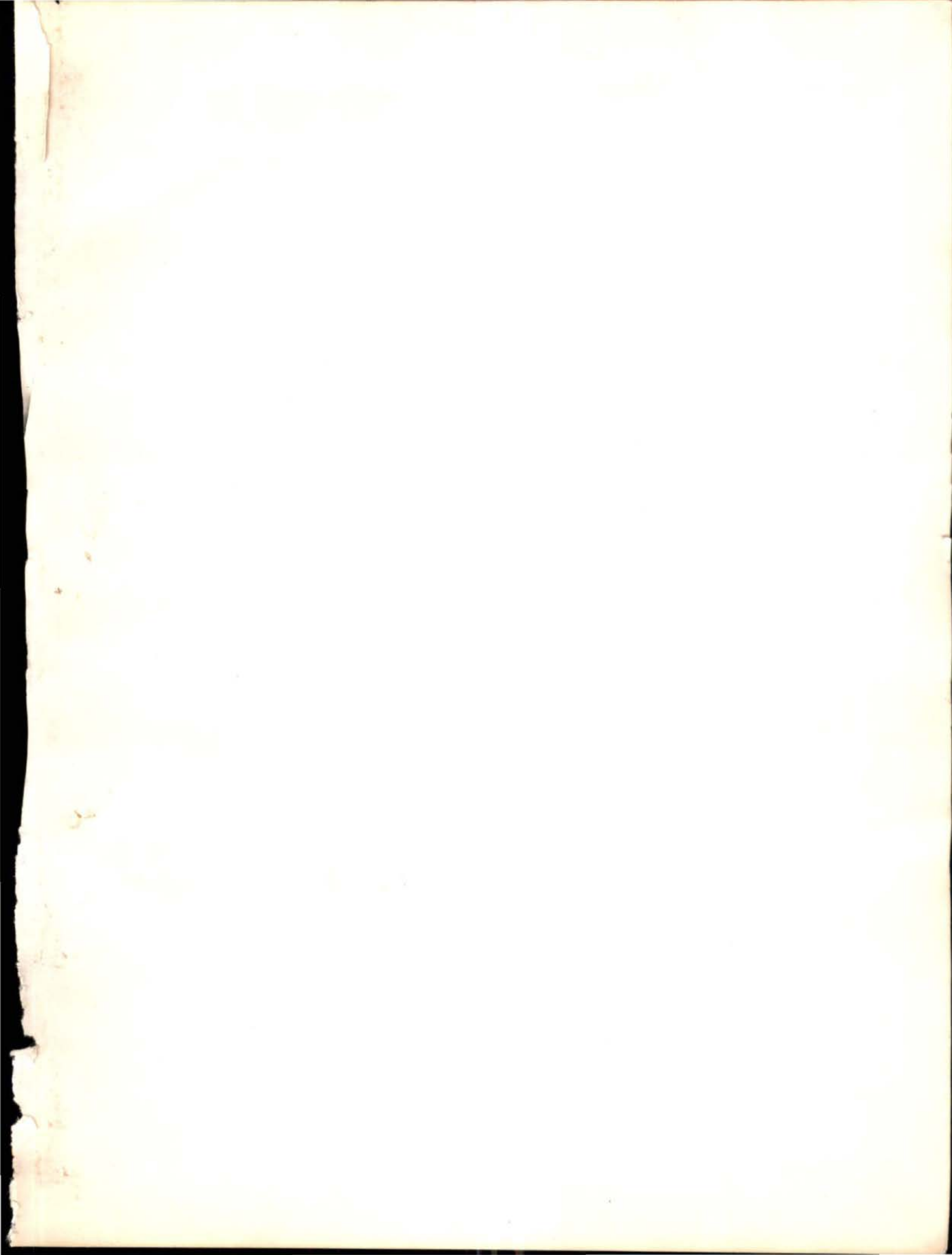

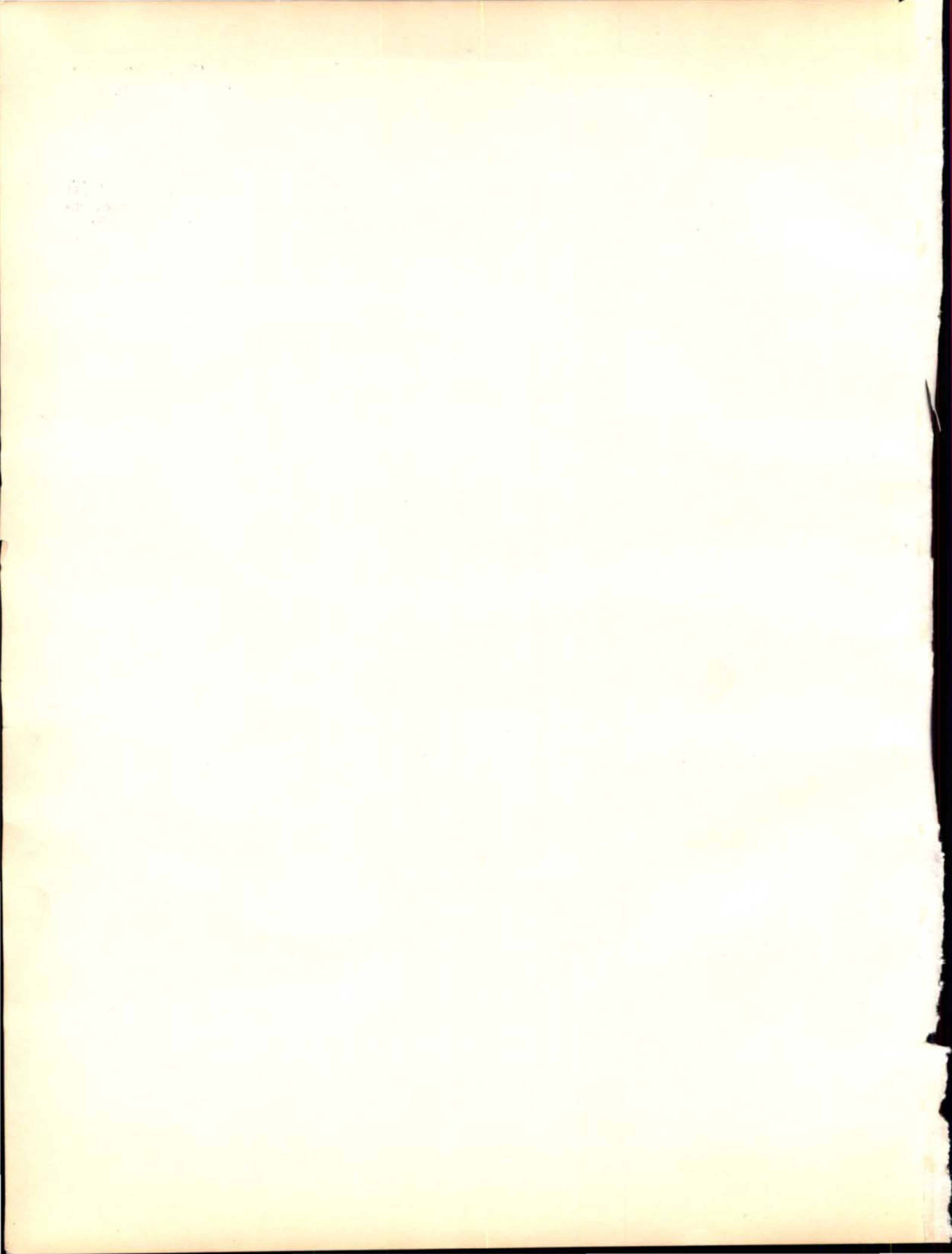

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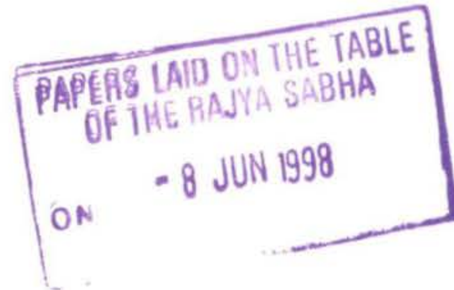
Ministry of State in the
Ministry of Industry

Report of the Comptroller and Auditor General of India

for the year ended March 1997



Union Government (Commercial)
Transaction Audit Observations
No.3 of 1998

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CONTENTS

CHAPTER/ PARAGRAPH	SUBJECT	PSU	PAGE
	PREFACE		vii-viii
	OVERVIEW		ix-xv
Chapter 1	**DEPARTMENT OF ATOMIC ENERGY**		
1.1	Loss of revenue due to delay in execution of an order	ECIL	1
1.2	Loss in Supply of Auto Track Antennae System	ECIL	2
Chapter 2	**DEPARTMENT OF BIO-TECHNOLOGY**		
2.1	Extra expenditure due to unrealistic assessment of power requirement	Bharat Immunologicals and Biologicals Corpn.	3
Chapter 3	**MINISTRY OF CHEMICALS & FERTILIZERS DEPARTMENT OF FERTILIZERS**		
3.1	Loss due to irregular sale of fertilizers mixture at subsidised rate	FACT Ltd.	4
3.2	Infructuous Investment on Renovation of Ammonium Sulphate Plant	Fertilizer Corpn.	5
3.3.1	Non-recovery of Insurance Claim due to violation of provisions of Insurance Policy	Hindustan Fertilizers	5
3.3.2	Procurement of Material without proper assessment of requirement	Hindustan Fertilizers	6
3.3.3	Unproductive Investment on Captive Power Plant	Hindustan Fertilizers	7
3.4.1	Loss in import of urea in excess of the authorisation	National Fertilizers	8
3.4.2	Avoidable payment of interest	National Fertilizers	9
3.5	Non-maintenance of power factor	RCF Ltd.	9

Chapter 4	**MINISTRY OF CIVIL AVIATION & TOURISM DEPARTMENT OF CIVIL AVIATION**		
4.1.1	Delay in deciding to shift layover crew to a hotel offering rooms at lower tariff	Air India	11
4.1.2	Loss due to payment of immigration fines	Air India	12
4.1.3	Excess payment of layover allowance	Air India	13
4.2	Irregularities in the Award of Job Contract	Airports Authority	14
Chapter 5	**MINISTRY OF COAL**		
5.1	Infructuous Expenditure on Modernisation of Patherdih washery	Coal India	17
Chapter 6	**MINISTRY OF COMMERCE**		
6.1.1	Non-exclusion of liability for interest in the claim/guarantee document	ECGC Ltd.	19
6.1.2	Wrong Settlement of claim under Whole Turnover Packing Credit Guarantee (WTPCG)	ECGC Ltd.	20
6.2	Avoidable expenditure on air-freight	ITPO	21
6.3	Trade in Gold	MMTC Ltd.	22
6.4	Loss in making provisional payment without adequate safeguards	MMTC Ltd.	43
6.5	Loss in the sale of imported low density polythene	STC Ltd.	44
Chapter 7	**MINISTRY OF COMMUNICATIONS DEPARTMENT OF TELE-COMMUNICATIONS**		
7.1.1	Injudicious purchase of products	ITI Ltd.	46
7.1.2	Infructuous expenditure on purchase of a Machine	ITI Ltd.	47
7.1.3	Loss in the Development of Parallel Computing Products	ITI Ltd.	48
7.1.4	Avoidable blockage of funds and loss of interest	ITI Ltd.	48
7.2.1	Unnecessary provision of telephone instruments to private STD operator	MTNL	49
7.2.2	Loss due to under-Insurance of Stores	MTNL	50

Chapter 8	**DEPARTMENT OF DEFENCE PRODUCTION & SUPPLIES**		
8.1	Non-utilisation of Railway Siding	HAL	51
Chapter 9	**DEPARTMENT OF ELECTRONICS**		
9.1	Loss due to failure to discontinue the production of defective item in time	Semi Conductor Complex	52
Chapter 10	**MINISTRY OF FINANCE DEPARTMENT OF ECONOMIC AFFAIRS**		
10.1	Non adoption of premium rate by Tariff Advisory Committee	National Insurance	54
10.2.1	Irregular settlement of claim	New India Assurance	54
10.2.2	Avoidable loss due to system failure	---do--	55
10.3	Undercharge of Insurance Premium	Oriental Insurance	56
Chapter 11	**MINISTRY OF FOOD & COSUMER AFFAIRS**		
11.1	Avoidable extra expenditure on appointment of adhoc transport contractor	FCI	57
Chapter 12	**MINISTRY OF INDUSTRY DEPARTMENT OF HEAVY INDUSTRY**		
12.1.1	Loss due to absence of effective cost control measures	BHEL	58
12.1.2	Injudicious Expenditure in Procurement of Turbine Nozzle and Bucket Castings	BHEL	59
12.1.3	Loss due to Advance Procurement of SKD Systems	BHEL	60
12.1.4	Wasteful expenditure	BHEL	62
12.1.5	Loss due to injudicious amendments to a purchase order	BHEL	63
12.2	Avoidable expenditure due to delay in placement of order	BHPV	64
12.3	Irregular engagement of a private consultant for procuring order	EPIL	65
12.4	Import of Induction Hardening machine on unrealistic projections	HEC	65
12.5	Excess Consumption of Power	Hindustan Paper Corp.	67

12.6	Avoidable expenditure due to delay in clearance of imported raw materials	HMT Ltd.	67
12.7	Blocking of funds due to placement of order on an agent	NEPA Ltd.	68
12.8	Irregular Reporting of Production and Payment of Excise Duty	Praga Tools	69
12.9	Defalcation of Cash	Lagan Jute	71
Chapter 13	**MINISTRY OF PETROLEUM AND NATURAL GAS**		
13.1	Extra Expenditure on Purchase and Storage of Steel and Rework	BPCL	73
13.2	Loss due to defective Estimates	Engineers India	74
13.3	Avoidable extra expenditure due to delay in award of contract	GAIL	74
13.4.1	Idle Expenditure on Sewage Water Reclamation Project	HPCL	75
13.4.2	Loss due to delay in Commissioning of Gas Turbine Generators	HPCL	76
13.5.1	Extra expenditure due to delay in taking decision	ONGC	76
13.5.2	Improper planning in procurement of casing pipes	ONGC	78
Chapter 14	**MINISTRY OF POWER**		
14.1	Indecision on Chamera Hydroelectric Project, Stage-II	NHPC	79
14.2.1	Avoidable extra liability due to incorrect pay fixation	NTPC	82
14.2.2	Avoidable Extra Expenditure	NTPC	83
14.2.3	Undue Payment of Post Maturity Interest	NTPC	84
Chapter 15	**MINISTRY OF RAILWAYS**		
15.1.1	Extra payment due to adoption of incorrect base period	Konkan Railway Corpn. Ltd.	86
15.1.2	Loss due to refund of royalty charges	Konkan Railway Corpn. Ltd.	87
15.1.3	Over payment due to incorrect interpretation of contract conditions	Konkan Railway Corpn. Ltd.	89

Chapter 16	MINISTRY OF STEEL		
16.1	Avoidable payment of excise duty	Hindustan Steelworks	92
16.2.1	Avoidable payment of surcharge on Railway freight	IISCO Ltd.	93
16.2.2	Unproductive capital investment on introduction of balancing facilities	IISCO Ltd.	93
16.3	Loss due to procurement of Distributed Control System	KIOCL	95
16.4	Avoidable claim in the sale of manganese ore	Manganese Ore(I) Ltd.	96
16.5	Loss on Adhoc Purchases	Rashtriya Ispat Nigam	97
16.6.1	Infructuous expenditure on installation of Acid Regeneration Unit	SAIL	98
16.6.2	Avoidable Payment of Road Tax	SAIL	99
16.6.3	Extra expenditure due to adoption of higher interest on Provident Fund Account	SAIL	99
16.6.4	Loss due to non-charging of extras on sale of pig iron	SAIL	100
16.6.5	Loss due to non-charging of extra prices	SAIL	101
16.6.6	Infructuous expenditure due to failure of spiral type coolers	SAIL	102
16.6.7	Infructuous expenditure on installation of Movable Throat Armour	SAIL	103
16.6.8	Infructuous expenditure on purchase of defective instruments	SAIL	103
16.6.9	Loss due to Quality Control	SAIL	104
Chapter 17	**MINISTRY OF SURFACE TRANSPORT**		
17.1.1	Loss in execution of a Reclamation Project	Dredging Corpn.	106
17.1.2	Avoidable Payment of Custom Duty	Dredging Corpn.	107
17.2	Avoidable Loss in the disposal of Vessel	Shipping Corpn.	108
Chapter 18	**MINISTRY OF TEXTILES**		
18.1	Excess Payment of Bonus	National Jute Manufact.	109

Chapter 19	**MINISTRY OF URBAN DEVELOPMENT & EMPLOYMENT**		
19.1	Avoidable Extra Liability	HUDCO	110
Chapter 20	Follow up on Audit Reports (Commercial)		111
	APPENDIX I		112
	APPENDIX II		115

PREFACE

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

2. The statutes governing some corporations and authorities require their accounts to be audited by CAG and reports given by him. In respect of Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India and Damodar Valley Corporation, CAG is the sole auditor under the relevant statutes. In respect of Central Warehousing Corporation and Food Corporation of India, CAG has the right to conduct audit independently of the audit conducted by the Chartered Accountants appointed under the statues governing the two Corporations.

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

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

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

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

`Report No.3 (Commercial)- Transactions Audit Observations' contains the observations on individual topics of interest noticed in the course of audit of the Companies and Corporations and short reviews on aspects of their working.

5. Audit Boards are set up under the supervision and control of CAG to undertake comprehensive appraisals of the performance of the Companies and Corporations subject to audit by CAG. Each Audit Board consists of the Chairman (Deputy Comptroller and Auditor General), two or three whole-time members of the rank of Principal Directors of Audit under CAG and two technical or other experts in the area of performance of the Company or Corporation who are part-time members. The part-time members are appointed by the Government of India (in the respective Ministry or Department controlling the Company or Corporation) with the concurrence of CAG. The reports of CAG based on such performance

appraisals by the Audit Board and other reviews are issued to the Government as separate reports in addition to the annual reports.

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 1995-96 and 1996-97 as well as those which came to notice in earlier years but could not be covered in previous years.

OVERVIEW

Failure of Bharat Immunologicals and Biologicals Corporation Limited to assess the load requirements of electricity realistically resulted in incurring of avoidable extra expenditure of Rs.4.34 crore towards unconsumed electricity charges during August 1992 to May 1997.

(Para 2.1)

Fertilisers and Chemicals Travancore Limited failed to appropriately revise the sale prices of fertilizer mixture after the price decontrol in August 1992. FICC also failed to disallow the subsidy claims immediately after the price decontrol. This resulted in irrecoverable loss of Rs. 8.30 crore to the Company.

(Para 3.1)

Failure of Hindustan Fertilizers Corporation Limited in arranging timely overhaul of the Gas Turbine Set as per the provisions of the Insurance Policy resulted in loss of Rs.2.41 crore besides payment of insurance premium of Rs.3.36 lakh to the Insurance company.

(Para 3.3.1)

Investment of Rs.18.47 crore by Hindustan Fertilizers Corporation Limited on the construction of Captive Power Plant in November 1986 remained almost unremunerative for 11 years. Further, investment of Rs.1.79 crore made on modification of the plant in 1996 proved infructuous as the Durgapur Plant was under shutdown condition.

(Para 3.3.3)

National Fertilizers Limited suffered an avoidable loss of Rs.2.11 crore on irregular export of urea in excess of the prescribed authorisation.

(Para 3.4.1)

Due to the delay in taking immediate action to improve the power factor, the Rashtriya Chemicals and Fertilizers Limited had to pay an avoidable penalty of Rs.4.24 crore in the form of surcharge.

(Para 3.5)

Laxity on the part of the London branch of Air India in checking the travel documents of the passengers at different stations to ensure their validity resulted in payment of immigration fines amounting to Rs.3.52 crore during 1993-94 to 1995-96.

(Para 4.1.2)

Due to poor planning and monitoring, the expenditure of Rs.8.89 crore incurred on import of equipment and technology from erstwhile Russia for the modernisation of Patherdih Washery of Bharat Coking Coal Limited proved infructuous, as Washery is now being proposed to be modernised indigenously.

(Para 5.1)

ECGC Ltd. suffered an avoidable loss of Rs.1.37 crore due to non-exclusion of the liability of interest in the guarantee document issued to the Bank on behalf of an Exporter.

Further, the Company settled a claim for Rs.67.88 lakh of a Bank which was not admissible in terms of the policy.

(Paras 6.1.1 and 6.1.2)

India Trade Promotion Organisation incurred an avoidable expenditure of Rs.1.48 crore on air-freight of cargo due to delay in finalisation of proper arrangement for shipment of cargo by sea.

(Para 6.2)

MMTC has been trading in gold since 1986 and exporting gold jewellery through its associates. The Exim Policy 1992-97 assigned the Company, along with some other PSUs, an important role in boosting export of gold jewellery under various export promotion schemes which permitted Export Oriented Units as well as units operating both from Domestic Tariff Areas and Export Processing Zones to obtain gold from MMTC for the purpose of exporting value added jewellery. The Company had imported 86096 kgs of gold for this purpose between 1988-89 and 1996-97. Of this a quantity of 85325 kgs was issued during the same period to various units under different schemes.

(Paras 6.3.1, 6.3.5 and 6.3.7.1)

The Company had devised no mechanism to monitor its gold trading operations. This deficiency was compounded by non–maintenance of proper records because of which accounting of gold issued to exporting units and jewellery exported there against remained at best sketchy. Similarly, overall picture as to the magnitude of default in exports, recoveries from defaulting units and actual inflow of foreign remittances was hazy. The Company had not called for such details from the units in the normal course. Despite facilities being available for assaying and hall marking the Company had made no effort to ensure that purity and weight of jewellery being exported on its behalf conformed to shipping documents. These deficiencies and various other procedural and managerial lapses in implementing the 'Gold Trade Scheme' manifested in the form of (i) delay ranging upto 483 days in exporting 1920.83 kgs in 518 cases (ii) defaults in exporting 348.5 kgs of gold by units from DTA and EOU/EPZ areas (iii) unrealized foreign remittances amounting to Rs. 17.67 crore and customs duty of Rs 17.21 crore and loss of Rs1.06 crore as a consequence of under weight and immitation jewellery being exported by certain units on behalf of the Company and (iv) Rs 16.76 crore remaining unrecovered from different units to which packing credit had been given in violation of RBI advice. Default in exports also included 184 kgs of gold found to be missing from the vaults of 13 units operating from two Export Processing Zones. The impact of these losses, liabilities and unrecovered debts as well as various overheads had not been carefully analysed and factored into profitability of gold trading activities as depicted in the accounts.

(Paras 6.3.5, 6.3.7.5, 6.3.8.2, 6.3.9.1, 6.3.9.2, 6.3.10.2, 6.3.10.3 and 6.3.11)

The agreement with the Union Bank of Switzerland (UBS) for procurement of gold was characterized by lack of transparency in as much as no evidence of offers of other banks which also had offered to supply gold to the Company having been analysed could be adduced from record shown to audit. An earlier offer of Bank of Nova -Scotia for the same purpose had remained unactioned in the Ministry of Commerce. UBS was preferred even though the rate of interest stipulated by it was higher by 0.75 percent per annum over 1.75 percent per annum

offered by Bank of Nova Scotia. Besides an unusual condition prohibiting MMTC from procuring gold from any other source without prior consent of UBS had been accepted.

(Para 6.3.6.1)

Procedures for issue of gold distinguished between 'associate' and 'non-associate' units giving former freedom to obtain gold without submitting bank guarantees. No specific criteria were prescribed for categorizing a unit as an 'associate'. This was a misconceived move as incidence of defaults experienced in the case of 'associates' was substantial. On the other hand export performance of 'non-associate' units which were more numerous and had received a larger part of total gold issued by the Company was not susceptible to verification in regard to actual foreign exchange remittance received in the country.

(Paras 6.3.7.4(c), 6.3.7.4(e) and 6.3.7.4(k))

The scheme for export of jewellery against advance supply of gold by the foreign buyer was not publicised to elicit good response. Only one unit was covered under this scheme. But gold was received by the unit from MMTC which stepped into the role of foreign buyer through its New York Branch office.

(Para 6.3.7.3)

Payment of Rs.1.35 crore made by MMTC Limited to a foreign supplier (who subsequently went into liquidation) would have been avoided had the Company verified the antecedents and latest financial standing of the party before entering into a contract.

(Para 6.4)

ITI Limited procured Wave Lan Boards valunig Rs.4.14 crore for selling without assessing the marketing potentiality of the product, resulting in non-disposal of inventory of Rs.3.95 crore against which provision of Rs.3.79 crore was made in the accounts for 1996-97.

(Para 7.1.1)

Due to delay in commissioning and non-availability of technical expertise, the Laser Photo Plotter machine imported in 1986 at a cost of Rs.1.01 crore by ITI Limited could not be put to use and had been written off in the accounts.

(Para 7.1.2)

ITI Limited suffered a loss of Rs.1.21 crore on the development of a product without any exclusive marketing rights for the same as per transfer of Technology agreement with the Centre for Development of Advanced Computing, Pune.

(Para 7.1.3)

Failure of the Semiconductor Complex Limited to discontinue the production of their defective pulse Dialler in time, resulted in an avoidable loss of Rs.1.77 crore.

(Para 9.1)

Incorrect application of tariff provisions, non-receipt/undercharge of premium, etc. resulted in loss of Rs.2.38 crore to three Insurance Companies.

(Paras 10.1, 10.2.1, 10.2.2 and 10.3)

BHEL incurred an avoidable loss of Rs.1.89 crore on the supply of 10 MW Rice Straw Fired Power Generation set due to its failure to prove the performance guarantee parameters and to adopt cost control measures.

(Para 12.1.1)

BHEL also incurred injudicious expenditure of Rs.9.00 crore on the procurement of Turbine Nozzle and Bucket Castings as these could not be utilised without further machining operations for which no facilities existed in-house, nor any party identified.

(Para 12.1.2)

Procurement of 2000 SKD System instead of CKD system at higher prices without any specific reasons resulted in BHEL incurring avoidable extra expenditure of Rs.2.72 crore.

(Para 12.1.3)

Setting up of design and back-end processing facilities for Application Specific Integrated Circuits with second hand refurbished machines by BHEL without obtaining performance guarantee and without ensuring confirmed availability of raw material resulted in wasteful expenditure of Rs.6.92 crore.

(Para 12.1.4)

Engineering Projects (India) Ltd. incurred an irregular expenditure of Rs.2.20 crore on engagement of a private consultant for procuring an order.

(Para 12.3)

Installation of Induction Hardening machine at a cost of Rs.2.47 crore by Heavy Engineering Corporation Ltd. without any realistic assessment of the marketability its products resulted in non-utilisation of the same.

(Para 12.4)

Delayed action on the part of Hindustan Paper corporation Ltd. for conversion of Graphite Anodes to Mettallic Anodes for reducing the power consumption resulted in a loss of Rs.2.69 crore on account of excess power consumption during the period from 1987-88 to 1994-95.

(Para 12.5)

Delay ranging from 4 to 656 days in clearance of imported consignments valuing Rs.6.41 crore by HMT Ltd. during the period from 1991-92 to 1993-94 resulted in blocking of funds of the Company with consequential loss of interest of Rs.1.01 crore, avoidable payment of Rs.57.06 lakh as interest on custom duty and demurrage charges of Rs.68.06 lakh.

(Para 12.6)

Praga Tools Ltd. manipulated the production figures resulting in avoidable payment of excise duty of Rs.79.48 lakh, besides incurring a loss of Rs.25.61 lakh.

(Para 12.8)

Entering into a consultancy contract by Engineers India Ltd. without ascertaining the scope of work before hand resulted in a loss of Rs.1.05 crore to the Company on its execution.

(Para 13.2)

Due to delay in firming up the proposal for construction of a Pump House by Hindustan Petroleum Corporation Ltd. for pumping the raw sewage water from the Municipal underground sewer and seeking approval of the Mumbai Municipal Corporation for site acquisition resulted in idle investment of Rs.12.59 crore made.

(Para 13.4.1)

Due to delay in taking decision to place order for purchase of casing pipes on an indigenous firm, ONGC Ltd. had to incur extra expenditure of Rs.10.58 crore on its import.

(Para 13.5.1)

Due to lack of coordination between the user and the material departments, ONGC Ltd. incurred an avoidable expenditure of Rs.1.20 crore on the procurement of casing pipes which could not be used.

(Para 13.5.2)

Inordinate delay of more than 5 years in taking a decision for award of a contract for the construction of Chamera Hydroelectric Project (Stage II) of NHPC Ltd. following rejection of an indigenous offer resulted in increase in cost from Rs.1176.65 crore at April 1992 prices to Rs.2127 crore in December 1996. The decision to go ahead with the project has still not been taken.

(Para 14.1)

Due to incorrect estimation of quantities at tender preparation stage and not adhering to its internal instructions regarding tie-ups with outside agencies resulted in NTPC Ltd. incurring an avoidable expenditure of Rs.2.76 crore on the execution of a turnkey contract for construction of 132 KV Sub-stations in Dubai.

(Para 14.2.2)

NTPC Ltd. made payment of overdue interest of Rs.1.48 crore and carried an un-discharged liability of Rs.0.72 crore for which the Company was in no way liable to pay for delayed submission of bonds by the Bond holders on due dates.

(Para 14.2.3)

Due to lack of initiative by Indian Iron and Steel Company Ltd.(IISCO) to avail of exemption from the levy of surcharge for booking the goods with Railways under "Weight only" instead of "Freight to Pay" basis, the Company had to pay an avoidable surcharge of Rs.1.05 crore on freight to the Railways.

(Para 16.2.1)

The balancing facilities at Chasnalla Coal Washery of IISCO introduced at a cost of Rs.25.19 crores remained grossly under-utilised due to lack of proper planning and without taking into account the firm availability of raw material.

(Para 16.2.2)

Failure of Manganese Ore (India) Ltd. to supply the agreed quantity of higher grade ore resulted in loss of Rs.2.65 crore to the Company in the supply of ore.

(Para 16.4)

Rashtriya Ispat Nigam Ltd.'s failure to determine the annual requirements of the Ferro Silicon in advance and non-placement of the order within the validity period of the offer resulted in an avoidable expenditure of Rs.2.17 crore on its procurement.

(Para 16.5)

The Acid Regeneration Unit commissioned at Bhilai Steel Plant in August 1996 could not be put to use in the By-product Plant of Coke Oven rendering the total investment of Rs.1.88 crore infructuous.

(Para 16.2.1)

SAIL had to suffer a loss of Rs.1.16 crore on the supply of Hot Rolled Coils to a party in non-standard width due to non-charging of extra prices.

(Para 16.6.5)

The purpose for which the Movable Throat Armour installed in Blast Furnace No.4 of Rourkela Steel Plant at a cost of Rs.2.90 crore in 1989 could not be achieved as it broke down in June 1991 and was declared as obsolete in October 1994 rendering the entire expenditure infructuous.

(Para 16.6.7)

Commissioning of Instrumentation and Data Acquisition System at Bhilai Steel Plant at a cost of Rs.1.37 crore in November 1992 without analysing the operational requirements resulted in non-achievement of the desired objectives as the system had not been used in other areas after July 1994.

(Para 16.6.8)

SAIL suffered a loss of Rs.2.88 crore on the outright rejection of defective slabs sent abroad by Salem Steel Plant for conversion into making coin blanks for Government of India and also incurred infructuous expenditure of Rs.62.34 lakh on freight of other rejected slabs brought back to India.

(Para 16.6.9)

Failure of Dredging corporation of India Ltd. to assess properly the quantum and nature of work involved, while quoting for a job and also its lack of coordination to mobilise the dredgers in time for execution of work resulted in a loss of Rs.6.13 crore to the Company.

(Para 17.1.1)

Due to not filing of separate refund claim based on actual freight and insurance with the Custom authorities, Dredging corporation of India Ltd. had to pay excess custom duty of Rs.1.27 crore.

(Para 17.1.2)

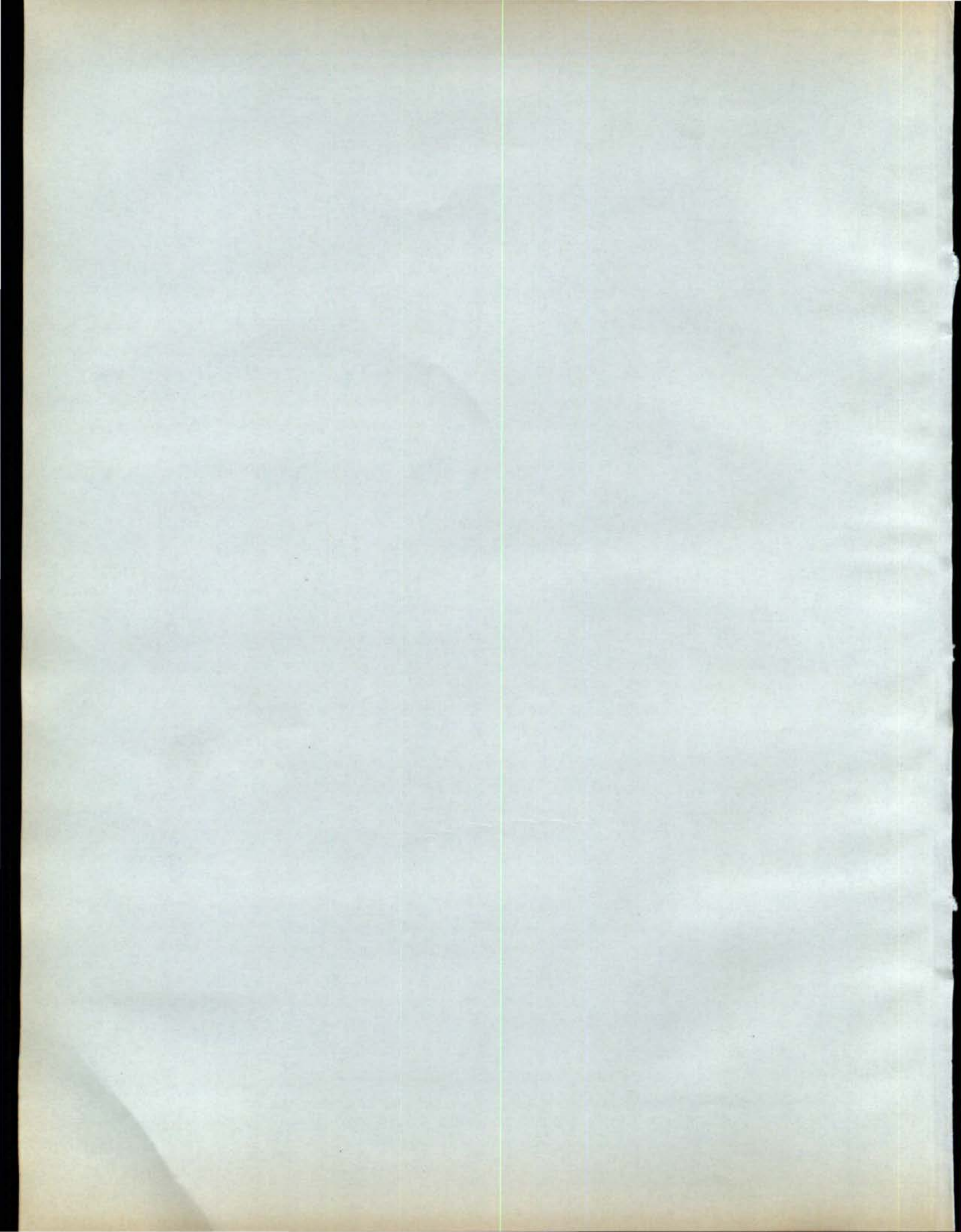
Besides, 21 PSUs had made purchases (including imports) of machines, equipment and material valuing Rs.8.81 Crore (13 cases) which were not required or became redundant due to delay in ordering or delay in their installation and commissioning or delay in utilisation. Some

of these PSUs made avoidable payment of freight, excise duty, electricity charges, interest, layover charges, hotel rent etc. amounting to Rs.5.90 crore (9 cases).

(Paras 3.2, 3.3.2, 3.4.2, 4.1.1, 4.1.3, 4.2, 7.2.1, 7.2.2, 8.1, 11.1,12.1.5, 12.2, 12.7, 13.1, 13.3, 13.4.2, 14.2.1, 15.1.1, 15.1.2, 15.1.3, 16.1, 16.3, 16.6.2, 16.6.3, 16.6.6 18.1 and 19.1)

Further, 7 PSUs suffered revenue losses amounting to Rs.3.54 crore on account of supply of excess material, non-shipment of material in time, failure to enforce contract clause etc.

(Paras 1.1, 1.2, 6.5, 7.1.4, 12.9, 16.6.4, and 17.2)



CHAPTER 1

DEPARTMENT OF ATOMIC ENERGY

Electronics Corporation Of India Limited

1.1 Loss of revenue due to delay in execution of an order

The Company received (October 1991) an order from Department of Telecommunications (DOT) for supply of 17 Nos of 7 M Dia Satellite Earth Station Antennae at an all inclusive price of Rs.40 lakh each. The Antennae were required to be supplied within 18 months from the date of drawal of 30 per cent advance.

The 30 per cent advance (Rs.204 lakh) was drawn in February 1992. The Systems were, however, delivered in March 1994 (10 Nos) and August 1994 (7 Nos) as against targeted delivery in August 1993. As a result, DOT as customer, recovered liquidated damages (Rs.34.00 lakh) and interest (Rs.51.75 lakh) on advance drawn as per the terms of the order. The Company had written off the amounts subsequently (June 1995).

The Ministry/ Management stated (May/ November 1997) that:

(i) There was delay in receipt of advance from the DOT.

(ii) The execution of the order involved procurement of capital Jigs and Fixtures for which Company took advance action and placed orders in February 1991 itself.

(iii) As the financing for the procurement of capital items was proposed from the Industrial Development Bank of India(IDBI), the Company initiated action for opening Letter of Credit (LC) in February 1992. Owing to procedural formalities, LC was initially opened in July 1992. On insistence of the supplier for confirmation of LC by the foreign Bank, the same in the form acceptable to the supplier was finally opened by IDBI in March 1993.

(iv) It saved interest of Rs.71 lakh on overdraft from the date of drawal of advance to the scheduled date (August 1993) by which it should have completed the supplies.

The reply of the Ministry/ Management is not tenable for the following reasons:

(a) The delivery targets were fixed with reference to the date of drawl of advance by the Company and hence delay in delivery can not be attributed to delay in receipt of advance.

(b) Though the Company placed purchase order for procurement of capital Jigs & Fixtures in February 1991, the Company initiated action for opening LC through IDBI only in February 1992. Thus there is a delay of one year from the placement of purchase order and initiating action for LC.

(c) The Company has also been well-versed with the banking formalities for obtaining loans from banks, terms of the importers and opening of LCs for imports. The Company should have taken prompt action while dealing with IDBI and the supplier in the instant case to avoid delays.

(d) The advance receivable from the customer and the element of financing charges for the balance amounts to be invested on the product were to be taken into consideration while fixing the price of the product. Hence the contention that there was a saving of interest on overdraft is

not valid. There was no justification for delaying the execution of contract resulting in payment of liquidated damages and interest on advances for the period of delay.

Thus, the delay in meeting the delivery targets of the customer resulted in loss of revenue of Rs.85.75 lakh to the Company.

1.2 Loss in Supply of Auto Track Antennae System

The Company received an order in February 1990 from All India Radio, New Delhi for supply, installation and commissioning of 17 sets of Auto Track Antennae System for a total value of Rs.709.44 lakh plus taxes. The system was to be supplied, installed and commissioned by the Company, within a period of 20 weeks from the date of the order (13th February 1990). However, there was delay in actual delivery of the system, ranging from 4 to 17 months. Consequently, All India Radio, as customer, recovered liquidated damages amounting to Rs.14.50 lakh from the Company in addition to levying interest on advance of Rs.3.00 lakh.

As against the estimated profit of Rs.46 lakh, the Company actually suffered a loss of Rs.77.23 lakh due to increase in the cost of material, increase in the labour & overheads, payment of liquidated damages and interest etc.

The Ministry in its reply (December 1996) stated that:

i) the original cost estimated was based on indigenous manufacture of reflector panels, which subsequently had to be imported on the insistence of the foreign supplier. This resulted in increase in the cost of material and reduction in the contribution earned by the Company.

ii) since the customer insisted on a tight delivery schedule of 20 weeks, certain material had to be obtained by air, but the delivery schedule could not be adhered to as some of the materials air-freighted were not received in time,

iii) although liquidated damages were paid, they were to the extent of 3 per cent as against the maximum of 5 per cent leviable and the delay in execution was due to certain unforeseen factors including damage of material in transit, non-availability of site clearance from the customer and non-provision of power supply at sites by the customer.

The Management's reply reveals inadequate planning, lack of coordination and commitment to unrealistic time schedule in procurement of essential material and delivery of Auto Track Antennae System to the customers. As regards Liquidated Damages, the Customer levied Rs.14.50 lakh only in those cases where the delays were solely attributable to the Company. No liquidated damages were levied in respect of those cases where the delays were on account of the Customer.

Hence the reply of the Ministry is not acceptable.

CHAPTER 2

DEPARTMENT OF BIO-TECHNOLOGY

Bharat Immunologicals and Biologicals Corporation Limited

2.1 Extra expenditure due to unrealistic assessment of power requirement

The connected load for the Oral Polio vaccine production facility to be set up by the Bharat Immunologicals and Biologicals Corporation Limited (Company) were indicated in the Detailed Feasibility Report and the Detailed Project Report (DPR) as 1900 KW (2235 KVA) and 2200 KW (2588 KVA) respectively. In January 1992, when the plant was nearing completion, the consultants, the Projects and Development India Limited (PDIL), were asked to furnish details of the appropriate connected load to enable the Company to enter into a formal agreement with UPSEB. The PDIL now assessed the requirement of the connected load as 2500 KW (2941 KVA). However, the Company decided (July 1992) to enter into an agreement with UPSEB for contract demand of 4000 KVA.

During August 1992 to October 1994, the utilisation of energy ranged between 48 KVA and 1200 KVA, which was significantly lower than 75 per cent of the contracted demand (3000 KVA), for which the minimum charges were payable to UPSEB.

In December 1994, the Company proposed a revised agreement, reducing the contract demand from 4000 KVA to 3000 KVA and revised agreement was signed with UPSEB in May 1995 effective for two years. The actual consumption still ranged between only 174 KVA and 1062 KVA. As a result, the Company again approached (September 1996) the UPSEB to reduce the contracted load to 1800 KVA, the latter declined in view of the two-year validity of the existing contract. The contracted demand was finally reduced to 1800 KVA from June 1997.

Thus, the failure of the Company to realistically assess its load requirements led to avoidable extra expenditure of Rs.433.60 lakh towards unconsumed electricity charges during August 1992 to May 1997. Computed with reference to the final contracted load of 1800 KVA, the avoidable extra expenditure on this account works out to Rs.211.48 lakh.

The Ministry attributed (December 1997) the reduced load requirement to non-utilisation of full capacity and lack of expansion/diversification proposals. The fact however, remains that the contracted load remained far higher than the actual requirement for as long as nearly five years.

CHAPTER 3

MINISTRY OF CHEMICALS & FERTILIZERS

DEPARTMENT OF FERTILIZERS

Fertilisers and Chemicals Travancore Limited

3.1 Loss due to irregular sale of fertilizers mixture at subsidised rate

For reasonable return on investment and to facilitate healthy development and growth of Fertilizer Industry, Retention Price cum Subsidy scheme (RPS) for indigenous fertiliser units was introduced (December 1977) by the Government of India, which is administered through the Fertilizer Industry Co-ordination Committee (FICC), under the Department of Fertilizers, Ministry of Agriculture . Under RPS, in addition to consumer prices , distribution margin and transport subsidy is fixed by the Ministry.

The Ministry of Chemicals and Fertilizers withdrew (August 1992) the price and movement control on all phosphatic and potassic fertilisers with effect from 25 August 1992. Consequently, only Ammonium Sulphate and Urea manufactured by the Company were eligible for the fertiliser subsidy from the Government, as the consumer prices and the net realisation prices as fixed by the Government continued to be applicable to these products. As the fertilizer decontrol orders of August 1992 did not include fertilizers mixture within the ambit of Administered Pricing Mechanism (APM) the subsidy was not admissible in respect of Urea and Ammonium Sulphate used as inputs for the fertilizers mixture However, the Company continued to prefer subsidy claims on the input quantity of Urea and Ammonium Sulphate diverted for making fertilizers mixture and the Fertiliser Industries Co-ordination Committee, in turn, also admitted such claims upto June 1994.

The total subsidy irregularly availed of during the period from August 1992 to June 1994 was Rs.594.18 lakh. It was only in December 1994 that FICC disallowed the subsidy and the inadmissible subsidy was recovered (March 1995) along with Rs. 236.28 lakh by way of penal interest .

The Ministry confirmed (April 1997) that subsidy was not payable on Urea and Ammonium Sulphate when supplied for manufacturing of fertiliser mixtures as such fertilizers mixture were not under APM control from August 1992. The Ministry also informed that the Company was aware of this position at the time of decontrol order.

Further, the Ministry contended that FICC was not aware of the fact that the Company was diverting Urea and Ammonium Sulphate for manufacturing fertilizers mixture However, it may be mentioned here that FICC had allowed the benefit in the past against specific claims of the Company who had also represented (August 1993) not to withdraw the subsidy for Urea and Ammonium Sulphate used for manufacture of fertilizers mixture in the post-decontrol period.

Failure of the Company to appropriately revise the sale prices of fertilizers mixture after the price decontrol in August 1992 and failure of FICC to disallow the subsidy claims in the beginning itself resulted in irrecoverable loss of Rs. 830.46 lakh to the Company.

Fertilizer Corporation of India Limited

3.2 Infructuous Investment on Renovation of Ammonium Sulphate Plant

With the closure of Sindri Rationalisation Scheme (viz.Phospheric Acid Plant and sulphuric Acid Plant) in 1984 and consequent non-availability of by-product gypsum from this source, phospho gypsum and natural gypsum had to be procured at high cost leading to higher cost of production of ammonium sulphate, which exceeded the earnings through retention price fixed by the Government of India. As a fall out, the capacity utilisation of Ammonium Sulphate Plant of the Sindri Unit had been quite low during 1985-86 to 1989-90 which ranged between 2646 Te (0.83 per cent) and 56,670 Te (17.70 per cent) against the rated capacity of 3,20,000 Te/year. The achievable annual production capacity was, therefore, assessed at 81,000 Te only.

Despite the constraint of non-availability of raw material at viable rate and also difficult financial condition of the Company, the renovation scheme of Ammonium Sulphate Plant at projected cost of Rs.402 lakh was approved by the Board of Directors in February 1990 in order to increase the achievable production level from 81,000 Te/year to 1,47,000 Te/year. The revamping work which was scheduled for completion by August 1990 could not, however, be continued due to resource crunch after incurring an expenditure of Rs.1.20 crore towards incomplete job, which included spares amounting to Rs. 58.09 lakh lying in stores. In July 1991, ammonium sulphate was dropped from the retention price scheme by the Government of India which caused adverse effect on the viability of the plant further. The entire plant remained idle since March 1992 and had been suffering from corrosion. Finally, the Ammonium Sulphate Plant was retired in the year 1994-95 for the obvious reason that the scheme was not economically viable because of non-availability of gypsum at economic rate, bad health of the plant due to ageing, lack of skilled manpower and high labour intensive process.

Ammonium Sulphate was an unviable product of the unit even before withdrawal of retention price by the Government of India due to various constraints and limiting factors in running the plant as mentioned above. Hence, investment of Rs.98.50 lakh (Rs.120 lakh - Rs.21.50 lakh since utilised) on revamping of the plant proved infructuous.

The Ministry in their reply stated (May 1997) that the Company "has got the unused material evaluated by PDIL and.............. it is proceeding to dispose of the retired Ammonium Sulphate Plant alongwith unutilised stores/spares and other items through the Metal Scrap Trading Corporation Ltd."

Hindustan Fertilizer Corporation Limited (HFCL)

3.3.1 Non-recovery of Insurance Claim due to violation of provisions of Insurance Policy

One 2.5 MW Gas Turbine set (GT Set) valuing Rs.5.89 crore was commissioned at Barauni Plant of the Company in July 1983. As per manufacturer's recommendation, the set

was to be overhauled after one year of its commissioning. An insurance policy for the GT Set against machinery breakdown risk was first taken in 1987 from the Oriental Insurance Company Ltd. covering the period from 13 January 1987 to 12 January 1988. As per provisions No. 3 and 5 of the Insurance Policy:

(i) Any GT Set upto 30 MW shall be inspected and overhauled thoroughly under the supervision of maker's representative in a completely opened up state at least every 2 years. In the event of failure to comply with this condition, the Insurance company shall be free from all liabilities for loss or damage caused by circumstances which would have been detected had such inspection and overhaul taken place.

(ii) The insured shall fully observe manufacturer's instructions for operating, inspection and overhauling.

On 22 April 1987, the GT Set tripped leading to damage of Compressor Rotor, Stator Blades, Gear box etc. After dismantling the set in May 1987, it was got repaired from the manufacturer in Japan at a cost of Rs.1.97 crore and put into operation in January 1992. In the meantime, the Company lodged a claim (April 1987/May 1989) with the Insurance company for an amount of Rs.2.41 crore for reimbursement of cost of repairs including air freight, custom duty etc. The Insurance company, however, disowned the claim (December 1989 and July 1990) on the plea that the above provisions No.3 and 5 of the Insurance Policy were not complied with by HFCL. The overhaul and inspection of the turbine was only done in May 1987 i.e. after operating for 26,736 hours in 4 years from July 1983 to May 1987. The Insurance company further informed that had the set been inspected within 2/3 years or before 20,000 hours of its operation the erosion taking place to the compressor rotor and stator blades would have been located and consequently damage to the turbine avoided.

The Ministry stated (February 1997) that the specific provisions of the insurance policy regarding overhauling of GT Set came to the notice of the Company only when the policy was received in April 1988 and timely overhauling of the set was not undertaken due to non-availability of spares and extremely satisfactory performance of the GT Set since its commissioning in 1983.

The contention of the Ministry is not acceptable as it was for the `Insured' to ascertain the conditions of the Machine Breakdown Policy vis-à-vis tariff applicable for the same before taking the policy. Satisfactory performance of the set at the initial stages may not be a justifiable reason for non-adherence of the manufacturer's specific recommendations for proper maintenance of the GT Set.

Thus, failure of the HFCL in arranging timely overhaul of the GT Set resulted in loss of Rs.2.41 crore besides payment of insurance premium of Rs.3.36 lakh to the insurance company.

3.3.2 Procurement of Material without proper assessment of requirement

Namrup Unit of the Company procured 89.02 MT of LT co-conversion catalyst in November 1988 at a cost of Rs.139.32 lakh from Project and Development India Limited (a PSU) for utilisation in Ammonia II Plant (Namrup I & II). But this catalyst was not fully utilised. Only a small quantity of 26.87 MT of the catalyst was issued in March 1996 for use

in Ammonia-I plant. The balance quantity of 62.15 MT of the catalyst valuing Rs.97 lakh was still lying unutilized in stores (April 1997). As per guarantee clause, the performance of the catalyst was guaranteed for a period of one year from the date it first come into contact with the process gas or 36 months from the date of despatch whichever was earlier.

The Management stated (June 1996) that operation of Namrup-II plant for which catalyst was procured in 1988 was still uncertain due to non-availability of gas and deterioration of the plant.

Thus, the expenditure of Rs.97 lakh incurred on purchase of catalyst in 1988 without assessing the actual requirement became infructuous as there was practically no scope of its utilisation since the Board of Director of the Company had already decided in May 1995 to scrap the Ammonium Sulphate Plant for which the material was procured.

The Ministry stated (December 1997) that there was little justification for ordering new catalyst for Namrup Unit since the stock of LT catalyst was available with the company. Further, the company was being asked to enquire into the matter and fix responsibility for the lapse. Further developments are awaited (February 1998).

3.3.3 Unproductive Investment on Captive Power Plant

A Captive Power Plant(CPP) with a capacity of 15 MW was commissioned at Durgapur Unit of the Company in November 1986 at a total cost of Rs.18.47 crore. Since inception, the performance of the CPP was unsatisfactory mainly because of defects in the design in the coal feeder of the boilers and in coal handling plant. There had also been frequent chocking in ash handling plant and fluctuation of steam pressure. During the period of operation of first 41 months of the plant (November 1986 to March 1990) the power generation was 67486 MWH representing only 15 per cent of its capacity. The plant was shut down throughout the year 1990-91 and in May 1991. The Management decided to modify coal feeder system and to provide 50 per cent oil support in the CPP boilers. Accordingly, work order was issued (August 1991) to a firm M/s ACC Babcok Ltd. (ABL), Durgapur for design, engineering, manufacture and supply of modified coal feeders alongwith oil support (50 per cent) system at a price of Rs.170.94 lakh (Rs.203.83 lakh including sales tax and Excise duty). The work was scheduled to be completed by October 1992.

After completing the job of modification at a cost of Rs.1.79 crore, the CPP's boilers with oil support were put on line (December 1996), but its performance could not be assessed as the Durgapur plant itself was under shutdown condition due to fire.

Thus, the investment of Rs.18.47 crore for the CPP remained unremunerative for a period of 11years (November 1986 to August 1997) leading to loss of interest to the tune of Rs.33.52 crore and additional expenditure of Rs.1.79 crore for modification of the plant with 50 per cent oil support.

Both the Management and Ministry in their replies have admitted (January/March 1997) the unsatisfactory performance of the CPP due to inadequacy of coal handling plant, inherent design defects of coal feeders of the Boilers, frequent chocking of Ash handling plant ,etc because of non-availability of the specified quality of coal.

National Fertilizers Limited

3.4.1 Loss in import of urea in excess of the authorisation

The Company issued a letter of intent (LOI) to M/s Ferico Limited of Ireland on the 18 December 1995 for the supply of 50,000 metric tonnes (MT) of urea even though adequate import authorisation from the Government of India, Department of Fertilizer (DOF) was not available.

According to the LOI, M/s Ferico Limited of Ireland were to furnish a performance guarantee bond (PGB) equivalent to 2 per cent of the value of the contract by the 30 December 1995 and the delivery was to be effected in December 1995 itself. On the 20 December 1995, M/s Ferico Limited communicated, through their Indian agent, the details of the carriers and asked the Company to establish a LOC in their favour. On this, the Company reportedly asked (21 December 1995) the agent to defer the shipment to February 1996. The agent, however, expressed their inability to do so stating that the loading had already been taken place according to the agreed schedule. On its part, the Company informed M/s Ferico Limited through the Indian agent on the 1st January 1996, that since the PGB was not received by it the stipulated date, the LOI stood cancelled. M/s Ferico Limited responded with a legal notice on the 5 January 1996 alleging that the Company had refused to accept the PGB on the 29 December 1995 as well as on the 30 December 1995. This was followed by M/s Ferico Limited initiating legal proceedings. Finally, the Division Bench of the Delhi High Court directed (February 1996) the Company to pay for the value of cargo along with interest from 14 February 1996 till the date of payment (at the rate of 7.75 per cent per annum) plus legal expenses, port charges etc.

While communicating the decision of the Court, the Company requested (February 1996) the DOF to provide authorisation to it to import the cargo in question before the 14 February, 1996, so that interest payment could be avoided. The DOF, however, declined (9 February 1996) to oblige since the cargo was over and above authorisation already given to the Company and no budgetary resources were available during the year 1995-96 to bear the cost of the cargo. The DOF also intimated that they were in no way responsible for any interest and any other direct/indirect charges relating to the cargo. Meanwhile the DOF authorised the NFL to adjust the cargo of 47,566.47 MT actually received against the authorisation of 12000 MT for 1995-96 for which shipping arrangement were yet to be finalised and the balance against the authorisation for 1996-97, including the one for 25,000 MT already received. The DOF while accepting the Company's request stated (15 February 1996) that all extra expenses not covered by the usual contract terms incurred for clearance of cargo as also the liability towards interest shall have to be borne by the Company.

The total cost incurred by the Company in the import amounted to Rs. 4246.84 lakh comprising cost of cargo (Rs.4018.20 lakh (47566.47 MT), legal fee (Rs.42.45 lakh), interest (Rs.38.48 lakh), bank charges (Rs.10.31 lakh), dwell time charges (port charges) (Rs.97.54 lakh), extra cost for transportation (Rs.38 lakh), and inspection charges (Rs.1.86 lakh). The reimbursement from the DOF, however, amounted to only Rs.4036.11 lakh (Rs.4018.12 lakh for 47565.48 MT + Bank charges allowed Rs.10.05 + Departmental charges Rs.7.94 lakh) with the Company having to bear the balance expenditure of Rs.210.73 lakh from out of its own resources, as these were extra.

Thus, the Company suffered an avoidable loss of Rs. 210.73 lakh on irregular import of urea in excess of the prescribed authorisation.

3.4.2 Avoidable payment of interest

In March 1996, the National Fertilizers Limited (Company) executed a loan agreement with the Industrial Development Bank of India (IDBI) to avail of a term loan facility of Rs.130 crore for financing an expansion scheme at its Vijaipur plant.

The loan agreement required that the loan would inter-alia be secured by a mortgage on all immovable properties belonging to the Vijaipur plant, also providing that the disbursement made, pending creation of the mortgage, shall carry a further interest liability of 1.05 per cent per annum.

The required documentation for the mortgage was intimated by the IDBI earlier, in January 1996, after agreeing in principle to grant the term loan facility to the Company. The documents were forwarded to the IDBI only in July/August 1996 i.e. 6 months after the intimation of such requirements by the IDBI, and the security deed was finally executed on 22 August 1996.

As the Company drew an amount of Rs.80 crore on 13 April 1996 and created security deed on 22 August 1996 it paid to the IDBI additional interest of Rs. 31.01 lakh for the period from 13 April 1996 to 21 August 1996, which was avoidable. Thus, failure on its part to take timely action to comply with the requirements of the loan agreement, the Company had to make an avoidable payment of additional interest of Rs.31.01 lakh.

Rashtriya Chemicals and Fertilizers Limited

3.5 Non-maintenance of power factor

Electricity to the Trombay unit of the Company has been supplied by the Tata Electric Company Limited (TEC) at rates determined by TEC from time to time. As per the revision in tariff with effect from 1 August 1990, the Company was required to maintain an average and peak period power factor of not less than 92 per cent during the billing month and if the power factor fell below 92 per cent, a surcharge was payable at the rate of 12.5 per cent of the maximum demand charges for each percentage of fall in power factor below 92 per cent.

A review of the electricity charges for the period from April 1991 to August 1996 revealed that the Company was not able to maintain the power factor at the required minimum level of 92 per cent during many months in 1991-92 and 1992-93 and in any of the months after April 1993 till August 1996. As a result, the Company had paid surcharge on power factor amounting to Rs.424.47 lakh during the period from April 1991 to August 1996.

The Ministry stated (July 1996) that the Company had come to know of the increase in rate of surcharge of September 1990 when TEC levied the surcharge and that the matter was taken up by the Company with TEC who informed that the surcharge was levied as per the recommendation of the High Power Committee constituted by the Government of

Maharashtra and hence the Company had no alternative but to pay the same.TEC suggested certain short-term measures to overcome the lower power factor problem which were tried by the Company but found to be not feasible. The Company constituted a committee of Electrical Engineers to study the system and suggest remedial measures and accordingly Tata Consulting Engineers were appointed as consultants for a detailed study. Based on their report (April 1994), supply order for H.P.capacitors was placed in August 1995. The Ministry also stated that the Company had been very much concerned to overcome the power factor problem from the very beginning but due to complexity and size of power system the erection and commissioning of equipments had taken time. The Management stated (October 1996) that HP Capacitor bank had been taken on line with effect from 8th August 1996 and there had been no surcharge during September 1996.

Having come to know as early as 1990 that there was urgent need to improve the power factor, the time taken to remedy the situation was too long. Due to the delay, the Company had to pay penalty in the form of surcharge to the tune of Rs.424.47 lakh which could have been avoided had the Company taken timely action.

CHAPTER 4

MINISTRY OF CIVIL AVIATION & TOURISM

DEPARTMENT OF CIVIL AVIATION

Air India Limited

4.1.1 Delay in deciding to shift layover crew to a hotel offering rooms at lower tariff

For accommodating cockpit and cabin crews during their layover at Paris, Air India entered into an agreement with hotel `A' in Paris in July 1992 for hiring 19 to 21 hotel rooms each day on single occupancy basis at FF 720 per room with additional payment of FF 85 and FF 90 for each crew member for food and beverage respectively during the first year and second year of agreement. The agreement was effective from 01 April 1992 to 31 March 1994.

In anticipation of enhancement in tariff at least by 10 percent by hotel `A' with effect from 1 April 1994, Air India, Paris proposed on 22 November 1993 selection of hotel `B' at Paris which offered (15 November 1993) rooms at the rate of FF 630 per day and breakfast at the rate of FF 50 per head. On a directive received (December 1993) from their Head office at Bombay Air India, Paris obtained quotations from six other hotels in Paris and forwarded these rates to their Head office on 13 January 1994. In March 1994 Hotel Accommodation Committee of Air India visited Paris and negotiated the tariff with hotel `B' at FF 670 per single occupancy comprising a room rent of FF 570 and meal coupon of FF 100 per day .

No decision on the selection of hotel was, however, taken by Air India till 13 April 1995 when Air India, Paris was directed to shift the layover crew from the first available flight to hotel `B' who in the meantime had further reduced (February 1995) its tariff to FF 620 for single occupancy comprising a room rent of FF 540 and meal coupon of FF 80. The crew was accommodated in hotel `B' with effect from 16 April 1995. An agreement effective from 16 April 1995 was entered into with hotel `B' on 18 July 1995. In the meantime, the crew continued to occupy the rooms at hotel `A' without any agreement from 1 April 1994 to 15 April 1995 at the total expenditure of FF 61,59,220 as against FF 55,73,060 which could have been paid to hotel `B' during the period had the crew been shifted to hotel `B' from 1 April 1994.

Thus, due to delay of over a year in taking a decision in shifting the crew to hotel `B', Air India, Paris incurred an extra expenditure of FF 5,86,160 (equivalent to Rs.39.87 lakh at the current official rate of exchange of 1 FF =Rs.6.8027).

The Air India, while accepting the facts, stated (May 1997) that the Hotel Accommodation Committee had recommended awarding of contract to Hotel `B' but the IPG and AICCA representatives continued to stay in Hotel `A' and declined to shift to hotel `B'. In view of the rigid stand taken by the Unions and keeping in mind the welfare of the crew, the Committee subsequently submitted a revised recommendation to accommodate the crew at hotel `A' which was approved by the competent authority. The Ministry stated (November 1997) that the delay in shifting to hotel 'B' was due to the rigid stand taken by the representatives of IPG and AICCA not to shift to the hotel.

The contention of the Management/Ministry is not tenable as Air India Headquarters had conveyed its decision to shift the crew to hotel `B' only on 13 April 1995 although the Hotel Accommodation Committee recommendations were made in March 1994. As representatives of IPG and AICCA had also accompanied the team, their agreement was implicit in the absence of any report from them pointing out unsuitability of hotel `B'. Had the orders been issued quickly the subsequent loss of time due to the IPG and AICCA apparently changing their stand could have been avoided particularly when the change of hotel was ultimately accepted by them. Air India have also not clarified the role of these bodies in an administrative decision.

4.1.2 Loss due to payment of immigration fines

4.1.2.1 The Immigration (Carriers' liability) Act 1987 provide for a penalty of Pound sterling 2000 to be levied on the owners or agents of a ship or aircraft where a person (other than a British citizen or national of the European Economic Area) arrives in the UK and fails to produce (i) either a valid passport with photograph or some other document satisfactorily establishing his identity and nationality or citizenship and (ii) either a visa for entry into the UK or a visa for passing through the UK.

Audit scrutiny revealed that Air India, London (AIL) had paid immigration fines aggregating Pound sterling 5.34 lakh (equivalent to Rs.315.11 lakh at the current official rate of exchange of 1 pound =Rs.59.01) during the years 1993-94 to 1995-96 to the Government of UK for carriage of persons in violation of the Immigration (Carriers' liability)Act 1987.

In addition, AIL had incurred liability amounting to Pound sterling 0.62 lakh (equivalent to Rs. 36.59 lakh at current official rate of exchange of 1=Rs. 59.01) on account of debit notes issued by Air India, Bombay for airfare and other services provided to the deportees during the same period.

Thus, laxity in checking at different stations of Air India of the travel documents of the passengers to ensure that they had valid documents resulted in Air India, London having to pay Rs.351.70 lakh during 1993-94 to 1995-96 on account of immigration fines and related costs.

4.1.2.2 According to the provisions of the enactment No. 45.2658 relating to conditions of entry and stay of foreigners in France, 1945 any airline, irrespective of the Point of origin, transporting a passenger who is improperly documented such as lack of passport, expired passport, false or tampered passport and lack of or expired French visa, is subject to a fine of FF 10,000. In addition, the carrier is liable to bear the detention and other costs in respect of such passengers who are denied entry on landing.

Audit scrutiny revealed that Air India, Paris (AIP) had paid immigration fines amounting to FF 20,000 equivalent to Rs.1.36 lakh during the years 1995-96 and 1996-97 (upto August 1996) on carriage of persons without valid travel documents. In addition, AIP paid FF 41,923 equivalent to Rs.2.85 lakh (at the current official rate of exchange of 1 FF= Rs.6.8027) towards detention and deportation charges of passengers denied entry into France for want of valid travel documents during 1994-95 and 1995-96.

Thus, due to carriage of passengers without having valid travel documents, Air India, Paris had to pay Rs.4.21 lakh during 1994-95 to 1996-97 (upto August 1996) on account of immigration fines, detention and transportation costs.

The Air India admitted (July 1997) that since 1988-89 there has been a phenomenal increase in the amounts paid out towards fines on account of carriage of inadmissible persons on their services. They added that while their check-in staff verified the travel documents of all the passengers travelling to London, New York and Frankfurt they lacked the expertise to detect forgeries of passports/visas and substitution of photographs in the passports. The Ministry stated in July 1997 that despite every possible effort to avoid carriage of inadmissible passengers, lapses occurred mostly due to increasingly sophisticated means adopted by the travelers to tamper with the documents. They also stated that Air India takes appropriate disciplinary action against its personnel when carriage of inadmissible passengers is caused by negligence on the part of staff members. However, no details were furnished by the Ministry regarding the number of cases in which disciplinary action had been taken and types of punishment awarded.

4.1.3 Excess payment of layover allowance

As per Air India's circular dated 8 January 1993 read with paragraph 8.5 of the Company's Expenditure Manual layover allowance is given to the aircraft crew members to cover the meals and incidental expenses but only if layover at a station is more than four hours. The allowance is payable at varying rates depending on the period of layover.

Audit scrutiny of records of Air India, Paris for the period November 1994 to September 1996 revealed that layover allowance had been paid to crew members in excess to the extent of FF 5,12,892 equivalent to Rs.34.89 lakh (at the current official rate of exchange of 1 FF=Rs.6.8027) by allowing claims in respect of fractional periods of stay of less than 4 hours for which no allowance is admissible. Non-adherence to the provisions of Air India Expenditure Manual and the relevant circular had led to the excess payment which could have been avoided. The inadmissible payments are recoverable from the recipients.

Air India stated (April 1997) that layover allowance is computed on a 24 hour basis from the scheduled time of arrival to the scheduled time of departure. Whenever the layover period exceeds 24 hours, be it even by 5 minutes, but less than 8 hours, the crew is eligible to an additional 60 per cent of daily layover allowance. They added that the clause referred to above applies only in cases where the period between the arrival and departure of the flight is less than 4 hours. The Ministry endorsed (April 1997) the reply of Air India without offering any comment.

The above contention is not tenable as paragraph 8.5.1 of the Air India Expenditure Manual clearly indicates that no layover allowance is admissible if the scheduled layover is less than 4 hours. Accordingly, the rate of 160 per cent prescribed for a period above 24 hours but below 32 hours should be applicable only if the actual period of layover exceeds 28 hours. Similarly, for a period over 48 hours but below 52 hours layover allowance would be payable for only two days i.e. at 200 per cent of the prescribed daily rate.

Airports Authority Of India

4.2 Irregularities in the Award of Job Contract

The International Airports Authority of India (now International Airports Division of Airports Authority of India) issued a Notice Inviting Tenders (NIT) in March 1992 for awarding the job contract of loading, unloading and allied services for export and import cargo at the cargo terminal of Indira Gandhi International Airport (IGIA), New Delhi. Three parties, namely, M/s Sea Hawk Cargo Carriers (Pvt.) Limited - the existing Contractor, M/s Air Travel Services - another private party and M/s National Federation of Labour Co-operatives Ltd.- a federation of labour co-operatives quoted their rates. The quotations received from M/s Sea Hawk Cargo Carriers (Pvt.) Limited and M/s Air Travel Services were opened on 16 June 1992 and the quotation of M/s National Federation of Labour Co-operatives Ltd. was not opened as they had not produced the Income Tax Clearance Certificate (ITCC) and proof of experience. However, ITCC and proof of experience were produced by the party subsequently and its quotation was opened on 16 December 1992.

The rates quoted by the above parties were as under:

Rate/MT

Sl. No	Name of the Party	Export (Rs.)	Import (Rs.)
1.	M/s Sea Hawk Cargo Carriers (Pvt.) Limited	245	340
2.	M/s Air Travel Services	149-	Not quoted
3.	M/s National Federation of Labour Co-operatives Ltd.	185-	250

The offer of M/s Air Travel Services was not considered on the ground that they did not qualify the NIT requirement in respect of experience. The offer of M/s National Federation of Labour Co-operatives Ltd. was also ignored as they had not complied with certain procedural requirements while tendering. Hence, negotiations were held only with M/s Sea Hawk Cargo Carriers (Pvt.) Limited who was the existing contractor for the aforesaid jobs.

The existing contract with M/s Sea Hawk Cargo Carriers (Pvt.) Limited expired on 31 March 1993. Due to delay in finalising a fresh contract, the contract with M/s Sea Hawk Cargo Carriers (Pvt.) Limited was extended from time to time. After prolonged consultations with various departments within the Authority for over a year and half, the jobs were finally awarded to the existing contractor viz. M/s Sea Hawk Cargo Carriers (Pvt.) Limited in September 1993 at the rate of Rs.149 and Rs.325 per metric tonne for export and import cargo respectively.

There was inordinate delay in the award of the job contract (18 months) after the issuance of NIT in March 1992. There was no attempt to re-tender the work despite poor response to the NIT. Delay in awarding the contract resulted in extra expenditure to the extent of Rs.24.75 lakh (Rs.4,12,500 per month from April 1993 to September 1993) being the difference between the old rates and the new rates which should have been made effective from April 1993.

The Management stated (September 1995) that the delay in finalising the contract was due to the representations made by the tenderers to the Ministry of Civil Aviation and subsequent negotiations with them.

The reply of the Management is not acceptable, as the delay in arriving at a final decision to award the job is attributable, mainly, to inaction and inconsistency on the part of the Management as is evident from the following:

- The justification cost –a prime requirement for NIT and a basis for negotiation had not been worked out by the Management by 13 November 1992 though the tenders had been invited in March 1992;
- The decision taken by Member (Operations) on 17 August 1992 to consider the tender of M/s National Federation of Labour Co-operatives Ltd. in the interest of competition and to waive the experience clause was not accepted by General Manager(Cargo) IGIA and also Member (Engineering) on the apprehension regarding its lack of experience in handling air cargo;
- The Management took abnormally long time in taking decision on whether non-submission of Income Tax Clearance Certificate at the time of tendering by M/s National Federation of Labour Co-operatives Ltd. could be a valid ground for rejecting its tender and, whether its quotation can be opened. On 16 December 1992 i.e six months after the other quotations were opened, it was decided to open the quotation of the party only for ascertaining the rates to utilise the same as a base for further negotiations.

In the absence of any judicial verdict, the Authority had decided not to give any cognizance to the complaints of M/s Sea Hawk Cargo Carriers (Pvt.) Limited against the claim of M/s Air Travel Services regarding experience and authenticity of documents submitted by the latter. After a representation made (March 1993) by M/s Sea Hawk Cargo Carriers (Pvt.) Limited to the Ministry, the Authority reversed its decision (8 July 1993) after discussing the matter with the Minister of Civil Aviation, and decided to negotiate with M/s Sea Hawk Cargo Carriers (Pvt.) Limited only by ignoring the offer of M/s Air Travel Services even though the Legal Counsel of the Authority had already observed that it was unjust to ignore the offer of M/s Air Travel Services.

In terms of the NIT, the rates quoted by the tenderers were all inclusive and no increase in the statutory minimum wages was to be allowed over and above the quoted rates during the validity of the contract. However, in the agreement with M/s Sea Hawk Cargo Carriers (Pvt.) Limited, a clause providing for reimbursement of 60 per cent of every increase in the statutory wages over and above 5 per cent during the second year of the contract, was inserted. Also in terms of clause 5(b) of the agreement, the rates agreed with M/s Sea Hawk Cargo Carriers (Pvt.) Limited were to remain firm for one year and no increase was to be allowed upto September 1994. But the latter was paid an increase of 10.63 per cent in the wages within one year of the signing of the fresh contract for the period from February 1994 to September 1994, to cover the increase in statutory minimum wages of unskilled labourers notified by the Government of National Capital Territory (NCT). The decision of the Management to allow an increase of 10.63 per cent to M/s Sea Hawk Cargo Carrier(P) Ltd. resulted in extra payment of Rs.22.77 lakh to the party

The Management contended that the increase in the tonnage rate as demanded by the contractor was effected within the first year of the contract in view of steep hike in the statutory

rate of minimum wages. The contention of the Management is not tenable as it violated the terms of the agreement with the contractor.

Thus, there was an additional expenditure of Rs.24.75 lakh due to delay in award of contract and Rs.22.77 lakh due to irregular increase in the tonnage rate in the first year of contract in violation of terms of the agreement.

The matter was referred to the Ministry in October 1995; their reply is awaited (February 1998).

CHAPTER 5

MINISTRY OF COAL

Coal India Limited

5.1 Infructuous Expenditure on Modernisation of Patherdih washery

Modernisation of Patherdih Washery under Bharat Coking Coal Limited (BCCL) was identified as one of the areas of Indo-Soviet co-operation, under the credit agreement between the Government of USSR and India. On the basis of the above decision, a contract was signed on 6 June 1989 between the Coal India Limited and Machinoimport, Russia for implementation of modernisation of the Washery. The contract provided for the supply of equipment, detailed design documentation and deputation of experts for supervision of the modernisation programme. The initial value of the contract was:

For supply of equipment:	1405336 Roubles
For Documentation:	1666000 Roubles
	3071336 Roubles

i.e. equivalent to Rs.6.18 crore (in 1990 taking 1 Rbl. = Rs.20.12)

While deputation of 240 man months envisaged with Rupee payment, supply of equipment and detailed design documents were covered under the credit agreement between the Government of USSR and India. The payment for deputation of experts was to be made by CIL in Rupee, directly to Machinoimport.

Under the original contract of June 1989, Machinoimport supplied all the equipment. CMPDIL on behalf of BCCL/CIL remitted to the Government of India an amount of Rs.6.18 crore for opening a Letter of Authority, for the payments to be made for the supply of equipment and documentation. Out of this amount, Rs.5.31 crore were utilised and the balance amount was returned by the Department of Economic Affairs. Due to break up of the former USSR, the change of political system and the stoppage of credit from the Russian side work relating to Patherdih came to a standstill during 1990-91.

Based on the recommendations of the Indo-Russian Working Group and with the approval of CIL's Board of Directors and Ministry of Coal, it was agreed that CIL and Machinoimport, Russia should enter into a new contract for modernisation of Patherdih Washery and the agreement was signed on 23 December 1994. As per the revised contract, Machinoimport was to supply balance design drawings, inspect equipment already supplied and overhaul equipment, if necessary, at the cost of CIL, provide author's supervision and guarantee the entire process and equipment supplied by them. The contract also provided for submission of a performance bank guarantee of Rs.60 lakh. It was also agreed that Machinoimport would send the detailed design document in respect of modernisation of Patherdih Washery within 15 days of effecting payment of Rs.3 crore by CIL. CIL remitted the amount to Machinoimport on 29 December 1994.

Representative of the Machinoimport visited the Patherdih washery on 21 December 1995 for inspection of the equipment. However, he did not inspect the equipment and intimated that he required the help of specialists for inspection. Tentative date for the inspection was fixed

in January 1996. Machinoimport sent a FAX message to CIL on 14 March 1996 intimating the following:

a) Equipment supplied by them had become worthless due to long storage;
b) Design had become outdated;
c) A new contract should be signed on design for modernisation of the washery with new equipment.

In view of the above communication from Machinoimport, an expert committee was constituted consisting of BCCL's officers, experts from CFRI and CMPDIL to examine the gainful utilisation of the equipment.

The Committee submitted its recommendations on 2 May 1996 intimating that none of the equipment could be utilised at Patherdih washery or elsewhere, except heavy media separator which could be utilised as a main washery rather than deshaler. The centrifuge and magnetic separator could only be utilised provided the erection manuals and design details were available.

The Board of Directors(BODs) of CIL in their meeting held on 29 June 1996 referred the matter regarding future of the contract with Machinoimport for Patherdih modernisation of the BODs of BCCL. The BODs of BCCL in their 175th meeting held on 6 July 1996 resolved that "tender invited for the modernisation of Patherdih Washery based on Russian Technology be cancelled". The CIL Board is yet to take a decision on this resolution of BCCL Board. The total expenditure made on Patherdih Washery is Rs.8.89 crore including duties and taxes etc. out of which Rs.3.24 crore was spent on design and services.

CIL management stated (February 1997) that out of the total expenditure, on equipment worth Rs.4.80 crore could be utilised and balance expenditure of Rs.4.09 crore had become infructuous. But in view of the report submitted by the expert committee and the observations of Machinoimport that the equipment supplied by them had become worthless due to long storage, the chances of the equipment being used elsewhere are remote. Further the terms of initial contract with Machinoimport are such that there is no scope for recovery of any amount by CIL. Thus due to poor planning and monitoring, the expenditure of Rs.8.89 crore incurred on modernisation of Patherdih Washery proved to be totally infructuous; as BCCL had not derived any benefit therefrom and already decided (July 1996) to modernise the Washery indigenously.

The Management's contention (June 1997) that (i) equipment worth Rs.4.48 crore could be utilised and (ii) a sum of Rs.4.41 crore due to Machinoimport for various jobs undertaken by them (excluding this project) were deducted from the suppliers' bills are not tenable since the deductions were made arbitrarily from dues of other contracts. As regards utilisation of the equipment worth Rs.4.48 crore though Management issued (December 1996) formal circular for use of the equipment in alternative projects, it has not fructified till October 1997.

The matter was referred to the Ministry in November 1997; their reply is awaited (February 1998).

CHAPTER 6

MINISTRY OF COMMERCE

Export Credit Guarantee Corporation Of India Limited

6.1.1 Non-exclusion of liability for interest in the claim/guarantee document

The Company issued (August 1984) an Export Performance Guarantee (Overseas Borrowing) to the Punjab and Sind Bank (PSB) on behalf of the Bhasin Associates Limited, New Delhi (BAL) for execution of a civil project at Iraq as a sub-contractor.The foreign currency loan was given by the London branch of the Bank of Baroda on the basis of guarantee issued to it by PSB during 1984 to 1991. The guarantee was extended by the Company from time to time upto 31 March 1991. Its final value as on 31 March 1991 stood at Rs.976.43 lakh with a maximum liability of Rs.878.79 lakh (90 per cent of Rs.976.43 lakh). The guarantee issued by the Company to PSB did not explicitly specify that its liability would be restricted towards the principal amount only (i.e excluding interest)

Due to non-receipt of payment from BAL, the London branch of the Bank of Baroda invoked (March 1991) PSB's guarantee. Accordingly, PSB remitted the maximum guarantee amount of Rs.976.43 lakh in October 1991 (out of Rs.824.58 lakh as principal and Rs.376.94 lakh as interest) to London branch of the Bank of Baroda. Meanwhile PSB claimed (July 1991) Rs.976.43 lakh from the Company.

The Company settled claim of the PSB in March 1992 for Rs.742.12 lakh representing 90 per cent of the principal amount of Rs.824.64 lakh. The PSB disputed (February 1993) the settlement of the claim on the ground that the Company should pay the full amount of the cover of Rs.976.43 lakh provided in the guarantee. To settle the dispute, the Company obtained (September 1994) legal opinion which indicated that since the guarantee given by the Company did not make any distinction between the principal amount due and the interest thereon, the Company was liable to reimburse the maximum liability. The Company settled the claim for Rs.878.79 lakh.

The Company had no intention of including the interest element in the guarantee. It is evidenced by its letter dated 22 February 1990 to PSB wherein it was stated that the cover provided under the Export Performance Guarantee for the principal amount of the overdraft limit only and the overdue/unpaid interest was not covered under the guarantee issued.

The Management stated (February and September 1997) that the issue of inclusion of interest element came to the notice only after the account became default and further stated that presently their guarantee documents clearly spell out the liability on account of principal and interest separately.

The Ministry, while endorsing the views of the Company, stated (March 1998) that as per the Banking procedure, the outstanding in the account sometime included interest due at a given point of time and the outstanding reported was within the overall limit of overdraft facility. The reply is not tenable as the intention of the Company was only to cover the principal

amount, but the claim had to be settled inclusive of interest due to non-inclusion of interest element in the Guarantee document resulting in an avoidable loss of Rs.136.61 lakhs.

6.1.2 Wrong Settlement of claim under Whole Turnover Packing Credit Guarantee (WTPCG)

The Company issued a Whole Turnover Packing Credit Guarantee (WTPCG) to the Central Bank of India on behalf of an exporter of Kota aggregating Rs.67.88 lakh during March to August 1989. The Bank preferred a claim (March 1990) with the Company for Rs.67.88 lakh due to default by the exporter.

The Company initially (August 1991) rejected the claim on the ground that (i) the Bank had sanctioned Packing Credit (PC) limits without intimating the Company and (ii) the Bank had not obtained security for PC advances besides hypothecation of stock. A request (March 1992) from the Bank for reconsideration of this claim was also rejected by the Company in April 1992.

However, the Bank's claim was re-examined again in November 1992 and was settled for Rs.46.81 lakh (being 75 per cent of unadjusted advances of Rs.62.41 lakh) on the ground that (i) the bank had released PC advances on adhoc basis against confirmed order/ Letter of Credit (LC) in hand duly sanctioned by their officers under their discretionary powers, and (ii) the stocks were verified by the Bank on 31 January 1989 and that the PC advances granted were well covered with the stocks in hand.

The settlement of the claim was not in order on account of the following facts:

(i) Though the LC was due to expire on 31 August 1989 an advance of Rs.56 lakh was released to the exporter on 29 August 1989 i.e. just two days before the date of expiry of the LC. Therefore the Bank could not have ensured that the PC would be utilised for export purposes.

(ii) The stock with the exporter was not verified after February 1989.

(iii) The Bank had delayed recovery action till February 1991.

The Ministry stated (March 1997) that (i) the advance of Rs.56 lakh was sanctioned on three occasions during June to August 1989 and hence it could not be said there was inadequate time to export the goods and (ii) the recovery action was delayed as the bank normally exhausts all other remedial measures before legal action is contemplated. As other dues were also there, the bank had to take a view in totality. As soon as necessary permission was obtained, the bank filed a suit in February 1991.

(a) The reply is not tenable because of the fact that irrespective of the date of sanction of advances, as per the Bank statement of the exporter, the advance of Rs.56 lakh was withdrawn only on 29 August 1989 which left little time to utilise the same before the lapse of the LC. The Bank should have taken care to satisfy itself that there was likelihood of export based on stock and readiness of exportable material. This was not done as the Bank had not inspected the godown after 8 February 1989 and stock statements were not verified after 31 July 1989.

(b) The only security for the Bank was the goods hypothecated and hence immediate recovery action was important. But the Bank delayed recovery action.Thus, on settling the claim, the Company had incurred a loss of Rs.46.81 lakh.

India Trade Promotion Organisation

6.2 Avoidable expenditure on air-freight

India Trade Promotion Organisation (ITPO) decided to organise a fair "Indexpo '94" at Johannnesburg(South Africa) from 22 to 28 August 1994 on behalf of Government of India with a view to boosting trade between the two countries. As the exhibition goods were to be sea-freighted, ITPO invited quotations (March 1994) from the parties engaged in shipping business. Two parties viz. M/s GAC Shipping India Pvt. Limited and M/s Consolidated Marine Services responded, with offers of concessional rates and terms.

The last date for receipt of cargo/exhibits from the participants by the clearing agent of ITPO was extended by ITPO from 15 June 1994 to 25 June 1994 and again to 5 July 1994. However, in June 1994 it was decided to ship the cargo to South Africa by a vessel (Sao Paulo) of M/s Consolidated Marine Services arriving at Mumbai on 5 July 1994 with expected date of departure on 10 July 1994. The vessel reached Mumbai on time but ITPO chose to ship the cargo by vessel MV Nicholaos of M/s GAC Shipping India Pvt. Limited whose expected date of arrival was 12 July 1994. Thus, the vessel Sao Paulo was allowed to sail on 10 July 1994 without any cargo of exhibits even though nearly 124 tonnes (out of a total of 134 tonnes) of cargo was available with the ITPO's clearing agent as of 9 July 1994. The choice of MV Nikolaos over Sao Paulo was made despite knowing that (a) usual sea-route (via Mauritius) of the former required around 15 days as against shorter route (direct Durban) of the latter requiring 9 days' sailing and, (b) no firm agreement had been signed with either of the shipping companies so as to ensure timely acceptance and delivery of cargo by them on the terms offered.

The vessel MV Nikolaos arrived at Mumbai on 20 July 1994 indicating its departure not before 31 July 1994. Request of ITPO to sail direct to Durban without touching Mauritius to cut-short the transit time for the delivery of the exhibition goods in time was rejected by the shipping company on the ground that ITPO had responded belatedly. Hence, ITPO decided (28 July 1994) to airlift the exhibition goods to ensure their arrival well before the commencement of the fair and thus incurred a heavy expenditure of Rs.155.09 lakh on this account. Out of this, an expenditure of Rs.147.89 lakh could have been avoided by the Management if proper arrangement for the shipment of the cargo had been made in time.

The Management stated (September 1997) that initial response of Indian trade and industry towards participation in the fair was very luke-warm which improved only in May and June 1994 and it had to issue approvals to the participants upto 19 July 1994. The Management further stated that the frequency of ships to South Africa at that time was very little and it created problems in getting the vessel.

The reply of the Management is not tenable as:

(i) Out of 149 participants approved by it, 132 had been issued approval letters by 27 June 1997 and nearly 124 tonnes (out of a total of 134 tonnes of cargo air-

freighted) was available with the clearing agent of ITPO before the vessel Sao Paulo left Mumbai;

(ii) Despite knowing that sailings of the vessels of the intending shipping parties between South Africa and India were only a few i.e. twice a month, the Management chose not to utilise the services of the vessel Sao Paulo. Even the facility of part-shipment was not utilised in accordance with the offers of the parties at concessional rates;

(iii) Though the exhibition goods were required in South Africa latest by 1 August 1994, the Management continued to issue approvals to the intending participants as late as 19 July 1994 without keeping in view:

(a) the last date (5 July 1994) for receipt of exhibits by the clearing agent;

(b) past experience that participants getting approval around or subsequent to 5 July 1994 would also need time to prepare and despatch their exhibits etc. to ITPO for shipment;

(c) Voyage period of two weeks to South Africa, time required for customs clearance and display arrangements etc. for exhibition goods in South Africa; and

(d) absence of formal agreement with any shipping company/agent for firm shipping arrangement.

Thus, the Management landed itself in a position where transporting the goods by air appeared to be the only alternative for timely transportation of the goods to South Africa.

A vigilance enquiry held by ITPO internally has also held(August 1986) its concerned officers responsible for the avoidable heavy cost of air-freighting due to various lapses on their part. A net loss of Rs.87.60 lakh, mainly due to heavy cost of transportation, sustained by ITPO from the fair, has not been claimed by it so far (October 1997) from the Government on whose behalf the fair was held.

The matter was referred to the Ministry in November 1997; their reply is awaited (February 1998).

MMTC LIMITED

6.3 Trade in Gold

6.3.1 Introduction

MMTC started trading in gold in 1986 under the existing schemes of the Handicrafts & Handlooms Exports Corporation of India Limited/State Bank of India, which involved exporting jewellery through its business associates. Simultaneously, in terms of the decision taken in the 198th Board of Directors' Meeting held on 30 August 1986, MMTC (Company) liased actively with Government in policy matters relating to establishment of special export-oriented jewellery complexes notified by Government under Export Import (Exim) Policy 1985-88. In pursuance of

this notification Jhandewalan gold jewellery complex was set up in 1985. The same year in August, Ministry of Commerce handed over the sponsorship of the complex to MMTC on a no-profit-no-loss basis. Apart from providing infrastructure and obtaining the requisite approvals of the concerned authorities for establishment of this jewellery complex, the Company was also instrumental in identifying the units for manufacturing jewellery in this complex. MMTC was also associated with the setting up of the Santacruz Electronics Export Processing Zone (SEEPZ) at Bombay where it sponsored the establishment of one jewellery unit *viz*. Inter Gold (India) Pvt. Ltd.

6.3.2 Schemes of Gold Trade

MMTC traded actively under the following schemes formulated by the Government of India (GOI) under Exim Policy 1988-91 and 1992-97:

(i) Scheme for export under Domestic Tariff Area (Para 88C of Exim Policy 1992-97)

This scheme for export promotion and replenishment of gold was included in Exim policy 1988-91 as well as 1992-97. MMTC was however, declared a nominated agency for trade under this scheme only under Exim policy 1992-97. This scheme was operated through various Regional Offices (ROs) and Sub Regional Offices (SROs) except SEEPZ and Noida Export Processing Zone(NEPZ).

(ii) Scheme of export from Export Oriented Unit(EOU) / Export Processing Zone(EPZ) complexes (Para 88 E of Exim Policy 1992-97)

According to the provisions of this scheme formulated under Exim policy 1988-91 and continued in 1992-97, gold of 0.995 or 0.999 fineness could be made available to units in the 100 per cent EOU / EPZ complexes. As such the scheme was operated by MMTC only through its SROs at Jhandewalan, NEPZ and SEEPZ.

(iii) Scheme of export of jewellery against gold supplied by foreign buyers (Para 88 A of Exim Policy 1992-97)

This scheme was included in Exim policy 1988-91 as well as 1992-97. The foreign buyer could supply gold in advance, free of charge for manufacture and ultimate export of jewellery where he places export orders on MMTC/HHEC/STC or any other agency nominated by the Government of India. Exports could be made by the nominated agencies either directly or through their associates. This scheme was operated by MMTC from its SRO Jhandewalan.

(iv) Scheme of export for display / sale at approved exhibitions (Para 88 B of Exim Policy 1992-97)

The scheme was included in the Exim policy 1988-91 and 1992-97. Under the scheme, jewellery could be exported for holding exhibitions abroad and unsold jewellery was to be

brought back to India within 45 days. Fresh gold was required to be imported to replenish the stock sold. This scheme was also operated by MMTC from SRO Jhandewalan.

6.3.3. Scope of Audit

This review covers the gold transactions of MMTC under Paras 88A, 88C and 88E of Exim Policy 1992-97 bringing out *inter-alia*, the overall trading performance of the Company with regard to these schemes. It also brings out the degree of compliance of the Company with the procedures prescribed by the GOI for the import and issue of gold and export of gold jewellery thereagainst, as well as cases of delays and defaults in fulfilling export obligation and remittance of export proceeds.

6.3.4 Procedure prescribed by Government of India

6.3.4.1 In terms of the procedure prescribed by GOI through various circulars issued from time to time for operating the schemes, MMTC was to import and supply gold of 0.995/0.999 fineness in 1 kg. bars to the approved gold jewellery manufacturing units in the 100% Export Oriented Units (EOUs)/Export Processing Zones (EPZs) and units in the Domestic Tariff Area (DTA). MMTC could give gold to these units on loan/outright sale basis subject to the condition that export of jewellery out of this gold was made within three months from the date of sale/loan. The period allowed for fulfilling export obligation was revised from time to time by the GOI and as of March 1997 the maximum period permissible was 90 days.

6.3.4.2 In the case of gold taken on loan, if the unit failed to fulfil export obligation within three months, gold could either be returned to MMTC with a penalty of 5% of the price of gold, or the unit could continue to retain the gold for a period of another three months by making an application to MMTC and paying a penalty of 5% of the price of gold. In case a second extension of three months was allowed, the penalty would be 10%. No third extension was to be allowed. Consequently, such exporters were not eligible for any further loan/purchase of gold from MMTC.

6.3.4.3 The Government also issued various circulars from time to time regarding the records to be maintained by MMTC and liability of the Company for payment of customs duty. In terms of these circulars, MMTC being the importer of gold was to execute a bond with the customs authorities (in respect of DTA scheme, the Company was to file the bond only from March 1995 to July 1996) binding itself to fulfil the export obligation and in the event of failure to do so, to pay customs duty at the applicable rate on the quantity of gold which remained unexported. The Company was also required to maintain a proper account of import, consumption/utilisation of gold and exports made there against. But, in July 1996, GOI exempted Company from the liability for payment of customs duty stating that the exporter would file ex-bond Bill of Entry in their own name while obtaining gold from MMTC. The circular further stipulated that in the event of an exporter failing to discharge the export obligation within the prescribed period, MMTC would be responsible for retrieving the gold delivered to the unit.

6.3.5 Implementation of the schemes by MMTC

Under the schemes referred to above, 86,096 kgs. of gold was imported by MMTC during the period 1988-89 to 1996-97. Out of this 85,325 kgs. of gold was actually issued to jewellery manufacturing units leaving a closing stock of 771 kgs. as of 31 March 1997 with the Company. The quantity of gold actually exported upto 1996-97 was 83,731 kgs. The year wise details are given below:

(Quantity of gold in kgs.)

	1988-89	**1989-90**	**1990-91**	**1991-92**	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**Total**
Import	200	800	1000	2400	9300	13660	17985	20140	20611	86096
Issue	134	680	1082	2466	8376	13626	17920	20221	20820	85325
Export	134	680	1082	2397	8300	13353	17865	19966	19954	83731
Closing Stock	66	186	104	38	962	996	1061	980	771	771

MMTC operated the above trading schemes through its Regional Offices at Ahmedabad, Bombay, Bangalore, Calcutta, Hyderabad and Sub Regional Offices at Jhandewalan, Jaipur, Noida Export Processing Zone (NEPZ) and Santacruz Electronics Export Processing Zone (SEEPZ). However, at no stage did the Management devise proper mechanism to monitor the implementation of schemes. Even the Jhandewalan unit at Delhi which functioned under the direct supervision of the Corporate Office and accounted for major number of defaults was never asked to submit any kind of reports on its performance. The Ministry stated that the Company's Management kept itself abreast of the implementation of schemes through a system of default reporting. Apart from that, this statement tacitly confirmed absence of a positive monitoring mechanism, the weakness was also evidenced by delays experienced by audit in obtaining basic data on the implementation of the schemes as brought out in paragraphs 6.3.7.5(d), 6.3.9.1, 6.3.11 and 6.3.12(ix), (xi).

6.3.6 Import of gold

The Company entered into independent contracts for import of gold with two Swiss banks *viz*. Union Bank of Switzerland (UBS) and Credit Suisse.

6.3.6.1 Contract with Union Bank of Switzerland

(a) In August 1984, the Company received a proposal from the Bank of Nova Scotia through the Ministry of Commerce (Ministry), offering to function as one of the outlets for replenishment of gold to exporters. The Company informed the Ministry that on the basis of discussions held by the Company officials led by Director (Metals) with leading bullion firms in London, it proposed (February 1985) to enter into an agreement with Bank of Nova Scotia for the supply of gold on consignment basis. The proposal remained un-actioned in the Ministry and was allowed to lapse despite the offer having been extended by the Bank of Nova Scotia up to December 1985. The Ministry did not offer any explanation as to reasons which prevented it from processing the offer of Bank of Nova Scotia to a logical end; nor did it indicate why it did

not direct the Company to obtain fresh quotations immediately after the offer of Bank of Nova Scotia had expired in December 1985.

(b) In November 1986 the Company invited fresh offers from five foreign banks [1] including the Bank of Nova Scotia for supply of gold on consignment/loan basis. The message calling for offers were communicated to one of the five banks through M/s Shattaf Trading Company, Dubai (Shattaf). The firm was also kept informed (December 1986) by the Company of its plans to visit Switzerland in January 1987 for discussion and finalisation of the agreement. The circumstances in which the services of Shattaf were solicited were not on record. Since Shattaf had no formal business relationship with the Company and was not working for any overt business consideration, their involvement in the process leading to finalisation of the agreement for the import of gold was unusual. The picture as to its role in facilitating the process was further confused by contradictory explanations furnished in this regard by the Management and the Ministry. The Management stated (July 1997) that Shattaf was involved because they were leading wholesale jewellers in Dubai and the firm was "perhaps" buying gold from the banks referred to above. The Ministry stated that the offers were received by MMTC directly and not through Shattaf. It however, qualified this statement by averring that since Shattaf was aware of MMTC's entry into gold import, they had voluntarily recommended the names of UBS and Credit Suisse to MMTC based on their own experience. It is thus evident that UBS was not one of those banks whom the Company had invited to give an offer. The offer of UBS was received by MMTC four days after the receipt of other offers on the initiative of Shattaf.

(c) A team of Company's representatives visited Switzerland in January 1987 to hold discussions with UBS whereafter the Company informed the Ministry (March 1987) that the proposal of UBS was the most attractive one. The contract with UBS was finalised in August 1988 with the approval of the Ministries of Commerce and Finance. Records produced to audit in this regard merely indicated the comparative position of the offers received. Analysis of various offers leading to selection of UBS as the successful bidder was not available in the records produced to audit. An examination of comparative terms quoted by UBS and Bank of Nova Scotia in regard to supply of gold on loan basis indicated that by offering rate of interest at 1.75% per annum, the latter had a clear edge over UBS which had quoted an interest rate of 2.5% per annum. The contract was awarded to UBS without any manifest effort to negotiate with Bank of Nova Scotia. The Ministry's argument that the rate quoted by Bank of Nova Scotia was restricted to a period of only 90 days is not tenable because in the normal course, the jewellery units to whom the gold was issued had to export the jewellery within a period of three months. In such a situation, therefore, the question of paying interest on gold loaned by any of the bidders beyond the period of 90 days was irrelevant for the purpose of comparative evaluation of the bids. The Ministry also stated that beyond the period of 90 days, Bank of Nova Scotia would have charged interest at rates higher than 1.75% per annum. Even this argument is not valid because while executing the agreement with UBS, MMTC had accepted the condition that the rate of interest could be modified at any point of time. It was observed in audit that UBS had revised the rate of interest from time to time. Consequently, the actual rate of interest paid exceeded 2.5% on several occasions.

[1] Bank of Nova Scotia, Credit Suisse, Republic Bank of New York (Hongkong), Mat Dist Limited (London) and Mase Ag (London)

(d) Apart from this, while executing the agreement, the Company also accepted a peculiar condition of unspecified significance. According to this condition the Company was precluded from executing contract for further issue of gold loan from Government /other Financial Institutions/ Banks /other parties without making full disclosure and taking prior written permission from UBS'.

(e) The above clauses should be viewed in the light of the fact that while giving their offer to MMTC, UBS had not specified these conditions. As MMTC had not negotiated with the other banks, acceptance of these clauses in the agreement with UBS compromised the standard of transparency in awarding the contract.

6.3.6.2 Contract with Credit Suisse

(a) In August 1994, MMTC felt that total dependence on UBS would not be in their interest as it perceived that supplies were becoming erratic and the quantity supplied had also fallen short of indented quantity. Further, since it believed that for the same premium as was being paid to UBS, better terms could be obtained from other sources the Company decided to diversify the source of gold supplies. Based on offers received from six banks[2], MMTC entered in October 1994 into an agreement with Credit Suisse for import of gold (on consignment basis) to be issued to jewellery exporting units on outright purchase basis.

(b) Despite above arrangement, MMTC continued purchasing gold from UBS at higher premium[3] for issue to the jewellery manufacturing units on outright sale basis. As Jhandewalan accounted for about 50% of the gold transactions of the Company and functions under the direct supervision of the corporate office, the records of this SRO under one scheme (DTA scheme) for one year (1995-96) alone were checked in audit. The test check revealed that, out of 4348 kgs. of gold issued on outright sale basis, only 2150 kgs. were imported from Credit Suisse. The balance quantity was issued from the gold imported from UBS. Had the Company purchased entire gold from Credit Suisse, it could have avoided the additional premium of Rs.10.04 lakh paid by it to UBS under one scheme alone. The overall saving for all the schemes and for all the units for the entire period under review would have been significantly higher.

(c) The Ministry stated that there was no net out go of revenue from MMTC on account of additional premium paid to UBS, in view of the recovery of the amount from the exporters, who in turn would have recovered the same from the foreign buyers. The reply is not acceptable, as it defies the very rationale for calling for quotations and importing gold from the supplier who offered the best terms.

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[2] Bank of Nova Scotia, London; Deutche Bank, Frankfurt; Royal Bank of Canada; Rotschild, Singapore; EPIC International, Singapore and PAMP Financial Services, Switzerland

[3] US$ 1.05 per tr.oz for delivery at Bombay; Us $ 1.15 per tr. oz. for delivery at Dehi; US$ 1.25 per tr.oz for delivery at Madras and US$ 1.30 per tr. oz for delivery at Calcutta. (1 Kg. = 32.1507425 tr. oz.)

6.3.7 Issue of gold

6.3.7.1 Gems and jewellery exports constitute a substantive part of Indian exports. Keeping in view untapped potential in this segment, the Government of India in furtherance of the objectives envisaged under the Exim Policy 1988-91 assigned PSUs including MMTC an important and pioneering role in the Gold Trade Scheme under the Exim Policy 1992-97. The relevant extracts of the Exim Policy are given in the Appendix. This was obviously a deliberate decision to minimise the chance of the scheme being misused, a possibility which could not be ruled out keeping in view the immense demand for the commodity in the domestic market and its susceptibility to black marketing. Hence, with ordinary prudence the Company while maintaining the commercial flexibility should have taken adequate steps to plug loopholes in the scheme and to devise procedures that could safeguard the company's financial interests.

6.3.7.2 The scrutiny of gold issues to jewellery manufacturing units under different sub-schemes indicated that sufficient care was not taken while taking up the scheme to avoid various pitfalls in its implementation viz., (i) issue of gold to units of unproven antecedents (ii) export performance was not being watched with reference to (a) the purity of jewellery exported and degree of value addition achieved (b) ultimate inflow of earnings in foreign exchange and recovery of packing credit given to the unit therefrom. Moreover, it was, also observed that while implementing the scheme the Company's Regional Offices in many cases, had flouted even the limited guidelines issued by the Corporate Office as well as the provisions of the Exim Policy. These observations for each sub-scheme are discussed in the succeeding paragraphs.

6.3.7.3 Advance supply of gold

(a) This scheme envisaged manufacture and export of jewellery out of gold supplied by the prospective foreign buyer. The exporting unit was to receive supply of gold in advance and free of charge from the foreign buyer through one of the nominated PSUs. The exporter was required to achieve a minimum value addition of 10% in the case of plain jewellery and 15% for studded jewellery . No time limit was fixed for export performance. The supply of gold to units willing to export jewellery under this scheme was to be effected under an existing agreement with UBS. The Company associated only one firm viz. M/s Divya Jewellers under this scheme. The unit had exported 150 kgs of gold jewellery during the period October 1995 to March 1997.

(b) As to why only M/s. Divya Jewellers was associated by MMTC under this scheme has not been explained by the Management. No specific publicity had been given to the scheme to popularise it for eliciting better response. As the provisions of the Exim Policy presupposed existence of a foreign buyer the Company, in accordance with a Memorandum of Understanding with the unit in August 1995, itself stepped into the role of foreign buyer through its New York branch and agreed to arrange supply of gold to the unit through UBS. Since the Company had no

wholesale or retail outlets of its own for selling gold jewellery in the US market and the fact that jewellery exported by M/s. Divya Jewellers from SRO Jhandewalan was to be collected in New York by their own representative, the arrangement did not conform to the basic objective of the scheme which envisaged export of gold jewellery against specific orders of the foreign buyer.

(c) The Ministry did not examine the circumstances in which the implementation of the scheme was restricted to one single unit. Instead it justified designation of Company's New York branch as a foreign buyer by stating that (i) the Company was a registered exporter and a member of Gem and Jewellery Export Promotion Council and that (ii) the Company had entered into a Memorandum of Understanding(MOU) with M/s Divya Jewellers with a view to encourage export of jewellery through a safe and secure arrangement. The reply does not specifically explain why the implementation of the scheme was restricted to only one unit.

(d) The expenditure incurred by the Company on insurance, freight and customs clearance as well as customs duty borne while clearing gold jewellery exported by the unit in New York were not completely recovered from it . On this account the New York branch of the company worked out (October 1995) an average loss of US$ 0.574 per gm of gold exported by the unit. The total loss borne by the company on jewellery exported by M/s. Divya Jewellers between October 1995 to March 1997 as worked out in audit was Rs.30.89 lakh . The Ministry stated that the Company had not reported any loss under the scheme. The reply, however, was not borne out by facts.

6.3.7.4 DTA scheme

(a) Under this scheme, gold could be issued to exporting units in domestic tariff area by way of replenishment, loan or on outright purchase. The Company issued 58,263 kgs of gold to various units during 1992-93 to 1996-97. Major portion of gold was however, issued on loan basis.

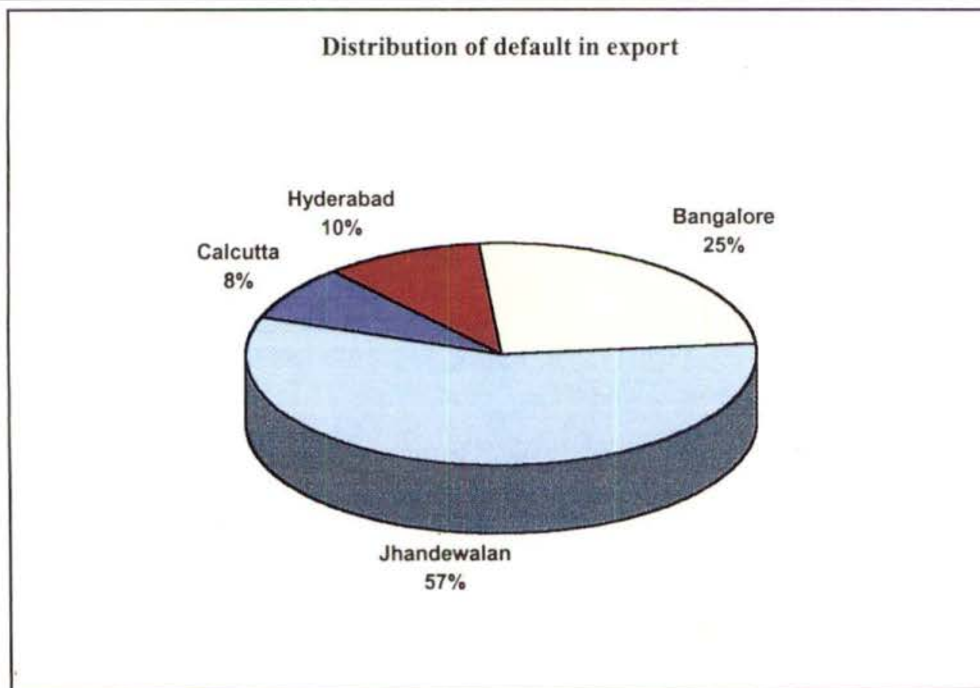
(b) As per the Exim Policy, gold issued to units on replenishment/outright purchase basis was to be paid for in cash with reference to international price prevailing on the date of sale of gold. But, gold issued on loan basis was to be covered by a bank guarantee for the value of gold based on prevailing international price. In respect of gold issued other than by way of replenishment, the difference between the international price and the domestic price on the day of purchase/loan plus 5 % of international price of gold was also to be covered by a bank guarantee. The exporter was to be responsible for realisation of export proceeds in full, failing which, he/she was to refund the difference between the sale price of gold issued by MMTC and its prevailing domestic price besides the customs duty payable thereupon. The exporter was also responsible for payment of customs duty in case of default in fulfilling export obligation.

(c) The Company formulated its own detailed guidelines for the issue of gold to the exporters under this scheme. In terms of these guidelines, exporters were categorised as

'associates' and 'non-associates'. Gold issued to non-associate exporters was covered by two guarantees as envisaged in Exim Policy. The Company allowed associate units to draw gold (mostly on loan) up to a maximum quantity of 20 kgs., without requiring them to furnish a bank guarantee. Instead, the associate units were asked to furnish an indemnity bond/collateral security to cover only the difference between the domestic and international price of gold plus 5% of international price. Further, in these cases since the associates were exporting on behalf of MMTC the Company was liable for export performance as well as realisation of export proceeds besides the payment of customs duty in the event of default in export.

(d) Between 1992-93 and 1996-97, MMTC issued 49778 kgs of gold to non-associates under this scheme. The balance quantity of 8485 kgs was issued to associates up to August 1995 where after the associate scheme was discontinued due to numerous defaults in exports. Regional office-wise details of gold issued under the scheme and default thereagainst are given below:

Regional office	**Qty of gold issued (kgs)**	**Qty of gold in default (kgs)**
Ahmedabad	2124	----
Bangalore	8100	15.79
Calcutta	6021	5.00
Hyderabad	519	6.00
Jaipur	175	----
Jhandewalan	32074	36.00
Mumbai	9250	-----
Total	**58263**	**62.79**



(e) The Management could not explain the basis for categorisation of the units as associates/non-associates and the rationale behind obtaining indemnity bond/collateral security instead of bank guarantees from the associate exporters. To that extent, the provisions of the Exim Policy were relaxed in favour of associates. The Ministry stated that the associate scheme had been in operation since 1988 and that, associate units were already exporting gold jewellery on Company's account. They further stated that the scheme had helped small-scale units in establishing themselves in the export market. This, however, explained neither the basis on which units were categorised as associates and non-associates nor the rationale behind relaxation of condition relating to bank guarantees in the case of associates.

(f) As revealed by test check of the records of the Regional Offices, the relaxation given to the associate units was ill conceived. This was borne out by the following :

1. Where the associate units had defaulted in exports, Company could not recover the value of gold from them, as it had not taken any bank guarantees from them.
2. The Company had issued 355 kgs. of gold to associates during 1992-1993 to August 1995 without indicating the names of the associate units in its records. These issues were invariably shown by the Company as having been made to itself thus, accepting the legal liability for payment of customs duty in the event of default as well as loss on account of value of gold repayable to UBS and of the services rendered.
3. In SRO Jhandewalan 36 kgs. of gold valuing Rs.1.47 crore issued to 4 associates had not been exported. No recovery had been made from any such associate as of 31 December 1997.

(g) The Ministry admitted (November 1997) default of 36 kgs. of gold at SRO Jhandewalan. It further reported that arbitration proceedings in these cases had been initiated to recover the loss suffered by the Company. However, the Ministry's contention that export default pointed out in other ROs had been rectified subsequently is not tenable, because no proof of exports by the defaulting units has been shown to audit after May 1997 when default was confirmed by the Ministry.

(h) As per the internal guidelines of the Company, only 20 kgs of gold was to be given to the associates at any given point of time. While every issue of gold was made on the basis of an independent contract executed by an associate, no mechanism was instituted to monitor the total quantity of gold issued to an associate unit. This resulted in ceiling of 20 kgs being exceeded in a few cases as detailed below:

Name of associate unit	Contract No.	Date	Qty. issued (kgs)
Diaster	521	28.10.1993	21
-do-	574	11.11.1993	22
-do-	762	24.04.1994	40
Intergold	5725	16.10.1990	25
-do-	625	05.03.1993	30
Bombay Art Jewellers	596	10.02.1992	50
N.K. Jewellers	38-42	23.09.1992	24
Bholasons Jewellers	2780-2787	30.10.1996	33
P.P. Jewellers	586-592	31.05.1995	28

(i) Out of non-associate units to whom gold (49778 kgs) had been issued against bank guarantees, 14 units had failed to export 119 kgs. In 26 such cases, involving 81 kgs. of gold valued at Rs.3.30 crore, bank guarantees were invoked belatedly. The period of delay ranged between 1 to 25 days (14 cases), up to 50 days (5 cases) and up to 146 days (7 cases).

(j) The Ministry stated (November 1997) that export obligation in respect of the entire quantity of gold issued to non-associates had been completed. The reply of the Ministry is not acceptable, as gold that was not exported had not been repossessed from the defaulting units. Fulfilment of export obligation has been claimed on the basis of exports by other units to whom gold was issued out of gold imported against special import licences (SIL) which did not carry any export obligation. Owing to default in export of gold jewellery the defaulting units had rendered themselves liable to customs duty amounting to Rs 4.99 crore (approx) which had not been recovered from them. This has resulted in an undue benefit to them as well as loss of revenue to the exchequer. This aspect has been overlooked by the Management as well as the Ministry. Moreover, in one case involving 8 kgs of gold (Rs.32.56 lakh), the Company failed to recover any amount against the bank guarantee for Rs.36 lakh invoked in March/April 1994. The Company did not indicate the reason for which the bank guarantee had not been honoured.

(k) To sum up, the performance of non-associate units which accounted for substantial part of gold issued under the scheme, did not show default of an alarming level. However, since no effective mechanism was evolved by the Government for watching the actual remittance of the proceeds of exports, audit is unable to vouch for the actual degree of success achieved in implementing this segment of the scheme. On the contrary, the level of default in the case of associate units was apparent and substantial despite the fact that these units were supposed to be more reliable because of their longer association with the Company. Discrimination of DTA units in this manner and relaxation of security conditions for issue of gold in their case coupled with absence of transparent criteria for identification of such units was contrary to the Exim Policy as well as misconceived. Consequently, the Company had suffered significant loss in an area, which was projected to be safe.

6.3.7.5 EOU/EPZ scheme

(a) Under the Exim Policy, units functioning under EOU scheme were entitled to receive gold on loan/outright sale basis from SRO Jhandewalan. Similarly, exporting units functioning from within the export processing zones at Noida (NEPZ) and Santa Cruz, Bombay (SEEPZ) could receive gold from the SRO located within the EPZ. The details of gold issued by different SROs under this scheme and exports claimed to have been made thereagainst are as indicated below:

(Quantity of gold in kgs.)

Year	J'walan	NEPZ[4]	SEEPZ	Total issues[5]	Total export[6]
1988-89	134	-----	----	134	134
1989-90	558	-----	122	680	680
1990-91	704	-----	378	1082	1082
1991-92	1022	264	1180	2466	2397
1992-93	1030	1364	1843	4237	4212
1993-94	729	1305	2290	4324	4271
1994-95	580	2216	2993	5789	5706
1995-96	411	1431	3081	4923	4853
1996-97	252	1265	1910	3427	3032
Total	5420	7845	13797	27062	26367

Note: until October 1994 stock meant for issue to the units in NEPZ was being issued from Jhandewalan. Even prior to that and as of date, the stock issued to the units in MEPZ (Madras Export Processing Zone) Cochin and Falta are issued from Jhandewalan.

(b) The scheme stipulated that no gold including rejects could be sold by a unit in the DTA. Even though the gold issued on loan to EOU/EPZ units was to be purchased by them before export, and in the case of associate units such purchases could be effected by availing packing credit from the Company, no safeguards were built to monitor export of jewellery and to ensure that no gold was disposed off in the domestic market. This lacunae in the scheme becomes even more noteworthy keeping in view the fact that prior to 13 June 1994 the exporters were allowed for effecting exports a maximum period of 120 days extendable by 180 days. This limit was also removed vide Rep circular No.11/94 dated 13.06. 1994 without instituting any alternative mechanism for watching export performance.

(c) In absence of any specific safeguards other than the normal administrative arrangements governing units in EPZ complexes, no bank guarantees were obtained in respect of 17449 kgs of gold issued on loan to different units up to 1994-95. The Ministry attributed (May 1997) this to the fact that the premises of both MMTC as well as the recipient units were bonded and it was not possible under the normal circumstances for anyone to smuggle gold out of the EPZ. The Ministry's confidence in administrative arrangements of EOU/EPZ complexes was misplaced because it was found by customs authorities between June 1995 and March 1996 that 184 kgs. of gold was missing from the vaults of 13 units in NEPZ and Jhandewalan. The Management reported that of these units, 2 cases were referred to Department of Revenue Intelligence, 3 cases

[4] Quantity of gold issued in NEPZ during 1991-92 to 1995-96 was stated to be 6572 kgs. by MMTC in August 1996. This figure was revised by MMTC in July 1997 to 6580 kgs.

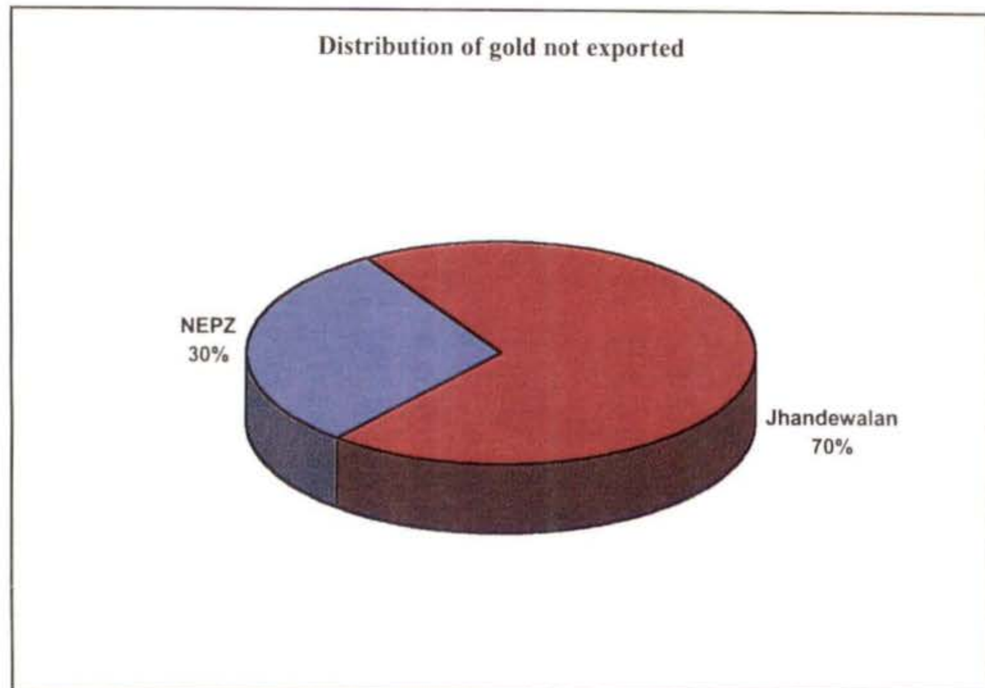
[5] Total issues upto 1995-96 were stated to be 23382 kgs. by MMTC in August 1996. This figure was revised by MMTC to 23635 kgs. in July 1997.

[6] Company has not maintained any records relating to exports out of gold issued to the units in SEEPZ. This figure was obtained by Company from the individual units in SEEPZ.

to CBI, 3 cases to Directorate of Enforcement and that legal action was initiated in respect of 5 cases. The Ministry admitted (May 1997) that some unscrupulous units had smuggled out gold. A committee which was set up by the Ministry in August 1995 to look into this aspect, had submitted its report in the same month leading to introduction of graded bank guarantee system for issue of gold. This was followed by another change in procedure whereby the units were required to file ex-bond bill of entry with the customs after taking gold from MMTC, thereby relieving MMTC of the responsibility of payment of customs duty in case of default in export of jewellery. However, the Company's suggestion to switch over to 100% bank guarantee for the gold issued under the EOU/EPZ scheme did not find favour with the Ministry because it was felt that it would amount to *"bolting the door after the horses had run away."* It was also felt that the suggestion made by the Company , if implemented, would render Indian Jewellery exports uncompetitive in the international market.

(d) In terms of Exim Policy, MMTC as the dejure importer of gold furnished a bond to Customs authorities binding itself to pay customs duty on imports which had not been utilised for exports. To discharge this responsibility, MMTC was expected to maintain proper account of import, export and utilisation of gold. No detailed account of gold issued to various units and exports made thereagainst was available either in the EOU complex Jhandewalan or any of the EPZ complexes. While relevant figures in respect of other complexes were compiled after being pointed out in audit, in SEEPZ no details of exports were made available. Consequently, the extent of default in this EPZ could not be ascertained. The Ministry stated that it was for the individual units to maintain such records and to satisfy customs. The Management's view point in the matter is not tenable because the Company has been maintaining similar information in respect of import and export of precious cargo at Bombay for which, it functions as a custodian. Moreover, in the absence of its own data on exports, the Management had to fall back on the certified statements /information furnished by the individual units located in SEEPZ. A comparison of figures of gold issued as per records maintained by MMTC office at SEEPZ with gold issues reported by the units themselves indicated significant variations. While 2 units reported issue of gold lesser in quantity (13 kgs) than that recorded by MMTC, in four other units, the quantity of gold issues reported by the units was higher by 509 kgs. Apart from that no satisfactory explanation was given for the discrepancies by the Management or the Ministry, these variations underline the fact that the Company could not afford to rely on the data furnished by the units themselves. The Ministry however, stated that, in the absence of information to the contrary, the gold purchased by the units in SEEPZ was treated as exported. Since the customs documents in proof of exports were not shown to audit, the exports claimed to have been made from SEEPZ could not be vouched in audit. In the absence of proof of export, it was difficult to rule out the possibility of gold purchased having been sold in the domestic market at a premium.

(e) In other EOU/EPZ complexes, the default in exporting gold issued to units was a regular feature from 1992-93 onwards. Up to end of March 1997, 285.71 kgs. of gold valued



at Rs.11.63 crore (approx.) issued to 29 units in SRO Jhandewalan (199 kgs.) and NEPZ (86.71 kgs.) had neither been exported nor been purchased. Though most of the defaulting units were those which had been categorised by the Company as its associates, no recovery had been made from these units. In the absence of any bank guarantees, it is doubtful whether the Company could stave off the resultant loss of Rs.11.63 crore. This excludes unascertained losses on account of default in export of jewellery by the units in SEEPZ.

(f) Owing to defaults in the export of jewellery, the Company was served show cause-cum-demand notices by the customs authorities for payment of customs duty of Rs.17.21 crore in respect of gold imported up to July 1996, whereafter, GOI made the manufacturer-exporters liable for execution of bond thereby relieving MMTC of its responsibility (with prospective effect). While MMTC is yet to make payment of the amount demanded by customs authorities, the Ministry stated that MMTC was not liable to pay customs duty in view of the fact that the Commissioner of Customs, Delhi declared that MMTC was not liable to pay customs duty amounting to Rs.7.07 crore. The contention of the Ministry is not tenable, as MMTC, being the importer of the goods , is liable to pay the applicable customs duty in case of default in export. This is also borne out by the reply of the Ministry of Finance, Department of Revenue, Central Board of Excise and Customs(Board) to a specific audit query in this regard. On review of the Order of the Commissioner of Customs, the Board opined (March 1998) that the Commissioner had erred in dropping the demand of customs duty. Arbitration /legal proceedings have been initiated by the Company in 60 cases for recovery of Rs.41.71 crore against which award for Rs.4.92 crore in 9 cases had been received up to December 1997. However, an amount of Rs.78 lakh only has been recovered by the Company in one out of these 9 cases. It was observed in audit that in 13 cases the parties have no assets. As such the recovery of Rs.18.36 crore from them is doubtful. While awarding the recovery of amount in favour of Company, the

arbitrator(s) have observed in some cases that *"the officials of Company, who had been entrusted with the task of negotiating the deal with the exporters at the relevant time, had acted in a grossly negligent manner, thereby leading Company into advancing loans to the tune of millions of rupees to a person who could not have possibly concealed his suspicious antecedents from any one who sincerely wanted to verify the same"*. The Ministry stated (November 1997) that the Vigilance Department of Company had initiated proceedings against a number of officials of Company in this regard.

6.3.8 Delay in exports

6.3.8.1 As per instructions issued by Director General of Foreign Trade(DGFT) from time to time, gold supplied to the approved units (whether on outright sale or on loan basis) was subject to the condition that export of gold jewellery should be made within three months from the date of sale / loan. In the case of gold taken on loan, if the unit failed to export jewellery within three months (120 days with effect from August 1990), gold could either be returned to MMTC with a penalty of 5 per cent of the international price of gold or the unit could continue to retain the gold for a period of another three months by making an application to MMTC and paying a penalty of 5 per cent. A second extension of three months could be allowed with a penalty of 10 per cent. Beyond 300 days no extension was to be allowed and the exporter would become ineligible for any further loan / purchase of gold from MMTC.

6.3.8.2 Audit observed that during 1988-89 to 1996-97, in 518 cases in which, 1920.83 kgs. of gold was issued, exports were delayed for different periods extending up to 483 days. Of these, 281 cases involving 1559.83 kgs related to gold issued under DTA scheme. Apart from the bank guarantees to be furnished by the unit to cover the cost of gold, no provision existed in the scheme for imposing penalty on units for delay in exports. In the remaining 237 cases involving issue of 361 kg. of gold under EOU / EPZ scheme, though a provision for levy of penalty did exist, there was no evidence in the records shown to audit that penalty amounting to Rs. 87.74 lakh, leviable against the defaulting units was levied by MMTC. The Committee which was appointed by the Ministry (August 1995) to suggest suitable measures for safeguarding the interests of Government/Company {refer para 6.3.7.5(c)} confirmed defaults by export oriented units. Consequently, the Government reintroduced time limits for export performance and refixed it at 60 days. MMTC was divested of power to grant extensions, which was now vested with DGFT.

6.3.9 Packing credit

6.3.9.1 The Company provided packing credit facility to its associate units operating both in DTA as well as from EOU/EPZ complexes. Though in the context of scheme of gold trade proposed by MMTC in October 1987 (to replenish gold to exporters against jewellery already exported), Reserve Bank of India(RBI) as well as the Ministry of Finance had specifically disallowed proposal to provide packing credit to exporters the Company still extended the facility of pre-shipment and post-shipment packing credit up to 85% of export

value to its associates. No specific approval had been obtained from the RBI in this regard. In all such cases, exports were made 'A/c MMTC' and the GR form relating to export realisation was filed by MMTC with the RBI. In the absence of proper records of such advances to different units, the Company was unable to give a complete year-wise figures of sums advanced. As per the figures compiled by audit in December, 1997–January 1998, an amount of Rs.353.41 crore was advanced by MMTC during the period 1991-92 to 1995-96 to its associates as packing credit. The details are given in the table below:

Regional Office	Year	No. of units	Amount Advanced (Rs. in lakh)	Amount outstanding as of March 1997 (Rs. in lakh)	Remarks
Bombay & SEEPZ	1993-94 1994-95 1995-96	75 80 42	746.36 710.28 469.80	115.35	The details of packing credit advanced during the period 1988-1993 were not made available by the Company
Jhandewalan	1991-92 1992-93 1993-94 1994-95 1995-96	56 70 54 31 13	7071.52 5625.79 10652.33 5836.46 2973.23	1160.63	The details of packing credit advanced during the period 1988-1991 were not made available by the Company
NEPZ	1994-95 1995-96	13 13	912.80 342.86	400.00	
Total			**35341.43**	**1675.98**	

6.3.9.2 As against packing credit of Rs.16.76 crore outstanding as per the table above, the Company had shown only a sum of Rs.11.64 crore as outstanding in its accounts for the year 1996-97. The records of RBI and Director General of Foreign Trade (DGFT) on the other hand show the outstanding remittances in respect of the exports made by the Company's associates on 'A/c MMTC' at Rs.17.67 crore. This would indicate that the Company's record of advances given and realisations thereagainst was unreliable.

6.3.9.3 MMTC continued to advance packing credit to its associates despite their failure to fulfil export obligation. Some of the prominent cases in this regard are detailed

below:

(i) M/s. Lyall International Exports' was an associate exporter of the Company under the DTA scheme. The unit exported 3 kgs. of gold jewellery in December 1992 against the packing credit of Rs.9.42 lakh given by the Company. Although MMTC could not realise the export proceeds on the due date, the unit was issued a further quantity of 3 kgs. of gold in February 1993 which was not exported even after the expiry of the maximum permissible limit for exports specified by the GOI. Though the Ministry stated in May 1997 that gold was not in default from this unit it failed to show proof of export. An amount of Rs.26.03 lakh was yet to be recovered by the Company from this unit on account of outstanding export remittances (Rs.13.48 lakh) and interest thereon (Rs.12.55 lakh). The case was referred to the Directorate of Enforcement and is currently under arbitration.

(ii) 'M/s. Ganesh Exports' was also an associate exporter of the Company at Jhandewalan. The limit for issue of gold to the unit was fixed at 5 kgs. subject to a maximum of Rs.25 lakh. The limit for packing credit was Rs.40 lakh. As per the guidelines of the Company, the unit was required to give collateral security of property worth Rs.70 lakh to cover the cost of gold and the packing credit given by the Company. The unit gave, on 21 May 1993, a collateral security of its property which was valued at Rs.25.07 lakh by its valuer. The value of the property as per deed was only Rs.1.90 lakh. There were also other defects in the documents relating to personal guarantee, demand/promissory notes etc. submitted by the party. As the Company had not verified the papers properly, these defects were not noticed by them. The unit was issued 5 kgs. of gold on loan in April 1994 which has neither been purchased nor exported as of December 1997. The total dues against the unit aggregated Rs.22.44 lakh being the cost of gold (Rs 20.35 lakh) and interest thereon (Rs.2.09 lakh) which was outstanding for over two years. The case was in arbitration.

(iii) M/s Intergold (Delhi) Pvt. Ltd was another EOU and an associate of MMTC at Jhandewalan. As the performance of the unit with regard to exports was not considered satisfactory, the Company under the orders of the Chairman-cum Managing Director(CMD), suspended release of fresh gold loan to the unit in March 1991. The Ministry of Commerce also issued a show cause notice to the unit for its failure to fulfil its export obligation as an EOU. The Director (Metals) of the Company however, decided in July 1992, to resume supply of gold on the request of the unit, without providing any packing credit and released 10 kgs. of gold on loan basis. In August 1992 packing credit of Rs.25 lakh was also sanctioned to the unit without any bank guarantee. In January 1993, the credit limits of the unit were revised upwards although the unit had already started defaulting in payment aggregating Rs.88.40 lakh in respect of export bills from September 1992 to January 1993, which were on 'cash on delivery' (COD) basis. In July 1993, the gold loan limit of the unit was further increased from 20 kgs. to 30 kgs. and a fresh loan of 16 kgs. of gold was issued to them between July - October 1993. The gold loan of 14 kgs. released to the unit during June-July 1993 had however, remained un-exported. In February 1994, the customs authorities sealed the premises of the unit and in May 1994, the Company found that the local associates of M/s. Intergold had collected the parcels themselves without routing the payments through bank. The entire quantity of 30 kgs. of gold remained un-exported as of 31 December 1997. The total amount due from the unit aggregated Rs.1.79 crore comprising of cost of gold in default of export(Rs.1.22 crore) interest paid to UBS (Rs.9.76 lakh) and outstanding packing credit (Rs.47.26 lakh).

(iv) M/s. R.K.Goldsmith Pvt. Ltd., was an EOU from MEPZ (Madras Export Processing Zone). The unit was a habitual defaulter and had not discharged export obligation in respect of 3 kgs. of gold taken on loan in March 1990 and 10 kgs. taken in October 1991 even within the maximum permissible period of 300 days. The unit was, therefore, not eligible for any further issue of gold in terms of the Government of India instructions. The Company however, issued 10 kgs. of gold to the unit in February 1993, on the recommendation of the Development Commissioner. This was despite the Madras office cautioning SRO Jhandewalan against issue of any fresh gold loan to the unit. Out of these 10 kgs, 5 kgs. of gold was purchased by the unit in October 1993 by paying a penalty of 10%. For the purchase of the remaining 5 kgs., the unit paid only Rs.2 lakh, leaving a balance of Rs.19.76 lakh unpaid (including penalty of Rs.1.86 lakh). The Company filed a legal suit in January 1995, for the recovery of dues

amounting to Rs.26.14 lakh being the cost of gold, penalty and interest upto December 1994 i.e. after a delay of 2 years. Further, 6.5 kgs. of jewellery seized from the unit's vault in August 1995, with the help of customs authorities, turned out to be gold plated silver.

6.3.9.4 It was further observed that some of the associates to whom MMTC advanced packing credits had collected the export proceeds abroad in a fraudulent manner by tampering with the airway bills. The total amount in this regard aggregated Rs.2.25 crore (US$ 6.28 lakh) which is yet to be recovered by the Company. Prominent cases among these are detailed below:

(i) M/s Novelty Jewellers were an EOU and an associate of MMTC at NEPZ entitled to a limit of 20 kgs of gold loan.They were however, issued gold upto October 1994 from Jhandewalan like the other units in NEPZ. Two airway bills of COD parcels dated 22 September 1992 and 25 October 1993 relating to the exports made by them to M/s. Simran Jewellers, UK and M/s. Pam Trading, USA respectively were tampered with by the exporter. While the original airway bill which was submitted by the unit to MMTC showed the foreign bank and the buyer as consignees, the copy of the airway bill of the airlines indicated only the name of the foreign buyer as the consignee. As a result, the foreign buyer was able to take delivery of the COD parcel without obtaining the release order from the bank (normally the release order is issued by the bank only after collecting payment from the foreign buyer in the case of COD parcels). Consequently, MMTC sustained a loss of US$ 18554.27 due to non-realisation of export proceeds. In addition, 2 invoices bearing Nos. 12 and 20 dated 23.08.1993 and 23.11.1993 respectively amounting to US$ 54508.81 were outstanding for realisation beyond 180 days, in violation of the FERA/RBI guidelines. The Ministry stated that all payments for the exports made by M/s. Novelty Jewellers have been received. However, no documentary evidence of the realisation made from the exporter was produced to audit.

(ii) M/s Glitter Overseas were also an EOU from NEPZ with a sanctioned limit of 20 kgs of gold on loan. They had also tampered with the airway bills pertaining to exports amounting to US$ 159672 made vide invoice Nos. 30, 49, 50, and 53 of November 1992, August 1993, September 1993 and November 1993 respectively to three foreign buyers. Consequently no payments were received by MMTC. An enquiry by the Company revealed that most of the payments were received by the exporters directly from the foreign buyers instead of remitting them to MMTC. Although some of the export bills pertain to November 1992 and September 1993, it was observed that the Company referred the matter to the Directorate of Enforcement only in May 1994 and a notice was served on the party as late as April 1996. The customs authorities had raided the premises of M/s. Glitter Overseas on 25 April 1996 and recovered 4.1 Kgs. of jewellery from them. This gold is however yet to be released by the customs to MMTC. The Company meanwhile filed two suits in court alleging that cheques issued by the unit for Rs.0.80 lakh and Rs.17 lakh were dishonoured. An amount of Rs. 59.42 lakh was yet to be recovered by the Company from this unit.

(iii) Similarly, airway bills pertaining to exports made by M/s. Pretty Women (EOU/NEPZ) between September 1993 and February 1994 were also substituted with the exporters and the Company could not realise the export proceeds amounting to US$ 260571. MMTC, however informed the CBI in March 1994 and the Directorate of Enforcement in

September 1994. As with the case of M/s. Glitter Overseas, the stock of M/s. Pretty Women was also verified by the customs in February 1995 and July 1995 and on finding out that 11 kgs of gold was missing from the premises, show cause notice was issued by customs to the unit in March 1996. MMTC filed a suit in the Court for invoking collateral securities and moved an application with the Delhi High Court in August 1996 for appointing an arbitrator.

(iv) M/s. Himanshu Jewellers was an associate exporter of MMTC at Jhandewalan under the DTA scheme. This unit also substituted the airway bills and collected the export proceeds in a fraudulent manner. The unit tampered with the airway bills bearing invoice Nos.9 and 10 dated 24 December 1993 and 14 January 1994 respectively and the Company did not receive payment amounting to Rs.19.75 lakh.

There was also a delay ranging up to 3 years in referring the cases of default to Directorate of Enforcement/Central Bureau of Investigation (CBI).

6.3.10 Unacknowledged Exports

6.3.10.1 The Company had to clear with Dubai customs 71 parcels of gold jewellery because they had threatened to auction the parcels,left uncleared by the importers, in order to recover their dues. All these parcels were exported by the associates of the Company who had been sanctioned packing credit, on 'A/c MMTC' during the period June 1993 to September 1994. In 12 such parcels belonging to 5 parties, the actual gold was short of the declared content by 15.4743 kgs valued at Rs.64.99 lakh despite the customs seal on all these parcels being intact. This included jewellery weighing 1.651 kgs, which was found to be imitation jewellery. The very fact that the gold was short of the declared content despite customs seal being intact indicates that the quantity and purity of gold was either not checked by the customs officials in India or they had chosen to go by the word of exporters.

6.3.10.2 Apart from loss of gold, the Company had to incur an extra expenditure of Rs.77.38 lakh (US$ 2.28 lakh) on account of duty, storage, security, bank charges etc. on clearance of the parcels. The customs duty paid included the duty paid on the quantity of gold found short. As remittances in respect of these exports were expected between January 1994 and June 1995, these had remained outstanding for periods exceeding 180 days in violation of FERA / RBI guidelines. In respect of 40 parcels alone sold by the Company in Dubai, it had sustained a total loss of Rs.1.06 crore (US$ 3.11 lakh).

6.3.10.3 As the exports in these cases were made on 'A/c MMTC' the turnover in this regard was booked by the Company as its own. Adequate precautions should have been taken to get the jewellery assayed at its assaying and hall marking facilities at SRO Jhandewalan, and its packing got done under the supervision of its own officers, so that the interests of the Company were safeguarded. Also, as the export proceeds were to have been received by MMTC the Company should have ensured that the quantity of gold as declared by the associate exporter in the airway bill was correct . The Management stated (September 1996) that they had initiated

legal action against the individual parties and that the matter was referred to the Directorate of Revenue Intelligence.

6.3.11 Trading performance

The turnover of MMTC relating to gold transactions accounted for about 32 % of the total turnover of the Company as of 31 March 1997. MMTC also booked an amount of Rs 31.44 crore as profit on gold trade during the year 1996-97. The Company however has not apportioned the overheads while calculating the profit earned on gold trade. While the details of overheads were not available on record to enable audit to calculate the net profit earned by the Company, even the trading profit being shown by the Company in its accounts did not take into account the liabilities of Rs.49.06 crore on account of the cost of gold to be paid to UBS in respect of 348.5 kgs. of gold which is in default of export as of 31 March 1997 (Rs.14.18 crore), non realisation of export proceeds (Rs.17.67 crore), and customs duty liability on the quantity of gold in default of exports (Rs.17.21 crore). The amount of interest payable by the Company to UBS on account of gold loaned to the jewellery manufacturing units is not available on record which, if taken in to account, would increase the liability of the Company. Apart from entailing financial loss for the Company, the non-realisation of export proceeds beyond 180 days also violates FERA/RBI guidelines.

6.3.12 Conclusion

The foregoing analysis would thus reveal that the Company failed to follow the procedures prescribed by the Government of India from time to time. The Ministry also failed to give proper directions to the Company so as to exercise effective control over the implementation of the scheme.

(i) The Company compromised the standard of transparency by awarding the contract for supply of gold to UBS without proper analysis of offers of other banks even though the rate of interest for supply of gold on loan offered by Bank of Nova Scotia was lower at 1.75% per annum as against 2.5% per annum offered by UBS. Besides, a peculiar clause of not executing any contract for further issue of gold on loan with any other party without prior written permission from UBS was accepted by the Company although this was not envisaged in their initial offer. Neither the Company nor the Ministry examined the implications of having a contract with UBS with this specific clause.

(ii) On its part, the Ministry had failed in discharging its responsibility by not giving any decision on the proposal for entering into an agreement with Bank of Nova Scotia in February 1985 even though the Ministry had itself asked the Company to examine this proposal and it was stated by MMTC that the proposal had been made after negotiation with bullion firms in London.

(iii) The proposal of entering into agreement with UBS was accepted by the Ministry merely on an indication given by MMTC that this was the most attractive proposal. The details of investigation made by MMTC and the considerations that weighed for arriving at this decision were not called for / examined by the Ministry;

(iv) For calling the quotations and processing the selection of UBS, M/s Shattaf was used as an agency. But the business interest/consideration of Shattaf was not spelt out by the Company or inquired / examined by the Ministry.

(v) The Company violated the provisions of the scheme for export of jewellery against gold supplied by foreign buyer. The Ministry had also not investigated the matter in spite of this having been brought to its notice by audit.

(vi) In contravention of the Exim Policy and guidelines issued thereunder the Company selected many units as its associates and issued gold to them on the basis of collateral securities of their properties instead of specific requirement of issue of gold against bank guarantees only. The Company, therefore, exposed itself to unwarranted risk, which was never intended by the Government policies and thereby, suffered losses.

(vii) The Ministry on its part failed to stipulate any safeguards like bank guarantees in the scheme for export of jewellery from EOU/EPZ complexes. In fact when MMTC introduced the system of 100 % bank guarantee for the value of gold loaned to individual units in EOU/EPZ complexes in September 1994, the Ministry of Commerce along with the Development Commissioner, NEPZ was instrumental in deferring its implementation. In August 1995, the Ministry approved introduction of graded bank guarantee system under which the units were required to furnish bank guarantee depending on their past performance. However, in August 1996 when MMTC requested the Ministry to approve the system of obtaining 100 % bank guarantee from the units for the value of gold loaned to them, the Ministry instructed the Company to continue with the existing arrangement of taking graded bank guarantee rather than 100 % bank guarantee. It is amazing that the Ministry rejected the proposal of MMTC for insulating the Company from risk in case of default, considering the number of defaults in exports by the units in the EOU/EPZ complexes.

(viii) Although RBI had approved trading in gold by MMTC subject to the condition that no packing credit should be made available by the Company, the latter advanced huge amounts to its associates as packing credit. The Ministry did also not insist on adherence to this instruction by the Company.

(ix) The Company did not maintain adequate and complete records/system to monitor the exports by the units against gold issued to them. MMTC specifically intimated to audit that they are not monitoring the exports done by units at SEEPZ against the gold issued by it. The Ministry also did not produce records relating to the selection of UBS as the supplier of gold. The Ministry stated (August 1997) that "possibly, these had been weeded out". The reply being presumptive and not based on facts is not tenable. In absence of production of records, it could also not be verified whether the replies to draft review furnished by the Ministry in May 1997 were based on records or were merely post-thoughts. The matter was brought to the personal notice of the Secretary in September 1997. The Ministry stated (November 1997) that audit was welcome to carry out a physical scrutiny of all the related records. However, records maintained by the Ministry were not produced even after this assurance.

(x) The Jhandewalan jewellery complex which was sponsored by MMTC itself and functioned under the direct supervision of General Manager (Gems & Jewellery) at corporate office and accounted for nearly half the gold transactions of Company as a whole, was responsible for the maximum defaults in exports and export realisations.

(xi) The Gems & Jewellery Division at corporate office of MMTC, which is responsible for the gold trade of the Company, had no Management Information System commensurate with the nature and size of the transactions undertaken by various ROs. As the Company had not maintained adequate records relating to the issues and exports of gold/jewellery, the details given to audit did not tally with the figures given in the annual accounts of the Company as detailed below:

Consignment closing stock of gold as on 31 March	**1991-92**	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**
	(Qty. in kgs.)					
Figure in Accounts	53	970	904	1581.43	906.63	913.95
Figure given to audit	38	962	996	1061.00	980.00	771.00

The Ministry admitted (May 1997) that there could be some anomaly in the closing stock indicated in the accounts as all the consignment stocks were combined.

(xii) Due to inadequate systems and ill-equipped MIS the Company could not monitor exports against the gold issued by it thereby defeating the very purpose for which the Government formulated the schemes. While the Company had intimated to Parliament and various enforcement agencies that all the gold except 265 kgs in default, issued by it, has been exsported, audit of the respective ROs as indicated in the review revealed that there was a default of 348.5 kgs which besides resulting in an outgo of foreign exchange amounting to Rs.14.18 crore by way of cost of gold had also entailed a loss of Rs.17.21 crore by way of customs duty thereon. In fact, during the formulation stage of the DTA scheme itself, Department of Revenue had expressed their reservation that if MMTC were allowed to import and issue gold to units under DTA, there might be monitoring problems.

(xiii) Apart from this proper system of accounting was not followed by Company to match the expenses being incurred by it against the revenue earned from its trade in gold. While the Company has posted its profit from gold trade at Rs.31.44 crore, it has failed to take into account the employee costs, various office and selling/advertisement expenses incurred by it. While these were not available on record to enable audit to calculate net profit of the Company from gold trade, the profit claimed by the Company would prove incorrect if the liabilities on account of customs duty of Rs.17.21 crore, non-realisation of export proceeds of Rs.17.67 crore, non realisation of bank guarantee amounting to Rs.36 lakh, interest on delayed purchase of gold paid to UBS and cost of gold in default of Rs. 14.18 crore are taken into account.

6.4 Loss in making provisional payment without adequate safeguards

The Company entered into a contract with a United Kingdom based firm (foreign supplier) in December 1994 for the import of 3000 MTs. alluminium ingots by 15 February 1995. In terms of the contract, the Company agreed to make payment provisionally at an average London Metal Exchange (LME) price for the month prior to the month of shipment of the material by the foreign supplier subject to adjustment to be made on the basis of final price to be decided in accordance with LME settlement price for high grade alluminium on any day within the agreed quotational period of 180 days plus a premium of US$ 107 CIF per MT. While

agreeing to the arrangement of making payment on provisional price, the Company did not adopt any measure to safeguard its commercial interest against the eventuality of sharp fall in the price of alluminium in future. Antecedents and latest financial standing of the foreign supplier was also not verified before entering into the contract.

Three shipments of the material weighing 1002.221 MTs, 997.083 MTs and 1000.594 MTs were supplied by the foreign party to the Company between 19 January 1995 and 27 March 1995 and the Company released a provisional payment of US$ 6176640.55 (Rs.1945.64 lakh approx.) to the foreign supplier. However, the final pricing was done between 18 April 1995 and 13 September 1995 on the basis of which an amount of Rs.154.22 lakh (US$ 489601.70) became due to the Company from the foreign supplier.

However, the foreign supplier went into voluntary liquidation in September 1995. The Company had realised upto June 1995 a sum of Rs.18.78 lakh (US$ 59608.44) only against its dues from the party. Although the Company filed a claim on 25 September 1995 as a single largest creditor for Rs.135.44 lakh (US $ 429993.26), no recovery could be made nor there was any likely hood of their recovery as the liquidation process had also not made any progress during the last two years ended September 1997.

The loss of Rs.135.44 lakh could have been avoided, if (i) the Company had not made payment at full provisional price or obtained a bank guarantee from the foreign supplier equivalent to 10 per cent of the value of the material at the time of making full payment at provisional price pending determination of the final price and (ii) verified the antecedents and financial standing of the foreign suppliers before entering into the contract to safeguard itself against any possible adverse variation in the price of the metal during a long period of six months subsequent to making the provisional payment.

The Management stated (August 1997) that the foreign suppliers had supplied copper and zinc to the Company during 1994-95 and, therefore, they did not feel the need to verify their financial standing although alluminium was supplied by them for the first time.

The reply of the Management is not tenable as they should have verified the antecedents and latest financial standing of the supplier before entering into a substantial contract.

The matter was referred to the Ministry in October 1997; their reply is awaited (February 1998).

The State Trading Corporation of India Limited

6.5 Loss in the sale of imported low density polythene

The Company and the Indian Sugar and General Industry Export and Import Corporation Limited (ISIEC) proposed to enter into an agreement with M/s Sysan International, Australia in November 1990 for the export of 125000 MTs of sugar at US$ 320 PMT to be delivered between December 1990 and February 1991 in 100 kgs capacity gunny bags.

Pending approval of the foreign buyer to the proposed agreement, ISIEC placed an order on the Company on 11 December 1990 for the supply of 42 lakh polypropelene polylined bags of 50 kg capacity to be delivered between January 1991 and February 1991 for packing sugar for

export. As per the intimation received by the Company from ISIEC, the latter was to make payment after the shipment by assigning a Letter of Credit (L/C) opened by the foreign buyer of sugar to the extent of the value of the bags calculated at the rate of US Cents 31.50 per bag. There was no formal contract between the Company and the ISIEC for the supply of the aforesaid bags.

The Company, however, placed a supply order on a Qatar firm on 14 December 1990 for 313.5 tonnes of low density polythene (LDPE) at a cost of US $ 1150 per metric tonne C&F, Mumbai. The Qatar firm supplied the agreed quantity in January 1991. The landed cost of the material to the Company was Rs.160.74 lakh,(cost: Rs.66.74 lakh, customs duty: Rs.78.71 lakh, clearing, handling and miscellaneous charges: Rs.15.56 lakh) which was sold by the Company by March 1993 for Rs.130.63 lakh sustaining a loss of Rs.30.11 lakh in the transaction.

It was observed in audit that:

i) the Company had not obtained confirmation from ISIEC of the export order before placing an order with the Qatar firm; and

(ii) on receipt of the LDPE, no efforts were made to get the bags stitched and supplied to ISIEC. The Company did not also take any action to recoup the loss sustained in the disposal of LDPE from ISIEC against whose order it was reportedly imported. Reasons for this were not available on record.

The Company, thus suffered a loss of Rs.30.11 lakh due to its failure to enter into a firm agreement with the buyer and to safeguard its commercial interest.

The matter was referred to the Management and the Ministry in June 1997; their replies are awaited (February 1998).

CHAPTER 7

MINISTRY OF COMMUNICATIONS

DEPARTMENT OF TELECOMMUNICATIONS

ITI LIMITED

7.1.1 Injudicious purchase of products

ITI Limited (Company) decided to procure Wave Lan Boards from M/s Pamir Electronics Corporation (PEC) for marketing Local Area Network (LAN). PEC offered exclusive/non-exclusive rights to promote and sell NCR Wave Lan products in India and some neighbouring countries on propriety basis.

On offer of 'Special Discount' by PEC, the Company placed (December 1993) an order for 1000 Nos of Wave LAN Boards at total value of US $ 619000/- (Rs.195.67 lakh FOB value approximately), the delivery period ranging from January 1994 to May 1994. While acknowledging the order the supplier indicated that Letter of Credit (L/C) must be non-cancelable/non-refundable for 1000 Wave LAN boards. Accepting the same the Company Opened an L/C (January 1994) for full value of the purchase order inspite of a staggered delivery schedule. But after receipt of 450 LAN Boards, the Company realised (May 1994) the poor market/order book position and requested the supplier to postpone despatch of balance quantity of 550 LAN Boards till further instructions. However, the supplier was not agreeable to the request of the Company and the entire quantity of 1000 Wave LAN Boards were supplied between March 1994 and June 1994, total landed cost being Rs.224.30 lakh.

The Company started receiving enquiries for point to point link with the launch of Wave LAN related products. The point to point link consists of Wave Point and Application software. M/s Pamir Electronics Corporation were the authorised suppliers for this product also. Though the projected demand was for only 70 Nos, the Company proposed to procure 300 Nos, each of Wave Points and Application software to avail of quantity discount offered by the supplier. Two separate orders were placed on propriety basis for purchase of wave points and application software at the rate of US$ 89940/- (Rs.28.43 lakh FOB approximately) and US$ 359760/- (Rs.113.72 lakh FOB approximately) respectively with scheduled delivery period from July 1994 to April 1995. Partial L/Cs were opened for 140 Nos., but at the insistence of the supplier, both the L/Cs were amended for full P.O. value (August 1994) and the entire quantity of 300 Nos., was airlifted in September 1994 at the landed cost of Rs.189.27 lakh.

The Company was not successful in marketing the products and the inventory, valued at Rs.3.95 crore from the total procurement of Rs.4.14 crore, has not been disposed off till date(November 1997). The Company has also made a provision of Rs.3.79 crore for these products in the accounts for the year 1996-97 as (i) marketing has become difficult due to delay in receipt of licence, as also frequency spectrum being crowded, and (ii) marketing was also hampered since the product was not behaving as expected in severe weather conditions. The balance material valuing Rs.16 lakh are held in stock for orders on hand to be executed during 1997-98.

The Company stated (March 1997) that though the presumption of market still existed, the higher licence fees and restrictions of Government discouraged the market. Further the Company's efforts to obtain blanket licence for both Wave Lan and Wave point were not successful as the frequency spectrum is also crowded with services like cellulars, pagers etc.

The reply of the Company is not acceptable as (a) the Company ventured into a new market without market survey on the future market potential of the product, (b) it is evident from the reply that the Company took up the new product without analysing license related issues in respect of the new products and its impact on marketing the products, (c) even the export efforts did not fructify because of license related issues, and, (d) all over the World Wireless Networking products have been showing declining growth rate because of the price and the license issue.

Thus the imprudent action taken by the Company resulted in infructuous expenditure of Rs.3.79 crore.

The matter was referred to the Ministry in September 1997; their reply is awaited (February 1998).

7.1.2 Infructuous expenditure on purchase of a machine

In December 1985, the Palakkad Unit of the Company placed a purchase order on M/s SECMAI, France for the supply of one Laser Photo Plotter machine required for generating P.C. films in the Printed Circuit Board Plant of the unit at a total cost of Rs.100.49 lakh. The unit did not call for any quotations, and placed the order based on the quotations received at Mankapur unit for a similar machine which, however, was supplied to Mankapur unit by M/s Alcatel, France. The order was placed on M/s SECMAI after commercial evaluation. The machine was scheduled to be delivered at Palakkad Unit in January 1986 and the same was ready with the firm by June 1986. However, due to delay in opening the Letter of Credit by the unit, the machine was despatched only in December 1987 and received at Palakkad in February 1988.

The machine was installed and commissioned only in April 1991. The Company attributed the delay to formalities like obtaining approval from the Government for deputation of foreign technicians etc. In the meanwhile, the foreign supplier firm had gone into liquidation due to bankruptcy in June 1990. The machine was commissioned by the experts from M/s SECMA (International), a new firm formed in place of the defunct supplier firm. Even after the much delayed commissioning, the machine could not be put to use on account of many technical deficiencies and also due to lack of expertise in putting the machine to use. In June 1993, M/s SECMA (International) intimated the unit that they no longer maintained the photo plotter. The unit informed Audit (March 1995) that, as the machine was of no use, it was proposed to dispose of the machine. Disposal is yet to take place (November 1997). However, the entire value of the machine has been written off in the accounts.

The Management stated (December 1996) that the failure was completely beyond ITI's control and was mainly due to reasons like fast technological changes, unexpected ban on capital investment, liquidation of SECMAI etc.

Thus, though the Company placed the order in time the problems faced in arranging for finance approvals led to delay in receipt of the machine, which coupled with the Company's lack of expertise resulted in an infructuous expenditure of Rs.100.49 lakh.

The matter was referred to the Ministry in June 1997; their reply is awaited (February 1998).

7.1.3 Loss in the Development of Parallel Computing Products

The Company entered into (September 1991) an agreement with the Centre for Development of Advanced Computing, Pune (C-DAC) for transfer of technology related to Advanced and High Performance Computing for a consideration of Rs.50 lakh. The Company decided to develop and market the products based on the assessment made by C-DAC that the demand for parallel processing computer products would grow by about Rs.24 to 32 crore by the year 1995.

The Company developed four products, viz, Super Four, Sweet Sixteen, PC host transducer, and Param after incurring an expenditure of Rs.71.37 lakh. However, the Company's efforts to market the products did not fructify as C-DAC also entered the market and offered better products with lower prices. The expenditure of Rs.121.37 lakh was charged off in the accounts for the year 1993-94 and 1994-95.

It was seen in Audit that the Company neither prepared any cost benefit analysis nor ascertained the marketability before taking up the development of these products. The Company stated (November 1995) that though at the time of signing the agreement it was the understanding that C-DAC would only be the technology provider and would not market the products, but due to a change in the policy at C-DAC, they also entered the market which affected the Company's progress. However, the transfer of Technology agreement did not stipulate any exclusive marketing rights to the Company and the Company had processed the development of parallel computing products on a mere understanding which resulted in a loss of Rs.121.37 lakh.

The matter was referred to the Ministry in October 1997; their reply is awaited (February 1998).

7.1.4 Avoidable blockage of funds and loss of interest

In anticipation of despatch of the finished goods worked out on the basis of planned production performance for the years 1991-92 and 1992-93, Naini and Mankapur units of the Company deposited Rs.1630 lakh and Rs.2576.60 lakh in their Personal Ledger Accounts (PLA) in March 1992 and March 1993 respectively. These units of the Company availed of cash credit facility from banks even though they had sufficient balances in MODVAT Account with the Central Excise Department. The actual despatches however, did not match the amount deposited

in the PLA resulting in avoidable blocking of Rs.499.18 lakh and Rs.231.78 lakh being the net balances after adjustment of the excise duty payable on despatches made upto 31 March of the respective years. Adjustment of deposit made in March 1992 and 1993 was done as late as February 1993 (Naini) and August 1993 (Mankapur) respectively with the despatch of finished goods.

Thus, the failure to corelate the despatches likely to be made to PLA resulted in avoidable blocking of Company's funds amounting to Rs.730.96 lakh leading to loss of interest of Rs.52.19 lakh calculated at the rate of 18.75 per cent p.a. being the mean rate of interest on cash credit.

The Management stated (August/December 1996) that the requirement of excise duty was calculated on the basis of planned /estimated despatches which could not match due to constraints like clearance by the Department of Telecommunications (DOT), transport, etc.

The reply is not tenable as no calculations and approval thereof prior to the advance deposits towards payment of excise duty were available on record. Also, the constraints, like clearance by the DOT, transport, etc. could have been anticipated and the advance deposits made based on the final clearance of goods by the DOT and not on the production plan of the Company.

The matter was referred to the Ministry in November 1997; their reply is awaited (February 1998).

Mahanagar Telephone Nigam Limited

7.2.1 Unnecessary provision of telephone instruments to private STD operator

The Department of Telecom (DoT) issued instructions in July 1988 allowing bulk franchise for establishing pay phones by voluntary organisations and private agencies. According to these orders, the private operating agencies would provide their own telephone instruments and the Mahanagar Telephone Nigam Limited (MTNL) would maintain these telephone connections.

In August 1992, while liberalising the allotment of pay phones to individual operators, DoT again reiterated that the telelphone instruments of DoT approved type would have to be provided by private operators themselves. Accordingly, the prescribed agreements with the private operators had a clause to the effect that the telephone instruments would be provided by the operators themselves.

Test check by Audit in July 1997 revealed that MTNL, Mumbai provided 7947 telephone instruments to subscribers trunk dialling private telephone operators contrary to DOT's instructions .Further, MTNL, Mumbai neither recovered the instruments nor collected any charges for provision of these instruments. This resulted in an avoidable expenditure of Rs.63.57 lakh to the Company without reckoning any interest element on the amount.

The matter was referred to the Ministry in September 1997; their reply is awaited (February 1998).

7.2.2 Loss due to under-insurance of Stores

MTNL obtained from the United India Insurance Company (UIIC), New Delhi, a comprehensive insurance policy for a sum of Rs.64.72 crore covering the period from 9 April 1993 to 8 April 1994 for their assets including store yards existing in Delhi. This included the stores at Shadipur Store-yard. These stores insured for an amount of Rs.2.05 crore even though the value of stores, as per records in the Depot, was Rs.3.32 crore. Besides, the Management did not take into account certain stores valuing Rs.1.27 crore pertaining to other units of MTNL which were also stored at Shadipur store-yard. The insurance cover for enhanced amount for these stores was taken only after the occurrence of fire incident at Shadipur store-yard in April 1993

In a fire incident on April 21-22, 1993, stores worth Rs.73.59 lakh at the store-yard were destroyed. The Management lodged an insurance claim in May 1994 for the total loss. As per the surveyor's report, the total value of stores lying in this store-yard on the date of fire was Rs.487.80 lakh. However, the Insurance Company made (August 1994) full and final payment of Rs.23.49 lakh based on the proportionate value of stores insured after deducting the cost of salvaged material which was sold by the management at Rs.15.98 lakh. Thus, under insurance by the management resulted in a loss of Rs.34.13 lakh.

The Management and the Ministry stated in November 1995 and December 1995 that the stores worth Rs.1.19 crore pertaining to General Manager (PMS) taken into account by the surveyors for valuation purposes, were not insured on that date but insured under a separate insurance cover in July 1993. The reply is not tenable as the stores in question were damaged at Shadipur store-yard prior to obtaining the said separate insurance cover. The reply is, however, silent about the cost of stores pertaining to AE, Cables taken into account by the surveyors.

The Management further stated in October 1996 that the Insurance Company had not accepted their plea for revaluation of stores and the loss of Rs.34.13 lakh would be written off. Thus negligence in not insuring the stores for the full value caused a loss to that extent. No responsibility has been fixed in the case.

CHAPTER 8

MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION & SUPPLIES

Hindustan Aeronautics Limited

8.1 Non-utilisation of Railway Siding

The Company had an agreement with Central Railway for providing and working of Railway siding for use by its Nasik Division on payment of service and maintenance charges and charges for the commercial staff working at the siding on an annual basis.

It was seen that the utilisation of the Railway siding decreased gradually from 1990 and from 1993-94 onwards the Railway siding was not used at all.

No action was taken by the Company to discontinue the siding facility as provided in the agreement by giving 30 days' notice to the Railways. The Company continued to pay the maintenance charges and charges for commercial staff which worked out to Rs.87.27 lakh for the period from 1993-94 to 1996-97.

When the infructuous expenditure was pointed out by Audit (May 1996), the Management formed a Committee (September 1996) to look into the feasibility of discontinuing the railway siding. The Committee recommended (February 1997) taking up the matter with the Railway authorities either for removing the siding or for waiver of service and maintenance charges since the same had not been used for years together. The Company approached (February 1997) the Central Railway requesting the waiver of the service and maintenance charges and it if was not possible, to remove the railway siding. The Central Railway informed (April 1997) the Company that the railway siding had been treated as closed from 1 April 1997.

The Ministry stated(December 1997) that the Railway siding was being used by Airforce Station at Ojhar for purposes vital for Defence needs; and HAL took up the matter with the Railways only after Airforce confirmed that the Company could take action to close the railway siding. The reply is not tenable as even though the railway siding was used by the Airforce, it was used only sparingly and the Company also did not bill/ recover any amount from IAF for usage of siding facility. The fact that IAF readily agreed(December 1996) to the proposal (October 1996) of the Company to close the siding confirms the fact that delayed action on the part of the Company, resulted in an infructuous expenditure of Rs.87.27 lakh.

CHAPTER 9

DEPARTMENT OF ELECTRONICS

Semiconductor Complex Limited

9.1 Loss due to failure to discontinue the production of defective item in time

The Company commenced commercial production of the Pulse Dialler (2560 G) in 1985-86. However, functional problems arose with the Diallers manufactured in 1986, 1988 and 1989. In 1990-92, some of the major customers (M/s Bharti Telecom Ltd, M/s Tata Keltron Ltd and ITI Ltd) reported heavy rejections on account of quality problems and poor performance of these diallers. As a result, the customers switched to alternate sources.

Meanwhile, an improved and upgraded product, TPS Dialler (91214/215), was developed by the Industry which led to the Pulse Dialler (2560 G) becoming obsolete. The Company was fully aware of the changing technological developments since it placed a purchase order for 6 lakh pieces of the upgraded and advanced TPS at a cost of Rs.87.54 lakhs on 22 December 1990.

Despite these developments, the Company continued the production of pulse dialler and in the absence of any demand, the stock of this product started mounting from 9361 as on 31 March 1990 to 303597 as on 31 March 1993.

The value of the Pulse Diallers (2560 G) and details of the inventory of finished and semi-finished goods (not saleable/useable) as on 31 March 1995 was as follows:

1.	Cost price of finished goods (241145 X Rs.29.50)		Rs.71,13,777.50
2.	Cost price of semi-finished goods		
	(a)	Devices (120637 X Rs.10)	Rs. 12,06,370.00
	(b)	Dies including wavers (996033 X Rs.9.45	Rs. 94,12,511.85
		Total	Rs.177,32,659.35

The Company discontinued manufacture of the Pulse Dialler only from April 1993. It thus took as much as over 3 years in arriving at this decision despite the defective and obsolete nature of the product which was evident in 1991, when significant rejections took place. The Company was also fully aware that this product had become obsolete in 1990, when it purchased the advanced TPS Dialler (91214/215).

Finally, the Board of Directors approved (August 1996) the write off of the inventory of pulse Diallers amounting to Rs.130.73 lakh. An amount of Rs.46.60 lakh was written off earlier.

Thus, failure of the Company to discontinue the production of the defective Pulse Dialler in time, resulted in an avoidable loss of Rs.177.33 lakh.

The Ministry stated (December 1997) that quality problems was primarily due to inconsistency in solderability at one of the outside facilities which could not be improved up to the desired level. The increase in inventory and finished goods was largely a consequence of diversion of the market to TPS diallers. This only confirms the audit observation.

CHAPTER 10

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

National Insurance Company Limited

10.1 Non adoption of premium rate by Tariff Advisory Committee (TAC)

The Ajmer Division of the company issued two fire policies covering building, machinery and stock of a Polyspin Company for the period from 1 April 1988 to 31st March 1989 and subsequently renewed the same upto 31 March 1997.

The Delhi Regional office of Tariff Advisory Committee (TAC) inspected (November 1988) the site and sanctioned rate of Rs.11.70 per mille (less 10 per cent discount) for main factory block and communicating area with effect from 1 April 1989. The Divisional office, however, continued to charge premium rate varying between 1.93 and 2.50 per mille for the communicating area upto 31 March 1997. During this period, TAC clarified (April - October 1993, February 1995 and June 1996) that the rate chargeable for the communicating area would have to be the same as for the factory block because the fire proof doors which separated the blow room of the factory with other sections, were not of the approved make, communication between the blow room and packing and fibre godowns was established through various ancillary rooms, etc. However, the Divisional office continued to charge premium at a lower rate, resulting in a loss of premium of Rs.88.41 lakh to the Company for the period from 1 April 1989 to 31 March 1997.

The Management stated (September 1996) that action to recover the premium from the insured had been initiated. Details of recovery are awaited (November 1997).

Thus non-adoption of premium rates fixed by the Tariff Advisory Committee resulted in a loss of premium of Rs.88.41 lakh for the period from 1 April 1989 to 31 March 1997.

The matter was referred to the Management and Ministry during November 1997; their replies are awaited (February 1998).

The New India Assurance Company Limited

10.2.1 Irregular settlement of claim

In terms of All India Fire Tariff, additional premium of mid-term cover for flood, storm, tempest(FST) perils must be paid either in cash or by demand draft.

A Mumbai divisional office of the Company issued a fire policy to a garment manufacturing firm of Mumbai for the period from 1 April 1993 to 31 March 1994. The risk was not covered for Flood, Storm, Tempest, etc.(FST) perils.

Due to heavy rain in September 1993, the insured suffered loss on account of flood. The claim was settled (December 1994) at Rs.41.34 lakh. The settlement was irregular since at the time of flood the risk was not covered for FST perils.

The Management stated (August 1996) that the insured had given a cheque for flood premium in July 1993 which was acknowledged by the Development Officer but the acceptance procedure had not been completed till the date of occurrence of the loss. It was also stated that the lapse was on the part of the Development Officer since he had neither accounted for the cheque nor informed the Divisional Office about its receipt till the date of occurrence of the flood. The premium was collected subsequently (May 1994) by revalidating the cheque with the approval of the Head Office of the Company.

The Ministry while admitting the lapse stated (July 1997) that this was purely a case of exception and the Company had advised all the officers to be careful while granting mid-term FST cover and to ensure collection of complete premium either in cash or by demand draft in case the cover was sought during the currency of the policy. The Ministry also stated later (February 1998) that the Company has issued a warning to the Development officer who had since resigned from service.

The fact that the Development officer violated the provisions of All India Fire Tariff by accepting a cheque in mid-term cover and then failed to account for it shows lack of proper control system on receipts and accounting of premium.

Thus, the Company had settled a claim of Rs.41.34 lakh of a Government manufacturing company without having proper insurance cover.

10.2.2 Avoidable loss due to system failure

A Mumbai based Division of the Company issued a fire policy to a textile processing company located at the Union Territory of Dadra & Nagar Haveli covering its factory for Texturising of polyster Yarn at Dadra for the period from 4 April 1991 to 3 April 1992 for a sum insured of Rs.53 lakh. The policy was subsequently renewed for the period from 4 April 1992 to 3 April 1993 for a sum insured of Rs.156 lakh. The policy was subject to 60 per cent coinsurance by Gujarat Insurance Fund (GIF). Hence 60 per cent of the premium was to be ceded to the (GIF).

The insured reported a fire claim on 10 April 1992. The surveyors assessed the claim for Rs.37.34 lakh and the claim was settled by the Company at Rs.37.06 lakh and also paid Rs.0.35 lakh as survey fee.

After settling the claim, the Company pursued with the GIF for recovering the share of co-insurance claim of Rs.22.45 lakh (inclusive of survey fee). However, the GIF rejected the claim on the ground that:

(a) in the previous year's policy, the interest of GIF was not shown nor was their share of co-insurance premium paid to them by the Company; and

(b) though in the renewed policy the interest of the GIF was shown, their share of premium Rs.17,162 was sent (9 September 1992) only after the occurrence of the claim which the GIF declined to accept.

The Company, therefore, had to bear the entire claim resulting in an avoidable loss of Rs.22.28 lakh (Rs.22.45 lakh- co-insurance premium Rs.0.17 lakh).

The Company, while admitting the lapse, stated (January 1997) that their initial efforts in explaining the postion to the GIF had not yielded results and that they would be taking up the matter with the GIF again.

The matter was referred to the Ministry in January 1997; their reply is awaited (February 1998).

Oriental Insurance Company Limited

10.3 Undercharge of Insurance Premium

According to the decision of the Inter Company Coordination Committee (ICCC) (October 1990), the rates for Group Personal Accident (GPA) policies which are outside the scope of tariff should be so fixed that the average claims experience of the preceding three years should not exceed 80 per cent while efforts should be made to bring down the claims experience down to 70 or 75 per cent.

The Jabalpur division of the Company issued (August 1991) a GPA policy for the period 11 August 1991 to 10 August 1992 to a State Electricity Board covering their employees (exceeding 70,000) exposed to both heavy and normal risks. Though the claim experience for the preceding three years had exceeded 80 per cent, the division did not load the premium, resulting in undercharge of Rs.15.85 lakh for 1991-92.

The policy was subsequently renewed in 1992-93 and 1993-94 without loading the premium with reference to the average claims experience of the respective three preceding years, resulting in undercharge of Rs.69.88 lakh for these two years.

The Management stated (January 1994) that as the GPA policy cover for persons exceeding 500 was outside the tariff. The rates charged by the division were correct. The Ministry also endorsed (April 1997) the views of the Management.

The reply is not tenable because the rate charged was compared with a tariff rate not applicable. The primary consideration for determining the premium is the claim experience. During the period from 1988-89 to 1992-93 the claim experience was 137 per cent instead of a maximum of 80 per cent recommended by the ICCC. This fact was ignored by the Company.

Thus, non-loading the premium in violation of rates prescribed by the ICCC resulted in undercharge of premium of Rs.85.73 lakh.

CHAPTER 11

MINISTRY OF FOOD & COSUMER AFFAIRS

Food Corporation Of India

11.1 Avoidable extra expenditure on appointment of adhoc transport contractor

In order to meet the acute shortage of rice in North-East Zone and to transport 10,000 MT of rice on emergent basis, the Corporation called for tenders for the appointment of an adhoc transport contractor in October 1993.The estimated rates for transportation based on the distance and capacity of the trucks, Schedule of Rates (SOR) etc. were not worked out. Though the tenders were opened on 27 October 1993, the negotiated rate of Rs.1731 per MT was accepted only on 24 December 1993. The selected contractor joined on 2 April 1994 and transported 7640.85 MT of rice and 176.025 MT of wheat during April-October 1994. Thus the main purpose of transportation on emergent basis as assessed in October 1993 was defeated, since the movement started 5 months later. The time taken for movement of rice and wheat (April 1994) from the date of initiating the appointment of adhoc contractor (October 1993) was in fact sufficient to complete appointment of a regular contractor.

Subsequently when, in July 1994 and again in December 1994, tenders were invited for the appointment of regular transport contractors the lowest rates received were Rs.1125 and Rs.1307 per MT respectively for the same destinations. Even though the tenders called for in July 1994 were subsequently scrapped on technical grounds, the lowest rate of Rs.1307 received in December 1994 was accepted and the regular contrator appointed from February 1995.

The delay in taking decision for appointment of adhoc contractor and delay in transportation of rice and wheat defeated the purpose of appointment of transport contractor on emergent basis resulting in avoidable extra expenditure of Rs.33.14 lakh on payment of higher rates to the adhoc contractor.

The matter was referred to the Ministry in March 1997; their reply is awaited (February 1998).

CHAPTER 12

MINISTRY OF INDUSTRY

DEPARTMENT OF HEAVY INDUSTRY

Bharat Heavy Electricals Limited

12.1.1 Loss due to absence of effective cost control measures

The Company received an order in July 1986 from the Punjab State Electricity Board, for the supply of a 10 MW Rice Straw Fired Power Generation set for Thermal Power Station at Jalkheri, District Patiala on a turnkey basis, at a firm price of Rs.23.50 crore. The order, inter alia, provided for the levy of Liquidated Damages not exceeding 5 per cent of the supply price in case of failure of performance guarantee tests. The Company in turn, placed in April 1987 an internal order on its Hyderabad Unit, for the supply of one Steam Turbine and Generator Set (TG) at a price of Rs.324.85 lakh (CIF). The supply was to be completed by March 1989.

The Unit completed the despatch of the TG Set by February 1991 and it was commissioned in June 1992. The Unit incurred an expenditure of Rs.483.19 lakh on its supply as against the estimated cost of Rs.354.80 lakh and net sales realisation of Rs.294.66 lakh, thereby incurring a loss of Rs.188.53 lakh (as against the anticipated loss of Rs.29.95 lakh).

The loss comprised the following:-

(i) Rs.30.19 lakh withheld by the customer towards Liquidated Damages due to the failure of the Company in demonstrating performance guarantee parameters of the TG Set and;

(ii) Cost overruns of Rs.158.34 lakh.

An analysis of the cost overrun revealed that:

(a) actual labour cost was 91 per cent more than the estimated labour cost mainly due to excess consumption of labour hours by 37 per cent; and

(b) the actual factory overheads were 135 per cent more than the estimated factory overheads due to excess labour cost and recovery of factory overhead as a percentage of labour cost was at the rate of 1473 per cent as against the estimated 1200 per cent.

The Ministry in their reply (January 1997) stated that:-

* they could not demonstrate the performance guarantee figures to the customer due to inherent problems and had written off the amount withheld by the customer;

* the interest free advance had played a major role in accepting the sale price of Rs.324.85 lakh.

The reply is not tenable since the receipt of advance on a sale order is not a new phenomenon and no quantified benefit was computed with reference to the interest free advance, while accepting the order.

Thus, failure to prove the performance guarantee parameters and exercise proper cost control measures resulted in an avoidable loss of Rs.188.53 lakh.

12.1.2 Injudicious Expenditure in Procurement of Turbine Nozzle and Bucket Castings

The Company obtained an offer from a foreign supplier on a single tender basis for developing an alternate source of supply of certain critical Nozzle and Bucket Castings, for the manufacture of Rotors for Gas Turbines both in India and abroad. The Company accepted the offer of the supplier and three Purchase Orders for the supply of unmachined Castings at a total value of FF.14291724 (Rs.478.14 lakh) including the cost of Tooling, which amounted to FF 11255364 (Rs.376.56 lakh), were placed in August, 1990.

The Company sought permission of the Reserve Bank of India in May 1992 for the release of Foreign Exchange amounting to FF 11407182 (Rs.657.85 lakh) towards Tooling costs and 5 per cent towards the cost of Castings payable to the supplier stating the following reasons for acceptance of the offer:-

1. The prices offered by the supplier were substantially lower than the prices of the Collaborator even after adding the Machining charges.
2. The total cost of Toolings payable to the supplier, if apportioned over 20 Sets, would result in savings amounting to Rs.1165 lakh per annum.
3. These tools would be the property of the Company with the Supplier and would be used for the supply of Castings against its present and future orders and would be despatched as and when asked for by the Company.

Subsequently in July 1993, the Company realised that un-machined Castings which were ready for despatch by the Supplier, could not be utilized in the manufacture of Rotors, until further machining operations were executed and for which no facilities existed in-house, nor any party identified. The Company, therefore, decided to place a further order on the Supplier, for the machining operations executable on the Castings before their despatch. The quotation, received in January, 1994 from the above Supplier, included the additional cost of separate Toolings valued at FF 962663 (Rs.52.47 lakh) required to be made for further requisite machining. The supplier also insisted on 100 per cent payment towards Tooling Charges. However, the Company eventually requested the supplier in March 1994, for the despatch of Castings in `As Cast' condition.

Accordingly, all the items, excepting 100 First Stage Turbine Bucket Castings were received by the Company in August 1995 and had been lying in the Stores (November 1997). In addition, Tools valued at Rs.676.45 lakh were also lying idle with the Supplier. The Company had not physically verified the items with the Supplier and their usability.

This resulted in injudicious expenditure of Rs.899.97 lakh towards:-

(I) Cost of Toolings -Rs.676.45 lakh

(II) Cost of Castings -Rs.223.52 lakh

The Company continued to procure the Castings from the Firm for meeting their existing orders. Thus, the original objective of identifying alternative sources for the items required had also not been fulfilled.

The Management stated (August 1996 and December 1996) that:-

(I) it was decided to re-export these items to USA for further drilling operations and;

(II) it had placed-an order on a US firm (December, 1995) for carrying out machining operation on some of the Frame VI castings.

(III) once the machining and drilling of the holes was established, the castings could be used in Gas Turbine manufacturing and;

(IV) it was an inopportune time to conclude that the expenditure of Rs. 899.97 lakh was injudicious.

The reply of the Management is, however, not acceptable in view of :-

(a) the fact that considerable time had elapsed and the Company was till December 1996 in the process of establishing the machining and drilling of holes to the unmachined castings received in August, 1995.

(b) the Company had commenced the write-off of 20 per cent of the total value of Tools i.e Rs.135.29 lakh from 1995-96 onwards.

The matter was referred to the Ministry in November, 1996; their reply is awaited (February 1998)

12.1.3 Loss due to Advance Procurement of SKD Systems

The Ministry of Defence desired in February, 1992 that the Company conclude a suitable agreement with a chosen Firm of New Zealand for initial supplies, absorption of technology and subsequent indigenous production of Simulation Systems. An Agreement for the supply of 4000 sets, related accessories, spares, tools and test equipment at a price of Rs.4103.15 lakh was also signed in February, 1992 between the Ministry of Defence and the Company. The Agreement, inter-alia, provided that the Ministry would place further orders on the Company for a minimum quantity of 2000 sets per year from 1993-94 onwards. Accordingly, another order (March, 1993) for 2000 sets at Rs.2051 lakh was subsequently placed.

As part of the purchase of Completely Built Units (CBUs) and Completely Knocked Down (CKD) Units, the Firm agreed to transfer the complete technology to the Company, at no extra payments. The Company procured the Systems from the Firm-CBUs for direct delivery and CKD sets for delivery after assembly and testing.

The details of the Systems supplied to the Ministry as CBUs and by assembling CKDs imported from the Firm, were as indicated in the table below:-

YEAR	CBUs	CKDs	TOTAL
1992-93	1800	Nil	1800
1993-94	2300	1500	3800
1994-95	Nil	400	400
TOTAL	4100	1900	6000

From the above Table, it can be seen that the Company had attained the level of production of the System from CKD sets during the year 1993-94 itself.

In accordance with the decisions taken during discussions with the Firm, in November 1993, the Company placed three orders on the Firm as detailed below:-

1. 1000 CKD sets at US$ 1700 per set, against an export order for 1000 CBUs at US$ 2500 per unit to be delivered in 1994-95;
2. 2000 Semi-knocked Down (SKD) sets along with accessories and spares at US$ 57,45,966.33, against anticipated order from the Ministry for supply during 1994-95;
3. 2000 CKD sets along with accessories and spares at US$ 48,67,012.38, against anticipated order from the Ministry for supply during 1995-96;
4. 1000 CKDs received against export order, were assembled and despatched in 1994-95 (800 sets) and 1995-96 (200 sets). While 2000 SKDs were received in 1994-95 the subsequent order of the Ministry, for 2000 sets was received in March, 1996. The order for 2000 CKDs was, however, kept in abeyance.

No specific reasons had however been assigned for the procurement of 2000 SKDs, at the higher price of Rs.272.48 lakh (Rupee equivalent of US$8,78,953.95 representing the difference between the order value of 2000 SKD sets and 2000 CKD sets, at 31.00 per $), instead of CKDs.

The Ministry stated in their reply (June 1997) that:-

1. The procurement of 2000 sets in SKD was justified on the basis of a package commercial deal through a record note of discussions held between the Company and the Firm in November 1993, according to which the Firm was to place a purchase order on the Company for the export of 1000 sets, to be manufactured from CKD imports from them, at concessional rate of US$ 1700/set against normal rate of US$ 1982.40/set; the Company was to import 2000 sets of SKD kits for their second order anticipated from the Ministry.
2. The deal was based on a quid-pro-quo arrangement with the Firm, which gave the following commercial advantages to the Company.
   (a) Entry into export market – Had the Company not accepted this offer, it would have missed the opportunity of getting the first export order for this product at a very good price of US$ 2500/set which resulted in a value addition of US $ 8,00,000 for 1000 sets (Rs.208 lakh).

(b) Concessional rates for SKD and CKD procurements and holding these concessional rates for over 2 years for procurement upto and including 1995-96 notwithstanding the price variation clause in original contracts with the firm.

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

(i) The contents of the record note of discussion held in November, 1993 between the Company and the Firm neither implied that it was a 'package deal' nor was the decision 'inter-linked'.

(ii) the need for advance procurement action in the absence of any firm order from the Ministry for 1994-95 and 1995-96 is not clear.

(iii) The request made to the Corporate Office by the Unit for more orders from the Ministry proved that the capacity was over 3000 sets and the non-existence of any "risks of delivery slippage" as apprehended by the Company.

(iv) The CKD sets procured against export order differed from the CKD sets procured against the Ministry's order in as much as it did not include certain items which were not required for CKD assembly for export; this explains the "special price" offered by the Firm.

(v) the procurement of SKDs, especially at a time when the Company could roll out CBUs from CKDs, was not in conformity with the initial decision to manufacture CBUs from CKDs.

Thus, the procurment of 2000 SKD System at higher prices resulted in avoidable expenditure of Rs.272.48 lakh.

12.1.4 Wasteful expenditure

In August 1989, the Company had prepared a Feasibility Report (FR) for the establishment of design and back-end processing facilities for Application Specific Integrated Circuits (ASIC) used in electronics systems. The project envisaged processing of 300 base wafers per week to manufacture 1.5 million devices per year with the sale value of around Rs.1100 lakh per annum at 75 per cent capacity utilisation. The project cost of Rs.470 lakh, as envisaged in the FR being less than Rs.500 lakh, was sanctioned (October 1989) by the Chairman and Managing Director of the Company.

Between May 1990 and October 1992, the Company received 35 machines costing Rs.557.28 lakh. Of these, eighteen machines (cost:Rs.371.12 lakh), imported from USA, were refurbished second-hand machines for which no performance guarantee was obtained from the suppliers. The Company also incurred an expenditure of Rs.135 lakh for setting up of clean room facilities (civil works, air conditioning and electrical fittings) for the project. One of the second-hand machines, wafer etching equipment (WEE), imported from USA at a cost of Rs.103.30 lakh, was defective ab-initio and could not be erected so far (October 1997) for want of repairs and is being treated by the Company as a total loss. Further, the feasibility report, the basis on which the project was approved, did not have any mention of sources and confirmation

of availability of raw materials. WEE is a vital part of the project and due to its non-operation, coupled with non-availability of raw material which was not ensured at the stage of project formulation, the Company has not been able to operate the project even after a lapse of over seven years after the receipt of the first machine, resulting in the investment of Rs.692.28 lakh being rendered idle. In addition, approval of the Board of Directors of the Company for the project cost of Rs.692.28 lakh has not been obtained so far (October 1997).

The Management stated (April/November 1997) that existing machinery and facilities were based on the use of 5" dia silicon pre-processed wafers as the prime raw material, the import of which was a pre-requisite for operation of the plant. These wafers could not be procured due to technological obsolescence which was noticed in mid-1991. Besides, there were problems with the commissioning of WEE.

The reply is not tenable as the setting up of the project with second-hand refurbished machines without obtaining performance guarantees and also without ensuring continued availability of the prime raw material, the technological obsolescence of which was noticed by the Company within a period of barely 21 months of the sanction of the project, was ill-conceived. It may be mentioned here that at the instance of the Management, the Central Bureau of Investigation had also registered (April 1997) a case to look into the matter.

The matter was referred to the Ministry in October 1997; their reply is awaited (February 1998).

12.1.5 Loss due to injudicious amendments to a purchase order

The Central Foundry Forge Plant of the Company at Haridwar placed (January 1990) a purchase order for DM 6.31 million on M/s.SMACHTIN MACHINE TOOLS ('A') of Germany for the supply of a second-hand 9000-tonne Forge Press located on the business premises of another German firm M/s.KLOCKNER-WERKE ('B') though its ownership had reportedly been obtained by 'A'. The scope of the supply included a 65-tonne Manipulator essential for satisfactory functioning of the Press. Simultaneously, a separate purchase order was also issued for supervision, erection and commissioning of the Press at DM 1.68 million.

In July 1991, 'A' expressed its inability to supply the Manipulator due to a dispute with M/s.'B' regarding its ownership and requested for reduction in the value of the purchase order by DM 0.6212 million. While this was agreed to, the Company did not protect its interests by ensuring that the procurement of the item from elsewhere would be at the risk and cost of 'A'. The Company also allowed 'A' to opt out of their responsibility for erection and commissioning of the Press by reduction in price of Purchase Order by DM 0.6 million out of DM 1.68 million owing to their lacking an organisation for the purpose. The Company obtained a promissory note, in lieu of bank guarantee, for DM 0.6 million for satisfactory functioning of the Press. 'A', however, stated that it was the responsibility of the Company to commission the press in a satisfactory manner within a period of 8 months and restricted its liability on this account to a period of 24 months, up to July 1993. The Company placed an order in June 1993 for the procurement of the same Manipulator located in the business premises of the German firm 'B' from an alternate source which resulted in an avoidable extra cost of DM 0.2572 million

(Rs.51.45 lakh). The promissory note, when presented (July 1993), was also not encashed by the Bank due to 'A' having obtained a stay order from the High Court on the plea that the Company had taken more than 8 months to commission the Press.

The Ministry stated (February 1996) that the Company had since claimed the extra payment of Rs.51.45 from 'A', in addition to other claims for loss of production, etc., and that the case was sub-judice. The Ministry's reply only underscores the fact that the Company did not protect its interest while amending the purchase order to ensure that the procurement of the Manipulator from elsewhere would be at the risk and cost of 'A'.

The placement of order without confirming from the firm 'B' the title of firm 'A' to the equipment and non-evaluation of its capacity to errect and commission the press, was without prudence and lacked adequate justification.

Thus, the imprudent placement of an order coupled with injudicious amendments thereto has resulted in an avoidable extra expenditure of Rs.51.45 lakh, in addition to production loss due to delay in commissioning of the Press.

Bharat Heavy Plate and Vessels Limited

12.2 Avoidable expenditure due to delay in placement of order

The Company invited limited tenders in April 1994 from two foreign firms for supply of two sets of 'Outer panels and Central Tubing for Ammonia Converter Basket.' Offers were received from both the firms in May 1994, of which the price quoted by a Japanese firm (FIRM) at JY 79,190,000 (Rs.296.88 lakh) at the rate of 100 yen= Rs.37.49) with validity upto 30 June 1994, for delivery within five months, was the lowest.

Based on the assurance given by the Company (15 July 1994) that order would be placed within a week, the Firm offered (25 July 1994) a special reduced price of JY 51,000,000 (Rs.191.20 lakh).

The Company, instead of placing the order, sought (26 July 1994) extension of validity of offer upto 13 August 1994 and released Fax of Intent on the firm for the supply of two sets of equipment at JY 51,000,000 (Rs.191.20 lakh) only on 12 August 1994.

However, the Firm rejected the Company's request for extension of validity of the offer and intimated (12 August 1994) its revised price as JY 79,190,000 (Rs.296.88 lakh) stating that their offer of JY 51,000,000 (Rs.191.20 lakh), had expired on 31 July 1994 (i.e., one week after 25 July 1994).

Subsequently, on Company's further request (31 August 1994) the Firm agreed to reduced (6 September 1994) the price to JY 67,000,000 (Rs.251.18 lakh) at which the Company finally placed (16 September 1994) the order. The equipment was received in July/August 1995.

The Ministry stated (April 1997) that the material required was for an order being executed with relatively new sophisticated technology and the Company had to proceed cautiously and systematically before ordering the material.

The reply of the Ministry is not acceptable as the Japanese firm was an approved vendor of the Company's technical consultants and furnished all the clarifications called for by the Company in time and the offer was the lowest and technically acceptable.

Thus, the delay in placement of the order had resulted in an avoidable expenditure of Rs.59.98 lakh.

Engineering Projects (India) Limited

12.3 Irregular engagement of a private consultant for procuring order

The Company submitted in February 1993 final price bid for package I of external coal handling system Phase II of Tuticorin Thermal Power Project Stage III of Tamilnadu State Electricity Board (client) at Rs.5300 lakh (including Rs.216.30 lakh for marketing expenses). The Company stood second lowest against Southern Structurals Limited (SSL), a Tamilnadu State Government Company who was the lowest (Rs.4300 lakh). As such the contract could not have been awarded to the Company. However, to procure the contract the company decided to engage a marketing consultant. A notice for this purpose was displayed on 8 July 1993 on the notice board of Head Office and Madras regional office of the Company. Out of two parties, the party quoting the lowest fee was engaged and Rs.219.60 lakh was paid to him.

The contract for package I of the project was awarded to the Company in August 1994 at a value of Rs.5489.94 lakh and payment of Rs.219.60 lakh was made to the consultant during November 1994 to January 1995. Thus, the Company incurred an irregular expenditure of Rs.219.60 lakh to obtain a contract which would have legitimately been awarded to the state government company.

The Management stated (August 1997) that it was gathered that a private sector party had quoted the third lowest price which was Rs.6 crore higher than the Company's price; indications were there that the client viz., Tamilnadu State Electricity Board was veering around to the idea of rejecting offers of both the Company and SSL in favour of this private party. The reply has to be viewed in light of the fact that the Company had included the amount payable to the consultant for market consultancy at the marketing stage itself which clearly indicates that the Company had the intention to appoint such consultant, ab-initio. Further, there is no basis for the contention of the Management that the client was veering around to the idea of rejecting the offers of both the Company and the Southern Structurals Limited.

Heavy Engineering Corporation Limited

12.4 Import of Induction Hardening machine on unrealistic projections

The Company had an Induction Hardening Machine running in its Heavy Machine Building Plant (HMBP) since sixties for hardening of smaller size components and parts of machine to be manufactured by the Company. As the existing machine was incapable of

hardening larger size components and parts and the Company expected to execute large scale orders of machine tools in the Heavy Machine Tools Plant (HMTP) requiring hardening of large size jobs, it decided in 1988 to install another high frequency Induction Hardening Machine from M/s.Kirloskar Electric Limited at the cost of Rs.16 lakh. The machine supplied by M/s. Kirloskar in 1990 failed and was, therefore, returned in June 1992 at a full cost of Rs.16 lakh.

The replacement of the failed machine was made by HEC through import (March 1994) from M/s Mitsui & Co., Japan by rejecting other 4 bids on grounds which were not primary condition of initial tender specifications. The above imported machine was installed at HMTP in April 1994 with the following projections:

1. HMTP would be getting additional orders for 5 Conventional and 2 Computerised Neumatic Control (CNC) machine tools with the demand of induction hardened guideway features generating additional business to the extent Rs.740 lakh per year. The contribution of these machines would be to the orders of Rs.375 lakh.

2. The cost of the machine would be Rs.210 lakh. The internal rate of return and average return on investment were envisaged at 38 per cent and 24.30 per cent respectively with the pay back period of 5 years and 6 months. The net profit over ten years would be around Rs.320.29 lakh.

3. The equipment would be utilised annually as follows:

(i)	For hardening of HMTP machine tools	250 hrs.
(ii)	For hardening of HMTP shafts, gears and mining spares	750 hrs.
(iii)	For hardening of HMBP components like shafts, gears and pinion shafts.	800 hrs.
	Total utilisation single shift basis	1800 hrs.

None of the above projections were realistic which is apparent from the following:

I. As against the execution of projected order for 7 additional machine tools per annum, the total actual execution of machine with hardened features during the period from April 1994 to July 1996 (i.e. in 2.25 years) was only two machines. The order value of these two machines manufactured was Rs.473.50 lakh only as against projection of additional business of Rs.1665 lakh for the period.

II. The actual investment on the machine went up to Rs.247.20 lakh as against the projected cost of Rs.210 lakh and the budget provision of Rs.40 lakh.

III. As against the envisaged capacity utilisation of the machine for 1800 hours per annum, the actual utilisation was for 15 days in 1994-95 and 2.5 days in 1995-96 and 30 days in 1996-97.

The Ministry stated (November 1997) that the machine could not be utilised due to non-availability of proper load in the Machine Tool Sector and also no load from HMBP. The Company expected to book substantial orders in future.

Thus, the investment made in fixed assets was on unrealistic assumptions which prevented the Company from gainful utilisation of its scarce resources especially when the Company was facing acute financial crunch and referrred to the Board for Industrial and Financial Reconstruction (BIFR).

Hindustan Paper Corporation Limited

12.5 Excess Consumption of Power

The Caustic and Chlorine Plant at Nagaon Paper Mill of the Company was commissioned in October 1986. Since commissioning, the power consumption in the plant for production of Caustic Soda was abnormally higher than the norms of 3900 KWH per MT due to use of Graphite Anodes instead of Metallic Anodes as a major process equipment. Though the above problem came to light in October 1987, the Company did not take any action for a period of 6 years and it was only in September 1993 when it deputed a technical team to study the performance of Metallic Anodes in a firm which was effectively running the system over a period of five years by bringing down energy consumption within the prescribed norms. Based on the report of the technical team, a cost-benefit analysis was done for conversion of Graphite Anodes to Metallic Anodes involving an additional investment of Rs.117 lakh with the pay back period of 8 months by way of saving in power consumption. Accordingly, conversion work was taken up in 1993 and completed at a cost of Rs.97.22 lakh in March 1995 resolving the problem of excess power consumption.

Thus, delayed action for conversion of Graphite Anodes to Metallic Anodes resulted in a loss of Rs.269.07 lakh on account of excess power consumption during the period 1987-88 to 1994-95.

The Management stated (August 1997) that though they had the intention to carry out the power conservation job, the same could not be done as the Ministry prohibited them to incur any additional expenditure on Nagaon Paper Mill without the approval of the Govt of India while clearing the capital budget for 1987-88.

The contention of the Management is not tenable as the above item of work was not included in capital budgets of the Company for the years 1987-88 to 1991-92.

The matter was referred to the Ministry in September 1997; their reply is awaited (February 1998).

HMT LIMITED

12.6 Avoidable expenditure due to delay in clearance of imported raw materials

The Bangalore and Tumkur Watch Units of the Company have been importing horological raw material from various foreign firms to meet their production requirements. A review of the horological raw material imported during the period 1991-92 to 1993-94 revealed

that the units were not prompt in clearing the consignements valued at Rs.6.41 crore (FOB value) from Sea and Airport Customs eventhough according to the Purchase Orders the materials were required either immediately or in a short span of one to three months. The delay in clearance varied from 4 days to 656 days, even after allowing a normal period of 30 days for clearance. The delay in clearance resulted in:

(i) locking up of funds amounting to Rs.6.41 crore (FOB value) paid in scarce foreign exchange through Letters of Credit (LCs) and consequential loss of interest of Rs.101.47 lakh;

(ii) payment of interest on customs duty to the extent of Rs.57.06 lakh and

(iii) demurrage charges amounting to Rs.68.06 lakh.

The delay in clearance of materials was due to:

(a) the system of ordering materials based on Operating Plan targets as a matter of routine. The Management, however, stated (December 1996) that the above system has since been stopped and all imports now are to be approved by Business Group Head after taking into account all the relevant factors;

(b) lack of funds to clear the consignments on receipt. The Management attributed (December 1996) the cash crunch to the accumulation of stocks and debtors in respect of large credit (Goods Held in Trust (GHIT) sales to the dealers/redistribution stockists at the year end which was subsequently discontinued in 1993-94.

The Ministry endorsed (March 1997) the Management's reply (February 1997) stating that the delay in clearing the material was not due to lack of co-ordination between concerned departments but on account of unavoidable circumstances when the actual performance was not as per sanctioned Operational Plan and 6 to 9 months' lead time was required to procure the material.

The reply of the Ministry/Management is not acceptable in as much as ordering of material based on Operating Plan targets as a matter of routine without taking into account all the relevant factors was by itself indicative of lack of co-ordination between the Purchases, Production Planning and Finance departments.

Further, on a review of major purchase orders placed, the lead time was found to be either immediate or between one month and three months and not 6 to 9 months as indicated in the reply.

The Ministry further stated (October 1997) that the Company had been advised to be more cautious in placing similar orders.

NEPA LIMITED

12.7 Blocking of funds due to placement of order on an agent

The Company placed (September 1989) a Letter of Intent (LOI) followed by a purchase order (February 1990) on Jessop and Company Limited (a PSU), agent of a supplier of UK on single tender basis for supply of 175 items of imported spares for a machine at a firm price of

Rs. 87.13 lakh, exclusive of excise duty and sales tax, with a scheduled delivery period of 12 months from the date of purchase order and release of advance.

An advance of Rs. 26.14 lakh (30 per cent of the value of the order) was released in February 1990 but the agent demanded (March 1990) an increase of 6 per cent in price on the plea that advance order could not be placed with foreign supplier due to delay in release of the advance by the Company. This was agreed to (June 1990) by the Company. After the initial clearance of the Director General Trade Development(DGTD), the agent demanded (January 1991) another increase of 10 per cent in the price due to delay in obtaining import licence and consequential increase in prices by the foreign supplier. Initially, the agent's demand was rejected (March 1991) on the grounds that the prices were firm and obtaining the import licence was the agent's own responsibility. Later, however, the agent was given(September 1991) an opportunity to revise his offer. Accordingly, the agent submitted (January 1992) a revised offer for the supply of 60 items for Rs. 89.74 lakh which was accepted by the Company and an amended purchase order issued in February 1992 with the supply to be completed within a period of 10 months. As the agent was facing liquidity problems, a further adhoc advance of Rs. 35 lakh carrying interest at 22 per cent per annum was released(April 1992) to the agent which, together with first advance of Rs.26.14 lakh, worked out to 68 per cent of the total order of Rs.89.74 lakh. Even after this additional financial assistance, the agent failed to execute the order and finally asked (October 1993) the Company to place the order directly with the foreign supplier. Thereafter, the Company procured on its own 9 of the items for Rs.11.69 lakh; the remaining items have not been procured (December 1996).

The contention of the Management (January 1997) that the order was placed to meet the anticipated future requirements is hardly tenable in view of the fact that during the following 7 years, the Company did not have to procure more than 9 of the items, out of orders placed for 175 items. This raises serious doubts about the estiamtion of the requirement of the spares. Further, the Management has not explained as to why the order could not be placed directly on the foreign supplier in September 1989/February 1990 itself. The advance of Rs.61.14 lakh and interest thereon at the rate of 22 per cent could not be recovered from the agent for more than 4 years from the date of cancellation of the order and as such recovery of outstanding advances has become doubtful.

Thus faulty assessment of requirement of spares coupled with placement of the order on the Indian agent, instead of directly on the foreign supplier, has resulted in blocking of funds to the extent of Rs. 61.14 lakh for over 5 to 7 years and loss of interest thereon amounting to Rs. 82.43 lakh (June 1997).

The matter was referred to the Ministry in September 1997; their reply is awaited (February 1998).

Praga Tools Limited

12.8 Irregular Reporting of Production and Payment of Excise Duty

The Company received orders for manufacture and supply of the following products:

Name of customer	Name of Product	Date of order/ Quantity ordered	Value (Rs.in lakh)	Quantity produced	Quantity declared as produced	Excise Duty paid (Rs. in lakh)	Delivery Schedule	Remarks
1.Ministry of Defence	Track Shoes	11.12.95 114 sets	362.41	Nil	114	54.36	50 sets by 31.3.96 and 4 sets by 30.9.96	No supply made so far Delivery extended upto 30.4.97
2.Ministry of Defence	Arm of Road Wheel	14.11.94 790 sets	122.05	5(Pilot samples)	121	2.69	50/100 sets per month after appr-oval of pilot sample	Pilot sample approved in February 97. clearancce for bulk production given in February 1997.
3.Rail Coach Factory, Kapurthala	Draw Gear Arrang-ement	26.3.96 374 nos.	31.09	Nil	374	6.22	3.8.96	No supply made so far.
4.Heavy Vehicle Factory, Avadi	Bushi-ngs	29.03.96 2534 sets	129.26	Nil	2534	16.21	30.09. 1996	2295 nos. have been supplied during the period from 18.7.1996 to 30.4.1997. The delivery period has been extended upto 15.5.1997. Excise duty was exempted, but payment was made.

The cost account records maintained by the Company revealed that there was no production of the above items during 1995-96 except 5 nos. (pilot samples) of Arm of Road Wheel. Further, the orders for Draw Gear Arrangement and Bushings were received in the last week of March, 1996. Thus, there was no possibility of producing any of these two products during 1995-96. However, the Company declared substantial production of all the four products during 1995-96 and also paid a total amount of Rs.79.48 lakh towards excise duty. The Company also treated this production as sold during the same year. Since, actual production had not taken place during the year, the payment of excise duty on these products was avoidable.

It was also observed that no excise duty was leviable on Bushings. However, the Company paid the duty without ascertaining the leviability of duty and thereby incurred a loss of Rs.16.21 lakh as the customer refused to reimburse this amount. Further, the order for Draw Gear Arrangement was cancelled by the customer due to delay in supply and an amount of Rs.9.40 lakh was claimed from the Company. Thus, the Company incurred an avoidable expenditure of Rs.105.09 lakh.

The matter was referred to the Management and Ministry in August, 1997; their replies are awaited (February 1998).

The Lagan Jute Machinery Company Limited.

12.9 Defalcation of cash--Rs.33.71 lakh

The monthly payrolls of the staff of the factory and foundry at Company's Lagan works, Angus were being prepared by the wage section at the Company's Head Office on the basis of the salary calculation sheets forwarded by the Labour Department of the works. These were being prepared in triplicate in carbon process. The first copy was for the Head Office Cashier to record the payments in the rough cash book or daily cash book which was subject to counter check by the Manager/ Sr. Manager (Finance). The second copy of the payroll was for the Labour Department as acquittance roll for record. The third copy was for use as pay slip for distribution among the staff. The net amount payable to each staff used to be put in envelops by the accounts clerks who prepared the payrolls and sent to the respective office with a copy of the pay slip and second copy of the payroll for disbursement. The daily cash register from the factory and foundry office showing payments made was sent to Head Office for reconciliation with the entries in rough cash book. During preparation of the payrolls a bank draft for an adhoc amount on the basis of average disbursement of the previous month was being sent every month by the Head Office to the concerned bank. A cheque was also being sent simultaneously to the works to enable factory cashier to draw the amount. The amount so drawn was recorded on the daily cash book maintained at the works.

In November 1993, the Management detected excess drawal in monthly payrolls in respect of staff of the works and defalcation amounting to Rs.33.71 lakh during the years 1987-88 to 1993-94 (upto October 1993). On detection of the defalcation, three of the accounts clerks of Head Office and the factory cashier (Supervisor) were suspended and charge-sheeted. The defalcation was committed by systematic manipulation and tampering of the figures in monthly payrolls in respect of the amount of overtime. The amount of overtime was manipulated upward in respect of employees for whom it was drawn and by inserting amount for those employees who were not entitled to overtime in the month.

The Management observed (December 1993) that this systematic manipulation and misappropriation were going on undetected for years due to absence of basic internal control system, lack of internal check required for payment of salaries/wages and undue dependence on the clerical staff. Consequently, departmental enquiry was held by the Company (February 1994). On the basis of the departmental enquiry report, services of one of the Accounts Clerks were terminated and the factory cashier was reinstated with minor punishment. The dismissed official filed a writ in the Hon'ble Calcutta High Court against termination of his service. The Company also filed a writ in the Hon'ble Calcutta High Court (March 1995) for recovery of Rs.33.71 lakh from the official. Both the cases are pending (October 1997).

The main procedural deficiencies and lack of internal control which rendered the defalcation possible were as follows:

i) Manipulation in the amount of overtime was made by erasing/overwriting the figures only in the first copy of the payroll which was used by the Head Office Cashier for entry in the Cash Book wih the help of the said accounts clerk without verification. The total amount payable was written in figures in pencil only in the first copy of the payroll.

ii) The accounts clerk who prepared the payrolls was also drawing money from the factory cashier and put the amount in the pay packets for disbursement. The factory cashier used

to hand over the money to the accounts clerk on the basis of his requisition without verification with the payroll. The actual amount payable was put in the packets and the excess amount misappropriated.

iii) The draft sent by the head Office to the Bank on adhoc basis for encashment contained considerable surplus amount.

iv) The prescribed checks and reconciliation were not done at the supervisory level.

Thus, procedural deficiencies, lack of internal control and non-reconciliation of factory records with Head Office records resulted in defalcation of cash amounting to Rs.33.71 lakh. No action against Officers at higher level has been taken for system deficiencies and lack of supervision.

The Ministry stated (November 1995) that the Pay Roll System has since been computerised and check points at various stages have been introduced to remove any procedural deficiencies.

CHAPTER 13

MINISTRY OF PETROLEUM AND NATURAL GAS

Bharat Petroleum Corporation Limited

13.1 Extra Expenditure on Purchase and Storage of Steel and Rework

A proposal for setting up a new Oil terminal at Cochin to take care of rail/road loading requirements was floated by the Company in October 1985 and a Detailed Feasibility Report (DFR) therefor was submitted to Government of India (GOI) in November 1986. GOI approved the proposal in August 1988.

The requirement of steel for the fabrication and erection of 8 Nos of floating roof tanks in the new oil Terminal was 3 to 4 thousand tonnes. Even though the contract for the job of fabrication and erection of tanks was awarded only in January 1990, the Company took premature action as early as in 1986/1987 for procurement of steel plates from Steel Authority of India Limited (SAIL) and 3961 MT of plates were procured and stored at site from end 1986 to August 1991. The contract was awarded after a lapse of three to four years from the time of purchase of the steel plates reportedly due to delay in getting approval of the Government of India for DFR. The storage of these plates for a long time in the open resulted in considerable pitting in the plates, for which the Company incurred additional expenditure of Rs.12.35 lakh on rework and rectification and also had to mobilise 927 MT of fresh steel from its other locations by incurring transportation charges of Rs12.72 lakh. Besides, the contractor had to be paid an extra sum of Rs.65 lakh as the job could not progress as programmed primarily due to the defective steel and consequently payments did not accrue as per billing schedule, thereby affecting his working capital.

The Company stated (December 1996) that advance procurement action was initiated with the expectations of receiving approval of DFR by March 1987 and that a long lead time was required for procuring 3 to 4 thousand tonnes of steel plates. The Ministry concurred (April 1997) with these contentions.

The above justification of the Company / Ministry is not tenable in view of the fact that premature action to procure the steel material was taken despite non-availability of proper storage facilities for procuring 3 to 4 thousand tonnes of Steel Plates.Further, though Government had approved the proposal in August 1988, the job of fabrication and erection was awarded in January 1990.

Thus, premature procurement of steel plates without proper storage facilities had resulted in avoidable expenditure of Rs.90 lakh to the Company.

Engineers India Limited

13.2 Loss due to defective estimates

The Company entered into a contract with Bharat Petroleum Corporation Limited (client) on 16 October 1989 to provide consultancy services for setting up a petroleum product storage project at Vizag at a lump sum price of Rs.72 lakh. The contract was entered into by the Company without ascertaining the complete scope of work. In the absence of details of work, the price was quoted by the Company based on the estimate of Rs.66.45 lakh worked out presuming requirement of 27650 manhours for Head Office services and 70 man months for site services. There was no provision in the contract for extra charges on account of scope of work to be ascertained subsequently. However, in the event of delay beyond June 1991 due to reasons not attributable to the Company, it was entitled to extra remuneration of Rs.5 lakh for every six months of delay.

The job was actually completed on 2 December, 1993 by incurring an expenditure of Rs. 171.34 lakh (Rs.104.89 lakh more than the estimates). Even the remuneration of Rs.25 lakh due to delay in completion, was not claimed by the Company in terms of contract.

Had the Company ascertained the scope of work before entering into the contract or at least made a provision in the contract for extra charges for additional items ascertained later, the loss of Rs.104.89 lakh could have been avoided.

The Management confirmed the loss and stated (July 1996 and August 1997) that the loss was due to undertaking of work which was not in the scope. It further stated that the activities undertaken under this job were of developmental nature. The reply of the Management is not tenable as this fact was not considered at the time of taking up of this job.

Gas Authority of India Limited

13.3 Avoidable extra expenditure due to delay in award of contract

The contract for the construction of Administrative Office Building at Vijaipur, estimated to cost Rs.175.22 lakh could not be awarded to the lowest bidder M/s Vijay Developers (V) whose evaluated price was Rs.189.47 lakh, because the approval of the Board of Directors could not be obtained before 7 July 1993 when the validity of the bid expired.

The Company, in August 1993 re-tendered the work. The price bids of five prequalified parties were opened (December 1993) and the offer of M/s Satish Constructions Pvt. Ltd.(S) who had quoted the lowest price of Rs.217.38 lakh (subsequently reduced to Rs.215.39 lakh during negotiations) was accepted against the revised estimate of Rs.202.26 lakh. The Board approved the proposal to award the work to M/s `S'-after being informed that earlier party (M/s V) had backed out. The actual reasons for not awarding of work to the party (M/s V) i.e delay in obtaining Board's approval, were not revealed in the Agenda of the Board.

Thus, the Company had to incur an extra expenditure of Rs.25.21 lakh which was avoidable.

The Management stated (November 1995) that though the note containing recommendations of the then DGM (Civil) and DGM (F&A) of 19 May 1993 for awarding the work to M/s V, was put up to Board on 4 June 1993 the Board had given its approval in its meeting held on 28 June 1993 and the minutes thereof were circulated/received after the date of validity of the bid. The Ministry also stated (February 1998) that as per instructions the BODs' approval was not permitted at that time. Hence the work could not be awarded to M/s V before the expiry date of validity.

The replies are not tenable as the formal decision to place the order on M/S V was taken on 28 June 1993 itself when the Board meeting was held. Moreover, even the draft minutes drawn for the meeting had been signed by all the functional directors including the C&MD by 6 July 1997. In case, the unusal practice of not obtaining approval of the Board by circulation was indeed in vogue suitable steps should have been taken to ensure that important matters still get decided in time. Thus, had the minutes of the meeting drawn up quickly, order on contractor 'V' could have been placed before 7 July 1993 and extra expenditure of Rs.25.21 lakhs could have been avoided.

Hindustan Petroleum Corporation Limited

13.4.1 Idle Expenditure on Sewage Water Reclamation Project

The Company (HPCL) planned Sewage Water Reclamation Project (SWRP) in 1988. SWRP sought to pump the raw sewage water from the municipal underground sewer near Chembur fly-over via underground pipelines to the Refinery, and to re-use it as cooling water after suitable treatment. The project sought to reduce discharge of sewage pollutants into the sea as well as to lessen the requirement of cooling water for refinery operations. Bombay Municipal Corporation (BMC) agreed in June 1988 to the proposal made by HPCL in January 1988 to supply the required sewage water, at a token rate of Re.1 p.a. It also advised HPCL to go ahead with the detailed engineering work, stating that 'other terms and conditions of the permission will be finalised after detailed scheme is worked out and submitted. In September 1990, after two years, HPCL's Board approved the project at an estimated cost of Rs.15.15 crore. The scheduled date of completion of SWRP was 30 months from its commencement, i.e by March 1993. It was in August 1992, after another two years, that HPCL approached BMC for permission for site acquisition and construction of pump house. Meanwhile, in November 1994, BMC unilaterally raised the sewage cost to Rs.6 per 10M3 of sewage from nominal Re.1.00 per annum, which they had agreed to earlier. The implication of BMC's decision was recurring financial liability of over Rs.50 lakh per year on HPCL. BMC has further increased the sewage cost again from Rs.6 per 10 M3 to Rs.27.50 per 10M3, taking the recurring cost liability would further increase to Rs.230 lakh per annum. This has had a major negative impact on project economics. BMC has also given only conditional approval to construction of pump house, linking it with, inter alia, payment of other charges under legal dispute between the Company

and BMC. Owing to this, HPCL suspended the work on the project since November 1996. From 1990-91 till February 1997, HPCL had spent over Rs.12.59 crore on the project. Even after incurring such large expenditure over an extended gestation period, the Company could not operationalise the project so far (September 1997).

HPCL stated (August 1997) that the delay in completing the project was entirely due to BMC not honouring their commitment, linking extraneous issues, and withholding approval of their pump house location. They also stated that the Company was taking up the matter with 'the State Government officials to seek their help in sorting out the issues with BMC'.

The fact remains that the Company took their own time in firming up their proposal, after BMC had given in principle approval to the project on favourable conditions and in seeking BMC's approval for site acquisition and construction of pump house, which was critical to the project. The Company sought BMC's approval only after a major part of project work was over, and not beforehand. This laxity, coupled with extended gestation of the project, has landed the Company in the present imbroglio resulting in idle investment of a large amount.

The matter was referred to the Ministry in October 1997; their reply is awaited (February 1998).

13.4.2 Loss due to delay in Commissioning of Gas Turbine Generators

As a part of its Lube Refinery Expansion Scheme (LRE-II), the Company (HPCL) placed (March 1991) an order on Bharat Heavy Electricals Limited (BHEL) for supply of one unit of Gas Turbine Generator/Heat Recovery Steam Generators (GTG/HRSG) at a total basic price of Rs.23.90 crore excluding excise duty, sales tax, levies etc and incidence of foreign exchange variation. GTG was to be commissioned by December 1992 and HRSG was to be commissioned by February 1993. BHEL delayed the supply. It could commission the GTG only in March 1995. HPCL invoked and recovered liquidated damages of Rs.1.70 crore from BHEL as per provision of supply order.

Due to delay in supply of GTG by BHEL, HPCL had to procure additional power from M/s Tata Electric Company. Even after recovery of liquidated damages from the supplier, HPCL incurred a loss of Rs.79 lakh due to this delay (Rs.12.32 crore towards cost of additional power purchased (-) Rs.9.83 crore towards cost of power generation in GTG - Rs.1.70 crore towards levy of liquidated damages).

The Management agreed with the observation of Audit.

Oil and Natural Gas Corporation Limited

13.5.1 Extra expenditure due to delay in taking decision

In April 1990, ONGC issued a consolidated tender for procurement of 9,46,100 metres of Casing Pipes of seven different types. This included requirement of 1,00,000 metres of L 80 47 PPF, 2,03,350 metres of N 80 47 PPF casing pipes and 6,42,750 metres of various other types

of pipes. The requirement of L 80 47 PPF type of pipes was later dropped. The reduced quantities of pipes of various types other than N 80 47 PPF aggregating 84,400 metres were procured at the lowest prices against the tendered quantity of 6,42,750 metres. But order for N 80 47 PPF casing pipes, though included in the tender as per requirement was not placed because the Steering Committee, constituted for effecting purchases and comprising of representatives of the Corporation as well as Ministries of Petroleum and Natural Gas and Finance, in its meeting held on 20 November 1990 had directed that the lowest bidder viz. M/s. PJPV, Bombay, being backed by a Canadian supplier 'P' and covered by the Canadian Government grant (CIDA/EDC), should be asked to match their alternate 'C' Ex-works price with the quoted CIF price of M/s.Algoma of Canada, whose bid even though lower, was commercially unacceptable. ONGC was also asked by the Steering Committee to submit the case of M/s.PJPV to the Government alongwith the offer of M/s. Ferromet of Czechoslovakia. Though latter firm's offer was deficient in regard to some critical conditions of the tender viz., submission of security-cum-performance guarantee, acceptance of failure and termination clause in full, acceptance of jurisdiction clause and acceptance of arbitration clause, their bid was taken into consideration on the plea that the firm operated from a country under Rupee Payment Area (RPA) and in recognition of the fact that such deficiencies had been waived by the Government in the past.

The parallel proposal of ONGC forwarded to the Ministry of Petroleum and Natural Gas on 19 December 1990 for securing release of foreign exchange so as to place order on M/s.PJPV for revised quantity of 105,400 metres on the basis of their lowest and commercially as well as technically acceptable bid, was returned by the Ministry on 1 February 1991 with the directive to resubmit the case to the Steering Committee for making further recommendation. By this time, however, the validity of the bid from M/s. PJPV had expired on 31 December 1990 and its Canadian supplier had also withdrawn its backing to the bid. Thus, the Steering Committee met on 7 February 1991 and decided to place order with M/s.Ferromet for 21,500 metres (subsequently increased to 28,700 metres) as per their offer and for 80,700 metres with M/s.OCTL, the second lowest bidder. As the validity of the offer from M/s.OCTL had already expired on 31 January 1991, the order did not materialise. The remaining quantity alongwith fresh requirement for 1991-92 was retendered in April 1991 and was imported at a rate (Rs.1.52 lakh and Rs.0.77 lakh per 100 metres plus freight and customs duty) much higher than the rate(Rs.0.86 lakh per 100 metres) offered by M/s. PJPV against the tender of April 1990. Thus, due to delay in processing the bid, the Corporation lost the opportunity of placing orders with M/s. PJPV at their lowest tendered price. Taking into account the difference between the price quoted by M/s PJPV and the actual price paid to M/s Ferromet and M/s Soconord for 1,05,400 metres the extra expenditure incurred by ONGC worked out to Rs.10.58 crore.

It was also revealed that on 5 March 1991, the Steering Committee recommended exercise of repeat order option on M/s.PJPV for 92,500 metres as per condition of purchase order of July 1990 at the rate which worked out to Rs.1.00 lakh per 100 metres. Though recommendation of the Steering Committee in this regard was forwarded to the Government on 22 March 1991 and option could have been exercised upto 5 April 1991, the Government did not release the required foreign exchange. Thus, due to failure to exercise the repeat order option in time and subsequent placement of orders on a foreign firm for 87,126 metres at higher rate(Rs.1.52 lakh per 100 metre plus freight and customs duty), for the same casing pipes, ONGC had to incur an extra expenditure of Rs.10.06 crore.

The Ministry contended (November 1995) that (a) there was always a market risk in all

cases of retendering, (b) comparing two different tender prices might not be appropriate, and (c) ONGC had paid the rates based on the lowest prevailing market prices at the time of finalisation of the tenders.

The reply of the Ministry is not tenable as it does not address the essential question of delay in decision making process .Though they were aware of sharp decline in the value of rupee in the foreign exchange market as well as the constraint of time and the fact that a proposal involving release of foreign exchange should be finalised within 120 days from the date of opening of tender after allowing 21 days to the Government for release of foreign exchange as per ONGC's material management procedure, the processing of the case by the Tender Committee which met six times between August 1990 and November 1990 and forwarding of recommendations of the Steering Committee by ONGC did not reflect these concerns resulting in an extra expenditure.

13.5.2 Improper planning in procurement of casing pipes

During review of non-moving Stores of the Corporation it has been noticed that casing pipes of 903.44 metres are lying in the store since January 1986. On further scrutiny, it was seen that in 1982, the erstwhile Madras Forward Base of ONGC had sent an indent to Mumbai Regional Business Centre (MRBC), for procurement of 36 joints (approx. 512 metres) of 40 inch casing pipes for use in exploratory drilling in deep waters of Krishna Godavari (KG) offshore. The casing pipes were to be used with hired rig SEDCO-445.

After nearly three years of the receipt of indent, Mumbai office placed an order in February 1985 on M/s.Vetco, Singapore for import of 930 metres of casing pipes valued at Rs.1.23 crore despite the fact that the indented quantity was 512 metres. Reasons for excess procurement of casings pipes could not be ascertained as the original file containing the proposal is reported to have been lost. The rig SEDCO-445 was dehired in January 1985 and exploration activity in KG offshore was suspended in January 1985 pending further geological investigation.

Thus due to lack of coordination between user (indenting) department and the material department the casing pipes procured have become surplus resulting in a loss of Rs.120 lakh as there was no immediate use for these pipes (903.44 metres) either in offshore or onshore activities and ONGC's efforts to dispose of the pipes through EIL to other PSUs proved futile.

In its response, Management stated (March 1997) that the placement of order was in the final stages when it was decided by Exploration Business Group to reinvestigate the area for some more geological data and ONGC expected that some locations could be generated as a result of the investigation. Hence, cancellation of order was not considered advisable due to long lead time for procurement.

The reply is not tenable as order was placed only in February 1985 whereas the drilling plan for KG offshore was revised and drilling activities were suspended in January 1985 itself. Moreover, rig SEDCO-445 with which the casing pipes were to be used was also dehired in January 1985. Thus, the Corporation should not have placed order when it had no definite plans for its utilisation.

The matter was referred to the Ministry in May 1997; their reply is awaited (February 1998).

CHAPTER 14

MINISTRY OF POWER

National Hydroelectric Power Corporation Limited

14.1 Indecision on Chamera Hydroelectric Project, Stage-II

Mention was made in paragraph 5.3.9 of the Report of the Comptroller and Auditor General of India - Report No.5 (Commercial) of 1995 - that the Government of India had approached the Canadian Government in March 1987 for diversion of Canadian dollar 287 million, remaining unutilised from Stage-I of the project to Stage-II. The 300 MW (3x100 MW) project on river Ravi in Himachal Pradesh, for which techno-economic, enviornmental and forest clearances had already been obtained by Himachal Pradesh State Electricity Board (estimated cost at November 1985 prices: Rs. 417.60 crore) had been got transferred by the Government of India to the Central Sector with the concurrence of Government of Himachal Pradesh and entrusted to the National Hydroelectric Power Corporation Limited (Company) in October 1987. Subsequently, the two Canadian development agencies (Canadian International Development Agency and Export Development Corporation (CIDA and EDC) offered (August 1987) assistance up to C$ 310 million (CIDA grant of C$ 108.5 million (35 per cent) and EDC loan of C$ 201.5 million (65 per cent) carrying interest at 7.4 per cent per annum and commitment charges of 0.5 per cent on the undisbursed portion of the EDC loan.

In August 1987, the Ministry of Energy constituted a Steering and Negotiating Committee to hold discussions with the (a) Chamera Constructors (a consortium consisting of SNC Inc., Acres International Limited, GEC Alsthom Electromechanique Inc., General Electric Canada Inc., and a joint venture of SNC Inc. and Acres International Limited) who were executing Stage-I of the project for evaluating and finalising their offer for the supply of Canadian -sourced goods and services for the project and (b) CIDA and EDC and finalising their offer of financial assistance. The Committee took about 3-1/2 years in finalising its report which, too, when submitted to the Department of Power in January 1991, contained no clear recommendations.

Thereafter, in October 1991, CIDA and EDC revised their offer of financial assistance and gave a fresh 'letter of offer in principle' reducing their assistance to C$ 250 million comprising a reduced grant element of C$ 87.5 million and the balance as EDC loan but at a higher rate of interest of 9.2 per cent per annum. The total project cost at June 1991 prices was then estimated to be Rs.1246.17 crore (including Rs.193.15 crore for the related transmission system) using Canadian financing and technology with completion schedule of six years. Using indigenous technology and financing, however, the project cost was estimated to be lower, at Rs.790.53 crore (inculding transmission cost of Rs.84.05 crore) but with a longer completion schedule of seven and a half years. However, since the project could be commissioned earlier if executed with Canadian assistance resulting in additional sales revenue of Rs.278.32 crore, its

implementations with Canadian assistance, was cleared by the Public Investment Board(PIB) in April 1992. Central Electricity Autority (CEA) too accorded its techno-economic clearance in May 1992, for Rs.1176.65 crore at April 1992 prices (excluding Rs.216.54 crore, the cost of the transmission system).

Despite extension/revision of offers made by the Canadian agencies for a period of over five years from August 1987 to September 1992, the Government did not take any decision about acceptance or otherwise of the offer. As a result, CIDA withdrew its offer in August 1992. The Committee on Public Undertakings, in their 51st Report (February 1996) deprecated 'this lackadaisical approach' of Government resulting in heavy loss to the Company. The Company had incurred avoidable expenditures of C$ 4.6 million (Rs.8.23 crore) as commitment charges to EDC up to September 1992 and Rs.13.05 crore (up to March 1993) on creation of infrastructure facilities such as access roads, temporary offices, stores and sheds, etc. which have remained unproductive so far. The Company was also expending Rs.50 lakh per annum on manpower employed for the project though no work was going on at the site.

In December 1992, the Government finally decided to go in for the project with 100 per cent financing support. Accordingly, global tenders were invited (January 1993) for its turnkey execution. In response, two bids were received (November 1993), one from Chamera Group led by SKANSKA International, Sweden, and the other from Indo Canadian Hydro Consortium (ICHC) led by Jai Prakash Industries Limited, India.

A sub-committee constituted by the Board of Directors of the Company held discussions/negotiations with the two bidders and evaluated the bid prices as under :

(Rupees in crore)

Particulars	Chamera Group	ICHC
Basic price including escalation, contingencies, financial loading, etc.	2300.18	1852.50
IDC and financial charges	740.23	592.22
Total project cost (including Rs.173.30 crore to be spent by NHPC on infrastructure)	3213.71	2618.02
(Less) Grant/Soft loan element	358.75	229.48
Net evaluated price	2854.96	2388.54

The Board of Directors, however, desired (January 1996) that the Company must also have its own estimates of the right price at which the project would be viable and which could also help determine the reasonableness or otherwise of the offers. The Board also felt that though the project was technically attractive, yet the offers received were on the high side, both in terms of per MW cost and the tariff. Accordingly, it was decided to obtain final offers from the two bidders, with technical and commercial features of the earlier offers remaining unchanged.

As per their revised and final offers (February 1996), the basic prices of the two bidders worked out to Rs.2520.70 crore (Chamera Group) and Rs.1935.70 crore (ICHC) and based on these prices, the total cost of the project (including Interest duing Construction(IDC) increased to Rs.3745.50 crore and Rs.2756.70 crore, respectively. The offers were thus even higher than

the earlier offers and accordingly, the Company decided (June 1996) to treat them as unacceptable since, based on even the lower offer of ICHC, the project cost would have been as high as Rs.9 crore/MW and the first year's tariff Rs.4.39 per unit at bus bar while the cost of projects cleared by CEA in the private sector ranged at around Rs.4.2 crore/MW.

On a fresh suggestion (November 1996) from the Ministry of Power to explore the possibility of obtaining reduction in the quoted prices as well as better financing, the Company again invited (December 1996 - April 1997) the lowest tenderer (ICHC) for negotiations in an attempt to bring down the project cost to an acceptable level. As a result, the total project cost of ICHC got reduced to Rs.2346 crore, simultaneously reducing the per MW cost to Rs. 7.82 crore and the first year tariff to Rs.3.66 per kwh. No decision has, however, been taken so far about the award of the work (October 1997).

In the meanwhile, the Company has, incurred further infructuous expenditure of Rs.10.24 crore (April 1993 to March 1997) on salaries and wages of the staff employed on the Project and repairs and maintenance of roads and the infrastructure created for the project.

Thus, it would be seen that though a technically attractive project was first got diverted from the State Sector to be executed in the Central Sector, yet no decision was taken on the only available offer of a Canadian Consortium with financial assitance even after its clearance by PIB. Further, even though global tenders were invited as far back as in 1992, no decision has been taken so far on the execution of the project. As a result, the project cost which would have been Rs.1176.65 crore (at April 1992 prices), is now estimated to be Rs.2346 crore, including future escalation of Rs.219 crore (December 1996) raising the cost per MW to a whopping Rs.7.82 crore/MW and cost of generation to Rs.3.66 per unit at bus bar. The Government of Himachal Pradesh had also expressed its reservations about execution of the project on turnkey basis and had sought its return to the State for execution in the private sector. Meanwhile, the Company has already incurred an unproductive expenditure of Rs.31.25 crore on the project up to March 1997 (on development and maintenance of access roads, temporary offices, commitment charges and salary and wages of staff employed on the project) and is continuing to incurr an expenditure of Rs.1.15 crore per annum on idle wages of manpower employed though no work has been taken up at site.

The Ministry stated (August 1997) that the project cost of Rs.1176.65 crore as cleared by PIB was not the completion cost unlike the present evaluated cost of Rs.2346 crore and accordingly the increase in cost was due mainly to devaluation of rupee from 1 CD$ = Rs.24.55 in April 1992 to 1 CD$ = Rs.26.83 in December 1996. Consequently there was no increase in the project cost in real terms. The Ministry also stated that it had been able to compress the completion schedule from the earlier 6 years to 5 years and that the expenditure of Rs.28.32 crore (Rs.31.25 crore as of 31 March 1997) was inclusive of (i) expenditure on infrastructure works which was useful and (ii) salaries of staff which was to be incurred anyway since the Company was having surplus manpower.

The Ministry's reply is, however, not tenable as the increase in cost due to effect of exchange variation was mere 9.3 per cent (increase in value of one Canadian dollar from Rs.24.55 to Rs.26.83) as against increase in project cost by 80.8 per cent (Rs.1176.65 crore) in April 1992 to Rs.2127 crore (without considering future escalation in December 1996). Even after considering increase of 47.5 per cent on account of inflation (at the rate of 10 per cent per annum) for the period from April 1992 to December 1996, due to not taking timely decision in award of contract, there is substantial increase of Rs.282.40 crore (24 per cent) in the project

cost in real terms. The delay of more than 5 years in decision-making for award of contract, following rejection of an indigenous offer of Rs.790.53 crore (inclusive of transmission line of Rs.84.05 crore) in 1992 primarily on the grounds that it involved a longer schedule of seven and a half years and that early completion (through Canadian offer) will generate additional sales revenue of Rs.278.32 crore, has only contributed to substantial increase in project cost. Even the gain of one year as claimed now is at best hypothetical and will be lost since the decision to go ahead with the project has still not been taken (October 1997).

As regards the usefulness of the expenditure already incurred on the project, it is pertinent that the expenditure of Rs.31.25 crore includes only a sum of Rs.3.39 crore relating to fixed assets which too have remained unfruitful and infact require further recurring expenditure on repair and maintenance. As to the expenditure on pay and allowance of staff it is pertinent that but for deployment of the staff on this project, the Company would have had to initiate steps to utilise them elsewhere or to prune down the number of its surplus staff.

National Thermal Power Corporation Limited

14.2.1 Avoidable extra liability due to incorrect pay fixation

Government conveyed (June 1991) their approval to the revision of pay scales of Executives (below Board level) of the National Thermal Power Corporation Limited (Company) with retrospective effect, from January 1987. The officers had earlier been sanctioned adhoc relief termed as first adhoc relief w.e.f. 1 January 1986. The relief, as admissible as on 1 January 1987, was to be absorbed in the revised basic pay and its payment discontinued from that very date.

During the intervening period of 1987-1990, however, the quantum of first adhoc relief admissible to the employees had gone up, consequent upon the accretion of annual increments placing them in higher pay ranges and accordingly raising their entitlement to the relief. Since the relief as admissible as on 1 January 1987 alone was to be taken into consideration for fixation of revised pay, the unabsorbed relief, if any, representing the amount becoming due from dates subsequent to 1 January 1987, should have been ignored for the purpose of pay fixation, and adjusted while allowing arrears on account of revision of pay scales. This was not done and the unabsorbed relief was instead treated as personal pay and merged with the basic pay with effect from 1 January 1991. This involved overpayment of pay and allowances from January 1987 onwards.

The merger of personal pay in the basic pay, in turn, led to certain anomalies wherein the pay of some juniors got fixed at higher stages than that of their seniors who were not drawing personal pay. The Company stepped up the pay of such senior officers to bring them at par with their juniors which resulted in further overpayment.

Thus, by not adjusting the unabsorbed relief and instead merging it with the basic pay, the Company had taken upon itself an avoidable extra liability of recurring nature, the impact of which, though substantial, was not susceptible of quantification in audit. Test-check of 96 cases, however, revealed that extra payments made to Executives for the period January 1991 to

December 1995 to set right the anomalies alone amounted to Rs.20.28 lakh. The impact of extra payments which are of recurring nature will only get accentuated due to fixation of pay at higher stages, consequent upon further revision of pay scales w.e.f. 1 January 1992.

In reply, as endorsed by the Ministry in January 1998, the Management stated (January 1997) that in the absence of any specific provision about treatment of increases in first adhoc relief subsequent to 1 January 1987, it was only appropriate to protect such increases which had actually been drawn. The reply is not tenable as relief only to the extent as admissible as on 1 January 1987 was to be absorbed and its payment was to cease from that very date as per Government orders of 28th June 1991. Further, the contention of the Management that in case the increases in the first adhoc relief after 1 January 1987 are to be ignored, the fitment benefit allowed in pay fixation stands substantially reduced and becomes marginal as on 1 July 1991, is not valid as the fitment benefit was fixed by the Government after careful consideration and negotiations with Employees unions and treatment of unabsorbed first adhoc relief i.e. the difference between first adhoc relief drawn on 1 January 1991 in the higher grade and first adhoc relief drawn as on 1 Janauary 1987 in lower grade as personal pay was at variance with the orders of the Government.

14.2.2 Avoidable extra expenditure

The Company was awarded (January 1994) a contract by the Dubai Electricity and Water Authority (DEWA) for the turnkey execution of 132 KV sub-stations for Awir and Hatta at Dubai at a total cost of Dirhams(Dhs.) 44.811 million. The contract was inclusive of the package for civil works for the two sub-stations. Though the lowest out of the 5 offers received by the Company was for Dhs. 3.85 million for civil works, they included a sum of Dhs.3.782 million as base price for the aforesaid package. In the bid offer by the Company the element of civil works cost as included thus amounted to Dhs.4.538 million, after loadings on account of direct expenses, profit etc.

The internal instructions of the Company provide that before the submission of a tender the work involved should be assessed in detail and tie-ups with outside agencies and back-up guarantee, etc. ensured. However, while calling for the bids from the potential sub-contractors for execution of the civil works, the Company did not include the material conditions stipulated by DEWA inter-alia to the effect that the prices should be firm, the bidders should furnish a bid bond equivalent to 10 per cent of the tender value, and no advance payment would be admissible. The Company also did not ensure tie-ups with outside agencies and back-to-back guarantees for execution of the contract. The 5 offers received by it were therefore at variance with the conditions stipulated by DEWA and also with its own internal instructions.

The lowest offer from the firm "AL-Rashid Construction Co. Dubai" (A), for Dhs.3.85 million, however, was subject to an advance of 15 percent and quantity variation of up to 10 per cent and any excess was subject to revision of prices. These substantial deviations were not adequately covered, while estimating price for the aforesaid package. 'A' also did not submit the bid bond. The Company, after award of Contract to it by DEWA, placed (June 1994) a letter of award (LOA) on 'A' at a total contract price of Dhs.4.254 million (with variations in the Bill of Quantity), with the stipulation that 'A' would furnish a Contract Performance Guarantee (CPG)

equivalent to 10 percent of the contract value and valid till completion of the guarantee period i.e. up to September 1997. 'A' declined (June 1994) to furnish the Guarantee; instead, it proposed retention by the Company of 5 per cent of the contract value from the last payment due to it at the end of the maintenance period. This being unacceptable, the Company cancelled (July 1994) the LOA, allowing 'A' to go scot-free since it had not furnished any bid bond never having been required to do so.

Finally, after obtaining fresh bids, the Company awarded (July 1994) the civil works to another contractor for Dhs.5.207 million. The work was completed in January 1996 by incurring an expenditure of Dhs.7.743 million. The substantial increase of Dhs.2.536 million was due to additional quantities at the execution stage which were not envisaged at bid preparation stage. The lapse of the Company in not adhering to its internal instructions relating to tie-ups with outside agencies before submitting its own bid and incorrect estimation of quantities at bid preparation stage thus resulted in an avoidable extra expenditure of Dhs.3.205 million (Rs.275.63 lakh).

The reply of the Management (December 1996) that bid bond could not be obtained because the offers received were for budgetary purposes and tie-ups were feasible only in consortium bid, is not acceptable because with a view to protecting its financial interest, the conditions stipulated by DEWA and the tie-ups as contemplated in the internal instructions should have been complied with. Further, an additional fact stated in the reply that in the absence of a valid contract with 'A', the question of revocation of risk purchase clause, etc. did not arise only highlights the failure of the Company to follow its own internal instructions.

The matter was referred to the Ministry in November 1997; their reply is awaited.

14.2.3 Undue payment of post maturity interest

The Company issued 14 per cent secured power bonds, 1st series, of Rs.1,000 each in February 1986. The total amount subscribed thereto was Rs.163.37 crore, with about 44,000 bondholders. The bonds were redeemable at par on 29 March 1993.

For redemption of the bonds by the due date, the Company decided (December 1992) to fix 1 March 1993 as the "record date" for the surrender of bond certificates and issued advertisements to this effect in newspapers in the first week of February 1993 and on 22 February 1993 by way of 7 days' notice required to be given under the Companies Act. It was made clear in these advertisements that no interest will accrue and be paid on the bonds after 28 March 1993. The investors were also issued a circular letter on 2 February 1993 to surrender the bonds by 1 March 1993.

By 1 March 1993, however, only about 8000 bondholders responded and redemption warrants were sent to them for Rs.93 crore by the maturity date. During 2-29 March 1993, 20,000 more claims for redemption were received and the bondholders kept on submitting their bonds even after 29 March 1993. The Company failed to make the payment to all the bondholders by the maturity date and received representations for suitable compensation by way of interest for delay in making the payment. Finally, the Company decided in June 1993 to pay interest for the post-maturity period, up to the date of the actual payment, not only in respect of

those cases where the bonds certificates were received by the maturity date but also where the bondholders had submitted the bonds after the maturity date. All were paid interest at 14 per cent as was being paid during the currency of the bonds.

The Company paid till May 1995 post maturity interest of Rs.191.92 lakh including Rs.147.61 lakh to bondholders who submitted the bonds after the maturity date.Since the payment of interest for the delayed surrender of bonds was not warranted in view of the decision of the company of December ,1992 and News paper advertisement of Feburary,1993,the amount of Rs.147.61 lakh paid as interest on bonds surrendered late to the company was avoidable ,when there was no delay on the part of the company in making payment for redemption of bonds. The payment of post maturity interest was discontinued from June 1995 as similar consideration was not being shown to holders of IInd and IIIrd series of bonds maturing in March 1994 and March 1995 respectively. The aforementioned payment of Rs.147.61 lakh was avoidable, the Company having no liability to pay it.

The Ministry stated (January 1998) that till March 1994, by which date post maturity interest of Rs.114 lakh had already been paid, the Company had been availing itself of cash credit carrying interest at the rate of 20 per cent per annum as against only 14 per cent paid to the bondholders.

The reply is not tenable as the availing of cash credit at higher rate does not justify the payment of interest when there was no legal obligation to pay post maturity interest for the delay of bond holders in submission of bonds for redemption.

Thus the Company made an undue payment of post maturity interest of Rs.147.61 lakh for which it was in no way liable as it were the bondholders themselves who had failed to submit the bonds for redemption by the due date. In addition, the Company also carried an un-discharged liability of Rs.72.40 lakh, being post maturity interest on 20382 bonds yet to be submitted to it for redemption (September 1997).

CHAPTER 15

MINISTRY OF RAILWAYS

Konkan Railway Corporation Limited (KRCL)

15.1.1 Extra payment due to adoption of incorrect base period

The tenders for 'Construction of Bridge across Zuari river and Mandovi river' were opened in July 1991 and August 1991 for Panaji Zone of the Corporation. A tender committee which met in September 1991 to consider offers for Zuari bridge, recommended negotiations with a view to obtaining reduction in rates. Negotiations were conducted in the corporate office in October 1991. The revised bids received after negotiations were considered by a tender committee in December 1991. In order to assess the possible implication of offer of conditional rebate of M/s Asia Foundations and Constructions Limited (Afcons) for Zuari bridge, the tender committee simultaneously took up the consideration of various offers received for the Mandovi bridge as well. The tender committee recommended that a counter offer be made to M/s Afcons for both the works by bringing down the rates of certain items of Mandovi bridge at par with the rates of Zuari bridge and 12 per cent rebate on both the bridges. The counter offers for both the bridges were made to M/s Afcons in January 1992. The same was accepted by M/s Afcons in February 1992 and contracts for 'Construction of Bridges across Zuari and Mandovi rivers' were awarded to them. The price variation clause incorporated in both the agreements provided that the index number for the base period would be the index number as obtained in the month of opening of tender and the month of opening of the tender should be replaced by the month of opening of the concerned negotiated offer in the event of accepting the tender by the Corporation on the basis of negotiated offer.

M/s Afcons submitted their first price escalation bill in May 1993 considering the base period August 1991 in case of Mandovi bridge. However, the Corporation's Panaji Zone did not agree with the base period of August 1991. They advised the contractor in May 1993 that final negotiated offer was made during January 1992 and this month should be taken as the base period for computing the price escalation. As the contractor did not agree, the matter was referred to corporate office in October 1994 which conveyed their decision in December 1994 that the base period should be October 1991. The payment of price escalation was regulated with respect to October 1991 as the base for both the works.

In this connection, the following observations are made:-

(a) The tenders for Zuari and Mandovi were opened during July 1991 and August 1991 respectively. Subsequently, negotiations were held for Zuari bridge in the month of October 1991 wherein M/s. Afcons had reduced their rates by 6 per cent for Zuari Bridge. The Corporation made a counter offer to the contractor during the month of January 1992 for both the works with 12 per cent rebate and bringing down the rates of certain items of Mandovi at par with the rates of Zuari. This counter offer was accepted by the contractor in February 1992 with certain modifications.

(b) In terms of Railway Board's letter of October 1965 'negotiations amount to counter offer in law' and, therefore, amounted to rejection of the original offer and the original offer did not ordinarily survive, the moment a counter offer was made. The agreements were finalised on the basis of counter offer given in January 1992 by the KRCL which was accepted by the contractor in February 1992 with certain modifications. Thus, the month of counter offer should have been taken as base period for the purpose of price escalation according to contract condition as contended by the Corporation's Panaji Zone.

(c) Extra payments of Rs.56.99 lakh were made to M/s Afcons because of adoption of October 1991 as base period instead of January 1992.

The Management with the approval of the Railway Board stated (January 1997) that the unilateral and suo-moto counter offer to a tenderer by the Corporation was not a part of negotiation and as the counter offer of the Corporation was not as a result of any negotiation, the base month for payment of escalation should have been the month of opening of Mandovi bridge tender in August 1991, whereas the Corporation had taken a more conservative stand and adopted October 1991, the date of opening of Zuari tender negotiations. The Management further stated that as the base period for escalation was correctly taken as October 1991, no extra payment whatsoever was involved. The Management also added that citing Railway Board's letter of October 1965 out of context and taking out the words 'counter offer' to apply to a unilateral and suo-moto offer of the Corporation, long after the negotiations were held, was not proper.

The reply is not tenable as the counter offer of the Corporation was as a result of negotiations and did not have any impact on treatment of base period as legally negotiations and counter offer were one and the same as stated in Railway Board's letter of October 1965. Further, the revised offer of the contractor (6 per cent rebate) after negotiations conducted in October 1991 was not accepted by the Corporation and a counter offer of bringing down the rates of certain items of Mandovi at par with the rates of Zuari and 12 per cent rebate was made by the Corporation in January 1992. While accepting this counter offer with certain modifications in February 1992, the contractor had an opportunity to take stock of the market rates then prevailing and deciding whether to accept the counter offer made by the Corporation or otherwise. As Railway Board's letter of October 1965 clearly brings out the legal position that negotiations and counter offer are one and the same in law, the Management's contention that citing of Railway Board's letter of October 1965 as out of context was not acceptable.

Thus, the adoption of incorrect base period for payment of price variation had resulted in extra payment of Rs.56.99 lakh.

15.1.2 Loss due to refund of royalty charges

The contracts for construction of earthwork in formation and minor bridges' in Section I to V of Mahad Zone at Panvel of the KRCL were awarded to 3 contractors {M/s.R.N. Tandon &

Sons (R), M/s.Shree Mahalaxmi Constructions Corporation(SM) and M/s.Mepabhai Mandam Contractors (MB)} during November 1990 and January 1992.

Clause 36 of the general conditions of contract for works of KRCL provided that rates for items of works entered in the accepted Schedule of Rates of the contract were deemed to include royalties. The clause 8.1.2 of the special conditions of contract entered into with these 3 contractors stipulated that royalty charges had to be borne by the contractor and in case of failure to produce the clearance certificate for royalty charges from the concerned revenue authority, an amount as calculated on the basis of relevant rates for payment of royalty charges applicable to the area would be retained from the dues of the contractor.

The Corporation approached the Government of Maharashtra in October 1991 for exemption from payment of royalty charges on earthwork done on Konkan Railway from private lands. The Corporation accordingly, instructed all its zonal offices in October 1991 that since the advantages of exempting the Konkan Railway Corporation from levy of royalty charges should directly accrue to the KRCL, all the earthwork contractors in whose agreements, payment of such charges had been made their responsibility, should be advised that their earthwork rate for forming banks with their own earth would have to be reduced by the corresponding amount, which represented the royalty charges.

Since contractors did not produce royalty clearance certificate as required under special condition of contract, the KRCL, Mahad at Panvel recovered royalty charges to the tune of Rs.96.99 lakh on earthwork done by the these contractors during 1991-92 to 1993-94. However, M/s. R in June 1992 represented that the Government of Maharashtra was not entitled to levy any royalty on ordinary earth used as filling' in accordance with the judgement passed by the High Court of Mumbai and requested for refund of royalty charges recovered from their bills. In January 1993, the Government of Maharashtra in a letter addressed to Collectors of Raigad, Ratnagiri & Sindhudurg districts stated that exemption of royalty charges on earth taken from private land by contractors for Konkan Railway earthwork was under consideration and it would take some time to arrive at a final decision. It was further stated that taking into account the importance of Konkan Railway in Maharashtra, royalty charges on ordinary earth taken by the contractors from private land for the work of Konkan Railway be exempted. M/s.MB and M/s.SM demanded refund of royalty charges retained by the Corporation in October 1994 and February 1995 on the plea that royalty charges were not chargeable on earthwork. The KRCL, Mahad at Panvel sanctioned refund of royalty charges amounting to Rs.96.99 lakh during January 1995 and October 1995 and the entire amount was refunded to the contractors.

In this connection following observations are made :

i) The rates quoted by the contractors included element of royalty charges and if at any stage the royalty was exempted by the Government, the rates quoted by the contractors should have been proportionately reduced. Even though the KRCL instructed all their Chief Engineers on 7 October 1991 to advise the contractors that their earthwork rates would have to be reduced by the corresponding amount which represented the royalty charges, no action to reduce the rates was taken.

ii) The amount of Rs.96.99 lakh recovered from the contractors should have been retained by the Corporation and not refunded since this amount was the royalty charges which formed the part of rates quoted by the contractors.

The Management with the approval of Railway Board (January 1997) has stated that in the year 1989 prior to tendering, the Supreme Court judgement existed exempting the ordinary earth from royalties and also the Ministry of Mines O.M. in 1989 exempted the Railway from payment of royalties on earthwork. They further stated that contractors would have taken this aspect into account while tendering in a competitive bidding and the letter addressed to the Government of Maharashtra was only to avoid harassment of the contractors by the Revenue Department. The recovery of royalty charges itself was a wrong recovery and there was no loss to the Corporation.

The Management reply is not acceptable on the ground that in spite of the Supreme Court judgement and the Ministry of Mines O.M. of 1989, royalty charges on ordinary earth was being collected by the Government of Maharashtra. Consequently, the condition in the tender documents clearly stated that the royalty charges had to be borne by the contractor and in case of failure to produce the clearance certificate from the concerned revenue authority, an amount as calculated on the basis of relevant rates would be retained from the dues of the contractor. Besides, the letter dated 7 October 1991 issued by the Engineer-in-chief about corresponding reduction in rates quoted and accepted, also supported audit observation and is contradictory to the Management's contention. Further, the inclusion of royalty charges in the rates quoted by the contractors, is clear from one of the contractors M/s.'R' letter dated 12 October, 1992 addressed to the Corporation wherein he had specifically requested the KRCL to arrange payment directly to the Collector from the amount deducted recovered from their bills so as to avoid penalty and interest thereon.

The benefit of exemption should not have been passed on to the contractors as the Government of Maharashtra had exempted the KRCL from payment of royalty charges. Thus, there was loss of Rs.96.99 lakh to the Corporation due to refund of royalty charges to the contractors.

15.1.3 Over payment due to incorrect interpretation of contract conditions

A contract for construction of Broad Guage (B.G) single line tunnel No.1 between KM 136.190 and 138.170 in Udupi Zone of Konkan Railway Corporation Limited (KRCL) was awarded to a contractor (M/s Sri Shankaranaryana Construction Company) in February 1992 for Rs.384.63 lakh stipulating completion date as 26 October 1993. The schedule to the agreement included, interalia, the following two items connected with open excavation of the approaches.

Item No.	Brief particulars of work	Unit	Approx Qty.	Rate (Rs.)	Amount (Rs.)
10(a)	Open excavation other than in hard rock requiring blasting	10 Cum	13,000 Cum	322 per 10 cum.	4,18,600
10(b)	Open excavation in hard rock requiring blasting	10 Cum	37,000 Cum	340 per 10 cum.	12,58,000

The contractor executed the work of excavation to the extent of 63948 Cum and 250 Cum against item NOs. 10(a) and 10(b) respectively by the end of January 1994. Out of the quantity executed, 10,000 Cum of earth was to be used for forming the adjoining bank. But this could not be executed as the land required at the north face of the tunnel could not be acquired. The contractor was instructed (June 1992) to dump the soil (10,000 Cum) on the sides to be re-handled later. As the earth excavation could not be utilised in forming the adjoining bank, the contractor was paid for 10,000 Cum at Rs.180 per 10 M3 as against Rs.322 per 10M3 accepted rate. This rate of Rs.180 per 10 M3 was the basic rate adopted for earth work in cutting in all soils in Udupi Zone. It was also decided to pay the contractor at the rate of Rs.290/- per 10 M3 (after deducting Rs.32/- per 10M3 towards compaction) for the balance quantity provisionally, as the soil was not found fit for forming bank.

In October 1992, the contractor claimed a rate of Rs.690/- per 10M3 for the quantity exceeding 25 per cent of that (13000 Cum) mentioned against item 10(a). The same was considered by the Tender Committee and a rate of Rs.600 per M3 was agreed to (November 1992). Accordingly payments were made to the contractor at the agreed rate.

In this connection, the following observations are made:

(i) Clause 40.2(b) of the General condition of the contract of KRCL stipulated that in the case of earth work, the variation limit of 25 per cent shall apply to the gross quantity of earth work, the variation in quantity of individual classification of soil shall not be subject to this limit. The contractor was, therefore, bound to carry out the work at the basic rates and was not entitled to any compensation whatsoever upto 25 per cent over the contracted quantity. The clause 38 of the Special condition of agreement also stated categorically that for variation upto an increase of 25 per cent, the contractor shall not be entitled to any compensation and would be paid for such extra quantity at the contract rate. Hence to arrive at the actual percentage of variations of the quantities executed the scheduled quantities i.e. items 10(a) (13,000 Cum) and 10(b) (37,000 Cum) were required to be clubbed together. Thus, the contractor was entitled only at the contracted rates for a quantity upto 62,500 Cum (13000+37000=50,000+25 per cent=62,500).

(ii) The rate of Rs.322 per 10 M3 quoted by the contractor against item 10(a) of the schedule was inclusive of the rate for all leads, lifts loading and dumping the soil including formation of adjoining bank with necessary compaction.

As out of 62,250 Cum of excavated earth, 10,000 Cum could not be used for forming the adjoining bank and the balance quantity (52,250 Cum) was also not fit for forming bank, the payment for balance quantity should have been released at the basic rate i.e. Rs.180 per 10M3 as applicable to cutting in all soils. However, the Corporation made the payment at Rs.180 per 10M3 only for a quantity of 10,000 Cum. In adopting higher rates for the balance quantity of 52,250 Cum (i.e.Rs.290 per 10 M3 for 6250 cum and Rs.600 per 10M3 for 46000 cum) an amount of Rs.20.01 lakh was paid in excess to the contractor.

The Management with the approval of Railway Board stated (December 1995) that the contract was governed by clause 38 of special conditions of the contract and variations had to be applied on individual items. They added that provision for clubbing of quantities of earthwork in excavation under various classifications was available only in clause 45 of the General conditions, but not in clause 38 of the Special conditions. Further the rate of Rs.180 per 10 M3

was only for cutting in all soils and rate of Rs.290 per $10M_3$ was allowed to cover elements of earthwork excavation, loading into lorries, leading and dumping excavation earth.

The reply of the Management is not tenable as the Clause 38 of the Special condition referred to by the Management did not specify that the variation upto an increase of 25 per cent on the scheduled quantities apply either to gross quantity or individual items of the earthwork whereas the Clause 40.2 (b) clearly stipulated that variation limit shall apply to the gross quantity of earthwork. The clause 45 of General condition of contract quoted by the Management in their reply was regarding maintenance of works and had nothing to do with clubbing of quantity of different items for the purpose of variation. Further, the scheduled rate of Rs.180 per 10M3 included the elements of lifts, loading, unloading and dumping. Therefore, an amount of Rs.20.01 lakh was paid in excess to the contractor by the Corporation.

CHAPTER 16

MINISTRY OF STEEL

Hindustan Steelworks Construction Limited (HSCL)

16.1 Avoidable payment of excise duty

In 1989, the Company secured a contract for design, manufacture, supply and delivery of plant and equipment for the Raw Material Handling Complex (RMHC) for modernisation of Durgapur Steel Plant. The job required, inter-alia, fabrication of iron and steel structurals.

Goods fabricated at the site of construction work for use in such construction work are exempted from the whole of duty of excise leviable thereon provided that the said goods are manufactured out of duty paid iron and steel products.

The Company, however, fabricated 2565 tonnes of duty paid iron and steel structurals at its Bokaro Workshop and transported the same to the site of the construction work at Durgapur. This resulted in payment of excise duty amounting to Rs.58.41 lakh during the period from March 1992 to June 1993, which could have been avoided, had the goods been fabricated at Durgapur Steel Plant construction site itself.

The Ministry in their reply (October 1996) stated that before undertaking the fabrication work, the matter was discussed with Durgapur Steel Plant authorities and HSCL was informed that conventionally bulk fabrication at site of construction was not permitted due to non-availability of space as well as hazards attached to fabrication when the plant was in operation. HSCL, therefore had to undertake fabrication work outside the plant area. Further certain types of sophisticated and critical fabrication could only be done in workshops with specialised equipment installed therein.

The Ministry's reply is not acceptable on the following grounds:

(i) No record, in support of the Company's contention to the effect that the matter was discussed with the Durgapur Steel Plant Management and they did not allow fabrication at the site, could be produced to audit. However, the Company in support of their contention quoted payment terms of RMHC contract which had no relevance to the fabrication of structure outside the site of construction work required for payment of excise duty.

(ii) The Company's statement to the effect that the issue was taken up with Durgapur Steel Plant management was not based on any record or facts in view of their another statement that they were not aware of about the applicability of excise duty in the event of fabrication outside the site of work. Had this been known, the issue of excise duty could have been sorted out well in time.

Thus, due to non-availing of the exemption available under the Central Excise Act, the Company suffered a loss of Rs.58.41 lakh.

Indian Iron and Steel Company Limited

16.2.1 Avoidable payment of surcharge on Railway freight

The general condition of Railway Goods Traffic specify levy of surcharge in respect of certain items of goods booked on "freight to pay" basis. However, an exemption from the levy of surcharge can be availed of by a consignee if the goods are booked under "weight only" system which is treated by the Railway as paid traffic. This arrangement could be made by making a deposit with the Railways equivalent to average transactions for a minimum period of 10 days upto 1984, 20 days upto 1992 and 30 days from 1993 onwards.

During the period from 1983-84 to 1995-96 (upto September 1995) Burnpur works of the Company procured 12.02 lakh tonnes of limestone from Satna and Maihar mines in Madhya Pradesh. The entire quantity was transported by Railway wagons on "freight to pay" basis. This resulted in payment of surcharge on freight amounting to Rs.207.77 lakh to the Central Railway which could have been avoided had the goods been booked under "weight only" system. However, the Railway had started booking the transportation of limestone under "weight only" system from the 16 October 1995 only after the Company had filed the solvency certificate obtained in July 1995 from the State Bank of India with which the Company was having overdraft facility since 1976-77 and had also deposited Rs.51 lakh in October 1995.

The Ministry stated (March 1997) that the efforts were made to avoid payment of surcharge either by way of persuading the suppliers for effecting despatches on "freight pre-paid" basis or taking up the matter with Central Railway for extending facility of "weight only" system. Further, since the IISCO was passing through a critical fund position , certificate of credit worthiness could not be obtained from the banker.

The Ministry's contention is not tenable as the Company had been paying surcharge on freight since 1981-82 but it took up the matter with the Central Railway only in November 1992 (i.e. after a lapse of 10 years) for introducing "weight only" system. This showed lack of initiative by the Company to avail of the benefit of the system in time. Further, the financial position of the Company remained more or less similar during all these years and the Company also maintained huge amounts in Current Accounts with the Scheduled banks

Thus, the belated action on the part of the Management has resulted in an avoidable net payment of surcharge of Rs.104.93 lakh (after taking into account the impact on account of saving in interest of Rs.102.84 lakh on the amount which would be blocked as security deposit after taking into account the average transactions of peak 30 days during 1983-84 to 1995-96 i.e. September 1995).

16.2.2 Unproductive capital investment on introduction of balancing facilities

The Chasnalla Coal Washery of the Company (IISCO), commissioned at a cost of Rs.2.30 crore in March 1969 was designed to receive raw coking coal from captive mines of Chasnalla and Jitpur collieries to wash 20.40 lakh tonnes of raw coal per annum. However, due to constraint of availability of coal of right quality and other logistic problems, achievable capacity was assessed (August/September 1977) at 12 lakh tonnes per annum.

In order to revive the original designed capacity of the washery, a scheme for introducing different balancing facilities at an estimated cost of Rs.16.87 crore was sanctioned by the Government of India in June 1983 with the latest completion schedule of all packages by June 1987. It was envisaged that with the commissioning of all the facilities, the washery would be able to achieve original designed capacity in full. The yield of washed coal after modification of the washery was estimated by the Company at 60 per cent with ash contents of 17 ± 0.5 per cent. The cost estimate was subsequently revised to Rs.25.77 crore in July 1987 with completion date of March 1988.

However, the scheme was actually commissioned for regular production in March 1990 at a cost of Rs.25.19 crore.

Thus there was a cost over-run of Rs.8.32 crore and time over-run of about 3 years in the completion of the scheme. However, even after commissioning of all the facilities at a cost of Rs.25.19 crore, the washery remained grossly under-utilised and failed to achieve the benefits envisaged therein as may be seen from the pre and post commissioning performance of the washery:

Year	**Raw coal input (lakh tonnes)**	**Washed coal produced (lakh tonnes)**	**Yield Percentage**	**Ash Percentage**
Pre-commissioning period (1985-86 to 1989-90) average of 5 years	8.26	3.95	48.40%	20.68%
Post-commissioning period (1990-91 to 1996-97) average of 7 years	10.57	5.66	53.65%	18.24%
Envisaged Parameters (after commissioning)	20.40	12.24	60.00%	17.00 $\pm$ 0.5%

Though there was some improvement in the average actual yield of clean coal and ash contents after commissioning of the facilities, it was still lower than the envisaged parameters. The capacity of the washery was grossly under-utilised due to failure of the Management to arrange requisite quantity of raw coal. Thus, due to non-achievement of desired yields, there had been a loss of revenue for shortfall in production of 4.80 lakh tonnes of washed coal valued at Rs.37.53 crore during the period from 1990-91 to 1996-97.

The Ministry stated (March 1997) that the main reason for under utilisation of the washery was non-availability of raw coal of required quality and quantity from captive mines as

well as from Bharat Coking Coal Limited. However, the balancing facilities at Chasnalla would be fully remunerative on acquiring of some areas for captive mining e.g. TASRA block etc.

The fact remains that there was no progress in acquiring TASRA block on lease. The feasibility report was yet to be prepared by Central Mine Planning and Design Institute Limited (November 1997).

Kudremukh Iron Ore Company Limited

16.3 Loss due to procurement of Distributed Control System

The existing FOX 1A Process Control Computer in use at Kudremukh Unit of the Company was found to be obsolete since 1990. As M/s. Fox Boro, the original suppliers were stated to have expressed their inability to supply or support spares for the existing system, the Company decided to purchase a new system and limited tender inquiries were issued (October 1990) to seven manufacturers. The quotations received were evaluated by the technical team of the Company and two Professors of the Indian Institute of Science (IISc), Bangalore independently. While the technical team of the Company preferred M/s. Rosemount India Limited to M/s. Taylor Instrument Company India Limited opining that Taylor System was an obsolete technology in critical areas of hardware hookup, the team from IISc was in favour of M/s. Taylor Instruments opining that their technology was the latest.

The Company placed (October 1991) an order on M/s. Taylor Instruments Company India Ltd., later known as Birla Kent Taylor (India) Ltd., (BKTL) for Distributed Control System (DCS) with Modicon PLC (Taylor MOD-300 process and information management system) complete in all respects, at a cost of Rs.145.92 lakh. The complete system was to be commissioned by the supplier by mid-June 1992. A separate order was also issued on the same firm covering project management of DCS, applications software and for supervision of installations/commissioning etc., at a cost of Rs.16.43 lakh.

The Company paid Rs.15.96 lakh as advance in December 1991. The supply order value was amended (July 1992) to Rs.270.77 lakh consequent to change in exchange rate. Meanwhile, as the suppliers expressed inability to import the Modicon PLC due to their financial constraints, the Company opened the Letter of Credit on behalf of BKTL and paid Rs.117.20 lakh in January 1994, deviating from the terms and conditions of contract which stipulated 80 per cent payment against invoice only. The entire lot of computer hardware and software was received by the Company at Kudremukh site in October 1994 only. The suppliers were paid an aggregate amount of Rs.266.97 lakh during the period December 1991 to October 1994.

As per the despatch instructions contained in the purchase order, materials were to be securely packed to withstand any transit hazards. However, the system was received in damaged condition. The system has not been commissioned so far (September 1997) mainly due to transit damage and the system not meeting many of the critical process requirements.

In this connection, the following are observed:-

i) Eventhough the technical team of the Company did not give any clearance for lifting the system from BKTL at any stage, the Management agreed to give clearance (29

September 1994) for despatch to Kudremukh based on the assurance given by BKTL that the balance work would be attended to at site.

ii) The DCS, as received at Kudremukh, had severe damages to the electronics within the control subsystems and other related items of the system.

iii) MECON, who were asked to examine the usability of the system, had stated (January 1997) inter-alia, that the system fell very much below the expected standards since during testing stage itself many hardware failures had been noticed and that the system, for all practical purposes, had been discontinued from the product line and concluded that by change over to BKTL system there might arise:

a) production loss due to frequent shut downs,
b) inconsistent quality and productivity,
c) danger to personnel and equipment,
d) replacement of the system in the very near future.

Thus, by accepting a system which was considered obsolete by the technical team of the Company, the entire expenditure incurred on the project amounting to Rs.293.25 lakh has been rendered infructuous.

In addition, non-commissioning of the system also resulted in an extra expenditure of $1,89,377.59 (Rs.59.92 lakh) due to procurement of Modicon PLC and spares which were urgently required for hooking up additional units of Crusher III and Ball Mills, which were earlier envisaged to be hooked up with DCS ordered on M/s.BKTL.

Meanwhile, as the Management do not propose to go ahead with erection and commissioning of BKTL system, action has been initiated to replace the present system with an "Open Architecture Control System" and a budgetory provision of Rs.150 lakh was made during 1996-97.

The matter was referred to the Management and Ministry in October 1997; their reply is awaited (February 1998).

Manganese Ore (India) Limited

16.4 Avoidable claim in the sale of manganese ore

The Company entered into an agreement in May 1988 with M/s Ram Bahadur Thakur, private limited company (buyer) for supply of 1,00,000 MT (+/- 5 per cent) of manganese ore, of which not less than 85000 MT and not more than 15000 MT were to contain 44/46 per cent (lower grade) and 46/48 per cent (higher grade) of manganese content. The manganese ore was to be supplied at the rate of Rs.228 and Rs.275 per MT respectively. As per terms and conditions of the agreement, the delivery of the ore was to be made in agreed batches at the specific instance of the buyer and any dispute between the two parties was to be referred to a sole arbitrator on the panel of Indian Council of Arbitration.

The Company supplied 88014 MT of the lower grade ore but did not supply any quantity of the higher grade ore. The buyer agreed (December 1988) not to ask for the supply of higher

grade ore provided the quantity of the lower grade ore was increased to 125,000 MT. The Company, however, did not respond to the buyer's request and also did not supply the contracted quantity of higher grade ore. Thereafter, the buyer sent (March 1990) a legal notice and followed it up by invoking the arbitration clause and preferring (January 1992) with the sole arbitrator, a claim of Rs. 281.66 lakh for breach of contract by the Company.

The sole arbitrator in his interim award held (August 1995) that the Company had indeed committed a breach of contract by not delivering the 15000 MT of higher grade Ore. The Company had filed a suit in the Mumbai High Court against the Interim award before, the sole arbitrator fixed the quantum of damages payable to the buyer. The case is still pending in the Court (June 1997). The Company made a provision of Rs.281.66 lakh in its accounts for the year 1995-96, while admitting that the liability for payment of compensation to the buyer had crystallised in the year 1995-96 with the interim award of the sole arbitrator.

The Ministry stated (January 1998) that the amount of Rs.281.66 lakh provided for in the accounts for payment of damages to the buyer had not yet been paid as the company had moved the Mumbai High Court against the award of the Arbitrator.

The fact, however, remains that the failure of the Company to supply the agreed quantity of higher grade manganese ore despite having sufficient stock of ore to meet its obligation, had resulted in an avoidable claim for damages amounting to Rs.281.66 lakh.

Rashtriya Ispat Nigam Limited

16.5 Loss on Adhoc Purchases

The Company invited global tenders in April 1993 for the procurement of 11,500 tonnes of Ferro Silicon to meet the requirements for the year 1993-94. The bids which were valid upto October 1993 were opened in June, 1993. Orders were placed in August 1993 on an indigenous supplier for the purchase of 600 tonnes only, at a basic price of Rs.26,250 per tonne. The Company could not firm up its annual requirements and could not also decide the source of procurement. It resorted to adhoc purchases and by the time orders were placed, the validity of the offers had expired. The Company procured additional 4267.682 MT of Ferro Silicon from different parties (indigenous sources) during the period October 1993 to March 1994 at prices higher than the prices quoted in the above initial order. Another 5000 MT was procured from an overseas supplier, of which 4500 MT was against Advance Licence, during March 1994.

Thus, failure to determine the annual requirements in advance and non-placement of the order within the validity period of the offer had resulted in an avoidable expenditure of Rs.217.39 lakh.

The Management stated (June 1996) that they had to resort to piecemeal ordering on indigenous parties due to uncetainty over obtaining the advance licences and import without these would be costlier. After obtaining licences in November 1993, an order for 5000 MT on an overseas party was placed in March 1994. They further added that in the process of importation against advance licences and piecemeal ordering on indigeneous parties, the Company saved Rs.96.09 lakh against the loss pointed out by Audit.

The reply of the Company is not tenable in view of the fact that the lowest party, on whom the initial order was placed in August 1993, agreed to supply the entire requirement of the Company. Therefore, the bulk order for the entire quantity should have been placed on the above indigenous party and the Advance Licences sold at a premium as and when obtained, in the open market. In the process, the Company could have avoided an extra expenditure of Rs.217.39 lakh.

The matter was referred to the Ministry in December 1996; their reply is awaited (February 1998).

Steel Authority of India Ltd.

16.6.1 Infructuous expenditure on installation of Acid Regeneration Unit

A scheme for installation of Acid Regeneration Unit in the By-product Plant of Coke Oven (Bhilai Steel Plant) was approved by the Management on 15 September 1992 at an estimated cost of Rs.198.64 lakh in order to overcome pollution problem and to recover and re-use both acid and other constituents of the acid sludge. It was envisaged that the scheme would result in a net annual savings of Rs.52 lakh including Foreign Exchange component of Rs.34 lakh in addition to control of pollution. Though the scheme was to be completed by March 1994, the Letter of Intent (LOI) was issued on 19 May, 1994 on limited tender basis to M/s MECON and contract awarded to them on 24 May, 1994 at a cost of Rs.1.99 crore. As per clause 2 of the contract, the system was to be installed within 15 months from the date of LOI i.e. by August 1995.

The Preliminary Acceptance Test certificate was issued on 18 June 1996. The Unit was commissioned on 19 August 1996 but stopped working from 1 September 1996. Several defects in the system were noticed during trial runs which could not be rectified till date (November 1997). As such, Final Acceptance certificate could not be issued. Notwithstanding this, an amount of Rs.1.88 crore was paid to the contractor. Thus, the project which was to be commissioned in March 1994 could not be put to use (November 1997) with the result that neither the pollution arising out of Sulphuric Acid could be reduced nor the annual saving of Rs.52 lakh as envisaged could be achieved rendering the total expenditure of Rs.1.88 crore spent on the scheme as infructuous.

The Management in its intial reply (September, 1997) had stated that MECON was persistently asked to rectify the defects but it did not take up the responsibility of rectifying the defects on the ground that as a contractor it had supplied the material as per specification of Research and Development Centre for Iron & Steel (RDCIS) and the erosion was due to incorrect selection of material. The Management added that RDCIS was finding out suitable material of construction for pumps, valves and pipes.

Thus, incorrect selection of material caused corrosion and erosion which resulted into an infructuous expenditure of Rs.1.88 crore.

The matter was referred to the Ministry in November 1997; their reply is awaited (February 1998).

16.6.2 Avoidable payment of Road Tax

As per the provision of Section 3 and 4 of the Orissa Motor Vehicles Tax (OMVT) Act, 1975, tax is levied on every motor vehicle used or kept for use within the State of Orissa. Tax is required to be paid in advance by the registered owner of the vehicle within such time and such manner as may be prescribed by the Competent Authority. As per Section 10 of the Act, prior intimation of temporary discontinuance of use of vehicle to Taxing Officer is required. In the absence of proper undertaking, the motor vehicle is liable to tax.

The Regional Transport Officer (RTO), Rourkela demanded road tax on dumpers under possession of Rourkela Steel Plant (RSP) amounting to Rs.36.64 lakh for the period from 1956 to 31 March 1975. The RSP, however, did not accept the demand and challenged the levy of tax from 1956 before the Hon'ble High Court of Orissa. As the writ application was dismissed by the High Court, the RSP moved to the Hon'ble Supreme Court in August 1976. While granting stay, the Supreme Court directed the RSP in August 1977 to pay 50 per cent of the tax and held that the balance 50 per cent be paid with interest at the rate of 10 per cent per annum for the entire period in the event, the appeal was lost. Accordingly, the RSP had paid 50 per cent of the taxes due for each year during pendency of the appeal from 1975-76 to 1991-92.

The final verdict of the Hon'ble Supreme Court announced in April 1992 went in favour of the RTO. Accordingly, the RSP paid balance 50 per cent tax amounting to Rs.82.20 lakh in November 1992 and arrear tax (1977 to 1994) of Rs.26.94 lakh in March, 1994. Interest of Rs.27.53 lakh at the rate of 10 per cent per annum on the above amount was also paid in December 1994.

It was, however, observed that an amount of Rs.19.11 lakh was paid (towards road tax Rs.13.32 lakh and interest Rs.5.79 lakh) on Dumpers which were either off-road or written off/sold. Besides, an amount of Rs.7.46 lakh was also paid (towards additional interest of Rs.2.64 lakh and penalty Rs.4.82 lakh) due to delay in making payment of tax and interest thereon as per orders of the Supreme Court. Due to non-submission of proper documents to the RTO as required under section 10 of the OMVT Act, 1975 and lack of co-ordination amongst various wings of the RSP, refund of tax for the off-road or written off/sold vehicles available under the Act could not be obtained.

The Ministry stated (December 1997) that the tax was paid under protest. However, an appeal for refund of road tax of Rs.19.11 lakh paid for off-road vehicles was turned down by the RTO. The Plant had streamlined the system to avoid recurrence of such lapses in future.

Thus due to non-observance of required procedures for getting exemption of tax on off-road vehicles and delay in making payment as per the Court order, the RSP had to incur an avoidable expenditure of Rs.26.57 lakh.

16.6.3 Extra expenditure due to adoption of higher interest on Provident Fund Account

The Provident Fund of the employees of Research & Development Centre for Iron and Steel (RDCIS/SAIL) is managed by the Board of Trustees, Hindustan Steel Provident Fund (HSPF) Trust (a separate body) in terms of Rules & Regulations of Hindustan Steel Provident Fund Rules, 1966. Para 24 of the aforesaid rules stipulated that the rate of interest payable under

aforesaid scheme to a member for any year shall not be lower than the rate declared by the Central Government for that year under Employees Provident Fund Scheme. Deficiencies, if any, shall be made good by the Company, for the purpose of maintaining the Government declared rate of interest and not for widening the base for allowing interest.

The interest rate declared by the Government of India for crediting in the account of the Employees' Provident Fund subscribers for the years 1989-90 to 1994-95 remained at 12 per cent and as such the same rate of interest should have been allowed to the subscribers of the Hindustan Steel Provident Fund Trust. However, due to wrong interpretation, the rate of interest actually allowed worked out to 12.7 per cent instead of 12 per cent by compounding of interest on monthly basis in place of annual basis. Deficiency as over claimed by the trust and made good by RDCIS/SAIL was of the order of Rs.83.84 lakh during the years 1989-90 to 1994-95 which required to be recovered/adjusted.

The Ministry stated (August 1997) that the following remedial actions were taken by the Management:-

a) RDCIS, Ranchi was instructed not to reimburse the deficit for the year 1995-96 (worked out on the existing basis) to HSPF Trust, Ranchi.

b) HSPF Trust, Ranchi was instructed to treat the deficit in the following manner:-

i) Deficit for 1995-96 should be carried forward by HSPF Trust for adjustment against excess of income in subsequent years.

ii) Deficit amount upto 1994-95 should be refunded to RDCIS, SAIL Ranchi for the available surplus of income in subsequent years.

c) HSPF Trust was advised through Director, RDCIS to fall in line with other PF Trust of SAIL Plants/Units immediately. The entire deficit amount would be recovered in due course.

The above remedial actions had not been accepted by the Board of Trustees of HSPF Trust, Ranchi so far (November 1997).

The fact remains that the excess credit of interest in the Provident Fund account of the subscribers of HSPF Trust of RDCIS still remained unrecovered/ unadjusted resulting in an extra expenditure of Rs.83.84 lakh with consequential loss of interest of Rs.62.01 lakh to SAIL (upto September 1997).

16.6.4 Loss due to non-charging of extras on sale of pig iron

Prior to decontrol (January 1992), the prices of iron and steel materials were used to be the fixed by the Joint Plant Committee(JPC). Accordingly, price 'extras' on sale of pig iron with low sulphur and low phosphorus levels (better quality) was announced by the JPC vide price circular dated the 30 November 1990. According to the circular, the Company was required to charge 'extras' varying from Rs.100 to Rs.550 per tonne depending on low sulphur and phosphorus element in the supplies of pig iron made with effect from the midnight of the 30 November 1990.

It was, however, observed that some of the Branch Sales Offices (BSOs) of the Company failed to charge extras in their invoices for sale of pig iron with low sulphur and low phosphorus element which resulted in loss of revenue of Rs.42.99 lakh.

The Company raised supplementary invoices in 1994-95 against various parties from whom such extras were not charged during 1990-91 to 1993-94. However, the amount could not be realised as the parties refused to make any payment on the plea that it was not possible for them to recover the amount from their own customers to whom the materials were sold at the prices charged by the SAIL earlier. As such, the amount of Rs.42.99 lakh had to be written off.

It was further observed that the mistake could have been detected at the initial stage itself had proper attention been paid to the following documents by any of the dealing/supervisory officials at any time.

(a) Plant consignment advice where extras on account of low sulphur and low phosphorus element was indicated under the head 'quality extra'

(b) The corresponding test certificates of the Plants also indicated the quality of pig iron including low sulphur and low phosphorus.

(c) JPC circular dated the 30 November 1990 and Company's pricing circular serial no.86 dated the 1 December 1990.

The Ministry while admitting the mistake (January 1998) had stated that corrective steps had been taken by issue of a circular in April 1996 instructing all the BSOs to exercise caution in choosing the JPC code while raising invoices so as to arrest such types of mistakes in future.

The fact, however, remains that the Company had to suffer a loss of Rs.42.99 lakh which could have been avoided had adequate care and proper vigilance been exercised before raising invoices. No responsibility was also fixed on the delinquent officials.

16.6.5 Loss due to non-charging of extra prices

The Branch Sales Offices (BSO), Nagpur of the Steel Authority of India Limited signed a Memorandum of Understanding (MOU) with M/s Nippon Denro Ispat Limited (NDIL) on the 21 May 1994 for supply of 50,000 tonnes of Hot Rolled (HR) Coils during the period from April 1994 to March 1995. As per the terms of the MOU, supply of material in non-standard width attracted applicable extra charges. Although, in respect of 8 rakes, the Company charged the extra prices for non-standard width but the same was not charged in respect of 7 rakes containing 9231 tonnes of material. The applicable amount of extra prices not charged to the party worked out to Rs.55.39 lakh. Moreover, while making payments, M/s NDIL deducted a sum of Rs.65.21 lakh from the bills of the Company being the amount of width extra charged on 8 rakes.

Thus due to failure of the Management to charge extra prices for the quantity of materials supplied to the party in non-standard width, tbe Con.pany had to suffer a total loss of Rs.120.60 lakh.

The Management, while accepting the fact (August 1996) of non-charging width extra from the party, had stated that in a competitive environment, the organisation like the SAIL had

not only to sell its products to meet the targets, but also to keep the requirement and interest of the customers for better relationship and continuity of the business in future.

The Management's contention is not tenable as extra benefit given to the party was beyond their terms and conditions of the Memorandum of Understanding.

The matter was referred to the Ministry in October 1997; their reply is awaited (February 1998).

16.6.6 Infructuous expenditure due to failure of spiral type coolers

The De Benzolised Oil (DBO) cooler is a vital equipment in the Benzol Plant. The shell and the tube coolers were installed in the Benzol Plant – One million tonne stage – Durgapur Steel Plant (DSP). However, when replacement of the DBO coolers was required, the plant management decided (March 1988) to procure spiral type coolers on the ground of their technical superiority.

Accordingly, an order for repair/replacement of the Benzol Plant was placed on the Hindustan Steelworks Construction Limited (HSCL) in July 1988 at a cost of Rs.160.79 lakh which included supply of 8 spiral type coolers valued at Rs.78 lakh. The coolers were installed in the Benzol Plant in February 1991 and the Preliminary Acceptance Certificate (PAC) issued in August 1991. However, in May 1992, three coolers developed some defects which the HSCL did not agree to repair on the plea that the defects occurred due to defective operation of the coolers. Therefore, the plant management had placed an order on M/s Alfa Laval (a sub-supplier of HSCL) in January 1993 for testing and repairing the coolers at a total cost of Rs.2.15 lakh. These coolers were commissioned in June 1993. However, by this time the remaining 5 coolers also developed defects which were got repaired from M/s. Alfa Laval.

After re-installation of the coolers in March 1994, all the coolers again started developing leakages and had to be taken out of operation in September, 1994. When the matter of repeated failure of the coolers was brought to the notice of the supplier (M/S Alfa Laval), they intimated (January 1995) that the spiral coolers were designed and manufactured for certain operating conditions. But the actual operating conditions in the By-product Plant were at variance with the designed conditions. They further added that if the operating conditions were not maintained at the designed level, the coolers would require repetitive repairing and would get damaged regularly.

Thus, the spiral coolers installed in 1991 could not be operated on a regular basis due to intermittent failures and had to be taken out of operation in September, 1994. The net expenditure of Rs. 72.31 lakh (Rs. 76.36 lakh less Rs. 4.05 lakh recovered as liquidated damages for premature failure of the coolers) by the DSP upto June 1997 had proved to be infructuous.

The Management stated (June 1997) that they did not agree with the contention of the supplier and added that the actual operating conditions in the By-product Plant was not at variance with respect to the technical specifications. The Management further added that the matter had already been taken up with the supplier to re-repair the coolers repaired by them.

The fact remains that the coolers had been lying idle since September 1994 (i.e for the last 3 years) and their performance before was also not satisfactory.

The matter was referred to the Ministry in September 1997; their reply is awaited (February 1998).

16.6.7 Infructuous expenditure on installation of Movable Throat Armour

Raw materials are crushed and screened to an economically optimum size and charged into the Blast Furnace for production of hot metal. Distribution of smaller and larger pieces of materials into the Furnace has a great influence on the distribution pattern of gases over the cross-section of the Furnace which in turn affects the operation of the Blast Furnace. In the Blast Furnace No.4 of Rourkela Steel Plant (RSP), distribution of material was being carried out through a fixed Throat Armour Assembly which did not have any provision for variations in the diameter at the throat level and, therefore, optimum even distribution of raw material charged in the Blast Furnace was not possible.

In order to achieve a better distribution of raw materials, the SAIL decided in January 1989, to instal a Movable Throat Armour (MTA) with rotary distribution in the Blast Furnace No.4 of the Plant. It was envisaged that with the installation of the MTA system, there would be an increase in the rate of production of hot metal and reduction in coke rate. The system was commissioned in August 1989 at a cost of Rs.5.23 crore.

However, after installation of a MTA in Blast Furnace No.4 during 1989 capital repairs, the Blast Furnace started showing deteriorating hearth condition from October, 1990 and ultimately broke down in June 1991. The use of MTA was, therefore, abandoned in June 1991 and the Furnace had to be operated without MTA. The system was finally declared obsolete in October 1994.

The Management stated (July 1997) that even after removal of MTA, equipment worth Rs.2.30 crore were still in use in Blast Furnace Nos. 1 and 4.

It is thus, evident that equipment worth Rs.2.30 crore are being used for the purposes other than that for which it was procured. The balance equipment worth Rs.2.90 crore were removed from the system and written off in March 1997. Further, the benefit expected of MTA installed in BF-6 of other plant i.e. Bhilai Steel Plant also could not be achieved and awaiting disposal.

Thus, the purpose for which the MTA system was installed could not be achieved and the expenditure of Rs.2.90 crore (Rs.5.20 crore – Rs.2.30 crore) was rendered infructuous.

16.6.8 Infructuous expenditure on purchase of defective instruments

In April 1991 Bhilai Steel Plant initiated and sanctioned a proposal for procurement, installation and commissioning of Instrumentation and Data Acquisiton system for calculating hearth efficiency of new hearth coolers, timely detection of heat losses in hearth coolers of Blast Furnace(BF) No.7 for ensuring increased safely, improved life of furnace lining and energy conservation at an estimated cost of Rs.1.68 crore with a condition that the scheme be executed by July, 1991.

Accordingly, in September 1991, a turnkey contract for supply, erection and commissioning of the Data Acquisition system was entered with M/s Yokagawa Keorics Limited, Calcutta with a completion schedule of six months. The Instrumentation and Data Acquisition system was received in May 1992 and finally commissioned on 28 September 1992 at a total cost of Rs.1.37 crore. After stabilisation of the scheme for 2 months, the scheme was declared as completed in November 1992 which remained in active operation upto 31 July 1994.

In the Post Completion Audit report of the Management (March 1994) it was mentioned that the system had inherent disadvantages. The system required monitoring of plenty of parmeters and all the equipment were to be kept in healthy condition. The running cost of it was very high. Frequent erratic readings affected the reliability of the entire data acquisition system. The expert committee observed that the scheme adopted was highly maintenance-oriented and such type of system should not be taken up in future.

The Ministry stated (May 1997) that although the system commissioned in November 1992 was in operation till July 1994, its performance could not be established due to (i) certain hostile conditions at BF-7 (ii) highly maintenance oriented system and (iii) limitation in getting shut downs in BF-7. Therefore, the use of the system was discontinued. They further added that the gainful use of the system in other areas was under consideration. The Ministry, in fact, reiterated the reply given by the Management in November 1996.

The facts remains that due to adoption of the system, without analysing the operational condition/requirements/limitations, desired objectives could not be achieved. The system had not been used in other areas after July 1994 thus rendering the entire expenditure of Rs.1.37 crore infructuous.

16.6.9 Loss due to Quality Control

Salem Steel plant (SSP) shipped 4775.75 MT of Stainless Steel Slabs (manufactured by its sister unit, Alloy Steel Plant(ASP) Durgapur) to converting Agents at Belgium (1771 MT), Italy (801 MT) and Finland (2204 MT) in April 1993, June 1993 and September 1993 respectively for rolling them into coils/sheets for eventual use in making coin blanks against orders received from Government of India Mint.When the Conversion Agents started rolling operations,they found a number of quality problems in the slabs. A High Level Team from SAIL thereafter visited the three countries in June 1994 and inspected the slabs lying at the premises of conversion agents. The team was convinced that slabs weighing 827.87 MT in all were in broken condition and straightaway discarded them, entailing a net loss of Rs.288 lakh to SSP. Further, on the basis of recommendations made by the team, slabs that were not found fit for rolling on account of quality problems in their manufacture, were brought back to India without any value addition, rendering infructuous an expenditure of Rs.62.34lakh incurred towards freight charges on to and fro movements.

Apart from the above, SSP is burdened with an inventory of 168.15 MT valued at Rs 56.60 lakh lying at Calcutta port for over 4 years now due to rejections noticed at the time of onward shipment itself. The material could not be retrieved by SAIL due to dispute and legal wrangles (March1997).

The Ministry confirmed the above facts (March 1997) and also stated that ASP had limited knowledge and experience of concast slabs of AISI-430 grade. It may be mentioned here that ASP was established way back in 1988 and had been producing stainless steel slabs meant for SSP since then. The Ministry further stated that ASP had subsequently supplied cold concast slabs of the same grade to SSP for hot rolling purpose, after modification of the specifications with the concurrence of Government of India Mint (the end user) and that no breakages were reported thereon. This substantiates the view that the breakages were avoidable had appropriate specifications been firmed up orginally.

CHAPTER 17

MINISTRY OF SURFACE TRANSPORT

Dredging Corporation of India Limited

17.1.1 Loss in execution of a Reclamation Project

The Company accepted (January 1992) a work order of Cochin Port Trust (CPT) for reclamation and development of land at Southend of Willingdon Island and for construction of Earthern Bunds by dredging of about 4.98 lakh cu.mts of dredged material at a total cost of Rs.378.28 lakh. The entire work was to be completed by November 1992. During the joint survey (October 1994), the quantity to be reclaimed was mutually agreed to be at 2.60 lakh cu.mts.

The Company sub-contracted (February 1992) the work relating to the construction of reclamation of bunds to a private party at a cost of Rs. 78.38 lakh as it did not possess the requisite infrastructure for the same. The work was to be completed by May 1992. The sub-contractor, completed the work in December 1993. There was a delay of 17 months in the construction of Bund due to increase in quantum of work, adverse site conditions, onset of monsoons, sinking of bund upto a depth of 10 metres.

The Company planned to take up the activity of Southern end reclamation work by deployment of Dredger IV. Due to delay in the construction of bund, the Dredger IV could not be put to use till November 1993. In the meanwhile, the validation certificates of Dregder IV expired (March 1993), which could not be revalidated upto the end of 1993. The Company decided to take up the reclamation work with Dredger `Acquarius' by pumping the dredged material from the Northern side of the bridge and accordingly mobilised one dredger from Bombay (October 1993). However, work commenced only in December 1993 on account of delay in completion of the construction of the bund. Further, the Company could not deploy the Dregder `Acquarius' (February 1994) due to another assignment at Mormu Goa Port Trust. The Company deployed Dredgder VII from Hazira for a limited period upto 15 August 1994, as during the process of dredging, it was confronted with mechanical problems and therefore had to be withdrawn for dry docking with effect from 16 August 1994. Therefore, the Company deployed third dregder from Tuticorin (September 1994) for completion of the balance work which was completed by November 1994. Thus, the Company had to deploy three dredgers viz., Acquarius from Bombay (7 October 1993 to 18 February 1994), Dredger VII from Hazarika (16 May 1994 to 15 August 1994) Dredger IV from Tuticorn (22 September 1994 to 16 November 1994) for completion of the work. In the process, the Company incurred operational (inclusive of Rs.4.61 lakh for rectification work done by CPT at the cost of the Company) expenditure amounting to Rs.751.23 lakh on completion of the work. As against this, the Company realised an amount of Rs.137.86 lakh only resulting in a loss of Rs.613.37 lakh.

Thus, the Company as against an estimated profit of Rs.58.58 lakh incurred a total loss of Rs.613.37 lakh on the execution of the work due to abnormal delay in completion of the work. The Company could not properly assess the quantum and nature of the work involved, and deployed three dregders as against only one Dredger envisaged.

The Ministry stated (March 1997) that:

i) the Company raised a claim for Rs.149.84 lakh against the sub-contractor which was referred to Arbitration and on rejection, the Company contested the award and the same had been pending in a Court of Law, (March 1997).

ii) The Company filed a petition for Rs.366 lakh against CPT. Though the claim was initially rejected by CPT at lower levels, the matter was pursued vigorously and a settlement was expected to be reached soon (March 1997).

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

1) The arbitration initiated by the Company was adjudicated in favour of the sub-contractor for an amount of Rs. 21.14 lakh.

2) There has been no further pursuance with CPT for recovery of Rs.366 lakh.

Thus the loss of Rs.613.37 lakh suffered by the Company could be attributed to Management failure to assess properly the quantum and nature of work involved, while quoting for the contract and lack of proper co-ordination in mobilising the dredgers in execution of the work.

17.1.2 Avoidable Payment of Custom Duty

The Company acquired a second hand cutter Suction Dredger 'Aquarius' from a supplier from Netherlands (Supplier). The dredger was taken over by the Company on the 10 January 1991 at Abu Dhabi. It was mobilised from Abu-Dhabi to Haldia.

On entry of the Dredger into Indian Waters, the customs cleared the dredger at nil rate of duty as the dredgers were exempted from customs duty. On the spare parts, however, customs duty was levied as they were not eligible for the concession of 'nil' duty, under Accessories (Condition) Rules 1963. The 'transaction value' is determined for the purpose of levy of customs duty, by taking into account the value of the imported goods, including the cost of their transport and insurance. However, where the cost of transport and insurance was not ascertainable, such cost was to be reckoned as 21.125 per cent of the FOB value of such goods.

The Company filed a Bill of Entry for clearing the spares of Rs.355.10 lakh approx at the rate of Dfl 9.50=Rs.100 as on March 1991 (Dfl 33,73.444) indicating the actual cost of voyage and insurance amounting to Rs.580295 (Dfl 55,128) at the time of assessment. However,the customs authorities modified the actual freight and insurance with 21.125 per cent of the FOB value amounting to Rs.75.01 lakh (Dfl 7,12,643) and levied excess customs duty amounting to Rs.127.17 lakh. But the Company did not file an appeal for reassessment based on the actual freight and insurance charges.

The Company however, filed an appeal (August 1992) with the collector (custom) for the total exemption of customs duty on the spares on the ground that the spares were mandatory spares procured along with the dredger. While rejecting the appeal for 'nil' duty and refund of duty already paid, the Collector (Appeals) stated that the DCI has not produced any documentary evidence to prove that spares imported are compulsorily supplied along with the dredger. The Company filed an appeal with the CEGAT, New Delhi which has been pending since July 1993.

In the reply (March 1997), the Ministry maintained that they were of the opinion that customs duty was not payable on spares under the rules. And the Ministry further stated that

even if the Company had gone on appeal against the assessing authorities there was no guarantee that it would have won the case at the appellate level. This reply is not tenable as the Company has neither contested the incorrect statement given by the Asstt. Collector in the order-in-original nor has the Company filed an appeal for reassessment of duty based on actual freight and insurance charges.

Thus, the Company has not only failed to get the exemption from customs duty on spares, but also had to pay the excess customs duty of Rs.127.17 lakh as it did not file a separate refund claim based on actual freight and insurance i.e. Dfl 55128 at the time of assessment.

The Shipping Corporation of India Limited

17.2 Avoidable loss in the disposal of Vessel

The vessel M.V.Vishwa Mamta, a general cargo vessel completed 20 years of its stipulated economic life on 15 October 1993. The Management decided (February 1994) to dispose of the vessel and tenders were invited on 20 February 1994. Since no offer was received , tenders were invited again during March 1994. The highest offer of Rs.301 lakh was from a Mumbai firm which was valid till 7 April 1994. The proposal was referred to the Board of Directors for approval. As the Board's acceptance was not received till the close of office hours of 7 April 1994, the Management requested the buyer on 7 April 1994 to extend the validity of their offer till 15 April 1994 for which they did not agree. The approval of the Board was received by the Management after the close of office hours on 7 April 1994 and hence the approval could not be conveyed to the buyer in time. Therefore, the buyer refused to accept the offer.

Since the above tender did not materialise, the Management re-tendered and opened the same on 29 April 1994 and the highest offer received was again from the same Mumbai firm who participated successfully in the earlier tender for Rs.281.55 lakh. The Board accepted this offer and the vessel was delivered to the buyer on 25 May 1994.

The Ministry stated (April 1996) that once it was observed that the Board's approval for acceptance of the price was not coming in time, the buyer was requested to extend the validity of their offer till 15 April 1994. The buyer was not keen to extend the validity. It was also stated that the Board's approval was received almost at the closing hours of 7 April 1994 and immediately all possible efforts were made to communicate the acceptance to the buyer. The buyer's refusal to receive the acceptance message was attributed to certain amendments in the Maharastra Sales Tax regulations which imposed an additional expenditure of Rs.12 lakh in addition to the sale price.

The reply of the Ministry is not tenable as the party backed out of the contract due to the failure of the Company in taking prompt decision and intimating the same resulting in a loss of Rs.19.45 lakh (Rs.301 lakh minus Rs.281.55 lakh) on account of lesser sales realisation and also lay up charges of Rs.13.04 lakh for the period from 23 March to 29 April 1994 (37 days). Thus, even though the Board of Directors were aware of the validity period of offers by the tenderers, they failed to take timely decision resulting in a loss of Rs.32.50 lakh to the Company.

CHAPTER 18

MINISTRY OF TEXTILES

National Jute Manufactures Corporation Limited

18.1 Excess payment of bonus

The Company (taken over by the Government in 1980) had been paying bonus to the workers of all its six units as per practice followed in pre-nationalisation period. While in two units of the Company, the amount of bonus had been calculated since pre-nationalised period at the rate of 8.33 per cent of daily wages multiplied by the number of days actually worked, in other four units the same had been calculated at the rate of 8.33 per cent of the gross wages earned.

With a view to adopting a uniform method of calculation of bonus for the year 1992-93 as per provisions of Payment of Bonus Act, 1965, the Company communicated (October 1993) to all its units the relative guidelines restricting the maximum limit of bonus to the ratio of actual number of days worked to total available working days per worker in the accounting year. But following a dispute by the workers regarding the new guidelines, it was decided (October 1993) that payment of bonus would be made on the basis of calculation followed in previous years and the short/excess payment adjusted in due course.

To ascertain any excess/short payment in terms of the provisions of Payment of Bonus Act, 1965 the Company had engaged (October 1993) a firm of Chartered Accountants. The report revealed that during 1992-93 an amount of Rs.29.10 lakh was paid in excess in four units of the Company and only two units made payment in accordance with the said Act. But no attempt was made by the Management to ascertain similar short/excess payments made prior to 1992-93 as, according to the Management (November 1996), it did not make much difference between the two methods of calculation of bonus in view of wages earned by the workers being below the ceiling limit. The excess payment for 1992-93 also could not be recovered by the Management. Payment of bonus has, however, since been made from 1993-94 as per the said Act.

Although the Management was aware of the requirement of Bonus Act and the need for uniform application, an excess payment of Rs.29.10 lakh occurred relating to 1992-93 as the Management decided to postpone enforcement of legal provision.

The Management stated (November 1996) that the issue of recovery of excess bonus was taken up with the Trade Unions but they did not allow deduction of the same.

The matter was referred to the Ministry in December 1996; their reply is awaited (February 1998).

CHAPTER 19

MINISTRY Of URBAN DEVELOPMENT & EMPLOYMENT

Housing and Urban Development Corporation Limited

19.1 Avoidable extra liability

The Ministry decided (April 1988) to allot a plot of land at Bhikaji Cama Place in New Delhi to the Housing and Urban Development Corporation Limited (Company) for construction of commercial space to enable the company to utilise the surplus generated therefrom to support its housing schemes for weaker sections. Advance action for construction was initiated by the Company in May 1989. The allotment of land was, however, made by the Ministry in November 1990.

Of the five parties invited (May 1990) to bid for execution of works only two- M/s Unitech Ltd.('U') and M/s Larsen & Toubro Ltd.('L')-submitted their offers by the due date i.e. 15 June 1990. Though the Company's project management consultants (PMC) were in favour of opening the bids received, yet the project (Building) Committee decided (June 1990) to extend the date of opening of bids, simultaneously allowing an opportunity to M/s U and M/s L to revise their offers while inviting the other three shortlisted parties to quote for the job.

Finally, when in October 1990, the bids received from the five shortlisted bidders were opened and at bid opening stage, the bid of M/s Amar Nath Chiranji Lal ('A') at Rs.1119.69 lakh was found to be the lowest, followed by that of firm 'U' at Rs.1124.38 lakh. Also, both the firms 'U' and 'L' had revised their bids upwards. On the recommendations of the PMC, Negotiations were held with firm 'U' and when it reduced its revised price to Rs.1101.94 lakh, the offer was accepted. Even the reduced price was higher by Rs.42.20 lakh when compared to firm 'U's original bid of June 1990.

The Management stated (February 1997) that the revised bids from all the short listed parties were invited in the best interest of the Company for getting most competitive rates. The reply is not tenable as the Management has not explained the basis on which it formed an opinion that bids from 3 more short-listed parties, who had earlier not shown interest by not submitting bids in time, were likely to result in the Company receiving lower prices/bids.

The contract of firm 'U' was also awarded without approval of Board of Directors and Government as required in terms of delegation of power.

Thus, the imprudent decision to allow the bids in hand to be revised while soliciting offers from three other potential bidders led to an avoidable extra liability of Rs.42.20 lakh.

The matter was referred to the Ministry in may 1997; their reply is awaited (February 1998).

CHAPTER 20

Follow up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Reports of the Comptroller and Auditor General of India (Commercial) laid on the table of both the Houses of Parliament. Such notes were required to be submitted even for paragraphs/appraisals which were not selected by the Committee on Public Undertakings for detailed examination.

A review has revealed that inspite of reminders, the remedial/corrective action taken notes on the paragraphs/appraisals contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of the Ministries, as detailed in Appendix II have not been forwarded to Audit for vetting.

(A.K.CHAKRABARTI)
Deputy Comptroller and Auditor General -cum-Chairman, Audit Board

New Delhi

MAY 1998

COUNTERSIGNED

(V.K.SHUNGLU)
Comptroller and Auditor General of India

New Delhi 8 MAY 1998

APPENDIX I

(Referred to in Para 6.3.7.1)

Extracts from Paragraph 88 of Chapter VIII of Exim Policy 1992-97

Gold/silver jewellery and articles may be exported under the following schemes:

A. Scheme for export of Gold/Silver jewellery and articles against Gold/Silver supplied by the foreign buyer :

Under this scheme, the foreign buyer may supply, in advance, gold or silver, free of charge, for manufacture and ultimate export of gold or silver jewellery and articles thereof. He may also similarly supply alloys, findings and mountings of silver and gold of 18 carats and below. The export order should provide for

i) supply of gold and silver free of charge to the extent of quantity of gold and silver required after allowing wastages; and

ii) payment of manufacturing and other costs by means of irrevocable letter of credit or payment of cash on delivery or advance payment in foreign exchange. Gold jewellery may also be exported on collection basis (documents against acceptance). The export order should relate to a single buyer overseas. This scheme for export of gold/silver jewellery and articles will apply to export orders received by the Handicrafts & Handlooms Export Corporation (HHEC)/Minerals and Metals Trading Corporation (MMTC) or any other public sector agency nominated by the Ministry of Commerce, Government of India. The exports may be made by the nominated agency directly or through its associates. Exports will be allowed only by air freight and through Custom Houses at Bombay, Calcutta, Madras, New Delhi, Jaipur, Bangalore and Kochi.

B. Scheme for export of Gold/Silver jewellery and articles for sale at approved exhibitions.

Exports made by Gem & Jewellery Export Promotion Council (GJEPC), Handicrafts & Handlooms Export Corporation (HHEC)/State Trading Corporation (STC)/India Trade Promotion Organisation (ITPO)/Minerals and Metals Trading Corporation (MMTC) and their associates are covered under this scheme. These organisations shall function as nominated agencies. Any other person may also be allowed to export under this scheme, if approved by the Ministry of Commerce. Exports shall be made on consignment basis for holding exhibitions and shall be subject to the condition that

i) the items which are not sold abroad shall be imported within 45 days of the close of the exhibition; and

ii) for items sold abroad, the gold and silver content shall be imported as replenishment not later than 60 days of the close of the exhibition. The nominated

agency shall execute a bond to this effect with the Customs before export is allowed. In respect of exhibitions organised by others, bonds or bank guarantee shall be executed by the organisers as required under the rules of the RBI or the Customs authorities. After the close of the exhibition, for the purpose of replenishment, booking shall be made by the exporter with the assistance of the State Bank of India (SBI) or their agents at the place where the exhibition is held before the close of the exhibition or with the authorised SBI branches in India within 50 days of the close of the exhibition. On presentation of required documents, appropriate Release Order and Gem Replenishment Licence may be issued by the licensing authority.

C. Gold/Silver and Platinum jewellery and articles Export Promotion and Replenishment Scheme :

Against export of gold/silver jewellery and articles, the scheme provides for replenishment of gold/silver through the designated branches of SBI/MMTC/HHEC or any other agency nominated by the Ministry of Commerce, at a price indicated in the certificate issued by the SBI/MMTC/HHEC/agency after purchase of gold/silver. The scheme shall be limited to exports which are supported by irrevocable letter of credit, payment of cash on deliver basis or advance payment in foreign exchange. Export of gold jewellery and silver jewellery may also be allowed on collection basis (documents against acceptance). The exporter has the option to obtain gold/silver from SBI in advance. On presentation of required documents, appropriate Release Order and Gem Replenishment Licence may be issued by the licensing authority.

E. Scheme for export of gold/silver and platinum jewellery and articles from Export Processing Zones (EPZs) and from Export Oriented Unit (EOU) complexes :

The Export Oriented Units are governed by the general provisions of the EOUs Scheme and the units set up in Export Processing Zones are governed by the general provisions of the EPZ Scheme except that

i) nothing including rejects shall be permitted to be sold in the Domestic Tariff Area (DTA); and

ii) in the event of an unit ceasing its operation, gold and other precious metals, alloys, gems and other materials available for manufacture of jewellery, shall be handed over to an agency nominated by the Ministry of Commerce at the price to be determined by that agency.

These units may import raw materials, alloys, carat gold, coloured gold, precious metals including silver. platinum of upto 0.90 fineness, palladium, findings, mountings, sockets and frames made of gold and other precious metals. These units may also import diamonds, coloured gems and stones, semi-precious stones, synthetic stones, pearls etc. In addition, gold of 0.999 or 0.995 fineness may also be made available to these units through SBI/MMTC or any other agency nominated by the Ministry of Commerce. The units may apply through the Development Commissioner of the EPZ or the sponsoring authority of the EOU complex for supply of 0.999 or 0.995 fineness gold. These units may be allowed to

import capital goods, prototypes, technical samples, consumables, spares and packaging materials in accordance with the procedures applicable to the EOUs Scheme and EPZ Scheme.

In case of units exporting loose cut and polished diamonds and precious/semi-precious stones the minimum value addition required to be achieved shall be calculated on the basis of corresponding replenishment rates available to such exports from DTA. Apart from gold and silver jewellery and articles, jewellery and articles from other precious metals may also be manufactured and exported from the aforesaid EOU complexes/EPZs. The value addition and other requirements in respect of palladium etc., shall be specified through a Public Notice by the Director General of Foreign Trade.

Jewellery samples allowed to be imported may be re-exported after proper identification. Scrap/dust/sweepings of gold may be sent to the Government of India Mint from the units in the EPZ and returned to the EPZ in standard gold bars in accordance with the procedure prescribed by the Customs authorities.

Re-export of rough diamonds may be allowed by the Development Commissioner of the EPZ/EOU Complex concerned in accordance with Paragraph 85 of this Chapter.

Units in the EPZ/EOU Complex may participate in Government approved exhibitions. No sale shall be permitted in exhibitions held in the country. The procedure for movement of the jewellery from these zones/complexes and back shall be prescribed by the Customs authorities.

Partly processed jewellery may also be exported subject to realisation of the prescribed minimum value addition.

The MMTC may also supply gold, gold intermediates and components including gold alloys, carat gold, findings to the approved gold jewellery manufacturing exporting units set up under this scheme in accordance with the procedure specified from time to time.

The MMTC/SBI may also supply silver of 0.999 fineness or 0.995 fineness to the approved silver jewellery manufacturing exporting units set up under this scheme in accordance with the procedure as may be specified from time to time.

APPENDIX II

Statement showing the details of audit Reports(Commercial) for which action Taken Notes are pending as on 31 March 1998

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Agriculture		
1. No. 2 of 1996	Comments on Accounts	Paras 2.1.1 and 2.2.1
2. No. 2 of 1997	Comments on Accounts	Paras 1.2.1, 2.1.1, 2.2.2, 2.4.1, 2.4.2, 2.5.1 and 2.5.2
Department of Atomic Energy		
1. No. 2 of 1997	Comments of Accounts	Paras 1.2.2, 1.3.1 and 2.6.1
2. No. 3 of 1997	Audit Observations	Para 1.1
Department of Bio-Technology		
1. No. 2 of 1997	Comments of Accounts	Paras 2.2.3 and 2.4.3
Department of Chemicals and Petro-Chemicals		
1. No. 2 of 1993	Comments on Accounts	Paras 1.3.4, 1.3.5, 1.3.8, 1.4.3, 2.1.4 and 2.5.3.
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.5 to 1.2.6, 1.3.7 and 2.1.2
3. No. 3 of 1994	Audit observations	Paras 1.5 and 1.6
4. No. 3 of 1995	Audit Observations	Paras 2.1 and 2.2
5. No. 2 of 1996	Comments on Accounts	Paras 1.2.2 and 1.2.4
6. No. 2 of 1997	Comments on Accounts	Paras 1.2.4 to 1.2.6, 1.2.8, 1.3.2, 1.3.3, 2.1.3, 2.2.5, 2.2.6, 2.4.4, 2.5.4 and 2.5.5.
7. No. 3 of 1997	Audit Observations	Paras 2.1, 2.2.1 and 2.2.2
Department of Civil Aviation		
1. No. 3 of 1993	Audit Observations	Paras 3.7, 3.10 and 3.13
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.3, 1.3.2 and 1.3.3
3. No. 3 of 1994	Audit Observations	Para 2.1
4. No. 3 of 1995	Audit Observations	Paras 3.1 and 3.2
5. No.12 of 1995	Appraisal on Air India Ltd	
6. No.18 of 1995	Hotel Corpn. Of india Ltd	
7. No. 3 of 1996	Audit Observations	Paras 2.1.1 & 2.1.2

No. and Year of Report	Name of the Report	Para No., if any
8. No. 2 of 1997	Comments on Accounts	Paras 1.2.14, 2.1.2, 2.2.4 and 2.5.8
9. No. 3 of 1997	Audit Observations	Paras 3.1, 3.2.1, to 3.2.3 and 3.3.1 to 3.3.3

Ministry of Coal

No. and Year of Report	Name of the Report	Para No., if any
1. No. 3 of 1993	Audit Observations	Paras 5.1 to 5.11
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.9, 1.3.5, 1.3.6, 2.1.4 and 2.4.1
3. No. 3 of 1994	Audit Observations	Paras 3.1 to 3.12
4. No. 2 of 1995	Comments on Accounts	Paras 1.2.8, 1.2.9, 1.3.2 to 1.3.4, 2.1.9 to 2.1.11, 2.2.8 to 2.2.10, 2.3.1 to 2.3.5, 2.4.7 to 2.4.12, 2.6.6 and 2.7.2
5. No. 3 of 1995	Audit Observations	Paras 4.1 to 4.11
6. No.10 of 1995	Central Coalfileds Ltd	
7. No. 2 of 1996	Comments on Accounts	Paras 1.3.6 to 1.3.8, 2.1.5 to 2.1.8, 2.2.7 to 2.2.12, 2.3.7 to 2.3.12, 2.4.5 to 2.4.10, 2.5.2 and 2.7.2
8. No. 3 of 1996	Audit Observations	Paras 3.1 to 3.5
9. No. 2 of 1997	Comments on Accounts	Paras 1.2.16 to 1.2.23, 1.3.8, 1.3.9, 2.2.11, 2.3.3, 2.3.4, 2.4.8, 2.5.9, 2.5.10 and 2.7.1
10. No 3 of 1997	Audit Observations	Paras 4.1.1, 4.1.2, 4.2.1, to 4.2.3, 4.3, 4.4.1 and 4.4.2

Ministry of Commerce

No. and Year of Report	Name of the Report	Para No., if any
1. No. 3 of 1994	Audit Observations	Paras 4.2 and 4.6
2. No. 2 of 1995	Comments on Accounts	Paras 1.3.8
3. No. 3 of 1995	Audit Observations	Paras 5.2 and 5.11
4. No. 2 of 1996	Comments on Accounts	Paras 1.2.5, 2.2.4, 2.3.13 and 2.5.11
5. No. 2 of 1997	Comments on Accounts	Paras 1.2.24, 1.2.25, 2.1.6, 2.2.9, 2.5.7 and 2.7.2
6. No. 3 of 1997	Audit Observations	Para 5.1

Department of Defence Production and Supplies

No. and Year of Report	Name of the Report	Para No., if any
1. No. 2 of 1996	Comments of Accounts	Paras 1.3.13, 2.1.9, 2.3.14 and 2.4.11
2. No. 3 of 1996	Audit Observations	Para 6.2
3. No. 2 of 1997	Comments on Accounts	Paras 1.2.30, 1.3.11, 1.3.12, 2.1.10, 2.2.15 to 2.2.17, 2.3.5, 2.3.6, 2.4.10, 2.4.11, 2.4.13, 2.4.14 and

No. and Year of Report	Name of the Report	Para No., if any
		2.5.12
4. No. 3 of 1997	Audit Observations	Paras 7.1.1 and 7.1.2

Ministry of Environment & Forest

No. and Year of Report	Name of the Report	Para No., if any
1. No. 3 of 1994	Audit Observations	Para 11.1
2. No. 2 of 1995	Comments on Accounts	Paras 2.2.30
3. No.16 of 1995	Andaman & Nicobar Island forest Dev. Corpn. Ltd	
4. No. 2 of 1996	Comments on Accounts	Paras 2.2.16 and 2.7.3
5. No. 2 of 1997	Comments on Accounts	Paras 2.2.18, 2.2.23, 2.4.17 and 2.5.13

Department of Fertilizers

No. and Year of Report	Name of the Report	Para No., if any
1. No. 2 of 1994	Comments on Accounts	Para 1.2.8
2. No. 2 of 1995	Comments on Accounts	Paras 2.1.5 and 2.3.12
3. No. 3 of 1997	Audit Observations	Paras 8.4.1 and 8.4.3

Ministry of Finance (Insurance Division)

No. and Year of Report	Name of the Report	Para No., if any
1. No. 2 of 1993	Comments on Accounts	Paras 2.1.13 to 2.1.16
2. No. 3 of 1993	Audit Observations	Paras 10.1 to 10.9
3. No. 2 ;of 1994	Comments on Accounts	Para 2.1.7 to 2.1.10, 2.2.1 to 2.2.4 and 2.3.1 to 2.3.4
4. No. 3 of 1994	Audit Observataions	Paras 9.1. to 9.5
5. No. 2 of 1995	Comments on Accounts	Paras 2.1.19 to 2.1.21, 2.2.15 to 2.2.17, 2.7.6 and 2.7.7
6. no. 3 of 1995	Audit Observations	Paras 9.1 to 9.13
7. No.14 of 1995	New India Assurance Co. Ltd	
8. No. 2 of 1996	Comments on Accounts	Paras 2.1.14 and 2.2.20
9. No. 3 of 1996	Audit Observations	Paras 7.1 to 7.5
10. No. 2 of 1997	Comments on Accounts	Paras 1.2.33 to 1.2.36, 1.3.13, 1.3.14, 2.1.11, 2.1.12, 2.2.19, 2.2.20 and 2.5.14
11. No. 3 of 1997	Audit Observations	Paras 9.1 to 9.5

Ministry of Food

No. and Year of Report	Name of the Report	Para No., if any
1. No. 3 of 1997	Audit Observations	Para 10.1

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Food Processing Industries		
1. No. 2 of 1997	Comments on Accounts	Paras 2.2.21, 2.3.7, 2.4.15, 2.4.16 and 2.6.4
2. No. 3 of 1997	Audit Observations	Para 11.1
Ministry of Health & Family Welfare		
1. No. 2 of 1997	Comments on Accounts	Paras 2.1.13, 2.2.22, 2.6.5 and 2.5.27
Department of Heavy Industry		
1. No. 3 of 1997	Audit Observations	Paras 12.1.1, 12.1.4, 12.4.1, 12.4.2, 12.5 to 12.8 and 12.10
Department of Small Industries		
1. No. 2 of 1995	Comments on Accounts	Paras 1.3.34 and 2.2.30
2. No. 3 of 1995	Audit Observations	Paras 12.19
3.No. 2 of 1996	Comments on Accounts	Paras 1.3.30, 2.1.30 and 2.2.32
4. No. 2 of 1997	Comments on Accounts	Para 1.2.49
Ministry of Information & Broadcasting		
1. No. 2 of 1996	Comments on Accounts	Para 2.2.33
2. No. 2 of 1997	Comments on Accounts	Para 2.5.28
Ministry of Mines		
1. No. 2 of 1994	Comments on Accounts	Paras 2.4.10 and 2.6.5
2. No. 3 of 1994	Audit Observations	Paras 12.3 and 12.4
3. No. 2 of 1995	Comments on Accounts	Paras 2.1.28 to 2.1.30, 2.2.22, 2.3.28, 2.4.22, 2.4.25, 2.5.9 and 2.5.10
4 No. 3 of 1995	Audit Observations	Paras 13.1 to 13.3
5. No. 2 of 1996	Comments on Accounts	Paras 2.1.33, 2.2.36 2.3.45 and 2.4.34
6. No. 2 o;f 1997	Comments on Accounts	Paras 1.2.50, 1.2.52, 2.1.23, 2.2.35, 2.2.38, 2.3.19, 2.3.21, 2.4.32, 2.4.35, 2.4.36, and 2.7.6
7. No. 3 of 1997	Audit Observations	Paras 13.1.1, 13.1.2 and 13.3

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Petroleum and Natural Gas		
1. No. 2 of 1993	Comments on Accounts	Paras 1.2.10, 1.2.12, 1.2.13, 1.3.29, 1.3.30, 1.4.30, 2.4.29 to 2.4.31, 2.5.26, to 2.5.28 and 2.6.3
2. No. 3 of 1993	Audit Observations	Paras 16.1, 16.4, 16.5, 16.7 and 16.9 to 16.11
3. No. 2 of 1994	Comments on Accounts	Paras 1.2.24, 1.3.35, 1.3.39, 2.1.13, 2.3.12, and 2.4.12 to 2.4.13
4. No. 3 of 1994	Audit Observations	Paras 13.1, 13.2, 13.4 to 13.6 and 13.12
5. No. 2 of 1995	Comments on Accounts	Para 1.2.31, 1.2.33 to 1.2.36, 1.3.38 to 1.3.41, 2.1.31, 2.2.26, 2.2.27 2.3.31, to 2.3.33, 2.4.26 to 2.4.30, 2.5.11 to 2.5.13 and 2.7.12.
6. No. 3 of 1995	Audit Observations	Paras 14.1 to 14.4, 14.6 to 14.14 14.16 to 14.18 and 14.20 to 14.23
7.No.19 of 1995	Princing of Petroleum Products	
8. No.20 of 1995	IOC Ltd. (Refinery and Pipelines Divisions)	
9. No.23 of 1995	ONGC Ltd.	
10. No.24 of 1995	IOC Ltd. (Marketing)	
11. No. 2 of 1996	Comments on Accounts	Paras 1.2.22, 1.2.24, 1.3.35 to 1.3.38, 2.1.34, 2.2.42, 2.2.43, 2.3.46 to 2.3.49, 2.4.36 to 2.4.38, 2.4.40 to 2.4.43, 2.5.12, 2.5.13 and 2.7.5
12. No. 3 of 1996	Audit Observations	Paras 10.1, 10.2 & 10.3.3. to 10.3.5.
13.No. 5 of 1996	Private participation in production of Crude Oil-JVs	
14. No. 2 of 1997	Comments on Accounts	Para 1.2.54 to 1.2.57, 1.3.28, 2.1.24, 2.2.41, 2.3.22, 2.3.23, 2.4.38, 2.5.31 and 2.7.7
15. No. 3 of 1997	Audit Observations	Paras 14.1, 14.2, 14.3, 14.4.1, 14.4.2, 14.5, 14.6.1 and 14.6.2
Ministry of Railways		
1. No. 2 of 1993	Comments on Accounts	Paras 1.2.16, 1.2.17, 1.4.34, 2.5.29 and 2.5.30
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.28 and 1.3.44
3. No. 3 of 1994	Audit Observations	Para 15.1
4.No. 2 of 1995	Comments on Accounts	Para 1.2.45 to 1.2.47, 1.3.45, 1.3.46, 2.1.33 to 2.1.36, 2.2.28, 2.2.29,

No. and Year of Report	Name of the Report	Para No., if any
		2.3.34, 2.4.33, 2.6.18 and 2.7.15
5. No. 3 of 1995	Audit Observations	Paras 16.1 to 16.6
6. No. 2 of 1996	Comments on Acciounts	Paras 1.2.31, 1.3.42, 2.1.37 to 2.1.39, 2.2.46, 2.2.47 and 2.3.51
7. No. 2 of 1997	Comments on Accounts	Para 1.2.65 to 1.2.67, 2.1.26, 2.1.27, 2.2.42, 2.3.26, 2.3.27 and 2.4.41
8. No.3 of 1997	Audit Observations	Paras 16.1 and 16.2

Department of Scientific & Industrial Research

1. No. 2 of 1997	Comments on Accounts	Paras 2.1.28 and 2.2.47

Department of Space

1. No. 2 of 1997	Comments on Accounts	Para 2.5.3

Ministry of Steel

1. No. 2 of 1993	Comments on Accounts	Paras 2.4.34 and 2.5.32
2. No. 2 of 1994	Comments on Accounts	Paras 1.2.30, 1.3.50, 1.3.51, 2.1.15, 2.4.15, 2.5.6 and 2.7.9
3. No. 2 of 1995	Commentst on Accounts	Paras 1.2.48, 1.3.53, 1.3.54, 2.1.37 and 2.4.36.
4. No. 3 of 1995	Audit Observations	Paras 17.2, 17.4, 17.6 and 17.18
5. No. 21 of 1995	Rourkela Steel Plant	
6. No. 22 of 1995	Ferro Scrap Nigam Ltd	
7. No. 2 of 1996	Comments on Accounts	Paras 1.2.33, 1.3.43, 2.1.42, 2.1.43, 2.2.48, 2.2.49, 2.3.53, 2.4.51 and 2.6.204rrre4r4r
8. No. 3 of 1996	Audit Observations	Paras 12.2.1 to 12.2.6
9. No. 2 of 1997	Comments on Accounts	Paras 1.2.68, 1.3.31, 1.3.32, 2.1.29, 2.1.30, 2.2.31, 2.3.28, 2.4.45, 2.4.47, 2.4.50, 2.5.35, 2.6.24 and 2.6.25
10. No. 3 of 1997	Audit Observations	Paras 17.1.1. to 17.1.3, 17.5.1 and 17.5.2

Ministry of Surface Transport

1. No. 2 of 1996	Comments on Accounts	Para 1.3.48
2. No. 2 of 1997	Comments on Accounts	Paras 1.2.70 and 2.1.35
3. No. 3 of 1997	Audit Observations	Para 18.1.1 to 18.1.3 and 18.2

No. and Year of Report	Name of the Report	Para No., if any
Department of Telecommunications		
1. No. 8 of 1992	Hindustan Teleprinters Ltd.	
2. No. 2 of 1993	Comments on Accounts	Paras 1.4.4, 2.5.7, 2.5.8 and 2.6.1
3. No. 2 of 1994	Comments on Accounts	Paras 1.3.9 and 2.7.2
4. No. 2 of 1995	Comments on Accounts	Paras 1.2.14, 1.3.9 to 1.3.11, 2.3.13 and 2.5.3
5. No. 3 of 1995	Audit Observations	Para 6.3
6. No. 2 of 1996	Comments on Accounts	Paras 1.3.10 and 2.2.13
7. No. 3 of 1996	Audit Observations	Para 5.1
8. No. 2 of 1997	Comments on Accounts	Paras 1.2.28, 1.2.29, 1.3.10, 2.1.8, 2.1.9, 2.2.12, to 2.2.14, 2.4.9, 2.5.11, 2.6.2 and 2.6.3
9. No. 3 of 1997	Audit Observations	Paras 6.1, 6.2.1, 6.2.2, 6.3.1 to 6.3.8 and 6.4
Ministry of Textiles		
1. No. 5 of 1991	HHEC Limited	
2. No. 2 of 1993	Comments on Accounts	Paras 1.4.43 to 1.4.50, 2.1.24 to 2.1.27, 2.3.15, 2.3.16, 2.4.37, 2.5.34, 2.5.36 to 2.5.40 and 2.6.7
3. No. 3 of 1993	Audit Observations	Paras 23.2 to 23.5
4. No. 2 of 1994	Comments on Accounts	Para 1.2.32, 1.2.33, 2.1.17, 2.1.18 and 2.4.17
5. No.3 of 1994	Audit Observations	Para 18.1
6.No. 2 of 1995	Comments on Accounts	Para 1.2.51, 1.3.59 to 1.3.66, 2.1.38 to 2.1.40, 2.2.35, 2.4.38 to 2.4.40, 2.5.15, 2.6.22, 2.7.19 and 2.7.20
7. No. 3 of 1995	Audit Observations	Paras 19.1 to 19.2
8. No. 2 of 1996	Comments on Accounts	Para 1.3.50 to 1.3.58, 2.1.44, 2.2.51 to 2.2.53, 2.3.56 to 2.3.59, 2.4.53 to 2.4.57, 2.5.15, 2.5.16, 2.6.23 to 2.6.26, 2.7.8 and 2.7.9
9. No. 3 of 1996	Audit Observations	Paras 14.1 to 14.3
10. No. 2 of 1997	Comments on Accounts	Para 1.2.72, 1.2.74, 1.2.75, 1.3.37 to 1.3.41, 2.2.49 to 2.2.51, 2.3.29 to 2.3.31, 2.4.54 to 2.4.58 and 2.6.26 to 2.6.28
11. No. 3 of 1997	Audit Observations	Paras 19.1.1 and 19.1.2

46

No. and Year of Report	Name of the Report	Para No., if any

Ministry of Urban Development and Employment

1. No. 2 of 1997	Comments on Accounts	Paras 1.2.77, 1.3.42, 2.1.38, 2.2.53, 2.4.59, 2.6.29 and 2.6.30

Ministry of Water Resources

1.No. 3 of 1995	Audit Observations	Para 21.1
2. No. 3 of 1996	Audit Observations	Para 15.1

Department of Welfare

1. No. 2 of 1997	Comments on Accounts	Paras 1.3.43, 2.1.39, 2.2.54 and 2.3.52.

46