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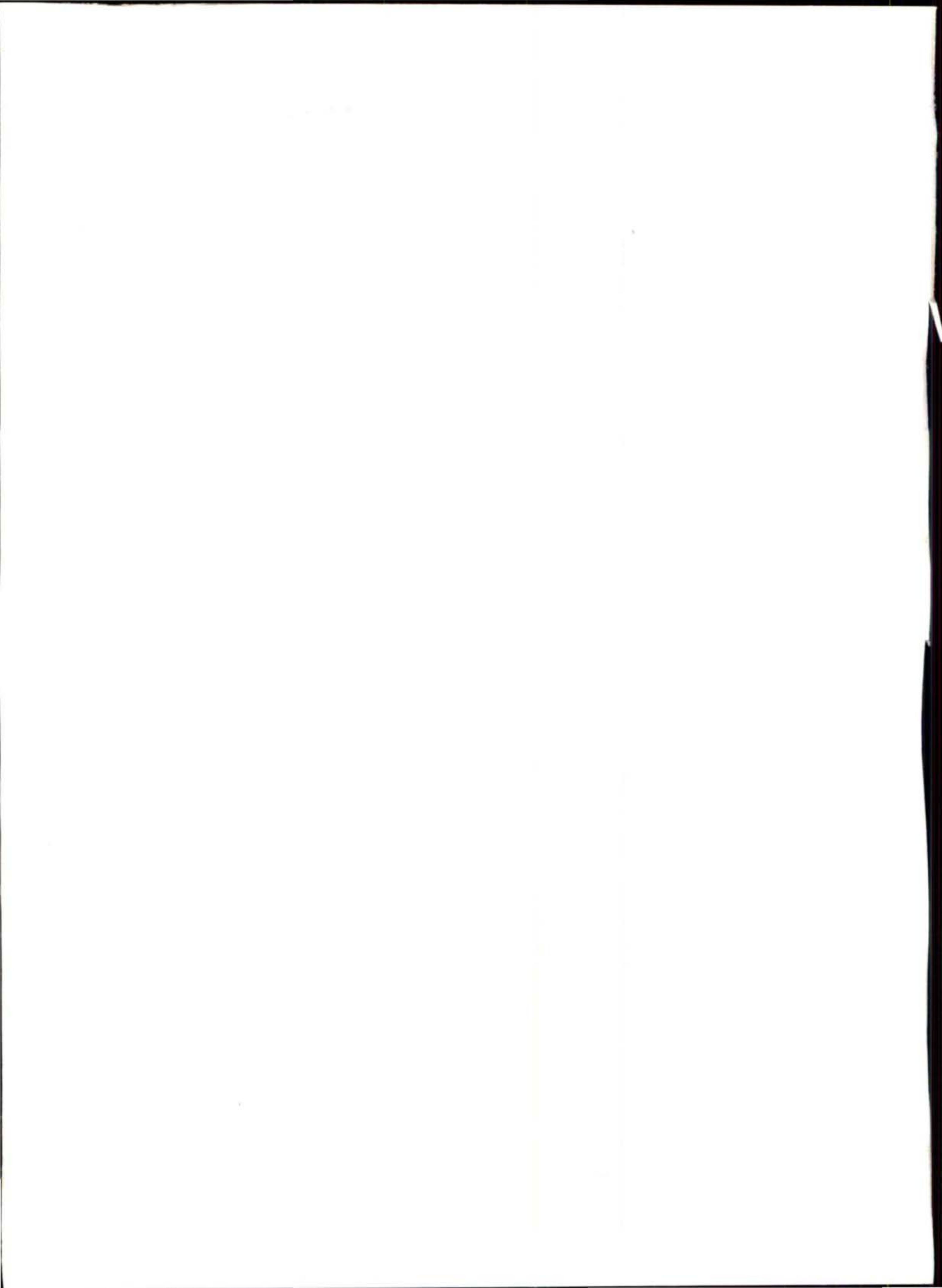


Report of the Comptroller and Auditor General of India

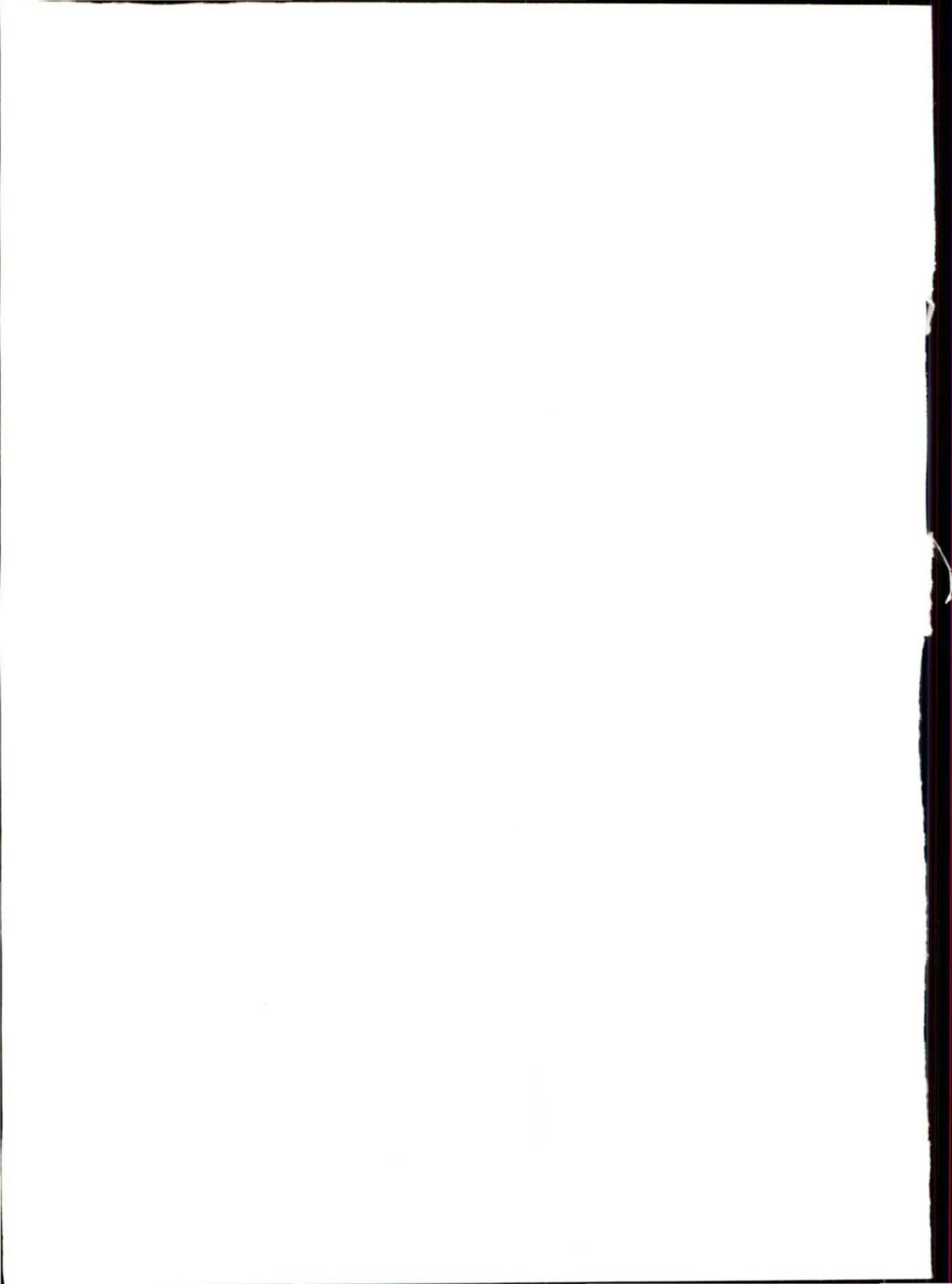
for the year ended March 2006

Union Government (Commercial)

Transaction Audit Observations

No. 11 of 2007

(Regularity Audit)



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PREFACE

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

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

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

4. Annual reports on the accounts of the Central Government Companies and Corporations are issued by the CAG to the Government. These are

Regularity Audit (Yellow Series)

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

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

Report No.11 - Transaction Audit Observations: This contains observations on individual topics of interest noticed in the course of audit of the Companies and Corporations other than Companies in the Telecommunications Sector.

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

Performance Audit (Blue Series)

Report No.9: This contains reviews of selected activities of the Companies and Corporations other than Companies in the Telecommunications Sector.

Report No.10: This contains reviews of selected activities of the Companies in the Telecommunications Sector.

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

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 2004-05 and 2005-06 as well as those which came to notice in earlier years but could not be reported.

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

OVERVIEW

I Introduction

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

2. The Report contains 96 paragraphs relating to 44 PSUs. The draft paragraphs were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 59 paragraphs were not received even as this report was being finalised in January 2007. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of two paragraphs, they did not respond despite being reminded.

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

Ministry/Department (Total number of PSUs/ **PSUs involved here**)	**No. of paragraphs**	**Financial implication in the paragraphs (Rs. in crore)**	**Number of paragraphs in respect of which Ministry reply was awaited**
1. Atomic Energy (5/**1**)	1	7.48	1
2. Banking (8/**1**)	1	2.93	0
3. Bio-Technology (2/**1**)	1	9.09	1
4. Civil Aviation (11/**4**)	11	178.54	11
5. Coal (10/**5**)	8	20.92	8
6. Commerce and Industry (12/**2**)	2	4.62	1
7. Consumer Affairs, Food and Public Distribution (3/**2**)	8	1351.59	4
8. Defence (10/**2**)	2	9.55	2
9. Fertilizers (10/**1**)	2	1.30	2
10. Finance (9/**4**)	13	39.95	12

11. Heavy Industries (55/**1**)	2	28.71	1
12. Mines (4/**1**)	1	2.63	0
13. Petroleum and Natural Gas (21/**8**)	23	589.25	13
14. Power (16/**3**)	5	142.16	0
15. Department of Public Enterprises (♣/♦)	1	15.52	0
16. Railways (11/**1**)	1	1.40	1
17. Shipping (9/**1**)	2	561.43	0
18. Steel (19/**4**)	10	1576.03	1
19. Textiles (22/**2**)	2	4.53	1
Total (237/**44**)	**96**	**4547.63**	**59**

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

- Overpayments, wasteful, excess, avoidable expenditure and undue favour to contractors *etc.* amounting to Rs.2724.44 crore in 54 paras.
- Idle investment, blocking of funds and accumulation of stock *etc.* amounting to Rs.1717.17 crore in 19 paras.
- Loss of Rs.51.25 crore due to shortloading of insurance premium, under charging of premium, lacuna in the policies, procedures *etc.* in 15 paras.
- Delay in commissioning of projects, non recovery of dues from customers/employees, deficiency in debtor control *etc.* resulted in loss of Rs.39.25 crore in seven paras.
- Rs.15.52 crore were recovered at the instance of Audit in one para.

II Highlights

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

- Non-disposal of 35.04 MMT of iron ore fines accumulated at Gua Ore Mines of **Steel Authority of India Limited** resulted in non-realisation of revenue of **Rs.1507 crore** upto **March 2005**.

(Para 18.4.1)

♣ ***All the PSUs are under the Department of Public Enterprises***

♦ ***PSUs covered in the para are appearing in the respective Ministries***

- **Food Corporation of India** incurred extra expenditure of **Rs.348.61 crore** due to hiring of godowns from State Warehousing Corporations under the Seven Year Guarantee Scheme at the higher rates payable to Central Warehousing Corporation. The storage space acquired was also not properly utilised resulting in idle/surplus capacity valued at **Rs.287.90 crore** for the period **February 2002 to March 2006**.

(Para 7.2.1)

- In spite of expected favourable returns and adequate demand for Very Large Crude Carriers, the **Shipping Corporation of India Limited** deferred the procurement of two VLCCs. Subsequent procurement resulted in extra expenditure of **Rs.553.69 crore**.

(Para 17.1.1)

- Additional transportation charges were disbursed by **Food Corporation of India** without considering the charges already paid provisionally resulting in excess payment of **Rs.406.21 crore** to State Governments and their agencies in Punjab and Haryana for the years **1998-99 to 2002-03**.

(Para 7.2.2)

- Delay on the part of **Oil and Natural Gas Corporation Limited** in award of a contract resulted in re-tendering and award of the contract at a cost higher by **Rs.235.51 crore**.

(Para 13.8.1)

- **Indian Oil Corporation Limited** (IOCL) and **Bharat Petroleum Corporation Limited (BPCL)** inaccurately calculated advance income tax payable resulting in avoidable payment of interest of **Rs.130.91 crore** by **IOCL** during the previous years **1999-2000 and 2001-02 to 2004-05** and **Rs.34.84 crore** by **BPCL** during the previous years **2000-01 and 2002-03 to 2004-05**.

(Para 13.6.1)

- **Food Corporation of India** allowed transportation charges to rice millers for delivery of levy rice within eight kilometres resulting in avoidable payment of **Rs.160.39 crore** during **1999-2000 to 2002-03**.

(Para 7.2.3)

- **NTPC Limited** made irregular payment of *ex-gratia* in the form of special incentive amounting to **Rs.116.88 crore** during the **nine years ending 2004-05** to its employees whose wages/salary exceeded the limit as stipulated under the Payment of Bonus Act.

(Para 14.2.1)

- Due to lack of planning in the procurement and maintenance of inventory of spares, **Indian Airlines Limited** incurred avoidable expenditure of **Rs.68.40 crore** on outsourcing of repair and overhaul of engines/modules and on leasing of engines. The Company lost revenue of **Rs.45.96 crore** due to grounding of aircraft from **July 2005 to June 2006**.

(Para 4.3.1)

- Acceptance of inflated transportation bills by **Food Corporation of India** in respect of Hill Transport Subsidy resulted in excess payment of transportation charges amounting to **Rs.67.40 crore** to Government of Arunachal Pradesh during **2002-03 to 2004-05**.

(Para 7.2.4)

- Foodgrain stock was released on credit to the State Government of Jammu & Kashmir in contravention of Government of India instructions. Non-recovery of outstanding dues from State Government resulted in excess interest liability of **Rs.48.53 crore upto March 2005** on **Food Corporation of India**.

(Para 7.2.5)

- Barytes being an insurance item, **Oil and Natural Gas Corporation Limited** was required to maintain a buffer stock of 5,000 MT and a minimum stock holding in a rig at the level of 100 MT to 150 MT to meet any exigency. However, delay by the Company in awarding a tender for procurement of barytes resulted in suspension of rig operations and consequent loss to the extent of **Rs.37.18 crore** during **September 2004 to January 2005**.

(Para 13.8.2)

- Non-availability of left hand drill pipes of required specifications for resolving complications faced in production testing of an exploratory well led to unproductive expenditure of **Rs.27.14 crore** during **July 2001 to April 2003** by **Oil and Natural Gas Corporation Limited**.

(Para 13.8.3)

- **Oil and Natural Gas Corporation Limited** incurred wasteful expenditure of **Rs.26.02 crore** by ignoring the past experience, the recommendations of its drilling section and the Institute of Drilling Technology for vertical drilling of an exploratory well instead of directional drilling during **June 2002 to October 2004**.

(Para 13.8.4)

- **Airports Authority of India** did not levy royalty as per Court's directive on gross ground handling revenue earned by the operating agencies at international

airports and incurred a loss of **Rs.18.48 crore** for the period from **April 2002 to March 2006**.

(Para 4.2.1)

- Due to failure in adhering to the directions of the Government of India by **Food Corporation of India** excess foodgrains were issued in Andhra Pradesh under mid-day meal scheme during **2004-05** resulting in subsidy burden of **Rs.18.06 crore** on the Government of India.

(Para 7.2.6)

- **Indian Airlines Limited** and **Pawan Hans Helicopters Limited** paid bonus/*ex-gratia* to ineligible employees in contravention of the Department of Public Enterprises instructions and without the approval of the Administrative Ministry, resulting in irregular payment of **Rs.16.44 crore** during the period **April 2000 to March 2005**.

(Para 4.4.1)

- Award of civil works by **Oil and Natural Gas Corporation Limited** to a contractor in May 2003 on a land not belonging to it led to extra expenditure of **Rs.16.04 crore** due to termination of the contract in **October 2004** and re-tendering thereof in **June 2005**.

(Para 13.8.5)

- **Thirteen PSUs** recovered **Rs.15.52 crore** during **2005-06** on account of non billing, short billing, excess payment, undue benefits to private parties *etc*. at the instance of Audit.

(Para 15.1.1)

- **Bharat Heavy Electricals Limited** took 36 months in deciding to replace the existing captive power station with a Diesel Generator set. As a result, it incurred extra expenditure of **Rs.14.77 crore** on account of higher cost of in-house generation of power for the years **2003-04 and 2004-05**.

(Para 11.1.1)

- **Bharat Heavy Electricals Limited** made excess payment of **Rs.13.94 crore** to its employees due to adoption of 26 days as a month instead of 30 days for computation of encashment of leave during the period from **24 January 2004 to 31 August 2006**.

(Para 11.1.2)

- Misinterpretation by **Indian Oil Corporation Limited** of the leviability of additional sales tax for the period from **August 2000 to March 2002** resulted in avoidable loss of **Rs.13.44 crore** to Oil Marketing Companies.

(Para 13.5.1)

- In July 1998 the Oil Co-ordination Committee informed **Indian Oil Corporation Limited** that consequent on the commissioning of Numaligarh Refinery, Assam crude would not be available for processing at Barauni Refinery and instead, low sulphur imported crude would be supplied. Due to the low wax content of the imported crude it was economically unsuitable for production of slack wax. Despite this, the Company placed an order with a foreign supplier in December 1999 for retrofitting 10 chillers. The work was completed in May 2001 at a cost of **Rs.12.76 crore**. The operation of the Solvent Dewaxing unit was stopped in **November 2001** due to non-availability of Assam crude, making the investment infructuous.

(Para 13.5.2)

- **MECON Limited** acquired additional office accommodation without proper assessment of requirement resulting in unfruitful expenditure of **Rs.11.08 crore** besides payment of interest and operation and maintenance charges amounting to **Rs.1.59 crore upto January 2006**.

(Para 18.1.1)

- Due to a decision to enter into a contract with an agency without proper business credentials and inadequate supervision of the activities of the agency **MSTC Limited** suffered a loss of **Rs.11.66 crore** during the year **2002-03 to 2005-06** in financing the purchase of castor seeds and export of castor oil.

(Para 18.2.1)

- Land purchased by **Central Warehousing Corporation** for construction of godowns, container freight stations and inland container depots lying idle for periods ranging between three and seven years resulted in blocking of funds of **Rs.8.57 crore** with consequential loss of interest of **Rs.2.19 crore upto March 2006**.

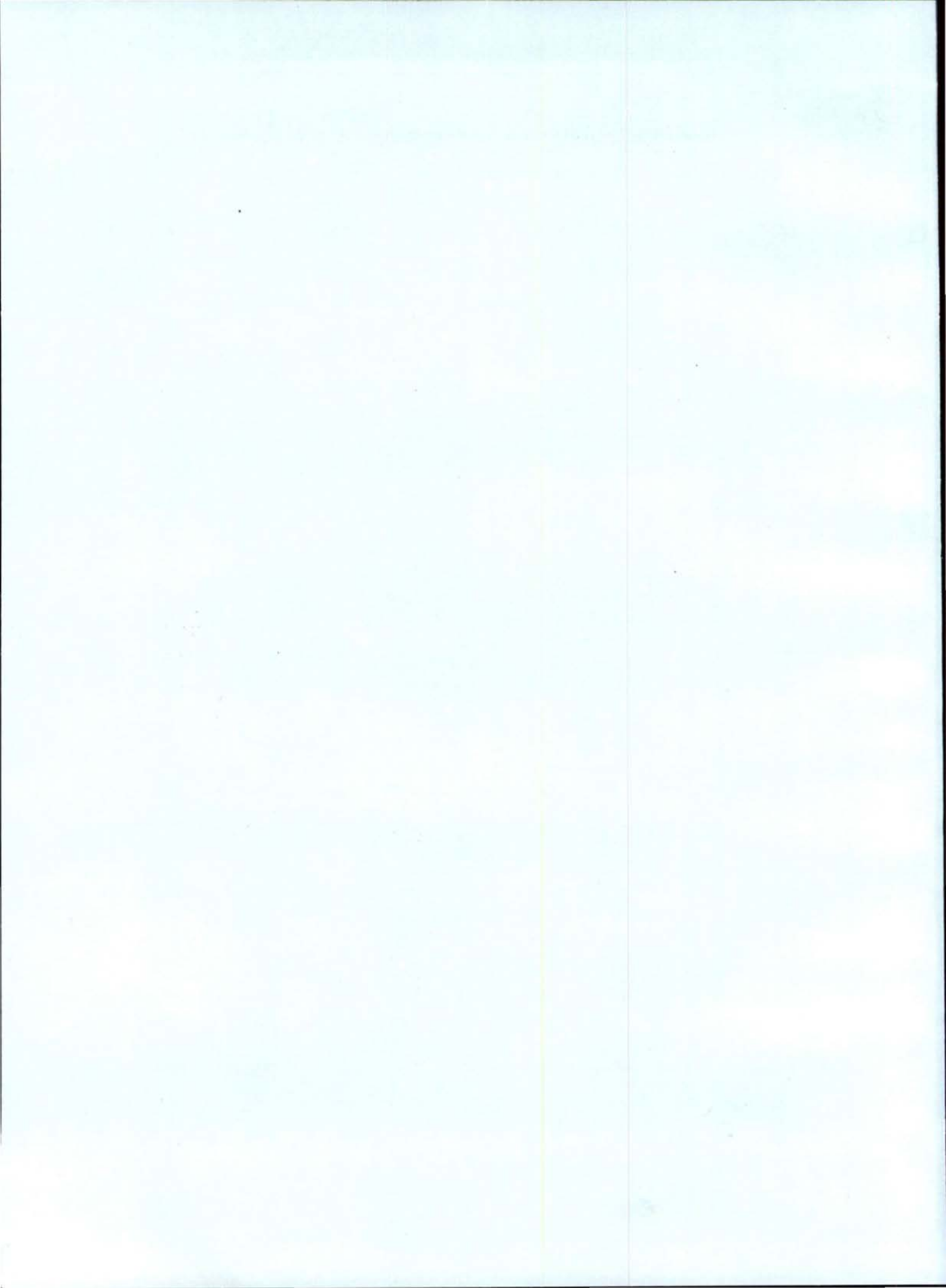
(Para 7.1.1)

- **Oil and Natural Gas Corporation Limited** ignored the results of pilot study and awarded works to contractors whose technology had either failed in the pilot study or had not been tested at all. It also delayed identification of wells for the use of the technology which resulted in the use of shelf-expired chemicals. Thus, it incurred an unfruitful expenditure of **Rs.10.06 core** during the period **October 2001 to November 2004** on application of the new technology.

(Para 13.8.6)

- **Steel Authority of India Limited** purchased Moly Oxide on piecemeal basis at higher cost disregarding the rising price trend and incurred extra expenditure of **Rs.10.04 crore** during **2004-05**.

(Para 18.4.2)



CHAPTER I: DEPARTMENT OF ATOMIC ENERGY

Electronics Corporation of India Limited

1.1.1 Irregular payment of ex-gratia/motivational amount of Rs.7.48 crore

The Company made irregular payment of *ex-gratia*/motivational amount of Rs.7.48 crore to its employees whose wages/salary exceeded the limit as stipulated under the Payment of Bonus Act.

According to the provisions of the Payment of Bonus Act, 1965 (Act) and the instructions dated 20 November 1997 of the Department of Public Enterprises (DPE), no *ex-gratia* was to be paid by the Public Sector Enterprises (PSEs) to their employees, who were not entitled to payment of bonus/*ex-gratia* under the provisions of the Act on account of their wage/salary exceeding Rs.3,500 *per* month, unless the amount was so authorised by the Government under a duly approved incentive scheme, framed in accordance with the prescribed procedure.

The payment of *ex-gratia* by a large number of PSEs to their ineligible employees has been pointed out earlier in the various Audit Reports (Commercial)[♣]. The matter was referred (February 2005) to DPE for seeking clarification as to whether such payment of *ex-gratia* was consistent with DPE's instructions. DPE clarified (December 2005) that the payment of *ex-gratia* to the ineligible employees was not allowed as per its OM[♦] dated 20 November 1997 and that there was no provision for DPE or Administrative Ministry to approve the payment of bonus/*ex-gratia* to the ineligible employees in PSEs.

Despite these instructions, Electronics Corporation of India Limited (Company) made payment of *ex-gratia*/motivational amount of Rs.7.48 crore[♥] during the four years ending 2004-05 in addition to the amounts admissible under the existing performance incentive scheme on the ground that all the employees had come out of the purview of the provisions of the Act on account of increase in wage/salary over the prescribed limit of Rs.3,500 *per* month.

The Company in its reply stated (February 2006) that the payments of *ex-gratia*/ motivational amount for the years 2001-02, 2003-04 and 2004-05 were made with the approval of the Board of Directors (BOD) of the Company. As the Company had not achieved the target set for the year 2003-04, the motivational amounts paid during the year 2002-03 were due for recovery from the employees. It was further stated that the payment of *ex-gratia* was not on the high side as compared to payments made by other PSUs exceeding the limits under DPE guidelines.

[♣] *Reports of the Comptroller and Auditor General of India (Commercial) No. 3 of 1994, 1995, 1999 to 2004 and Report No. 13 of 2006*

[♦] *Office Memorandum*

[♥] *Rs.1.01 crore each during the year 2001-02 and 2002-03, Rs.4.04 crore and Rs.1.42 crore during 2003-04 and 2004-05 respectively*

The reply was not tenable as the payments made towards *ex-gratia*/motivational amount over and above the admissible incentive payment were in contravention of DPE guidelines and provisions of the Act. The motivational amount paid during the year 2002-03 was yet to be recovered from the employees. The payment of *ex-gratia* to its employees drawing salary above the prescribed limit could not be justified by the Company on the plea that other PSUs were effecting payments of larger amounts. DPE guidelines clearly stipulated that such payments could be authorised only under a duly approved incentive scheme.

Thus, the payment of *ex-gratia*/motivational amount of Rs.7.48 crore to the ineligible employees during the year 2001-02 to 2004-05 was irregular and inconsistent with the provisions of the Act as well as the instructions of DPE.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

CHAPTER II: DEPARTMENT OF BANKING

Industrial Investment Bank of India Limited

2.1.1 Investment in non-convertible Debentures without security

Injudicious investment decision and failure to take timely advantage of One Time Settlement proposals resulted in loss of interest of Rs.2.93 crore.

Industrial Investment Bank of India Limited (Company) subscribed (November 2000) Rs. eight crore to secured non-convertible redeemable Debentures (NCD) of a new customer Eskay (India) Limited (EKIL) on private placement basis. The NCDs were for a period of six years and redeemable in three equal instalments at the end of the fourth, fifth and sixth years from date of allotment (November 2000). The NCDs carried interest at the rate of 13.25 *per cent per annum* payable semi annually in March and September every year.

The performance of EKIL deteriorated from 2000-01 due to unremunerative product mix and it started incurring losses from 2000-01. EKIL defaulted in timely payment of interest from April 2003 onwards. The Company initiated legal proceedings against EKIL (March 2006) for recall of the principal amount of Rs. eight crore and interest due thereon.

Audit observed (November 2005) various shortcomings in the decision to invest in NCDs. The Company relied solely on the Information Memorandum (IM) issued by EKIL and did not conduct any independent assessment of the proposal. This was despite categorical statements in the IM that the potential investors were required to make their own independent valuation and judgment before making an investment and that the UTI Bank, the sole arranger, did not take any responsibility for the financial soundness of the NCDs or for the correctness of the IM. For making investment in the long term loan, the Company relied on the credit rating of the EKIL which was actually for short term instruments. Further, the Company neither signed any subscription agreement with EKIL nor did it ensure execution of an agreement by the trustees in the interest of the NCD holders, as per practice. EKIL did not issue debenture certificates which constituted a violation of the Companies Act, 1956. Personal guarantee of the promoters or mortgage was also not obtained as a security. Though NCDs were to be secured by first charge on assets, no such security was created.

EKIL proposed One Time Settlement (OTS) of dues in April 2004 with 75 *per cent* principal repayment which was subsequently (July 2004) enhanced to 81.25 *per cent* (Rs.6.50 crore). The Company did not accept the proposal and asked (November 2004) EKIL for further enhancement of the OTS amount. EKIL could not redeem any part of the NCDs and the entire principal of Rs. eight crore was outstanding apart from the loss of interest of Rs.1.20 crore♣ upto September 2006. Meanwhile, the Government of India

♣ *Calculated at the rate of 8.5 per cent per annum (prime lending rate as of March 2004)*

(GOI) had decided (July 2006) to close down the Company (Industrial Investment Bank of India Limited) as it was unviable and had huge non performing assets.

The Management stated (April 2006) that the Company had taken a normal business risk and did everything possible to persuade the trustee to create the security. It had also initiated legal action at an appropriate time after giving adequate opportunity to EKIL to improve its OTS offer. The contention of the Management was not tenable as the Company had invested in the NCD without independent appraisal of the investment proposal and could not ensure creation of security in favour of the Debenture trustee. Considering the unsecured nature of NCD and continuous losses incurred by EKIL during the last five years, it would have been prudent to accept the OTS proposal of EKIL.

The Ministry stated (December 2006) that EKIL had submitted its revised offer for repayment of entire principal of Rs. eight crore with waiver of interest dues of Rs.4.76 crore. Further, the performance of EKIL had improved. Thus, there was no risk of losing outstanding principal. The contention of the Ministry was not acceptable though EKIL submitted its revised offer, the Company had not yet decided about the OTS (December 2006). Moreover, the provisional accounts (June 2006) for the year 2005-06 indicated that EKIL incurred a cash loss of Rs.15.50 crore altering the perception of improvement in EKIL's performance.

Similarly, the Company disbursed (March 1999) Rs.20 crore to Shri Digvijay Cement Company Limited (SDCCL), a loss making cement company, as subscription to their NCD on private placement basis for a period of 18 months. This was done to part finance the turnaround scheme of SDCCL, initiated by Grasim Industries Limited (GIL). The rate of interest on NCDs was 14.25 *per cent per annum*. The amount was to be repaid in two equal instalments of Rs.10 crore each in September 2000. The NCDs were secured by *pari passu* first charge over the fixed assets of SDCCL and a letter of comfort was furnished by GIL as the principal shareholder.

SDCCL continued to incur losses due to technological imbalances, high labour cost and general recession in the cement industry and its net worth turned negative (September 1999) leading to failure to repay the NCDs in September 2000. The Board of Industrial and Financial Reconstruction (BIFR) declared SDCCL a sick company in September 2000. The Company could not take any legal action against GIL, as the comfort letter of GIL did not create any indemnity or guarantee in favour of the Company.

In May 2004, SDCCL proposed OTS of dues which envisaged repayment of 81.25 *per cent* of the principal of the NCDs (Rs.16.25 crore) as full and final settlement to be paid within 30 days from the date of sanction of OTS. The Company did not accept the proposal in spite of the recommendation of the Settlement Advisory Committee of the Company in May 2005 and asked for further improvement in the OTS amount.

SDCCL improved (September 2005) the OTS amount to Rs.16.40 crore *i.e.* by Rs.15 lakh which was accepted by the Company in September 2005. SDCCL paid Rs.16.40 crore in

November 2005. The delay of fifteen months (June 2004 to September 2005) in accepting the proposal resulted in loss of interest of Rs.1.73 crore* on the original OTS amount.

The Ministry stated (December 2006) that OTS proposals generally involve negotiations over a period of time and the Company was able to improve OTS offer by Rs.15 lakh through negotiations.

The reply was not acceptable as marginal addition of Rs.15 lakh to the OTS amount came with an interest loss of Rs.1.73 crore over the period of 15 months.

In the aforementioned two cases, the Company decided to go ahead with investments without making adequate independent assessment of the repaying capacity of the borrowers. Besides, the Company did not show any readiness to accept OTS offers on the basis of a realistic assessment of the paying capacity of the borrowers. This resulted in loss of interest of Rs.2.93 crore for the Company besides remaining exposed to the loss of the principal of Rs. eight crore.

* *Calculated at the rate of 8.5 per cent per annum (prime lending rate as of March 2004)*

CHAPTER III: DEPARTMENT OF BIO-TECHNOLOGY

Indian Vaccines Corporation Limited

3.1.1 Loss due to delay in taking decision on the closure of a project

The Company incurred wasteful expenditure of Rs.9.09 crore during April 1993 to March 2006 due to delay in deciding upon the closure of the project for manufacture of vaccines.

Indian Vaccines Corporation Limited (Company) was incorporated (March 1989) with the participation of three promoters *viz.* Department of Bio-technology (DBT) GOI, M/s. Pasteur Merieux Serums and Vaccine (PSMV) of France, (technical collaborator) and Indian Petrochemicals Corporation Limited to undertake a project for manufacture and research and development of viral vaccines including Injectible Polio Vaccine (IPV). The project was scheduled to be completed by July 1994.

During review of the project by the promoters (November 1991 to February 1992) it became apparent that World Health Organisation would advocate preferential use of Oral Polio Vaccine (OPV) in developing countries. The project implementation was therefore, suspended (February 1992) pending policy decision of the GOI on the type of vaccine to be used for polio eradication. Subsequently, the GOI decided (July 1992) to continue with the use of OPV as a vaccine of choice and the project promoters decided (September 1992) to form a Committee to study the techno-economic feasibility of the project for manufacture of Vero cell OPV, in addition to other vaccines. The report which was finalised in February 1993 found that the project for manufacture of Vero cell OPV and other vaccines was technically viable but suffered from financial constraints. As per the report, a further investment of Rs.170.46 crore was required for continuing with the project while the incremental cost of closing it down was Rs.20 crore.

It was observed in Audit (December 2005) that the report was discussed by the promoters in several meetings but the decision to close the project was taken only in November 1995. Since the process of closure was time consuming, PMSV withdrew from the project (September 1998) by selling its share to DBT. Instead of closing the project, the remaining promoters considered various options of selecting a strategic partner for production of immunobiologicals and vaccines. Neither any strategic partner could be selected nor was the project closed (March 2006) resulting in avoidable revenue expenditure of Rs.9.09 crore during April 1993 to March 2006 towards operation of the Company.

The Management stated (December 2005) that efforts had been continuing since long for restructuring and revival of the Company but it was delayed due to unavoidable factors like Indian Petrochemicals Corporation Limited becoming a private company under the GOI's disinvestment programme and subsequent change in the Government policy of disinvestment.

The reply was not acceptable in view of delay in taking decision on the project even after 13 years of suspension of its activities. When the matter was earlier raised by Audit (June 2001) a similar reply was given (August 2001) by the Company stating that they were trying to locate a strategic partner for the project. Thus, due to delay in deciding the fate of the project the Company incurred wasteful expenditure of Rs.9.09 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

CHAPTER IV: MINISTRY OF CIVIL AVIATION

Air India Limited

4.1.1 Loss of revenue due to delay in taking over of perishable cargo handling operations

Air India Limited lost revenue of Rs.7.35 crore in a year due to delay in taking over handling of perishable cargo for non-customer foreign airlines at Mumbai Airport.

The GOI, Ministry of Civil Aviation appointed (July 2003) Air India Limited (Company) as the sole handling agency of the Centre for Perishable Cargo (Centre) and directed the Company to take over the facility for handling the operations set up by Agriculture and Processed Food Product Export Development Authority. The entire maintenance cost of the Centre was to be borne by the Company. A task force of the Company assessed (August 2003) the manpower requirement to run the Centre and obtained approval of the Managing Director for augmentation of manpower. The Company, in the first phase started the activity at the Centre (September 2003) by handling its own flights and a few of its customer airlines with which it already had handling contracts. The Company, however, started handling the perishable cargo of other airlines from November 2004 in the second phase.

Audit observed (May 2005) that the Company did not take over handling of perishable cargo of other airlines in September 2003 itself. No separate security staff had been mobilised for perishable cargo handling (PCH) operations till July 2006. The existing staff was being utilised for the Company's entire operations like ground handling, passenger/baggage handling and cargo handling (including perishable cargo handling operations). Five X-ray machines were handed over by the Airports Authority of India (AAI) to the Company in September 2003 of which two X-ray machines were fit for PCH operations. No additional X-ray machine was purchased for handling perishable cargo of non-customer airlines. Both, manpower and machines were, thus, available in September 2003 for managing handling of the perishable cargo of non-customer airlines. However, the Company started handling perishable cargo of non-customer airlines only in November 2004. The delay of 12 months *i.e.* from November 2003 to October 2004 (giving allowance of two months for arrangement of security staff and X-ray machines) resulted in loss of revenue of Rs.7.35 crore[♣].

The Management stated (January 2006) that a draft Memorandum of Understanding (MOU) was sent to all the carriers in August 2003 pursuant to the directives of the Government to the Company. While some airlines suggested changes to the draft MOU, others sought approval of their respective headquarters and also insisted on conversion of MOU into International Air Transport Association Standard Ground Handling Agreement (SGHA). This caused delay in taking over of the perishable cargo handling

[♣] *Calculated on the basis of average perishable cargo lifted per month by non-customer foreign airlines during November 2004 to October 2005*

operations for other airlines. Failure of the security department of the Company to mobilise the required number of certified security personnel for carrying out the X-ray screening and non-availability of suitable X-ray machines for such screening were also cited as reasons for the delay.

Reply of the Management was not tenable as the Company finally took over the perishable cargo handling operations for various non-customer foreign airlines in November 2004 with the same status of infrastructure, manpower and signing of agreement as in September 2003. Thus, the loss of revenue of Rs.7.35 crore was avoidable.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Airports Authority of India

4.2.1 Loss of revenue due to non-implementation of Court's directive

Airports Authority of India did not levy royalty as per Court's directive on gross ground handling revenue earned by the operating agencies at international airports and incurred a loss of Rs.18.48 crore.

The Airports Authority of India (Authority) collected a royalty[♣] from agencies providing ground handling services at international and domestic airports. While the ground handling rules permitted only scheduled agencies *viz.* Airports Authority of India, two national carriers Air India Limited and Indian Airlines Limited and any other handling agency licensed by the Authority to carry out ground handling services at an airport, major airlines outsourced their ground handling services to non-scheduled agencies at almost all the airports including deployment of contract manpower in place of their whole time bonafide employees. As banning them would have jeopardized the operations of the airlines, the Authority decided (July 1997) to permit the airlines to continue with these non-scheduled agencies against levy of royalty at 11 *per cent*[♦] of the gross turnover (GTO) of such agencies with effect from 1 April 1991.

Some of the non-scheduled ground handling agencies filed writ petitions in 1997, 1998 and 1999 in Delhi High Court challenging the Authority's decision to levy royalty at the rate of 11 *per cent* with retrospective effect and demanded regularisation of their ground handling operations. The Court in its interim order directed the Authority (between September 1997 to March 2001) to maintain status quo until final disposal of the case.

Meanwhile, the Authority invited (February 2001) global tenders for placement of new ground handling services contracts and identified (May 2001) the successful agencies after evaluation of bids. However, the work could not be awarded as the security clearance from the Ministry of Home Affairs was not forthcoming. Besides, the issue of

[♣] *Collected as a percentage of the turnover from ground handling services of the various agencies providing this service. The percentage to be collected changes from time to time.*

[♦] *The rate at which the scheduled ground handling agencies were paying royalty at that point of time*

forming a subsidiary company of the Authority for undertaking ground handling services had also come up and delayed finalisation of the contract.

Subsequently the Court finally ordered (September 2001) payment of royalty at the rate of 23 *per cent* (the rate quoted by a successful bidder[♥] in the tender) of GTO earned for the business carried on at Delhi airport from 1 October 2001. The order was also made applicable to all those agencies that were doing the work of ground handling at Delhi airport even though they were not petitioners before the Court.

Audit observed (January 2005) that the Authority continued to charge royalty at the earlier rate of 11 *per cent* from the agencies operating at IGI Airport against the Court's directive to levy 23 *per cent*. Further, cheques/demand drafts received from one[♣] of the existing agencies at the rate of 23 *per cent* were not encashed by the Authority.

The Management stated (August 2006) that the award letters issued did not fructify due to security reasons and were subsequently cancelled. The decision of the Court in respect of non scheduled agencies had relevance if the successful tenderers had been awarded contracts.

The reply of the Management was not tenable as the Court's orders were not subject to any condition relating to the award of tenders by the Authority. Further, even after a lapse of five years from the date of passing of the Court orders, the Authority had neither implemented the orders nor informed the Court about it. Thus, non- implementation of the Court's directive by the Authority resulted in a loss of Rs.18.48 crore for the period from April 2002 to March 2006.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.2 Loss due to non-collection of service tax on Passenger Service Fee

The Authority failed to promptly implement the levy and collection of service tax on Passenger Service Fee from the date it became due as per provisions of the Finance Act 2004, resulting in loss of Rs.6.36 crore.

The Finance Act, 2004, introduced service tax on 'Airport Services' including Passenger Service Fee (PSF) with effect from 10 September 2004. PSF was to be collected by the airlines at the time of issue of tickets and passed on to the Authority. After the enactment of the Act, the Authority instead of asking the airlines to collect and pass on the proceeds of service Tax collected, sought clarification from the Central Board of Excise and Customs (CBEC) and advised (13 September 2004) its regions to incorporate the following words while raising the invoices/bills on the airlines. "Service tax at 10.2 *per cent* (including education cess) introduced with effect from 10 September 2004 not charged in invoice pending clarification from CBEC. Service tax shall be payable by you

[♥] ***The rate quoted by the bidder- M/s. Combatta Aviation (P) Limited who was identified as successful based on February 2001 tender***

[♣] ***M/s. Combatta Aviation (P) Limited***

on this invoice, if, CBEC confirms these services as taxable services for which separate bills will be raised in due course".

Subsequently, the Authority decided (1 November 2004) to levy service tax on PSF and instructions were issued to all concerned. Accordingly, the airlines started collecting service tax on PSF from 20 December 2004. However, the major airlines, *viz.*, Air India Limited and Indian Airlines Limited did not pay the service tax for the intervening period from 10 September 2004 to 19 December 2004 on the ground that they had not collected the tax from the passengers for that period. The Authority paid Rs.6.36 crore♥ as service tax on PSF collected by these airlines for the period from 10 September 2004 to 19 December 2004 as it was the primary responsibility of the Authority to remit service tax to the GOI from the date of its introduction.

The Management stated (August 2006) that charging of service tax on PSF from 20 December 2004 instead of 10 September 2004 by the airlines was its unilateral decision. To avoid any future complications, the Authority had deposited the amount of service tax on PSF to be collected later on from both the airlines. The issue of non payment of service tax had been taken up at the highest level and it would be resolved shortly.

The reply of the Management was not tenable as the airlines did not collect and remit the service tax on PSF for the period from 10 September 2004 to 19 December 2004 due to lack of clear directive from the Authority to collect the service tax on PSF as soon as it became due.

Thus, due to lack of prompt decision to implement the levy of service tax on PSF from the date it became due as per provisions of the Finance Act 2004, the Authority incurred a loss of Rs.6.36 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.3 Loss of revenue due to incorrect grant of rebate on landing charges

The Airports Authority of India allowed rebate of Rs.5.45 crore to airlines on payment of landing charges, though the latter did not fulfil the conditions for such rebate.

The Airports Authority of India (Authority) allowed (February 2004) a rebate of 15 *per cent* on landing charges for domestic flights operated by scheduled operators subject to the condition that the operators clear the airport charges♣ within a credit period of 15 days. In the international airports at Delhi, Mumbai, Kolkata, Chennai and Thiruvananthapuram, the landing and parking charges component of the airport charges was to be collected by the International Airports Division (IAD) and the route navigation facilities charges (RNFC) and terminal navigational landing charges component by the National Airports Division (NAD).

♥ *Rs.1.68 crore for Air India Limited and Rs.4.68 crore for Indian Airlines Limited*

♣ *Airport charges include charges for landing, parking, route navigation facilities and terminal navigational landing charges etc.*

Audit observed (March 2006) that the Authority allowed a rebate of Rs.5.45 crore (including Rs.4.98 crore to Indian Airlines Limited (IAL)) during the year 2004-05 based on payment of landing charges within the credit period. However, the corresponding RNFC charges had not been paid by the airlines within the same period. As such the airlines were not paying the entire airport charges within the credit period of 15 days which was a pre condition for allowing the rebate. It was, thus, observed that in the absence of an internal control mechanism to monitor raising and realisation of bills pertaining to the two divisions, rebate was granted incorrectly.

The Management stated (August 2006) in respect of IAL that it did not allow any discount but the airline was arbitrarily making deduction of 15 *per cent* towards the rebate. The reply of the Management was not acceptable as the amount unilaterally deducted by the airline was regularised by the Authority by accounting for it as a discount in its annual accounts. In fact it was only after the matter was pointed out in Audit that the Authority took up (June 2006) this issue with IAL.

Thus, the Authority suffered a revenue loss of Rs.5.45 crore by allowing incorrect rebate based on payment of part of the airport charges, *viz.* landing and parking charges only and not the full airport charges including route navigation and facilities charges within the credit period of 15 days.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.4 Absence of a system of raising bill for collection of Passenger Service Fee from Indian Airlines Limited

The Authority did not have a system of raising bill for collection of Passenger Service Fee from Indian Airlines Limited. This led to blocking of its funds even after collection of the same from the passengers and resulted in loss of interest of Rs.3.29 crore.

Airports Authority of India (Authority) is authorised to levy Passenger Service Fee (PSF) at airports on all embarking passengers of different airlines. As per the arrangement in place, the airlines collect PSF from the passengers and remit it to the Authority. Till March 2004, the Authority was raising bills for PSF on the private airlines and other non-scheduled operators based on the passenger manifest obtained from them at the regional level. In respect of Indian Airlines Limited (IAL) and Air India Limited (AIL), bills were not raised by the Authority and PSF was paid to the Authority by these airlines centrally at the Authority's headquarters in New Delhi. Based on Ministry's orders (March 2004), the Authority revised (April 2004) the procedure for billing of PSF according to which bills were to be raised at the regional level on manifest basis against all the airlines including AIL and IAL and the payments were to be received in the regions.

Audit observed (November 2004) that despite the specific instructions, the Authority did not raise bills for PSF on IAL citing non furnishing of passenger data by IAL as the reason. Instead, it allowed IAL to make consolidated *ad hoc* payments based on their own data every month at its headquarters for all stations put together. The settlement was made after considerable delay ranging even upto 46 months after receipt of the final

statements from IAL. This resulted in blocking of the Authority's funds with IAL during the period 2000-01 to 2003-04. During 2004-05, however, IAL made *ad hoc* payments in excess of the due amount. Consequently the Authority suffered net interest loss of Rs.3.29 crore* for the period 2000-01 to 2004-05. Similar *ad hoc* payments were received for 2005-06 also but the final statement was still awaited (October 2006). Moreover, the Authority accepted the amount paid by IAL without any further check or reconciliation due to the absence of manifest details.

The Management stated (March 2006) that had the Authority raised the bills for PSF on IAL, more time would have been taken to receive the dues. As IAL was regularly making *ad hoc* payments before the 15th of the subsequent month, there was no loss to the Authority.

The reply of the Management was not acceptable in view of the fact that while the Authority was billing private airlines on the basis of passenger manifests, it did not do so for IAL, thereby suffering loss of interest.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.5 Loss of revenue due to delay in implementation of revised vehicle parking charges

Airports Authority of India did not enhance the parking charges from the date of declaration of the existing domestic airports as international airports by the Ministry. The consequent delay in revision of the licence fee receivable from the vehicle parking contractors resulted in loss of revenue of Rs.1.36 crore.

The Ministry of Civil Aviation declared (May 2000) the existing domestic airports at Bangalore, Goa, Ahmedabad and Amritsar as international airports. Consequently, the vehicle parking charges at these airports became liable to be revised to those applicable to international airports.

It was observed in Audit (May 2003) that there were delays ranging from 25 months to 29 months in enhancement of the vehicle parking charges applicable to the airports at Bangalore, Goa, Ahmedabad and Amritsar. The consequent delay in revision of licence fee receivable from the vehicle parking contractors led to a loss of revenue of Rs.1.36 crore.

The Management stated (August 2006) that the ongoing parking contracts were continued as per the existing terms and conditions since there was no system of automatic revision of parking charges under such circumstances.

The reply of the Management was not acceptable as the contracts had provisions for midterm revision of rates and this was supported by the fact that the revision effected in October 2002 was made applicable to the existing contracts also. Moreover, any increase

* *Calculated at the rate of seven per cent adopted for working out net present value by the Authority which is the average rate of return earned by the Authority on its short term deposits*

in the licence fee payable by the contractors would be offset by the increase in the parking charges collectable by them.

The avoidable delay in revision of vehicle parking charges at international airports resulted in loss of revenue of Rs.1.36 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Indian Airlines Limited

4.3.1 Grounding of aircraft due to non-availability of spares

Avoidable expenditure of Rs.68.40 crore on repair and overhauling of engines and loss of revenue of Rs.45.96 crore due to lack of planning in the procurement of spares resulting in grounding of aircrafts.

Indian Airlines Limited (Company) had a fleet of 48 aircraft[♣], fitted with V-2500 engines (September 2006). The Jet Engine Overhaul Center (JEOC) of the Company was equipped for repairing and overhauling V-2500 engines and had a capacity to overhaul an average of four engines per month. As on 30 June 2005, the JEOC had 18 engines lying with it for repair and overhauling which increased to 27 as on 30 June 2006. The average number of engines repaired and overhauled per month during this period was 2.76.

The Company was purchasing spare parts of engines from M/s. International Aero Engines (IAE), manufacturer of V-2500 engines, on 60 days credit line. Due to non payment of outstanding dues of US$ 14.73 million (Rs.64.45 crore) as on June 2005, IAE intimated (July 2005) the Company that it would supply spares worth half of the amount of payment effected henceforth by the Company till the debt was adequately brought down. This resulted in depletion of stocks and non availability of spares and other critical items required for repair and overhauling of engines. The Company during July – August 2005 managed to overhaul engines with the help of cannibalisation of modules and spares. The position thereafter worsened due to non availability of spares resulting in holding up of engines for repairs in the workshop.

In November 2005, IAE agreed to improve the flow of spares to 75 *per cent* capping of the payments effective from 1 December 2005 but the position did not improve owing to overall shortage of spares. To meet the shortage of engines, the Company took on lease three engines during the period September 2005 to October 2006 and paid lease charges of Rs.20.13 crore. Further the Company also outsourced 16 engines and 9 modules for repair and overhauling during the period January 2006 to May 2006. The Company incurred an extra expenditure of Rs.48.27 crore on labour and freight on the outsourced work leaving aside the cost of material and other costs which the Company would have had to bear even if the work was taken up in-house.

[♣] ***30 owned and 18 leased***

Audit observed (May 2006) that despite the above measures taken by the Management, the position did not improve and five to ten aircraft were grounded due to non availability of spares between February 2006 and June 2006.

Thus, due to lack of planning in the procurement and maintenance of inventory of spares to avoid any disruption in the repair and overhaul of engines, the Company incurred an avoidable expenditure of Rs.68.40 crore on outsourcing of engines/modules and on leasing of engines. Further the Company lost revenue of Rs.45.96 crore[♦] due to grounding of aircraft from July 2005 to June 2006. The loss would continue till all the engines are overhauled and the aircraft made operational.

The matter was reported to the Management and the Ministry in May 2006 and November 2006 respectively; replies were awaited (January 2007).

4.3.2 Avoidable payment of overtime

The Company made payment of overtime of Rs.1.34 crore to the staff of Jet Engine Overhaul Complex regularly by compromising on the normal duty hours.

The Jet Engine Overhaul Complex (JEOC) of the Indian Airlines Limited (Company) is responsible for servicing and overhauling of the engines of various aircraft. As per the Memorandum of Settlement (MOS) between the Company and the Indian Aircraft Technicians Association (August 2002), the technicians are required to report for work after availing of 11 hours break from duty.

Audit observed (March 2004) that the staff of JEOC were detained on overtime regularly. In lieu of working overtime and in line with the terms of the MOS, the staff were given 'Off' during normal working hours on the next day (called 'night off hours'). To dispense with such practice, Director (JEOC) issued instructions (December 2003) to control overtime as the manpower had increased by 19 technicians in November 2003. The Director (JEOC) also ordered (January 2004) discontinuation of the practice of detaining staff on overtime beyond 2130 hours in the evening other than in exceptional cases to avoid aircraft grounding. Orders were also issued to carry out surprise checks to ensure that the staff detained on overtime were physically present. The reason behind the above orders was to avoid loss of normal working hours due to 'night off hours'.

Audit observed that during the period April 2003 to March 2006, the Company paid overtime for 6,53,650 hours which included detention of the staff on overtime for 1,12,374 hours beyond 2130 hours till 0700 hours next day, necessitating the mandatory break/rest of 11 hours which coincided with their regular duty time. This resulted in unproductive expenditure of Rs.1.34 crore on overtime without generating any additional man hours during the period April 2003 to March 2006. The detention of staff upto 0700 hours next day (23 hours approximately) was also against section 64(4)(ii) of the Factories Act, 1948 which limits the hours of work inclusive of overtime to 10 hours and the spread over, inclusive of intervals for rest to 12 hours in any one day.

[♦] *Net of saving on account of fuel and landing charges*

The Management stated (March 2005) that the quantum of work increased due to induction of additional aircraft on lease and all the divisions of JEOC being complementary to each other, the supplementary work was required to be completed immediately. The reply was not tenable because additional man-hour generated due to overtime were actually lost due to allowing 'night off hours'. Further, the orders for sanctioning overtime did not indicate any urgency or emergency arising out of grounding of aircraft. Moreover, since the time taken for repair/overhauling of each engine was two to four months, it was difficult to treat these cases as emergency requiring staff to perform overtime at the cost of regular duty hours.

Thus, the Company made avoidable payment of Rs.1.34 crore to the staff as overtime by allowing 1,12,374 hours of 'night off' during regular working hours.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

4.3.3 Loss due to non-realisation of claims from Agents

The Company did not recover from the Agents the difference between normal fare and discounted fare when the Agents had failed to achieve the sales targets as per agreements, resulting in loss of revenue of Rs.2.66 crore.

With a view to increasing the sale of passenger tickets, Indian Airlines Limited (Company) delegated powers (May 2002) to its Regional Offices to allow discount to the Agents upto 30 *per cent* on current applicable fare, in addition to normal commission, for group travel of outbound tourist traffic.

The Company (Eastern Region) entered (November 2003) into an agreement, with M/s. Giananey Travels & Tours (Agent) for a period of one year commencing on 27 November 2003. As per the terms and conditions of the agreement, the Company was to offer 20 *per cent* discount on normal fare on packages for Kolkata/Bangkok and back provided the number of passengers ticketed and travelled were (i) minimum 6,500 passengers per year for 2003-2004; (ii) minimum 1,625 passengers per quarter for the period of agreement; and (iii) not less than 10 passengers in each group. It was further stipulated that in the event of failure to meet any of the above conditions, the Agent would make good the difference between normal fare and the discounted fare by means of immediate payment to the Company.

It was observed in Audit (January 2005) that the Company did not call back the amount of excess discount allowed to the Agents though the Agent had failed to achieve the minimum quarterly target of 1,625 passengers in the first two quarters. Moreover, the Agent was allowed to carry forward the shortfall to subsequent quarters. No bank guarantee was obtained as safeguard in the event of the Agent not meeting the required numbers even in the following two quarters. The Agent, during the tenure of the agreement, could sell only 6,075 passenger tickets which fell short of the minimum annual target of 6,500 passenger tickets by 425 tickets. Therefore, the Agent was liable to refund the discount amount of Rs.1.37 crore to the Company as per the terms and conditions of the agreement but the amount was not refunded by the Agent. The Company also did not claim the refund but increased the target in the subsequent

agreement with the same Agent for a period of one year commencing on 15 December 2004 for the same sector. This time an annual target of 7,500 passenger tickets, after adding the shortfall of the first agreement, was fixed with other conditions remaining the same. The Agent failed to achieve the target during the tenure of the second agreement also and surrendered the deal on 2 July 2005. The Company claimed (November 2005) Rs.99.17 lakh for the second agreement being the difference between normal fare and discounted fare on the sale of 2,483 passenger tickets by the Agent which had not been paid by the Agent (December 2006).

The Management stated (May 2005) that the discount amount in respect of the first agreement had not been recalled from the Agent in view of its good performance during 2002-03. Keeping in view the overall performance of the Agent during the deal period, it was also decided not to obtain bank guarantee or advance cheque but the deficit of 425 passenger tickets was added to the next year's target by enhancing the passenger target from 7,000 to 7,500.

The reply of the Management was not acceptable as reward or penal action specified in an agreement is to be implemented strictly in terms of the stipulations made in the agreement and should not be linked with extraneous issues. The loss of revenue could have been avoided by the Company if they had obtained bank guarantee for the excess discount allowed to the Agent in each quarter.

Similarly, Audit observed that in another case, the Agent M/s. Laxminarayan Air Travels (P) Limited could not achieve the target set as per its agreements with the Company for the period November 2004 to December 2005 in the sectors Kolkata/Kathmandu and Kolkata/Bangkok and fell short by 463 passenger tickets. In this case also the Company had not safeguarded its interest by taking bank guarantee from the Agent. The Company demanded Rs.29.81 lakh (February 2006) from the Agent being the difference between the normal fare and the post discount fare but the same had not been paid by the Agent so far (May 2006).

Thus, undue favour granted to the Agents resulted in loss of revenue of Rs.2.66 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Indian Airlines Limited and Pawan Hans Helicopters Limited

4.4.1 Irregular payment of bonus/ex-gratia to the employees

Indian Airlines Limited and Pawan Hans Helicopters Limited paid bonus/*ex-gratia* to ineligible employees in contravention of the Department of Public Enterprises instructions and without the approval of the Administrative Ministry resulting in irregular payment of Rs.16.44 crore.

According to the provisions of the Payment of Bonus Act, 1965 (Act) and DPE instructions dated 20 November 1997, no bonus/*ex-gratia* was to be paid by a Public Sector Undertaking (PSUs) to its employees, who were not entitled to bonus/*ex-gratia* under the provisions of the Act on account of their wage/salary exceeding Rs.3,500 per

month, unless the amount was so authorised by the Government under a duly approved incentive scheme, framed in accordance with the prescribed procedure.

The payment of bonus/*ex-gratia* by a large number of PSUs to their ineligible employees has been pointed out in the various Audit Reports (Commercial)[♣]. The matter was referred (October 2005) to DPE for seeking clarification as to whether such payment of bonus/*ex-gratia* was consistent with DPE's instructions. DPE clarified (December 2005) that the payment of bonus/*ex-gratia* to ineligible employees was not allowed as per its instructions dated 20 November 1997 and there was no provision for DPE/ Administrative Ministry to approve the payment of the same to ineligible employees in PSUs.

Audit observed (July/February 2005) that Indian Airlines Limited and Pawan Hans Helicopters Limited were paying bonus/*ex-gratia* to their employees in contravention of DPE instructions.

Indian Airlines Limited (IAL) paid *ex-gratia* of Rs.5.08 crore at the rate of Rs.4,000 to 12,707 ineligible employees during 2003-04 and Rs.9.25 crore at the rate of Rs.5,000 to 18,504 ineligible employees during 2004-05. The payment was made without the approval of the Board and the Administrative Ministry.

Pawan Hans Helicopters Limited (PHHL) paid bonus/*ex-gratia* amounting to Rs.2.11 crore at the rate of 20 *per cent* of salary subject to a maximum of Rs.6,000 to its employees, who were not entitled to bonus/*ex-gratia* during the period April 2000 to March 2005 in contravention of DPE instructions. The *ex-gratia* was paid in addition to the productivity linked incentive scheme of the Company.

The Management of IAL stated (January 2006) that in view of the agitation launched by the Air Corporation employees union it was decided to pay bonus in October 2004. Bonus was a budgeted revenue expenditure and the BOD of the Company approved the budget. As regards approval of the Administrative Ministry, the Company stated that the BOD of the Company is competent to approve such payments.

The Management of PHHL stated (September 2005/ June 2006) that it was declaring bonus at the rate of 20 *per cent* from the financial year 1992-93 onwards in terms of the Payment of Bonus Act, 1965 and employees who fell outside the purview of the said Act were being paid an equal amount as *ex-gratia*. The Company further stated that though the DPE stipulate that bonus/*ex-gratia* was not payable to the employees not coming under the ambit of the Payment of Bonus Act, it was paying *ex-gratia* to the employees with the approval of the BOD in view of the practice prevalent in other Public Sector Undertakings.

The reply of the Management was not tenable as the employees of PSUs who were not entitled to payment of bonus/*ex-gratia* under the Act on account of their wage/salary exceeding the limit were debarred from receiving the same from PSUs as per DPE's guidelines.

[♣] ***Reports of the Comptroller and Auditor General of India (Commercial) No.3 of 1994, 1995, 1999 to 2004 and Report No.13 of 2006***

Thus, the payment of bonus/*ex-gratia* amounting to Rs.16.44 crore by these two Companies (IAL - Rs.14.33 crore and PHHL - Rs.2.11 crore) to the ineligible employees was irregular and inconsistent with the provisions of the Act as well as the instructions of the DPE.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Pawan Hans Helicopters Limited

4.5.1 Irregular payment of arrears of House Rent Allowance and City Compensatory Allowance

The Company made payment of arrears of House Rent Allowance and City Compensatory Allowance in contravention of the provisions of Department of Public Enterprises guidelines, resulting in irregular payment of Rs.1.45 crore.

The DPE issued guidelines (June 1999) on revision of pay scales in Central Public Sector Undertakings (PSUs) effective from 1 January 1997. It stipulated that House Rent Allowance (HRA), City Compensatory Allowance (CCA), payment for leased accommodation and rent recovery may be computed on revised basic pay but the amount to be paid or recovered would be from the date of implementation of these guidelines. DPE further clarified (March 2000) that these orders would be implemented from the date of issue of the Presidential Directive revising the pay scales. The Ministry of Civil Aviation also informed (February 2001) the Company that pay related allowances such as HRA, CCA *etc.* are to be paid in accordance with the instructions issued by DPE.

The BOD of Pawan Hans Helicopters Limited (Company) approved (September 2002) the revision of pay scales of staff and executives with effect from 1 January 1997 and pay related allowances such as HRA and CCA *etc.* with effect from 25 June 1999, *i.e.* the date of issue of DPE's guidelines. The decision of the BOD to extend such benefit from 25 June 1999 contravened DPE guidelines which had clearly stipulated revision of pay related allowances such as HRA, CCA *etc.* only from the date of issue of Presidential Directive which was 2 February 2001. The Company made irregular payment between November 2002 and April 2003 of arrears of Rs.1.45 crore on account of HRA and CCA for the period from 25 June 1999 to 1 February 2001.

The Management stated (September 2005) that as per the MOU with various categories of employees, the enhanced amount of HRA and CCA was to be paid from January 1997. However, the BOD after detailed deliberations, decided to give the benefit from 25 June 1999 *i.e.* the date of issue of DPE guidelines, which was considered the "date of implementation" by the Company.

The reply of the Management was not tenable as the DPE had clearly instructed that any increase in HRA/CCA consequent on revision of pay scales would be payable from the date of implementation of pay scales *i.e.* the date of issue of Presidential Directive revising the pay scales. Thus, the payment of arrears of Rs.1.45 crore made by the

Company on account of HRA and CCA was irregular and inconsistent with the provisions of the DPE guidelines.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

CHAPTER V: DEPARTMENT OF COAL

Central Coalfields Limited

5.1.1 Loss due to delayed repayment of ICICI loan

The Company suffered an avoidable loss of Rs.5.91 crore due to delay in foreclosing high interest bearing ICICI loan.

Central Coalfields Limited (Company) entered into an agreement (January 2001) with M/s. ICICI Limited (ICICI) for a loan of Rs.100 crore at interest of 12.90 *per cent per annum* payable on quarterly rest basis. The loan was repayable by January 2006 in 16 equal quarterly instalments commencing from April 2002. As per the terms of the agreement, the outstanding amount of the loan could be repaid in full or in part before the due dates subject to approval and such terms as might be stipulated by ICICI including payment of prepayment premium.

In view of falling interest rates, the Company decided (April 2003) to explore the possibility of foreclosing the loan. On being approached (May 2003) by the Management for premature payment of the outstanding balance of Rs.68.75 crore, ICICI accepted (June 2003) the proposal subject to prepayment premium of Rs.2.92 crore. The prepayment amounting to Rs.73.27 crore♣ was to be made within a week's time. However, the loan was not repaid on the grounds of non-availability of surplus fund and the difficulty in availability of refinance at a low interest rate (nine or less than nine *per cent*). But, in May 2004, the balance of the loan of Rs.43.75 crore together with the revised amount of prepayment premium of Rs.2.15 crore was paid by the Company from its surplus funds.

It was observed in Audit (October/November 2004) that the Company was required to pay apex charge, debt servicing charge, share of expenses of CMPDIL♦ *etc.* to Coal India Limited (CIL), its holding company, which intimated to each subsidiary the annual fund requirement and monthly instalments of remittance. CIL indicated a fund requirement of Rs.419.23 crore from CCL for the year 2003-04 payable in monthly instalments of Rs.35 crore each. Audit examination revealed that as against the required remittance to CIL, the Company remitted a total amount of Rs.720 crore (including old current account dues of Rs.170.84 crore) during 2003-04. This included Rs.280 crore that was remitted to CIL between April and June 2003 when the Company was required to arrange for Rs.73.27 crore for prepayment and foreclosure of the ICICI loan as per the directive of its BOD.

Thus, the Management could plan and hold Rs.73.27 crore during April 2003 to June 2003 to foreclose the high interest bearing ICICI loan in time and avoid extra payment of Rs.5.91 crore♥ to ICICI.

♣ *Loan Rs.68.75 crore, prepayment premium Rs.2.92 crore and outstanding interest of Rs.1.60 crore*

♦ *Central Mine Planning and Design Institute Limited*

♥ *Avoidable interest Rs.6.68 crore less Rs.0.77 crore being the difference of prepayment premium of Rs.2.92 crore and Rs.2.15 crore*

The Management stated (March 2005) that considering the quantum of CIL dues (including old balance of Rs.1,504.26 crore) for the year 2003-04, it had prioritised payment of CIL dues at the first instance and as such had paid the entire available fund of Rs.720 crore on month to month basis during April 2003 to March 2004. It was also stated (June 2006) that keeping in view the role of CIL in financing the weaker subsidiaries, the Company had made the payment of Rs.349.29 crore (including long outstanding dues of Rs.170.84 crore) which was due to CIL as it had incurred the expenditure on behalf of the Company. CIL stated (October 2006) that the Company had failed to meet its debt service obligation to them till 2002-03 due to its poor financial position and had paid the arrear interest, arrear apex charges and other expenses due to them at its first opportunity in 2003-04. CIL was of the opinion that considering the financial position prevailing at that time, there was no delay in prepaying the ICICI loan.

The contention of the Company as well as CIL was not acceptable since the financial arrangement with CIL did not prevent the Management from exercising financial prudence to regulate the amount of remittance in consultation with CIL so as to avoid extra payment of the interest on ICICI loan since the Company had paid Rs.720 crore including Rs.170.84 crore pertaining to current account which did not attract any interest. Therefore, the decision of the Company only resulted in avoidable payment of interest amounting to Rs.5.91 crore to ICICI.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

5.1.2 Avoidable payment of transportation charges due to incorrect measurement of the route

The Company did not verify the shortest route and transported coal from Tarmi Open Cast Project under Dhori area to Kargali Washery using longer route during the period July 1999 to July 2003 incurring avoidable expenditure of Rs.1.55 crore.

Central Coalfields Limited (Company) awarded contracts during July 1999 to January 2003 in favour of M/s. Sarweshwari Enterprise for transportation of raw coal from Tarmi Open Cast Project (SDQ-3)[♣] under Dhori area to Kargali Washery bunkers for washing purposes. The length of the route was certified by the Management as 15.75 km without any indication whether it was the shortest route. During the currency of these contracts, 9.34 lakh MT[•] of raw coal was transported till July 2003 at the contractual rate varying from Rs.49.25 *per* MT to Rs.55.85 *per* MT. In the meantime, in view of discrepancies in route distance, the Area Management constituted (May 2003) a Committee for re-measurement of distance between SDQ-3 and Kargali Washery. The Committee observed (June 2003) that the actual distance should be 13.45 km and 14.70 km depending upon the unloading bunkers at the washery. The Committee also noticed that a shorter mine road measuring 11.05 km passing across the mine could be used in the dry season when coal was lifted from the lower benches.

[♣] *Selected Dhori Query number three*

[•] *Metric Tonne*

In the light of the above facts, the Area Management foreclosed the existing contract and awarded (July 2003) fresh contracts in favour of M/s. Sarweshwari Enterprise and M/s. Rama Transport Company for transportation of coal through the shorter route at the rate of Rs.39.14 *per* MT. It was noticed in Audit (November/December 2005) that subsequently all transportation contracts for transportation of raw coal to Kargali Washery bunkers were awarded through the shorter route including those during rainy seasons. However, neither the Management initiated any action to fix responsibility on the officials responsible for approving the longer route earlier, nor could it recover the excess payment made for the transportation by the longer route. Incidentally, the same firm continued to transport coal to Kargali Washery.

Thus, due to incorrect certification of the distance, the Company had to sustain a loss of Rs.1.55 crore during the period July 1999 to July 2003.

The Management stated (April 2006) that *suo moto* constitution of area team for verifying the route distance was an indication that they were already cautious about ensuring correct route and billing. They further stated that by using the upper route (longer route) the Company had not incurred any loss by way of excess payment to the transporter as it was not possible to approach the upper part working of the coal seam through the lower route. It was also stated that lower route was followed when the coal was being lifted from the lower seam.

The reply of the Management was not based on facts because coal produced from lower seam (F grade) only had been transported to Kargali Washery. The coal produced from upper and middle seams (W-III and W-IV grade) was linked to Kathara and Sawang Washeries and Tarmi Siding road dispatches respectively. Therefore, transportation of F grade coal from lower seam of SDQ-3 to Kargali Washery should have been made through the lower (shorter) route during the period July 1999 to July 2003 as was being done subsequently.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

5.1.3 Avoidable loss of Rs.1.48 crore due to failure to replace defective meters

Central Coalfields Limited neither replaced defective energy meters nor reduced contract demand of its closed mines of Hendegir Colliery thereby making avoidable payment of Rs.1.48 crore on energy bills for the period August 2001 to August 2006.

Hendegir Block in Hendegir colliery of Central Coalfields Limited (Company) received electricity supply against a contract demand (CD) of 300 KVA. The mining activities on this block were suspended in July 1999. Based on a reassessment of the load requirement to keep the suspended mine and machinery in order and also for upkeep of the civic amenities, the colliery management applied to the Jharkhand State Electricity Board (JSEB)[♣] for reduction of CD to 200 KVA (March 2003).

[♣] *Erstwhile Bihar State Electricity Board*

It was noticed in Audit (November 2004) that the energy meter installed for recording consumption at the supply point was defective and JSEB had been raising energy bills since 2003 on an average reading calculated on three months' consumption when the meter was working and demand charges based on the maximum demand of 226.60 KVA. The Company took up the issue of replacement of defective meter with JSEB only in June 2001 and persued it subsequently in a routine manner. Thus, the billing continued to be on the basis of the average recorded during the period when the mines were being worked and the Company paid excess energy charges of Rs.40.91 lakh[♦] for the period between August 2001 and August 2006 compared to what would have been paid on the basis of the maximum demand of 200 KVA.

Similarly, mining activities in South Karanpura block were also suspended in March 2002 and the Management applied for reduction in CD to 200 KVA from 400 KVA in May 2003. In this mine also the energy meter was defective since July 1993 and energy charges were being billed at the maximum demand of 750 KVA. Consequently, the Company paid Rs. 1.07 crore[♥] towards unconsumed energy charges between April 2004 and August 2006.

It was also noticed that in spite of the advice of the Area Management (July 2003), the Hendegir Project Management neither applied to JSEB for reduction of the CD in the prescribed format till February 2006 nor did it initiate any action for replacement of energy meters. On this being pointed out in Audit, the Management finally submitted the application in the proper format with requisite fee in March 2006. In the meantime, the Company continued to pay energy bills (August 2006) on an average basis. Thus, avoidable payment worked out to Rs.1.48 crore from August 2001 to August 2006.

While confirming the facts and figures, the Management stated (April 2006) that JSEB had agreed to reduce the CD and that verbal assurance was given by JSEB for replacement of defective meters. The Management also stated (February/December 2005) that the Colliery was not closed permanently and only mining operations were suspended temporarily. As the mining operations could not be started even after one year, it was decided to reassess the CD keeping in view the bare minimum load required for lay off period of the mine and to avoid penalty on account of overdrawing of power.

The reply of the Management was not acceptable for the following reasons:

(i) It did not take up the matter of replacement of defective meters with the Electric Inspector of Government of Bihar/Jharkhand in accordance with subsection (6) of section 26 of the Indian Electricity Act, 1910.

(ii) Scrutiny of records revealed that the local Management was aware that there was no property in Hendegir underground mine for further economical development.

[♦] ***Calculated on the basis of amount paid at 226.60 KVA (average reading of maximum demand) and amount payable on CD of 200 KVA after allowing two years for reassessment of load requirement and notice period for reduction in CD after the date of closing of the mine***

[♥] ***Calculated on the basis of amount paid at 750 KVA (average reading of maximum demand) and amount payable on CD of 200 KVA after allowing two years for reassessment of load requirement and notice period for reduction in CD after the date of closing of the mine***

Thus, there were no justifiable reasons for taking such a long time in intimating JSEB for revision of the CD in respect of Hendegir Block.

Thus, the Company incurred an avoidable expenditure of Rs.1.48 crore due to its failure to get the CD reduced and the defective meters replaced. Further, the Company would continue to incur loss at the rate of Rs.52.17♠ lakh per year till the defective meters are replaced even if the CD is reduced to the desired level.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

5.1.4 Avoidable payment of minimum guaranteed energy charges

The Company did not revise the option for computation of minimum guaranteed energy charges from monthly to yearly basis, resulting in avoidable payment of Rs.1.19 crore.

As per Clause 6 of the Electricity Tariff of Damodar Valley Corporation (DVC), High Tension Supply consumers were to guarantee and pay minimum guaranteed energy (MGE) charges per month or *per annum* depending upon the option given by them. For this purpose, DVC invited option from the consumers from time to time. Central Coalfields Limited (Company) opted for paying MGE charges on monthly computation basis in respect of the supply of power to North Karanpura and Piparwar Areas from North Karanpura sub-station.

Audit scrutiny (January 2004) of records available from April 1999 onwards, revealed that generally the actual monthly energy consumption was lower than MGE charges computed on monthly basis during April to July every year (excepting 2001-02) due to the machines being under maintenance during this period. Therefore, between 1999-2000 and 2005-06, the Company paid energy charges of Rs.1.19 crore towards 75 lakh units of unconsumed energy being the difference of MGE charges calculated on monthly basis and the actual energy consumption during these months. A review by Audit of the annual energy consumption pattern during these years• revealed that had MGE charges being computed on annual basis, the actual consumption would be more and there would be no payment for unconsumed energy. The Company, however, did not analyse this pattern and continued to pay MGE charges on monthly basis instead of revising its option to annual basis which was advantageous to the Company.

On this being pointed out by Audit, the Area Management stated (March 2005) that the matter would be referred to the Head Office for change of option for computing MGE charges from monthly basis to yearly basis. The Management further stated (June 2006) that the option for minimum guaranteed energy charges on monthly basis had been converted to yearly basis from the month of April 2006. At the same time, they also

♠ ***Difference of the amount actually paid and payable during 2005-06 i.e. Rs.88.60 lakh minus Rs.36.43 lakh = Rs.52.17 lakh***

• ***The annual consumption during 1999-00 to 2005-06 was 9.48, 9.58, 10.31, 10.49, 10.55, 10.59 and 10.52 crore units whereas MGE available for consumption on annual basis was 8.95, 8.93, 9.45, 9.13, 9.84, 9.82 and 7.40 crore units in the corresponding years.***

stated that due to variation of maximum demand during last seven years, it was technically difficult to assess whether the option for MGE charges on monthly basis or yearly basis would be economically beneficial to the Company.

The reply of the Management was not tenable since the pattern of energy consumption over the years clearly indicated that computation of MGE charges per year was advantageous to the Company. On the same being pointed out in Audit, the Company changed its option. The belated action of the Management to change the option for computation of MGE charges from monthly to yearly basis resulted in an avoidable payment of Rs.1.19 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

5.1.5 Avoidable payment of energy charges due to incorrect assessment of contract demand for an incomplete project

The Company did not reassess the power requirement before entering into agreement with Bihar State Electricity Board in respect of an Integrated Water Supply Project the commissioning of which was uncertain due to law and order problems. An avoidable payment of Rs.59.69 lakh was made towards Annual Minimum Guarantee demand and energy charges during 2000-01 to 2004-05.

Central Coalfields Limited (Company) approved (May 1980) an Integrated Water Supply Project (Project) for supply of six million gallons of clean water per day at Kuju and Hazaribagh areas at a capital cost of Rs.8.07 crore. The project was scheduled to be commissioned in June 1988. The implementation of the project was delayed mainly due to non availability of land, change in location of intake point and alignment of the raw water rising mains. The cost of the project was revised in November 1993 to Rs.16.14 crore with the revised completion date as March 1994. During the implementation of the project, substantial part of infrastructure developed earlier was stolen. Complaints were lodged with the police about frequent theft of pipes, equipment *etc.* As the project could not be completed even as per the revised schedule, Audit brought to the notice of Management and the Ministry concerned (March 1999) the blocking of funds of Rs.13.50 crore in the project. The Management assured (August 1999) commissioning of the project by 2000-01.

Subsequent scrutiny of records in Audit revealed (June 2005) that completion of the project became uncertain (January 2000) in view of deterioration in the law and order situation. Meanwhile, alternative sources of water were developed in respect of coal projects like Parej East, Jharkhand, Topa, Pundi *etc.* which detracted from the necessity of the Integrated Water Project. Despite the above situation, the Company entered into an agreement with Bihar State Electricity Board (BSEB) in May 2000 for supply of power to the project by a 33 KV line with the contract demand (CD) of 1,500 KVA, as envisaged initially. Scrutiny of records of power consumption revealed that actual demand ranged between 24 KVA and 192 KVA and the consumption ranged between 162 KWH and 19653 KWH during the period August 2000 to June 2001. Jharkhand State Electricity

Board (JSEB)[*] started billing for demand charges based on 75 *per cent* of contract demand from July 2001 in view of low demand. Thereafter, the meter became defective in August 2001 and JSEB started billing power consumption charges on an average basis.

In addition, bills were also raised by JSEB for payment of Annual Minimum Guarantee (AMG) charges amounting to Rs.1.83 crore for the years 2000-01 to 2003-04, of which Rs.39.81 lakh constituting 50 *per cent* of the AMG for the years 2000-01 and 2001-02 was paid. The Company made provision for the remaining liability during 2005-06. The power supply was completely stopped (January 2004) due to theft of conductor poles, wire *etc.* and had not been resumed so far (June 2006). The request of the Management (March 2002) for reduction of the CD to 500 KVA was not acceded to by JSEB as it was unable to supply less than 1,000 KVA power at 33 KV. The CD was reduced to 1,000 KVA in August 2003. However, the billing continued at the pre-revised CD upto June 2004.

Audit observed that the commissioning of the project had become uncertain due to large scale thefts of the laid pipes (more than 200 FIRs were lodged with the police prior to the year 2000) as a result of the deteriorating law and order problem and alternative water sources were already being tapped prior to 2000. The Management could have accordingly reviewed the contract demand, thus, avoiding the payment of excess energy charges of Rs.59.69 lakh[♣].

The Management stated (December 2005 and June 2006) that, in view of the power requirements of the electrical installations, agreement for 1,500 KVA was signed for a period of three years. It was also stated that substantial power was consumed in some months as trial run was carried out for testing the pipe line. The reply of the Management was not acceptable in view of the fact that the uncertainty in completing the project was already known in early 2000 before finalisation of the agreement of power supply. Thus, due to contracting demand for electricity much in excess of the requirement for an uncertain project, the Company incurred an avoidable expenditure of Rs.59.69 lakh.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Neyveli Lignite Corporation Limited

5.2.1 Avoidable expenditure due to selection of an ineligible bidder

Selection of an ineligible bidder for supply of conveyor standard shiftable frames resulted in avoidable expenditure of Rs.3.14 crore.

Neyveli Lignite Corporation Limited (Company) issued (December 2002) a Notice Inviting Tender (NIT) for supply of 782 conveyor standard shiftable frames of 2,000 mm in five lots for replacement and expansion in Mine-II. The Pre-Qualification

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[*] *Erstwhile BSEB*

[♣] *Worked out on the basis of difference of AMG for 2000-01 and 2001-02 and demand charges already paid vis-a-vis payable considering CD of 500 KVA plus demand and energy charges paid for the period when there was no supply due to theft of conductor and poles*

Requirements (PQR) stipulated that the bidder should have previous experience in the fabrication and supply of structural items, should own machineries and furnish documentary evidence of previous purchase orders and work completion reports in support of having supplied the material in the past.

Out of nine offers received, three firms offered to supply only part quantity. The remaining six accepted the delivery schedule stipulated in the tender enquiry. The Tender Committee (TC) recommended opening of the price covers of all the nine firms on the condition that in case any of the three firms offering to supply only part quantity emerged as lowest bidder, order could be placed on more than one source to meet the delivery schedule.

M/s. Uma Fabricators (Supplier), one of the three firms that offered to supply part quantity, quoted the lowest rate of Rs.48,738 per frame. The supplier offered (January 2003) to supply 101 frames in five lots against the requirement of 782 frames. The Company placed (October 2003) order for 101 frames at a landed cost of Rs.48,738 per frame on the supplier and entered into negotiation with the L2 bidder for supply of the remaining quantity. As other short listed tenderers were not willing to supply at the L1 rate, the Company issued another NIT (November 2003) for supply of 681 frames. As none of the bidders satisfied the pre qualification requirement, technical conditions and delivery schedule, the Company had to issue yet another NIT (April 2004) and finally placed an order (December 2004) for supply of the remaining 681 frames on M/s. Perfect Engineering Works, Chennai at a landed cost of Rs.95,647 per frame.

Scrutiny in Audit (October 2005) revealed that Uma Fabricators had failed to supply the entire ordered quantity in time on an earlier occasion (February 2000) also. Against 341 frames ordered then, it could supply only 95 frames. In response to NIT of December 2002, the firm had neither offered the full quantity nor accepted the delivery schedule as such their offer should have been rejected. In fact in the instant case also, the supplier finally supplied only 61 frames against 101 ordered. Moreover, at the time of evaluation of initial bids in October 2003, the Management was aware of the rising trend in steel prices. Therefore, the offer of the supplier should have been rejected and instead the offer of M/s. Ministar Engineering, the L2 bidder, at a landed cost of Rs.49,512 per frame should have been considered as they were fulfilling all the tender conditions. Thus, consideration of bidders not meeting the pre qualification requirement led to a loss of Rs.3.14 crore on 681 frames finally ordered on M/s. Perfect Engineering Works.

The Management stated (May 2006) that they presumed that the part quantity offered was the capacity that the supplier could supply to the Company and price bid was opened with the condition of allocating the balance to the next lowest bidder, if it became L1. They further added that due to steep increase in steel prices in 2003-04, none of the bidders came forward to match L1 rates.

The Management's reply was not tenable as offer of the supplier should not have been considered due to deviation from the tender conditions with regard to quantity to be supplied and also knowledge of its poor performance in the recent past. The basic requirement regarding the supplier's capability to produce had not also been checked.

Thus, selection of ineligible bidder for procurement of conveyor standard shiftable frames resulted in an avoidable expenditure of Rs.3.14 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

5.2.2 Avoidable expenditure on procurement of steel cord belts

By not combining two purchase orders for identical material, Neyveli Lignite Corporation Limited lost the opportunity to save Rs.3.05 crore.

Neyveli Lignite Corporation Limited (Company) initiated (November 2003) a proposal for procurement of 7,848 metres of 2,400 mm steel cord belts for 2004-05. While processing the requirement, the Company was aware of the earlier procurement action for purchase of steel cord belts of the same specification in Tender No. 4029W (NIT of April 2003) for the indents raised in 2002-03. The said tender was for the supply of 6,663 metres of 2,400 mm steel cord belts for use in Mines I and II. The BOD, while discussing the recommendations of the Tender Committee (TC) on NIT 4,029W for placing purchase order (PO) decided (January 2004) to invite revised price bids from shortlisted firms as the price was found high. The revised bids were invited (January 2004) and PO was placed on M/s. Phoenix Yule (March 2004) at the lowest negotiated rate of Rs.19,065 per metre (landed cost Rs.23,000 per metre).

Around the same time, another NIT 4,032A for the purchase of 7,848 metres of steel cord belts for 2004-05 was issued (March 2004) and the PO was placed on M/s. IMAS, Greece (October 2004) at the rate of Euro 300 per metre (landed cost Rs.26,889 per metre).

It was observed in Audit (October 2005) that requirement under NIT 4032A for 2004-05 was known in November 2003 and, therefore, could have been combined with the pending purchase action for the requirement under NIT 4,029W of 2002-03 at the point of inviting revised price bids in January 2004. The designated firm M/s. Phoenix Yule could have supplied the entire quantity as in a subsequent procurement made in September 2005, the Company placed an order on it for 22,000 metres of 2,400 mm steel cord belts. Thus, by processing the requirements through two separate tenders for the same material, the Company paid Rs.36.43 crore instead of Rs.33.38 crore for purchase of 14,511 metres of steel cord belts and lost the opportunity to save Rs.3.05 crore.

The Management stated (April 2006) that there was a time gap of one year in respect of all activities involved in the two tenders and hence they could not be seen as tenders for the same period. The Management further stated that tenders could be combined only if they were at the same stage and that NIT 4,029W was processed for the requirements of 2002-03 whereas NIT 4,032A related to the requirements of 2004-05.

The reply was not tenable as the material procured was identical and due to delay, the procurement under NIT 4,029W overlapped the procurement action for the subsequent period. Further, the Company's own Purchase Manual provided for clubbing of tenders so as to get the most competitive and best prices. Failure to combine the tenders resulted in avoidable expenditure of Rs.3.05 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Western Coalfields Limited

5.3.1 Avoidable expenditure due to non-construction of loading bunkers/hoppers

The Company incurred avoidable expenditure of Rs. four crore due to non-construction of loading bunkers/hoppers.

Western Coalfields Limited (Company) engaged private contractors for loading of coal by pay loaders into trucks from coal handling plant (CHP) at its Ukni, Neeljay and Chargaon Open Cast mines. The Company made proposals for construction of twin bunkers of 100 MT capacity each at Ukni (December 2001), Neeljay and Chargaon mines (July 2003) in order to load coal directly into trucks.

It was observed in Audit (January 2005) that the Company took inordinate time in finalising the proposals for installing the bunkers/hoppers in these mines due to various reasons such as finalisation of the technical specifications. This was despite the fact that the Chief Vigilance Officer (CVO) of the Company had cautioned (April 2003) that the private business of loading might be hurting the Company due to the loading of better quality of coal against payment for inferior quality and had advised the Company to take remedial measures.

After a great deal of correspondence between the Company and the CMPDIL* (consultant of the Company), the latter submitted (August, September and October 2005) designs for modification of CHP by providing two overhead hoppers/bunkers of 100 MT capacity at the mines with an estimated capital requirement of Rs.6.21 crore. The proposal for Neeljay was approved by the Company in December 2005 and that for Ukni and Chargaon mines in February 2006.

As such, due to inordinate delay in construction of loading bunkers/hoppers, the system of hiring pay loaders from private parties continued. During 2003-04 to 2005-06, the Company paid a sum of Rs.8.57 crore to the private parties for loading 130.32 lakh MT coal, which could have been avoided if load bunkers/hoppers had been installed at the three mines.

In respect of delay in construction of bunkers/hoppers at Ukni mine, the Management stated (August 2006) that finalisation of the scheme was delayed due to the consideration of product parameters, feasibility of the case and issues relating to crushing of coal. The reply was not acceptable as the Company had taken an unduly long time of 51 months, 32 months and 30 months in finalisation of the schemes for Ukni, Chargaon and Neeljay mines respectively. Further, the Company had itself worked out a net saving of Rs.2.61 crore *per annum* on installation of load bunkers against the present system of loading through pay loaders.

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* ***Central Mine Planning and Design Institute Limited***

Thus, the Company could not derive the benefits of saving as anticipated and incurred avoidable expenditure of Rs. four[♥] crore due to non-construction of loading bunkers/hoppers for more than three years.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

[♥] ***The amount has been arrived at after deducting the estimated operating cost (Rs.4.57 crore) of the bunkers/hoppers during the period of three years from 2003-04 to-2005-06.***

CHAPTER VI: MINISTRY OF COMMERCE AND INDUSTRY

Export Credit Guarantee Corporation of India Limited

6.1.1 Undue favour to an exporter

In spite of delay in payment by an exporter and the embargo imposed by the Reserve Bank of India, the Company extended guarantee cover to an exporter resulting in a loss of Rs.2.95 crore.

The Export Credit Guarantee Corporation of India Limited (Company) extends pre-shipment credit guarantee and post shipment guarantee to banks. Under the schemes, the Company fixes a discretionary limit upto which banks are permitted to extend advances to an exporter. To exceed the limit, banks have to obtain prior approval of the Company except where operation of the account was satisfactory. The Company issues a 'Specific Approval List' (SAL) containing the names and addresses of the exporters who have defaulted. Such exporters could be granted advance by the banks against the Company's guarantee only if the Company gave its specific approval in writing.

The City Union Bank Limited (CUBL) which had a discretionary limit of Rs.40 lakh only, sanctioned (July 2000) an advance credit facility of Rs. five crore to Beautiful Diamonds Limited (Exporter) and reported (November 2000) the same to the Company.

It was observed in Audit (January 2005) that while considering the approval of the limit to the CUBL, the Company noted as follows:

(i) The exporter had been availing of credit facility from a consortium of 13 other banks and the operation of the account with them was irregular from 1998-99 due to non realisation of export proceeds from overseas buyers.

(ii) Vysya Bank Limited (Vysya Bank), one of the consortium members that extended advance credit facilities had declared (October 1998) the exporter's accounts as non performing asset and filed (August 2000) the default declaration with the Company.

(iii) The exporter had a working capital gap of around Rs.50 crore.

(iv) The diamond industry was passing through a recessionary period.

Despite these shortcomings, the Company neither placed the exporter in the SAL nor denied the guarantee cover to the CUBL. Instead, the Company extended the period available to the exporter for repayment of the dues of the Vysya Bank from time to time upto October 2001. However, the exporter did not make the payment to the Vysya Bank.

Meanwhile, due to mounting receivables from the overseas buyers, the Reserve Bank of India (RBI) imposed (January 2001) an embargo prohibiting the exporter from making

further exports on credit. However, the Company placed the exporter in the SAL only in October 2001. Even after putting the exporter in the SAL and the embargo imposed by the RBI, the Company continued to extend guarantee to the exporter through CUBL upto the limit of Rs. five crore.

CUBL released advances from time to time upto May 2002 and in view of the persistent default, it preferred (March 2003) the claims under the guarantees. The Company settled (November 2003) the claim for Rs.2.95 crore which included an amount of Rs.1.05 crore in respect of the period after the RBI embargo. Thus, due to extending undue favour to the exporter, the Company incurred an avoidable expenditure of Rs.2.95 crore. Besides, the Company had paid claims of Rs.52.82 crore (upto November 2003) to 11 other banks for advances paid to the same exporter by these banks between January 2000 and March 2001.

The Management in their reply stated (April 2006) that the Company had extended the guarantee within the sanctioned limit because the consortium members had considered the possibility of recommending to the RBI the lifting of the embargo and the exporter had liquidated his entire overdue in September 2001.

The reply of the Management was not factually correct as the exporter continued to have heavy outstanding dues to CUBL long beyond September 2001 as per documents seen during Audit.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

The State Trading Corporation of India Limited

6.2.1 Loss due to not initiating action against a broker as per agreement

The Company purchased castor oil for export through a broker but made distress export of its own incurring loss of Rs.1.67 crore. Subsequently it did not recover the loss incurred despite a provision in the agreement with the broker in this regard.

Ahmedabad Branch of The State Trading Corporation of India Limited (Company) received a proposal (17 April 2003) from M/s. Rajesh Brokers (broker) for purchase of castor oil through them and exporting the same to a foreign buyer to be identified by the broker, on a back to back basis. As per the agreement signed on 17 April 2003, the broker was to find suitable foreign buyers for export of castor oil in the name of the Company, finalise the export contracts, arrange to establish the letters of credit (LC) in favour of the Company and to arrange the procurement of castor oil from domestic market. In case of any default by foreign buyers and consequential loss to the Company, the broker was also liable to bear all the losses (either direct or consequential) and keep the Company indemnified at all times.

The Company entered (May 2003) into a contract with M/s. Cluster Plan Pte. Limited, Singapore, identified by the broker as per its proposal of 17 April 2003, for export of 1,000 MT of castor oil at US$ 950[*] (Rs.44,650) *per* MT.

The Company procured 909.280 MT of castor oil in June 2003 for Rs.3.96 crore from two firms, introduced by the broker by availing of Export Packing Credit from banks amounting to Rs.3.92 crore for which the Company was liable to pay interest of Rs.66.73 lakh upto March 2005. The Company also incurred expenditure of Rs.24.23 lakh towards storage, sample analysis, inspection and insurance.

Audit observed (April 2005) that the foreign buyer introduced by the broker did not establish the LC. Besides, the broker also failed to arrange the opening of LC in the name of the Company by finding new or alternative foreign buyers. As such, the Company, on its own, exported 860.700 MT of castor oil between January and April 2005 realising Rs.3.15 crore. Out of the balance of 48.58 MT of castor oil, 36.76 MT was returned to the sister concern of the broker for which a debit note of Rs.16.01 lakh was issued but no payment has been received so far (October 2006), 10.72 MT was sold to another firm by realising Rs.4.67 lakh and the remaining 1.10 MT was absorbed as wastage. The Company, thus, realised Rs.3.20 crore (Rs.3.15 crore plus Rs.0.05 crore) on export of castor oil against expenditure of Rs.4.87 crore, resulting in a loss of Rs.1.67 crore.

On this being pointed out in Audit, the Company presented (October 2005) two cheques (valuing Rs.30 lakh) obtained from the broker as security and one cheque for Rs.1.27 crore received from the sister concern of the broker to cover the loss. The cheques were dishonoured by the bank due to insufficient funds.

The Company purchased castor oil for export without obtaining a confirmed LC, and without ascertaining the financial credibility of the broker with whom no trade was carried from April 2000 to March 2003. The market was showing a downward price trend of castor oil owing to which the foreign buyer introduced by the broker did not establish the LC. The Company also remained solely dependent on the broker for indigenous procurement of castor oil. So these led to the loss of Rs.1.67 crore.

The Ministry stated (December 2006) that the Company had been dealing in castor oil with the broker through the broker's sister concern, M/s. Swastik Overseas Corporation since February 2000 and therefore, the financial credentials were known on the date of contract. Moreover, the prices of castor seeds were governed by the international market trends. The reply of the Ministry was not tenable because the Company should have established the financial credibility of the broker independently instead of relying on its experience with a sister concern which was a separate legal entity. Moreover, the Company should have obtained a confirmed LC before entering into any transaction with the broker to safeguard its interest. The Company also did not initiate any action for recovery of loss for more than two years until the same was pointed out by Audit in April 2005.

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[*] *Rate of conversion Rs.47 per US$*

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

Central Warehousing Corporation

7.1.1 Idle investment in land resulting in blocking of funds

Non-utilisation of land purchased for construction of godowns, container freight stations and inland container depots resulted in blocking of funds of Rs.8.57 crore with consequential loss of interest of Rs.2.19 crore upto March 2006.

Acquiring land for construction of warehouses, container freight stations and inland container depots is one of the functions of Central Warehousing Corporation (Corporation). For this purpose, the Regional Managers (RMs) of the Corporation identify the centres where such facilities are to be established. The RM conducts a detailed business survey and makes recommendations to the Corporate Office (CO). After thorough examination of these proposals, the CO conveys approval for creation of the facilities. The RM then identifies land which is purchased with the approval of the BOD. Despite these detailed procedures it was observed in Audit that at several places, due to flawed business projections, land purchased for construction of godowns *etc.* had been lying idle (May 2006) for periods ranging between three and seven years. A few cases are given below:

7.1.1.1 Regional office Kochi, purchased land measuring 34.64 cents for the purpose of construction of an office-cum-warehouse from Greater Cochin Development Authority (GCDA) after survey by a committee constituted for the purpose by the CO. On approval from the CO, RO Kochi made a payment of Rs.77.94 lakh to GCDA and took possession of the land in November 1999. Later, there was sudden drop in business and on recommendation of the Regional Manager, Kochi, the Management decided (November 2003) not to construct the office-cum-warehouse complex in future. RO Kochi had since been merged (March 2005) with RO Chennai. The purchased land at Kochi was lying idle for more than six years and its utilisation was not possible.

The Management stated (July 2006) that the possibility of returning the land to GCDA at market value was being looked into. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management.

7.1.1.2 A piece of land measuring 1,00,000 square metres held by M/s. Steel Authority of India Limited (SAIL) at Sitapura Rajasthan, was offered to the Corporation. The land was found suitable for putting up a warehouse of 70,000 MT capacity (April 2000) and was taken over in August 2001 at a total cost of Rs.4.25 crore including cost of registration and transfer charges. The Corporation had not been able to utilise this land.

The Management stated (July 2006) that it was planned to have an inland clearance depot at Jaipur but the Container Corporation of India Limited went ahead and created one. Now construction of a 5,000 MT capacity godown had been taken up. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management.

The reply was not tenable. The Corporation had projected a business for 70,000 MT godown and not for inland clearance depot. Also for the construction of a 5,000 MT godown, 1,00,000 square metres of land was not required and the acquisition by the Corporation was not justified as the initial projection was incorrect.

7.1.1.3 The Regional Office, Jaipur also purchased land at five places* during 2001-02 and 2002-03 for an amount of Rs.2.21 crore, after approval of the CO. A scrutiny of records revealed that at all these places, lands were purchased, based on survey reports sent by RO, Jaipur which indicated huge business potential after construction of godowns. However, even after a lapse of three years no construction of godowns had been taken up in any of these five places till date (October 2006).

The Management stated (July 2006) that the construction had been planned at Bikaner, Baran, Jhunjhunu and Deoli during the financial year 2006-07 and at Chomu it would be taken up in 2007-08. Further, the Corporation had to plan its developmental activities well in advance and unless land was purchased in advance, the projects might not remain economically viable with increase in the cost of land.

The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management and stated that the constructions of godowns of 5,000 MT capacity each at Bikaner, Jhunjhunu and Deoli had commenced.

The Management and the Ministry's contention were not acceptable as they had justified their purchase without proper business projections. If there was sound business potential the purchased land would not have remained idle for several years.

7.1.1.4 Land measuring 9.77 acres was purchased in January 2002 at Palwal (Haryana) at a cost of Rs.1.33 crore for the construction of a godown for Food Corporation of India (FCI). FCI had requested for a 15,000 MT godown at Kurukshetra, Haryana to be made available by December 2001 (extended to January 2002) for hire under the Seven Years Guarantee Scheme. As the godown was not made available by January 2002 and FCI did not give any further extension, no godown was constructed on the proposed land and the land was kept idle (October 2006). The Corporation had blocked funds of Rs.1.33 crore.

The Management stated (July 2005) that the land was purchased in anticipation of extension from FCI and availability of alternative business from the fertilizer agencies. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management. The reply was not tenable as FCI had clearly intimated the Corporation that no further extension would be given. Also, there was no confirmed demand from fertilizer agencies for storage space.

** Bikaner, Baran, jhunjhunu, Deoli and Chomu*

Thus, by not utilising the lands purchased for construction of godowns and other warehousing space and by keeping the land idle, the Corporation had blocked funds of Rs.8.57 crore with consequential loss of interest of Rs.2.19 crore upto March 2006.

Food Corporation of India

7.2.1 Hiring of Godowns under Seven Year Guarantee Scheme

Food Corporation of India hired godowns under the Seven Year Guarantee Scheme and incurred extra expenditure of Rs.348.61 crore due to hiring of godowns from State Warehousing Corporations at the higher rates payable to Central Warehousing Corporation. The storage space acquired was also not properly utilised resulting in payment of rent amounting to Rs.287.90 crore for idle/surplus capacity for the period February 2002 to March 2006.

The Food Corporation of India (FCI) is the nodal agency through which the Government of India (GOI) implements its food policy. FCI has to maintain satisfactory levels of operational and buffer stocks of foodgrains to ensure National Food Security and for that FCI has to have adequate storage capacity. In 2000, the increase in procurement and lifting of less quantity of foodgrains by the State Governments led to accumulation of huge stocks in the Central pool, which in turn resulted in a storage crisis. In view of the acute storage problem GOI emphasised (February 2000) the need for creation of additional storage capacity by hiring space from the Central Warehousing Corporation (CWC) and the State Warehousing Corporations (SWCs) through construction of godowns by private participation on long-term basis. FCI accordingly embarked on the Seven Year Guarantee Scheme (SYGS) under which new godowns were to be constructed by CWC and SWCs through private participation for exclusive use by FCI and these were to be taken over on guaranteed lease of seven years.

Initially it was decided (February 2000) to construct storage capacity of 30 lakh MT in Punjab under the scheme with completion by March 2003. The scheme was extended to other regions *viz*, Andhra Pradesh, Haryana, Uttar Pradesh, Orissa, Rajasthan, Bihar, Himachal Pradesh, Chhattisgarh, Madhya Pradesh and Gujarat during the period from June 2001 to June 2004. On the basis of recommendations of the State Governments concerned, GOI approved the creation of storage space for 90.07 lakh MT (10.55 lakh MT by CWC and 79.52 lakh MT by SWCs through private parties) in these 11 States. Out of the space for 90.07 lakh MT to be constructed under SYGS, space for 70 lakh MT (5.23 lakh MT of CWC and 64.77 lakh MT of private parties through SWCs) was hired by FCI during the period January 2001 to December 2004.

Audit of SYGS during 2004 revealed that

7.2.1.1 The State Level Coordination Committee (SLCC), Punjab, after cost analysis, recommended (February 2000) that the rent for the godowns to be constructed should be Rs.3.15 *per* square foot *per* month in urban areas and Rs.2.94 *per* square foot *per* month in rural areas. The FCI, however, executed agreements with the CWC and SWCs from November 2001 onwards for the guaranteed hiring of these godowns at the CWC tariff rate of Rs.1.79 *per* 50 kg bag *per* month with effect from April 2002 (the earlier rate was

Rs.1.51 *per* 50 kg bag *per* month) equivalent to Rs.6.77[#] *per* square foot *per* month. The SWCs in turn entered into supplementary agreements with the private owners for performance of the contract for seven years. The rates specified in the supplementary agreements were much lower being Rs.2.45 for Punjab, Rs.2.00 for Andhra Pradesh and Rs.2.65 for Haryana. The hiring of godowns through SWCs, instead of directly from private parties, did not allow for negotiations between FCI and the private parties.

Even if the FCI paid the rate recommended by SLCC Punjab to the SWCs for the space hired from private parties instead of the high CWC rate, it would have saved Rs.348.61 crore on rent upto March 2006 in the five States of Punjab, Haryana Uttar Pradesh, Andhra Pradesh and Orissa. This apart, such extra expenditure would continue beyond March 2006 till seven years from the inception. Further, any increase in CWC tariff rates in future would increase the guaranteed rent to SWCs.

7.2.1.2 While taking the decision for the creation of storage infrastructure the actual requirement was not properly assessed. The decision to hire godowns under SYGS in the States was taken during June 2001 to June 2004 and by that time GOI had already initiated steps for revamping of the Public Distribution System for exports and other welfare schemes. The requirement of storage space was not reassessed considering procurements, off take and availability of storage space after the GOI initiative, which led to under utilisation of hired capacities. Further, there was no clause in the agreement to allow for the payment of rent only for the storage space utilised or for pulling out from the agreement. This resulted in avoidable rent on idle capacity and surplus capacity amounting to Rs.287.90 crore for the period February 2002 upto March 2006 at CWC tariff rates in the five States mentioned above.

The Management (August 2006) stated that there were standing instructions that CWC rates were payable to SWCs provided SWC godowns were at par with CWC godowns in specifications. Since GOI directive was that the additional storage capacity be created through the State Government, FCI had no scope for any negotiation with the private parties. However, in order to reduce the storage cost in respect of SYGS godowns, the FCI in March 2006 decided to pay only the hire charges as per agreement with private parties by SWCs along with 15 *per cent* for administrative overheads. FCI also decided not to pay at par with CWC in case the latter rates were higher. Further, the creation of additional capacity was a conscious decision of the FCI and was duly approved by GOI keeping in view the dire need of storage capacity at that point of time.

The reply of the Management was not tenable as the rate charged by the private parties from SWCs, should have been taken into account while entering into agreement with the SWCs. In any case, the Management accepted the Audit observation and proposed to change the rates payable. However, some SWCs have not agreed to the unilateral decision of FCI for downward revision of rates and have insisted on payment of CWC tariff for SYGS godowns.

The Standing Committee of Parliament on Food, Consumer Affairs and Public Distribution also observed (May 2005) that there was no justification for SYGS when the godowns of FCI remained vacant for a considerably long period. The Committee held

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[#] ***As per SLCC, Punjab, 57,120 square foot is equivalent to 10,800 MT***

that such type of unproductive and unimaginative expenditure swelled the food subsidy bill of the Government and needed to be brought down drastically. The Committee recommended that SYGS be revised and if there was an in-built exit clause in the guarantee agreement under which either party could terminate the agreement after due notice, the same should be invoked and in case of non-existence of such clause, the responsibility be fixed. No action in this regard has been taken (October 2006) and FCI continued to pay guaranteed rent to the CWC and SWCs at higher rates. As FCI could not terminate the agreements, it also continued to pay avoidable rent on idle capacity and surplus capacity taken on hire.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

7.2.2 Excess payment of transportation charges

While fixing final rates for Custom Milled Rice, transportation charges were allowed to rice millers without considering the element of transportation charges paid alongwith provisional rates resulting in excess payment of Rs.406.21 crore to State Governments and their agencies during 1998-99 to 2002-03.

The State Government and its agencies procure paddy and enter into agreement with rice millers to shell paddy at regulated and notified rates. The resultant rice known as Custom Milled Rice (CMR) is delivered to FCI by the millers. The GOI fixes the rates on year to year basis for rice as well as the incidentals to be reimbursed by FCI to the State Government and its agencies. The GOI initially fixes provisional rates for each Kharif Marketing Season (KMS) and later finalises these rates. An important element included in the incidentals is transportation charges payable to the millers if the paddy and rice are transported by the millers beyond eight km.

In the provisional rates fixed from time to time by the GOI for the years 1998-99 to 2002-03 for Punjab and Haryana Regions, transportation charges were allowed on actual basis for transportation of paddy and rice for distance beyond eight km subject to maximum of the rates fixed by the District Magistrates concerned. An amount of Rs.5.12 crore was reimbursed as transportation charges to the State Governments and their agencies in Punjab and Haryana during the period 1998-99 to 2002-03. Later, while fixing the final rates in 2004 for these years (1998-99 to 2002-03), in addition to the transportation charges already allowed on actual basis for transportation of paddy and rice for a distance beyond eight km, the GOI allowed transportation charges ranging from Rs.5.39 to Rs.7.43 per quintal for Haryana Region and Rs.11.52 to Rs.14.73 per quintal for Punjab Region under the head 'Mandi labour and Transportation charges' irrespective of the distance involved. FCI accordingly, disbursed Rs.406.21 crore as transportation charges (over and above the Mandi labour charges) for CMR received in these regions during 1998-99 to 2002-03. As the transportation charges on actual basis were already reimbursed to the State Governments and their agencies alongwith the provisional rates and the transportation charges within eight km were already included in the milling charges, disbursement of additional transportation charges was not in order and resulted in excess payment of Rs.406.21 crore to the State Governments and their agencies.

The Management in its reply (November 2005) stated that the rates of transportation charges mentioned in the final sanction order were for moving paddy from mandi to storage point by the State agencies alongwith charges for movement of paddy and rice by millers beyond eight km.

The reply of the Management was not tenable as movement of paddy from mandi to the storage point was not done by the State Government but by the millers/traders and the cost of transportation within eight km was included in the milling charges. Further, the cost of transportation incurred for movement of paddy and rice beyond eight km had already been reimbursed on actual basis during the year of its occurrence.

Thus, disbursement of additional transportation charges without considering the element of transportation charges reimbursed on actual basis alongwith the provisional rates resulted in excess payment of Rs.406.21 crore to State Government and its agencies in Punjab and Haryana for the years 1998-99 to 2002-03.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

7.2.3 Undue benefit to rice millers for delivery of levy rice

Transportation charges though inadmissible were allowed to rice millers for delivery of levy rice within eight km resulting in avoidable payment of Rs.160.39 crore during 1999-2000 to 2002-03.

Levy rice is delivered by the rice millers to FCI in terms of Levy Orders issued by the State Governments. The GOI fixes the price to be paid to the rice millers for levy rice delivered to the Central Pool for each State and for each procurement season. In addition, the GOI reimburses the transportation charges for transportation of paddy and rice beyond eight km from the millers' premises to the storage points of the FCI.

In May 1998 the Ministry of Food and Consumer Affairs (Ministry) requested the Bureau of Industrial Costs and Prices (BICP) (presently Tariff Commission) to undertake a study on "normative milling charges for raw and parboiled rice and transportation charges for the millers in major rice producing States." On request from the Ministry, BICP submitted its report in respect of Punjab on priority basis in September 1999 in which it recommended normative milling charges for the year 1998-99 but did not allow separate transportation charges for delivery of rice within eight km.

In October 1998 the GOI sanctioned transportation charges ranging from Rs.4.80 per quintal to Rs.7.10 per quintal (depending upon the capacity of the rice bags and the procurement region) for the Kharif Marketing Season (KMS) 1998-99, for levy rice delivered by millers within a distance of eight km from the mill to the FCI's godown or at the railway station including loading into wagons. FCI allowed the same transportation charges to millers for KMS 1999-2000 to 2002-03. After releasing the payment for 1999-2000, approval of the GOI was obtained in May 2000 but no such approval was obtained for 2000-01, 2001-02 and 2002-03. The GOI in January 2003 decided to stop the payment of transportation charges to millers for delivery of levy rice within eight km from KMS 2003-04 onwards.

It was observed in Audit (December 2004) that the GOI without waiting for the findings of the BICP had allowed (October 1998) the transportation charges to rice millers for delivery of levy rice within eight km for 1998-99. The GOI had also regularised (May 2000) the unilateral action of FCI to pay transportation charges to millers for KMS 1999-2000, even when the BICP Report in respect of Punjab State was available with the GOI (since September 1999) where no separate transportation charge for delivery within eight km had been allowed. The subsequent approval of the GOI in January 2003 to regularise the payment of transportation charges to millers for delivery of levy rice within eight km for KMS 2000-01, 2001-02 and 2002-03 on the ground that some FCI regions had released payments to millers, was also not proper. This resulted in regularisation of unauthorised actions' of FCI and avoidable payment of Rs.160.39 crore to millers during 1999-2000 to 2002-03.

The Management (September 2006) stated that payments on account of transportation and forwarding charges were made in accordance with the GOI's instructions.

The reply of the Management was not correct as the GOI had stated that though the transportation and forwarding charges to rice millers for delivery of levy rice within eight km was not justified, the GOI had to approve the payment of such charges as FCI had already released the payment to millers for the years 1999-2000 to 2002-03.

Thus, delay in implementation of the recommendation of the BICP Report and regularisation of unauthorised actions of FCI resulted in avoidable payment of Rs.160.39 crore to millers.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

7.2.4 Improper admittance of Hill Transport Subsidy claims

Admittance of inflated transportation bills in respect of Hill Transport Subsidy resulted in excess payment of transportation charges amounting to Rs.67.40 crore.

Transportation charges incurred by the North Eastern States for moving foodgrains from FCI base depots to the approved Public Distribution Centres are to be reimbursed on actual basis as Hill Transport Subsidy (HTS) to the State Governments. It was observed (March 2006) in Audit that in respect of transportation claims relating to two revenue districts in Arunachal Pradesh, HTS was irregularly claimed in excess of the actual expenditure and led to extra subsidy burden on the GOI.

7.2.4.1 Irregular Hill Transport Subsidy claims leading to subsidy loss of Rs.35.58 crore

The foodgrains allocated by the GOI to Government of Arunachal Pradesh under various schemes are allotted to the Deputy Commissioners of the revenue districts by the Director of Civil Supplies, Government of Arunachal Pradesh. In respect of Lower Subansiri district, the District Supply Officer, Ziro further sub-allots the foodgrains to the circles and blocks in the district. The base depot of FCI at North Lakhimpur meets the requirements of foodgrains of Lower Subansiri district.

En route from the base depot at North Lakhimpur to the Public Distribution Centre at Damin in Lower Subansiri district lie Kimin (31 km), Hapoli (132 km), 20 km point (152 km) and Nama (242 km). Foodgrains to Nama are moved by motorable road for 152 km upto 20 km point and thereafter by headload for 90 km. Six off-route distribution centres are connected to Hapoli and two off-route distribution centres are connected to Kimin. The cost of transportation of one quintal (100 kgs) of foodgrains from base depot at North Lakhimpur to the eight off-route distribution centres and Nama are shown in the Table below.

Name of location	Motorable distance from base depot at North Lakhimpur in km	Cost of transportation based on motorable distance (in Rs. per quintal)	Head load distance in km	Total cost of transportation based on head load distance (in Rs. per quintal)	Total cost of transportation for one quintal of foodgrains (in Rs. per quintal)
Yazali ^	82	161	--	--	161
Yachuli ^	91	185	--	--	185
O-Ziro ∞	139	315	--	--	315
Joran ∞	146	334	--	--	334
Deed ∞	182	431	--	--	431
Tamen ∞	189	450	--	--	450
Raga ∞	207	499	--	--	499
Godak ∞	237	580	--	--	580
Nama	152	350	90	11,250	11,600

^ denotes off-route distribution centre connected with Kimin

∞ denotes off-route distribution centre connected with Hapoli

In the case of Arunachal Pradesh, HTS was reimbursable even in cases where the foodgrains were off-loaded at distribution centres or Fair Price Shops other than the Public Distribution Centres or enroute to Public Distribution Centers, but the reimbursement of HTS in such cases was not to exceed the amount that would be reimbursable had the stocks been moved to the Public Distribution Centres. During Audit of HTS vouchers, it was observed that foodgrains were issued for the above mentioned eight off-route distribution centres from North Lakhimpur as per allotment orders of the District Supply Officer, Ziro but claims were made by Government of Arunachal Pradesh showing transportation of all the stocks to Nama. The rates for the movement of foodgrains to Nama were very high, as shown above. FCI, without restricting the claims to the permissible amounts upto the destinations as per allotment orders, passed the same upto Nama which resulted in the payment of excess transportation charges to Government of Arunachal Pradesh which in turn resulted in excess subsidy burden of Rs.35.58 crore on the GOI during 2002-03 to 2004-05.

The Management stated (August 2006) that there was no excess payment. The District Supply Officer, Ziro had issued sub-allotment / diversion orders to carry the stocks to Nama and bills were preferred certifying the deliveries and claiming the transportation charges upto Nama. The claims were passed as they were certified by the District Supply Officer and were within the maximum amount payable had the stocks been moved from base depot at North Lakhimpur to the Public Distribution Centre (Damin).

The reply of the Management was not tenable as the orders issued by District Supply Officer, Ziro regarding sub-allotment / diversion order of stocks to Nama were not

endorsed to FCI and it was not clear how FCI had accepted such claims upto Nama. Reported movement of all the stocks first to a station carrying the highest transport subsidy of Rs.116 per kg (upto 20 times above the rates applicable to other off-route distribution centres) and later movement to the centers where it was eventually consumed, suggested an inflated claim. The claims should have been restricted to the actual distances moved by the foodgrains transported from base depot at North Lakhimpur to the off-route distribution centres based on the allotment orders of the Deputy District Supply Officer. The reply that the claims were within the maximum amount payable had the stocks been moved to Damin (the farthest point) was not relevant since the stocks did not actually move to Damin nor were meant to.

Thus, approval of claims without properly checking the correctness of the bills resulted in an abnormally high excess payment of subsidy of Rs.35.58 crore by the GOI.

7.2.4.2 Excess issue of foodgrains on the basis of inflated population projections led to excess payment of HTS amounting to Rs.31.82 crore

The GOI allots foodgrains to the State Governments and the State Governments in turn allocate the foodgrains to different revenue districts as per the norms prescribed and considering the population of the districts.

A test check of records of FCI revealed (February 2006) that the population of Gandhigram, Phapurbari and Vijoynagar under Changlang revenue district in Arunachal Pradesh was 59, 257 and 424 respectively (figures as of July 2005). The total requirement of foodgrains at these stations, as per norms of 35 kg per family per month, was 1,739.50[♣] quintals during November 2002 to March 2005. But 30,241.42 quintals (nearly seventeen times) were shown to have moved to these centres. An excess quantity of 28,501.92 quintals of rice was thus shown as moved to these three centres from November 2002 till March 2005. The transportation of foodgrains to these centres involved movement on headload also and the cost of transportation ranged between Rs.168 and Rs.197 per kg. Thus, an amount of Rs.3.74 crore towards the cost of foodgrain and Rs.28.08 crore[♦] towards HTS were paid on the excess quantity moved which resulted in an unnecessary subsidy burden of Rs.31.82 crore on the GOI.

The Management stated (July 2006) that it was the responsibility of the State Government to re-allocate the foodgrains to the different revenue districts, circles and blocks. FCI had released the foodgrains as per the allocation by State Government and had reimbursed the HTS claims as submitted by the State Government which were stated to have been prepared according to the instructions issued by the GOI and FCI headquarters during 2003-04 and 2004-05.

The reply of Management was not acceptable. FCI should have satisfied itself that the claims were fair and in order and should have observed minimum standards of checks while admitting such unusual claims which were out of proportion to the known population of the centres.

[♣] *Considering a family of four members*

[♦] *Bills received for period from November 2002 to June 2004 and passed for payment*

The Chairman and Managing Director, FCI, in his letter (April 2004) to all his Zonal and Senior Regional Managers had reiterated that staff must act as good store managers and keep their ears and eyes open to see where the foodgrains made available to the State authorities were utilised. The above observations show that the field officers of FCI did not always act in a manner befitting a vigilant store manager.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

7.2.5 Loss of interest on outstanding dues from State Government

Release of stock on credit in contravention of Government of India instructions and non-recovery of outstanding dues from State Government of J&K resulted in excess interest liability of Rs.48.53 crore.

Food Corporation of India purchases foodgrains at the Minimum Support Prices as fixed by the GOI for issue to the States for various schemes implemented by them and to maintain buffer stocks. The working capital requirements of FCI for these purchases are financed through cash credit extended by a consortium of banks.

FCI was supplying foodgrains to the State Government of Jammu and Kashmir (J&K Government) on credit basis. As the J&K Government was not settling its dues with FCI in time, the outstanding dues from J&K Government continued to grow. In order to clear the outstanding dues of Rs.224.90 crore as on 30 April 2002, the GOI in a meeting held in July 2002 with the representatives of J&K Government and FCI decided that:

(i) From 1 September 2002 onwards, FCI would release foodgrains to the J&K Government only on pre-payment basis.

(ii) The State Government would clear all the outstanding dues of FCI in three equal monthly instalments starting from July 2002.

(iii) FCI would charge interest (equal to the Bank rate of interest being charged by the consortium of banks on FCI's credit) on the outstanding dues.

At the beginning of July 2002, an amount of Rs.264.65 crore was outstanding against the J&K Government and credit sale of Rs.42.02 crore was made during July and August 2002. It was observed in Audit that despite the GOI's decision (July 2002), J&K Government had not cleared all outstanding dues of FCI and FCI continued the credit sale to J&K Government. Credit sale of Rs.967.62 crore was made to the J&K Government during September 2002 to December 2005. A sum of Rs.1,160.30 crore only was realised against the total dues of Rs.1,274.29 crore during the period. This left a balance of Rs.113.99 crore pending against J&K Government at the end of December 2005. The interest (calculated at simple rate of interest being charged by consortium of banks on FCI's credit upto March 2005) comes to Rs.48.53 crore on the outstanding dues against the J&K Government which was also to be recovered as per the decision of the GOI (July 2002). However, no concrete efforts were made by FCI for the recovery of the outstanding balance and interest from the J&K Government.

The Management while accepting the facts stated (August 2006) that the matter was continuously being pursued with the J&K Government for early settlement of outstanding dues on account of credit supplies and after clearance of the principal amount steps for recovery of interest would be taken up. The Ministry endorsed (September 2006) the views of the Management.

Thus, continuation of credit sale in violation of the decision of the GOI and non recovery of outstanding dues from J&K Government resulted in excess interest payment liability of Rs.48.53 crore thereby adversely affecting the food subsidy bill of the GOI.

7.2.6 Excess issue of foodgrains under mid-day meal scheme

Excess issue of foodgrains under mid-day-meal scheme due to failure in adhering to the directions of the Government of India resulted in subsidy burden of Rs.18.06 crore.

The Ministry of Human Resources Development (MHRD), Department of Education launched the National Programme of Nutritional Support to Primary Education known as the mid-day meal scheme (MDM) with effect from 15 August 1995. Overall responsibility for the programme vested in the State Governments and Union Territory Administrations. This included providing necessary infrastructure, making all logistic arrangements necessary for regular serving of wholesome cooked mid day meal of satisfactory quality and providing financial and other inputs over and above those to be provided by way of Central assistance. Central assistance is provided to the States under the programme by way of free supply of foodgrains from the nearest godown of the FCI. FCI is expected to make available foodgrains to authorised persons against the authority letter and allocation letter issued by the District Collectors (DCs). The DCs are empowered to further re-allocate the quantity of foodgrains to the Panchayats or Nagar Palikas based on the block-wise actual number of eligible institutions as well as enrolment/attendance. The cost of the foodgrains is reimbursed to FCI by the GOI. The payment is made by the MHRD on submission of bills by FCI duly supported by documents for receipt of foodgrains and the consignee receipt cum utilisation certificate from the DCs concerned.

In its release order for the MDM of the year 2004-05 in March 2004, for Andhra Pradesh, the GOI had indicated that the entitlement of foodgrains was provisional and was calculated on the basis of number of children enrolled as on 30 September 2003 as reported by the State Government. In the same order the GOI indicated that the requirement of foodgrains was calculated at the rate of 100 grams per child per school day for ten months totalling 235 school days.

It was observed in Audit (April 2006) that in five districts of Andhra Pradesh (Ananthapur, Cuddappa, Kurnool, Karimnagar and Nizamabad) against the reported enrolment of 19,93,321 school children the actual enrolment was 15,21,502 only during 2004-05. The foodgrains were drawn from the FCI godowns on the basis of the enrolment reported instead of the actual enrolment resulting in excess issue of 11,087.75 MT of foodgrains. In the districts of Khammam and Adilabad also it was observed (April 2006) that during 2004-05 against the reported enrolment of 7,39,539 school children the

actual enrolment was 5,69,060 and against the total projected 470[♥] schooldays the total number of schooldays in these two districts was 432[♣]. In these two districts also, foodgrains for the projected enrolment and schooldays were drawn which resulted in an excess drawal of 3,536.857 MT of foodgrains. The State Government had drawn the foodgrains on the basis of provisional allocation and FCI did not check the consignee receipt-cum-utilisation certificates obtained from DCs to see whether the quantity of foodgrains lifted and utilised during the month were commensurate with the quantity admissible. The excess drawal of 14,624.607 MT of foodgrains in these 7 of the 23 districts of Andhra Pradesh entailed a subsidy burden of Rs.18.06 crore on the GOI.

The Management stated (August 2006) that the foodgrains were supplied to the State Government as per the demand of the DCs and were within the allocation made by MHRD. Also, FCI has no mandate or mechanism to ascertain the authenticity of the number of schools or students to whom MDM is to be provided. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management and stated that the report from MHRD was being obtained.

The reply was not acceptable. Though FCI had no control over the quantity of foodgrains to be issued under the scheme, being the nodal agency for distribution of foodgrains it was imperative on the part of FCI to ascertain the actual number of school children and school days as the original allocation was provisional. However, following the Audit observation, the FCI and the Ministry took up the matter (August 2006 and December 2006) with MHRD.

7.2.7 Re-booking of rakes

Re-booking of rakes at New Bongaigaon resulted in avoidable expenditure of Rs.3.73 crore.

According to the Centralised Booking Scheme of FCI, in operation from 1 April 1982, all consignments/rakes, from stations of Northern Railways to the destination stations east of New Bongaigaon, should be booked in block rakes upto New Bongaigaon in the first instance and then re-booked to the destination station from New Bongaigaon. The freight for the re-booking was to be calculated by giving the benefit of telescopic rates from the originating stations to the ultimate destinations.

FCI, on the basis of a reference received from Railways, decided (8 October 1986) that foodgrains traffic meant for Churaibari, Dharamanagar and Kumarghat (with effect from 1990) stations in Tripura shall be booked directly since these were directly linked with the dispatching MG[•] terminals in Northern States. The Railway Board also amended (November 1986) its notification for Centralised booking scheme accordingly.

The direct link to Tripura State was discontinued from April 1997 due to gauge conversion (from MG to BG[♦]) and hence no MG wagon could be booked directly to the

[♥] *2 x 235=470*
[♣] *212 and 220 respectively*
[•] *Metre gauge*
[♦] *Broad gauge*

Tripura terminals. To feed the PDS requirement of Tripura, FCI started booking consignments to New Bongaigaon which were then re-booked to Churaibari, Dharamanagar and Kumarghat but without availing of the telescopic rates. It was observed in Audit (October 2005) that during 2002-03 to 2004-05 alone, avoidable expenditure on freight to the extent of Rs.3.73 crore was incurred for 2.97 lakh MT of foodgrains booked upto New Bongaigaon and then re-booked to destinations in Tripura.

The Management (April 2006) stated that the issue regarding charging the freight for re-booking by giving the benefit of telescopic rates had been taken up with NEF[♠] Railway in December 2005 and with the Railway Board in February/March 2006. The Ministry stated (January 2007) that the Railway Board had since extended the scheme with effect from 15 November 2006.

Though the direct link to Tripura had been discontinued from April 1997 due to gauge conversion, the Management took up the matter with the Railways only after it was pointed by the Audit in October 2005.

[♠] ***North Eastern Frontier***

CHAPTER VIII: MINISTRY OF DEFENCE

Bharat Electronics Limited

8.1.1 Loss in supply of GMS Equipment

Due to improper agreement with sub-contractor, the Company suffered loss of Rs.3.19 crore* in addition to foregoing discount of Rs.1.04 crore due to non-availment of the discounted price as per agreement.

The Company received an order (April 2000) from Heavy Vehicles Factory (HVF) Chennai for supply of 50 Gunners Main Sight (GMS) equipment at a price of Rs.114.40 crore. The supply order provided for delivery of:

(i) Two units as pilot samples for trial and evaluation by 15 May 2000.

(ii) Ten units for series production by October 2001 after acceptance of pilot samples and bulk production clearance (BPC).

(iii) Supply of the remaining 38 units by October 2002. The order stipulated levy of liquidated damages (LD) for late supplies.

The Company placed (June 2000) a purchase order on M/s. OIP Sensor Systems, Belgium (sub-contractor) for the supply of 50 GMS with a delivery schedule of two by June 2000 and the remaining 48 in three batches of 13, 17 and 18 by June 2004. The delivery date was subsequently amended (February 2002) as (i) first batch between January and September 2003 (ii) second batch between October 2003 and March 2004 and (iii) the third batch between April 2004 and October 2004.

Based on the pilot samples (July 2000) HVF Chennai accorded BPC in April 2002. However, at the Company's request (August 2002), as the delivery schedule agreed with the sub-contractor was not matching the delivery schedule of the supply order, HVF Chennai re-fixed (September 2004) the delivery schedule by which (i) delivery of first batch of 10 was fixed as 12 October 2003 (18 months from BPC) with levy of LD for late supplies after 12 October 2003 and (ii) supply of remaining 40 by 30 April 2005.

Audit observed (May 2006) that the Company supplied only two systems as against ten in the first batch though the same were to be supplied by 12 October 2003 in terms of the supply order from HVF, Chennai. The delay was attributable to delay in getting supplies from the sub-contractor. HVF Chennai recovered Rs.98 lakh towards LD and Rs.10 lakh towards interest on advance. Besides, the Company's claim for foreign exchange (FE) variation of Rs.2.11 crore had not been reimbursed in respect of eight systems as the Company supplied these systems after 12 October 2003.

* *Rs.1.08 crore towards liquidated damages and interest on advances and Rs.2.11 crore on account of foreign exchange variation*

It was also observed that while as per terms of the supply order, LD was payable for the entire delay, the clause relating to LD in the purchase order placed on sub-contractor envisaged July and August to be counted as one month and further a grace period of four weeks was to be allowed while computing delay in supplies. Thus, by allowing the sub-contractor additional period of two months in computing delay for levying LD, the Company was not able to levy a matching LD (Rs.98 lakh) on the sub-contractor. Even the LD of Rs.7.38 lakh that was levied was waived off in consideration of sub-contractor's consent for conducting environmental tests which cost Rs.15 lakh and which was not part of the agreement.

It was further noticed that while the above order was under execution, the Company received (March 2002/January 2004) additional supply order from HVF, Chennai for five GMS equipment. The Company placed (February 2004) order for the additional quantity of five on the sub-contractor for Euro 3,44,873 being the discounted price applicable in terms of the agreement for quantity over and above 50 systems. However, the price was enhanced (May 2004) to Euro 3,83,444 as the batch quantity of five was not considered economical by the sub-contractor for extending any discount. This also led to foregoing of discount of Euro 1,92,855 (Rs.1.04 crore) on five systems.

The Management stated (June 2006) that:

(i) The slippages in deliveries of some quantities were mainly due to time taken in conducting tests and clearance of materials before dispatch from sub-contractor's premises by the Director General of Quality Assurance (DGQA).

(ii) The claim relating to FE variation was being pursued with the customer.

(iii) The sub-contractor refused to accept the discounted price as the quantity was not economical.

The reply of the Management was not tenable as:

(i) Out of eight systems delayed, five were ready for inspection only by the last week of November 2003 at the sub-contractor's premises as against the scheduled delivery date of August, September and October 2003 and DGQA inspection was done within 15 days thereafter.

(ii) The customer was yet to respond to the FE variation clause.

(iii) At the time of enhancing the order, execution of second batch of supplies was in progress and the Company could have clubbed the requirement under this batch so as to fulfil the economic order quantity requirement.

Thus, due to an improper agreement with its sub-contractor, the Company incurred a loss of Rs.3.19 crore. In addition a discount of Rs.1.04 crore was foregone from the same sub-contractor, which was allowable as per agreement.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Garden Reach Shipbuilders and Engineers Limited

8.2.1 Unjustified construction of pontoon

The objective of constructing a pontoon was not achieved despite expenditure of Rs.5.32 crore.

Garden Reach Shipbuilders and Engineers Limited (Company) decided in March 2002 to build two pontoons[*] by utilising material lying surplus from refit and repair of vessels. The main objective was to earn revenue from repair business by carrying out both shipbuilding and repair work for medium size vessels simultaneously in case of non-availability of the Company's dry docks. It was envisaged that execution of refit orders for vessels upto 1,700 MT docking displacement would not depend on availability of the Company's dry dock as the operation could be carried out on the two pontoons. Construction of the first pontoon was started in the first quarter of 2003 and completed in February 2004 at a cost of Rs.3.25 crore. The Company decided in March 2004 not to construct the second pontoon because it had received orders (March 2003) for construction of eight vessels for which the resources were fully allocated and no spare capacity was available for construction of the pontoon. The material allocated for fabrication of the second pontoon was proposed to be utilised in manufacture of the new vessels.

Audit observed that during the period from February 2004 to August 2006 the Company repaired only one vessel, CGS Veera. The repair work was carried out during the period September 2004 to December 2004 at Kolkata Port Trust (KPT) dock by paying Rs.45 lakh as hire charges since, as per the Management, the pontoon was not dimensionally large enough to berth the vessel.

The Company made an attempt to dispose of the pontoon to the Andaman and Nicobar Administration in order to establish connectivity in Tsunami affected islands. Accordingly the pontoon was sent to Andaman in March 2005 but it could not be utilised as the tidal variation was much higher than initially estimated by the Company. It was, therefore, brought back to Kolkata in March 2006. The Company's efforts to sell the pontoon, thus, led to an expenditure of Rs.2.07 crore on transportation and modification without commensurate returns. The pontoon could not be put to use and remained idle till date (September 2006).

The Management stated in August 2006 that the pontoon was dimensionally not suitable to berth CGS Veera as both the length and breadth of the vessel were more than that of the pontoon. It further stated that they were planning to utilise the pontoon after cleaning and painting for repair of CGS Vajra for which the Company received an order in July 2006.

The contention was not tenable as dimensions of CGS Vajra were also not suitable for using the pontoon for repair work and the work had started (September 2006) in a hired KPT dock.

[*] *A type of floating dock*

As evident from above, the objective of constructing the pontoon had not been achieved till date despite expenditure of Rs.5.32 crore[♥], due to specification mismatch with the ships received for repair. The decision to construct the pontoon appeared to be unjustified as the resources allocated for the pontoon could have been gainfully utilised for manufacturing new vessels, orders for which had already been received in March 2003.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

[♥] *Rs.5.32 crore=Rs.3.25 crore plus Rs.2.07 crore*

CHAPTER IX: DEPARTMENT OF FERTILIZERS

The Fertilisers And Chemicals Travancore Limited

9.1.1 Avoidable expenditure on purchase of sulphur

Unilateral action of the Company to place purchase order on a vendor without consensus on payment terms resulted in avoidable expenditure of Rs.66.30 lakh.

The Fertilisers And Chemicals Travancore Limited (Company) procures sulphur from its pre-qualified vendors through limited tender enquiry floated from time to time on the basis of production requirements, plant turn around time *etc.*

The Company floated a tender enquiry (January 2005) for supply of 45,000 MT (plus/minus five *per cent)* sulphur in three shipments of 15,000 MT each due for delivery in February-March 2005. M/s. Transfert, the L1 vendor, offered 9,000/10,000 MT in the first shipment and the next two shipments as per the tender schedule at a price of US$ 74 *per* MT FOB[♥] load port or US$ 88.50 *per* MT CFR[♣] Cochin.

The Company placed a purchase order (PO) on M/s.Transfert (January 2005) for a quantity of 9,000/10,000 MT sulphur and another PO on M/s. International Commodities Export Corporation (ICEC) who were L1 for the second and third shipments at their quoted rate of US$ 69.47 *per* MT FOB load port or US$ 88.22 *per* MT CFR Cochin. The PO for the second and third shipments, however, ignored the ICEC's stipulation in the bid that an operative letter of credit (LC) was to be with them not later than three UK working days before start of loading. ICEC offered (24 January 2005) to compromise on the LC provided that the order was on CFR basis. However, the Company did not accept this and the ICEC withdrew their offer. With this, M/s. Transfert became L1 for these shipments also. But the validity of M/s. Transfert's offer expired on the same day *i.e.*24 January 2005 and a fresh tender was floated by the Company (February 2005) and 14,557 MT sulphur was procured from M/s. Transfert themselves at US$ 100.205 *per* MT CFR Cochin entailing an avoidable extra expenditure of Rs.66.30 lakh.

Audit scrutiny (September 2005) revealed that the Company did not quantify the financial implication of complying with the ICEC's condition of opening LC in advance. The Company ignored this condition and placed the PO on ICEC who did not agree to the terms and conditions imposed by the Company through PO regarding payment through LC at sight or 180 days from the date of Bill of Lading. In the process, the Company allowed the validity of M/s. Transfert's offer to lapse with the consequential loss of Rs.66.30 lakh due to procurement at higher rate.

[♥] *Free on board*

[♣] *Cost and freight*

The Management stated (June 2006) that it was forced to curtail procurement of raw material due to limitations in the availability of working capital for opening LC and that by deferring the last two shipments, scarce working capital was conserved for future use.

The reply was not tenable as the Management had planned to procure the entire quantity of 45,000 MT in the tender floated in January 2005 after duly taking into account its financial position, imminent turnaround *etc.*

Thus, placing the PO without agreement on payment terms was not a prudent commercial decision and led to procurement of sulphur at a higher rate after re-tendering, which resulted in avoidable expenditure of Rs.66.30 lakh.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

9.1.2 Extra expenditure on procurement of caustic soda lye

Delay in placement of purchase order for procurement of caustic soda lye resulted in extra expenditure of Rs.64 lakh.

The Fertilisers And Chemicals Travancore Limited (Company) procures caustic soda lye at mutually agreed prices from the Travancore Cochin Chemicals Limited (TCC), a Kerala Government Company. The Company requested (2 November 2004) TCC to extend the validity of the prevailing rates of Rs.10,700 *per* MT for 31 *per cent* strength and Rs.11,500 *per* MT for 40 *per cent* strength for the procurement during January to June 2005. TCC offered (5 November 2004) revised prices of Rs.12,500 *per* MT for 31 *per cent* strength and Rs.13,300 *per* MT for 40 *per cent* strength. TCC, though ready to meet the Company's entire requirement, was of the firm view that it would not be able to continue supplies any more at the then existing prices.

While the Company attempted to identify other suppliers through a limited tender (November 2004) for obtaining competitive rates and also to negotiate (November-December 2004) lower rates with TCC, it did not succeed. During negotiations (November 2004) TCC categorically stated (24 November 2004) that the pre-revised price would not even meet the cost of production and hence there was no scope for offering any reduction.

The Company did not accept the revised rates and TCC again revised (17 December 2004) the prices upward to Rs.15,000 *per* MT (31 *per cent* strength) and Rs.15,800 *per* MT (40 *per cent* strength). The Company ultimately procured the material from TCC at these rates.

Audit scrutiny (February 2006) revealed that the Company was aware (June 2003) that so long as the entry tax was applicable on the caustic soda lye, no supplier from outside Kerala would be able to offer rates lower than those offered by TCC. With entry tax at 13.8 *per cent* in force, the Company still chose to float a limited tender enquiry and simultaneously entered into negotiations with TCC on the presumption that TCC would reduce the prices or it could obtain better offer from other sources from outside Kerala. Thus, due to delay in the purchase decision, the Company had to incur extra expenditure of Rs.64 lakh on procurement of 2,561 MT of caustic soda lye.

The Management stated (April 2006) that it had tried to obtain a reduction in price but TCC, in the meanwhile, unilaterally increased the price. They added that the TCC subsequently informed that it could not have accepted the order even if placed prior to 17 December 2004 due to higher market rates prevailing then. The reply of the Management was not acceptable as TCC had an advantage on account of being the sole supplier in the State and there being 13.8 *per cent* entry tax on supplies from outside the State. The Company should have factored it in its purchase decision as timely acceptance of TCC's offer would have saved extra expenditure.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

CHAPTER X: MINISTRY OF FINANCE

Insurance Division

National Insurance Company Limited

10.1.1 Loss due to charging incorrect premium

The Company did not charge applicable premium rates on the policy covering fire resulting in loss of Rs. 9.09 crore.

As per the instructions of Tariff Advisory Committee (TAC), risks where the threshold limit of probable maximum loss (PML) at any one location was Rs.1,054 crore or above or sum insured at any one location was Rs. 10,000 crore or above, were to be treated as 'Mega Risks' and taken out of the purview of the Tariff. The insurers could issue Comprehensive Package Policy for such Mega Risks duly filing the product with Insurance Regularity Development Authority under 'File and Use' system introduced since June 2003.

A Delhi based Divisional Office of the National Insurance Company Limited (the Company) issued a Comprehensive Package Policy to M/s. Mahanagar Telephone Nigam Limited (MTNL) for the period 8 June 2004 to 7 June 2005 covering all telephone exchanges, offices and stores of MTNL at Mumbai and Delhi for a sum insured of Rs.7,317.39 crore for material damage, Rs.1,000 crore for business interruption and Rs.3,206 crore for other extensions like cash insurance, fidelity guarantee and all risk cover for laptops.

Audit observed (January 2006) that out of a total of 492 exchanges covered in the policy, 38 exchanges had PML between Rs.10 crore and 15 crore and the remaining 454 exchanges had PML of less than Rs.10 crore. Thus, even though the risk did not satisfy the criteria for 'Mega Risk', the Company issued a comprehensive package policy charging a lump sum premium amounting to Rs.2.86 crore for material damage and Rs.38.92 lakh for business interruption instead of chargeable premium of Rs.10.98 crore[♣] for material damage and a premium of Rs.1.36 crore[♥] for business interruption resulting in a loss of revenue of Rs.9.09 crore.

The Management stated (August 2006) that MTNL invited quotations for tailor-made comprehensive all risk insurance cover for their assets. Though the essential cover was fire and allied perils, due to various extensions required by the telecom/cellular operators and the peculiarities of coverage, this policy was underwritten as a special contingency policy. Given the high exposure, the risk was referred to the overseas market for reinsurance rates and terms. Reinsurance was arranged with various reinsurers including

[♣] *At the rate of Rs.1.50 per mille (per thousand of sum insured) as per the rate applicable for telephone exchanges under All India Fire Tariff*

[♥] *At the rate of Rs.1.36 per mille as per Consequential Loss Fire Tariff*

General Insurance Corporation of India. The comprehensive package policy was issued as per the requirements of the insured and at reinsurance driven rates.

The reply was not tenable because the risk was not a 'Mega Risk' and the Company should have quoted rates based on All India Fire Tariff, Consequential Loss (Fire) Tariff and for other perils as per its own guidelines.

Thus, due to not charging the prescribed rates, the Company lost premium of Rs.9.09 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.1.2 Loss in underwriting fire insurance of Jute Mills

The Divisional Offices under Kolkata Regional Office-I of the Company accepted fire insurance business of Jute Mills without exercising due diligence and incurred loss of Rs.7.22 crore.

National Insurance Company Limited (Company) issued (June 2001) guidelines to its operating offices on prudent underwriting practices emphasising that in case of fresh business, the proposal form should contain information about the claim experience for preceding three years and any misrepresentation or material suppression would make the policy void *ab initio*. Further, in order to avoid loss from underwriting of bad risks in the Jute Mills, Kolkata Regional office I advised (January 2003) its operating offices to strictly follow loss control measures, which, *inter alia*, required that all renewal proposals were to be considered after taking into account the experience of incurred claims of the past five years. The guidelines were reiterated in May 2003, January 2004, March 2005 and December 2005.

Test check in Audit revealed (May 2005) that the operating offices under the Kolkata Regional Office-I did not follow the stipulated underwriting norms. The proposal forms neither contained information about past claim experience nor a declaration that misrepresentation or suppression of the material information would render the policy void *ab initio*. Notwithstanding this, the operating offices continued to renew the existing policies as well as issued fresh fire insurance policies to Jute Mills without exercising due diligence.

10.1.2.1 Issue of new policies without obtaining information on past claim ratio experience

Divisional offices (DOs) V, VII, and XI accepted (2005-06) fresh proposal of fire risk of Hastings Jute Mills, Wellington Jute Mills and Jute Mills of Champdani Industries Limited at Rishra and Chowdwar without ascertaining their past claim experience in violation of the risk evaluation practices. The above three DOs suffered losses of Rs.37.29 lakh, Rs.42.49 lakh and Rs.422.29 lakh respectively on these policies. The claim ratio in respect of these policies was 554 *per cent* (Hastings Jute Mills), 369 *per cent* (Wellington Jute Mills) and 12,122 *per cent* (Jute Mills of Champdani Industries Limited at Rishra and Chowdwar).

10.1.2.2 Renewal of policies despite high claim ratio in previous years

DO-XX accepted (2004-05) the new risk of Agarpara Jute Mills without obtaining information in respect of the claim experience from the earlier insurer *i.e.* Divisional Office-VII of the Company which had suffered continuous loss on the policy with an average incurred claim ratio of 304 *per cent* from 1998-99 to 2003-04. DO-XX suffered a loss of Rs.119.28 lakh (claim ratio1,364 *per cent*) on the renewed policy. In the case of Baranagore Jute Mills, despite a claim experience of 473 *per cent* on the policy of 2003-04, DO-XX renewed the policy for 2004-05 and incurred a loss of Rs.83.29 lakh (claim ratio 1,238 *per cent*). The policy of Naihati Jute Mills was also renewed for 2004-05 despite an average claim ratio of 231 *per cent* for the policies of 2002-03 and 2003-04. The loss incurred on this policy was Rs.16.96 lakh (claim ratio 284 *per cent*). While renewing these policies the DO did not load the premium in view of the earlier adverse claims experience.

Thus, in spite of regular instructions issued since 2003 by Kolkata Regional Office-I regarding prudent underwriting norms and loss control measures, its DOs did not exercise due diligence and caution at the time of underwriting the fire risk of Jute Mills which were prone to a high probability of loss. As of March 2006, the Company had paid claims of Rs.20.53 lakh and outstanding claims stood at Rs.7.55 crore against total realisation of premium of Rs.53.44 lakh for policy period 2004-05 and 2005-06 in respect of the above stated policies. This resulted in a loss of Rs.7.22 crore due to underwriting the high risk fire insurance of Jute Mills in disregard of extant instructions.

The Management stated (August 2006) that adverse claim experience would be arrested by strictly following the prudent underwriting norms and periodical inspection of the mills for compliance of the loss control measures in future.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

The New India Assurance Company Limited

10.2.1 Short collection of premium

The Company deviated from the instructions for computing the premium chargeable on the Group Floater Mediclaim policy issued to M/s. Wipro Technologies Limited for 2003-04 and it did not load the premium in terms of Memorandum of Understanding at the time of renewal of the policy for 2004-05. These deviations resulted in under recovery of premium of Rs. 6.92 crore.

A Divisional Office (DO) of The New India Assurance Company Limited (Company) at Bangalore entered (September 2003) into an MOU with M/s. Wipro Technologies Limited (Wipro) for three years setting out the terms and conditions of the Group Floater Mediclaim policy covering employees and their dependents. As per the terms and conditions of the policy, the claims experience was to be reviewed at the end of the policy period and if found to exceed 90 *per cent*, the premium was to be loaded to bring down the claim ratio to 90 *per cent*.

Scrutiny in Audit (April 2004) revealed that while computing the premium chargeable the Company deviated from its circular of January 2001 and Technical Manual as detailed below:

(i) Instead of charging family floater at 10 *per cent* for each member of the family, an *ad hoc* loading of five *per cent* was done.

(ii) For deletion of domiciliary treatment, a discount of 20 *per cent* was allowed instead of 10 *per cent*.

(iii) In the policy, the basic premium applicable to the lowest age band was charged. Allowing a further 48 *per cent* discount for age profile was clearly not in order.

(iv) For maternity benefit extension, a loading of five *per cent* was applied instead of the stipulated 10 *per cent*.

These deviations resulted in a concession of Rs.2.94 crore in premium being extended to Wipro. The DO issued the policy for 2003-04 after collecting a premium of Rs.2.02 crore against which claims amounting to Rs.5.40 crore were settled. The policy was renewed further for the period 2004-05. Audit scrutiny (June 2006) revealed that claim experience for 2003-04 was 267 *per cent*, which required suitable loading of the premium for 2004-05 to bring down the claim ratio to 90 *per cent* as per the terms and conditions of the MOU. However, the Company collected premium of Rs.4.26 crore against the premium of Rs.8.24 crore chargeable in view of the claim ratio exceeding the prescribed limit. Not imposing the conditions of the MOU resulted in under recovery of Rs.3.98 crore.

The Management while confirming the facts and figures stated (April 2006) that normally such deviations were not permitted and added that retention of a client such as Wipro was paramount. The Management further stated (June 2006) that the client did not agree to the loading applicable under the MOU for renewal of the policy for 2004-05 and the Head Office had considered all aspects including claims, client's future potential and anticipation of reduction in claims due to introduction of claim control measures. Such measures included restrictions of claims under maternity benefit, the limit of room rent brought down and parents of the insured in the group were issued separate normal group mediclaim policy while approving the renewal for 2004-05.

The reply was not tenable as at the time of issue of the policy the Company did not have any other business of the client. Suitable loading of the premium to bring down the claim ratio was the claim control measure incorporated in the MOU. Further, the policy was not renewed for 2005-06 on review of the claim profile for the earlier years.

Thus, deviations from the Company's instructions and non-compliance of the terms and conditions of MOU resulted in under recovery of premium of Rs.6.92 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.2.2 Avoidable expenditure due to delay in shifting to own building

Due to delay in shifting the office to its own building at Surat, the Company incurred an avoidable expenditure of Rs.90.64 lakh on rent and taxes during the period May 2004 to June 2006.

The Regional Office (RO) of The New India Assurance Company Limited (Company) at Surat was functioning from rented premises admeasuring 7,110 square feet. Considering the heavy outgo on rent, the BOD approved (December 2003) purchase of premises for the RO at first floor, Tirupati Plaza, Surat with a carpet area of 7,395 square feet at a cost of Rs.2.09 crore. Accordingly, the Company purchased the premises and took possession on 17 February 2004.

The purchase proposal did not envisage requirement of interior work before occupation. However, after one year from purchase of the premises, a proposal was made (February 2005) to furnish an area of 5,900 square feet which was deferred by the BOD. In September 2005, Head office of the Company while intimating the BOD's decision directed the RO to shift some of the departments to the new premises. Accordingly, five departments were shifted (October 2005) to occupy an area of 2,000 square feet and rented area of 2,100 square feet was surrendered (October 2005). The remaining departments continued to function from the rented premises. On the matter being taken up in Audit in February 2006, all the departments shifted to the new premises in June 2006. The remaining area of rented premises was surrendered on 30 June 2006.

Thus, despite acquiring its own building in February 2004, the same was not put to full use till June 2006 while the Company incurred an avoidable expenditure of Rs.90.64 lakh on rent and taxes of the rented premises during the period May 2004 to June 2006.

The Management stated (June 2006) that the proposal for interior work was deferred till September 2005 due to the possibility of restructuring of offices in western region.

The matter was reported to the Ministry in September 2006; reply was awaited (January 2007).

The Oriental Insurance Company Limited

10.3.1 Loss of Rs.3.27 crore due to undercharge of premium

The Oriental Insurance Company Limited incurred a loss of revenue of Rs.3.27 crore in underwriting a Group Personal Accident Policy due to under loading of the premium during the period June 2002 to May 2005.

As per General Insurance Public Sector Association (GIPSA) guidelines (June 2001), the rate of the premium quoted were to be suitably loaded on claim experience of each year so as to bring the incurred claim ratio to 70 *per cent* in case of tariffed and non tariffed portfolios. However, Oriental Insurance Company Limited (Company) did not frame any specific guidelines in this regard. Siliguri Divisional Office (DO) of the Company issued a Group Personal Accident (GPA) Policy in June 2002 in favour of M/s. Jaiprakash

Industries Limited[♣] including its associate companies, contractors and sub-contractors engaged in different locations, for the period 1 June 2002 to 31 May 2003. The premium was fixed at a flat rate of Rs.0.25 per mille and a sum of Rs.63.41 lakh was received by the Company. The policy was further renewed for the years ended 31 May 2004 and 31 May 2005.

It was observed in Audit (January 2004) that the incurred claim ratio in respect of the above policy was 423.5 *per cent* in the first year. At the time of renewal of the policy, the instructions of GIPSA were not adhered to and the premium was loaded only by 80 *per cent*. Similarly, in the second year the claim ratio was 419.22 *per cent* and at the time of subsequent renewal the loading was only 100 *per cent*. The Head Office of the Company, at the time of examining the renewal proposal for the year 2004-05, observed (September 2004) that the premium should be loaded in such a way that the incurred claim ratio is maintained at 90 *per cent*. However, the DO did not take any action on this directive and the policy was allowed to continue without suitable loading. The incurred claim ratio in respect of the third year was 364.22 *per cent* and the policy was not renewed further. Even if the most conservative view was taken to load the premium to safeguard the financial interests of the Company and maintain a minimum level of profitability in the portfolio, the DO should have loaded the premium at the time of the renewals to maintain the claim experience at 90 *per cent*. Failure to load the premium appropriately resulted in undercharge of premium by Rs.1.64 crore and Rs.1.63 crore in the second and the third year respectively and there was a loss of revenue of Rs.3.27 crore. Further analysis of the portfolio in Audit revealed that against the total premium of Rs.2.88 crore collected in three years of coverage, the Company paid claims of Rs.12.60 crore and incurred loss of Rs.9.72 crore. Appropriate loading of the premium on renewals in the second and the third year would have reduced the loss by Rs.3.27 crore.

The Management stated (May 2006) that overall claim experience with the insured was less than 90 *per cent*. The Management's contention was not tenable in view of its Head Office instructions issued to the Regional Office in January 2005 on maintaining the claim ratio at 90 *per cent* in each policy individually.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.3.2 Loss due to undercharge of premium

The Company undercharged premium by Rs.1.82 crore under its Group Mediclaim Policy issued to the Godrej Group of Companies due to not loading premium based on their previous adverse claims ratio.

The prospectus on Group Mediclaim Insurance Policy issued by the Company, *inter alia*, provides that the total premium payable at the time of renewal of the group policy will be loaded at the prescribed scale depending upon the incurred claims ratio for the entire group for the preceding three completed years excluding the year immediately preceding the date of renewal.

[♣] ***Renamed as Jaiprakash Associates Limited***

The Godrej Group of Companies (Insured) approached (August 2005) the Company for Group Mediclaim Policy cover for their employees for the year 2005-06. Divisional Office 21, Mumbai issued the Group Mediclaim Policy to the Insured covering an aggregate of 8,871 employees for the period from 6 August 2005 to 5 August 2006 and collected a total premium of Rs.5.27 crore (including service tax). The policy included the coverage of floater[♣], pre-existing ailments, children and dependent parents of the employees (irrespective of their age) and post retirement medical benefits, if opted for by the employee.

It was observed in Audit in December 2005 that while computing the premium at the time of issuing the policy, the Company had loaded the premium by 85 *per cent* instead of applicable 150 *per cent* based on actual claims ratio during the policy years 2001-02 to 2003-04[♦] resulting in under charge of premium by Rs.1.82 crore. Further, approval of the competent authority for inadequate loading of premium was not on record/made available to Audit.

In response, the Regional Office, Mumbai stated in June 2006 that loading under the policy was restricted to 85 *per cent* only in order to secure other profitable business *viz.* fire, engineering and miscellaneous from the Insured.

Reply of the Management was not tenable as fire and engineering business were tariff business and cross subsidisation thereof defeats the very purpose of prescribing tariff. Further, issue of policy in violation of the terms of prospectus without approval of the competent authority reflects on the efficacy of the internal control mechanism of the Company.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.3.3 Undercharging of premium under Group Mediclaim policy

Disregarding the scale prescribed in the prospectus for the Group Mediclaim Insurance Policy, the Company did not load the premium based on previous adverse claim ratio and allowed excess discounts to Dell Computers India Private Limited resulting in undercharge of premium by Rs.1.28 crore.

The prospectus for Group Mediclaim Insurance Policy issued by The Oriental Insurance Company Limited (Company), *inter alia,* prescribed a discount of 10 *per cent* if the number of persons under the policy ranged between 2,001 and 10,000. The premium would be loaded by 25 *per cent* if the claim ratio for the preceding three completed years or such shorter period as the case may be but excluding the year immediately preceding

[♣] ***The sum insured of each employee could be availed of by any of the family members upto three either individually or collectively.***

[♦] ***During 1999-00 to 2002-03, the Insured had obtained Group Mediclaim Policies from United India Insurance Company Limited (UIIC). In 2003-04, when UIIC proposed enhancement of the premium due to high incidence of their past claim experience (222.41 per cent of the premium charged), the Insured shifted the business to National Insurance Company Limited (NIC) for the years 2003-04 and 2004-05. When NIC proposed enhancement of the premium (claim experience 254 per cent), the Insured shifted to New India Insurance Company Limited.***

the date of renewal, ranged between 70 and 100 *per cent*. The loading of premium would be 55 *per cent* in case the claim ratio ranged between 101 and 125 *per cent*.

The City Divisional Office, Mumbai renewed the Group Mediclaim Policy of Dell Computers India Private Limited on family floater basis for the period 7 November 2005 to 6 November 2006 covering 8,397 employees for a sum insured of Rs. two lakh per family and realised a premium of Rs.2.32 crore[♥].

While computing the premium, the Company allowed a group discount of 35 *per cent* as against 10 *per cent* applicable to a group of 8,397 employees and loaded the premium by 25 *per cent* on account of adverse claim ratio instead of applicable 55 *per cent* for an adverse claim ratio of 105.15 *per cent* for the three years from 2001-02 to 2003-04. This resulted in undercharge of premium by Rs.1.28 crore[♦].

The Management in reply stated (April 2006) that the claim loading was restricted to 25 *per cent* in view of the application of sub limits for various benefits under the policy though it was marginally higher than the maximum permissible ratio of 100 *per cent* for restricting the loading to 25 *per cent*. Further, the group discount allowed and the premium charged were 20 *per cent* and Rs.2.38 crore respectively while Audit had stated these as 35 p*er cent* and Rs.2.32 crore respectively.

Reply of the Management was not tenable as the Divisional Office violated the terms of the prospectus without the approval of the Head office. Further, the figures stated by the Management were from initial internal proposals while figures taken in Audit were from the policy finally issued by the Company.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.3.4 Short collection of premium

Contrary to the provisions of all India tariff on Storage cum Erection insurance, the Company collected premium on increase in the sum insured during the currency of the policy on pro-rata basis, resulting in short collection of premium by Rs.30.98 lakh.

According to the General Regulations of the All India Tariff on Storage cum Erection (SCE) policies, in case the sum insured under an SCE policy is increased during the policy period, the premium should be collected on the additional sum insured at applicable rates for the entire policy period and not on pro rata basis.

The Divisional Office 7 of the Company at Mumbai issued (June 2005) an SCE Policy to Reliance Industries Limited (Insured) for their Hazira 3-PTA Plant with sum insured of Rs.446 crore covering the period 1 June 2005 to 30 June 2006 at a premium of Rs.1.53 crore[♣]. In disregard of the General Regulations, at the time of issue of the policy, the

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[♥] ***Including service tax***

[♦] ***Amount recoverable Rs.3.60 crore less amount charged Rs.2.32 crore***

[♣] ***Including service tax of Rs.14.20 lakh***

Divisional Office agreed (June 2005) to charge premium on any increase in the sum insured during the currency of the policy on pro rata basis.

While the project was in progress, the Insured requested (October 2005) the Divisional Office for an increase in the sum insured by Rs.275 crore from 24 October 2005. Accordingly, an additional premium of Rs.55.90 lakh reckoned on pro rata basis was collected (October 2005) as against applicable premium of Rs. 86.87 lakh♦.

The decision of the Divisional Office to charge pro rata premium on the increase in sum insured during the policy period was in disregard of the General Regulations and resulted in short collection of premium of Rs.30.98 lakh♥.

The matter was reported to the Management and the Ministry in May 2006 and October 2006 respectively; replies were awaited (January 2007).

United India Insurance Company Limited

10.4.1 Loss due to charging lower premium

The Company suffered a loss of premium of Rs.3.84 crore due to application of incorrect tariff rate on the policies issued to Indian Oil Corporation Limited during August 2003 to May 2005.

All India Fire Tariff (Tariff) prescribed a rate of Rs.4.50 *per mille*♠ with effect from March 2001 for insuring Liquified Gas Bottling Plants. The rate was applicable to the entire insured property in the same industrial compound including storage areas and offices. The Tariff also allowed:

(i) Claims experience discount for risks with sum insured above Rs.50 crore.

(ii) Fire extinguishing appliances discount for protected blocks.

(iii) Discount for Sprinkler installation.

Thus, the premium was chargeable at a discounted net rate of Rs.3.21• *per mille* for locations where total sum insured was more than Rs.50 crore and Rs.3.85♣ *per mille* for other locations.

A Delhi based Divisional office of the United India Insurance Company Limited (Company) issued seven standard fire and special perils policies and three endorsements to Indian Oil Corporation Limited during the period August 2003 to May 2005 for their

♦ ***Including service tax of Rs.8.04 lakh***

♥ ***Including service tax of Rs.3.16 lakh***

♠ ***Per thousand of sum insured***

• ***Rs. 4.5 per mille less five per cent sprinkler discount less 10 per cent fire extinguishing appliances discount and less 15 per cent claims experience discount***

♣ ***Rs. 4.5 per mille less five per cent sprinkler discount less 10 per cent fire extinguishing appliances discount***

plant and machinery, office buildings, stock of liquefied petroleum gas (LPG) and LPG cylinders at various LPG Bottling Plants charging the premium at lower rates ranging from Rs.0.227 *per mille* to Rs.3.375 *per mille*. Besides this, the Company also allowed claims experience discount for locations having sum insured of less than Rs.50 crore. The Company, thus, charged a premium of Rs.5.71 crore instead of Rs.9.55 crore resulting in under recovery of Rs.3.84 crore.

The Management stated (August 2006) that all assets including LPG bottling plants of Marketing Divisions of petroleum companies were underwritten under Petrochemical Risk and a special rate of Rs.1.50 plus 0.375 *per mille* was charged earlier and subsequently the provisional rate of Rs.2.5 *per mille* as given by the Tariff Advisory Committee was charged. The Management, however, agreed that 'No claim discount' was allowable only in respect of risks when the sum insured at a particular location exceeded Rs.50 crore.

The reply was not tenable because the LPG bottling plants located outside the refinery premises were not petrochemical risk and were specifically excluded from the scope of Petrochemical Tariff from March 2001. Further the Company had not charged even the premium at the special or provisional rates as stated in the reply. Instead a net discounted rate ranging from Rs.0.227 *per mille* to Rs.3.375 *per mille* depending on the asset covered in the policy was charged, which was in contravention of the prescribed tariff.

Thus, due to application of incorrect rate and allowing inadmissible claim experience discount, the Company suffered a loss of premium of Rs.3.84 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.4.2 Under recovery of premium

The Company issued Group Mediclaim policy without adequate loading resulting in under recovery of premium of Rs.1.66 crore.

A Hyderabad based Divisional Office of the United India Insurance Company Limited (Company) had been issuing tailormade mediclaim policies covering employees of Dr. Reddy's Laboratories Limited (Insured) since 2000-01. During the period 2000-01 to 2003-04 the premium charged and claims paid amounted to Rs.5.03 crore and Rs. 12.44 crore respectively. For the year 2004-05 M/s. Bajaj Alliance granted the mediclaim cover to the Insured for a premium of Rs.2.60 crore against which claims of Rs.5.20 crore were incurred. The Insured requested (August 2005) the Company to consider renewal of the policy for 2005-06 at a premium of Rs.3.90 crore (including service tax) with an assurance that other policies would be placed with the Company for a co-insurance share of 40 *per cent* wherein total premium involved would be around Rs.12 crore per year. The competent authority approved the proposal based on the assurance that the Insured would give a substantial share of other profitable portfolio. The policy was renewed for 2005-06 for a premium of Rs.3.90 crore.

It was observed in Audit (April 2006) that while the Company's circular of March 2005 stipulated that tailormade mediclaim policies could be issued to corporates with other

profitable portfolios, the overall portfolio of the insured was generating losses through the years 2000-01 to 2003-04. The claims experience against the mediclaim policy for the calculation of premium for 2005-06 worked out to 250 *per cent*. Based on this claim experience ratio, the applicable loading was 150 *per cent* at which the premium chargeable was Rs.6.50 crore. Therefore, in order to ensure sustainability of the cover, the Company should have issued the policy for a minimum premium of Rs.5.20 crore being the claims incurred for the period 2004-05. Failure to do so resulted in under recovery of premium of Rs.1.66 crore.

The Management stated (September 2006) that the Group Mediclaim policy was issued based on the assurance that the Insured would place 40 *per cent* co-insurance share in their other business. Though business worth Rs.1.39 crore under fire insurance was placed with the Company, the commitment made at the time of issue of policy for 2005-06 was not fulfilled. The Ministry stated (January 2007) that the Company prudently decided not to accept the unprofitable marine, motor and miscellaneous cover and took conscious decision not to renew the policy for 2006-07 in view of the high claim ratio.

10.4.3 Loss on settlement of inadmissible claim

The Company settled an inadmissible claim resulting in loss of Rs.47.87 lakh.

A Ranchi based Divisional Office of the United India Insurance Company Limited (Company) issued a Machinery Breakdown Policy (MBP) and Loss of Profit Policy (LOP) to M/s. Bihar Caustic and Chemicals Limited, Jharkhand (Insured) for risk period August 2001 to August 2002. The Company settled a material damage claim under the MBP and a consequential loss of profit claim under the LOP in August 2002 and June 2003 for Rs.1.79 lakh and Rs.47.87 lakh respectively. The loss of profit claimed represented the loss in inter unit transfer of power because of break down in generation.

The Turbo Generator and Static Exciter of the Captive Power Plant of the Insured broke down on 7 March 2002 due to accidental damage. It was observed in Audit (July 2003/February 2005) that while the claim of material damage was covered in the MBP, the claim of loss of profit was not covered under LOP in view of the following:

(i) There was no loss of production of caustic soda during the break down period.

(ii) During the break down period the insured was drawing banked power from the Jharkhand State Electricity Board (JSEB) grid for which it did not incur any extra cost.

(iii) The insurance cover was for loss of profit of the business of manufacture of Caustic soda and not for loss of profit on generation of power. Generation of power from captive power plant was for running the main plant. Financial statements of the insured also did not show profit from power generation separately.

Thus, by making payment towards settlement of inadmissible claim, the Company suffered loss to the extent of Rs.47.87 lakh.

The Management, while accepting the facts, stated (December 2005) that there was no loss of production during the interruption period and the consequential loss of profit claim was limited to the extent of loss of generation of power from captive power plant only. The reply was not acceptable since the Company did not incur any additional expenditure in drawing power from JSEB and profit in inter unit transfers were only notional profits.

The matter was reported to the Ministry in September 2006; reply was awaited (January 2007).

10.4.4 Short collection of premium

The Company issued fire policies in violation of provisions of All India Fire Tariff which resulted in short collection of premium amounting to Rs.29.74 lakh.

A Tenkasi based branch of the United India Insurance Company Limited (Company) issued fire policies to various clients covering stock of logs/timber *etc.* stored in the open charging premium at the rate of Rs.2.50 *per mille*♣. It was observed in Audit (March 2005) that as per All India Fire Tariff (tariff), logs/timber stored in the open attracted premium at the rate of Rs. six *per mille*. Failure to collect premium at the prescribed rate resulted in under recovery of premium of Rs.29.74 lakh on the policies issued during the period 2001 to 2004.

In reply, the Company stated that it had represented (June 2006) to the TAC for reconsideration of the classification of timber logs as hazardous goods based on the technical information about the fire resistant inherent properties of unhewn timber logs. The TAC did not agree (October 2006) to the change in classification.

The reply was not tenable as the Company did not charge the applicable rate and the TAC had also not agreed to change the classification (October 2006). Thus, non-collection of premium at the prescribed rate in violation of tariff resulted in under recovery of Rs.29.74 lakh.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

♣ ***Per thousand of sum insured***

United India Insurance Company Limited and The Oriental Insurance Company Limited

10.5.1 Undercharge of premium of Rs.2.85 crore

United India Insurance Company Limited issued one fire policy covering various assets of 16 LPG bottling plants and stocks of petroleum products at different locations in Eastern Region to Indian Oil Corporation Limited for the period from August 2002 to July 2003 and renewed it for another year. The premium was charged at rates lower than the tariff and inadmissible discounts were allowed. Thereafter the business shifted to the Oriental Insurance Company Limited on similar terms and conditions for the year 2004-05. As a result, these Companies suffered loss of Rs.2.85 crore in three years.

All India Fire Tariff (Tariff) prescribed a rate of Rs.4.50 per mille with effect from March 2001 for underwriting the risk of Liquified Gas Bottling Plants. The TAC advised (August 2001) Insurance Companies to charge the provisional rate of Rs.2.50 per mille for Standard Fire and Special Perils policy in respect of petroleum risks of LPG bottling plants located within the refinery and bulk products. Discount and agency commission were, however, not allowed on this rate. For separate items of stores, different rates of premium were prescribed. A Kolkata based Divisional Office VIII (DO) of United India Insurance Company Limited (UIICL) issued a fire policy to Indian Oil Corporation Limited (IOCL) for the period August 2002 to July 2003 covering various assets of 16 LPG bottling plants and stocks of petroleum products at various locations in Eastern Region at a sum insured of Rs.1929.38 crore. The policy covered the risk of Storm, Tempest, Flood and Inundation (STFI) and Terrorism in all locations. The risk of Earthquake, Fire and Shock (EFS) was also covered in selected locations. The policy was renewed for a further period of one year at a sum insured of Rs.2027.16 crore.

Audit scrutiny revealed (March 2003) that the DO of UIICL applied lower rates♠ of premium and allowed inadmissible discounts during 2002-03 and continued to apply the same rates in 2003-04. Further, the Company charged lower rate for Terrorism Cover. It was also noticed (February 2005) that TAC had advised (March 2004) charging of Rs.4.50 per mille and allow special discount at the rate of five *per cent* in respect of six LPG bottling plants located outside refinery complex. Head Office of UIICL instructed its Regional office to collect the shortfall in the premium. However, the DO neither cancelled the policy nor adjusted the differential amount at the time of refund of Rs.74.34 lakh made to the insured on stock declaration basis in December 2004 and December 2005. Thus, due to application of lower rates of premium than prescribed under tariff, UIICL undercharged a premium of Rs.60.73 lakh.

It was further observed in Audit (October 2004) that the policy cover was shifted by IOCL to Oriental Insurance Company Limited (OICL). Kolkata DO V of OICL issued the Policy, on similar lines, at a sum insured of Rs. 2,704.95 crore as the lead insurer with 60 *per cent* share for the period August 2004 to July 2005. Remaining 40 *per cent* share

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♠ *For bulk products -Fire and terrorism (Rs.1.96 per mille) and EFS (Re.0.10 to 1.00 per mille)*
For bottling plants- Fire, EFS and terrorism (Rs.3.74 per mille to Rs.4.08 per mille)

was retained by UIICL. The policy covered risk of STFI (Storm, Tempest, Flood and Inundation) in all cases and earthquake and terrorism in a few.

It was noticed in Audit (October 2004) that OICL charged a premium rate of Rs. two per mille in respect of petroleum products and LPG cylinders and allowed Fire Extinguishing Appliances (FEA) / No claim discount in contravention of the directives of the TAC. Thus, due to undercharge of premium there was a loss of Rs.2.24 crore.

The Management stated (June 2006) that the premium was charged on the basis of the tariff and as per terms and conditions of the previous policy issued by UIICL. The Management's contention that premium was charged as per rate prescribed by the TAC was not correct because the rates charged and discounts allowed were in contravention of the prescribed tariff.

Thus, UIICL and OICL suffered loss of Rs.2.85 crore during 2002-03 to 2004-05 on the policies issued to IOCL due to undercharge of premium.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

CHAPTER XI: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

11.1.1 Delay in taking decision to replace captive power station

The Company took 36 months in deciding to replace the existing captive power station with a DG set. As a result, it incurred extra expenditure of Rs.14.77 crore on account of higher cost of in-house generation of power for the years 2003-04 and 2004-05.

Power supply to Hardwar unit (Unit) of Bharat Heavy Electricals Limited (Company) was mainly from the grid of Uttaranchal State. The Unit also had a captive Thermal Power Station (TPS) of 12 MW rated capacity with the primary objective of supplying process steam to the various production shops and the producer gas plant. The rest of the steam was used for power generation.

As the TPS, installed in 1969, required a major reconditioning and the cost of power generation by TPS was much higher than the tariff rate of power from Uttaranchal Power Corporation Limited (UPCL), the Unit initiated a proposal (March 2002) to replace TPS with a six MW Diesel Generator (DG) set at an estimated cost of Rs.18 crore to fulfil emergency power requirements in case of grid failure. After getting some clarifications from the Unit, the Corporate Office of the Company advised (September 2002) the Unit to reformulate the proposal considering other options.

It was observed in Audit (January 2006) that the Unit took 22 months in finalising the proposal and submitted the final proposal for installation of a six MW DG set in July 2004. This was despite the fact that after formation of Uttaranchal State, the tariff started decreasing sharply (from Rs.5.33 per KWH in 2001-02 to Rs.2.86 per KWH in 2004-05) and the extra cost of continuing with the TPS was increasing. The Company approved the proposal in April 2005 and placed the order for procurement of DG set at a price of Rs.18.85 crore on its Bhopal unit in September 2005.

Thus, the Company took a period of 36 months in deciding the replacement of the existing TPS with DG set and incurred avoidable expenditure of Rs.14.77 crore[•] during the years 2003-04 and 2004-05 on account of higher cost of in-house generation of power.

The Management stated (September 2006) that the decision to replace the existing TPS with DG set was a managerial decision and various alternatives/options were considered from time to time to evolve the most economical and reliable source of power. The option

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[•] *Difference between the cost of generation from TPS and the tariff payable to UPCL for the energy generated by TPS during the years 2003-04 and 2004-05, without considering the cost of generation from DG set.*

of modernisation *vis-à-vis* closure of TPS was also deliberated. All this process took some time. The Ministry replied (January 2007) that it was a techno-economic decision which required time for evaluating and considering various options. They added that the high cost of power generation from the existing TPS had never been a major criterion for the investment and that the expenditure on captive power source was essential to ensure reliable and uninterrupted source of power.

The reply was not acceptable on account of the following:

(i) The Company took as long as 36 months in finalising the proposal, though the capacity to manufacture the DG set existed within the Company itself.

(ii) The cost of power generation by TPS was higher than the tariff charged by UPCL, as acknowledged by the Ministry itself. Further, the capital investment proposal (March 2002) for the DG set clearly stated that the renovation of the existing TPS was not economical at all since generation from TPS had to be kept more or less uniform throughout a day and surplus electricity would have to be transferred to the grid at a cheaper rate at which UPCL was buying power from the national grid.

(iii) The uninterrupted supply of power could have been ensured even by installing a DG set, which can be put 'on' or 'off' as per requirement.

11.1.2 Excess payment due to incorrect regulation of leave encashment

The Company made excess payment of Rs.13.94 crore due to adoption of 26 days as a month instead of 30 days for computation of encashment of leave.

As per instructions issued in April 1987 by the DPE, any individual public enterprise, with the approval of BOD, may frame leave rules for its employees keeping in view the broad parameters of the policy guidelines laid down in this regard by the Government.

Bharat Heavy Electricals Limited (Company) had a scheme of allowing encashment of earned leave to their employees. In January 2004, the Company decided to adopt 26 days as a month for computation of encashment of leave, though no Government guidelines existed for such action. As a result, the Company made excess payment of Rs.13.94 crore to its employees towards encashment of leave during the period from 24 January 2004 to 31 August 2006.

The Management stated (August 2006) that the decision to adopt 26 days was based on a legal opinion obtained from Additional Solicitor General and that DPE's letter dated 2 May 2006 was addressed to the Department of Defence Production. They added that according to DPE's clarification, a month was to be taken to comprise 30 days unless specifically indicated otherwise for the purpose of encashment of leave, which meant that a month may be taken to consist of as many days as may be specifically indicated.

The reply was not acceptable as DPE clarification of September 2005/May 2006 clearly stated that a month was to be taken to consist of 30 days for the purpose of encashment of leave and no Government guidelines existed for adoption of 26 days instead of 30 days as

a month for encashment of leave. DPE, being the nodal Department for the Central Public Sector Enterprises (CPSEs), issues guidelines/instructions on various matters, which are applicable to all CPSEs; the legal opinion was taken by the Company before DPEs clarification *ibid*.

Thus, the decision to adopt 26 days a month for computation of leave encashment was irregular and resulted in an extra expenditure of Rs.13.94 crore till August 2006.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

CHAPTER XII: DEPARTMENT OF MINES

National Aluminium Company Limited

12.1.1 Investment in commercially unproven technology

Owing to omission on the part of the Company to ascertain the commercial viability of the new technology, the expenditure of Rs.2.63 crore incurred in acquiring it was not productively utilised.

A Nickel Technology Proving Plant (Nickel-TPP) for production of basic nickel carbonate from Chromite Overburden (COB) was installed (September 1999) in the premises of the Regional Research Laboratory, Bhubaneswar jointly by Hindustan Zinc Limited (HZL) and the Council of Scientific and Industrial Research (CSIR) at a cost of Rs.10.50 crore on equal sharing basis. The nickel carbonate was to be processed into nickel oxide to facilitate extraction of nickel metal.

In view of the proposed disinvestment of HZL, the Ministry of Mines, the GOI directed HZL (October 2001) to assign the patent right of the technology for extraction of nickel from COB to National Aluminium Company Limited (Company). It also directed the Company to set up a nickel extraction plant for which techno economic feasibility report (TEFR) was to be prepared.

The Company accepted the proposal without expressing any reservation about its viability to the Ministry and entered (December 2002) into an agreement with HZL for acquiring patent rights of the know how package including rights for Nickel-TPP and paid Rs.5.25 crore (50 *per cent* of the cost of TPP) to HZL in August 2003. National Mineral Development Corporation Limited (NMDC) also joined (November 2005) the project and reimbursed Rs.2.62 crore [♣] to the Company.

It was observed in Audit (March 2006) that while acquiring the project the Company was aware that for commercial production of nickel, nickel carbonate was to be processed into nickel oxide for which the technology was to be procured. The TEFR for this project was also to be prepared to ascertain the commercial viability and judge the effectiveness of the technology. Economic viability of the nickel plant also depended on gainful treatment of residues generated during nickel production for iron extraction. For this also a feasibility study for application of ROMELT technology was required. The Company, however, had not prepared the TEFR (September 2006) even after three years of acquiring the technology. Thus, due to delays in ascertaining the commercial viability of the new technology and completing the nickel extraction process the expenditure incurred in acquiring the technology remained unproductive.

The Ministry while accepting the fact stated (December 2006) that NALCO, NMDC and RRL had agreed in principle to go ahead with the preparation of the techno economic

[♣] *50 per cent of the amount paid to HZL*

feasibility report for establishing a commercial scale plant for extraction of nickel from Chromite overburden. RRL had furnished a draft 'invitation for global expression of interest' for preparation of the techno economic feasibility report which was under finalisation.

CHAPTER XIII: MINISTRY OF PETROLEUM AND NATURAL GAS

Balmer Lawrie and Company Limited

13.1.1 Loss of Rs.2.61 crore

Balmer Lawrie and Company Limited stood guarantor for a loan taken by Balmer Lawrie Freight Containers Limited and suffered a loss of Rs.2.61 crore in addition to being burdened with an undischarged liability of Rs.19.32 crore.

Balmer Lawrie Freight Containers Limited. (BLFC), a joint venture company of Balmer Lawrie and Company Limited (BL) was incorporated in November 1994, started commercial production in September 1995 and was incurring losses since inception. The net worth of BLFC was totally eroded during the year 1998-99 and it was declared a 'Sick Industrial Company' by BIFR in October 2000. The Management attributed the financial non-performance to the progressively difficult business environment and declining demand for the Company's main product. The position was not likely to improve in the near future.

In March 2000, BLFC applied for a soft loan of Rs.45 crore from the Oil Industry Development Board (OIDB) for design and development of new products and retirement of costly loans including loans from BL. OIDB sanctioned the loan, subject to the condition that the assets of the BLFC should be *pari passu* hypothecated (first charge basis) in favour of OIDB and BL would stand guarantor for timely repayment of loan/interest till the hypothecation was done. BL stood guarantee (April 2000) for the loan.

BLFC drew Rs.27.05 crore (April 2000) from OIDB. The loan was mainly utilised in repayment of loan of Rs.16.94 crore due to BL and Rs.8.87 crore in development of new products. The name of BLFC was changed to Indian Marine Freight Containers Manufacturing Limited (IMFCML) in February 2002. IMFCML failed to repay the interest as well as the loan instalments as it was unable to generate funds on its own. IMFCML went into liquidation in March 2003 and the official liquidator took possession of its assets for their disposal. The process of liquidation was not yet complete (July 2006). As guarantor of the loan, BL paid Rs.19.55 crore[♣] in partial repayment of principal and interest to OIDB, resulting in additional payment of Rs.2.61 crore[♦] till date (September 2006). BL would also have to pay Rs.19.32 crore[♥] towards the balance of principal and interest thereon till the loan is repaid.

[♣] ***Principal Rs.7.73 crore plus interest Rs.11.32 crore plus 0.50 crore = Rs.19.55 crore***

[♦] ***Rs.19.55 crore minus Rs.16.94 crore repayment of loan to BL***

[♥] ***Rs.27.05 crore minus Rs.7.73 crore = Rs.19.32 crore***

The Ministry stated (January 2007) that they thought that the container manufacturing industry would face a shake out followed by consolidation and hence survival for a few more years was required at that point of time. Accordingly, satisfied with the merit of the proposal for revival of IMFCML, they had approached OIDB for financial assistance. It was also stated that the Company being the promoter had tried its best for revival of IMFCML by providing corporate guarantee to ensure release of funds by OIDB to IMFCML.

Ministry's contention was not tenable as BL was well aware that the hypothecation of the assets of IMFCML could not be made as it had already been hypothecated against secured loan taken from banks. Standing guarantee for a loan to IMFCML in such a situation particularly when BL had no legal obligation for the revival of IMFCML was not a financially prudent decision.

This resulted in a loss of Rs.2.61 crore in discharge of its liability, in addition to an undischarged liability of Rs.19.32 crore on the balance.

Chennai Petroleum Corporation Limited

13.2.1 Extra expenditure on procurement of Hydrochloric Acid

Improper estimation and inability to enforce contracted terms resulted in extra expenditure of Rs.82.70 lakh.

Chennai Petroleum Corporation Limited (Company) utilises Hydrochloric Acid (HCl) for their process units, power plants and tertiary treatment plant. The Company assessed the requirement of HCl at 5,000 MT for 2004-05 including the requirement of 1,868 MT for the three MMTPA* refinery (Refinery-III), which was in the commissioning stage and floated (February 2004) a limited tender enquiry. The purchase order (PO) was placed in June 2004 on M/s. Tamil Nadu Petroproducts Limited (TPL) at a landed cost of Rs.2,164 *per* MT with the option to order additional quantities at the same rate and terms within the contract period of one year. Immediately thereafter (July 2004), requirement for additional 4,000 MT HCl arose for the Company's Captive Power Plant and Demineralization (DM) Plant of Refinery-III. Although the Company approached (July 2004) TPL for the additional requirement, the latter did not accede to the request. Instead, TPL offered to supply the additional quantity at the higher rate of Rs.5169 *per* MT. Therefore, the Company had to make emergency purchases (3,999 MT) during July 2004 to July 2005 from TPL and other suppliers at rates much higher than the prevailing contract rate.

Audit scrutiny (July 2005) revealed that while Refinery-III of the Company was commissioned during March 2004 to August 2004 but the Company did not estimate the HCl requirement with reasonable accuracy considering the ongoing commissioning of the Refinery-III and the quality of the water usually available during the season. Consequently the Company had to resort to emergency purchases of 3,999 MT of HCl at higher rates from different sources and incurred an extra expenditure of Rs.82.70 lakh. Of

* *Million metric tonne per annum*

the purchased quantity of 3,999 MT, 1,690 MT was procured from TPL after payment of Rs.50.79 lakh over and above the contracted price.

The Management attributed (December 2005 and July 2006) the additional requirement of HCl to teething problems in the DM Plant and to the quality of raw water, which was not as per design values. They further added that as per tender it had the option to order additional quantity at the same rate and conditions within the contract period. The Ministry stated (January 2007) that increase in requirement of HCI could not be assessed beforehand. The additional quantity was purchased at the then prevailing maket prices and the expenditure of Rs.82.70 lakh was unavoidable.

The reply was not tenable as they were aware of the probable dates of commissioning of Refinery-III and the quality of local water available and should, therefore, have estimated their requirements with reasonable accuracy. Further, despite a clause for the supply of additional quantity in the PO, the Company could not enforce the option available only because it had not specified the additional quantity to a proximate degree. Moreover, no plausible explanation was given for abruptly increasing the annual estimate of requirement by 4,000 MT (80 *per cent*) within a month of placing the order for 5,000 MT. Thus, improper estimation and inability to enforce the contractual terms resulted in extra expenditure of Rs.82.70 lakh.

GAIL (India) Limited

13.3.1 Blocking of funds due to indecisiveness of the Company

GAIL (India) Limited purchased land at Vadodra in June 2000 but could not decide upon its utilisation resulting in loss of interest of Rs.3.56 crore on the blocked funds of Rs.9.36 crore apart from wasteful expenditure of Rs.89 lakh on construction, lease rent and miscellaneous activities.

GAIL (India) Limited (Company) decided (November 1998) to construct 148 houses alongwith other facilities at Vadodara mainly to meet the anticipated requirement of additional housing after commissioning of its compressor station at Vaghodia. The Company purchased (June 2000) 14,700 square metres of land from Vadodara Municipal Corporation (VMC) at Rs.8.82 crore on 99 years' lease. The Company also paid (May 2001) Rs.53.94 lakh as development charges for the land to VMC.

It was observed in Audit (March 2005) that soon after the purchase of land, the Management Committee of the Company decided (April 2001) to construct an administrative building and 39 houses in place of 148 houses approved earlier. The need for additional accommodation did not arise due to reduction in manpower at Vadodra and Vaghodia and many employees had constructed their own houses or arranged for cheaper accommodation. Subsequently (February 2002), the proposal for construction of administrative building was dropped as an office of the Company already existed in the Company's own premises at Vadodra and the Company was thinking of strengthening its Ahmedabad office in the State Capital.

The Company, therefore, requested (June 2002) VMC for permission to sell the land or take it back on 'as is where is' basis against refund of the amount paid. When the matter

was discussed with VMC, the Municipal Commissioner VMC advised (August 2002) the Company to reconsider the proposal because the plot was meant for a specific purpose and any disposal, if agreed to by VMC, would only be for the same purpose. The Municipal Commissioner further informed that no profit on the sale of the land could be passed on to the Company but the loss, if any, on sale of land was to be borne by the Company.

The Vadodara Unit, accordingly requested (August 2002) the Corporate Office of the Company to reconsider the proposal for construction of Vadodara Office Building and the same was approved (September 2002).

The work of construction of the office building was awarded (November 2002) to M/s. Klassic Constructions Private Limited, Mumbai and the construction started in December 2002 with the scheduled completion period of 14 months. A mobilisation advance of Rs.60.44 lakh was also released (December 2002) for the same. While the construction work of administrative building was in progress, the Management stopped the work (January 2003) in view of the formation of zonal office at Ahmedabad (June 2002) and decentralisation of operations at sites around Vadodara.

The Corporate Office finally decided (May 2004) not to construct the building at Vadodara and advised the Vadodara Unit to dispose of the land and close the contract awarded for construction of administrative building. Meanwhile the Company had incurred a further expenditure of Rs.28.65 lakh towards consultancy charges, security cabin, lease rent to VMC and expenditure on shifting of High Tension power lines from the plot. The Management was yet to initiate action for the disposal of the land (June 2006).

The Management stated (August 2006) that they could not decide and dispose of the land as the VMC had not clarified their terms. The reply of the Management was not tenable as they took up the issue of disposal of land with VMC in June-August 2002 but did not pursue it thereafter. The use or disposal of land was, thus, delayed due to lack of decision and improper planning on the part of the Company.

Lack of timely decision by the Company resulted in avoidable loss of interest of Rs.3.56 crore[♣] on the blocked funds over the last six years apart from wasteful expenditure of Rs.89 lakh on construction and miscellaneous activities.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

***♣** At the average annual yield (ranging from 4.75 per cent per annum to 9.77 per cent per annum) on short term investment of the Company during 2001-02 to 2005-06*

Hindustan Petroleum Corporation Limited

13.4.1 Loss of revenue of Rs.3.77 crore due to failure to recover compensation

The failure of the company to recover compensation towards shortfall in lifting of the Minimum Guaranteed Offtake as per the terms and conditions of the Fuel Supply Agreement resulted in loss of Rs.3.77 crore.

Hindustan Petroleum Corporation Limited (Company) entered into (June 1996) a Fuel Supply Agreement (FSA) with M/s. Nagarjuna Fertilisers and Chemicals Limited (customer) for supply of Naphtha and other liquid fuels/lubricants for a period of 10 years from June 1997 to May 2007. The agreement prescribed an annual Minimum Guaranteed Offtake (MGO) of Naphtha by the customer and in case the quantity lifted happened to be less than the agreed MGO, the customer would compensate the Company at the rate of Rs.300 *per* MT.

The details of actual quantity lifted *vis-à-vis* MGO, the short fall involved and the amount of compensation payable by the customer during the period 1997-98 to 2003-04 are given below:

Period	MGO quantity as per FSA (MT)	Quantity actually lifted (MT)	Shortfall (MT)	Compensation for shortfall (Rs. in crore)
1.6.97 to 31.5.98	42000*	37,993	4,007	0.12
1.6.98 to 31.5.99	1,50,000	2,51,340	-	-
1.6.99 to 31.5.00	1,50,000	2,06,903	-	-
1.6.00 to 31.5.01	1,25,000	1,39,935	-	-
1.6.01 to 31.5.02	1,25,000	68,823	56,177	1.69
1.6.02 to 31.5.03	1,25,000	60,732	64,268	1.93
1.6.03 to 31.5.04	1,00,000	98,958	1,042	0.03
Total	**8,17,000**	**8,64,684**	**1,25,494**	**3.77**

The data shows that the customer did not lift the MGO of Naphtha during the year 1997-98, 2001-02, 2002-03 and 2003-04. There was a short fall of 1,25,294 MT on account of which the Company was entitled to a compensation of Rs.3.77 crore.

Although the compensation towards shortfall in MGO was to be claimed on year-to-year basis as per the terms and conditions of the FSA, the Visakh Regional Office of the Company preferred (February 2005) the claim with a delay ranging from 8 months to 80 months. However, the Company had not pursued the claim on the plea that the cumulative quantity lifted was more than the MGO.

The Management in its reply stated (February 2006) that if the quantity lifted was taken cumulatively during the entire period from June 1997 to December 2005 the commitment of the customer had been fulfilled. The customer was not willing to pay compensation

* *As the first supply was commenced from 19 February 1998 the MGO for the first year was proportionally worked out to 42,000 MT*

towards shortfall in the lifting of MGO on year-to-year basis. However, the Company had taken up the claims for recovery of dues from the customer.

The reply of the Management was not tenable as the customer was liable to pay compensation towards shortfall in the lifting of MGO on year-to-year basis as per clause 12 of the terms and conditions of the FSA.

Thus, the failure of the Company to recover compensation towards shortfall in the lifting of the MGO as per the terms and conditions of the FSA resulted in loss of Rs.3.77 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Indian Oil Corporation Limited

13.5.1 Avoidable loss due to misinterpretation of tax law

Misinterpretation by Indian Oil Corporation Limited about the leviability of additional sales tax resulted in avoidable loss of Rs.13.44 crore to Oil Marketing Companies.

Transactions relating to sale and/or purchase of petroleum products[♣] between the Oil Marketing Companies (OMCs) were exempt from sales tax and additional sales tax in Bihar. The Government of Bihar withdrew the exemption from additional sales tax (AST) by a notification on 27 July 2000 and levied AST at the rate of one *per cent* on inter-OMC transactions.

Indian Oil Corporation Limited (IOCL) is the only company having a refinery in Bihar. IOCL sold petroleum products, *viz.* Motor Spirit (MS) and High Speed Diesel (HSD) to the other OMCs within the State and raised invoices without charging one *per cent* AST on the presumption that in view of the sales tax exemption, AST on OMC transactions was also not leviable and, thus, did no act on the notification of 27 July 2000.

The Commercial Taxes Department, Bihar, raised demand (May 2002) for AST of Rs.13.44 crore on IOCL, on the subject OMC transactions. IOCL sought legal opinion on this issue, which clarified (May 2002) that AST on OMC transaction was not exempt. IOCL subsequently paid (June 2002) the AST of Rs.13.44 crore for the period from August 2000 to March 2002.

These transactions pertained to the period when the under-recoveries by the Oil companies were reimbursed through the Oil Pool Account maintained by the Petroleum Planning and Analysis Cell (PPAC). PPAC reckoned the under recoveries for arriving at the state surcharge rates for inclusion in the price of the products in the State concerned for subsequent recovery and reimbursement to the OMCs. To claim reimbursement, the OMCs were required to submit to the PPAC detailed statements for the under recoveries, audited and certified by a Chartered Accountant.

[♣] ***Motor Spirit, High Speed Diesel, Light Diesel Oil and Aviation Turbine Fuel***

IOCL and other OMCs took up the matter in 2002 with PPAC for reimbursement of AST. However, PPAC rejected (April 2003) the claim of OMCs in the instant case on the ground that the under-recoveries were not factored in while working out the state surcharge rates of Bihar and Jharkhand as these were not reported by the OMCs earlier.

IOCL also demanded reimbursement from the OMCs for the supplies made to them. IBP Limited paid Rs.2.26 crore. Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL) were yet to respond to the debits of Rs.4.65 crore and Rs.6.53 crore respectively raised on them by IOCL. Thus, an unwarranted interpretation of the notification by IOCL led to avoidable expenditure of Rs.13.44 crore to OMCs.

The case was noticed during the course of Audit of IBP Limited in November 2003 and was pursued with IBP Limited subsequently. The Management stated (April 2006) that the Oil Industry was under the bonafide belief that AST was not payable on inter OMC transactions.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.5.2 Wasteful capital investment on retrofitting job

Despite information from Oil Co-ordination Committee in July 1998 about the non-availability of Assam crude consequent on commissioning of Numaligarh Refinery Limited, the Company retrofitted 10 chillers in the Solvent Dewaxing Unit (SDU) plant for production of wax at a cost of Rs.12.76 crore. The operation of the SDU was stopped in November 2001 due to non-availability of Assam crude, making the investment infructuous.

The Solvent Dewaxing Unit (SDU) at Barauni Refinery of Indian Oil Corporation Limited (Company) produced slack wax from Assam crude. The equipment included 15 Russian make chillers. The Company replaced/retrofitted five of these chillers in 1997-98. In July 1998 the Oil Co-ordination Committee (OCC) informed the Company that consequent on the commissioning of Numaligarh Refinery, Assam crude would not be available for processing at Barauni and instead, low sulphur imported crude would be supplied. Due to the low wax content of the imported crude it was economically unviable for production of slack wax. Despite this, the Company placed an order with a foreign supplier in December 1999 for retrofitting the remaining 10 chillers. The work was completed in May 2001 at a cost of Rs.12.76 crore.

Barauni Refinery started receiving low sulphur imported crude from February 1999 and supply of Assam crude was totally stopped in November 2000. The Company had to stop the operation of the SDU in November 2001 as the production of wax from imported crude was uneconomical. The Company's efforts (since April/ May 2003) for utilising the idle chillers at other refineries/units had not yielded any results so far (June 2006). Thus, the decision of the Company to retrofit 10 chillers, after the supply of Assam crude was stopped, was injudicious and resulted in wasteful capital investment of Rs.12.76 crore.

The Ministry stated (January 2007) that the proposal to retrofit the chillers was made in February1998 to maintain continuous supply of slack wax. The idling of the unit was not anticipated at that time. SDU operation also continued upto 2001-02. Therefore, expenditure towards retrofitting of chillers was felt necessary for safety and reliability.

The contention of the Ministry was not tenable. The Company had been categorically informed by the OCC in July 1998 about non-availability of Assam Crude after commissioning of Numaligarh Refinery and that only low sulphur imported crude would be supplied from February 1999. Despite this, the Company issued orders in December 1999 for retrofitting of chillers without any proper cost benefit analysis. The Company had to stop the operation of SDU, as it was economically unviable, within a period of six months after retrofitting the chillers.

13.5.3 Avoidable expenditure on uneconomic movement of product

The Company supplied product from Haldia Refinery to Raxaul Depot via Rajbandh Terminal instead of from Barauni Refinery and thereby incurred additional transportation cost of Rs.7.52 crore.

Rajbandh Terminal of Indian Oil Corporation Limited (Company) receives petroleum products from Haldia Refinery through Haldia-Mourigram-Rajbandh Pipeline (HMRPL) and dispatches the same to other locations including Raxaul Depot which is 593 km away from the said Terminal. During April 2002 to August 2004, out of the product received from Haldia Refinery at Rajbandh Terminal, 3,98,268.70 KL of Superior Kerosene Oil (SKO) was dispatched by Railway rakes to Raxaul Depot. To dispatch the above SKO from Haldia Refinery to Raxaul depot via Rajbandh terminal the Company incurred an expenditure of Rs.16.06 crore♣.

During the Audit conducted in September 2003, it was observed that Raxaul Depot was 246 km from Barauni. The Barauni Installation was well connected with Haldia Refinery through Haldia Barauni Pipeline (HBPL), owned and controlled by the Company. Further, the Barauni installation had SKO storage capacity of 41,473 KL and the Barauni Refinery had SKO storage capacity of 24,420 KL alongwith adequate tank wagon loading facilities. For dispatching SKO from Haldia refinery to Raxaul depot, the Company could utilise this existing infrastructure by dispatching SKO through HBPL from Haldia Refinery to Barauni for feeding Barauni Refinery-fed areas and the products of Barauni Refinery could have been dispatched directly to Raxaul Depot by tank wagons. For the movement of SKO between Haldia refinery to Raxaul depot the Company would have spent Rs.95 lakh on pipeline transportation from Haldia Refinery to Barauni and Rs.7.59 crore as rail freight from Barauni Refinery to Raxaul Depot between April 2002 and August 2004. Thus, use of this economic linkage would have saved transportation cost by Rs.7.52 crore♠ during April 2002 to August 2004 and ensured better utilisation of the Company's pipelines.

♣ *The Company incurred Rs.0.48 crore on pipeline transportation from Haldia to Rajbandh and for further transportation from Rajbandh to Raxaul Depot by Railway tank Wagon it incurred rail freight of Rs.15.58 crore.*

♠*Rs.15.58.crore plus Rs.0.48 crore minus (Rs.7.59 crore plus Rs. 0.95 crore)*

The Ministry stated (February 2006) that due to infrastructure limitation the option of pipeline delivery at Barauni through HBPL and then further transport to Raxaul by rail could not be exercised. The Barauni installation does not have any tank wagon loading facility and tanks at Barauni refinery where tank wagon loading facilities exist, were not adequate to handle that additional volume of operation. Further the Company saved entry tax of Rs.26.03 crore by not importing the products in Bihar, although additional logistic cost of Rs.7.20 crore was incurred.

The Ministry's point regarding limitation of infrastructural facilities was not acceptable since no dispatches were made to Raxaul depot from Rajbandh terminal after August 2004 after Audit had raised the issue in September 2003. Further the contention regarding saving of entry tax of Rs.26.30 crore was also not tenable as the entry tax paid on entry of products is adjustable against payment of sales tax. Thus, the effects of entry tax would be nullified.

Thus, due to uneconomic linkage of product movement, the Company incurred avoidable transportation cost of Rs.7.52 crore.

13.5.4 Underutilisation of the pipeline due to creation of a parallel pipeline

Due to lack of proper planning, the Company was using two parallel pipelines connecting the same stations, leading to underutilisation of both and entailing wasteful expenditure of Rs.5.13 crore.

Indian Oil Corporation Limited (Company) leased (December 1999) 14" crude oil pipeline of Oil and Natural Gas Corporation (ONGC) of length 78 km between Koyali and Navagam (KNPL) at annual lease rental of Rs.50 lakh for transporting products from Koyali Refinery to Navagam. The Company incurred an expenditure of Rs. two crore for cleaning and conversion of KNPL from crude service to product service and for providing connecting lines. The pipeline was commissioned in March 2003 after the terminal facilities at Navagam were developed.

It was observed in Audit (January 2005) that before KNPL could be commissioned, the Company decided (March 2001) to convert its existing 18" Koyali-Viramgam-Sidhpur pipeline (KVSPL), which also provided an alternate route for connecting Koyali to Navagam, from crude service to product service thereby creating a product pipeline parallel to KNPL. KVSPL was converted to product service on the consideration that the Company would de-lease KNPL after its commissioning. Though KVSPL was commissioned in October 2003, KNPL could not be de-leased as the agreement with ONGC did not provide for its de-leasing before 10 years from the date of takeover. Due to creation of KVSPL product pipeline parallel to KNPL the actual average capacity utilisation of KNPL reduced from 24 *per cent* in March 2003 to 13.7 *per cent* during 2003-04, 14.9 *per cent* during 2004-05 and 12.6 *per cent* during 2005-06.

While accepting that the delivery to Navagam through KNPL had come down after commissioning of KVSPL and due to its low utilisation the desired internal rate of return could not be achieved, the Management stated (June 2005) that the products were still being pumped intermittently through KNPL. The Management further added that

conversion of KVSPL was not only cheaper but also had other advantages. The Ministry endorsed (January 2007) a similar reply.

The reply was not tenable because the pipelines being parallel, KVSPL had also not been optimally utilised and the freight realised for the products transported through KNPL could also be earned by transporting the same through KVSPL. Moreover, if conversion of Koyali-Viramgam pipeline from crude to product pipeline was a better option, the Company should have planned for it *ab initio* instead of leasing KNPL.

Thus due to lack of proper planning, the Company had two parallel pipelines resulting in underutilisation of both KNPL and KVSPL. The expenditure of Rs.two crore on KNPL's conversion apart from the lease rental of Rs.3.13 crore upto March 2006 could have been avoided if KVSPL were planned *ab initio* instead of leasing KNPL.

13.5.5 Excess build - up of tankage

Despite sufficient tankage to meet the projected demand upto 2006-07, the Company invested Rs.3.34 crore in construction of two tanks.

Mourigram terminal of Indian Oil Corporation Limited (Company) receives petroleum products from Haldia Refinery through Haldia-Mourigram-Rajbandh pipeline. The terminal handles, *inter alia*, Motor Sprits (MS), Superior Kerosene Oil (SKO) and High Speed Diesel Oil (HSD). In January 1997, the terminal had tankage of 25,300 KL for SKO and 28,800 KL for HSD. The Company decided (January 1997) to construct 30,434 KL of additional tankage for SKO and HSD with the objective of increasing the coverage[♣] in 2001-02. In February 1999 the Company decided to construct another 24,000 KL of additional tankage at Mourigram and the work order was issued in May 1999. Two tanks of 15,217 KL each for SKO and HSD were commissioned in November 2001. Two more tanks with total capacity of 23,322 KL[♦] were constructed at a cost of Rs.3.34 crore and were commissioned in January 2002 and February 2002 respectively.

Audit observed that the average daily throughput for SKO and HSD during 1998-99 was 1,659 KL and 1,514 KL respectively and the coverage, considering 90 per cent capacity utilisation of tankage including additional 30,434 KL tankage under construction, was 22 days for SKO and 26 days for HSD. The then existing tankage was sufficient to cater to the projected demand of SKO and HSD even for the year 2006-07. As the targeted coverage had already been achieved with construction of tankage of 30,434 KL in November 2001, further augmentation of the tankage by 23,322 KL was not necessary. This was also corroborated by the fact that the actual coverage of the terminal in respect of SKO ranged between 31 days and 35 days and that of HSD between 38 days and 46 days respectively during the period 2003-04 to 2005-06.

The Management stated (June 2006) that the additional facilities were planned based on the then prevailing situation and the changes envisaged in growth rate at that time. Additional tankage were planned to increase the coverage in terms of days and also to

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[♣] *Capacity in terms of days to cater to the throughput of the terminal*

[♦] *11,661 KL each for SKO and HSD*

take care of the proposed capacity augmentations. The Ministry endorsed (January 2007) the views of the Management.

The reply was not tenable as at the time of mooting the proposal, the overall growth rate in throughput of the terminal during 1995-96 to 1997-98 was only 2.9 *per cent* and tankage (including tankage under construction of 30,434 KL) was sufficient to meet the projected demand upto 2006-07.

Thus, investment of Rs.3.34 crore in construction of additional tankage of 23,322 KL despite having sufficient tankage capacity did not have adequate justification and led to excess capacity build-up.

13.5.6 Loss of excise duty benefit

Failure to implement the orders issued by the excise authority in time led to loss of Rs.2.07 crore and unnecessary litigation.

Budge Budge terminal of Indian Oil Corporation Limited (Company) used to receive excise-bonded Light Diesel Oil (LDO) of its various Northeastern (NE) Refineries[♣] via Siliguri and Tinsukia terminals. A part of this bonded LDO was being sent to Paradeep terminal of the Company from Budge Budge. The bonded products were cleared on subsequent payment of excise duty. The GOI issued notifications in March and May 2002 to permit removal of petroleum products drawn from NE refineries by paying excise duty at 50 *per cent* of normal rates. In June 2002 this exemption was also extended in respect of goods removed under bond without payment of duty from any of the NE refineries to a warehouse and subsequent removal from the said warehouse. The price of the products to end consumers was to remain unchanged irrespective of the source refinery and the excise benefit so arising was to be passed on to NE refineries.

Despite the notification in June 2002, the Company continued to supply bonded LDO of NE refineries to Budge Budge and Paradeep terminals and sold the LDO from both these terminals without retaining 50 *per cent* of excise duty. The Company implemented the notification at Budge Budge terminal and Paradeep terminal only in October 2002 and March 2003 respectively. During the period from July 2002 to the date of implementation of the notification, non-adjustment of excise benefit by the Company resulted in a loss of excise concessions of Rs.2.07 crore, to its NE Refineries.

The Management stated (June 2006) that due to lack of clarity in the notifications regarding applicability of exemption, clarifications had to be sought which led to delay in implementation of the notification. The Ministry endorsed (January 2007) the views of the Management.

The reply was not tenable as the notification issued in June 2002 clearly stated that the benefit of exemption in excise duty was extended in case of goods removed under bond without payment of duty from NE refineries to a warehouse and subsequently removed from the said warehouse on payment of 50 *per cent* of duty.

[♣] ***Guwahati Refinery, Digboi Refinery and Bongaiaon Refineries and Petrochemical Limited***

Thus, due to delay in implementation of excise notification that gave benefit to NE refineries, the Company lost excise benefit of Rs.2.07 crore.

13.5.7 Unjustified expenditure due to delay in closure of Jodhpur depot

Due to delay in closure of Jodhpur depot, Indian Oil Corporation Limited incurred avoidable expenditure of Rs. two crore from April 2001 to March 2006.

Jodhpur depot (Depot) of Indian Oil Corporation Limited (Company) has been operating since 1977 on land taken on lease from Railways for supplying petroleum products to retail outlets and other consumers. After laying of Kandla Bhatinda Product Pipeline of the Company in February 1996 and commissioning of Salawas (Jodhpur) terminal in April 1996, supplies from the Depot were shifted to Salawas Terminal for all retail outlets and other consumers except the Army and the Air Force. This resulted in a decline in the scale of operations of the Depot and underutilisation of the facilities.

It was observed in Audit (November 2004) that the proposal for closure of the Depot was approved by the Oil Coordination Committee (OCC) in February 2000 subject to shifting of defence requirements of Aviation Turbine Fuel to Salawas Terminal. However, the Company formally took up the issue of shifting of supplies from the Depot to Salawas Terminal with the Army and the Air Force only in April 2003. They agreed to the shift of supplies to Salawas Terminal in December 2003 and May 2005 respectively. However, the Depot had not been closed till August 2006, ten years after the commissioning of Salawas Terminal and six years after approval of OCC and shifting of major operations to Salawas Terminal. After the decision of OCC, the Company incurred an expenditure of Rs. two crore towards lease rent, operational expenses and property tax for land and building during the period 2000-01 to 2005-06 due to delay in closure of the Depot.

The Management stated (August 2006) that the delay was on account of non-receipt of approvals of the Army and the Air Force. The construction of additional tanks at Salawas started in August 2004 and new tanks were completed in March 2006 and June 2006. Action to dispose of assets had been initiated and was expected to be completed by December 2006.

The argument regarding non-receipt of response from the Army and the Air Force was not tenable because after approval of OCC to close the Depot, the Company did not formally take up the matter with the Army and the Air force till April 2003.

Thus, due to delayed action for closure of Depot, the Company incurred avoidable expenditure of Rs. two crore which will further increase till the closure of the depot and surrender of the land to Railways.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.5.8 Loss due to misinterpretation of Customs Act

Misinterpretation of free period for storage of imported crude at bonded warehouses and consequent delay in payment of customs duty by Indian Oil Corporation Limited led to loss of Rs.1.02 crore.

Indian Oil Corporation Limited (Company) has been storing imported crude oil initially in public bonded warehouse at Vadinar and then in its own bonded warehouse at Gujarat Refinery. From 1 June 2001, the free warehousing period as allowed under section 61(2)(ii) of the Customs Act, 1962 for storage of imported crude oil was reduced from 180 days to 30 days by the Customs Notification of 22 May 2001.

The Company presumed that the amended provision was applicable independently allowing free period of thirty days for each warehouse in which the crude oil is stored before customs clearance and continued to store the crude oil accordingly. As a result, the imported crude remained in the bonded warehouses beyond 30 days for periods ranging between three days and 42 days during July to October 2001. For this period, the Company had to pay interest of Rs.1.96 crore at the rate of 24 *per cent per annum* in September 2003 and November 2003 on customs clearance.

Audit observed (August 2004) that the Company received a legal opinion on 27 June 2001 which clearly stated that the Company would not get 30 days separately for storage of imported crude in public bonded warehouse at Vadinar and then at its own bonded warehouse in Gujarat Refinery. Despite this, the Company delayed the clearance of crude oil and had to pay the penal interest for delayed payment of customs duty.

In reply, the Management contended that the stand taken by the Customs Department that 30 days was available for the combined warehouse storage (both Vadinar and Gujarat Refinery) was not acceptable and an appeal for refund of claim filed in March 2005 against the Commissioner's Order was pending (October 2006) before the Customs Excise and Service Tax Appellate Tribunal (CESTAT), New Delhi.

The reply of the Management was not tenable as the public notice for amendment in the Act *ibid* clearly stated that customs duty, interest at the rate of 24 *per cent* and other charges shall be levied on goods lying in the bonded warehouse beyond 30 days. There was no ambiguity in the notification for reckoning each warehouse separately. Despite having received the legal opinion against its interpretation, the Company delayed payment of customs duty. The appeal before the customs authorities was filed by the Company in March 2005 after Audit pointed out the matter to the Management (August 2004).

Thus, erroneous interpretation of the amendment to the Customs Act by the Management and delay in payment of customs duty on crude oil stored at bonded warehouses resulted in avoidable expenditure of Rs.1.96 crore. Taking into account the interest saved by the Company on borrowings at the rate of 11.5 *per cent per annum* for the same period, the Company sustained a net loss of Rs.1.02 crore, being the interest paid over and above the borrowing rate.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.5.9 Loss due to extension of cheque facility without financial safeguards

By extending cheque facility to bulk consumers without any security and in contravention of its own policy, the Company suffered a loss of Rs.76.82 lakh.

According to the policy (October 2001) of Indian Oil Corporation Limited (Company) for sale of petroleum products, facility for payment through cheques could be granted to the customers either against security or based on the credit worthiness of the customer assessed through CRISIL module. The required security in such cases was irrevocable bank guarantee or collateral security in the form of mortgage of immovable properties, hypothecation of stock, plant and machinery. The cheque facility was to be granted to provide operational convenience to the customer and not as a financial assistance.

It was observed in Audit (November 2004) that the Company supplied petroleum products to four♣ bulk customers against payment through cheques without obtaining any security. Cheques aggregating Rs.95.31 lakh tendered by these customers during October 2001 to March 2003, were dishonoured. The credit rating on CRISIL module was also not available with the Company in respect of two♦ out of the four customers. Out of the amount of Rs.95.31 lakh, the Company could recover Rs.18.49 lakh; the balance of Rs.76.82 lakh was outstanding as on March 2006. The outstanding amount could not be recovered despite filing criminal suits against the defaulters under section 138 of the Negotiable Instruments Act, 1881. Three♥ out of four customers had closed their units (December 2004) due to financial crunch. Considering the doubtful recoverability of these dues, the Company provided for these amounts as doubtful in its books of accounts.

The Management stated (July 2005) that the cheque facility was granted to facilitate regular lifting of High Speed Diesel by the parties.

The reply was not tenable because the Company departed from its own policy and compromised its basic security requirements. Even after the matter was pointed out by Audit, the Company continued to supply petroleum products against cheque without obtaining any security and further cheques aggregating to Rs.37.73 lakh were dishonoured during the year 2005-06.

Thus due to extending cheque facility without taking adequate financial safeguards as per policy, the Company suffered an avoidable loss of Rs.76.82 lakh.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.5.10 Non-recovery of the dues due to non-observance of the provisions of the agreement

IOCL could not recover dues of Rs.50.87 lakh due to its failure to adhere to contractual terms of periodical reconciliation and due to allowing credit sales in excess of the *ad hoc* amount received from the Party.

Indian Oil Corporation Limited (Company) entered (October 1994) into an agreement with M/s. Damania Shipping (India) Limited (Party) for supply of Low Sulphur High

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♣ *Shiva Paper Mills Limited, Egro Fibres Limited, Egro Paper Moulds Limited and Shree Acids and Chemicals Limited*

♦ *Shiva Paper Mills Limited and Shree Acids and Chemicals Limited*

♥ *Shiva Paper Mills Limited, Egro Fibres Limited and Shree Acids and Chemicals Limited*

Flash High Speed Diesel which was being used by the Party for their catamaran plying between Mumbai and Goa.

According to clause eight of the agreement, the Party was to make *ad hoc* payments on the 5th, 15th and 25th of every month to cover the value of the supply of fuel from the 1st to 10th, 11th to 20th and 21st to the end of the month respectively. Any excess of the total bill value over the three *ad hoc* payments made during the month would be made good by the Party by the 10th of the month following. If the said payment was not made as agreed, the outstanding amount was to attract interest at the ruling State Bank of India interest rate plus one *per cent.*

The Party started lifting the product from October 1997 *ex* Mumbai (Wadala) and Vasco terminals. The ferry service was suspended from mid 1998 and the Party placed no indent on the Company thereafter for supply of fuel. However, reconciliation done to finalise the accounts after stoppage of the operations revealed that a sum of Rs.50.87 lakh was due to the Company for supplies effected during October 1997 to mid 1998. Due to lack of response, a legal notice was issued to the Party on 18 September 2000. On an application made by the Company, the High Court of Bombay appointed a sole Arbitrator in June 2001 and the Company filed its statement of claim in September 2001. The award was given (October 2003) in Company's favour directing the Party to pay the dues alongwith prescribed interest and the cost of the arbitration of Rs.8.21 lakh. The Party neither honoured nor challenged the award. To recover the dues, the Company entrusted the work of ascertaining the properties of the Party to M/s. Flash Services who stated (July 2005) that the Party did not have any property. The Advocates of the Company advised (October 2005) that since the Party had changed its name as Western State Engineers Limited, the properties held by this firm may be ascertained. This fact was also brought to notice of the Arbitrator who permitted amendment to the statement of claim in the name of M/s. Western State Engineers Limited. The Company was yet (July 2006) to execute the award even after two years of the decision.

Audit observed (May 2001) that the agreement clearly provided for frequent reconciliation of the account of the Party. However, no check was exercised to ensure that the Party settled its account on a monthly basis. It was only when the Party suspended its ferry service that the reconciliation of accounts was done and the large outstanding against it was noted. Though the Party ceased its operations in May 1998, the Company issued legal notice only in September 2000 after more than two years. The award was declared in the Company's favour in October 2003; however, the same had not been executed till July 2006.

Thus, due to non-observance of the provisions of the agreement, the Company could not recover dues amounting to Rs.50.87 lakh and a sum of Rs.8.21 lakh being the cost of arbitration.

The Management stated (March 2006) in reply that since *ad hoc* payments were regular and mostly in line with supplies released, no monthly reconciliation seemed necessary. It further stated that action was being initiated for filing Execution application for execution of award. However, non-reconciliation of dues as per contractual provisions on the ground of regular advance payments was not justified. Failure of the Company in timely reconciliation resulted in accumulation of arrears and eventual non-recovery reflecting

the absence of a sound internal control system. The reply also did not explain the delay in issuing notice to the Party. Despite repeated correspondence by the Company, the Party did not respond till August 1999. The Company could have initiated action for legal notice in 1998-99 itself, whereas it issued notice to the Party only in September 2000.

Thus, absence of internal control in effecting supplies on credit in excess of the *ad hoc* payments and reconciling the dues resulted in non recovery of dues and interest thereon. Further, the Company was yet (July 1996) to execute the award even after two years.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited

13.6.1 Avoidable payment of interest due to under payment of advance tax

Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and BPCL Kochi Refinery calculated incorrectly the advance income tax payable, resulting in payment of interest of Rs.165.75 crore.

Under Section 234C read with Section 208 of the Income Tax Act 1961 (Act), if in any financial year, the advance tax paid by a Company on its current income on or before 15 June is less than 15 *per cent* of the tax due on the returned annual income; that paid on or before 15 September is less than 45 *per cent*; that paid on or before 15 December is less than 75 *per cent* and the last instalment paid on or before 15 March is less than 100 *per cent* of the tax due on the returned income, the Company shall be liable to pay interest at the prescribed rates on the shortfall. However, if the advance tax paid by the Company on its current income on or before 15 June and 15 September is not less than 12 *per cent* and 36 *per cent* respectively of the tax due on the returned annual income, then it shall not be liable to pay interest on the amount of shortfall on those dates. Further, the assessee is liable to pay interest under Section 234B of the Act if the total advance tax paid is less than 90 *per cent* of the assessed tax.

It was observed (February 2006) in Audit that Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and BPCL Kochi Refinery (BPCL-KR)[♠] computed the advance tax payable incorrectly at the time of remitting quarterly instalments of advance tax and a number of quarterly instalments of advance tax fell short of the minimum prescribed percentage. The quarterly instalments of advance tax remitted by IOCL fell short of the prescribed limit in 17 out of 20 quarters during the five previous years *viz.* 1999-2000 and 2001-02 to 2004-05. The shortfall ranged between one *per cent* and 61 *per cent* (Appendix-I). Consequently, IOCL had to pay interest of Rs.127.27 crore under Section 234C of the Act. For the previous year 2001-02, IOCL had to pay interest of Rs.3.64 crore under Section 234B of the Act since the advance tax paid worked out to only 64 *per cent* of assessed tax for the year. Thus, IOCL paid an aggregate amount of Rs.130.91 crore towards interest on under payment of advance tax during these years. Similarly, the quarterly advance tax remitted by BPCL for 11 out of the 16 quarters of the

[♠] ***Kochi Refinery Limited, a subsidiary of Bharat Petroleum Corporation Limited has since been merged with Bharat Petroleum Corporation Limited with effect from April 2004.***

four previous years 2000-01 and 2002-03 to 2004-05 fell short of the permissible limits by 3 *per cent* to 35 *per cent (*Appendix-I) for which it had to pay interest of Rs.30.11 crore under Section 234C of the Act. Six out of eight quarterly instalments of advance tax remitted by BPCL-KR also fell short of the prescribed limit by one *per cent* to twelve *per cent* (Appendix-II) during the previous years 2003-04 and 2004-05 and it paid interest of Rs.4.73 crore under Section 234C of the Act. Thus, inaccurate estimates by IOCL, BPCL and BPCL-KR resulted in under payment of advance tax and consequent payment of interest amounting to Rs.165.75 crore.

The Managements stated (March 2006 and June 2006) that under the Administered Pricing Mechanism (APM), the receipt of arrears of marketing margins from the Government was not certain and these receipts could not be considered while computing payment of advance tax for the previous year 1999-2000. Further, the notification on subsidy on kerosene and Liquefied Petroleum Gas (LPG) under post APM period and intimation from Petroleum Planning and Analysis Cell (PPAC) regarding sharing of under recoveries were received after the due date for payment of advance tax and so, these could not be factored in while calculating the advance tax payable. They also contended that due to wide fluctuations in prices of petroleum products in international markets, the refinery profits estimated[♣] for advance tax payment were considerably affected. IOCL further stated that there would have been no significant financial implication if the savings in the cash flows to pay such advance tax were also reckoned simultaneously. In the case of BPCL-KR, the Ministry stated (December 2006) that wide and sudden fluctuations in global prices influenced the margin of domestic refining companies. Though quarterly revisions in profit estimates were made considering the fluctuations in prices, the actual variations in the refining margins were beyond the normal expectations, which affected the profit estimation resulting in short payment of advance tax. They further added that the cost of funding short paid advance tax would amount to Rs.3.87 crore.

The replies were not tenable as during the APM period, oil companies were required to submit audited accounts and the claim for reimbursement of cost and margins *etc*. on quarterly basis. As such the accrued income could have been considered for payment of advance tax for the previous year 1999-2000. The subsidy/discount is based on under-recovery worked out by the Companies. Hindustan Petroleum Corporation Limited, another oil marketing company, placed in similar condition of volatility in the prices of petroleum products in the international market, actually assessed the advance tax properly and could avoid payment of penal interest. Further, even after taking into account the saving in cash flow *vis-à-vis* the cost of borrowing, the avoidable payment of interest would have been Rs.31.38 crore in the case of IOCL, Rs.7.42 crore in the case of BPCL and Rs.0.86 crore in the case of BPCL-KR.

The matter was reported to the Ministry in November 2006; replies in respect of IOCL and BPCL were awaited (January 2007).

[♣] IOCL for the previous year 2003-04, BPCL and BPCL-KR for the previous years 2003-04 and 2004-05

Numaligarh Refinery Limited

13.7.1 Under recovery of excise duty of Rs.9.98 crore due to erroneous billing

The Company raised invoices at Refinery Gate Price and paid excise duty on that basis. The Oil Marketing Companies reimbursed the excise duty on the basis of reduced RGP after deducting notional rail freight from refinery point to New Jalpaiguri as per agreement. This resulted in under recovery of excise duty of Rs.9.98 crore.

Oil Marketing Companies (OMCs)[♣] entered into (March 2002) a multilateral product sharing agreement for purchase and sale of petroleum products from each other for a period of two years commencing from 1 April 2002. Numaligarh Refinery Limited (Company) being a subsidiary of BPCL was governed by this agreement. According to clause 5.4 of the agreement, the basic price of products for sales ex-northeast (NE) refineries should be reduced by the notional railway freight (NRF) from the supplying refinery to New Jalpaiguri (NJP) and the rail freight for the movement beyond NJP would be borne by OMCs buying the product from the NE refineries. Thus, the Transaction Value as per section 4 (3) (d) of the Central Excise Act, 1944 for calculation of excise duty was the basic price *i.e.* Refinery Gate Price (RGP) less NRF from supplying refinery to NJP as it was the price actually paid or payable for the goods by the buyer to the assesses.

For supplies made to OMCs namely IOCL, HPCL and IBP during the period from April 2002 to January 2004, the Company raised invoices at RGP without deducting NRF from refinery point to NJP and paid excise duty on the basis of RGP. In respect of rail freight, the Company paid the entire freight from refinery point to destination and billed the OMCs for freight from NJP to destination point. However, during settlement of dues, OMCs reimbursed the excise duty on the reduced RGP *i.e.* after deducting NRF from refinery point to NJP from RGP as per agreement. This resulted in under recovery of excise duty of Rs.9.98 crore from the OMCs. The Company, however, corrected the billing procedure and paid the excise duty on the reduced basic price from February 2004.

The Company could not recover the differential excise duty from the OMCs (July 2006). Besides, out of the under-recovered amount of Rs.9.98 crore, Rs.5.28 crore pertained to 2002-03 and Rs.4.70 crore pertained to 2003-04. The Company lodged (May 2004) a refund claim for Rs.4.70 crore with the Excise Authorities, as the balance was time-barred. The refund claim is now under appeal in CESTAT[♦] (April 2006). The effort of the Company to collect the amount pertaining to the year 2002-03 amounting to Rs.5.28 crore from OMCs has not yielded any result (July 2006).

The Management while accepting the facts stated (April 2006) that the intention of the agreement was to keep the price of NE refinery at par with Haldia and the NE refineries

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[♣] *Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and IBP Company Limited (IBP)*

[♦] *Central Excise and Service Tax Appellant Tribunal*

to absorb the railway freight from refinery location to NJP. The Company had adopted the correct billing procedure since February 2004.

The Ministry replied (December 2006) that the OMCs had agreed in principle to pay up the amount.

Oil and Natural Gas Corporation Limited

13.8.1 Extra expenditure due to delayed decision and consequent re-tendering

Delay in award of contract resulted in re-tendering and award of the contract at a cost higher by Rs.235.51 crore.

As a part of Mumbai High South Redevelopment Plan, the Oil and Natural Gas Corporation Limited (Company) invited international competitive bids (ICB) in September 2002 for installation of four unmanned platforms, laying of 22 pipeline segments and modifications on 25 existing platforms. The likely date of issue of Notification of Award (NOA) was 31 January 2003 with the completion of the project scheduled by 30 April 2004. Technical bids were opened on 3 January 2003 after one month of the scheduled date. Tender Committee (TC) revised the date of NOA to 14 March 2003 and recommended (January 2003) opening of price bids of M/s. Larsen and Toubro (L&T) and M/s. Engineers India Limited (EIL). The bidders were asked to confirm unconditional compliance with the original project completion schedule *i.e.* 30 April 2004, despite revision in the date of NOA. As EIL did not agree, its offer was rejected. L&T confirmed (4 March 2003) compliance with the project completion schedule with revised NOA with a request for a grace period of 15 days before levy of liquidated damages (LD).

On evaluation, TC recommended (13 March 2003) the award of work to L&T with grace period of 15 days. In view of likely delay in the award of contract, the Executive Purchase Committee (EPC) asked (31 March 2003) L&T to re-confirm project completion schedule of 30 April 2004 with NOA by 15 April 2003 alongwith the negotiations for price reduction. During negotiations L&T did not offer any price reduction but confirmed (3 and 4 April 2003) compliance with the completion schedule subject to issue of NOA by 7 April 2003 with grace period of 15 days. TC recommended (4 April 2003) placing of order on L&T stating that re-tendering would delay the project by one year and would involve loss of 0.13 MMT[♠] of oil. The EPC, however, approved the award of contract to L&T on 9 April 2003 without grace period. Accordingly, L&T was asked (9 April 2003) to confirm unconditional compliance with the original completion schedule without grace period. As this was not in conformity with their offer, L&T refused the offer. Subsequent offer (12 April 2003) with a grace period of 15 days was also rejected.

The Company invited (September 2003) fresh tenders for nine well platforms including four platforms for which the tender was cancelled. The work relating to laying of 22

[♠] *Million Metric Tonne*

pipelines and modifications in 25 existing platforms was included in a separate fresh tender under RSPPM[♠] project.

The 'Nine Well Platforms' Project was awarded (February 2004) to L&T at a total lump sum price of Rs.1,006.52 crore and the RSPPM Project was awarded (February 2004) to Iranian Offshore Engineering Construction Company at a lump sum price of Rs.738.55 crore involving extra expenditure of Rs.235.51 crore in respect of four well platforms, related pipelines and modifications of existing platforms in comparison to the rates offered earlier by L&T.

Audit observed (December 2005) that the scheduled date of NOA was extended by three months due to delay in opening of tenders, delay in furnishing soil data to bidders and extended deliberations for granting grace period *etc*. Further, the EPC on its part did not take timely decision to place order on L&T despite knowing the adverse impact of re-tendering. Thus, the Company incurred an avoidable expenditure of Rs.235.51 crore due to its failure in awarding the earlier contract in time and resultant placement of orders at a higher cost through re-tendering.

The Management stated (June 2006) that despite all its efforts, NOA could not be placed in time due to time taken in obtaining clarifications from the bidders on reduction in price *etc*. and its inability in holding the EPC meeting before 9 April 2003 to finalise the offer.

The reply of the Management was not tenable since despite all delays, L&T was willing to accept the award with the scheduled date of completion remaining undisturbed. In view of the specific recommendations of the TC against re-tendering, an urgent decision by the EPC was required to place the NOA by 7 April 2003.

Thus, due to undue delay in finalising the tender and failure in taking timely decision to place NOA for four Well Platform Project on L&T, the Company incurred avoidable extra expenditure of Rs.235.51 crore on re-tendering the work.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.8.2 Avoidable loss due to delay in awarding tender and consequent idling of rigs

Barytes[♣] being an insurance item, ONGC is required to maintain a buffer stock of 5,000 MT and a minimum stock holding of 100 MT to 150 MT in a rig to meet any exigencies. However, delay in awarding a tender for procurement of barytes resulted in suspension of rig operations and consequent loss to the extent of Rs.37.18 crore.

In April 2003, Oil and Natural Gas Corporation Limited (Company) initiated action for inviting tenders for procurement of 3.50 lakh MT of barytes to meet its requirement for two years (2004-05 and 2005-06). The Bid Evaluation Criteria (BEC) was finalised in

[♠] *Redevelopment South Pipelines and Platforms Modifications*

[♣] *Barytes is a mineral consisting of barium sulphate and is used to raise the density of drilling fluid in order to control formation of pressure and sloughing of shale. It is a critical constituent in drilling operation and treated as an insurance item.*

December 2003; the Notice Inviting Tenders (NIT) was published in January 2004, three months before expiry of existing contract period of March 2004. On opening the price bids the Company observed (July 2004) that four of the five bidders who participated in the tender, had quoted the same L_1 (lowest) rate (Rs.1,244.88 *per* MT). Even after negotiations (August 2004) all four bidders offered the same reduced price of Rs.1,170 *per* MT.

The Tender Committee (TC) observed (August 2004) that though the rates were higher in comparison to the last purchase price, these were comparable with the prevalent market trend and, therefore, recommended placing order on all the four L_1 bidders to the Executive Purchase Committee (EPC)[♥]. As the L_1 parties had quoted the same price, TC on the direction of EPC carried out (September 2004) negotiation with L_2 party, a State Government undertaking having major rights for mining of barytes. The State Government undertaking also refused to reduce the rates on the ground of steep increase in input costs. EPC, therefore, decided (September 2004) to close the tender and to invite fresh tenders. Accordingly, the Company invited limited tenders in January 2005 from known established suppliers to meet the requirement for one year and placed orders in February 2005.

Meanwhile in February 2004 and May 2004, the Company had placed orders for 51,460 MT of barytes on nomination basis from existing contractors to meet the emergent requirement. Even with this order, there was a shortfall in the availability of barytes requirement. During September 2004 to January 2005 the stock position of barytes on 29 rigs was either nil or less than the minimum requirement and as a result the rig operations had to be suspended. Total idling cost of owned and hired rigs during this period was Rs.37.18 crore.

Audit observed (June 2005) that initially the Management did not invite the tender for procurement of barytes well before the expiry of the then existing contract. Further, the Management was aware that requirement of barytes was urgent and its non-availability would result in idle rig cost of Rs.7.50 crore per day. Since the rates quoted by the five parties in response to the tender floated in January 2004 were compatible with the prevailing market trend, the decision of not placing any order in response to the tender was apparently not in order.

While justifying the placement of orders on nomination basis to meet the urgent requirement, the Management in its reply (March 2006) stated that the shut down would have been manifold had some bold decisions not been taken like continuing drilling operations without keeping the minimum safety stock on rigs, maintaining only 1,000 MT barytes on vessels to meet exigencies, arranging dispatch of smaller lots by road, accepting deviation in material specifications at reduced rate as per the contractual provisions *etc.* The Management, however, did not offer any comments on the delay in finalising the tender.

Reply of the Management was not tenable since for insurance items like barytes, an alarming situation of stockout should not have been allowed to arise in the first place. The action of the Regional Management to continue drilling operation even at the cost of

[♥] ***EPC is Headed by the Chairman and Managing Director of the Company.***

not complying with the minimum safety stock could not completely remedy the situation as the Corporate Management failed to finalise the tender in time.

Thus, delay in finalisation of the tenders and consequent suspension of rig operations for want of barytes resulted in an avoidable loss of Rs.37.18 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.8.3 Unproductive expenditure on production testing of an exploratory well

Non-availability of left hand drill pipes♣ of required specifications for resolving complications faced in production testing of an exploratory well led to unproductive expenditure of Rs.27.14 crore.

With a view to exploring hydrocarbon potential of Rudrasagar formation♦, drilling of an exploratory well 'CDAB' with target depth of 4,900 metres in Assam was approved by Oil and Natural Gas Corporation Limited (Company) in June 1999. Spudding♥ of the well commenced on 29 July 2001. After drilling upto 4,534 metres, complications in drilling were anticipated and the target depth was revised to 4,700 metres. The drilling was terminated on 18 October 2002 on attaining the revised target depth. Six objects were planned and identified for testing in 60 days. The well was handed over on 4 December 2002 for production testing after testing it hermetically. Production testing of Object-I was started on 1 January 2003. However, on 24 February 2003, production tubing got stuck during re-perforation♠ of the first object. In a bid to release it, other complications such as snapping of wireline; leaving of full length wire alongwith dummy jar inside the 2⅞" tubing and non-functioning of tool also occurred. Ultimately, fishing• operations were started. However, due to non-availability of 2⅞" left hand (LH) drill pipes, it was decided on 27 April 2003 to abandon the fishing operations till the drill pipes became available. Other five objects could also not be tested. The rig was released on 1 May 2003 for next location without attaining the objective of drilling the well 'CDAB'.

Audit observed (March 2004) that the production testing of the well could not be completed due to non-availability of 2⅞" LH drill pipes and the expenditure of Rs.27.14 crore incurred on drilling the well proved unproductive. Though the Company procured 17.56 km of 2⅞" LH drill pipes during October 2003 to June 2004, the production testing had not been conducted yet (May 2006) due to complexities in fishing operations and priorities of drilling the wells in other areas.

♣ *Steel pipe used for carrying and rotating the drilling tools and for permitting the circulation of the drilling mud*

♦ *A succession of sedimentary beds that had deposited continuously under the same conditions. It may consist of one type of rock or alterations of types.*

♥ *Act of hoisting the drill pipe and permitting it to fall freely so that the drill bit strikes the bottom of the well bore with considerable force*

♠ *Method of making holes through the casing opposite the producing formation to allow the oil or gas to flow into the well and eventually to the surface*

• *Operation on the rig for the purpose of retrieving casing or other items from the well bore*

The Management stated (January 2006) that 2⅞" LH drill pipes is an insurance item and these are not allotted to a particular rig or location. These are maintained as common inventory and issued on first come first served basis. The drill pipes were available at the time of complication but could not be made available as they were already in use. It was decided to discontinue the fishing operations till the arrival of fresh lot of pipes expected in three-four months. The well was abandoned temporarily and the Company would resume the operations with the availability of improved technology and tools. The Management argued that the days consumed on production testing should not be considered wasteful as the well was taken up for production testing after completion of all steps prior to it; it was drilled upto revised target depth and handed over for production testing after successful hermetical testing.

The reply of the Management was not tenable as the basic objective of exploring the hydrocarbon potential of Rudrasagar formation could not be achieved in view of the fact that the Company did not maintain the minimum stock requirement of the 2⅞" LH drill pipes at drill site as a result of which its production testing operation was affected. Production testing had still (May 2006) not been completed even after three years though the pipes were procured subsequently during October 2003 to June 2004.

Thus, due to the non availability of a critical insurance spare in time, the objective of production testing of an exploratory well could not be completed and the expenditure of Rs.27.14 crore already incurred remained unproductive.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.8.4 Wasteful expenditure due to incorrect decision

ONGC incurred a wasteful expenditure of Rs.26.02 crore by ignoring past experience and the recommendations of its drilling section and the Institute of Drilling Technology for vertical drilling of an exploratory well.

Oil and Natural Gas Corporation Limited (Company) planned to commence exploration of 'Barails'/'Kopili' strata at location GK-11 in Upper Assam Region in May 1997 with a target of drilling a 4,710 metres deep well. The Company drilled the well directionally (June 2002). The drilling operation faced many complications and by September 2004 it was not feasible to drill beyond the depth of 4,230 metres due to high 'torque' and 'drag'*. The rig was released on 7 December 2004. As against the estimate of 290 days, the Company took 869 days in drilling the well from 6 June 2002 to 22 October 2004 without achieving the exploratory objective and charged off Rs.26.02 crore as an expenditure on a dry well in 2004-05 accounts.

Audit observed (November 2005) that before commencement of the drilling operations, the need to plan the drilling vertically had been brought (December 1998) to the notice of the competent authority since such deep wells were not drilled directionally in the Upper Assam Region. Moreover, two similar formations drilled in June 2000 and September

* ***Torque: A turning or twisting force; Drag: Current overpull. Torque and drag are the most important factors which can disturb the drilling of directional wells***

2000 had encountered complications due to high 'torque' and 'drag' and consequent 'stuck up'[♠]. A study conducted in July 2001 by the Institute of Drilling Technology (IDT) had also recommended that Kopili wells must be drilled vertically with high performance mud system. In March 2002, the drilling section of the Company had envisaged drilling of the well GK-11 vertically to avoid complications. The Company, however, chose to drill the exploratory well directionally and ultimately failed to achieve its objective after incurring a wasteful expenditure of Rs.26.02 crore.

The Management stated (May 2006) that vertical drilling as suggested by the drilling section and IDT could not be undertaken due to non-availability of land and that drilling the well GK-11 vertically from a common point would not have served the exploratory objective. However, the Management assured that in view of the experience in drilling the GK-11 well, care was being taken for completing the drilling of such wells by changing the drilling profile after hiring the requisite services and tools and by applying new generation mud system which helps in reducing the torque and drag and improve bore stability. The Ministry endorsed (January 2007) the reply of the Management.

The reply was not tenable because there was sufficient evidence that directional drilling was not successful in the terrain. Hence, the decision to opt for directional drilling resulted in wasteful expenditure of Rs.26.02 crore.

13.8.5 Extra expenditure due to award of civil works without having title to the site

Lapse on the part of ONGC in awarding civil works to a contractor on land not belonging to it led to extra expenditure of Rs.16.04 crore due to termination of the contract followed by retendering.

Oil and Natural Gas Corporation Limited (Company) placed (May 2003) a Letter of Award (LOA) on Engineering Projects (India) Limited, Kolkata (EPIL) for upgrading its existing Gas Collection Station (GCS) at Baramura, Tripura at a cost of Rs.15.79 crore. The work was to be completed within 18 months from the date of LOA. In October 2003, the Tripura State Electricity Department (TSED) asked the Company to stop the new civil works as the same was being undertaken outside the boundary of the existing GCS of the Company on land belonging to TSED. After resolving the issue with TSED, the Company handed over the site to EPIL free of encumbrance in June 2004. Due to the delay, EPIL was not willing to resume the work at the old rates and demanded revision in contract price and requested the Company to reckon the start of the project from the date of handing over the site to them. The Company agreed to seven months' extension of time, but did not agree to the escalation on the grounds that the contract was a lump sum turnkey contract and directed EPIL to commence work within 10 days. EPIL invoked the arbitration clause and stopped the work (August 2004). The Company terminated (October 2004) the contract with EPIL as they were not ready to commence the work. In June 2005, a fresh contract for this work was awarded to M/s. Larsen & Toubro for Rs.31.83 crore.

[♠] *Any drilling string or bit getting trapped/jammed up*

Audit observed (November 2005) that the Company had proposed to utilise the adjoining area of an abandoned well for upgradation of the GCS. The Company, however, did not check the title to the land or obtain necessary clearances from TSED before handing over the site to EPIL (May 2003). The omission to obtain clearance from TSED before awarding the work resulted in the avoidable expenditure of Rs.16.04 crore.

The Management stated (April 2006) that the custody of the land in question on which TSED raised an objection was initially transferred by the Forest Department to the Company in 1976 for drilling operations. TSED never raised any objection against the custody of this land between January and April 2003. The Management also contended that EPIL had no intention of completing the work and the matter of land dispute had simply provided an escape route to them and, thus, the Company had no option but to terminate the contract.

Reply of the Management was not tenable as the forest department had allotted 7.48 acres of land to the Company on lease for the Baramura well number four for the period from December 1974 to March 1976 and the Company's request for extension of the lease period had been rejected by that department in October 1985. The upgradation work of GCS was, therefore, assigned to EPIL on the land which did not belong to the Company whereas in terms of the contract, the Company was to hand over the site free of all encumbrances to EPIL.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

13.8.6 Unfruitful expenditure on application of a new technology

ONGC ignored the results of pilot study and unduly favoured contractors whose technology had either failed in the pilot study or had not been tested at all. ONGC also delayed identification of wells for the use of the technology which resulted in the use of shelf-expired chemicals.

Oil and Natural Gas Corporation Limited (Company) inducted (1999-2000) gel technology on pilot basis to ascertain its suitability in Mumbai High Field. The pilot job comprised application of gel technology for Gas Shut Off (GSO) in five wells, Water Shut Off (WSO) in three wells and profile modification in one well. Pilot study revealed that H2Zero gel used for Gas Shut Off (GSO) by M/s. Halliburton Offshore Service Inc. (HOSI) was unsuccessful in one of the three wells, no positive results could be obtained in the second one due to diagnostic failure to locate the source of gas. In the case of the third well, it was a partial success as there was rising trend of gas production which could be controlled with the same level of liquid production. Unogel used by M/s. Tiorco and M/s. Gel Tech was successful in two wells each for GSO and WSO jobs. H2Zero used by HOSI was also successful for WSO job in one well.

In August 2001, the Company decided to award the work for GSO jobs by application of gel technology to HOSI and M/s. Schlumberger Asia Services (SASL) for three wells each on nomination basis. As the chemicals to be used by the parties were different from those used in the pilot study, it was decided to award the work subject to the results of lab performance test to be conducted under simulated reservoir conditions.

The work was awarded in October 2001. The GSO jobs carried out by SASL and HOSI in December 2002/January 2003 in one well each proved unsuccessful. The Company, however, amended the contract in October 2003 and allowed the same parties to conduct WSO jobs using gel technology for the remaining wells also.

Audit observed (May 2005) that the Company awarded contracts to HOSI despite the fact that results of conducting similar jobs in the pilot study had not been successful. In the case of SASL, no pilot study had been conducted on the efficacy of the technology and the gel used by the party. The letters of award issued (October 2001) to both the parties did not include the condition that the execution of work was subject to successful pre-testing of the gel, though it was a normal pre-condition for the award of the work. Consequently, no lab tests were conducted prior to the award of such work. While the gel/chemical used by SASL tested after the award of the work in May 2002 was found suitable, HOSI's request to waive off such a test was accommodated and no lab test on the gel/chemical of the party was conducted even after the award of work. Despite the GSO jobs carried out by both SASL and HOSI in December 2002/January 2003 having been unsuccessful, the Company did not de-hire their services for the remaining two wells each though clauses 19.3 and 19.4 of the contract empowered the Company to do so. Instead, the Company amended the contracts in October 2003 and assigned WSO jobs using gel technology for two wells each to both the parties. The wells for these jobs were identified after a lapse of one year in October 2004 by which time the shelf life of the gels had expired and the WSO jobs carried out (November 2004) were also unsuccessful. Thus, expenditure of Rs.10.06 crore incurred by the Company on application of gel system for GSO/WSO jobs proved unfruitful.

The Management stated (May, 2006) that WSO/GSO jobs by applying gel technology needed extensive trials before concluding that it was a case of success or failure. However, decision to further test the technology with different gels was a conscious decision. As regards award of work to HOSI and SASL, the Management contended that since gel technology used by M/s. Gel Tech and M/s. Tiorco was similar to the gel technology developed by ONGC's Institute, it was decided to try the gel technology of HOSI and SASL. Even though the GSO jobs by HOSI and SASL were unsuccessful, it was decided to continue the efforts as both parties had already mobilized the chemicals and as per contract the remaining two wells were required to be completed. The Management further contended that wells repaired/treated by H2Zero gel were performing well with respect to undesirable gas production and, hence, it was decided to dispense with lab test which resulted in saving of time and associated cost. As regards the use of expired chemicals, the Management stated that the efficacy of the chemicals was confirmed by SASL even though the shelf life had expired. The Ministry endorsed (January 2007) the reply of the Management.

Reply was not tenable because despite being aware of the uncertainty involved in successful application of a new technology, the Company awarded the contracts without insisting on the standard condition of testing in simulated reservoir conditions, thereby rendering the expenditure of Rs.10.06 crore unfruitful.

13.8.7 Avoidable expenditure due to not availing of Deemed Export Benefit

By not inviting tenders for procurement of Oil Well Cement on International Competitive Bidding (ICB) basis in time and because of subsequent delay in processing the ICB tenders, ONGC could not avail of Deemed Export Benefit that led to avoidable expenditure of Rs.1.35 crore.

Under a GOI Notification of August 2000, goods meant for use in areas where the Petroleum Exploration Licence (PEL)/Mining Lease (ML) was issued or renewed after 1 April 1999 were eligible for Deemed Export Benefit, by way of exemption of excise duty on the goods manufactured in India and purchased under International Competitive Bidding (ICB) tenders. This notification was circulated to all its Regions by Oil and Natural Gas Corporation Limited (Company) in September 2000.

A contract for purchase of Oil Well Cement (OWC) executed in December 2000 was due to expire in December 2001. The Company invited fresh tenders for two years on limited tender basis from all indigenous empanelled bidders only in December 2001. The Executive Purchase Committee (EPC), headed by the Chairman and Managing Director of the Company, in its meeting in March 2002 noted the delay in inviting tender and issued instructions to fix responsibility. The Committee further directed that the tender be re-invited on ICB basis for three years on firm rate basis so as to enhance competition and to avail of possible Deemed Export Benefit. Accordingly, a new tender on ICB basis was invited in September 2002. Only two bids were found to be technically acceptable. The EPC besides observing the delay in processing of tender decided (November 2003) to close the existing tender and invite fresh tenders due to lack of competition and inconsistencies observed in the processing of initial bid. The Committee again ordered that responsibility for delay should be fixed and a report submitted within 15 days. A new tender was floated in January 2004 and purchase orders were placed in January 2005.

Meanwhile, in order to meet the operational requirement, the Company gave approval on piecemeal basis to its Regional Officers to procure OWC from local suppliers. Mumbai Region of the Company accordingly procured 44,400 MT of OWC during April 2002 to December 2004 out of which 22,703 MT was utilised in PEL/ML areas for which Deemed Export Benefit of Rs.1.35 crore could not be availed of.

Audit observed that the Company had not only delayed invitation of tenders but also failed to take cognizance of the Notification of August 2000 circulated to all its Regions by the Company in September 2000, wherein all concerned were advised to incorporate specific tender provisions for procurement of supplies in respect of areas covered under PEL/ML. Hence, the Company should have invited the tender on ICB basis in the first instance itself. Further, the existing contract was to expire in December 2001. Fresh tenders were, however, invited only in December 2001. As a result, the Company incurred an extra expenditure of Rs.1.35 crore on procurement of OWC at the level of regional offices.

The Management in its reply (September 2005) stated that as tender was floated on ICB basis for the first time in several years, bid evaluation criteria (BEC) had to be formulated afresh. Since tender was floated for three years, revised requirement was to be compiled

by various Regions. Re-floating of tender resulted in re-compilation of requirement and formulation of BEC.

Reply of the Management was not tenable due to the following:

(i) The Company failed to invite tenders on ICB basis in the first instance, since the notification to this effect was circulated to all Regions in September 2000 and the existing contract was expiring in December 2001.

(ii) Noting the delay in invitation of tenders, EPC had given directions twice (March 2002 and November 2003) to fix responsibility. Audit, however, did not come across any papers to indicate action taken by the Company.

(iii) Finalising of ICB tenders is not new to the Company and OWC is a regular item of consumption. Therefore, procedural delays could have been curtailed/avoided.

Thus, due to lack of internal control and procedural delays in inviting/processing of tender, the Company could not avail of Deemed Export Benefit leading to extra expenditure of Rs.1.35 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

CHAPTER XIV: MINISTRY OF POWER

National Hydroelectric Power Corporation Limited

14.1.1 Avoidable payment of Rs.1.06 crore

Due to lack of proper coordination among its various divisions, the Company could not make the contractor liable for bearing the extra cost towards lowering the foundation level and had to make avoidable payment of Rs.1.06 crore to the contractor.

National Hydroelectric Power Corporation Limited (Company) awarded (January 2002) the work of planning, investigation, design, construction and commissioning of a permanent bridge over river Subansiri to M/s. Anil Kumar Gupta (contractor) for a lump sum price of Rs.10.99 crore. The Company executed the agreement after approving the detailed technical specifications, as submitted by the contractor.

During execution of the work, the contractor found (March 2002) that its tendered proposal had certain drawbacks and proposed certain changes in the design of the bridge for, *inter alia*, increasing the length of the cantilever arm and for reducing the length of the suspended span, without seeking any extra cost. The contractor re-modified (September 2002) the drawings and proposed lowering of the foundation level of the right abutment of the bridge by five metres. The design division of the Company agreed to (December 2002) the proposal with the condition that additional financial implication, if any, would be borne by the contractor.

It was observed in Audit (November 2005) that the design division sent the conditional approval to the project office, without referring the matter to the contract division for taking the necessary action as per the contract to avoid any complication at a later date. After six months of completion of foundation work of the abutment, the contractor claimed (March 2004) extra payment for lowering the foundation. The Company accepted the claim on the recommendation of a one-man committee and released (May 2005) Rs.1.06 crore to the contractor. However, as the foundation level was lowered mainly for mobilising enough counterweight due to change in length of cantilever arms and the suspended span, the extra cost should have been borne by the contractor.

The Management stated (June 2006) that the payment was made only for that portion of the work which had been executed due to the requirement at site and that the abutment was lowered to meet the competent foundation at the lower level. This was beyond the control of the contractor. The matter was reported to the Ministry in October 2006. The Ministry endorsed (December 2006) the views of the Management.

The reply was not acceptable as lowering the foundation level was necessitated due to the changes proposed by the contractor and as such the related extra cost should have been borne by him. Further, the one-man committee had recommended, *inter alia*, that there should be proper coordination between design division, contracts division and project.

The Company itself issued (August 2006) internal instructions that before accepting a revised proposal having financial implication for change in design, a written confirmation from the contractor should be obtained to avoid contractual complication at a later date.

Thus, due to lack of proper coordination among its various divisions, the Company could not make the contractor liable for the extra cost towards lowering the foundation level and accordingly, had to make an avoidable payment of Rs.1.06 crore to the contractor.

NTPC Limited

14.2.1 Irregular payment of special incentive of Rs.116.88 crore

The Company made irregular payment of *ex-gratia* in the form of special incentive amounting to Rs.116.88 crore to its employees whose wages/salary exceeded the limit stipulated under the Payment of Bonus Act.

According to the provisions of the Payment of Bonus Act, 1965 (Act) and the DPE's instructions dated 20 November 1997, no *ex-gratia* was to be paid by the Public Sector Enterprises (PSEs) to their employees, who were not entitled to payment of bonus/*ex-gratia* under the provisions of the Act on account of their wage/salary exceeding Rs.3,500 per month, unless the amount was so authorised by the Government under a duly approved incentive scheme, framed in accordance with the prescribed procedure.

The payment of *ex-gratia* by a large number of PSEs to their ineligible employees was pointed out earlier in various Audit Reports (Commercial)[♣]. The matter was referred (February 2005) to DPE for clarification as to whether such payment of *ex-gratia* (in the form of the special incentive or in some other name) was consistent with DPE's instructions. DPE clarified (December 2005) that the payment of *ex-gratia* to the ineligible employees was not allowed as per its instructions of November 1997 and that there was no provision for DPE/Administrative Ministry to approve the payment of *ex-gratia*/bonus to the ineligible employees in PSEs.

It was observed in Audit that NTPC Limited (Company) made payment of *ex-gratia* amounting to Rs.116.88 crore in the form of special incentive during the last nine years ending 2004-05 to its employees whose salary had exceeded the limit prescribed under the Act. On the matter being brought to the notice of DPE by Audit, DPE advised (December 2005) the Ministry of Power to take suitable action.

In response to DPE's advice, the Ministry reiterated (October 2006) the Management's stand that the Company had been paying the special incentive and not *ex-gratia*/bonus to the ineligible employees, which was not inconsistent with the DPE's instructions. The Management added (October 2006) that the MOU-signing PSUs were competent to formulate such incentive schemes.

The reply was not acceptable, as the Company had been paying special incentive to such employees who were not entitled to the payment of bonus/*ex-gratia* under the provisions

[♣] ***Reports of the Comptroller and Auditor General of India (Commercial) No. 3 of 1994, 1995, 1999 to 2004 and Report No. 13 of 2006***

of the Act. DPE's instructions of November 1997/ December 2005 also did not permit payment of *ex-gratia*, honorarium, reward *etc.* to such ineligible employees. Though the MOU-signing PSUs could evolve productivity linked incentive scheme, the same had to be within the broad guidelines of DPE and no payments of *ex-gratia* nature could be made to the ineligible employees in addition to the 'generation'* incentives being paid under another scheme.

Thus, the payment of *ex-gratia* amounting to Rs.116.88 crore in the form of special incentive to the ineligible employees was irregular and inconsistent with the provisions of the Act as well as the instructions of DPE.

14.2.2 Extra expenditure due to continuing with the loans at higher rates of interest

Due to continuing with two loans at higher rates of interest despite the downward trend in interest rates, the Company incurred extra expenditure of Rs.4.72 crore till September 2006 and incurred future liability of Rs.3.91 crore over the remaining tenure of loans.

NTPC Limited (Company) entered into three loan agreements with Housing Development Finance Corporation Limited (HDFC) on 4 November 1999, 14 December 2000 and 22 December 2003 for availing of loans of Rs.100 crore, Rs.200 crore and Rs.250 crore respectively at interest rates between 9 and 12 *per cent*. All the loan agreements had a prepayment clause. The Company drew the full amount of Rs.300 crore against the first two loans and Rs.50 crore against the third loan till January 2004.

In view of the softening trend in interest rates in the market, the Company wrote (31 December 2003) to 19 banks including HDFC for prepaying the existing loans, if the annual rate of interest was not reduced to 7.35 *per cent*. While 18 banks agreed to bring down the rate of interest to 7.35 *per cent*, HDFC agreed (March 2004) to reduce the rates to 8.35 *per cent* and 8.40 *per cent* on the first two loans respectively. In respect of the third loan, HDFC agreed to reduce the rate to 7.35 *per cent*, subject to availing of the balance of Rs.200 crore by 31 March 2005.

The Company accepted (March 2004) these rates, considering the offer as reasonable based on the weighted average interest rate of 7.90 *per cent* and in view of the long-standing relationship with HDFC. It was observed in Audit (October/November 2005) that the Company's decision to accept higher rate of interest on the ground of long-standing relationship did not prove to be at all sound commercially as HDFC did not even respond to its request (February 2005) for release of the balance of Rs.200 crore of the third loan. Instead of taking any action for prepayment, the Company continued to pay interest to HDFC at a rate higher than 7.35 *per cent* (the rate accepted by other banks) since 1 April 2004.

Thus, the Company paid excess interest of Rs.6.15 crore during the period from April 2004 to September 2006, besides incurring future liability of Rs.3.91 crore for the remaining tenure of the loans from October 2006 to March 2011. Had the Company

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* ***The Company had also been paying generation incentives to all its employees based on the performance of each generating station under the Generation Incentive Scheme.***

declined the offer of HDFC and insisted on prepayment of the first two loans, it could have saved Rs.8.63 crore after paying prepayment charge of Rs.1.43 crore in terms of the agreement.

The Management replied (April/August 2006) that the Company had taken the right commercial decision as a part of negotiation with HDFC and keeping in view the total financial implication of the third loan. Further, the tariff was governed by the Central Electricity Regulatory Commission (CERC) and as per its guidelines, any refinancing of loan should necessarily be on the same terms and conditions except the rate of interest, *i.e.*, the terms and conditions including the repayment of fresh loans should not be worse than the original loan prepaid. The Company tried to explore the possibility of a lender who could provide loan on matching terms and conditions with soft interest rate, but could not succeed. While endorsing the Management's views, the Ministry added (January 2007) that the loss determined by the Audit was notional since the Company has been borrowing on continuous basis from various banks/financial institutions.

The reply was not acceptable on account of the following:

(i) The offer of HDFC was approved by the Company based on the weighted average interest rate of 7.90 *per cent*, considering the full drawal of Rs.250 crore out of the third loan and in view of the long-standing relationship with HDFC. While this rate was higher than the rate of 7.35 *per cent* agreed to with the other banks, the weighted average interest rate worked out to 8.23 *per cent*, based on the drawal of Rs.50 crore out of the third loan made by the Company till March 2004. Further, accepting HDFC's offer in view of the long-standing relationship also did not prove to be prudent as HDFC did not even respond to its request for release of the balance of Rs.200 crore of the third loan.

(ii) The records did not indicate that the Company had made efforts for refinancing of loans on matching terms.

(iii) The avoidable expenditure is not notional, as the Company continued to pay interest to HDFC at a rate higher than 7.35 *per cent* since 1 April 2004.

Power Finance Corporation Limited

14.3.1 Irregularities in sanction of loan to a private party

The Company sanctioned a loan to a private party without proper appraisal and adequate securities. As a result, an amount of Rs.8.20 crore remained outstanding for more than three years, recovery of which was not assured.

Power Finance Corporation Limited (Company) sanctioned (October 2002) a loan of Rs.19.37 crore to IMP Power Limited (Borrower) under a scheme for financing equipment manufacturers. The Company disbursed (November 2002- November 2003) the loan to the extent of Rs.17.89 crore.

Audit scrutiny (February/March 2006) revealed that the Company did not follow a proper appraisal system and sanctioned the loan without obtaining adequate securities. The following deficiencies were noticed:-

(i) A borrower should have a clear default status for the last one year, as per the Company's guidelines. However, the Company obtained default status reports from only two out of six bankers of the borrower. Subsequently, it came to notice that the borrower was in default with two bankers*, from whom the Company had not obtained the default status reports.

(ii) While adjudging the borrower's eligibility for the loan, the Company allowed the borrower credit for timely delivery of material though it had actually not adhered to the delivery schedules originally contracted with various State Electricity Boards (SEBs). The borrower was also given credit for providing additional securities though even primary securities like letter of credit and creation of charge on its assets were not provided by the borrower.

(iii) Though the borrower offered to pledge five lakh shares of its own in favour of the Company, the same was not considered by the Company.

The borrower defaulted in repayment of loan from May 2003 due to poor financial condition. One of the major reasons for the financial crunch was non-delivery of goods to some of SEBs whose contracts were assigned to the Company.

The borrower defaulted in payments to other lenders also, who sought intervention of Corporate Debt Restructuring (CDR) Cell of the Reserve Bank of India for settlement of their dues and approached (November 2004) the Company to participate in the restructuring plan of the borrower. The Company gave (June 2005) its consent for the CDR package, without attempting to realise its dues or approaching the Debt Recovery Tribunal (DRT). As per the package, the borrower was to pay the outstanding dues of Rs.8.77 crore as of 1 December 2004 in 28 quarterly instalments with effect from 1 April 2006. The amount due upto 1 January 2007 was Rs.1.25 crore against which the Company could recover Rs.57.45 lakh only (January 2007).

The Management stated (May 2006) that:

(i) The borrower had not defaulted on payment to any of the bankers as per its balance sheet.

(ii) The marks were awarded to the borrower as per the system in vogue.

(iii) The borrower had furnished additional security of personal guarantee of the promoter directors and corporate guarantee of its sister concern, which had current assets worth Rs.24.58 crore as on 31 March 2002.

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* ***SBI Commercial and International Bank Limited and State Bank of Saurashtra***

(iv) The pledging of shares was not considered, as it was not part of the security package and in the absence of availability of other effective remedy, the Company had no option but to accept the CDR package.

The matter was reported to the Ministry in October 2006. The Ministry, while endorsing (December 2006) the views of the Management, added that the borrower has all intentions to fulfil the terms and conditions of the CDR package.

The reply was not acceptable on account of following:

(i) In the absence of the default status reports from all the six bankers of the borrowers, the Company's presumption that the borrower had clear default status was unfounded.

(ii) SEBs had not extended the delivery period at the time of sanctioning of loan and so, no marks should have been awarded therefor. Further, as the borrower could not meet the time schedule, its technical capabilities should also have been assessed at the time of sanction of loan.

(iii) The corporate guarantee of the sister concern was restricted to Rs.12.88 crore only. The legal counsel appointed by the Company had clearly opined that the Company might not be able to realise the full amount of its outstanding loan including interest at the time of enforcement of the corporate guarantee.

(iv) Had the Company considered the offer of the borrower for pledging of its shares, it could have partially recovered its dues by selling the shares.

(v) Against the principal amount of Rs.1.25 crore due upto 1 January 2007 under the CDR package, the Company could recover Rs.57.45 lakh only.

Thus, the Company committed irregularities in sanctioning of loan to a private party by not following a proper appraisal system and not obtaining adequate securities. As a result, an amount of Rs.8.20 crore remained outstanding for more than three years (August 2006), the recovery of which was not assured.

14.3.2 Avoidable expenditure of Rs.7.39 crore on payment of upfront fee and commitment charges to the Asian Development Bank

The Company signed a loan agreement with the Asian Development Bank for taking a loan of US$ 150 million. In view of the reluctance of the State Electricity Boards to utilise the loan, the Company foreclosed the loan to the extent of US$ 100 million. Consequently, it had to incur an expenditure of Rs.7.39 crore on payment of upfront fee and commitment charges.

Asian Development Bank (ADB) sanctioned (December 2002) a loan of US$ 150 million to Power Finance Corporation Limited (Company) for augmenting Power Sector reforms in India. After identifying a few schemes to be financed and entering (October/November 2003) into MOUs with the State Electricity Boards (SEBs) of Maharashtra, West Bengal and Assam and a power utility, *viz.* Karnataka Power Transmission Corporation Limited (KPTCL) for execution of various projects, the Company entered (December 2003) into a

loan agreement with ADB for the loan of US$ 150 million (Rs.683.10 crore[*]). The agreement, *inter alia*, provided for drawing the entire amount by February 2007 and for payment of upfront fee at the rate of one *per cent* of the loan amount as well as commitment charges at the rate of 0.75 *per cent per annum* on the amount of the loan not drawn by the Company.

It was observed in Audit (February/March 2006) that before signing the loan agreement with the ADB, the Company received schemes for Rs.295.28 crore only from the SEBs, against the sanctioned loan of Rs.683.10 crore, indicating that the Company was, *ab initio,* short of eligible schemes to be financed under ADB funds. Besides, the liability of the SEBs for payment of upfront fee and commitment charges in case of non-fulfilment of loan conditions or non-availment of loans were not suitably reflected in the MOUs with them.

Subsequently, in view of the reluctance of the SEBs to utilise the ADB loan due to issues relating to procurement procedures, environmental and social safeguards as well as insufficient availability of eligible sub-borrowers, the Company foreclosed (December 2005) the loan to the extent of US$ 100 million. As a result, it incurred an avoidable expenditure of Rs.7.39 crore on payment of upfront fee (Rs.4.50 crore) and commitment charges (Rs.2.89 crore) on the foreclosed loan of US$ 100 million. The expenditure could also not be recovered from the SEBs in the absence of any back-to-back arrangement with the SEBs for reimbursement of upfront fee and commitment charges.

The Management stated (September 2006) that the Company had adequate projects costing Rs.1,534.04 crore at the time of signing the agreement with the ADB, but could not avail of the entire amount as the SEBs were sluggish in implementation of their schemes. Further, the SEB of Assam became ineligible as it was directly negotiating loans from ADB. The KPTCL opted out of the loan due to ADB not accepting their e-procurement procedure. They further stated that the existing policy of the Company did not have provision for levying upfront fee for loans sanctioned to state power utilities and payment of commitment charges by the borrowers was insisted upon only in case of loans of more than Rs.100 crore. The matter was reported to the Ministry in November 2006. The Ministry, while endorsing (December 2006) the views of the Management, added that it was the Company's practice to merge the upfront fee and commitment charges as part of the interest rate instead of charging the same from the borrower under back-to-back arrangement.

The reply is not acceptable as at the time of signing the agreement with the ADB, the Company had approved schemes valuing Rs.32.65 crore only and the schemes valuing Rs.262.63 crore were under appraisal. The Company was also 'expecting' projects worth Rs.1,279.38 crore, as per its own records. It was, thus, not correct to say that projects costing Rs.1,534.04 crore were available for implementation. Further, the Ministry stated that based on the experience with the ADB loan, the Company was contemplating to on lend such multi lateral credits on back-to-back basis with fixed margins.

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[*] ***At the exchange rate of Rs.45.54 per US$ as on the date of the loan agreement with ADB (11 December 2003)***

Thus, signing of the loan agreement by the Company without properly considering the prospect of utilisation of the loan resulted in avoidable expenditure of Rs.7.39 crore on payment of upfront fee and commitment charges.

CHAPTER XV: DEPARTMENT OF PUBLIC ENTERPRISES

Airports Authority of India, Air India Limited, Northern Coalfields Limited, Coal India Limited, Export Credit Guarantee Corporation of India Limited, Food Corporation of India, The New India Assurance Company Limited, National Insurance Company Limited, United India Insurance Company Limited, The Oriental Insurance Company Limited, Oil and Natural Gas Corporation Limited, Hindustan Petroleum Corporation Limited and National Hydroelectric Power Corporation Limited

15.1.1 Recoveries at the instance of Audit

During test check in Audit, several cases relating to non billing, non receipt, short recovery, excess payment, undue benefit to private parties *etc.* in case of Central PSUs were pointed. In 21 such cases pertaining to 13 PSUs, where Audit pointed out an amount of Rs.22 crore for recovery, the Management of the PSUs recovered an amount of Rs.15.52 crore during 2005-06 as detailed in Appendix-III.

CHAPTER XVI: MINISTRY OF RAILWAYS

Container Corporation of India Limited

16.1.1 Blocking of funds

The Company's decision to construct residential flats for staff without ascertaining the demand for the same and without proper survey of the location, led to blocking of funds of Rs.95.29 lakh and consequential loss of interest of Rs.45.13 lakh.

With a view to meeting the shortage of accommodation for housing in Mumbai, Container Corporation of India Limited (Company) made a proposal (October 1995) to the Western Railways for construction of 24 flats on Railway land with the condition that 12 flats would be allotted to the Company on long-term lease of 30 years and 12 flats to the Railways. While the entire cost of construction of the flats was to be borne by the Company, the ownership of all the flats would remain with the Railways. The Railways accepted (January 1996) the Company's proposal to construct the flats and the Company deposited Rs.95.29 lakh with the Western Railway during the period from May 1997 to July 1999.

It was observed (July 2005) in Audit that the Company did not verify the suitability of location of the site before making payments or during construction of flats. Though the Company took over the possession of 12 flats in April 2002, it could not allot the same to the employees as they were reluctant to occupy these flats. As per the inspection conducted (October 2003) by the Company, the flats were located around a slum area and were far away from the Railway station.

In June 2004, the Western Railway intimated the Company that if the flats were not required, the same could be taken back by them. Only after the matter was pointed out by Audit in July 2005, the Company took up the matter with the Railways (January 2006) for surrender of flats and refund of deposit alongwith interest. The Railways have not refunded the amount so far (August 2006).

The Management stated (August 2005) that the Company was a growing organisation and the arrangement of suitable accommodation for its staff was a welfare activity. There was no loss in keeping the flats in its possession, as their cost was more than two times the actual amount deposited.

The reply was not acceptable, as the requirement was not assessed realistically before construction and the suitability of the site was not verified which was established by the fact that all the flats have been lying vacant for the last four years. The Management itself considered (February 2006) the flats unsafe for residential purpose on the ground that the locality was surrounded by a slum area and was full of anti-social elements. As regards appreciation in the value of the flats, this was not relevant as the Company has already

surrendered the flats and there was no provision for getting refund of the market value of the flats.

Thus, the Company's decision to construct the flats without ascertaining the demand for the same and without proper survey of the location, led to blocking of funds of Rs.95.29 lakh and consequential loss of Rs.45.13 lakh[♣] on account of interest on the blocked funds (upto 31 August 2006).

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

[♣] ***At a simple rate of six per cent per annum***

CHAPTER XVII: DEPARTMENT OF SHIPPING

The Shipping Corporation of India Limited

17.1.1 Phased acquisition of Very Large Crude Carriers resulted in extra expenditure of Rs.553.69 crore

The Company decided to split the procurement of VLCCs in two phases resulting in extra expenditure of Rs.553.69 crore.

The Shipping Corporation of India Limited (Company) envisaged (11 October 2001) acquisition of four Very Large Crude Carriers (VLCCs) during the 10th Plan Period (2002-07) and proposed a plan outlay of Rs.1,734.96 crore during 2002-03 which included Rs.591.36 crore for purchase of four VLCCs to be financed in the ratio of 20 *per cent* and 80 *per cent* from internal and external sources respectively. However, the Management Committee decided (15 October 2001) to acquire only two VLCCs in 2002-03. The Government approved (May 2002) a plan outlay of Rs.1,332.25 crore (including Rs.295.68 crore towards two VLCCs) for 2002-03.

The Company invited (March 2002) global tenders, got the approval of the Government in May 2003 and placed (June 2003) order for two VLCCs at a cost of US$ 130.40 million (Rs.610.53 crore♥) payable in five equal instalments of Rs.122.11 crore between the signing of the contract and the actual date of delivery. The VLCCs were received in January 2005 and August 2005 respectively. In August 2004, the Company again invited global tenders for another two VLCCs and on receipt of Government approval (October 2005) signed a contract for the same for US$ 258.20 million (Rs.1,164.22 crore♠).

It was observed by Audit (August 2005) that while considering the approval for purchase of two VLCCs in March 2003, the Company noted the following:

(i) Demand♣ of VLCCs for transportation of crude oil in the country was increasing due to its economies of scale and development of infrastructure at the Indian ports.

(ii) The Company did not have any VLCC since the last VLCC was scrapped in 2000 without any replacement.

♥ *At the exchange rate of one US$ = Rs.46.82 prevailing on the date of signing of the contract (7 June 2003)*

♠ *At the exchange rate of one US$ = Rs.45.09 prevailing on the date of signing of the contract (28 October 2005)*

♣ *According to the executive summary of the project report submitted to the BOD of the Company in November 2002, Indian Oil Corporation Limited was chartering about two VLCC a month and Reliance was chartering about four VLCCs per month.*

(iii) The estimated profitability even on conservative basis was quite high. Even on the basis of an assumed charter hire rate of US$ 35,000 per day to be received from the oil companies (against the actual prevailing rate of US$ 50,000 per day) and an estimated cost of US$ 70 million for a VLCC (against the firm price of US$ 65.20 million), the internal rate of return worked out to 23.35 *per cent.*

(iv) Prices of shipbuilding were amongst the lowest in the past ten years.

(v) The manufacturer had offered deferred payment terms.

Audit also noted the long lead time (from March 2002 to June 2003) from the date of invitation of tenders to the signing of the contract with the shipbuilder. Further, in 2005-06, the Company hired VLCCs on 18 occasions and paid US$ 28.11 million (Rs.125.52 crore♦). Inspite of such favourable returns and surging demand for VLCCs, the Company's decision to split the procurement of VLCCs resulted in extra expenditure of US$ 127.80 million (Rs.553.69 crore♠).

In reply, the Management stated (February 2006) that the postponement of procurement of the two VLCCs was mainly due to the Company's cash flow position and its consequential effect on the other schemes in progress. The Ministry endorsed (February 2007) the views of the Management and stated that as on 31 March 2001, cash and bank balance of Rs.122.86 crore only (excluding Rs.56.09 crore set aside for bank guarantees provided by the bank) was available to meet working capital requirements. The cash flows from acquisition of two VLCCs were negative in first three years at Rs.58.69 crore, Rs.25.30 crore and Rs.52.72 crore in 2002-03 to 2004-05. Further, the future price of the VLCCs could not be anticipated at the time of decision making and that the decisions were taken on various shipbuilding projects as per its cash flow/reserve situation keeping in view the priorities for different projects.

The reply was not tenable because as per the projected cash flow♣ from the operations of the Company as a whole, after considering payments to be made for acquisition of two VLCCs, other vessels on firm orders and existing vessels, the Company estimated net cash inflows of Rs.231.45 crore, Rs.141.76 crore, Rs.243.27 crore and Rs.219.41 crore in 2003-04 to 2006-07. The Company had adequate cash to meet its requirement of 20 *per cent* financing from internal sources for four VLCCs because the cost of the VLCCs was payable in a phased manner. The Company actually generated adequate internal resources and deposited surplus funds with banks/ financial institutions. (The actual cash and bank balance was Rs.387.62 crore and Rs.1,720.62 crore as at 31 March 2004 and 2005 respectively after paying the dues for two VLCCs.).

17.1.2 Deployment of daughter vessels without agreement

Deployment of daughter vessels without agreement for evacuation of Bombay High crude resulted in the Company not being able to realise Rs.7.74 crore.

♦ *At exchange rate of one US$=Rs. 44.66 prevailing in March 2006*

♠ *Value of purchase order of second batch of two VLCCs at Rs.1,164.22 crore less corresponding cost of first batch of two VLCCs at Rs.610.53 crore*

♣ *prepared at the time of considering acquisition of first phase of two VLCCs*

Oil and Natural Gas Corporation Limited (ONGC) approached (November 2000) The Shipping Corporation of India Limited for deployment of tankers and tugs for evacuation of Bombay High crude in January 2001. In a meeting convened (January 2001) by the Oil Co-ordination Committee (OCC) to sort out the problem relating to evacuation of crude in which representatives of the Company, ONGC and Indian Oil Corporation Limited (IOCL) participated, it was decided that the Company would provide tankers and logistics to ensure that there was no loss of production. It was also decided that the issue of additional cost on deployment of vessels would be resolved between ONGC and the Company. However, without resolving the issue of the additional cost of carrying out evacuation of crude, the Company deployed (February 2001) its vessel[♣] m.t. Maharshi Dayanand, a tug and other lighterage equipments *etc.* Besides, the Company also deployed two daughter vessels m.t. Homi Bhabha and m.t. C.V. Raman by withdrawing them from IOCL. The evacuation operation continued till 2 May 2001.

Initially, the Company got the payment of charter hire charges of daughter vessels from IOCL[♥] with whom these vessels were on charter. Subsequently, IOCL apportioned the charges for deployment of two daughter vessels to ONGC and recovered the same from the Company. On receipt of details of apportionment of cost of deployment of two daughter vessels to ONGC from IOCL, the Company raised (January 2002) bills for charter hire charges on ONGC. ONGC declined (April 2003) to pay the charter hire on the ground that the matter of deployment of two daughter vessels was never discussed and agreed upon. The Company then referred (July 2003) the matter to the Committee of Disputes which directed (September 2004) that as both the parties to the dispute were PSUs, the matter may be settled through arbitration. The Company stated that the matter could not be referred to arbitration as there was no contract between ONGC and the Company for chartering of these two daughter vessels to ONGC.

Deployment of daughter vessels with ONGC for evacuation of Bombay High crude without an agreement resulted in the Company not being able to realise Rs.7.74 crore, which they demanded from ONGC for the two daughter vessels.

The Company in their reply stated (December 2005) that the daughter vessels were deployed with ONGC in good faith and in the national interest for saving loss of oil production based on the decision in the OCC meeting and the issue of recovery of dues was pursued at the highest level. The Ministry endorsed the reply of the Management and stated (January 2007) that the agreement with ONGC in respect of the daughter vessels was not entered into because a time charter agreement already existed between IOCL and the Company for utilisation of these vessels. The reply of the Management/Ministry was not tenable as the issue of additional cost as mentioned in the OCC meeting was not resolved before deployment of the daughter vessels.

[♣] ***In addition to the vessel MV Karve already chartered to the ONGC***

[♥] ***As per the industry practice, apportionment of cost is done by the nodal agency i.e. IOCL in this case with whom the vessels were on charter.***

CHAPTER XVIII: MINISTRY OF STEEL

MECON Limited

18.1.1 Unfruitful expenditure owing to unjustified acquisition of office space

Decision to acquire additional office accommodation without proper assessment of requirement resulted in unfruitful expenditure of Rs.11.08 crore to the Company besides payment of interest and operation and maintenance charges to the extent of Rs.1.59 crore upto January 2006.

In order to expand its business MECON Limited (Company), decided to upgrade the existing office at Mumbai to the level of an engineering office with a strength of 50 to 60 engineers alongwith supporting staff. As the existing accommodation in the World Trade Centre (WTC), premises in Mumbai was not sufficient for the purpose the Company decided (December 1997) to acquire 5,103 square feet of office space at Vashi, Navi Mumbai and to rent out the WTC premises to generate the resources for paying the EMI towards hire purchase of the Vashi premises. The Company took possession of the office premises at Vashi in March 1998 on lease term basis for Rs.1.88 crore and incurred an expenditure of Rs.28.72 lakh towards internal partition, electrical, carpentry, air conditioning work *etc.* and shifted its operations from WTC to Vashi in January 1999.

It was observed in Audit (January 2006) that the premises at Vashi were never used to house more than 30 personnel. The Company could neither rent out the WTC premises for payment of EMI for the Vashi premises nor sell it due to poor offers. Meanwhile the Company spent Rs.36.90 lakh towards common facilities (upto January 2006) for the WTC premises, though it was lying totally unutilised. Thus, while the existing premises (at WTC) were not utilised, the new premises (at Vashi) were under utilised, thus, denying the Company value for money for the expenditure of Rs.2.16 crore on the Vashi office premises besides payment of Rs.36.90 lakh towards common facilities at WTC.

The Management stated (May 2006) that:

(i) There was decrease in manpower strength at Mumbai office with the implementation of the Voluntary Retirement Scheme (VRS).

(ii) The property at WTC could not be sublet or disposed of due to recession in real estate market but both the properties were worth retaining by virtue of their location and expected price appreciation.

In another case, the Company (December 2004) purchased the 13th floor of North Tower, SCOPE Minar, Delhi from M/s. RITES Limited at a price of Rs.8.28 crore to meet its additional requirement of office space and facilities at Delhi. The Company took possession of the said premises, measuring 1,840.50 square metres (floor area 1,200 square metres) on outright purchase basis on 11 January 2005.

It was observed in Audit (March 2006) that the Company already possessed an area of 1,558.00 square metres on the 15th floor and the 1st floor of the SCOPE Minar. With purchase of the 13th floor there was an increase of 1,840 square metres in the area under occupation. But there was a decline in the men-in-position which came down from 212 as on 31 March 2002 to 201 as on 31 March 2006. Further, the Company had not planned the layout, furnishing and electric works *etc.* for the 13th floor in advance and took about 200 days to award the work for interior fittings (on 30 August 2005 for Rs.62.90 lakh). This was completed on 9 February 2006. Meanwhile, the Company had paid Rs.81.75 lakh towards interest and Rs.41.21 lakh towards operation and maintenance charges for the 13th floor upto January 2006. The Company, thus, incurred an unfruitful expenditure of Rs.8.28 crore besides payment of interest and operational and maintenance charges to the extent of Rs.1.22 crore (upto January 2006). Also, the existing accommodation on the 1st floor (355.56 square metres) could have been disposed of immediately after acquisition of the 13th floor so as to avoid payment of operational and maintenance charges for the former. The 1st floor was disposed of in June 2006 for Rs.1.60 crore.

The Ministry stated (September 2006) that additional floor in SCOPE Minar was acquired to accommodate the expected increase in manpower in Delhi office and despite the Company's eagerness to utilise the premises at the earliest, some of the delays were inevitable and beyond their control.

The reply of the Ministry and the Management was not tenable as the increase in manpower was not properly assessed before acquiring additional accommodation. The VRS scheme was in operation before the acquisition of the additional space and the manpower had actually decreased at both stations. The acquisition and retention of large and costly office accommodation at prime locations without utilisation was a waste of the Company's resources.

Thus, the Company's decision to acquire premises without assessing the actual requirement resulted in unfruitful expenditure of Rs.11.08♣ crore besides payment of interest and operational and maintenance charges to the extent of Rs.1.59♥ crore (upto January 2006).

MSTC LIMITED

18.2.1 Loss of Rs.11.66 crore in trading in castor seeds and oil

Due to the decision to enter into a contract with an agency without proper business credentials and inadequate supervision of the activities of that agency, the Company suffered a loss of Rs.11.66 crore in financing the purchase of castor seeds and export of castor oil.

MSTC Limited (Company) approved (October 2002) a proposal received from Dharnendra Industries Limited (DIL) for financing purchase of castor seeds (seeds) from domestic market and arranging export of castor oil through the Company. The Company signed a memorandum of agreement (MOA) in November 2002 with DIL. The MOA

♣ *Mumbai (Rs.1.88 crore plus Rs.0.29 crore); Delhi (Rs.8.28 crore plus Rs.0.63 crore)*

♥ *Mumbai (Rs.36.90 lakh); Delhi (Rs.81.75 lakh plus Rs.41.21 lakh)*

stipulated that the Company would procure seeds on DIL's indent based on export orders in hand with DIL. DIL would deposit castor oil in the Company's designated tank and receive seeds equivalent to 90 *per cent* of the export value of the oil deposited. The balance of 10 *per cent* would be kept as security with the Company. The stock of seeds with the Company would not exceed the limit of 10,000 MT at any point of time. At least 50 *per cent* of seeds due for issue to DIL were to be lifted within 45 days and the balance within the next 45 days.

Under the MOA, the Company procured 28,084.87 MT of seeds valuing Rs.56.06 crore during the period from December 2002 to August 2003. It issued 12,610 MT of seeds valuing Rs.25.01 crore to DIL and received 6,459.39 MT of castor oil valuing Rs.26.72 crore from February 2003 to August 2003.

It was observed in Audit (June 2006) that the trade arrangement with DIL and its management suffered from a number of deficiencies. DIL was an ice-cream dealer and not listed as a manufacturer/exporter of oil by the Solvent Extractor's Association of India. Still the Company selected it as a business partner and signed the MOA. The agreement did not bind DIL to deposit any given quantity of oil within any stipulated period. The Company started procurement of seeds from December 2002 whereas DIL started depositing oil from February 2003 by which time 5,247.91 MT of seeds had already been purchased. The procurement of seeds was not commensurate with export orders in hand leading to accumulation of stock of seeds. Due to the injudicious procurement of seeds by the Company, the 10,000 MT limit on the stock of seeds, which was an internal control of MSTC Limited, was continuously disregarded from April 2003. Between March 2003 and July 2003 only 5,000 MT of oil with a sale value Rs.20.42 crore was exported against the commitment of DIL to ensure export of Rs.200 crore *per annum*. It was observed that contrary to the terms of the contract, DIL shortlifted 308.495 MT of seeds when the oil was first deposited (February 2003). This gap went on increasing leading to accumulation of 15,454.32 MT of castor seeds valuing Rs.31.05 crore at the time of termination of the contract with DIL (September 2003). The Company also had a closing stock of 1,459.39 MT of oil valuing Rs.6.30 crore at that time.

The left over stock (15,454.32 MT) of castor seeds was crushed with the help of another party between December 2003 and February 2005 and the Company received 6,506.73 MT of castor oil. The entire stock of oil of 7,966.12 MT[♣] was sold or exported by the Company during 2004-05 and 2005-06 for a total sale value of Rs.26.90 crore. The price of castor oil had crashed in the meantime leading to a net loss of Rs.11.66 crore on the entire transaction including Rs.2.03 crore expended by the Company on storage and inspection charges after termination of its contract with DIL.

The Management stated (July 2006) that the financial credential of DIL was not an issue as no credit was given to them. They had the ability to supply oil for export and that although seeds were procured in excess, the entire quantity was backed by export order. The loss occurred due to delay in locating a conversion agency after departure of DIL and rapid fall in the price of castor oil in subsequent years.

[♣] ***(6,506.73 MT from seeds crushed subsequently plus 1,459.39 MT existing stock) = 7,966.12 MT***

The Management's contention was not tenable because the loss suffered by the Company was due to wrong selection of business partner and injudicious procurement of seeds without sufficient export order in hand, as verified during Audit with reference to documents. DIL's activities needed close supervision to ensure seed procurement commensurate with export of oil in order to prevent losses due to market fluctuation. There were, however, no checks and balances in the whole cycle right from procurement of seeds to the supply of oil.

Thus, due to the decision to enter into a contract with an agency without proper business credentials, non-enforcement of contractual provisions and inadequate supervision of the activities of the agency the Company suffered a loss of Rs.11.66 crore in financing the purchase of castor seeds.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Rashtriya Ispat Nigam Limited

18.3.1 Avoidable extra expenditure of Rs.9.13 crore due to failure to evaluate the financial position of the vendor

The Company did not evaluate the financial position of the vendor before placing an order and incurred avoidable extra expenditure of Rs.9.13 crore.

Rashtriya Ispat Nigam Limited (Company) floated (April 2003) a global tender for the procurement of 30,000 MT of low silica limestone on trial basis conforming to either specification A (containing 0.50 *per cent* to 0.60 *per cent* of SiO2[♠]) or specification B (containing 0.65 *per cent* to 1.00 *per cent* of SiO2), with the option to increase the quantity of the order by 4,50,000 MT in case the trial quantity was found suitable. Out of the offers received by the Company (June 2003), the quotes of M/s. Mohammed Ahmed Taher Est, Oman (MATE) and M/s. Emirate Trading Agency (ETA), Dubai emerged as L1 for specification A and specification B respectively.

After conducting negotiations with the M/s. MATE, the Company placed (September 2003) an order for supply of 4,80,000 MT of low silica limestone of specification A at an FOB (T)[♥] price of US$ 8.70 per MT (equivalent to Rs.401.94 per MT[♣]). The trial quantity of 30,000 MT was to be delivered by October 2003. M/s. MATE, however, did not supply any material though the period of delivery was extended till January 2004 on its request. While extending (January 2004) the period of delivery till January 2004 for trial shipment, the Company informed M/s. MATE that in case of failure to perform the contract, the Company would procure the contracted quantity from alternative sources at the risk and cost of M/s. MATE. M/s. MATE, however, failed to supply the material. The Company encashed the bank guarantee given by M/s. MATE and realised Rs.7.55 lakh. The Company procured 4,80,000 MT of low silica limestone, between April 2004 and July 2005, from M/s. Bramco WLL Bahrain (at weighted

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[♠] *Silicon Dioxide*

[♥] *Free on Board (Trimmed)*

[♣] *Rate of exchange of one US$ = Rs. 46.20 considered for evaluation*

average landed cost of Rs.1,357.82 per MT) after inviting tenders and incurred an additional expenditure of Rs.9.13 crore. This was the difference between the landed cost of procurement from M/s. Bramco WLL and estimated landed cost of procurement from M/s. Emirates Trading Agency who was the regular supplier, reduced by an amount of Rs.7.55 lakh. However, an amount of Rs.79.64 lakh only, being the amount of risk purchase on 30,000 MT, was recoverable from M/s. MATE, as per the advice of legal department of the Company.

It was observed in Audit that the Company did not consider the adverse financial position[♥] of M/s. MATE before placing the order which was evident from financial statements and audit report submitted alongwith their tender documents.

The Management accepted (May 2006) that the financial information sought for as per the tender was not considered for evaluation, ranking and placement of the order. It further stated that risk and cost notices were sent to the vendor but the same were received back undelivered and efforts were being made to utilise the diplomatic channels for locating the supplier for serving the risk purchase. The Ministry endorsed (January 2007) the reply given by the Management.

The reply was not tenable as they had the financial data of the parties to ascertain the capacity of the suppliers to execute the supply order. Since the Company could not locate the supplier for serving the risk purchase notice (May 2006) the chances of recovery of even Rs.79.64 lakh were remote.

Thus, failure of the Company to evaluate the financial position resulted in an avoidable extra expenditure of Rs.9.13 crore.

Steel Authority of India Limited

18.4.1 Non-disposal of iron ore fines accumulated at Gua Ore Mines

Non-disposal of iron ore fines accumulated at Gua Ore Mines resulted in non-realisation of revenue of Rs.1507 crore.

The mechanised mining of Gua Iron Ore Mine, a captive mine of IISCO[♣], was started in May 1958. The iron ore lump produced in the mines was directly consumed by IISCO in its blast furnaces but the fines generated were required to be converted into pellets in the Pelletisation Plant or sinter in the Sinter Plant before they could be consumed. As IISCO had no Sinter Plant, the fines could not be consumed in IISCO. The fines were either sold or dumped in the stockyard.

Examination of records (April 2005) revealed that Bokaro steel plant and Durgapur steel plant of Steel Authority of India Limited had sinter plants and supply of iron ore fines to

[♥] ***The auditor of MATE, Oman in their report for the year ended 31 December 2002 stated that the establishment capital was eroded by owners drawings and there was a net liability position. It further stated that these factor indicated that the establishment activity was dependent on improvement in profitable operations and required continued financial support from proprietor and bankers.***

[♣] ***A fully owned subsidiary company of Steel Authority of India Limited (SAIL) since merged with SAIL with effect from 1 April 2005***

these plants from Gua mines was economically feasible. Bokaro steel plant regularly received iron ore fines from the Kiriburu mines (368 km) and Meghahataburu mines (369 km) linked to it but was accepting iron ore fines from Gua mines (272 km) only to meet the shortage of ore fines. Similarly Durgapur steel plant received iron ore fines from Bolani mines (319 km) and not from Gua (312 km).

The sale/dispatch of fines from Gua mines had been very poor. Out of the average production of 1.78 MMT *per annum* during the five years 2000-01 to 2004-05 only 0.71 MMT (40 *per cent*) was dispatched and the balance of 1.07 MMT was being added every year to the accumulated stock of 12.16 MMT (March 2000) dumped in the stock yard. As a result there was accumulation of 35.04 MMT of iron ore fines valuing Rs.1507♥ crore as on 31 March 2005.

The Management while accepting the facts (September 2006) stated that the fines stockpile had accumulated over a long period (from 1958) and could not be liquidated within a short span of time due to various constraints such as:

(i) Railways did not have adequate capacity to dispatch fines from Gua station,

(ii) Supply through land routes to different ports was not economically viable,

(iii) Price of fines was erratic and

(iv) Poor quality of fines.

Further, efforts were being made to increase the dispatch of fines from Gua mines and about 1.52 MMT were dispatched during 2005-06.

The reply of the Management did not reflect the position fairly as the stockpiling was mainly due to the inability of the Management to dispose of enough quantity of fines. Dispatch of 1.52 MMT of fines subsequently during 2005-06 provided evidence that it was possible to dispatch substantial quantity of iron ore fines from Gua. This was despite export of large quantities of iron ore fines from the country and significant increase in the price of the iron ore fines in recent years.

The matter was reported to the Ministry in November 2006. The Ministry while accepting the fact (December 2006) stated that the Government of Jharkhand had raised objection to the sale of iron ore for export on the plea that SAIL was not an iron ore trading company. The reply did not appear to be relevant since the Audit comment was on sale of iron ore fines and not export of iron ore.

Thus, the accumulation of iron ore fines resulted in non-realisation of revenue of Rs.1507 crore. In addition, accumulation of iron ore fines was an environmental hazard and attracted objections from environmental authority also.

♥ ***Calculated at Rs.430 per MT, the rate at which fines were supplied to Rashtriya Ispat Nigam Limited***

18.4.2 Extra expenditure of Rs.10.04 crore in purchase of Moly Oxide

Notwithstanding rising prices, the Company purchased Moly Oxide on piecemeal basis resulting in extra expenditure of Rs.10.04 crore during 2004-05.

Alloy Steel Plant (ASP) of Steel Authority of India uses Molybdenum Ore and Moly Oxide (concentrate) for manufacture of Moly bearing Steel. Its average requirement ranges from 25 to 30 MT *per* month.

Scrutiny of the records (January 2006) revealed that:

(i) ASP floated (May 2004) an open tender enquiry for import of 200 MT of Moly Oxide for consumption upto March 2005 with the stipulation that 100 MT of the material was to be shipped during the quarter June to August 2004. Techno-commercial bids for 200 MT of the material were frozen for supply upto March 2005. However, price bids were opened (June 2004) for 100 MT for shipment upto August 2004 but the order was placed for 36 MT only on M/s. KTC Korea, principal of M/s. Metallic Corporation at Rs.8.93 lakh *per* MT. The purchase of smaller quantity was on the ground that the price of the material was very high and the international market was fluctuating.

(ii) ASP invited another price bid in July 2004 from six vendors for purchase of 60 MT of material for shipment in August 2004. Of this, 40 MT was purchased from M/s British Metals at Rs. 9.17 lakh *per* MT. Though the remaining 20 MT was available at the same rates from other suppliers, ASP decided (July 2004) not to place further order but to go in for fresh tendering keeping in view the downward fluctuation in prices of the material during a few days in July 2004.

(iii) Later on, ASP purchased 18 MT of Moly Oxide from M/s. KTC Korea for December 2004 shipment at Rs.18.64 lakh *per* MT and 80 MT from M/s. Jinduicheng Molybdenum Corporation, China during the last quarter of 2004-05 at an average rate of Rs.19.61 lakh *per* MT.

ASP thus purchased its requirement piecemeal instead of in bulk. The procurement on piecemeal basis was not justified as the price of Moly Oxide had been increasing sharply from 2002 onwards and there was no indication that the trend of rise in price would stop or reverse. The procurement decisions should have been in concordance with the market trend. As there was sharp upward movement of prices, the Management should have considered bulk purchase. By making piecemeal purchase of Moly Oxide and paying successively higher prices, the Company incurred extra expenditure of Rs.10.39 crore during 2004-05.

The Management in reply (July 2006) stated that there was unprecedented increase in the prices in June 2004 over January 2004 and bulk procurement of yearly requirement would have pushed up inventory level, leading to blocking of funds. It was further contended that procurement in smaller lots based on requirement assessed from time to time reduced the risk of speculative buying in the volatile market situation. The Ministry endorsed (January 2007) the reply of the Management.

The contention of the Management/Ministry regarding unprecedented increase in the price of Moly Oxide was not acceptable as the price was rising since 2002 and the clear trend of rising prices should have been considered while making purchases. As regards blocking of money in inventory, the purchase cost of the total required quantity would have been less at lower price and extra expenditure incurred in purchasing the material subsequently at higher price could have been avoided by the Company. The loss of interest due to blocking of funds in bulk purchase would have been Rs.35 lakh only.

Thus, due to purchase of Moly Oxide on piecemeal basis disregarding the rising price trend, ASP incurred extra expenditure of Rs. 10.04♣ crore on purchase of Moly Oxide during 2004-05.

18.4.3 Extra expenditure and production loss due to delay in finalisation of tenders

Delay in finalisation of tenders for 'Back up rolls' resulted in extra expenditure of Rs.8.20 crore due to subsequent purchase at higher price and production loss of Rs.375.52 crore due to unscheduled change of the rolls.

Bokaro Steel Plant (Plant) of Steel Authority of India Limited (SAIL) was using 'Back up Rolls' of forged steel in its Hot Strip Mill since inception. After modernisation due to change in Mill condition, spoiling of Back up Rolls increased leading to unscheduled roll changing and consequent loss of production. The Plant decided (October 2003) to use forged Back up Rolls with chromium content of 3 to 3.5 *per cent.*

The Plant invited (December 2003) a global tender for procurement of forged Back up Rolls. In response, only two offers were received and these were not opened as per purchase procedure of the Company (where minimum three offers are required). In April 2004, the Plant issued a limited tender enquiry to nine parties. In response, five parties quoted their rates and the offer of M/s. Sidenor Villares, Spain was found technically and commercially acceptable after several rounds of discussions. The Tender Committee, however, considered the price of Euro 1,15,700 (Rs.67.11 lakh♠) each roll to be high and therefore, negotiated (November 2004) for price reduction. The party did not agree to any reduction in price and reduced the offered quantity from 40 rolls to 20 rolls with validity upto 30 November 2004. The Plant placed purchase orders for the supply of 20 rolls at a price of Euro 1,15,700 *per* roll on 24 November 2004. On the same day but before placement of the order by the Plant, M/s. Sidenor Villares withdrew the offer on the ground of extreme rise in raw materials prices.

In December 2004, M/s. Sidenor Villares submitted an alternate proposal for supply of four rolls at the earlier quoted FOB price of Euro 115700 *per* roll, next eight rolls at the quoted price plus Euro 17,000 (Rs.9.86 lakh) *per* roll and the remaining eight rolls at the quoted price plus Euro 22,000 (Rs.12.76 lakh) *per* roll. The Plant however, considered the increase in price to be unjustified and did not accept the offer. Instead it took up the matter with the Spanish Embassy to persuade the supplier to accept its earlier (November 2004) offer. However, the party did not accept the order.

♣ ***Extra expenditure of Rs.10.39 crore minus Rs.35 lakh being the interest on blocking of funds in bulk purchase***

♠ ***At Euro =Rs.58.00***

The Plant again issued (March 2005) a limited tender enquiry to 18 parties including M/s. Sidenor Villares against which only six quoted their rates. This time also, the offer of M/s. Sidenor Villares was found lowest at FOB price of Euro 203000 (Rs.1.18 crore) *per* Roll. The Plant, finally, placed the purchase order (May 2005) on M/s Sidenor Villares at the above quoted price for 20 rolls which was subsequently increased to 40 rolls. The Plant received eight rolls upto March 2006.

Audit observed that the delay in finalisation of tender and failure to place purchase order within the validity period provided opportunity to the single technically acceptable party to withdraw their offer and ask for an increase in price. Since the raw material prices of rolls were increasing it was prudent for the Management to accept the offer of December 2004 when the party had withdrawn their earlier offer. By not accepting the December 2004 offer and procuring rolls at higher price from the same party the Company incurred extra expenditure of Rs.8.20 crore. The Plant also suffered production loss of Rs.375.52 crore due to unscheduled change of the rolls during 2004-05 and 2005-06.

The Management stated (July 2006) that since the item was new, several rounds of discussions were held with the user department and with the firm before taking decision for purchase of rolls on 24 November 2004. The counter offer of December 2004 for part quantity and with higher price could not be considered as the Plant decided to chase up through the Spanish Embassy for acceptance of the order for full quantity. The Ministry endorsed (January 2007) the reply of the Management.

The contention of the Management/Ministry was not tenable as in the rising price scenario the Plant should have acted expeditiously in finalising the tender, particularly since the tender committee had already concluded (September 2004) that re-tendering might not yield better response. As there was no concluded contract in November 2004, acceptance of the counter offer of December 2004 would have considerably reduced the extra expenditure on procurement of rolls.

Thus the Company incurred an extra expenditure of Rs.8.20 crore in procurement of 20 rolls at higher price and suffered production loss of Rs.375.52 crore due to unscheduled change of the Rolls during the period from April 2004 to March 2006.

18.4.4 Irregular payment of Turnover Discount

Hot Roll Coil lifted under Export Incentive Scheme was irregularly considered towards fulfilment of MOU quantity. In another case enhancement of MOU quantity was allowed in contravention of Company policy. These resulted in irregular payment of Turnover Discount of Rs.8.03 crore by the Company.

Steel Authority of India Limited (Company) entered into an MOU (April 2003) with M/s. Surya Roshni Limited (SRL) for sale of Hot Roll (HR) Coil of 1,45,000 MT in 2003-04, which was increased to 1,70,000 MT in November 2003. The MOU provided for a Turnover Discount (TOD) subject to lifting of 100 *per cent* of the MOU quantity.

In May 2003, the Company framed an Export Incentive Scheme, which was applicable to the customers exporting pipes and tubes made from HR coils purchased from the Company. The scheme, *inter alia*, provided that:

(i) Incentive would be allowed at Rs.25 *per* MT on the entire quarterly lifting of HR Coils provided the Customers export pipes of minimum five *per cent* of total HR Coils lifted in a quarter.

(ii) The quantity to be supplied under the scheme would not be counted towards fulfilment of MOU quantity; lifting would be over and above the MOU quantity.

In 2003-04, SRL lifted 1,80,345 MT of HR Coil which included 58,857 MT lifted under the Export Incentive Scheme during April-September 2003. The quantity exported by SRL during the period was 5,404 MT. The Company allowed Export Incentive of Rs.25 *per* MT on 58,857 MT of HR Coil lifted by the party under the Export Incentive Scheme. In addition, the Company paid TOD at Rs.375 *per* MT on the entire quantity of 1,80,345 MT lifted by the party which worked out to Rs.6.76 crore. For determining the eligibility of the party for TOD, the Company took the MOU quantity as 1,74,941 MT by deducting exported quantity of 5,404 MT from the total quantity of 1,80,345 MT instead of deducting the quantity lifted under the Export Incentive Scheme which was 58,857 MT.

Though the achievement of the party towards the MOU was only 71 *per cent* at 1,21,488 MT (1,80,345 MT minus 58,857 MT supplied under Export Incentive Scheme), the party was paid TOD which was payable for lifting 100 *per cent* quantity of 1,70,000 MT.

The irregular computation of the quantity supplied towards fulfilment of MOU booking quantity resulted in an irregular payment of TOD of Rs.6.76 crore to the party.

The Management while accepting the above facts contended (June 2006) that the spirit of the incentive scheme was to encourage exports and only the quantity physically exported was to be excluded for the purpose of TOD calculation under MOU. The Ministry endorsed (December 2006) the reply of the Management.

The reply was not acceptable as the Scheme clearly provided that the quantity to be supplied under the scheme was to be excluded for the purpose of TOD calculation under MOU.

In another case of MOU executed with Bharat Heavy Electricals Limited (BHEL) for supply of steel material for a period of two years 2003-04 and 2004-05, 90,000 MT of material was to be supplied during 2003-04, while the quantity for the year 2004-05 was to be indicated by March 2004. TOD was extended subject to lifting of not less than 100 *per cent* of the annual MOU quantity as per prevailing scheme and payable against lifting upto 120 *per cent* of annual MOU quantity.

In March 2004, the Company framed an Order Booking Scheme under MOU for Projects, Construction Companies, Multi Product and Multi Location PSUs and other Government Departments excluding small scale industrial corporations for the year 2004-05 which provided that enhancement of MOU quantity would be considered only if the lifting was within 120 *per cent* of the original booked quantity and was prior to minimum two months before the expiry of the period of MOU.

For the year 2004-05, BHEL booked MOU quantity of 1,00,000 MT in May 2004 which was enhanced to 1,40,000 MT in October 2004 and to 1,80,000 MT in December 2004.

Another proposal was moved in March 2005 to enhance the MOU quantity to 2,05,000 MT which was approved on 5 April 2005. Meanwhile, BHEL lifted 2,34,208 MT of steel material and the Company paid TOD on the entire quantity lifted.

The approval of enhancement of the MOU quantity in April 2005 *i.e.* after the period of MOU was contrary to the Company's policy. The enhancement of MOU quantity was possible only within two months before the period of MOU (*i.e.* by January 2005). The payment of TOD on the entire quantity was also irregular as the quantity eligible for payment of TOD was 2,16,000 MT (120 *per cent* of 1,80,000 MT, quantity enhanced within January 2005) only. This resulted in undue payment of TOD amounting to Rs.1.27 crore to BHEL.

The Management in its reply (June 2006) stated that the enhancement of MOU quantity after cut off date was done with a view to liquidating the stocks of plate mill plates and other items in the stockyards. Moreover, had the MOU quantity not been enhanced, BHEL would not have lifted the additional tonnage in 2004-05, leading to the tonnage remaining in stock, which in all probability would have fetched either a lower realisation in 2005-06 or remained in stock adding to the inventory carrying cost. The Ministry endorsed (December 2006) the reply of the Management.

The reply was not acceptable as BHEL had requested to enhance the MOU quantity to take care of their increased demand of steel materials due to good orders in hand. Further, BHEL had already lifted the entire quantity of 2,34,208 MT by 31 March 2005 *i.e.* before enhancement of MOU quantity.

Thus, by considering the quantity supplied under Export Incentive Scheme towards fulfilment of MOU quantity and allowing enhancement of MOU quantity in contravention of the Company policy, irregular payment of TOD amounting to Rs.8.03[♣] crore was made by the Company.

18.4.5 Extra expenditure due to poor performance of ingot mould

Poor performance of ingot moulds produced in-house at Durgapur Steel Plant foundry due to deficiencies in processing and manufacturing resulted in excess consumption of ingot moulds involving an extra expenditure of Rs.7.02 crore during 2003-04 and 2004-05.

Ingot moulds are used in Steel Melting Shop to teem and shape the liquid steel into ingots. The performance of ingot moulds is determined by the number of heats obtained from them. Durgapur Steel Plant (DSP) a unit of Steel Authority of India Limited meets its requirement of ingot mould through in-house production in its foundry and also through purchase from the market.

The average number of heats obtained from the ingot moulds manufactured by DSP foundry varied from 24 in 2003-04 to 28 in 2004-05. As against this, the number of heats given by those manufactured by the Bokaro Steel Plant (BOSP) and the Bhilai Steel Plant (BSP) varied between 39 and 53 in 2003-04 and 2004-05. The number of heats given by

[♣] *Rs.6.76 crore plus Rs.1.27 crore*

the ingot moulds purchased by DSP from established outside sources was also much higher at 47 to 64 heats.

A study of the process parameters for making of ingot moulds conducted by the Research and Control Laboratory in DSP foundry in July 2004 found that the main reasons for poor performance of ingot moulds manufactured by DSP were:

(i) Majority of the defects in the moulds were related to adoption of faulty sand practice. The granulometry of sand was found to be quite adverse with undesirable undersize fraction being more than 40 *per cent* against the norm of 10 *per cent*.

(ii) Absence of any system for ensuring proper proportioning of various ingredients of sand mix *i.e.* re-cycled and fresh components of silica sand and additives.

(iii) Absence of dry milling which led to segregation of additives without attaining uniformity of binder coating on sand grains.

(iv) No control over sand mould heating and soaking regime. As a result heating was abrupt and at times very high (more than 100 degree centigrade/hour against the desired heating of 50 centigrade/hour).

(v) Non-attainment of proper compaction due to faulty jolting (lateral movement of table) which led to improper strength of moulded sand especially in the core portion.

An analysis of the reasons for poor quality of sand indicated that though the purchase orders for supply of river sand stipulated the strict quality requirement of the foundry department, there was a clause for acceptance of sand with relaxed specifications (beyond the minimum specifications) after levying penalty.

The above deficiencies in processing and manufacturing of ingot mould resulted in poor performance of in-house produced moulds as compared to those produced in the foundries of BOSP and BSP or those purchased from established outside source. This resulted in excess consumption of 1,287 ingot moulds manufactured at DSP foundry, involving an extra expenditure of Rs.7.02 crore during 2003-04 and 2004-05.

The Management stated (June 2006) that the study covering monitoring of process parameters was made to identify weaknesses and take necessary corrective action to improve the heat life. Accordingly, quality specifications for sand had been made more stringent and corrective measures such as installation of instruments for control of heating of sand mould, development of system for proportioning of various ingredients of sand mix, action for proper compaction *etc.* had been taken to improve the life of moulds and minimise defects. The Ministry endorsed (January 2007) the reply of the Management.

The reply was not tenable as even after taking these measures, there had been no improvement in the life of ingot moulds and in fact the average life of ingot moulds in

2005-06 and 2006-07 (upto January 2007) decreased to 26 heats as against 28 heats achieved in 2004-05.

18.4.6 Loss due to non-recovery of electricity charges from employees at domestic rate

Non-implementation of the Company's decision for recovery of electricity charges as per tariff of State Electricity Board from employees resulted in loss of Rs.1.22 crore to the Company.

Bolani Ore Mines (BOM) is a captive mine of Durgapur Steel Plant of SAIL (Company) and has its own township. The power requirement of BOM including its township is met from the electricity purchased from North Eastern Electricity Supply Company of Orissa Limited (NESCO). The rate of electricity charged by NESCO for domestic consumption is Rs.2.30 *per* KWH whereas Management actually recovered a fixed amount from each type of quarter. The actual consumption of electricity for individual quarters was not ascertainable in the absence of individual meters. But the rate charged from the occupants was much lower compared to the prescribed tariff since there was a huge deficiency in the overall recovery of charges for domestic consumption of electricity in the township.

In order to rationalise the subsidy on electricity, the BOD of the Company decided (March 2002) that for the employees residing in the township, the chargeable rate for electricity should be at least equal to the minimum of the domestic rate as *per* tariff of State Electricity Boards. This decision was to be implemented from April 2002.

It was observed in Audit (March 2006) that Management continued to charge the employees at the concessional fixed charges for each type of quarter. This resulted in less recovery of electricity charges of Rs.1.22 crore from the employees during the period April 2002 to March 2006.

The Management while accepting (June 2006) that electric meters had not been installed, stated that the recovery was being made on the basis of fixed charges for each type of quarter and the quarter-wise charges had been enhanced for executive (with effect from August 2003) and non-executive employees (with effect from August 2005) though they were not brought at par with the State Electricity Board rates. They added that the law and order situation had been deteriorating in the area due to intrusions by extremist groups in the nearby areas which had created a sense of panic and utter demotivation among the employees and that the situation was not congenial at present for a total revision of the rates.

The Ministry stated (January 2007) that action had been initiated for installation of meters in houses/quarters in township in phases.

The reply was not acceptable as deteriorating law and order situation cannot be considered a valid basis for non-installation of meters and the non-recovery of due charges. Even with the enhanced rates per quarter, the amount recovered for domestic consumption fell far short of the amount paid to NESCO. Recovery of electricity charges as per domestic tariff for the actual units consumed from the employees had not been made.

Thus, non-implementation of BOD's decision to recover the energy charges at the minimum domestic rate as *per* tariff of the State Electricity Board resulted in a loss of Rs.1.22 crore to the Company during the period April 2002 to March 2006.

18.4.7 Loss of revenue on sale of granulated slag

Agreement to sell a quantity of 3.50 lakh MT of granulated slag against the willingness of the buyer to purchase four lakh MT, resulted in a loss of revenue of Rs.1.06 crore to the Company.

Rourkela Steel Plant (RSP) of Steel Authority of India Limited (SAIL) was generating granulated slag (slag) from its furnace operation which was used for making cement. OCL India Limited (OCL) was the major consumer of slag generated by RSP and was lifting 2.50 lakh MT of slag *per annum*. In February 2003, OCL expressed willingness to enter into a long term agreement for purchase of five lakh MT of slag *per annum* at Rs.250 *per* MT but this was not agreed to by RSP due to low price. OCL again offered (October 2003) to enter into an agreement to buy four lakh MT of slag *per annum* at Rs.370 *per* MT. In April 2004 RSP entered into an agreement with OCL for sale of granulated slag for a period of three years effective from 1 June 2004 to 31 May 2007. The agreement was for a contracted quantity of 3.50 lakh MT every year with a provision to sell an additional quantity of 0.50 lakh MT subject to availability against a quantity of four lakh MT desired by OCL. The price of slag was Rs.370 *per* MT, which was to be escalated by Rs.12 *per* MT every year. As clarified by the Management (May 2006), they did not agree to supply four lakh MT annually to OCL as the production was around 4.2 lakh MT and it was considered desirable to try and develop other customers to avoid total dependence on a single party.

Examination of records (February 2006) revealed that OCL did not lift the additional quantity of granulated slag of 0.50 lakh MT *per annum* during the first and the second year of the agreement as there was a downward trend in prices. The stock of slag with RSP started increasing as the Company could not get other customers and so RSP agreed (February 2005) to sell to OCL of 1.2 lakh MT of granulated slag at Rs.300 *per* MT for the period February 2005 to July 2005. Subsequently, another proposal to sell one lakh MT of slag to OCL at Rs.265 *per* MT for the period October 2005 to March 2006 was accepted by the Company in October 2005.

The decision of RSP to sell a contracted quantity of 3.50 lakh MT with an additional quantity of 0.50 lakh MT subject to availability was not justified as more than 4.20 lakh MT of granulated slag was being generated annually and OCL had offered to buy four lakh MT. The performance of other customers was also not satisfactory as they had lifted only about 60 *per cent* of the contracted quantity of about 1.50 lakh tonne during 2000-01 to 2002-03. Had RSP entered into the contract for a firm quantity of four lakh MT *per annum*, OCL would have lifted the entire quantity at the rate of Rs.370 *per* MT. As a result of the stipulation to sell additional quantity of 0.50 lakh MT subject to availability, there was no binding on OCL to lift the additional quantity and they did not do so. This necessitated sale of slag subsequently, at lower rates, resulting in a loss of revenue of Rs.1.06 crore to RSP during February 2005 to March 2006.

The Management in its reply (May 2006) stated that provision for sale of 3.5 lakh MT *per* year was kept in the contract and the remaining quantity likely to be generated was to be offered to other buyers at the same price as in the case of OCL. However, the sale to other buyers could not be effected due to depressed market condition and development of the use of fly ash as a cheaper substitute of granulated slag for use in the cement industry. The matter was reported to the Ministry in October 2006. The Ministry while endorsing the views of the Management (December 2006) stated that the Company had awarded the quantity based on availability, past performance of the customers and the requirements given by them.

The reply of the Management and the Ministry did not reflect the correct position as OCL had indicated (October 2003) their willingness to buy a quantity of four lakh MT *per annum* at Rs.370 *per* MT. With a production of around 4.2 lakh MT *per annum*, it was feasible to accept OCL's proposal and also to supply the requirement of other smaller customers but only 3.50 lakh MT were offered to them instead. The Management's argument of developing more than one customer for alternate route of disposal was also not acceptable as the performance of other customers has been found unsatisfactory. As against a quantity of 72,000 MT offered, the alternate buyers lifted only 44,382 MT during June 2004 to May 2006. The Management had to sell the remaining quantity to OCL only.

Thus, the decision of RSP to enter into agreement for the sale of granulated slag at contracted quantity of 3.50 lakh MT instead of four lakh MT led to subsequent sale at lower rates. This resulted in loss of Rs.1.06 crore to the Company during February 2005 to March 2006.

CHAPTER XIX: MINISTRY OF TEXTILES

Jute Corporation of India Limited

19.1.1 Loss of Rs.62.27 lakh due to improper fund management

Improper fund management and contravention of DPE guidelines resulted in the Company sustaining a loss of Rs.62.27 lakh being the differential between the interest earned on short-term deposit and the interest paid on cash credit.

In December 1994, the GOI, DPE issued guidelines for investment of surplus funds by Public Sector Enterprises (PSE) which stipulated that:

(i) Funds should not be invested at a particular rate of interest for a particular period of time while the PSE is borrowing at an equal or higher rate of interest for its requirement for the same period of time; and

(ii) Investment decision should be based on sound commercial judgment.

The BOD of the Jute Corporation of India Limited (Company) took note of the guidelines in April 1995 and authorised the Chairman and Managing Director, Director (Finance) and Director (Marketing) of the Company to take decisions on investment of surplus funds.

Audit observed (February 2005) that the Company availed of cash credit upto Rs.65 crore from the State Bank of India from August 2002 to November 2004 at rates ranging from 10.65 *per cent* to 11.10 *per cent.* During the same period, the Company invested its surplus funds (ranging from Rs.0.64 crore to Rs.30 crore) in short term deposits with banks at interest rates ranging from 4 *per cent* to 6.5 *per cent*. This not only contravened the DPE guidelines on investment of surplus funds but also resulted in a loss of Rs.62.27 lakh on account of higher interest paid on cash credit.

The Management accepted (July 2006) the fact that cash management had not been judicious and stated that corrective action had been taken from the year 2005-06.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

National Textile Corporation (APKK&M) Limited

19.2.1 Irregularity in implementation of Modified Voluntary Retirement Scheme

Inclusion of inadmissible elements as part of salary for the computation of *ex-gratia* under Modified Voluntary Retirement Scheme resulted in extra expenditure of Rs.3.91 crore.

The DPE stipulated (May 2000) that salary for the purpose of voluntary retirement schemes (VRS) shall consist of basic pay and dearness allowance (DA) and no other elements were to be considered. It also provided that a suitable variant be developed by the Ministry of Textiles (MOT) in respect of its textile units. Accordingly, MOT with the concurrence of DPE revised (March 2001) VRS and allowed HRA in addition to basic pay and DA, only for the employees of non-revivable National Textile Corporation Limited (NTC) mills which were proposed to be closed in pursuance of the revival plan of NTC.

NTC introduced (January 2002) a Modified Voluntary Retirement Scheme (MVRS) for the employees of 39 unviable mills under its subsidiaries. However, subsequently, the Company offered (October 2003 to April 2005) the same scheme in viable mills also though MOT had allowed the MVRS only for the employees of unviable mills. Hence, the decision of NTC to allow HRA in respect of revivable mills was in contravention of the instructions (March 2001) of the MOT and DPE.

Test check of MVRS offered in five mills to be closed, eight mills to be revived, two marketing divisions and the Corporate Office of NTC (APKK&M) Limited, a subsidiary of NTC, revealed that:

(i) In respect of five closed mills, for computing *ex-gratia*, the Company included the elements like high cost allowance, personal pay, family planning increment, *ad hoc* payments, financial benefits, rationalisation benefits, agreement awards *etc.*, in addition to basic pay, DA and HRA resulting in estimated extra payment of Rs.23 lakh♣.

(ii) In respect of working mills and units, the Company included the elements like HRA, personal pay, benefits under tripartite agreement, high cost allowance, special increment, interim relief, benefits under Andhra Pradesh Textiles Tripartite Wage Committee recommendations, Supreme Court award, flat increase, show room incentive, family planning increment, *etc.*, in addition to basic pay and DA resulting in estimated extra expenditure of Rs.3.68 crore♣.

The Ministry endorsed (December 2006) the reply of the Management and stated that:

(i) In the DPE circular 6 November 2001 it was stated that the option of Gujarat or DHI (Department of Heavy Industries) pattern shall be available to the employees of marginally profit/loss making, as well as sick and unviable mills. Hence, allowing HRA in respect of viable mills was not in contravention of the instructions of the DPE and MOT.

(ii) Basic pay including all Interim relief, awards by various agreements, tribunals *etc.* were treated as pay and attract all statutory payments like PF, ESI *etc.* and therefore, the payments made were in order.

♣ ***The figure was computed on the basis of the actual extra expenditure in a representative sample of cases which was extrapolated to the entire parent population.***

The reply of the Ministry was not tenable as MVRS approved by MOT (March 2001) envisaged only basic pay and DA (and HRA in case of non revivable mills) to be considered for computation of *ex-gratia* and no specific approval was taken by the Company from DPE/ MOT to include the above inadmissible elements. Further, MVRS approved by the Board of Directors of NTC (Holding Company) had clearly stipulated that no amount of *ad-hoc*/award was to be treated as salary for the purpose of the Scheme.

Thus inclusion of inadmissible elements for the computation of *ex-gratia* which was in contravention to the MOT and DPE instructions for VRS resulted in extra expenditure of Rs.3.91 crore.

CHAPTER XX

Follow-up on Audit Reports (Commercial)

The Lok Sabha Secretariat requested (July 1985) all Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Audit Reports (Commercial) of the Comptroller and Auditor General of India as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs and appraisals that were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha) while reiterating the above instructions, recommended:

- setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- setting up of a monitoring cell in the Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- submission to the Committee within six months from the date of presentation of the relevant Audit Reports of follow up ATNs duly vetted by Audit in respect of all Reports of the C&AG presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000 - Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August, 2000 to monitor the follow up on submission of ATNs by the concerned Administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of CAG.

A review in Audit revealed that inspite of reminders, the remedial/corrective ATNs on the paragraphs/appraisals contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in Appendix-IV, were not received by Audit for vetting.

In respect of Audit Reports (Commercial) for the last five years (upto 2005), out of 503 paragraphs/ reviews on which ATNs were awaited, 36 pertained to 2001, 66 pertained to 2002, 91 pertained to 2003, 119 pertained to 2004 and 191 pertained to 2005. For Audit

Reports (Commercial) of 2006, which were presented to Parliament in March/May 2006, ATNs on 287 paras/reviews out of 399 were awaited from various Ministries till 22 November 2006.

Out of 790 paragraphs on which ATNs were awaited, 112 paragraphs related to the PSUs under the Ministry of Communications and Information Technology, Department of Telecommunications, 92 related to PSUs under the Ministry of Finance (Banking Division), 80 related to PSUs under the Ministry of Steel, 68 related to PSUs under the Ministry of Finance (Insurance Division) and 64 related to PSUs under the Ministry of Petroleum and Natural Gas.

(BHARTI PRASAD)
Deputy Comptroller and Auditor General
cum Chairperson, Audit Board

New Delhi
Dated: 24 APR 2007

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

New Delhi
Dated: 24 APR 2007

APPENDIX -I

(Referred to in para 13.6.1)

Short payment of advance tax

Previous Year	Quarterly due date	Percentage of advance tax due to total advance tax due for the year	Permissible percentage of advance tax on the payment of which interest is not levied	Indian Oil Corporation Limited					Bharat Petroleum Corporation Limited				
				Rupees in crore			Percentage of advance tax paid to total advance tax due for the year	Percentage of short payment of advance tax with reference to permissible percentage	Rupees in crore			Percentage of advance tax paid to total advance tax due for the year	Short payment of advance tax w.r.t permissible percentage
				Advance tax due for the quarter	Advance tax including TDS paid	Short payment			Advance tax due for the quarter	Advance tax including TDS paid	Short payment		
1999-00	15.06.1999	15	12	65.38	49.00	16.38	11	1					
	15.09.1999	45	36	196.15	139.43	56.72	32	4					
	15.12.1999	75	75	326.91	320.15	6.76	73	2					
	15.03.2000	100	100	435.88	426.25	9.63	98	2					
2000-01	15.06.2000	15	12						38.08	5.00	33.08	2	10
	15.09.2000	45	36						114.15	122.00	0.00	48	0
	15.12.2000	75	75						190.25	192.00	0.00	76	0
	15.03.2001	100	100						253.67	267.00	0.00	105	0
2001-02	15.06.2001	15	12	140.12	31.63	108.49	3	9	40.92	35.00	5.92	13	0
	15.09.2001	45	36	420.38	113.63	306.75	12	24	122.75	107.00	15.75	39	0
	15.12.2001	75	75	700.63	127.25	573.38	14	61	204.59	226.00	0.00	83	0
	15.03.2002	100	100	934.17	774.34	159.83	83	17	272.78	447.00	0.00	164	0
2002-03	15.06.2002	15	12	256.55	46.46	210.09	3	9	92.95	43.00	49.95	7	5
	15.09.2002	45	36	769.64	672.21	97.43	39	0	278.85	175.00	103.85	28	8
	15.12.2002	75	75	1282.73	718.83	563.90	42	33	464.81	251.00	213.81	40	35
	15.03.2003	100	100	1710.31	1787.52	0	105	0	621.62	584.00	0.00	94	6

2003-04	15.06.2003	15	12	333.27	105.96	227.31	5	7	120.71	71.00	49.71	9	3
	15.09.2003	45	36	999.81	525.61	474.20	24	12	362.20	213.00	149.20	26	10
	15.12.2003	75	75	1666.34	1138.51	527.83	51	24	603.67	480.00	123.67	60	15
	15.03.2004	100	100	2221.79	2100.21	121.58	95	5	804.93	760.00	44.93	94	6
2004-05	15.06.2004	15	12	133.05	121.74	11.31	14	0	41.48	40.00	1.48	14	0
	15.09.2004	45	36	399.24	279.90	119.34	32	4	124.46	85.00	39.46	31	5
	15.12.2004	75	75	665.24	279.90	385.34	32	43	207.43	118.00	89.43	43	32
	15.03.2005	100	100	886.98	659.47	227.51	74	26	276.62	341.00	0.00	123	0

APPENDIX -II

(Referred to in para 13.6.1)

Short payment of advance tax by BPCL - Kochi Refinery

Previous year	Quarterly due date	Percentage of advance tax due to total advance tax due for the year	Permissible percentage of advance tax on the payment of which interest is not levied	Rupees in crore			Percentage of advance tax paid to total advance tax due for the year	Percentage of short payment of advance tax w.r.t permissible percentage
				Advance tax due for the quarter	Advance tax including TDS paid	Short payment		
2003-04	15.06.2003	15	12	42.75	15.00	27.75	5	7
	15.09.2003	45	36	128.26	86.81	41.45	30	6
	15.12.2003	75	75	213.76	180.81	32.95	63	12
	15.03.2004	100	100	285.03	287.81	0.00	101	0
2004-05	15.06.2004	15	12	66.24	44.50	21.74	10	2
	15.09.2004	45	36	198.71	160.10	38.61	36	0
	15.12.2004	75	75	331.19	305.10	26.09	69	6
	15.03.2005	100	100	441.59	439.10	2.49	99	1

APPENDIX -III

(Referred to in para 15.1.1)

Amount (Rs. in lakh)

Name of PSU	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered
Ministry of Civil Aviation			
Airports Authority of India	Non-billing of car parking slot at Import phase-III building at IGI Cargo terminal.	3.14	3.14
Air India Limited	Non-payment of handling charges by the other airlines towards facility of exclusive perishable cargo handling by AIL at Mumbai Airport	4.53	2.78
Ministry of Coal			
Northern Coalfields Limited	Non-recovery of Rentals and electricity charges from outsiders	22.85	9.30
Coal India Limited	Non-receipt of old dues from Tamil Nadu State Electricity Board	826.12	826.12
Ministry of Commerce and Industry			
Export Credit Guarantee Corporation of India Limited	Excess payment to Dena Bank and Karnataka Bank	90.78	28.20
Ministry of Consumer Affairs, Food and Public Distribution			
Food Corporation of India	(i) Recovery of differential amount between economic cost and OMSSD (Open Market Sales Scheme (D)) rates from Ministry of Defence	660.53	109.07
	(ii) Non-availment of discount from empanelled hospital	0.47	0.47
Ministry of Finance (Insurance Division)			
The New India Assurance Company Limited	(i) Undercharge of premium	8.69	3.46
	(ii) Excess payment of Marine Survey Fee	0.29	0.09
	(iii) Outstanding recovery of co-insurance claims from a co-insurer	23.10	23.10
	(iv) Excess payment due to settlement of marine claim on standard basis	1.01	1.01

Name of PSU	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered
National Insurance Company Limited	Short-charge of premium	48.32	48.20
United India Insurance Company Limited	(i) Undercharge/short collection of premium	98.27	98.27
	(ii) Non-realisation of additional premium	0.90	0.83
The Oriental Insurance Company Limited	(i) Short recovery of Earth Quake premium	53.24	39.59
	(ii) Excess settlement of fire-claim due to incorrect application of average clause	1.44	1.44
	(iii) Undercharge of premium	1.64	1.64
Ministry of Petroleum and Natural Gas			
Oil and Natural Gas Corporation Limited	(i) Extra payment on account of Leave Fare Assistance (LFA) encashment and Conveyance Maintenance Reimbursement Expenditure (CMRE) claimed	0.63	0.63
	(ii) Private use of ONGC helicopter	3.29	3.29
Hindustan Petroleum Corporation Limited	Non-payment of credit received from Danish Tax Authorities by the contractor as per the terms of agreement	38.62	38.62
Ministry of Power			
National Hydroelectric Power Corporation Limited	Non-recovery of interest on interest free advance granted to contractor for early completion despite non-achievement of the objective of timely completion by the contractor, which was one of the conditions for release of advance	312.59	312.59
Total		**2200.45**	**1551.84**

APPENDIX -IV

(Referred to in Chapter XX)

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes are pending as on 22 November 2006

No. and Year of Report	Name of the Report	Para No., if any
Ministry of Agriculture & Co-operation		
1. No. 3 of 2003	Transaction Audit Observations	Para 1.1.1
2. No. 11 of 2006	Comments on Accounts	Paras 1.2.1, 1.5.1
Department of Bio-Technology		
1. No.2 of 2002	Comments on Accounts	Paras 1.4.1, 2.1.2, 2.2.1, 2.3.3, and 2.8.1
2. No.2 of 2003	Comments on Accounts	Para 2.1.2
3. No.2 of 2004	Comments on Accounts	Paras 2.2.2 and 2.3.1
4. No. 2 of 2005	Comments on Accounts	Paras 2.1.2 and 2.2.1
Department of Chemicals & Petrochemicals		
1. No.2 of 2003	Comments on Accounts	Paras 2.1.3, 2.2.4, 2.2.5, 2.3.2, 2.4.6 and 2.8.1
2. No.3 of 2003	Transaction Audit Observations	Para 3.1.1
3. No.2 of 2004	Comments on Accounts	Paras 1.2.1, 1.2.2, 2.1.2, 2.1.3 and 2.5.2
4. No.3 of 2004	Transaction Audit Observations	Para 1.4.1
5. No. 2 of 2005	Comments on Accounts	Para 2.1.3
6. No. 3 of 2005	Transaction Audit Observations	Paras 2.1.1, 2.1.2 and 2.2.1
7.No. 12 of 2006	Transaction Audit Observations	Para 3.1.1
Department of Fertilizers		
1. No.3 of 2003	Transaction Audit Observations	Para 10.2.1
2. No. 2 of 2005	Comments on Accounts	Para 1.4.3, 2.4.3, 2.5.1, 2.6.2 and 2.7.1

No. and Year of Report	Name of the Report	Para No., if any
3. No. 3 of 2005	Transaction Audit observations	Paras 8.1.1, 8.1.2 and 8.1.3
4. No. 11 of 2006	Comments on Accounts	Paras 1.2.2(i), 1.2.2(ii), 1.2.3, 1.4.2, 1.5.2, 1.5.3, 2.2.1, 2.3.1 and 2.6.1
5. No. 12 of 2006	Transaction Audit Observations	Paras 10.1.1, 10.2.1, 10.2.2, 10.2.3 and 10.2.4
Ministry of Civil Aviation		
1. No.3 of 2002	Transaction Audit Observations	Paras 3.1.1
2. No. 2 of 2005	Comments on Accounts	Paras 2.1.5, 2.5.17, 2.7.33 and 2.7.4
3. No. 3 of 2005	Transaction Audit Observation	Paras 3.2.3 and 3.2.4
4. No. 4 of 2005	Reviews on AIL Chapter-II	Paras 2.1, 2.2, 2.3, 2.4 and 2.5
5. No. 8 of 2006	Review on fleet utilisation and maintenance	Paras 2.4.1.1, 2.4.1.2, 2.4.2.1, 2.4.2.2, 2.4.2.3, 2.4.3.1, 2.4.3.2, 2.4.4, 2.5.1(i), 2.5.1(ii), 2.5.1 (iii), 2.5.2, 2.5.3.1, 2.5.3.2, 2.5.3.3, 2.5.4, 2.5.5, 2.5.6, 2.5.7.1, 2.5.7.2, 2.5.7.3, 2.6(i), (ii), (iii), (iv), (v), (vi), (vii) and (viii)
6. No.11 of 2006	Comments on Accounts	Paras 1.2.4, 1.2.5 and 1.2.6
7. No. 12 of 2006	Transaction Audit Observations	Paras 4.1.1, 4.2.1, 4.2.2, 4.2.3, 4.2.4 and 4.3.1
Ministry of Coal		
1. No.3 of 2002	Transaction Audit Observations	Para 4.6.1
2. No. 2 of 2005	Comments on Accounts	Paras 1.4.5
3. No. 3 of 2005	Transaction Audit observations	Paras 4.2.1 and 4.5.1

No. and Year of Report	Name of the Report	Para No., if any
4. No. 4 of 2005	Review on BCCL(Chapter III) (Performance of Madhuband Washery)	Paras 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7 and 3.8
5. No. 8 of 2006	Review on Project Implementation, performance of HEMM, Manpower analysis, Fund Management and Environmental planning	Paras 3.6.1.1, 3.6.1.2, 3.6.1.3, 3.6.1.4, 3.6.1.5(i), (ii), 3.6.1.6 (i), (ii), (iii), 3.6.1.7, 3.7.1, 3.7.1.1, 3.7.2.1, 3.7.2.2, 3.8.1, 3.8.2, 3.8.3, 3.8.4, 3.9.1, 3.9.2, 3.9.3, 3.9.4, 3.10, 3.11.1, 3.11.2, 3.12.1, 3.12.2, 3.12.3, 3.12.4, 3.12.5, 3.13.1, 3.13.2 and 3.13.3
	Performance Review on "Bucket Wheel Excavators" of Nevyeli Lignite	Paras 4.6.2.1, 4.6.2.2, 4.6.2.3, 4.6.3.1, 4.6.3.2, 4.7.1.1, 4.7.1.2, 4.8.1, 4.8.2, 4.8.3, 4.8.4 and 4.9
6. No. 11 of 2006	Comments on Accounts	Paras 1.4.3, 1.4.4, 1.4.5, 1.4.6, 1.5.4, 1.5.5,1.5.6, 1.5.7, 2.2.2, 2.2.3, 2.2.4, 2.5.1, 2.5.2 and 2.6.2
7. No. 12 of 2006	Transaction Audit Observations Chapter- V	Paras 5.1.1, 5.2.2, 5.3.1.5.4.1, 5.5.1, 5.6.1 and 5.7.1
Ministry of Mines /Department of Mines		
1. No. 3 of 2005	Transaction Audit Observations (I.T. Audit Observations)	Paras 14.1.1
Ministry of Commerce & Industry **Department of Commerce**		
1. No. 2 of 2002	Comments on Accounts	Para 1.2.16
2. No. 2 of 2003	Comments on Accounts	Para 2.2.12
3. No.3 of 2003	Transaction Audit Observations	Paras 6.1.1 and 6.2.1

No. and Year of Report	Name of the Report	Para No., if any
4. No.2 of 2004	Comments on Accounts	Paras 2.2.4, 2.2.5 and 2.3.4
5. No. 2 of 2005	Comments on Accounts	Paras 1.4.8, 2.1.15, 2.6.7
6. No. 11 of 2006	Comments on Accounts	Paras 1.2.8, 1.5.8, 2.1.2, 2.2.5 and 2.6.3
7. No. 12 of 2006	Transaction Audit Observations Chapter- VI	Para 6.1.1
Ministry of Communications and Information Technology **Department of Telecommunications**		
1. No. 2 of 2002	Comments on Accounts	1.2.19
2. No.5 of 2003	Telecommunications sector Chapter-2 Chapter-3 (Review) Chapter-4	Para 4 (Part) Paras 16.7.6, 16.7.9.1 and 16.7.9.2 Para 42
3. No.2 of 2004	Comments on Accounts	Paras 1.2.10 and 2.4.8
4. No.5 of 2004	BSNL Chapter-II Chapter-III (Review) Chapter-IV MTNL-Chapter-VII (1 Review) Chapter-VIII Chapter-X Chapter-XII	 Paras 2.1 and 2.10 Para 3.8 Paras 4.20, 4.22 and 4.32 Paras 7.14, 7.15, 7.16, 7.17, 7.18, 7.19, 7.20, 7.21, 7.22, 7.23 and 7.24 Paras 8.2 and 8.3 Para 10.3 Para 12.1
5. No. 2 of 2005	Comments on Accounts	Paras 1.2.5, 1.2.6, 1.3.4, 1.4.11, 2.1.19, 2.1.20, 2.4.9, 2.4.10, 2.5.4, 2.5.5 and 2.6.11
6. No. 5 of 2005	Communication Sector	

No. and Year of Report	Name of the Report	Para No., if any
	Chapter- I	Paras 1.3, 1.4, 1.6 and 1.7
	Chapter- III	Paras 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9 and 3.10
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7. No. 2 of 2003	Comments of Accounts	Paras 1.3.37, 1.3.39, 2.1.54, 2.4.40, 2.6.65, 2.6.66, 2.6.67 and 2.6.70
8. No.4 of 2003	Business Restructuring Plan of SAIL Rail and Structural Mill of Bhilai Steel Plant of SAIL	Para 3.1 Para 3.2
9. No.2 of 2004	Comments on Accounts	Paras 1.2.45, 1.3.29,

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		1.4.30, 2.1.36, 2.2.34, 2.2.35, 2.2.36, 2.2.37, 2.5.17, 2.5.18, 2.6.43, 2.6.44, 2.6.46, 2.6.47 and 2.7.12
10. No.4 of 2004	Review on NMDC	Chapter-XIII-Paras-13.2 and 13.4
11. No.6 of 2004	Steel Sector-Chapter 2 (SAIL)	Review on Captive Mines of SAIL
	Chapter-3	Paras 3.2 and 3.7
	Section-III HSCL Limited (Review)	Chapter-6 Paras 6.1 and 6.2
	Section-IV, RINL	Chapter-8 Paras 8.1 and 8.2
	Section VI-NMDC	Chapter-12 Paras 12.1
12. No.2 of 2005	Comments on Accounts	Paras 1.2.29, 1.3.21, 1.3.24, 2.1.53, 2.2.44 and 2.6.41
13. No. 3 of 2005	Transaction Audit Observations (Chapter-20)	Paras 20.3.1 and 20.5.1
14. No. 8 of 2006	Chapter-X-Review on the working of Bharat Refractories Ltd.	Paras 10.2, 10.4.1, 10.4.6, 10.5.1, 10.6.1, 10.6.3, 10.9.1, 10.9.2 and 10.11
	Chapter-XI – Review on High Seas Sale Activity - MSTC	Paras 11.7.1.1, 11.7.1.2, 11.7.1.3, 11.7.2.1, 11.7.2.2, 11.7.2.3, 11.7.2.4, 11.7.3.1, 11.7.3.2, 11.7.3.3, 11.7.4.1, 11.7.4.2, 11.7.4.3, 11.7.4.4, 11.7.4.5, 11.7.4.6, 11.7.4.7 and 11.7.4.8

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15. No.11 of 2006	Comments on Accounts	Paras 1.2.38, 1.4.24, 1.4.25, 1.4.26, 1.5.30 and 2.6.13
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1. No. 2 of 2005	Comments on Accounts	Paras 1.4.42, 2.1.47 and 2.6.36

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2. No.3 of 2005	Transaction Audit Observations	Para 19.1.1
3. No.4 of 2005	Review on Dredging Corporation of India Limited	Paras 12.1, 12.2, 12.3, 12.4, 12.5, 12.6, 12.7, 12.8, 12.9, 12.10, 12.11 and 12.12
4. No. 11 of 2006	Comments on Accounts	Paras 1.4.23, 1.5.28 and 2.1.7
5. No. 12 of 2006	Transaction Audit Observations– Chapter XX	Paras 20.1.2 and 20.2.1
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1. No.4 of 2003	Working of River Service Division of Central Inland Water Transport Corporation Limited	Para 4.1
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1. No.3 of 2005	Transaction Audit Observations	Chapter 21- Paras 21.1.1 and 21.1.2
2. No. 4 of 2005	Review on National Textile Corporation (APKK&M)	Chapter XIV- Paras 14.1, 14.2, 14.3, 14.4, 14.8 and 14.9
3. No. 8 of 2006	Review of Activities of selected PSUs Chapter-XIII	Paras 13.6.1.1, 13.6.1.2, 13.6.1.3, 13.6.2.1, 13.6.2.2, 13.6.3, 13.6.4, 13.7.1.1, 13.7.1.2, 13.7.1.3 and 13.7.2
4. No. 11 of 2006	Comments on Accounts	Paras 1.5.31, 2.1.9, 2.1.10, 2.4.11, 2.6.15, 2.6.16 and 2.7.3
Ministry of Tourism		
1. No.12 of 2006	Transaction Audit Observations Chapter-XXIII	Paras 23.1.1, 23.1.2 and 23.1.3
Ministry of Urban Development and Poverty Alleviation		
1. No. 2 of 2001	Review of Comments on Accounts	Para 1.2.65
2. No. 3 of 2001	Transaction Audit Observations	Para 24.1.1

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3. No.3 of 2004	Transaction Audit Observations	Para 20.1.1
4. No.2 of 2005	Review of Comments on Accounts	Para 1.2.31
5. No.11 of 2006	Review of Comments on Accounts	Paras 1.2.39, 2.1.11, 2.4.13 and 2.7.4
6. No.12 of 2006	Transaction Audit Observations Chapter-XXIV	Paras 2.4.1.1 and 2.4.1.2
Ministry of Water Resources		
1. No.11 of 2006	Review of Comments on Accounts	Paras 1.2.40, 1.2.41 and 1.5.36

GLOSSARY

ADB	Asian Development Bank
ASP	Alloy Steel Plant
AST	Additional Sales Tax
ATNs	Action Taken Notes
BHEL	Bharat Heavy Electricals Limited
BICP	Bureau of Industrial Costs and Prices
BL	Balmer Lawrie and Company Limited
BLFC	Balmer Lawrie Freight Containers Limited
BPCL	Bharat Petroleum Corporation Limited
CCA	City Compensatory Allowance
CD	Contract Demand
CFR	Cost and Freight
CIL	Coal India Limited
CMR	Custom Milled Rice
CUBL	City Union Bank Limited
CWC	Central Warehousing Corporation
DA	Dearness Allowance
DCs	District Collectors
DG	Diesel Generator
DIL	Dharnendra Industries Limited
DO	Divisional Office
DPE	Department of Public Enterprises
DSP	Durgapur Steel Plant
EKIL	Eskay (India) Limited
EOL	Engine-on-Load
EPC	Executive Purchase Committee
EPIL	Engineering Projects (India) Limited
FCI	Food Corporation of India
FOB	Free on Board
FSA	Fuel Supply Agreement
GOI	Government of India
GSO	Gas Shut Off
HCl	Hydrochloric Acid
HDFC	Housing Development Finance Corporation Limited
HOSI	Halliburton Offshore Service Inc.
HR	Hot Roll
HRA	House Rent Allowance
HSD	High Speed Diesel
HTS	Hill Transport Subsidy
HVF	Heavy Vehicles Factory
HZL	Hindustan Zinc Limited
IAL	Indian Airlines Limited
ICB	International Competitive Bids
ICEC	International Commodities Export Corporation
ICICI	ICICI Limited
IMFCML	Indian Marine Freight Containers Manufacturing Limited

IOCL	Indian Oil Corporation Limited
J&K	Jammu & Kashmir
JEOC	Jet Engine Overhaul Center
JSEB	Jharkhand State Electricity Board
km	Kilometers
KMS	Kharif Marketing Season
KNPL	Koyali and Navagam
KVSPL	Koyali-Viramgam-Sidhpur pipeline
L&T	Larsen and Toubro Limited
LC	Letter of Credit
LD	Liquidated Damages
LPG	Liquefied Petroleum Gas
MATE	Mohammed Ahmed Taher Est
MGE	Minimum Guaranteed Energy
MGO	Minimum Guaranteed Offtake
MIC	MIC Electronics Limited
MMT	Million Metric Tonne
MOA	Memorandum of Agreement
MOT	Ministry of Textiles
MOU	Memorandum of Understanding
MT	Metric Tonne
MTNL	Mahanagar Telephone Nigam Limited
NCD	Non Convertible Debenture
NE	Northeastern
NHAI	National Highways Authority of India
NIT	Notice Inviting Tenders
NJP	New Jalpaiguri
NOA	Notification of Award
NTC	National Textile Corporation Limited
OCC	Oil Co-ordination Committee
OCL	OCL India Limited
OIDB	Oil Industry Development Board
OMC	Oil Marketing Companies
ONGC	Oil & Natural Gas Corporation
OTS	One Time Settlement
OWC	Oil Well Cement
PO	Purchase Order
PPAC	Petroleum Planning and Analysis Cell
PSC	Project Supervision Consultants
PSE	Public Sector Enterprise
PSF	Passenger Service Fee
PSU	Public Sector Undertaking
RGP	Refinery Gate Price
RO	Regional Office
RSP	Rourkela Steel Plant
SAIL	Steel Authority of India Limited
SASL	Schlumberger Asia Services
SDCCL	Shri Digvijay Cement Company Limited

SDU	Solvent Dewaxing Unit
SEBs	State Electricity Boards
SKO	Superior Kerosene Oil
SLCC	State Level Coordination Committee
SWCs	State Warehousing Corporations
SYGS	Seven Year Guarantee Scheme
TAC	Tariff Advisory Committee
TC	Tender Committee
TCC	Travancore Cochin Chemicals Limited
TOD	Turnover Discount
TPL	Tamil Nadu Petroproducts Limited
TPS	Thermal Power Station
TSED	Tripura State Electricity Department
UIICL	United India Insurance Company Limited
VLCCs	Very Large Crude Carriers
VMC	Vadodara Municipal Corporation
VRS	Voluntary Retirement Scheme
WSO	Water Shut Off
WTC	World Trade Centre