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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1995

NO. 3 OF 1996

UNION GOVERNMENT - COMMERCIAL AUDIT OBSERVATIONS

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PREFACE

The accounts of Government Companies set up under the provisions of the Companies Act (including Government Insurance Companies and Companies deemed to be Government Companies as per provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of the CAG under the Companies Act, 1956 are subjected to supplementary or test audit by officers of the CAG and 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 given by him. In respect of International Airports Authority of India, National Highways Authority of India, National Airports Authority, Inland Waterways Authority of India, Damodar Valley Corporation and Delhi Transport Corporation, the CAG is the sole auditor under the relevant statutes. In respect of Central Warehousing Corporation and Food Corporation of India, the CAG has the right to conduct audit independently of the audit conduct by the Chartered Accountants appointed under the statues governing the two Corporations.

3. Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by 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. Three annual reports on the accounts of the Companies and Corporations are issued by the CAG to the Government.

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

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

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

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

6. The cases mentioned in this report are among those which came to notice in the course of audit during 1993-94 and 1994-95 and the early part of 1995-96 as well as those which came to notice in earlier years but could not be covered in previous Reports.

OVERVIEW

INFRUCTUOUS/EXTRA EXPENDITURE

Failure to utilise the Mines at Saladipura developed by Pyrites, Phosphates & Chemicals Limited in March 1979 due to delayed clearance from the Government resulted in blocking of Rs.6.09 crores. The chances of the utilisation of these Mines are remote because of decontrol of phosphatic fertilizers in 1992.

(Para 1.2)

Paradeep Phosphates Limited suffered a loss of Rs.13.85 crores during 1992-93 and 1993-94 due to shortage of Di-Ammonium Phosphates as a result of physical verification done by the Company.

(Para 1.3)

Setting up a quarry in the active fire zone without proper assessment of its workability resulted in a net loss of Rs.6.23 crores to Bharat Coking Coal Limited.

(Para 3.1.1)

Purchase of Mining Machinery at a cost of Rs.2.83 crores by Eastern Coalfields Limited lacked justification resulting in consequential loss of interest of Rs.2.26 crores on idle investment.

(Para 3.2)

Delayed settlement of a claim of a Foreign Company by Bharat Electronics Limited resulted in an extra expenditure of Rs.4.55 crores on account of variation in Foreign exchange rate.

(Para 6.2.1)

Due to delay in execution of schemes for installation of compressors, ONGC Limited suffered a loss of Rs.11.69 crores on account of continued injection of free gas and flaring of associated gas.

(Para 10.5.8)

Rural Electrification Corporation Limited incurred additional expenditure of Rs.1.38 crores and is also liable to pay Rs.5.36 crores as rent for office premises due to delay in moving into its own accommodation at SCOPE Complex.

(Para 11.1)

Failure of NMDC Limited to recruit the requisite skilled staff synchronizing with the setting up of the central workshop at Bacheli(MP) resulted in an idle investment of Rs.12.19 crores, with consequential loss of interest of Rs.69.77 lakhs.

(Para 12.1.2)

In addition, 14 PSUs had made purchases (including imports) for Rs.14.55 crores of machines, equipments, and spares which were not required or were not as per specifications or became redundant due to delay in ordering or delay in utilisation.

(Paras 1.1,2.1.1,2.1.2,3.1.2 to 3.1.4, 3.3,3.5,5.2,8.1,10.1,10.3.2 to 10.3.3, 10.5.1 to 10.5.5,10.5.7,12.1.1,12.2.3, 12.3.1,12.3.3,12.3.4 and 14.1)

Cases of avoidable payment of Customs duty and Excise duty of Rs.11.52 crores were also noticed.

(Paras 5.1.4,6.1 and 10.3.4)

LOSS OF REVENUE

Delay at various stages in declaration of Coal as long flame Coal resulted in loss of revenue of Rs.13.23 crores to Northern Coalfields Limited.

(Para 3.4)

Use of defective material supplied by an unauthorised stockist in the manufacturer of memory cards resulted in loss of Rs.2.83 crores to ITI Limited as the memory cards became unsaleble.

(Para 5.1.3)

BHEL paid liquidated damages of Rs.1.03 crores to the Railways due to delayed supply of traction motors.

(Para 9.1.2)

BHEL lost Rs.1.05 crores on sale of battery powered locomotives as these were rejected by the Railways being defective.

(Para 9.1.3)

There was an avoidable loss of Rs.13.87 crores to the nation on supply of rich gas to Gas Authority of India Limited (GAIL) by ONGC instead of lean gas due to delay in commissioning of Gas Compressor by GAIL.

(Para 10.5.6)

Due to defective Bank Guarantee, credit sales of Rs.4.71 Crores by Rashtriya Ispat Nigam Limited became unrecoverable from the customers resulting in total loss to the Company.

(Para 12.2.2)

Export of degraded CR coils without observing contractual condition regarding quality of material resulted in payment of compensation of Rs.2.74 crores in foreign exchange by Steel Authority of India Limited.

(Para 12.3.2)

Due to defects in the terms and conditions of the agreement and lack of planning in dredging work, Dredging

Corporation of India Limited suffered a loss of Rs.7.32 crores.

(Para 13.1)

In addition, PSUs suffered revenue losses amounting to Rs.4.55 crores on account of supply of material without agreement(IOC-Rs.14 lakhs),lacunae in export agreement(RINL-Rs.84 lakhs), non-recovery of sale proceeds(British India-Rs.118.70 lakhs), etc.

(Paras 9.1.1, 10.3.1,12.2.4 to 12.2.6, 14.2 and 14.3)

LOSS OF INSURANCE PREMIUM

Incorrect application of tariff provisions, undercharge of premium and irregular grant of discount resulted in loss of Rs.2.89 crores to the four Insurance Companies.

(Paras 7.1 to 7.5)

NON ENCASHMENT OF BANK GUARANTEE

Failure of Indian Oil Corporation Limited to encash the bank guarantee within the validity period resulted in loss of Rs.19.81 lakhs, paid as an advance to a supplier.

(Para 10.3.5)

CHAPTER 1

MINISTRY OF CHEMICALS & FERTILIZERS

DEPARTMENT OF FERTILIZERS

HINDUSTAN FERTILIZER CORPORATION LIMITED

1.1 Loss on Import of Reduced Ammonia Synthesis Catalyst

Against a purchase order placed by the Barauni Unit in September 1990 on a foreign firm for procurement of Reduced Ammonia Synthesis Catalyst of 60,610 Kg. at a total price of DM 321233, the supplier shipped the goods (December 1990) in three steel containers. While on voyage, the vessel encountered a storm (December 1990) and two out of three containers (40,310 Kg.) were swept over-board. The third container (20,300 Kg.) arrived at Calcutta port in March 1991 and the total loss amounted to Rs.33.30 lakhs (Rs.30.87 lakhs being cost of material completely lost at sea and Rs.2.43 lakhs being pro-rata cost of 1209 Kg. damaged material of the third container). The carrier disowned (May/July 1992) any liability for the loss of material as it had been caused due to heavy weather on high seas.

United India Insurance Company Limited (UIICL) granted an Insurance coverage in favour of Barauni Unit against Bank Guarantee of Rs.2.00 lakhs for transit risks during the period of 12 months from January 1990 to December 1990. The total premium bills for transit risk during the period from January 1990 to December 1990 amounting to Rs.4.78 lakhs (including the premium bill of Rs.26,594 for the consignment of Reduced Ammonia Synthesis Catalyst shipped in December 1990) were paid only in August 1991. For non-payment of transit premium in excess of Bank Guarantee, the Insurance Company was not liable for transit claim under Section 64 (V) B of the Insurance Act, 1938 and on that ground the claim of the unit preferred in February 1992 for the transit loss in December 1990 was turned down by UIICL in October 1992 and again in February 1994.

Thus, the Company suffered avoidable loss of Rs.33.30 lakhs due to non-payment of Insurance premium in time to the extent not covered by the Bank Guarantee.

The Management stated (June 1995) that the matter was under active consideration with the underwriters .

The Ministry while endorsing the Management's views stated (September 1995) that in case the Insurance Company fails to settle the claim, the Company would take legal action for the settlement of the same.

PYRITES PHOSPHATES AND CHEMICALS LIMITED

1.2 Idle investment on development of mines

Pyrites,Phosphates and Chemicals Limited (PPCL) submitted (November 1972 and June 1982) to the Government Techno Economic Feasibility Report for production of sulphuric acid from the Pyrite ore obtainable from the mines at Saladipura. However, the Company without clearance from the Government spent a sum of Rs.609.13 lakhs (upto March,1995) on the development (Rs.175.68 lakhs)and maintenance of mines (Rs.433.45 lakhs). The development of mines was completed in March 1979. However, the decision of the Government is still awaited (January 1995). In the absence of Sulphuric Acid Plant, the mines have remained unutilised since March 1979 and the total investment idle.

The Ministry stated (May 1993) that viability of the proposal to manufacture sulphuric acid or Single Super phosphate (SSP)has become doubtful in view of the decontrol of the phosphatic fertilizers in 1992. The resource constraints also delayed utilisation of mines. It further added (June 1995) that after decontrol, the performance of Amjhore Plant (another Unit of PPCL) manufacturing SSP through the Pyrites based sulphuric acid route had become uneconomical. Keeping these factors in view, the PPCL had to give up the pyrites based route and instead a fresh proposal to set up 300 tpd SSP Plant at Saladipura, based on bought out sulphuric acid, was submitted in 1993 with an idea of gainfully utilising the existing manpower. The latest proposal of PPCL was under active consideration of the Government.

The fact remains that the mines ready for production in March 1979 have remained unutilised for more than sixteen years for want of clearance from the Government even after incurring an expenditure of Rs.609.13 lakhs. The chance of its utilisation in future are also remote in view of the fresh proposal submitted to Government to set up SSP Plant based on bought out sulphuric acid.

PARADEEP PHOSPHATES LIMITED

1.3 Shortage of Di-Ammonium Phosphates

In course of physical verification of finished stock of Di-Ammonium phosphates (DAP) at Paradeep factory of the Company for the year 1992-93,a shortage of 12,105 MT was noticed and the resultant loss of Rs.743.26 lakhs was written off in the accounts (1992-93) without any investigation. The Board of Directors, however, decided while approving the write-off action (October 1993) to devise a system of physical verification of finished goods and other inventories on continuous basis. Accordingly, a committee of senior officers of the Company was constituted. The Committee conducted physical verification of DAP on 26th October 1993 at factory and found further shortage of 9742 MT. According to the Committee, the total shortage could be attributed to discrepancy in despatch from the factory to depots of the Company. Physical verification of stock for the year 1993-94 was again conducted on Ist April 1994 and the shortage was finally assessed as 9694 MT representing 43 percent of book stock valuing Rs.641.45 lakhs. This loss was adjusted in the accounts for the year 1993-94. The Board of Directors in its meeting held in June 1994 decided that the shortage should be investigated by an outside agency before approval of write-off for the loss.

As a result of huge shortage of DAP stock (21,799 MT),the Company suffered total loss of Rs.1384.71 lakhs during last 2 years (1992-93 & 1993-94).

While confirming the above facts and figures,the Management and the Ministry stated (June 1995) that outside consultant would be appointed soon to investigate into the shortages.

The Management further stated (January 1996) that MECON (India) Ltd. who were appointed as consultant submitted their report in October 1995. MECON have, interalia, identified the following reasons for shortages:-

(i) error in bag weighing machine;

(ii) loss due to dust generation at material transfer point; and

(iii) sludge loss in Bagging Plant and in DAP Plant.

The Management has not taken any action on this report, so far (January 1996)

CHAPTER 2

MINISTRY OF CIVIL AVIATION & TOURISM

DEPARTMENT OF CIVIL AVIATION

AIR INDIA LIMITED

2.1.1 Infructuous expenditure in the leasing of office premises not put to use

Air India Limited (Air India) decided (September 1985) to bring its reservation offices at New Delhi under one roof in Jeevan Bharti Building of Life Insurance Corporation, New Delhi by moving the reservation offices from Atma Ram Mansion and shifting Air India offices at Vandana and Hansalaya to Atma Ram Mansion. Towards this end, Air India took 14643 sq. ft. space in Jeevan Bharati Building of Life Insurance Corporation, New Delhi on perpetual lease with effect from 23 October, 1987 and started operating its reservation offices from there from November/December 1987. Out of the 6700 sq. ft. area in Hansalaya and Vandana buildings that was to be surrendered, only an area of 2721.71 sq. ft. was surrendered from Vandana building (August 1987) and the remaining area was retained on the ground that the property was in a prime location and the rentals were very low. The offices at Vandana and Hansalaya were also not moved to Atma Ram Mansion as originally envisaged.

Inspite of this, the lease agreement for Atma Ram Mansion, which expired on 31 October, 1989, was renewed with effect from 1 November 1989 for another five years i.e. upto 31 October, 1994 on the ground that this premises could be used as an additional booking office or as business centre for Air India due to its excellent advertisement value.

The new lease agreement inter-alia provided for the following:-

- increase in monthly lease rent from Rs.14,542 to Rs.3,54,321 (worked out on the basis of space of 11707 sq. feet in various floors).

- payment of two years rent in advance carrying interest @ 15% p.a. adjustable/recoverable in 60 months from the date of advance.
- certain renovations/reconstruction to be carried out by the landlord at his cost within three months of the commencement of the job. Till the completion of the renovation/reconstruction work or the expiry of three months, whichever was earlier, rental at 20 per cent of the rates was payable and no rental was payable for the period beyond three months upto the time the premises were made available after renovation/reconstruction work was completed.

Accordingly, Air India paid an advance of Rs.80.93 lakhs on 27 November, 1989. It also paid an amount of Rs.2.02 lakhs being rent at 20 per cent of the normal rent for the first three months. The full lease rent of Rs.125.84 lakhs for the period February 1990 to August 1993 (except for the period from 1st December 1991 to 15 July 1992, during which time the premises was sealed by the New Delhi Municipal Corporation, as Air India as well as the landlord carried out certain unauthorised construction flouting the municipal rules) was also paid even though no rent was required to be paid for this period as per the agreement as the premises were not made available after renovation/reconstruction. Besides, Air India also spent Rs.21.51 lakhs on renovation carried out by them.

Right from December, 1987 till the end of the lease period (October 1994), Air India did not use the space available in Atma Ram Mansion. It also continues (May 1995) to hold the space beyond the lease period without extension of the lease agreement and without putting it to any use. By renewing the lease agreement for Atma Ram Mansion without any specific requirement and by paying rent for a property which was not fit for occupation and the payment of which was not required under the terms of the agreement itself, Air India incurred an infructuous cash expenditure of

Rs.149.36 lakhs upto August 1993, including the expenditure on renovation. In addition, as Air India continues to hold physical possession of the premises without payment of lease rent and renewing the lease, there is an accrued liability of Rs.78.13 lakhs towards rental for the period from September 1993 to May 1995. The landlord has also filed a suit for non-payment of rent, including the period for which the property was sealed by the NDMC amounting to Rs.26.29 lakhs, and for eviction. All these amount to an infructuous expenditure of Rs.253.79 lakhs on a prime property taken on lease but not used. Besides, an amount of Rs. 30.35 lakhs being the balance of the advance rent paid in November, 1989 and interest of Rs. 29.78 lakhs @ 15 percent on the advance paid were outstanding (November 1995) for realisation from the landlord.

The Ministry endorsed (January/August 1995) the Management's contention (December 1994) that the premises at Atma Ram Mansion remained vacant due to procedural delays in getting the renovation work done and the landlord moving the court for eviction on the ground of non-payment of rental.

The reply is not tenable as the Management has not given any reasons for the retention of space at Atma Ram Mansion based on requirements. The fact that the premises remained vacant since December 1987 when there was no litigation indicated that the renewal of lease at high rentals without any firm requirement was not justified and was contrary to the canons of financial propriety. Moreover, payment of rent beyond the period of three months, within which renovation was to be completed, was not warranted under the terms of the lease agreement.

2.1.2 Extra expenditure due to delay in finalising catering contract.

At the inception of its Tokyo flight service in 1968, Air India (AI) had awarded a contract for catering services at Tokyo to Tokyo Flight Kitchen (TFK) without inviting open tenders. This contract was allowed to continue with revision in rates from time to time without ascertainig reasonability of rates through invitation of competitive bids. When this was pointed out by Audit in February,1989, Air India invited and received (February ,1990) quotations from three parties, one of whom was TFK. The rates quoted by TFK in response to Air India's tender were lower by 11.88 percent than the rates being paid to them. After price negotiations (January/February 1991) which resulted in TFL further reducing its rates by 1 percent, AI decided (April 1991) to award the contract to TFK for a period of 2 years from April,1990 to March,1992. Because of the delay of over a year by AI in accepting their offer, TFK expressed their inability to accept the contract with retrospective effect from April, 1990 as their accounting year was already over and the local laws did not permit re-opening the books of accounts TFK, however, were agreeable (July,1991) to accept the contract on revised rates for two years effective from April, 1991. As a result, AI continued to lift supplies from TFK at the pre-tender rates which were 14.78 percent higher than the tender rates. AI again took a period of five months (July to Dec.1991) in deciding whether the contract could be signed effective from April, 1991 to March,1993. TFK was not agreeable to the draft contract proposed by AI and desired a modification in clause regarding pricing of items. Ultimately, AI finalised a three year contract from April 1993 based on fresh tenders. As a result, Air India continued to pay old higher rates till March,1993.

Thus, while on one hand Air India lost the benefit of competitive prices on its catering contracts upto March 31,1990 due to award of contract to the same party without calling for open tenders, on the other hand it incurred an avoidable expenditure of Rs.127.67 lakhs for the period April 1990 to March 1993 because of delay in finalisation of catering contract after calling for tenders.

The Manangement while agreeing to the extra expenditure stated (June/July 1995) that TFK was the most suitable considering the infrastructural capabilities of the other two alternative caterers. The Ministry accepted (August 1995) the factual position communicated by the Management.

The reply of the Management/Ministry is not relevant as the issue raised was not that of the selection of TFK as caterer, but the delay in finalising the catering contract with TFK after obtaining lower rates through open tender in February, 1990. Further, the reply of the Management was silent on the vital aspect of awarding catering contracts without observing tendering procedure.

CHAPTER 3

MINISTRY OF COAL

BHARAT COKING COAL LTD.

3.1.1 Infructuous expenditure on Damodar Open Cast Project

The Damodar Open Cast Project (DOCP) of the company was approved by the Government of India in March 1984 for targetted production of 1 million tonne/per year of coking coal for 14 years including 2 years for construction The capital investment was projected at Rs.57.04 crores and the construction started in June 1985.

At the time when the DOCP was mooted (July 1982) fire had already been raging in the upper seams (XIVA-IX/X) of the quarry. A fire extinguishing scheme approved by the competent authority in August 1981 with a capital investment of Rs.4.20 crores was kept suspended since June 1982 due to non-availability of soil for blanketing. The intensity of fire had increased further by the time the DOCP project started (June 1985). From June 1985 over-burden of DOCP was utilised for blanketing purpose. But during 1985 to 1988 the fire could neither be controlled nor the project could progress satisfactorily due to intensity of fire. The mine was, therefore, reduced to 0.3 million tonne/year and the working area was also reduced to 84 Ha to 49 Ha in August 1988 with a capital investment of Rs.27.57 crores. As against this, the Company incurred a sum of Rs.22.71 crores as on 31.3.1991. The fire ultimately being unmanageable, the mining operation was stopped from 1.4.1991 by the Company based on recommendation of a technical sub-committee constituted for the purpose in March 1989. Assets worth Rs.8.36 crores were, however,transferred to other mines .

Thus, by taking a decision to open a quarry under existing active fire zone without proper assessment of its workability, the company had to incur a net loss of Rs.6.23 crores on the above project.

The Ministry stated (August 1995) that the fire scheme was taken up for dealing with Sudamdih patherdih fire on the Sudamdih Block and did not cover DOCP where fire was not existing at that time. This view is not acceptable as the project Report of DOCP envisaged that Sudamdih-patherdih Fire Project would deal with fire at the exploiting zone of DOCP. But the activities of the fire project remained suspended since 1982. In such circumstances mining operation without adequate safeguard against fire was injudicious.

The Ministry further stated that the company earned a sum of Rs.24.29 crores on the recovery of 1.01 million tonnes of coking coal of washery by opening of DOCP in 1984, which was more than the amount. The contention of the Ministry is not acceptable as the loss has been calculated taking into account the earnings from the production of Coking Coal.

3.1.2 Blocking of funds on purchase of Double Drum Winder

Coal India Limited purchased a Double Drum Winder from Mining and Allied Machineries Corporation (MAMC) Limited in 1984 at a cost of Rs.56.63 lakhs for its subsidiary-South Eastern Coalfields Limited. The winder has been lying idle at Talcher since then. With a view to utilizing the winder at Tetturiya Colliery for reopening and further deepening, Bharat Coking Coal Limited, a subsidiary of Coal India Ltd., decided to utilise the idle winder at Talchar. On inspection by the engineers of the Company it was found that most of the electrical and mechanical parts of the winder were either damaged or missing. Inspite of such findings, the Company bought the winder in July 1992 at a transfer price of Rs.60.40 lakhs to the colliery, spent Rs.0.93 lakhs on transportation and Rs.5.00 lakhs on foundation work. A further inspection at site in 1994 revealed that drawings of base frame and technical details required for installation of the winder were not available either with Central Mine Planning and Designing Institute Limited or with Mining and

Allied Machineries Corporation Limited. The winder has remained idle (August 1995).

Thus, an investment of Rs.66.33 lakhs by the Company on the winder has remained blocked for over ten years, with consequential loss of interest of Rs.35.71 lakhs (worked out @ 17% for the period from July 1992 to August 1995) during which it remained with BCCL. An additional loss for the period January 1985 to June 1992 would work out to Rs.72.20 lakhs when the investment remained idle with South Eastern Coalfields Ltd.

The Ministry stated (March 1995) that the missing items were identified and the same would be procured from local market and the erection of the winder would be taken up shortly. However,the erection of the winder has not yet taken place (August 1995).

3.1.3 Infructuous expenditure on procurement of Motors and Starters.

The Sudamdih Colliery raised an indent in June 1984 for purchase of 3 sets of Pumps, Motors and Starters with accessories to replace the existing underground equipment declared unserviceable. The purchase order indicating the specifications of the equipments was issued in June 1987 and supplies were received in March, 1989. During inspection it was revealed that though the Pumps and Motors met the specifications indicated in the purchase order, they were unsuitable as their size and weight were unsuitable to accommodate them in the shaft and to install them underground. As the purchase order gave incomplete specification without mentioning the physical dimensions of pumps meeting the site condition, the supplier supplied the standard equipments. While the pumps were modified by the supplier free of cost and were commissioned in July, 1989, the Motors and starters were not modified by the manufacturer and, therefore, could not be commissioned. Efforts to take the motors and starters even in knock-down condition and to install them in the mine were not found feasible. The motors and starters costing Rs.29.60 lakhs (90% of cost + CST) have, thus, been lying idle since March, 1989. The purchase of unsuitable motors and starters has delayed their replacement posing risk to mines safety and has resulted in infructuous expenditure of Rs.29.60 lakhs on their procurement.

The matter was referred to the Ministry and the Management in March 1995, but their replies have not been received (January 1996).

3.1.4 Improper storage of equipments

The Company imported two 1000 KVA Transwitch units(TSU) from France for use in mines of Katras Project in May and November 1990 at a cost of Rs.50.00 lakhs each. According to the provisions of the contract, the warranty period of the equipments was valid upto December 1991.

The Company failed to store the equipments properly after their receipt and could not commission them within the warranty period (December 1991).

When the company tried to energise the transwitches in March and June 1992, defects were found in both of them. With a view to repairing the transwitch units, the company took up the matter (March 1993) with the supplier, a French firm, which reported that defects were due to damage to the active parts of the equipments caused on account of unprotected storage for a long period.

The supplier firm, however, recommended changing the damaged active parts of the transwitches as repair was not suitable and agreed to supply the parts at a cost of Rs.31,50,000.

The Management stated (February 1995) in response to initial audit observation that the action to repair the TSUs was under consideration of Coal India Limited. The fact, however, remains that the equipments have not been commissioned so far.

As a result of unprotected storage as well as non-commissioning of the equipments within the warranty period, the Company is left with no alternative but to incur an avoidable expenditure of Rs.31.50 lakhs on the replacement of the damaged active parts of transwitches if they are to be used, besides blocking of funds to the tune of Rs.1.00 crores over a period with a consequential loss of interest of Rs.87.83 lakhs (worked out @ 17% per annum upto October 1995).

The matter was referred to the Ministry and the Management in June 1995, but their replies have not been received (January 1996).

EASTERN COALFIELDS LIMITED.

3.2 Blocking of funds on injudicious purchase of mining machinery.

The revised Project Report of Dhemomain Colliery (12/89) provided for 1200 mm conveyor belt at No.3 incline of R VIII seam for the two Longwall panels to enhance the productivity. Although the Project Report had not been sanctioned by the Government of India, Coal India Ltd. (CIL) placed an order (July 1988) for purchase of 5 sets of 1200 mm Conveyor belt on a Private Limited Company at a total cost of Rs.4.72 crores. Delivery of these sets was to be made at Dhemomain Colliery commencing from July 1989 @ 1/2 sets per month. All the five sets of Conveyor belt were received at Dhemomain colliery between August 1989 to April 1990. Meanwhile Director General of Mines Safety (DGMS) did not approve (May/89) the Longwall Caving at the proposed site due to apprehended danger to the surface, thus bringing the Longwall Venture at R-VIII seam of Dhemomain Colliery to an abrupt end. Hence all the sets of Conveyor belt could not be used in Dhemomain Colliery. Two sets of Conveyor belt were transferred to Jhanjra Project in March,1991 to be used there and the same were in use in the project. The remaining 3 sets of Conveyor belt were lying unutilized till date (October 1995). In the meantime, performance guarantee furnished by the supplier as per terms of contract expired. The Management stated (August,1995) that in addition to two sets of conveyor belt already commissioned, two more sets of converyor belt would be commissioned by December 1995 at Jhanjra Project. The fifth one would remain there as stand-by. The Ministry concurred with the views of the Management (September 1995).

Thus, premature placement of order, without approval of revised Project Report from the competent authority and without assessing the requirement of the conveyor belt properly, lacked justification and resulted in blocking of funds of Rs.2.83 crores (being purchase price of three sets of conveyor belt) over a period of five year with a consequential loss of interest of Rs.2.26 crores (worked out @ 16 %).

MAHANADI COAL FIELDS LIMITED

3.3 Avoidable expenditure due to violation of restrictions on power consumption

The Company furnished from time to time its requirement of Power to Orissa State Electricity Board (OSEB) for Jagannath/Talcher and IB Valley coalfields but due to limited capacity of generation, OSEB imposed restriction on consumption of power keeping a provision for meeting the shortfall of requirement by means of agreement for purchased power. The cost of such purchased power was higher than its own generation and varied according to the rates of import. Violation of restrictions so imposed attracted penal rate. OSEB,as in earlier months, imposed restrictions on consumption for July, 1992 which was 5.4 million KWH for Jagannath/Talcher and 0.74 million KWH for IB Valley coalfields. Due to communication gap, the coalfields of the Company were not aware about the restrictions for July,1992 and had drawn 8.135 M.KWH and 1.967 M.KWH respectively for which OSEB charged penal rate (Rs.3.20/KWH) and recovered

Rs.59.66 lakhs for Jagannath/Talcher and Rs.26.77 lakhs for IB Valley coalfields totalling Rs.86.43 lakhs. Company's request for waiver of penal rate was turned down by OSEB on the ground that the notification imposing the restriction was published well in advance and penalty imposed as per gazette notification could not be waived.

It was stated by the Management (April 1994) and Ministry (September 1994) that OSEB imposed unilateral restriction on consumption of power in July 1992 and did not indicate in the notification that they would charge penalty at double the rate. It was further stated that consumption of power in under-ground mines could not be reduced due to the fact that these mines were watery, fiery and gassy.

While there may not be any dispute over resultant risk on reduction of consumption of power in under-ground mines, it is not correct to say that OSEB had unilaterally imposed restrictions and did not indicate the charging of penal rate as the notification dated 30.6.1992 was very clear in this regard. In fact the Company concluded an agreement in May 1992 for purchase of power for the period from 1.5.1992 to 30.6.1992 .

Had the management concluded an agreement for purchase of power for the month of July 1992 as was done for preceding periods, it could have avoided payment of additional charges to the extent of Rs.55.46 lakhs on a very conservative basis as the difference between the penal rate and the rate of purchased power was Rs.1.40/KWH (Rs.3.20-Rs.1.80).

While confirming the facts and figures of the draft para, Management stated (May,1995) that the normal procedure was not followed by OSEB and, therefore, the Management could not take action to prevent imposition of penal rate in time.

Management's above contention is also not tenable as it was well known to the Company through earlier notifications that overdrawal of power would attract penal rate.

The Ministry reiterated (August 1995) the Management's stand that the imposition of penalty was unilateral and stated that the company had protested against such penalty.

NORTHERN COALFIELDS LIMITED.

3.4 Delay in declaration of long flame coal

The parameters for declaration of coal as long flame were laid down by the Government of India, Ministry of Coal in a Gazette Notification dated 4th July 1986. The producers of long flame coal were entitled to a higher sale price of Rs.25 per tonne as compared to the corresponding grades of non-long flame coal. According to the procedure prescribed by the Coal Controller in September 1983, regradation of coal of a seam could be done by a producer on the basis of the results of the loading samples to be drawn over a period of three months, followed by a notice of 30 days to the Coal Controller. Keeping this in view, as well as the time needed for test analysis (15 days) and other administrative requirements(10 days), the Northern Coalfields Ltd, Singrauli (Company) should have been in a position to declare the coal of its Jayant and Gorbi mines as long flame by Ist December 1986.

Coal India Limited (CIL), however, circulated the Gazette Notification to its subsidiaries including the Company on 24 October, 1986, after a delay of more than 3 months. The Company declared the coal of Jayant and Gorbi mines as long flame coal only with effect from 1.11.1987. The overall delay of 11 months at various stages resulted in a loss of Rs.13.23 crores on the despatch of 52.93 lakh tonnes of coal from 1.12.1986 to 30.10.1987.

The Managemement stated (November 1995) that there was a notional loss since the entire quantity of the long-flame coal had been supplied to the National Thermal Power Corporation (NTPC). The reply is not tenable as the long-flame coal supplied to NTPC had been billed as non-long flame coal and as such the loss was real.

The matter was referred to the Ministry in September 1995, but their reply has not been received (January 1996).

SOUTH EASTERN COALFIELDS LIMITED

3.5 Non recovery of transportation charges

While fixing sale prices for various categories of coal, the Ministry of Energy (Department of Coal) vide its Gazette Notification of 8 January 1986 entitled the coal producers to charge from the purchasers the actual cost of carriage of coal from pit-head to the railway siding if the distance exceeded 3 Kms and sales were on are FOR basis.

The South Eastern Coalfields limited (Company) was supplying coal to Madhya Pradesh Electricity Board (MPEB) from the river-bed quarry of Manikpur colliery throught the Manikpur CHP of the Company at a distance exceeding 3 KMs.

The Company did not prefer the bills for the actual cost of transporting the coal from river-bed quarry to the CHP. The first bill was raised (April 1989) after being pointed out in Audit (January 1989).

The Company incurred expenditure amounting to Rs.68.53 lakhs between December 1986 and June 1991 during which the quarry was operated. The amount was yet to be recovered from MPEB. The Management stated (July 1995) that a meeting was shortly being arranged with MPEB to sort out the issue.

Thus, due to failure of the Company to raise the bills for transportation of coal in time, its dues of Rs.68.53 lakhs remained blocked for over four to eight years (November 1995).

The matter was referred to the Ministry in October 1995, but their reply has not been received (January 1996).

CHAPTER 4

MINISTRY OF COMMERCE

MMTC LIMITED

4.1 Waiver/non-realisation of interest

The MMTC Limited (as a canalising agency) had been entering into MOU from time to time since March 1987 with the Rajasthan State Mines and Minerals Limited (RSMML) for the purchase of rock phosphate produced by the latter, and its sale to designated fertilizer users against service charges of Rs. 15 per metric ton.

The import of rock phosphate was decanalised in February 1992, with the result that the Fertilizer Industry started making either direct imports from other countries or direct purchases from RSMML. MMTC, however, released Rs.4.78 crores in August 1992 as eighty per cent advance to RSMML for a declared quantity of 30000 MTs rock phosphate, of which only 8852 MTs valuing Rs.1.45 crores were sold "On Account MMTC" by RSMML upto December 1992. The Company could not sell the remaining quantity of 21148 MTs due to its inability to attract buyers after decanalisation and the balance advance of Rs.3.33 crores remained unadjusted. No sale of rock phosphate was effected by RSMML thereafter on behalf of the Company as the former started selling the ore directly.

Despite this, the Company entered into a fresh MOU with RSMML in January 1993 (with slight change in payment terms and service charges altered to 2 per cent from Rs.15 per metric ton) and paid Rs.2.98 crores in February 1993 and Rs.6.74 crores in April 1993 as 40 per cent advance against the fresh declared stock.

However, RSMML continued to sell the materials directly and no sale was effected by them on MMTC's account. The amount paid as advance and remaining unadjusted with RSMML accumulated to Rs.13.05 crores as on April 7, 1993.

Thus, huge amounts remained blocked with RSMML from time to time as the Company gave advances in February/April 1993 under the new arrangement, instead of insisting upon the settlement of earlier advance even though it was clear that RSMML was selling its own product directly to consumers after decanalisation.

In July 1993, an agreement was entered into with RSMML under which the entire advance was treated as inter-corporate loan. It was agreed, inter-alia, that the unadjusted amount of Rs.3.33 crores (of August 1992) would be refunded by RSMML without interest by September 1993. The balance Rs.9.72 crores was to be refunded with interest at banker's cash credit rates during October 1993 to February 1994.

RSMML, however, delayed the repayment and paid Rs.3.31 crores in two instalments in September 1993 (Rs.1.66 crores) and in October 1993 (Rs.1.65 crores), leaving an amount of Rs. 1.74 lakhs unrecovered. The balance advance of Rs.9.72 crores was recovered in 5 instalments by March 1995 without any interest.

While the Company is yet (November 1995) to receive the balance principal amount of Rs.1.74 lakhs and interest of Rs.4.25 crores on Rs.9.72 crores from RSMML for the period upto 28.2.1995, it also lost Rs.79.28 lakhs by waiving the interest on Rs.3.33 crores (at an average cash credit rate).

The Management while confirming the facts of the case stated (March 1995) that it had released Rs.9.72 crores to RSMML on the basis of the agreement entered into in January 1993 and that the marketing arrangements could not be implemented due to the changed marketing scenario subsequent to decanalisation of rock phosphate. The Ministry endorsed the views of the Management (May 1995).

The reply is not tenable as the Company was well aware of the decanalisation scenario at the time of entering into an MOU with RSMML in January 1993.

CHAPTER 5

MINISTRY OF COMMUNICATIONS
DEPARTMENT OF TELECOMMUNICATIONS

ITI LIMITED

5.1.1 Loss due to development and production of a product without assessing marketability

The Company developed an Electronic Push Button type telephone instrument (ESE 89 telephones), spending Rs.11.69 lakhs during 1989-90 and 1990-91, assuming that the prevailing demand for 2 lakhs Rotary type telephone instruments would be replaced by a similar demand for Electronic Push Button instruments with the introduction of electronic exchanges.

The Company did not undertake any market survey or prepare any project report or feasibility study. However, it planned the production of 2 lakh such telephones during 1991-92 and initiated procurement action for the production of 50,000 telephones.

Upto March 1993, the Company produced only 6,798 sets (a set comprises two instruments) against 2 firm orders for 6,000 sets at a price of Rs.2,087 per set. As the cost worked out to Rs. 3296 per set, of which material alone accounted for Rs.2,578, the Company incurred a loss of Rs. 60.46 lakhs on 5,000 sets sold to DOT. Due to poor order book position, no production was planned during 1993-94 and inventory and work-in-progress worth Rs.128.72 lakhs were written off in the accounts of the Company for the year 1992-93.

The Management stated (June 1995) that 6,089 sets were eventually sold, 574 sets were internally consumed and the balance of 135 sets are lying in stock. The Management also pointed out that they had received an order for 783 sets in March 1995 and that the Company has been seeking extension of delivery schedule for another order for 2000 sets which was received in March 1990. It added that these orders (2,783 sets) will be executed out of the available written off materials and that they were hopeful of getting further orders.

The Management's reply has to be viewed in the light of the following factors:

- The order received in March 1995 for 783 sets from MTNL is at a price of Rs.2019 per set, which is less than the earlier price of Rs.2087; thus, the loss on sale of 783 sets would be Rs.9.99 lakhs at 1.4.1991 cost.

- The order for 2,000 sets, at Rs.2,100 per set, that was given in March 1990 has not been re-validated till date.
- Even if 2,783 sets are manufactured and sold, the Company would only make a loss on these and the balance inventory would still be Rs.109.04 lakhs.

The Company thus lost Rs.72.15 lakhs (loss of Rs.60.46 lakhs on 5,000 sets already sold plus development expenditure of Rs.11.69 lakhs) and is likely to lose a further Rs.109.04 lakhs on inventory built up, because of its failure to undertake a market survey or profitability analysis before developing a new product.

The matter was referred to the Ministry in March 1995, but their reply has not been received (January 1996).

5.1.2 Investment in Portfolio Management Scheme (PMS)

The Company placed (July 1991) 2.70 crores units of U.T.I. 1964 Scheme (Face value Rs.27 crores) with a foreign bank for a period of one year for "Portfolio Management/safe keeping" at an indicative return of 1% of the Unit secondary market rate and stipulated that the same units be returned at the end of one year. As part of the arrangement, the Company handed over blank transfer deeds duly discharged along with the unit certificates to the bank.

The Company thus invested in "Portfolio Management

Scheme" in violation of the Government of India instructions (December 1987) on investment of surplus funds by Public Sector Undertakings and subjected its funds to risk for a very meagre return of 1 percent. Further, the investment transaction was carried out with a foreign bank at a time when the guidelines of Bureau of Public Enterprises (BPE) required the public sector enterprises to have even normal banking transactions only with nationalised banks.

The Management stated (April 1994) that:

- the transaction was distinct from an ordinary Portfolio Management Scheme in as much as it envisaged a custodial arrangement by which the foreign bank was required to return the original units at the end of one year. In other words, there was a distinct character of safe keeping;
- this was an investment transaction where the foreign bank had acted as an agent to manage the Company's assets and was not therefore part of normal banking transactions;
- this was a sound business arrangement as (i) the money was to be invested only in PSU/Government securities stipulated, (ii) the original Units were to be returned and (iii) the foreign bank was an established and reputed international bank; and
- the decision was financially prudent and failure to capitalize on this opportunity to earn additional revenue would not have been a sound business decision.

The reply of the Management may be viewed in the light of the following :

- safekeeping normally entails a charge and does not generate revenue. Further a safekeeping arrangement would not require handing over blank transfer deeds,
- the contentions of the Management that the money was to be invested only in PSU/Government securities and that the original Units were to be returned are mutually inconsistent,

- as per the agreement, the foreign bank was to act only as the Company's agent and manage their assets/investments in a fiduciary capacity and all investment actions/inactions in this regard were to be solely at the Company's risk;
- the transaction was not commercially prudent as it had subjected the entire funds of Rs.27 crores to risk in return for a meagre 1% indicative return while it led to an undue benefit to a foreign bank; and
- when even normal banking transactions were not permitted, investments through foreign bank could not be said to be covered, in spirit of the BPE directives regarding dealing with nationalised banks.

The Ministry reiterated (March 1995) the Company's view that the transaction was distinct from an ordinary Portfolio Management Scheme as the Company intended to keep its investment in the form of Units itself and this had been ensured by the arrangement. The Ministry, however, agreed that the issue of blank transfer deeds was fraught with risks and stated that necessary instructions have been issued to all the Public Sector Undertakings to be vigilant in investing their surplus funds as per the Government guidelines on the subject.

As already stated, this was not a safekeeping arrangement as the bank was authorised to invest in various securities at the entire risk of the Company for an indicative return of only 1%. The Company got a return of only Rs.37.66 lakhs while the bank may have realised a much higher return by investing the funds generated through this transaction. Besides being financially imprudent, it is evident that the Company placed large funds at the disposal of a foreign bank in the guise of custodial arrangement when even normal banking transactions were not allowed with foreign banks.

5.1.3 Loss due to use of defective materials

The Company supplies Multi-module Automatic Exchanges (MAX) to the Department of Telecommunications (DOT). The manufacture of the memory cards for these exchanges requires Dynamic Random Access Memory (DRAM) ICs. The Company was required to use the DRAM ICs of manufacturers approved by Centre for Development of Telematics (C-DOT) who had designed the exchange.

Despite the availability of information that approved manufacturers (M/s Oki, Hitachi and Texas Instruments) had stopped manufacturing the DRAM ICs and their warranty would not be applicable unless the components were purchased from their authorised distributor, the Company placed an order in December 1992 for 2,36,000 DRAM ICs of C-DOT approved manufacturers at a cost of Rs.109.77 lakhs on an Austrian firm, which was not an authorised stockist of any of the approved manufacturers. The material was to be delivered in 3 instalments between December 1992 and March 1993.

The Company established an irrevocable Letter of Credit (L/C) for the full value of the order, immediately on placement of the Purchase Order. As the order was placed before the receipt and acceptance of the sample, a condition was incorporated in the L/C that it could be encashed only on furnishing the Quality Clearance Certificate (QCC) to be issued by the Company. The 12 sample ICs supplied in December 1992 were accepted and the QCC was issued in January, 1993, enabling the firm to supply the material.

The first batch of Ics (1,13,997 nos.) received on 5th April 1993 was found, on inspection, to be "pulled-out components" and some of them were found to be refurbished. The firm was advised (on 6th April 1993 and again on 10th April 1993) to stop despatch of the second batch of ICs till the dispute was sorted out. Inspite of this advice, the firm despatched the second consignment of 1,22,003 nos.(May 1993) and encashed the irrevocable L/C for both the consignments. The Austrian firm did not respond to the Company's repeated requests to furnish a certificate that the second batch contained good quality ICs which were original and not pulled-out or refurbished components. To avoid demurrage, the Company cleared the second consignment also (May 1993) by paying customs duty, etc.

The memory cards (2500 nos.) assembled with these ICs failed during field use and were rejected by DOT after the detailed tests of samples by their Component Approval Centre (January 1994) confirmed that the ICs appeared spurious and were unreliable. Samples sent to M/s Texas Instruments were confirmed by the latter as spurious. DOT rejected all the memory cards assembled with these ICs. The material cost of the memory cards assembled with the defective ICs, which had become unsaleable, worked out to Rs.2.83 crores. After the failure to get a positive response through the intervention of the Austrian Trade Commissioner in India, the Company issued a legal notice (September 1994) to the Austrian firm to which there has been no response (October 1995).

The Management justified (March 1995) the placing of the order on an unauthorised stockist with whom they were dealing for the first time, on the ground of criticality of the ICs in meeting DOT's order.

The reply of the Management ignores the fact that :

- the Company did not enquire from other PSUs to whom the Austrian firm claimed to have been supplying components regularly about the quality of material supplied to them by the firm.
- the caution of M/s Texas Instruments (October 1992) regarding discontinuation of production and non-availability of warranty was not brought to the notice of the Committee approving the purchase from the Austrian firm; and
- despite the presence of several suspicious circumstances

and the dubious behaviour of the Austrian firm, the Company decided to use the apparently spurious ICs without detailed lab tests, leading to a substantial financial loss apart from loss of credibility with their main customer viz. DOT.

The matter was referred to the Ministry in March 1995 but their reply has not been received (January 1996).

5.1.4 Wrong payment of excise duty

The Company imported 300 nos of Underground Repeater Housing 12 system (under SKD Form) against Purchase order dated 23 October 1986. The supplies were received in April and June, 1987 and the custom duty as due was paid thereon. Since the goods were imported in SKD(Semi-Knock Down) condition, 48 Nos of the goods were directly despatched to M/s MTNL, Bombay from the Port (Bombay) while the balance 252 Nos were brought to the factory at Naini as these were to be supplied to 21 customers at various places. These 252 Nos were entered by mistake in the R.G.-1 register maintained for recording excisable items and the company paid excise duty of Rs.25.20 lakhs on their despatch in June and July 1987. Subsequently, in December 1987 a claim for refund of excise duty was filed with Excise Authorities. The claim was,however, rejected in November, 1989 by the Assistant Collector and by Collector (Appeals) in February 1991 on the ground inter-alia of entry of the goods in R.G.-1 register and as the company did not produce any evidence to disprove the fact that no manufacturing activity was done on these goods by the company. The Company filed an appeal with Central Excise Tribunal in May, 1991. The decision of the Tribunal is awaited (November 1995).

Thus, wrong entry of the goods in the R.G.-1 register led to the payment of excise duty amounting to Rs.25.20 lakhs.

The matter was referred to the Ministry in August 1995; their reply has not been received (January 1996).

MAHANAGAR TELEPHONE NIGAM LIMITED

5.2 Loss due to excess payment of interest on bonds

Mahanagar Telephone Nigam Limited (MTNL) floated 8th series Bonds (Part'A') during 1992 out of which bonds worth Rs.750 crores bearing interest at 18.5 percent per annum (payable half yearly) were allotted to Unit Trust of India (UTI) in September 1992 subject to the condition that in case there was a reduction in bank rate by the Reserve Bank of India (RBI) the interest rate payable would be reduced to 18 percent per annum. However, the date from which such reduction in the rate of interest was to take effect was not specified in the Agreement with UTI. Ordinarily such date should have been the date of reduction of bank rate by RBI.

The RBI reduced the bank rate to 18 percent from 9 October 1992. However, the interest rate of 18.5 percent per annum on the above bonds continued to the paid till 23 November 1992. It was only from 24 November 1992, that the reduced rate of interest (18 percent) was given effect to. This resulted in avoidable interest payment by MTNL of Rs.47.26 lakhs (for the period from 9 October to 23 November 1992).

The Management stated (June 1995) that in the absence of any specific date of effect of reduction in the interest rate, the matter was taken up with UTI who agreed for reduction w.e.f. 24.11.92. The reply of the Management was endorsed (July 1995) by the Ministry.

Thus the failure of the Management to specify in the Agreement with UTI,the date from which reduction in the rate of interest to 18 percent per annum was to take effect in the event of reduction of Bank rate by RBI,resulted in avoidable interest payment of Rs.47.26 lakhs.

CHAPTER 6

MINISTRY OF DEFENCE

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

BHARAT EARTH MOVERS LIMITED

6.1 Loss due to failure to enter into a supplementary agreement

The Company entered into a collaboration agreement (July 1988) with a foreign supplier for the manufacture of diesel engines in India. The agreement provided that defective component parts and spare parts covered by warranty would be replaced free of charge by the supplier who would also reimburse customs clearance fees and import duty charges on such free replacements. For shortages, errors in filling orders or any damage, the agreement provided that a claim shall be filed by the Company within 90 days after complete landing at the port in India. The agreement further provided that the detailed terms and conditions for the method of compensation in respect of such shortages etc. should be provided for in a supplementary agreement to be executed by the parties at the time of signing of the collaboration agreement or later.

The Company had been importing engine components from the supplier since 1989-90. The consignments received revealed large number of shortages and damaged or defective supplies. The supplier provided free replacements but did not reimburse the customs duty paid on the replacements against destination shortages and rejections, on the ground that there was no provision in the agreement. The customs duty so paid and not refunded or reimbursed amounted to Rs.96.99 lakhs for the supplies effected in 1990-91, 1991-92 and 1992-93. The Company was also not able to re-export the damaged or rejected supplies and get refund of customs duty paid as the foreign supplier was not willing to take them back because of the huge transportation costs. The claims for refund of duty were also rejected by the Customs Authorities because the shortages and damages or defective supplies were detected after clearance of goods.

The Ministry stated (July 1994) that :

- the foreign supplier could not be held responsible as there was no provision in the collaboration agreement for such reimbursement;
- no such reimbursement clause was insisted upon by the Company when entering into the agreement as it was getting such customs duty refunds from the Department of Revenue in the past;
- such refunds were being rejected by the Revenue Department only after the amendment to Section 27 of Customs Act, 1962 from December 1991 and the inability of the Company to provide the evidence required under this amendment, that the incidence of such duty had not been passed on to any other person;
- the Company had sent a draft supplementary agreement (May 1994) to the supplier for their consent to pass on such liability to the latter in future.

The Ministry's reply is not tenable as the Company was aware that verification of shortages prior to customs clearance was not practicable and shortages, damages and wrong supplies were prevalent in many consignments. It would have also known that it was not in a position to supply the evidence to meet the requirement of the amended Section 27 of the Customs Act to claim the refund;

Inspite of the foregoing factors and the fact that the collaboration was valid only for ten years from July 1988, the Company did not take any action till May 1994 to enter into a supplementary agreement with the foreign supplier to protect its interests.

The supplementary agreement is yet to be entered into as the Company and the supplier have not been able to agree on the draft of the agreement. As the supplementary agreement under consideration proposes only reimbursement for customs duty to be paid in future, the Company would continue to incur such losses till the supplementary agreement is executed.

BHARAT ELECTRONICS LIMITED

6.2.1 Avoidable expenditure due to delay in settling claim

The Company's Collaboration Agreement with a Holland Company (seller) for the manufacture of Flycatcher Radar Systems provided for price variation payable by the Company within 45 days of receipt of claim from the seller. The seller claimed HFL 74,22,773.53 in October 1990 towards price variation for the supplies effected by them in 1988 and 1989. The claim was settled by the Company only in May 1992 for HFL 74,21,335.60, (Rs.1250.44 lakhs) after a delay of seventeen months, resulting in extra expenditure of Rs.454.80 lakhs due to exchange variation following devaluation of the Indian Rupee in July 1991.

The Management stated (July 1993) that (i) the settlement was delayed mainly because of disputes relating to the claim which could be settled only in September/November 1991, (ii) the Company did not consider it prudent to make a heavy payment in foreign exchange for past supplies when there was a pressing need to use scarce foreign exchange to meet current production requirements, and (iii) the Company had saved interest of nearly Rs.3 crores due to the delay in the settlement of the claim.

The Ministry reiterated (July 1995) the Management's contention that the Company had to give preference to import of components over payment of escalation claims in view of the unprecedented foreign exchange crisis due to which the foreign exchange allocation for the Company fell short of its production requirements. The Ministry also pointed out that, in any case, the claim could not have been settled earlier as the dispute over the claim was resolved only in January 1992. The Ministry also contended that there was no extra expenditure as the seller had agreed to forego the escalation claim in respect of another order.

The Ministry's reply is not acceptable in view of the following:-

- Though the claim was to be settled within 45 days, the Company had raised the dispute with the seller only in October 1991, i.e. after a year.
- The dispute related to an item that had already been clarified by the seller as far back as May 1986.
- The Ministry's contention that the Company consciously decided to postpone the payment is contradictory to the Management's statement that the payment was delayed mainly because of the dispute.
- The escalation claim represented only 4.7% of the foreign exchange allocation of Rs.169.28 crores for 1990-91.

The seller's offer to forego the escalation claim relating to a further and future orders was a general response to the extra burden cast through devaluation of the Rupee and, therefore, cannot be set off against the escalation paid in this case.

6.2.2 Avoidable expenditure due to delay in payment of Advance Tax

As per Income Tax Act, 1961 (the Act), the Company is required to pay advance tax on its estimated current income in three instalments in September, December and March of every financial year. The Act also envisages payment of self-assessment tax towards short-paid advance tax and interest thereon before filing the return within nine months of the end of the accounting year.

The Company paid advance tax of Rs.1198.28 lakhs for the year 1990-91 over and above the tax of Rs.257.73 lakhs deducted at source. However, as the actual profit for the year was substantially higher than the estimates made while paying advance tax, the Company subsequently assessed its total tax liability as Rs.1876.22 lakhs and also paid Rs.88.93 lakhs as interest.

The accounts of the Company for 1990-91 were adopted by the Board of Directors and certified by the Statutory Auditors on 24th July 1991. The Company was thus in a position to estimate its income tax liability reasonably and pay the short-paid advance tax by end of July 1991 under self-assessment as provided in the Act. However, the Company paid self-assessment tax of Rs.440 lakhs only on 31st October 1991 and a further sum of Rs.69.15 lakhs at the time of filing the return in December 1991. The payment made on 31st October 1991 could have been made by 31st July 1991 and interest of Rs.26.40 lakhs avoided for the period from 1st August to 31st October 1991.

The Management noted the point and stated (February 1993) that action had been taken during 1991-92 to pay the self-assessment tax on estimated basis at an early date to avoid payment of interest on delayed payment. The Ministry stated (July 1995) that remedial measures taken subsequently to avoid payment of interest on account of belated payment of advance tax had ensured that no such payment of interest occurred relating to financial years 1992-93 and 1993-94.

CHAPTER 7

MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

NATIONAL INSURANCE COMPANY LIMITED

7.1.1 Incorrect application of tariff

As per Building Regulations of All India Fire Tariff, buildings would be treated as Class I construction if walls are made of RCC, bricks, stone or concrete blocks with or without framework of unencased steel, brickwork with an outside bracing of timber filled in with brick. Any other construction will be treated as Class II Construction.

A Calcutta Division of the Company issued a fire policy covering godowns of an Electrical Company at Naini, Allahabad and Paharpur (Calcutta) for the period from 1.7.1987 to 30.6.1988 and subsequently renewed upto 30.6.1991. The policies had been extended to cover the risk of flood also. The fire and flood premium in respect of Naini godown had been charged at 4.40 and 0.75 per mille respectively treating it as Class I construction instead of 6.00 and 1.25 per mille respectively as applicable to Class II construction since the walls were made of partly pucca and partly ACC sheets. Similarly the fire and flood premium in respect of Paharpur godown had been charged at 1.90 and 0.75 per mille instead of 2.00 and 1.25 per mille respectively. Thus, incorrect application of tariff resulted in a loss of premium of Rs.7.22 lakhs.

The Ministry while admitting (October 1995) the facts stated that warning letter had already been issued to the concerned official who was responsibile for the loss. The Ministry also stated that the aspect of the recovery of the loss amount had also been taken up by the Company.

7.1.2 Irregular grant of discount

Bokaro Division of the Company issued two fire declaration policies to Bokaro Steel Plant (SAIL) for the period from Ist April 1988 to 31st March 1989 and subsequently renewed them till 31st March, 1992 to cover indigenous and imported stores whilst stored in the godown and also in the open. According to Fire Tariff Regional Committee of the Tariff Advisory Committee (TAC) are the sole authority to sanction Fire Extinguishing Appliance (FEA) discount if the appliances are installed in accordance with rules and regulations of the TAC. The Calcutta Regional Committee of the (TAC) allowed 5% discount on stores kept in godowns only and specifically mentioned that no discount was applicable for open storage but the Division, in violation of the orders of the Regional Committee, allowed FEA discount on stores kept in open space which resulted in loss of premium of Rs.5,54,576 during the period from Ist April, 1988 to 31st March, 1992.

When this was pointed out in audit, the Division raised (30th April, 1993) demand against the Insured but the Insured refused to pay the same.

The Ministry while admitting (October 1995) the facts stated that the insured had declined to pay the amount short charged.

7.1.3 Incorrect application of tariff and incorrect loading

As per the guidelines issued by the General Insurance Corporation of India (GIC),tailor-made group medical benefit policies earlier issued to corporate bodies may be allowed to continue even after introduction of Group Mediclaim policy with effect from 1 January 1988 after ensuring premium adjustment suitably to maintain average claims ratio for the preceding three years at 80% on 'as if basis'.Thus, renewal premium should be loaded in such a way that the average claims ratio is maintained at 80%.

A Calcutta based division of the Company continued the insurance coverage for group medical benefit policies for category-I and Category-II staff earlier issued to an Electric Company for the years 1988-89 and 1989-90 without ensuring premium adjustment to maintain the average claims ratio at 80%. While issuing the policy for 1989-90 although a loading of 150% was applied, it did not bring the average claims ratio down to 80% . The loading was also wrongly applied on the premium rate of initial year i.e. 1987-88 instead of applying it on that of the expiring year i.e. 1988-89. The average claims ratio for the last three years preceding the policy year 1989-90 worked out to 374.50% . In order to bring the claims ratio down to 80% the premium rates for the expiring year should have been loaded by 368.13% and applied for the year 1989-90 whereas a loading of only 150% applied and that too on the premium rates for the year 1987-88.

Thus, due to incorrect application of loading, in violation of GIC guidelines, the Company suffered a loss of premium of Rs.32.31 lakhs for the year 1989-90.

Further, as per the guidelines of GIC, if as a result of premium adjustment to maintain average claims ratio at 80%, the increase in premium works out to more than 250%, the premium would be loaded upto a maximum extent of 250% in the first year and the remainder in the following years with a view to maintaining the claims ratio at 80% within the least possible period. In the instant case out of the total amount of premium of Rs.44.04 lakhs an amount of Rs.32.92 lakhs equal to 250% loaded premium was realisable in 1989-90 and the balance of Rs.11.12 lakhs in the following years. An amount of Rs.11.73 lakhs only as premium for the year 1989-90 has been realised by the Company as against the realisable amount of Rs.32.92 lakhs.

The Management while admitting (November 1995) that the loading which was carried out was inadequate in terms of Inter Company Cordination Committee (ICCC) decision, stated that these decisions may be construed only as guidelines for day to day functions.

They also stated that it was difficult to view the loss ratio under one portfolio in isolation as the client insisted on the insurer keeping in mind, the good experience generated in other portfolios, before loading the premium in portfolios with adverse claims experience.

The reply is not tenable as the very purpose of ICCC meetings and the decisions taken thereon are defeated if the companies feel that they need not be implemented as they are only recommendatory. Moreover, as the client is granted incentives for good experience under each portfolio, the need for considering the overall experience does not arise.

The Ministry has not replied, so far (January 1996).

7.1.4 Incorrect application of basis rate

As per Consequential Loss (Fire) Insurance Tariff for manufacturing risks in a continuous process plant, the basis rate shall be 125% for 12 months indemnity.

A Consequential Loss (Fire) Policy was issued to a chemical factory covering the loss of their gross profit from 1 November 1987 to 31 October 1988 and subsequently renewed upto 31 March 1994.

Though the chemical factory was a continuous process plant the Company charged the rate of premium for indemnity period of 12 months applicable to 'other than continuous process plant' resulting in undercharge of premium of Rs.6.27 lakhs.

On this being pointed out in Audit (August 1990), the Company replied (July 1991) that the process carried out was akin to batch process and as such the premium was charged at 100% of the basis rate. However, in response to a reference made by Audit, Tariff Advisory Committee (TAC) opined (June 1995) that the process is a continuous one and as such necessary loading was applicable. Moreover, from 1 April 1994 to 31 March 1995 the risk was underwritten by another insurance company which charged the basis rate of 125%.

The Management stated (October 1995) that their Engineers who inspected the risk had observed that the process could not be treated as a continuous process but only as a batch process. The Ministry also endorsed the views of the Management (November 1995).

The reply is not tenable as TAC had opined that the process is a continuous one and that the necessary loading would apply.

Thus, application of incorrect basis rate during 1 November 1987 to 31 March 1994 resulted in an undercharge of premium of Rs.6.27 lakhs.

7.1.5 Unauthorised sanction of turnover discount

A Calcutta based Division of the company issued marine special declaration policy to a company,covering transit of liquid/dry chemicals etc. in tanker against wider than basic cover plus strike, riot, civil commotion (SRCC) for the period from Ist January 1987 to 31st December 1987 and subsequently renewed the same till 31st December 1989. The Division allowed turnover discount of Rs 13.12 lakhs without the permission of the Regional Committee of the Tariff Advisory Committee which is competent to sanction turnover discount. Sanction of turnover discount was , however, refused by the Regional Committee in September 1992 as the rates were not loaded properly even though the claim ratio for the earlier years was much higher than the permissible limit. Thus, unauthorised allowance of turnover discount resulted in a loss of Rs 13.12 lakhs to the company.

The Management stated (November 1995) that the contention of TAC that the risk was not eligible to be covered under Special Declaration Policy was not in order and fresh appeal had been made to TAC for sanction of turnover discount.

The contention is not acceptable as TAC is the final authority in the matter of allowing discount where the cover is wider than basic and their orders are very clear. The Ministry has not replied, so far (January 1996).

NEW INDIA ASSURANCE COMPANY LIMITED

7.2.1 Undercharge of insurance premium

As per the decision of the Inter-Company Coordination Committee (October 1990), the rates for all Group Personal Accident Policies (GPA) should be so fixed that the average three years claim ratio does not exceed 80% but efforts should be made to bring the claims experience down to 70% or 75%.

A Bhaurch based Division of the Company covered the employees of a Public Limited Company during the period 1st July 1992 to 30th June 1993 under GPA. Though the claim ratio for the preceding three years was 139.24% the Division did not load the premium to bring down the claim ratio to 80%.

Thus, incorrect working of claim ratio has resulted in undercharge of premium of Rs.4.86 lakhs.

The Ministry stated (October 1995) that the policy was renewed in a routine way as the Divisional office did not receive the relevant guidelines issued in respect of loading of premium if the loss ratio exceeds during the preceding three years. They also stated that the necessary loading on premium was done subsequently while renewing the policy in 1993.

UNITED INDIA INSURANCE COMPANY LIMITED
THE NEW INDIA ASSURANCE COMPANY LIMITED AND
ORIENTAL INSURANCE COMPANY LIMITED

7.3 Loss of premium due to non-imposition of loading

The United India Insurance Company Limited (UIIC) entered (1985) into an agreement with a Health Association promoted by a Madras based Hospital to cover the members of the Association for hospitalization and domiciliary expenses. The agreement provided cover for two different schemes for individuals and four schemes for institutions.

The Association collected premium at the rates of Rs.450 and Rs.790 from individuals and at rates varying from Rs.135 to Rs.360 from institutions, but it passed on only 2/3rds of the amounts collected by them to the Insurer.

Though the claims ratio exceeded 80%,UIIC did not load the premium as contemplated in the instructions issued by the General Insurance Corporation of India(GIC). When the claims ratio for the five year period ending 1989-90 reached 482%, the insured discontinued their business with UIIC and started taking cover from the New India Assurance Company Limited (NIAC). NIAC issued a Group medical policy to the insured for the period 1989-90 and subsequently renewed it till 1991-92.

NIAC did not ascertain the earlier claims ratio of the insured on the plea that the policy issued by them was under a different scheme and hence the premium was not loaded. Though the claims ratio of the insured with NIAC alone for the two years 1989-90 and 1990-91 was 87.55%, they did not load the premium in 1991-92 in accordance with the revised group medical insurance scheme. When the claims ratio for the three years ending 1991-92 went upto 109.14%, the insured discontinued their business with NIAC also and took cover from Oriental Insurance Company Limited(OIC). OIC too issued Group Medical policy from 1992-93 without ascertaining the past claims ratio from NIAC and did not load the premium.

Thus, the insured taking undue advantage of the competition among the insurers avoided payment of premium at the loaded rate which resulted in loss of premium of Rs.1.55 crores to the three subsidiaries of the GIC (UIIC Rs.36 lakhs, NIAC Rs.70 lakhs and OIC Rs.49 lakhs).

The Ministry stated (September 1995) that the Companies had been advised to be cautious in handling such cases so that incidents of evading premium loading are avoided.

7.4.1 Violation of tariff provisions

A Calcutta based division of the Company covered the five Liquified Petroleum Gas bottling plants of Indian Oil Corporation situated at Kalyani, Durgapur, New Bongaigaon, Balasore and Jamshedpur against fire from 1987-88 to 1992-93. The division also covered the risk against flood group of perils.

A scrutiny of the underwriting documents for the above period revealed that rates of premium charged on the policies were lower than the rates prescribed in the Fire Tariff resulting in undercharge of premium of Rs.19.11 lakhs.

The Ministry while admitting the lapse on the part of the insurance company stated (May 1995) that the entire amount had been adjusted against the amount payable to the insured. However, an amount of Rs.13.30 lakhs adjusted against the dues was towards per se rating for block wise details belatedly received, which cannot be accepted.

7.4.2 Incorrect application of tariff

A Delhi based Division of the Company issued 211 fire Policies 'A' to various Co-operative Group Housing Societies during the period 1.4.1990 to 31.3.1994 for various sums insured. As against the tariff rate of 0.68 per mille applicable under All India Fire Tariff, the Division charged 0.48 per mille which was applicable to housing projects constructed by State Governments for weaker sections of the society where the number of flats in one scheme exceeded 7500. As these housing societies were not formed for construction of houses for weaker sections of the society, the rate of 0.48 per mille charged by the Company was not correct.

When this was pointed out in audit, the Management stated (November 1994) that as the terms and rates applicable for housing projects by State Governments for weaker sections of society could be extended to the housing projects of the National Co-operative Housing Federation of India of which State level Co-operative Housing Federations were members, the rates charged by them were in order. The reply of the Management is not relevant as these policies were issued to various Co-operative Group Housing Societies which were not constructing the flats for weaker sections and the number of houses in each scheme was much less than the stipulated 7500. Further,TAC has not permitted the adoption of any rates other than the approved ones.

A test-check in audit revealed undercharge of premium of Rs.10.33 lakhs as a result of the incorrect application of tariff.

The matter was referred to the Ministry in March 1995; their reply has not been received, so far (January 1996).

7.4.3 Incorrect application of tariff

The Allahabad Division of the Company issued two different machinery Breakdown Insurance Policies to two units (HVDC BIPOLE II Rihand and HVDC BIPOLE DADRI) of National Thermal Power Corporation covering their Plant & Machinery for the period 3rd July 1991 to 2nd July 1992. The Division collected Rs.75,97,625(Rs.37,98,812.50 each) as provisional premium at the time of issue of policy.

When the matter was referred to the Tariff Advisory Committee (TAC), which is competent to fix the rates in respect of the above risks. TAC finally fixed the premium payable by the Insured as Rs.1,10,30,274 (Rs.55,15,137 each) resulting in an undercharge of premium of Rs.34,32,649/- for both the policies.

The Company stated (November 1994) that the policy was issued without marking the premium as provisional and that as the liability was not mentioned when the units were brought under the control of Power Grid Corporation, no one was legally bound to pay the amount shortcharged. The reply of the Company is not tenable as the Division had indicated in the policy that the premium charged was provisional. Thus, due to failure on the part of the Company to insist that the premium charged initially were provisional, the company lost revenue to the extent of Rs. 34.33 lakhs.

The Ministry stated (September 1995) that the Company proposed to take up the matter with TAC for reconsideration.

GENERAL INSURANCE CORPORATION LTD.

7.5 Loss of Premium

During test audit of four Divisional offices of the Subsidiaries of General Insurance Corporation of India it has come to notice, that irregularities in underwriting resulted in a loss of premium of Rs.12.32 lakhs as detailed below.

7.5.1. A division of United India Insurance Company (UIIC) Limited issued a marine open policy to a Chemical Company covering their despatches. Though, the policy covered Methenol which was extra hazardous, the division failed to charge the premium as per the tariff, resulting in an undercharge of premium of Rs.2.22 lakhs during the period October 1987 to February 1990.

The Ministry while admitting the facts stated (June 1995), that the correct rates were charged in subsequent years.

7.5.2. A Division of National Insurance Company (NIC) Limited issued a marine policy to a Jute Mill and charged the rates existing prior to introduction of new tariff without reference to the Calcutta Regional committee (CRC). When the matter was refereed to the CRC, they intimated that in view of the adverse claims experience , the old rates could not be continued and the new rates were applicable. The Division, however, could not collect the undercharged premium of Rs.2.59 lakhs for the period 1st January 1986 to 31st December 1988.

The Ministry admitted the lapse and stated (September 1995) that the chances of recovery were dim as the business had been shifted to some other Insurance company. They also stated that no action could be taken against the erring official as he had since retired from service.

7.5.3. A division of NIC issued a fire policy to a textile company covering their stock of finished goods and raw materials. The division failed to charge premium at the rates recommended by the Regional Committee which resulted in an undercharge of premium of Rs.2.11 lakhs for the period 3rd July 1987 to 3rd July 1989.

The Ministry while admitting (September 1995) the facts stated that the recovery appeared difficult. They also stated that no action could be taken against the erring official since he had expired.

7.5.4. A division of the New India Insurance Company (NIA) Limited covered the despatches of a State Public Sector undertaking under a marine open policy. Though the claims experience was adverse, the division did not load the premium to bring down the claims ratio to 60% which resulted in an undercharge of premium of Rs.5.40 lakhs for the period 13th November 1992 to 12th November 1993.

The Ministry stated (November 1995) that the premium charged was not less than the market rates except for one year. They also stated that the recovery of the amount appeared impossible.

The reply is not tenable as the loading was not as required under tariff.

CHAPTER 8

MINISTRY OF FOOD PROCESSING INDUSTRIES

LAKSHADWEEP DEVELOPMENT CORPORATION LIMITED

8.1 Infructuous expenditure on ship repairs

Lakshadweep Development Corporation Ltd. (LDCL) was gifted by the Government of India (August 1991) a confiscated Taiwanese Fishing Vessel, described as Tuna Long Liner and valued at Rs.950 lakhs after repairs. LDCL had evinced interest in making the ship seaworthy and putting it to use for commercial deep sea fishing although it had no previous experience of operating fishing trawlers of this type or size. It decided to proceed without any assessment of the viability of the project or its own ability to undertake it.

The vessel, during its custody with Coast Guard, had been damaged and required repairs. It was, therefore, towed down from Porbunder to Cochin shipyard (CSL) in January 1992 for repairs after incurring an expenditure of Rs.22.70 lakhs. In January 1992 CSL put the tentative estimate for repair of the ship at Rs.174.47 lakhs which was revised upwards to Rs.295 lakhs by May 1993, comprising Rs.245 lakhs for repairs and Rs.50 lakhs for purchase of spare parts. As a result of the revised estimates for repairs and on the basis of experience of operations of similar liners in the region, a project profile prepared by LDCL indicated that the project would require a working capital of Rs.442 lakhs, out of which LDCL was to contribute Rs.297 lakhs as cash margin. Considering the relatively low equity base of Rs.230 lakhs, the Ministry and LDCL decided that it would not be a viable proposition for an organisation like LDCL to operate a single liner, as the cost of repair of the vessel and the working capital requirement thereafter were exorbitant.

The work on the liner was abandoned in January 1994. By this time repairs worth Rs.106.45 lakhs had been carried out on the vessel by CSL, out of which Rs.4 lakhs had already been paid as advance by LDCL. The vessel was disposed of (January 1995) on 'As is where is basis' to a private company for Rs.70 lakhs. CSL accepted this amount in full and final settlement for the repair work carried out by it against the balance Rs.102.45 lakhs.

Action of the LDCL in embarking upon a project without ascertaining its economic feasibility and its ability to operate the vessel rendered Rs.27.77 lakhs spent on towing down the vessel to Cochin (including Rs.4.00 lakhs paid as advance for repairs and Rs.1.07 lakhs as wharfage to CSL) infructuous.

The Ministry stated (September 1995) that it had agreed to provide all possible help to LDCL to make the vessel sea-worthy but LDCL due to its meagre resources found it impossible to get the vessel repaired and operate it.

However, the fact remains that a vessel initially valued at Rs.950 lakhs after repairs and which had already undergone repairs worth Rs.106.45 lakhs had to be ultimately sold at Rs.70 lakhs to a private party, due to its handing over to LDCL without making any feasibility study. Moreover, the vessel which was confiscated and was thus acquired without any cost, instead of being gainfully utilised, ended up in causing a loss of Rs.27.77 lakhs to LDCL and forcing CSL to accept Rs.70 lakhs for work carried out by it amounting to Rs.102.45 lakhs.

CHAPTER 9

MINISTRY OF INDUSTRY

DEPARTMENT OF HEAVY INDUSTRY

BHARAT HEAVY ELECTRICAL LIMITED

9.1.1 Loss on Supply of Heat Exchangers

The Hyderabad Unit of the Company accepted an order dt.13.5.1989 placed by a private company for supply of loose heat exchangers at Rs.97.55 lakhs. As per the order (i) the scope of supply was for complete design, material procurement, fabrication, inspection, testing and supply of seven heat exchangers, (ii) the price was firm except for variation in the exchange rate and statutory variation in taxes and duties and (iii) the scheduled date of delivery was 19th April 1990, which was subsequently extended to September 1991.

While accepting the order, the unit estimated the total cost including all overheads and profit to be Rs.93.17 lakhs and Rs.4.38 lakhs respectively.

The supplies were completed within the extended delivery schedule at a total cost of Rs.185.67 lakhs. As against this, the unit realised only Rs.102.47 lakhs including an amount of Rs.4.92 lakhs towards exchange rate variation, which did not cover even the material cost of Rs.114.74 lakhs.

The contention of the Ministry (November 1994) that BHEL accepted this order as a diversification activity to enter in a new area of fabrication of Process Heat Exchangers , is not tenable in view of the fact that the Company had absorbed the technology obtained from foreign collaborators and also manufactured and supplied these Process Heat Exchangers to Fertilizer Industry (M/s Indian Farmers Fertilizers Corporation, Phulpur) and Refinery Industry (M/s

Indian Petrochemicals Limited) in the years 1985 and 1986 respectively.

Further the reasons advanced for the increased cost over estimates on account of increase in the procurement price of materials, sub-contracting the drilling work and increase in labour hours due to stringent quality control which were not correctly assessed at the time of estimates because of the job taken up for the first time are also not tenable as the Unit manufactured and supplied heat exchangers to various customers for different applications earlier . The Company could have thus avoided these losses by making proper assessment of the requirements and suitably incorporating price variation clause in the order.

Thus, in the execution of the order, the Company incurred a loss of Rs.83.20 lakhs due to failure in exercising effective cost control methods.

9.1.2 Avoidable payment of liquidated damages

Bharat Heavy Electricals Limited (Company) received (March 1988) an order from Indian Railways (customer) for the supply of 792 traction motors by June 1989 at a total cost of Rs.53.11 crores. The order, interalia, required the use of solventless ISOX resin-based insulating material for Vacuum Pressure Impregnation of armatures and field coils. The Company decided to supply 550 motors by fabrication from 100% imported components and balance 242 motors by manufacture with limited imports after considering the facility constraints in their plant.

The Company applied (April 1988) for a duty free import licence (IL) for import of the components. The import licence, received in June 1988, was valid up-to December 1989 and did not include the insulating material. However, the development of facilities which required installation of a plant to handle the use of ISOX resin at the Company's works failed to materialise since it required a time schedule of as much as 12-18 months. The manufacture of ISOX resins-based insulating material was also not considered safe in view of Bhopal Gas Tragedy. Accordingly, the Company gave up the idea of manufacture of ISOX resin-based insulating material and applied (April 1989) for an amended import licence for the import of insulating material. The amended IL received in July 1989 was also valid up-to December 1989 and the order for import of components/material was placed on a supplier in Japan in August 1989. As many as 416 motors were supplied by June 1989.

The delay in supply of the 279 traction motors attracted imposition of liquidated damages (LD) amounting to Rs.102.60 lakhs by the customer. No liquidated damages were levied for short supply of 97 motors. Thus, the failure of the Company to have a realistic assessment of the feasibility of developing the manufacturing facilities for ISOX resin-based insulating material within the scheduled delivery period resulted in payment of liquidated damages of Rs.102.60 lakhs to Railways.

The Management stated (December 1991) that the delay in placement of purchase order was due to the delayed receipt of the amended IL because the original IL did not cover the insulating material. The reply is not tenable as the list of the component/material covered by the original IL was communicated by the Company itself.

The matter was referred to the Ministry in October 1995, but their reply has not been receoved, so far (January 1996).

9.1.3 Manufacture of defective battery powered locomotives.

Bharat Heavy Electricals Limited (Company) received (December 1985) an order from Railway Board for supply, erection and commissioning of 3 battery powered locomotives with battery charging equipment and other related tools and equipments for operation on the Gwalior-Bhind section of the

Central Railway. The technical parameters in the order, inter-alia, stipulated that the locomotives should be able to start and haul a trailing load of 110 tonnes on 1/80 grade with 18 degree curve. The total payment on account of locomotives alongwith ancillary battery charging equipment was to be received after clearance of the locomotives for oscillation trials and satisfactory test performance for six months.

The locomotives and other equipment were manufactured by the Company at a total cost of Rs.99.78 lakhs. Further a sum of Rs.11.21 lakhs was spent on design work of locomotives (Rs.2.98 lakhs), erection and commissioning of battery charging stations (Rs.4.79 lakhs) and replacement of defective parts (Rs.3.44 lakhs), thus raising the total cost to Rs.110.99 lakhs.

The battery charging equipments were supplied during December 1986 /January 1987 and the three locomotives between April 1987 and November 1987. The Railways cancelled the contract (March 1992) because the locomotives were not able to start and haul a load of 110 tonnes on 1/80 grades and having 18 degree craves as stipulated in the contract. The Company represented (August 1992) to the Railway Board that capability of the locomotives to start 110 tonnes load on 1/80 grade with 18 degree curve would not cause any problem in actual working conditions as the above curve and gradient did not occur simultaneously on the Gwalior-Bhind section on which these locomotives were meant to operate. However, the Railway Board did not respond positively to this representation.

The Company estimated the scrap value of locomotives as Rs.5.55 lakhs. The scrap has not been disposed of (December 1995). However, the net loss, excluding scrap value, to the Company is Rs.105.44 lakhs.

The Management stated (July 1993) that the locomotives supplied met all the requirements of the customer's order but did not elaborate on the issue of starting and hauling capacity of the locomotives, on the specified curve and gradient on the basis of which the Railways had cancelled the order.

The Ministry stated (September 1995) that the locomotive trials were conducted a number of times, jointly with Central Railway officials with 110 tonnes trailing load up to the maximum speed successfully. The contention of the Ministry is, however, at variance with the assessment of the Central Railway which had concluded (April 1991) that the locomotives were able to start and haul a trailing load of 110 tonnes only on a 1/100 grade and that too on straight track, instead of on 1/80 grade with 18 degree curve as stipulated in the purchase order.

Thus the Company incurred an infructuous expenditure of Rs.105.44 lakhs due to production of defective locomotives which were not in conformity with technical parameters stipulated in the contract.

CHAPTER 10

MINISTRY OF PETROLEUM AND NATURAL GAS

BHARAT PETROLEUM CORPORATION LIMITED

10.1 Extra expenditure due to avoidable delay

Bharat Petroleum Corporation Limited (BPCL) awarded (November 1988) the job to a contractor of Bombay for the fabrication and erection of four petroleum product tanks at an estimated cost of Rs.100.4 lakhs at Kandla terminal. The terms and conditions of the agreement with the contractor, inter-alia, provided for completion of the job in all respects within ten months of receipt of instructions to start work and supply of steel plates by BPCL free of cost to the contractor for fabrication.

The job was completed in October 1990 against the scheduled date for completion by September 1989. The time analysis made by the Company for the delay of 295 days revealed that the main reasons for the delay were;

- time taken to clear the steel plates by BPCL (40 days);
- rejection due to defects in the steel plates and change in specification during fabrication as well as after erection leading to rework and replacements (116 days);
- rectification work done by another agency (54 days) and;
- others (85 days).

BPCL paid (February 1992) to the contractor, by way of a negotiated settlement, an amount of Rs.33.49 lakhs over and above the contract value towards the extra claims of the contractor, out of which Rs.21.73 lakhs was for loss of overhead/profits/idling men and machinery on account of delays attributable to BPCL. Failure to provide quality plates which led to rejection and re-work, and midway changes in specifications had resulted in an avoidable delay and extra expenditure of Rs.21.73 lakhs.

The Management stated (September, 1995) that the delay in completing the job and consequent additional expenditure were mainly due to changes in scope of work necessitated to suit the site condition and for achieving better quality work and re-work arising out of inherent defects noticed in some steel plates during various stages of fabrication work.

The reply of the Management is not tenable because the delays were mainly on account of redoing the work due to supply of defective steel plates, which could have been avoided.

The para was issued to the Ministry in August, 1995, but their reply has not been received, so far (January 1996).

HINDUSTAN PETROLEUM CORPORATION LIMITED

10.2 Avoidable expenditure on transportation

The Company set up LPG Bottling Plants at Kasna and Unnao in Uttar Pradesh in January 1990 and August 1990 respectively. The installed capacity of the plants when set up was 12500 MTPA for Kasna and 7500 MTPA for Unnao Plant on single shift basis. The installed capacity of Unnao Plant was subsequently increased (December 1990) to 15000 MTPA on double shift basis.

It was noticed that the Unnao Plant was supplying LPG Cylinders to Moradabad, Sambhal, Rampur and Bijnore locations (distance ranged from 370 KMs to 484 KMs) even though these places were nearer to the Kasna Plant (distance ranged from 150 KMs to 180 KMs). This resulted in higher expenditure on transportation of cylinders. Reasons for attaching the markets of Moradabad, Sambhal, Rampur and Bijnore locations to the Unnao Plant were neither on record nor stated. If the supplies to the above four locations had been met from the Kasna Plant instead of from the Unnao Plant, the company could have saved avoidable extra expenditure of Rs. 81.60 lakhs on transportation during August 1990 to January 1995. Further, even if supplies to comparatively nearer locations like Agra, Aligarh, Kasganj and Etah (being fed by Kasna Plant) were made from the Unnao

Plant and the supplies to Moradabad, Sambhal, Rampur and Bijnore locations made from the Kasna Plant, there would have been net savings of Rs.61.62 lakhs (Rs.81.60 -Rs.19.98) during the above period.

On the avoidable expenditure being pointed out in audit (March 1995), the Management stated (May 1995) that action to attach the markets of Moradabad, Sambhal, Bijnore and Rampur to Kasna LPG Plant and the markets of Aligarh, Kasganj and Etah to Unnao LPG Plant had been initiated and that it was proposed to commence supplies accordingly from June, 1995.

Thus, had the Company considered the distance and cost of transportation involved before deciding the locations for supply of LPG cylinders from these two plants it could have avoided incurring an expenditure of Rs.61.62 lakhs.

The matter was referred to the Ministry in June 1995, but their reply has not been received, so far (January 1996).

INDIAN OIL CORPORATION LIMITED

10.3.1 Loss due to supply of fuel without agreement

Indian Oil Corporation Limited (IOC), Southern Region (SR) supplied 154.050 kilo-litres of Aviation Turbine Fuel (ATF) under oral instructions from Northern Region of IOC to two aircrafts of a foreign airline which landed at Madras in December 1990. The supplies were made *"on account M/s Aeroflot"* under the impression that the aircrafts were operated by M/s Aeroflot. Under the existing system, a permanent deposit account is maintained by IOC(NR) for M/s Aeroflot to meet their fuel requirement all over India. Instead of forwarding the invoices to the Northern Region for adjustment against this deposit account, IOC (SR) sent the invoices to IOC(WR) (December 1990) for raising the bills on the office of Aeroflot at Bombay. When the matter was taken up with M/s Aerflot for settlement of dues, IOC was informed (May 1993) that the flights were not operated by M/s Aeroflot but by a private company based in Australia. As IOC could not produce any letter of authority under which the fuel was supplied to the two aircrafts *"on account M/s Aeroflot"* , it could not press its claim against M/s Aeroflot.

Thus, supply of ATF without proper authority/instructions, to two aircrafts of a private company resulted in a loss of Rs.14.29 lakhs to IOC. The Management replied (June95) that they were making all out efforts to collect the outstanding amount of Rs. 14.29 lakhs through the Embassy of USSR and the Ministry of External Affairs, New Delhi. The recovery is doubtful as the company which operated the two aircrafts is already under liquidation.

The matter was referred to the Ministry (May 1995) but their reply has not been received (January 1996).

10.3.2 Avoidable expenditure due to delay in clearing of imported pipes

A purchase order was placed (October 1993) on a Brazilian firm for the purchase of pipes required for the Kandla Bhatinda Pipeline (KBPL). A consignment of 3083 MT of pipes from Confab, Brazil per MV HAIGHT arrived at Kandla on 23 February 1994. The vessel was allotted a berth by the Kandla Port Trust Authority on 27 February 1994 but this was withdrawn as the Company could not tender and/or process pertinent paper work and had also expressed its inability to receive the cargo to the Traffic Manager, Kandla Port Trust. This was despite the fact that carriers had kept the Company informed about the position of the goods. The cargo was released on 4 March 1994, by which time the structure of Customs Duty had changed from 35% to 25% plus CVD (which was 10% on assessable value including Customs duty) consequent upon the presentation of the Budget for the year 1994-95. The Company had thus to pay excess customs duty of Rs. 26.47

lakhs as a result of not getting the cargo released when the vessel carrying the cargo was allotted a berth on 27 February 1994.

Further, due to delay in completion of paper work etc. and cancellation of the berth for the vessel on 27 February 1994, M/s Confab claimed US \$ 69,766.58 (Rs.22.03 lakhs approx.) as detention charges (for 5 days and 9 hours (approx.) from 27.2.1994 to 4.3.1994) @ US \$ 13,000 per day which they had paid to the fleet owners.

Thus, delay on the part of the Company to tender and/or process pertinent paper work in time resulted in total avoidable expenditure of Rs. 48.50 lakhs (Rs. 26.47 lakhs as excess Customs duty + Rs. 22.03 lakhs as detention charges payable by the Company).

The Management stated (May 1995) that they were not aware that the vessel carrying the cargo had been provided a berth on 27 February.1994. The reply is not tenable as it was noticed that the supplier had informed the Company on 29 January 1994 that the vessel had left the foreign port on 28 January 1994 and the Company should have taken appropriate steps to see that the necessary papers were kept ready and the cargo cleared on arrival.

The matter was referred to the Ministry in August 1995, but their reply has not received (January 1996).

10.3.3 Infructuous Expenditure on creation of truck loading facilities

IOC (Southern Region) coordinates its truck loading operations in the immediate vicinity of Cochin Refineries Limited, Cochin (CRL) which was identified as maximum risk zone by the Ministry of Environment and Forest (October 1992). Indian Oil Corporation decided (August 1992) to put separate tankage facilities at this location to augment the existing facilities at an outlay of Rs.96 lakhs. The CRL authorities informed IOC in October 1992 and December 1992 about the need to shift and relocate these tankage and truck loading and other facilities as the land was to be acquired for afforestation, as per directives of the Ministry of Environment and Forest. The Ministry of Environment and Forest also communicated their concern (May 1993) over the congestion of traffic caused by the truck loading operation and directed that the truck parking area be immediately shifted to a safer site. IOC (SR) did not heed these requests and went ahead in July 1993 with putting up the facilities. An amount of Rs.42.87 lakhs was spent between June 1993 and December 1993 on the expansion project.

The Ministry of Environment & Forest conclusively ruled (August 1994) that IOC should not commission the facilities and CRL on their part should not connect the product pipeline to storage tanks erected by IOC. The work was stopped in December 1993 rendering the amount of Rs.42.87 lakhs spent on the expansion project infructuous.

The Management stated (June 1995) that the facilities were developed as they were hopeful of getting the clearance from the Ministry of Environment and Forest but did not succeed and the facilities created could not be used. It further stated that some of the facilities would be shifted to their Wellington Islands Installation for putting up new loading facilities and the tanks and other fixed assets would be handed over to CRL at an agreed value.

The reply is not tenable as the facilities were created by the Company despite clear indications to the contrary, rendering expenditure of Rs.42.87 lakhs infructuous.

The matter was referred to the Ministry (May 1995), but their reply has not been received (January 1996).

10.3.4 Avoidable Payment of Customs Duty

The Kandla Bhatinda Pipeline (KBPL), a World Bank aided project (excluding the cost of bare pipes and consultancy job), was entitled to deemed export benefit (which attracts 'Nil" Customs Duty in case of imported material) under Export and Import Policy. In terms of the policy a special imprest licence is granted for the duty free import of inputs to main/sub contractors for the manufacture and supply of products.

IOC Ltd. entered (March 1993) into a contract with a private company for yard coating & wrapping (Supply & Service) of the linepipes for KBPL project at a cost of Rs. 98.99 crores including foreign exchange component of US$ 10.54 million. A clause was, however, included in the contract according to which IOC became the owner of the goods imported and the contractor was deemed to be acting on behalf of the owner as an agent in respect of deliveries of materials taken by him.

When the Company took up (December 1993/January 1994) the matter with DGFT,the latter opined that as the billls of entry were in IOC's name, deemed export benefits could not be extended as IOC would then become both the Project Execution Authority and the Importer. Thus,the deemed export benefits could not be availed of because of the insertion of the clause in the contract that IOC was the owner of the goods.

The total avoidable expenditure on the completion of supply of imported goods was estimated to be Rs.10.30 crores. Upto 25 July 1994 the contractor has actually paid Rs. 7.15 crores towards customs duty and IOC in terms of the contract entered into with them had reimbursed an amount of Rs. 5.16 crores @ 80% till then and the balance of Rs.1.99 crores was payable.

In reply,the Company stated (March 1995) that the ownership of the materials was kept in the name of IOC for safe custody of the materials and avoidance of misuse and that the Management was making efforts with DGFT to allow refund of customs duty by condonation of the technical infirmities in the procedure. The fact, however, remains that IOC had to pay Rs.10.30 crores as customs duty which could have been saved.

The matter was referred to the Ministry in July 1995, but their reply has not been received, so far (January 1996).

10.3.5 Loss due to non-encashment of bank guarantee

The Company placed an order on a private firm for supply, erection and commission of PSA Nitrogen Plant for Haldia Lube Oil Stock Revamp Project at a cost of Rs.99.05 lakhs including Rs.1 lakh as erection & commission charges. The delivery was to be completed within 10 months from 30 November 1991- the date of acceptance by telex. According to the terms and conditions of the purchase order initial interest free advance of Rs.19.81 lakhs was paid on 24 December, 1991 against a bank guarantee valid upto 30 September, 1992 instead of Rs.19.61 lakhs being 20% of Rs.98.05 lakhs for supplying the materials for the plant.

Despite the fact that the supplier neither supplied the material nor refunded the advance of Rs.19.81 lakhs, the Company did not take any action to encash the bank guarantee within its validity period.

Thus, failure on the part of the company to encash the bank guarantee in time resulted in a loss of Rs.19.81 lakhs.

The Management stated (May 1995) that responsibility for non-encashment of bank guarantee was being fixed. It was also stated that the supplier had been placed on holiday list and the legal action had been initiated for recovery of the advance alongwith interest.

The matter was referred to the Ministry in July 1995; the reply has not been received (January 1996).

LUBRIZOL INDIA LIMITED

10.4 Employment of Expatriates

Lubrizol India Limited (Company) was incorporated in July 1966 as a joint venture company between Government of India and Lubrizol Corporation, USA (LC). At the time of incorporation, Government of India held a shareholding of 51 percent while LC had 49 percent. This was changed to 60 percent and 40 percent respectively in December 1979. The Company had a technical service agreement with LC between 1968 and 1979 which was replaced in August 1979 by a technology transfer agreement (TTA). The TTA entered into in August 1979 expired in December, 1987 and a fresh TTA was executed effective January 1988 for a period of seven years later extended upto March 1996.

LC approached the Government in February 1993 for enhancing its equity participation from 40 percent to 51 percent. While this has not materialised so far (November 1995), in April 1994, LC requested the Company to create two posts of Executive Director (Technical) and Executive Director (Operations) and to fill these posts with LC's personnel on contract basis, to enable the Company to meet the challenges of increasing competition and technical sophistication in the Indian market for additives.

The Company in July 1994 approved, with Director (Finance) dissenting, two posts of Executive Director (Technical) and Executive Director (Operations) to be filled by two expatriates belonging to LC initially for a period of two years, and to keep the Board level posts of Director (Technical) and Director (Marketing) in abeyance.

The final agreements entered into with the two expatriates as Executive Director (operations) and as Executive Director (technical) were, however, in their individual capacities and not as representatives of LC. These agreements became effective from 16 November 1994 and 12 January 1995 respectively. The Board also authorised (December 1994) these two expatriates to exercise the powers of full-time Directors of the Company.

A review of this entire arrangement revealed the following:

(i) As per Article 4 (i) of the Articles of Association of the Company, Formation Agreement would have overriding effect over Articles of Association for the Management of the Company and for observance of the members thereof and their representatives. Section 4.12 of the Formation Agreement empowered the Managing Director of the Company to appoint Senior Executives, according to the guidelines laid down by the BPE. Since the appointment of expatriates was not in line with BPE guidelines, it was violative of Articles of Association as well as Formation Agreement of the Company.

(ii) As per Articles 57 of the Articles of Association of the Company read with Section 4.6 of Formation Agreement, the Board of Directors of the Company was to consist of seven Directors, of which, four would be the nominees of the LC. Since three nominees of LC were already on the Board of the Company, the action of the Board to authorise these two expatriates to exercise powers of full-time Directors of the Company was not proper. The Auditors of the Company in their report (August 1995) on the accounts of the Company for the year 1994-95 also opined that these expatriates would be deemed to be whole time Directors of the Company and accordingly, the provisions of the Companies Act, 1956 relating to their appointment, remuneration, disclosure, etc., were not complied with by the Company.

(iii) The salaries agreed for the incumbents of ED (Technical) and ED (Operations) were Rs.1,56,850 per month and Rs. 1,30,700 per month respectively, net of income tax, whereas the salary of Chairman & Managing Director was only Rs.10,357 per month, subject to income tax. The perquisites, which were all tax free, were also very high. Salaries and perquisites of this magnitude do not exist in any Public Sector Undertaking.

(iv) As per the agreement, the expatriates were also to be provided furnished air-conditioned residential accommodation with accompanying facilities and the Company was to recover Rs.20,000 per month and Rs.16,000/- per month in the case of Executive Director (Technical) and Executive Director (Operations) respectively for these facilities. However, as the Company was unable to find a suitable accommodation to meet the standards specified in the agreement, the two expatriates had been provided with accommodation at two five star hotels at a daily rent of Rs 11,400 and Rs.6,120 respectively.

(v) The remuneration and perquisites paid to these two expatriates in a period of about 12 months from November, 1994 to October, 1995 amounted to Rs.91.94 lakhs, of which expenditure on hotel accommodation (net) alone amounted to Rs.48.70 lakhs.

(vi) Though the salaries and allowances paid were more than those for Board level appointees, the administrative Ministry, while giving its 'no objection' for appointment on the agreed terms and conditions, did neither indicate the reasons nor the powers under which it was approved. This was, therefore, not in line with the Department of Public Enterprises guidelines on salaries and allowances of public sector personnel.

(vii) Since the Company was having a subsisting TTA with LC under which a 2 1/2 percent technical services fee was remitted in addition to 3 percent as royalty on sales, the expenditure on expatriates should have been made recoverable from LC out of technical services fee. But this has not been agreed to by LC and there is no reduction in the fee/royalty under TTA.

(viii) As per the terms of the agreement with the expatriates, the Company could neither bind LC for the action of these expatriates nor any action lay against these expatriates.

The Ministry stated (September 1995) that based on the need felt by the Company to strengthen the Marketing and Operations Divisions of the Company, it was thought desirable to bring in the expertise of two expatriate personnel. The Ministry stated that before finalising the pay & allowances, the Company had examined the prevalent strategies existing in other joint venture and private sector companies and found that the quantum of salary agreed for expatriates was not uncommon. The Ministry further replied that DPE also had stated that they had not prescribed any remuneration for non-Indians, which, according to DPE was an issue to be decided by the Company and the collaborator. As regards the expenditure on hotel accommodation the Ministry stated that the Company had been asked to arrange suitable accommodation so that the expatriates could shift from hotel at the earliest.

The Ministry's reply that the appointments were made on the basis of need felt by the Company is not borne out by the facts of the case as the whole proposal was initiated at the behest of LC. Although the Management/Ministry stated that before finalising the pay & allowances, the Company had examined the prevalent strategies existing in other joint venture/private sector companies and found that the quantum of salary agreed for expatriates was not uncommon, no supporting evidence in this regard was furnished by the Company even though called for. The Finance Director of the Company in his dissenting note had observed that the proposed payment of compensation and perquisites were totally out of line with all DPE norms or with the approval given by the Government for organisations similar in nature to Lubrizol India Limited like the Indian Additives Limited. The Ministry also has indirectly admitted that the expenditure on hotel accommodation was high. The Ministry has not furnished a reply to the audit observation that the appointments were not in accordance with the provisions of the Formation Agreement and that the action of the Board to authorise these expatriates to exercise powers of full-time Directors of the Company was not proper. The exorbitant expenditure apart, the induction of the two expatriates at posts below Board level with powers of a Directors of the Board was an attempt by Lubrizol Corporation, the minority shareholder, to acquire greater control of the Management of the Company when their earlier request for increase in shareholding, from 40 percent to 51 percent was not accepted by the Government.

OIL AND NATURAL GAS CORPORATION LIMITED

10.5.1 Avoidable expenditure on construction of a road

Tichna-I, a location in Tripura was released in June 1989 for drilling. As per the drilling plan prepared in March 1993, this location was to be drilled in 1994-95. However, based on a mid-term review carried out in September 1993, a revised drilling plan was prepared in November 1993 which did not include Tichna-I. Despite the fact that the revised drilling plan was circulated (November 1993) to all the concerned Departments, work for construction of an approach road to this location at a cost of Rs. 12.79 lakhs was awarded in January 1994.The contractor completed the work at a cost of Rs.10.59 lakhs in May 1994. However, due to poor prospects in Tichna structure and as envisaged in the mid-term review of September 1993, drilling of location Tichna-I was relegated as a low priority area in March 1994 and was not included in the work programme upto 1996-97. Thus, the expenditure of Rs. 10.59 lakhs, which could have been avoided, has become infructuous as in course of time the condition of road would deteriorate and it would become unusable.

The Management admitted (October,1995) and the Ministry endorsed that the plan prepared in November 1993 and circulated to all concerned did not include the drilling of location Tichna-I, but added that the plan prepared in November, 1993 was not an approved plan but only a proposed plan. It further stated that work for approach road for Tichna-I was awarded in January 1994, as per the then existing approved plan of March 1993.

The reply is not tenable, as Tichna-I was not included in the proposed plan of November 1993 the question of constructing the approach road for Tichna-I in January 1994 should not have arisen at all.

10.5.2 Procurement of material without requirement

On learning that an agreement had been signed (February 1989) between Tripura Industrial Development Corporation and Atul Glass Industries Limited for setting up of a Vanaspati Plant at Jogendranagar, Tripura, using natural gas as fuel, which was expected to start production in March 1990, the Oil and Natural Gas Corporation Limited (ONGC) initiated proposals in February 1989, for the laying of a 10 km long pipeline for the transportation of gas from their Agartala gas field to the plant although there was no commitment or request from the customer to take the gas. ONGC also placed a purchase order (January 1990) for the purchase of 10 kms of pipes for the proposed pipeline at a cost of Rs.185.57 lakhs. The pipes which were expected to be delivered in March 1990, were not delivered and in June 1990, the supplier requested for extension of delivery, which was granted till October 1990, with liquidated damages. No re-assessment of the requirement of pipes was made at this stage either. The pipes were delivered in October 1990 and a payment of Rs.171.84 lakhs, after deducting applicable liquidated damages, was made to the supplier.

In the mean time, no progress was made in the setting up of the Vanaspati plant, nor was any agreement signed for the supply of gas. The functions of marketing gas were also transferred from ONGC to Gas Authority of India Limited (GAIL) based on a policy decision taken by the Government in March 1990.

The Vanaspati plant has not come up so far (July 1995). GAIL while accepting (February 1992) the responsibility for marketing to the existing gas consumers, did not take over the pipes procured for the above customer and stated

(November 1994) that they had already informed ONGC that they did not envisage any use for the pipes procured by ONGC.

Purchase of pipes without any commitment from the prospective customer for the lifting of gas resulted in the blocking of funds to the tune of Rs.171.84 lakhs for over four years. The pipes were lying with no possibility of any use in the near future.

The matter was referred to the Ministry in July 1995, but their reply has not been received (January 1996).

10.5.3 Infructuous expenditure on the purchase of equipment not put to use

The Company (ONGC), imported (June 1987) one X-ray core scanner at a cost of Rs.26.30 lakhs for use in the laboratory at Dehradun. The equipment could not be installed till May, 1989 due to lack of proper infrastructure and non-availability of 'radioactive proof' working place. During installation of the equipment in May 1989, the recorder of the equipment was found to be incompatible with the X-ray generator and therefore, could not be put to use. Although the supplier had stated (September, 1989) that they had shipped a new X-ray recorder compatible with the equipment, the same was not received. No performance guarantee was obtained from the supplier.

Without obtaining the proper replacement for the incompatible part, the equipment was transferred from Dehradun to the Company's Institute of Reservoir Studies (IRS), Ahemdabad, in December, 1992 as the studies for which the equipment was required were being conducted by them at that time. The equipment could not be installed at IRS, Ahemdabad also as in the course of installation it was found that non magnetic core holders were not available and that X-ray tube was 'gassy' and had leakage. The X-ray tube was also found to be irrepairable.

The commissioning of the X-ray core scanner was not considered feasible as the replacement of damaged parts was uneconomical, the electronic parts of the machine had outlived their life and the equipments become obsolete due to passage of time. The expenditure of Rs.26.30 lakhs on purchase of the equipment thus became infructuous.

The Ministry, while confirming the facts, admitted (July, 1995) that most effective use of the equipment could not be made due to incompatibility of one of the recorders. The Ministry also stated that such risks for R & D work related equipment could not be totally foreseen.

The Ministry's reply is not tenable because what was foreseeable was also not done. Due to lack of proper working facilities and due to delay in obtaining the replacement, the equipment remained idle for a long time. Further, due to prolonged storage, some electronic parts also got damaged and the equipment also became obsolete.

10.5.4 Extra expenditure in the purchase of casing pipes.

ONGC Limited placed a conditional order on a foreign supplier on 24th September, 1987 for the supply of 62,100 metres of casing pipes, against the supplier's offer which was valid upto 25th September 1987. The order was subject to indigenous angle clearance from Oil Industry Development Board (OIDB), for which a request had already been made in July 1987. As the casing pipes were required for a World Bank aided project, it was necessary to procure them only from manufacturers approved by American Petroleum Institute (API). The casing pipes offered by the local suppliers were not API approved. Although this fact was brought to the notice of OIDB while seeking indigenous angle clearance for the import of pipes, OIDB cleared (October 1987) the import of only half the quantity i.e. 31,050 metres and directed ONGC to procure the balance quantity from an indigenous source who had offered lower rates, but whose bid had been technically rejected by the Steering Committee as it was not for API approved pipes. Accordingly, ONGC amended (October

1987) its earlier order placed on the foreign supplier and reduced the quantity to 31,050 metres @ US $ 46.20 per metre (FOB).

On being repeatedly pointed out by ONGC to OIDB that the product offered by the local source was not API approved and hence not technically acceptable, OIDB finally cleared (November 1987) the import of the balance 31,050 metres of casing pipes. However, the earlier offer of the foreign supplier had expired by this time. Consequently, ONGC invited (March 1988) tenders again for the balance quantity. Based on the lowest rate, order was placed (July 1988) on the same foreign supplier again @ US $ 66.50 per metre (FOB).

The avoidable delay in according indigenous angle clearance by OIDB on grounds which had already been explained by ONGC at the time of sending the initial proposal, cost ONGC an additional Rs. 85.40 lakhs (excluding customs duty and other incidentals) on the procurement of casing pipes.

The Ministry stated (March 1995) that according indigenous angle clearance was the function of the Chief Consultant, OIDB, and the then Chief Consultant who dealt with the case had retired and OIDB had nothing more available on record to add in this connection.

10.5.5 Extra expenditure due to delay in finalisation of tender

ONGC Limited invited global tenders in May, 1990, under two bid system for the procurement of three numbers of truck powered pumping units. The date of opening of bids was 11 July, 1990. The bids were to be kept valid for 120 days from the date of bid opening.

Five offers were received. Although initially only three bids were recommended (8 August 1990) by the tender committee, at the instance (31 August, 1990) of the approving authority (Regional Director, Western Regional

Business Centre), technical clarifications were called for from all the five bidders. These technical clarifications were again discussed by the tender committee on 21 November, 1990 by which time the validity of the offers was over. Still final shortlisting for the purpose of opening of price bid could not be done and the tender committee again met on 31 January,1991 and shortlisted four bidders for opening of price bids. Meanwhile, extension of validity was sought for from all the bidders. While four bidders extended the validity till 28 February,1991 without any increase in price, one bidder, firm 'A' Canada, who was shortlisted for price bid opening, submitted revised prices.

The price bids of four shortlisted bidders (revised prices in the case of firm 'A') were opened on 13 February,1991. The first lowest offer was from firm 'A' from Canada after considering grant/credit from Canadian Industrial Development Authority (CIDA)/Economic Development Corporation of Canada (EDC) under which 62 per cent of the FOB price was payable under deferred terms and 38 per cent was an outright grant to the Government of India by CIDA. The quoted rate of firm'A' was Canadian Dollars (C$) 4.59 lakhs per unit FOB. The offer was valid upto 15 April,1991.

The tender committee met on 27 February,1991 and recommended the placement of order on Firm 'A' under CIDA/EDC grant/credit.

The case was discussed by the steering committee on 9 April,1991. At the instance of the steering committee, the originally quoted price of firm'A' was opened in the meeting and it was found that firm'A' had originally quoted C$ 3.98 lakhs ex-works (C$ 4.07 lakhs FOB) and this was exactly the same as FOB rate of the last order placed earlier on firm 'A' on 31 December, 1990. After discussions, steering Committee directed that order should be placed on 'A' if they agreed to match their last order rate of C$ 3.98 lakhs FOB and in case 'A' did not agree, best reduced prices should be asked from all the acceptable bidders and the recommendations brought up to the steering Committee.

Firm 'A' not only did not agree to match the last order rate but also further revised (21 May,1991) their rates upwards to C$ 4.87 lakhs FOB. The tender committee which met on 27 May,1991 recommended the award of contract to firm 'A' under CIDA/EDC credit/grant. The steering committee which met on 25 June, 1991, however, observed that firm'A' knowing that they were the only acceptable Canadian bidder, was taking undue advantage of the CIDA credit and directed that firm 'A' be asked to bring down their rates as much as possible and the ONGC would not pay beyond their quoted rate of C$ 4.59 lakhs FOB i.e.their revised prices opened on 13 February,1991. Steering Committee also directed that the matter of firm 'A' revising the prices taking the advantage of CIDA credit be brought to the notice of the Canadian High Commissioner.Firm 'A' was again asked (9 July,1991) to give their best reduced prices and was also informed that ONGC would not accept any upward revision of rates beyond C$ 4.59 lakhs FOB The firm reduced their second revised rate of C$ 4.87 lakhs FOB by only 2.5 per cent i.e. to C$ 4.75 lakhs FOB with validity up to 31 July, 1991 and intimated that 5 per cent increase would apply after that date. The Steering Committee met on 25 July, 1991 and decided to award the contract to firm'A' for purchase of 3 Nos. Truck Powered Pumping units alongwith its spares etc. The telex letter of intent was accordingly placed on firm 'A' on 31 July, 1991 at C$ 4.66 lakhs per unit ex-work (excluding spares).

By not finalising the order within the original validity of the offers viz., November, 1990, ONGC had to incur an extra expenditure of Rs.68.30 lakhs. Even if the order had been placed at the rates quoted in the first revised offer (February, 1991) as by this time all technical clarifications had been sorted out and the parties shortlisted, ONGC could have avoided an extra expenditure of Rs.15.74 lakhs. Instead, the Company tried unsuccessfully to negotiate with the lowest bidder despite the fact that their's was the only offer under CIDA grant/EDC credit and the offer of next bidder was 19% higher (FOB basis). In all, the Company took one year from the date of the opening of the bids to the date of letter of intent and in the meantime prices were revised three times. Throughout finalisation of the tender, due regard was not given to validity dates of offers and there were undue delays at each stage.

While explaining the reasons for unduly long time taken in finalisation of the tender, the Management stated (November 1995) that this was mainly due to:

(i) time required for study and evaluation of the system which was very sophisticated; and

(ii) repeated correspondence with the bidders to decide technical acceptability of the equipment and to ensure sufficient competition.

The Management's contention is not tenable in view of the position brought out in the para and specially the fact that a similar system was purchased by ONGC from the same party in December 1990.

10.5.6 Loss due to delay in commissioning of facilities

ONGC Limited entered into a Memorandum of Understanding (MOU) with the Gas Authority of India Limited (GAIL) in January 1987 for the supply of lean gas from its Gas Processing Complex at Hazira to GAIL. The actual gas supply started from 22 June, 1987. Although the MOU provided for ratification of the same by the respective Managements, neither was the MOU ratified by both the parties at Board level nor was an agreement containing various technical/commercial terms of supply entered into.

According to the MOU, lean gas was to be supplied at a pressure not less than 40 kg/cm^2 at the point of delivery, after stripping LPG from rich gas received from offshore. However, as the compressors of GAIL to compress the gas and supply the same to its consumers at the desired pressure along HBJ pipeline were not ready, the Ministry of Petroleum and Natural Gas requested ONGC (January 1988) to supply the gas at a pressure higher than 47.5 kg/cm^2 . This was technically and commercially possible only by running the LPG plant at Hazira at 30 per cent less than the rated output. This arrangement continued for 2 years and 7 months against the original envisaged period of 6 to 7 months, resulting in rich gas being supplied to GAIL without extraction of LPG and value loss to ONGC and to the nation to an extent of Rs.13.87 crores (difference between the LPG price and price of equivalent quantity of gas). Although ONGC billed this amount to GAIL, GAIL has not accepted the claim of ONGC.

The Ministry, while accepting the facts, stated (September 1995) that the claims of ONGC were disputed by GAIL and that the matter was being taken up with ONGC and GAIL by the Ministry for the resolution of the outstanding issues.

The fact remains that due to delay in the commissioning of gas compressors by GAIL, there was an avoidable loss of Rs.13.87 crores to the nation.

10.5.7 Non-availment of repeat order option

ONGC Limited placed (April 1991) a supply order on an American Firm'A' for the purchase of TCR bits of various specifications. ONGC had an option to place a repeat order on the same terms and conditions upto 50 per cent of the quantity covered by the supply order within a period of six months from the date of the supply order or during the period of its validity, whichever was later and it would be obligatory on the part of the supplier to execute such repeat order. The supply order remained valid till 27 November 1991.

In August 1991, the Corporation floated another tender for TCR bits of various specifications which also included items covered in the supply order placed on the firm in April 1991. The bids were opened on 19 October 1991. The rates quoted against this tender were higher than the rates at which earlier order was placed in April 1991. Despite this, instead of invoking the repeat order clause for the admissible quantities, ONGC placed (August 1992), orders on the same American firm and another American firm 'B' thereby incurring an avoidable expenditure of Rs.42.95 lakhs.

The Ministry stated (November 1995) that the tender floated in August 1991 was of the value of Rs.6.49 crores and required the approval of Steering Committee before any action for placement of order was taken. The Ministry also stated that as per the practice prevailing during that period, it was necessary to obtain foreign exchange release and OIDB clearance also prior to placement of any order on the foreign firm and therefore, it was practically impossible to process the tender opened on 19.10.91 before 27.11.91 i.e. the date upto which repeat order option was available. The Ministry further stated that the comparative statement of tenders in respect of August 1991 tender was finalised on 6 November 1991 and Tender Committee recommended on 18 November 1991 to place repeat order on Firm'A'. But by the time it was submitted (5 December 1991) for the approval of the competent authority, the date (27 November 1991) before which repeat order could be placed had passed.

The reply of the Ministry is not convincing. The rates obtained on 19 October 1991 were 60 per cent higher than the rates at which order was placed in April 1991 and at which repeat order option was available. In view of this, the Management should have taken the approval of the appropriate authority for placement of repeat order in time.

The Steering Committee also directed (March 1992) that the procedure regarding placement of repeat order should be reviewed with a view to availing of the same when the prices on repeat order happened to be lower than those quoted against the tender. In fact, it was observed that there was no system in the Corporation to regularly monitor the availability of repeat order options and taking prompt action for availing them, wherever necessary.

10.5.8 Avoidable loss due to flaring of gas

To arrest the declining trend in crude oil output from its oil wells in Kalol, Navagam and Sanand oil fields, ONGC Limited was resorting to artificial lifting of oil from the wells. This was being achieved by injecting free gas produced from free gas wells in these fields or nearby fields. With a view to conserving the free gas and utilising associated gas (gas produced alongwith crude oil and then separated) which was otherwise being flared, ONGC approved schemes at an estimated cost of Rs. 9.38 crores between April-October, 1985 to instal compressors for compressing the low pressure associated gas to higher pressures so as to make it suitable for injection into the wells for lifting of crude.

There were delays in the finalisation of tenders and award of contracts. The process which should have normally taken three months took twenty months from the date of opening of bids (1st July 1986) to the award of contract (18th March 1988). There were further delays in the execution of schemes and the compressors were finally commissioned in July 1989 in Navagam, November 1989 in Sanand, and February 1990 in Kalol against the scheduled dates of May 1989, July 1989, and September 1989 respectively. This delay, ranging from 71 days to 162 days, was mainly due to non-fulfilment of obligations by ONGC in time.

As a result of these delays, ONGC incurred a loss of Rs. 11.69 crores due to continued injection of free gas and flaring of associated gas.

The Ministry stated (September 1993) that the delay in the finalisation of tenders was because of deviations taken by the bidders with reference to technical specifications as well as commercial terms and conditions, necessitating clarifications from the bidders four times for proper evaluation of their bids. The Ministry also stated that the compressors cannot altogether avoid flaring of gas and the gas separated at pressures lower than 5 kg/cm^2 continues to be flared.

The reply of the Ministry is not convincing as the tender for the installation of compressors opened on 1st July 1986 was preceeded by an earlier tender in October 1985 for the same work which had to be abandoned as the offers did not meet the bid evaluation criteria. The Tender Committee, while recommending re-tendering (February 1986), had emphasised that the experience gained in the process of this tender be used for finalising the fresh tender document with complete specifications. Coupled with the fact that before opening of the bids the second time (1st July 1986), a pre-bid conference had been held with all prospective bidders to clarify technical issues, the time of 20 months taken to award the contracts lacked justification, and defeated the purpose of the scheme to conserve free gas during this period of delay. The detailed data regarding the volume of associated gas produced below the pressure of 5 kg/cm^2 was not available.

CHAPTER 11

MINISTRY OF POWER

RURAL ELECTRIFICATION CORPORATION LIMITED

11.1 Infructuous expenditure on office accommodation

The Board of Directors approved (August 1978) the acquiring of office accommodation for the Company on participation basis in the Public Sector Complex proposed to be built by the Standing Conference on Public Enterprises (SCOPE). The SCOPE authorities allocated an area of 49,700 sq.fts. to the Company on payment of Rs.377.71 lakhs-sufficient to accommodate the entire office housed in a hired building (44,768 sq.fts.) in Nehru Place at a monthly rent of Rs.1,45,496. Although the Company was informed in December 1987 that the accommodation in the SCOPE Complex was ready, no attempt was made to occupy the space acquired in SCOPE Complex and vacate the rented accommodation. It was only in January 1995 that the work of interior decoration of the premises in SCOPE Complex at a cost of Rs.195.95 lakhs was awarded; the Company is yet to shift to the premises. In addition to the above payment of Rs. 377.71 lakhs, the Company paid Rs.254.28 lakhs as maintenance charges to the SCOPE upto December 1994.

Thus the Company paid rent of Rs.138.22 lakhs to DDA for the hired accommodation at Nehru Place and is also liable to pay Rs.535.87 lakhs being the additional rent demanded by DDA during the period frcm January 1988 to November 1995 on account of increase in licence fee.

The Management stated (August 1995) that the accommodation allotted to the Company by SCOPE was found, on inspection, not to be ready in all respects and that the Ministry of Power had informed (August 1988) the Company to shift the office outside Delhi and till such time these orders were rescinded it was not advisable to enter into any commitment for shifting to SCOPE Complex. It also stated that keeping in view the total requirement of officers and staff, it was necessary to retain and utilise both the offices in SCOPE Complex and at Nehru Place.

The reply of the Management is not tenable as the premises allotted to it in December 1987 were inspected only in May 1990 and the minor defects pointed out in August 1990 were rectified within a few days. The Management's contention that the Ministry asked them in August 1988 to shift the office outside Delhi is not correct as the Company was asked only to identify Divisions that could be shifted outside Delhi and that also after eight months of the offer by SCOPE to occupy it. The Management's reply as regards insufficiency of the accommodation is also not tenable as the Board of Directors decided in January 1994 to vacate the building at Nehru Place after completion of interior decoration work at SCOPE complex. Further, the Company has to transfer about 70 officials out of Delhi as per the directions of the Ministry dated 28.11.1990, which would enable them to adjust the entire office at one place i.e. SCOPE complex.

The matter was referred to the Ministry in September 1995, but their reply has not been received (January 1996).

CHAPTER 12

MINISTRY OF STEEL

NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

12.1.1 Avoidable payment of Penalty

The Madhya Pradesh Electricity Board (MPSEB) issued (July 1990) a notice to all High Tension Consumers, increasing the power factor limit from 0.85 to 0.90, with the stipulation that if the power factor is not improved above 0.90 by January 1991, penalty as stipulated will be levied. Subsequently, MPSEB in August 1991 extended the time limit for improving the power factor upto the end of January 1992.

The Company placed a confirmed Letter of Intent for the work of supply, installation and commissioning of the equipment for power factor improvement only in September 1992. This was later (October 1992) followed by the issue of two separate orders covering supply (Rs.34.89 lakhs) and installation and commissioning with the stipulation that both the supply and commissioning (Rs.3.05 lakhs) works were to be completed within 10 months from the date of Letter of Intent (July 1993).

Though both the works of supply and commissioning were to be completed by July 1993, taking up of both the works simultaneously had not been insisted upon. A schedule for completing erection and commissioning by the end of March 1994 was finalised in February 1994 in consultation with the contractor. Though the system was stated to have been commissioned in June 1994, it was observed that the erection and commissioning works were not complete in all respects (January 1995).

The MPSEB levied and the Company paid an amount of Rs.37.93 lakhs as penalty for low power factor, during the period February 1992 to December 1994.

The Ministry stated (October 1995) that to install an equipment which would raise the power factor from 9.85 to 0.90 was a complex nature of job for which a critical study was needed and this was completed in March 1992. A letter of intent was issued in September 1992 and the system commissioned in June 1994 as against contract schedule of June 1993.

The contention of the Ministry is not tenable The Company could not complete the studies and fix an agency in time though the Board had given 18 months time to complete power factor improvement works. It could also not ensure the timely completion of works with the result that the Company had to incur an avoidable expenditure of Rs.37.93 lakhs.

12.1.2 Infructuous expenditure on the Central Work Shop

National Mineral Development Corporation Ltd. developed a mechanised mining complex at Bailadila range of hills. The mechanised mining involved use of heavy earth moving machinery like shovels, dumpers, dozers, graders, loaders, compressors, etc. In view of the arduous working environment and the abrasive nature of the ore, there was heavy deterioration of mining machinery requiring frequent repairs and reconditioning.

Considering the fleet of various equipment being used in the project and the capital cost involved in their replacement, it was found necessary to establish a suitably equipped Central Work Shop (in addition to the repair facilities already existing in the mine area) to recondition the worn out equipment at a much lower cost compared to the cost of their replacement.

The Board of Directors approved (December 1989) the establishment of a Central Work Shop at a total cost of Rs.17.07 crores. The Central Work Shop at Bacheli was completed and commissioned in December 1993 at an expenditure of Rs.12.19 crores. The Company could not utilise the facilities created and entrusted reconditioning works to outside parties at a cost of Rs.81.97 lakhs during March 1994 to January 1995 mainly due to inadequate positioning of skilled workmen. It also incurred an expenditure of Rs.69.77 lakhs on the operation of Central Workshop during April 1994 to December 1994.

Off loading of reconditioning works of heavy equipment to private parties when the Central Work Shop was set up at a cost of Rs.12.19 crores for the same purpose, had resulted in idle investment of Rs.12.19 crores and the operating expenditure of Rs.69.77 lakhs remaining unfruitful.

The Management stated (August 1995) that though the Central Work Shop was commissioned, the positioning of the skilled staff has been a time consuming process. Against 27 candidates selected and appointment orders issued in January-February 1995 only 7 persons joined the Central Work Shop in April 1995. As the recruitment of multi skilled staff is made, more and more works could be taken up at the central work shop and the work to be awarded to the outside party would reduce.

Thus failure to position the requisite staff in time synchronising with the commissioning of Central Workshop resulted in idle investment of Rs.12.19 crores and unfruitful expenditure of Rs.69.77 lakhs.

The matter was referred to the Ministry in June 1995, but their reply has not been received (January 1996).

RASHTRIYA ISPAT NIGAM LIMITED

12.2.1 Avoidable payment of Electricity charges

The Company entered into an agreement (1988) with Andhra Pradesh State Electricity Board for the purchase of electricity. The terms and conditions of the supply, inter-alia, provided that:-

(i) Consumption deposit equivalent to three months estimated energy consumption and demand charges was to be placed with the Board;

(ii) If at any time, the deposit was found short of three months consumption charges, the Board would issue a notice to the consumer to make additional cash deposit to cover the shortfall, within thirty days of such notice;

(ii) In case of delay in payment of the additional deposit, surcharge at 1.5 per cent per month was payable and

(iv) Interest at 24 per cent per annum was to be levied on the balance of deposit outstanding.

Based on the energy and demand charges for the twelve months ending March 1993, the Board demanded (20th May 1993) payment of additional consumption deposit of Rs.4.75 crores in cash, payable within thirty days of such notice i.e., on or before 19th June 1993.

Despite the fact that a previous request made by the Company (April 1990) for obtaining exemption in this regard,had been rejected by the Board, the Company again (31st May 1993) took up the matter with the Board for exemption from making additional consumption deposit in cash and also requested for acceptance of a Bank Guarantee (BG) in lieu thereof, which the Board, rejected (June 1993). On the request of the Company on 9th September 1993, the Board allowed (23 September 1993) payment of additional consumption deposit in 6 monthly instalments, subject to levy of interest at 24 per cent on the outstanding balances and a surcharge of 18 per cent on consumption charges. The Company paid the additional consumption deposit to the Board in 5 instalments between October and December 1993 and also paid Rs.84.15 lakhs towards surcharge and interest to the Board.

The Management stated (May 1995) that it had felt that there was adequate justifications for the Board to accept the request of the Company for BG as the Board was already having a cash deposit of Rs.7.40 crores and the Company was regular in payment of electricity charges for the past 12 years. As the Board did not appreciate the request, the

Company had no other alternative but to accept the demand of the Board.

Thus, failure of the Company to make the additional deposit within the stipulated period of thirty days, resulted in avoidable payment of Rs.58.78 lakhs (computed with reference to the differential between the amount actually paid (Rs.84.15 lakhs) and the amount which the Company would have paid had it obtained the funds on cash credit).

12.2.2 Inadequacy of internal control systems and Procedures

In accordance with the delegation of powers Deputy General Manager (DGM) and above are authorised to approve sales on credit upto 90 days against Letter of Credit or Bank Guarantee with the concurrence of Finance and Accounts Department.

The Branch Sales Office (Branch) of the Company at Calcutta sold (February and March 1994) steel material worth Rs.158.66 lakhs, on 90 days interest free credit against Bank Guarantees (BG) for Rs.200 lakhs to two parties in consortium with another party. The above transaction was stated to have been done in consultation with the DGM, whose approval for the same was however obtained in April 1994. Though payments which had fallen due (May and June 1994) had not been received, the Branch made (April to October 1994) further credit sales amounting to Rs.348.45 lakhs to three parties, including the above 2 parties belonging to the same group. Out of cheques for Rs.94.71 lakhs received (September and October 1994) from the parties, cheques for Rs.58.39 lakhs were dishonored by the Bank (November 1994).

Though the above credit sales, effected by the Branch against Bank Guarantees for a total value of Rs. 430 lakhs received during February to April 1994, the Branch failed to obtain confirmation of the same from the Bank. On the cheques being dishonored, the Branch presented (November

1994) to Bank, for invoking the Bank Guarantees furnished by the parties. The Bank, however, informed (November 1994) that they had no obligation to honour the same, as none of the Bank Guarantees had been issued by them.

As the efforts to realise the dues had failed, the Company filed (August 1995) a legal suit against the party and its outcome is awaited (September 1995). The Company, thus, failed to realise an amount of Rs.470.79 lakhs. The Company however made a provision of the entire amount under doubtful debts in the accounts for the year 1994-95.

The following are the observations of Audit:

1) Credit for 90 days was allowed by the Branch without obtaining the concurrence of the Finance and Accounts Wing, which was required.

2) Though credit sales had been approved, no detailed guidelines have been issued by the Company for safeguarding the interests of the Company against any fraud and default. In the absence of proper system in this regard, the Branch accepted unconfirmed Bank Guarantees for Rs.430 lakhs as security, which on presentation were found not to be genuine. Further, no mechanism had been evolved to monitor at regular intervals, the status of credit sales and their timely realisation.

The Management stated (June 1995) that "there is a system for extending credit facilities with the approval of competent authority as per delegation of powers and as such it can not be construed that the system are absent. The extension of further credit sales beyond Bank Guarantee limit was due to failure of individual Branches/Officers only".

The contention of the Management is not tenable as though there is delegation of power, the detailed guidelines as to the operation of the system had not been issued. Infact, the Company started issuing detailed guidelines on credit sales from December 1994 onwards (i.e.after occurrence of the event).

The Management further stated that the concerned Executives were placed under suspension and departmental action initiated against them.

3. The Branch Manager, Calcutta stated (November 1994) that further credit sales were made, at the request of the parties in order to continue supply of materials as it was necessary for making repayments.

4. The Legal Advisor advised (December 1994) the Company to obtain the permission of the Committee of Secretaries and to file a suit against the Bank. If such a suit was not filed and if it was eventually found that the Bank Guarantee were genuine, it might be too late to file any suit because by then it would be barred by time limitation. No such suit was filed.

The above transaction is indicative of the inadequacy of internal control procedures and mechanism in relation to the operation of credit sales and related Instruments, which are required in order to safeguard the financial interest of the Company.

The matter was referred to the Ministry in February 1995, but their reply has not been received, so far (January 1996).

12.2.3 Defective lining and operation of Dolomite Kiln

The construction of a Dolomite Kiln for the Tar Bonded Dolomite Brick Plant was completed in 1987. When the Kiln was put into operation (October 1991) some erosion of Brick Lining was noticed and relining of the Klin was caried out at a cost of Rs.25.10 lakhs. The Kiln so relined was put into operation on 24th December 1991 but the new lining collapsed on 26th December 1991.

The Committee appointed (December 1991) by the Company to examine the reasons for collapse of lining had attributed the failure to the bad quality of bricks. On the matter regarding the failure of the relining being referred to the supplier of bricks (December 1991), the supplier contended

(January 1992), after discussion with the various technical officer of the Company, that the collapse of the relining was due to lining defects and operational faults.

The supplier held (January 1992) that the bricks supplied were perfectly matching with the specifications. This was further substantiated by the results of composite testing conducted (Februry 1993) at the instance of the supplier of the bricks at the Regional Reasserch Laboratory, Bhubaneshwar. The Company, however, did not analyse the reasons for the failure of relining after the quality of bricks was estabilished.

The new lining which had collapsed was rectified (May 1992) by the Company through another contractor at an additional cost of Rs.26.64 lakhs.

The Management stated (April 1995) that a few inferior bricks of the cleared lot might have come in adjacent layers resulting in failure.

The reply of the Management is not tenable as the bricks passed the composite test.

Thus, had the Company taken adequate safeguards while relining and operating the Kiln, the additional expenditure of Rs.26.64 lakhs on rectification,could have been avoided.

The matter was referred to the Ministry in February 1995, but their reply has not received, so far (February 1996).

12.2.4 Lacunae In Export Agreements

The following are the main terms and conditions for the export of Company's products

(1) The overseas buyer should open a confirmed irrevocable Letter of Credit (L.C.) in favour of the Company.

(2) The negotiating bank in India should be paid towards the value of supplies by the L.C. opening Bank within 2 working days of receipt of telex certifying that

all the terms and conditions of the L.C. had been complied with and all relevant documents were despatched to the L.C. opening bank.

The negotiating bank in India, on presentation of documents releases the payment to the Company after deducting interest for 5 days. In case, the payment by the L.C. opening bank is delayed beyond 5 days, overdue interest at 20.75% will be charged. There is, however, no clause in the sale agreements to safeguard the interest of the Company, in case the L.C. opening bank did not make the payment within the stipulated period and the negotiating bank charges overdue interest from the Company for the belated payments.

It was observed that during 1992-93 and 1993-94, in respect of 29 export orders, the local branch of the negotiating bank levied overdue interest of Rs.83.64 lakhs on account of delays (ranging from 1 to 30 days beyond the initial 5 days) in receipt of payments from the L.C. opening bank. The Company absorbed the overdue interest as normal expenditure. No approval of the competent authority was obtained for the payment of overdue interest.

The Ministry stated (March 1995) that the interest saved due to the negotiating bank affording credit to the Company's cash credit account immediately after negotiation of the documents had offset the interest charged for the delayed reimbursement by the L.C. opening bank. The Ministry further stated that no approval of the competent authority is required at this stage since claims for refund of overdue bank charges have been lodged both on the bank and the overseas customers.

The contention of the Ministry is not tenable since the interest charged for the delayed reimbursement by the L.C.opening bank would have totally been avoided had the contractual conditions of reimbursement within two days of receipt of tested telex been adhered to by the L C. opening bank. Further, approval of the competent authority is required since the interest of Rs.83.64 lakhs was debited by the Company to the final head of expenditure.

Thus due to the absence of a suitable provision in the export sale contracts, the Company incurred an avoidable expenditure of Rs.83.64 lakhs.

12.2.5 Avoidable expenditure on export deal

The Company entered into two contracts (March 1993) with an Agency Firm of New York for export of 10,000 tonnes each of rolled ribbed bars and wire rods at US $ 294 per tonne to a buyer in China. In terms of the contracts, the materials were to be shipped on the strength of confirmed irrevocable Letter of Credit (L.C.) in favour of the Company and on an undertaking from the LC opening bank to reimburse within two days of receipt of a tested telex (TT) from the LC negotiating bank, confirming that all the terms and conditions of LC have been completed and all the relevant documents despatched.

The LCs opened (April 1993) by the buyer, with the Bank of China did not provide for LC confirmation and TT reimbursement. In view of the above shortcomings the contract rate of US $ 294 per tonne, was revised to US $ 295 per tonne. The Agency Firm further agreed to pay interest at 20.75 per cent in case payment was delayed beyond two working days and to deposit a further sum of Rs.4.00 lakhs over and above the earnest money (EMD) already deposited, before sailing of the vessel, to cover interest. The Company agreed for the same as a special case.

The materials were loaded on the ship and bill of lading obtained on 6th May 1993 without ensuring deposit of Rs.4.00 lakhs from the firm. The Company presented (May 1993) the documents to the State Bank of India for collection and obtained advance credit of Rs.18.71 crores carrying interest at 15.50 per cent for the first five days and at 17.75/19.5 per cent thereafter.

The Bank of China received the documents on 26th May 1993 but did not release the payment. The Bank pointed out (3.6.1993) certain frivolous discrepancies in the documents well after the expiry date of LC(30th May 1993). The Company clarified all the discrepancies promptly, but there was no response from the Bank of China. Finally (July 1993) the Company deputed a team of officers to China and settled the issue by allowing a discount of US $ 50,000 to the ultimate buyer and waiving the interest liability.

The Management stated (September 1994) that the Bank of China's reputation was the prime consideration than the buyer's credentials for finalising the export deal. The contention of the Management is not tenable as the export deal was not operated as per laid down policy of the Company.

Thus, due to inept handling of the export deal, the Company sustained a loss of Rs.57.27 lakhs.(Rs.17.82 lakhs towards discount allowed, Rs.37.25 lakhs towards Net Penal interest paid and Rs.2.20 lakhs expenditure on the teams visit to China).

12.2.6 Failure To regulate issue of Material to Agent

The Company appointed in August 1991 a Conversion Agent (Agent) for rolling its billets into finished products (viz. torsteel joists, wire rods etc.) to meet the demand of customers. In terms of the conversion agreement, requisite billets were to be issued to the Agent for conversion into required sizes of finished products against adequate Bank Guarantee (BG) and unconverted stock of billets, if any, were to be returned to the Company before release of Bank Guarantee.

It was observed that the Company after obtaining (August 1991) a Bank Guarantee for Rs.24 lakhs, issued (September 1991) 300 tonnes of billets. Subsequently (October 1991 to January 1994) Bank Guarantees for additional amount of Rs.46 lakhs were also obtained to cover further issue of billets.

However, due to absence of a system of ascertaining the balance quantity of billets lying with the Agent after each issue and receipt, the Company issued billets without co-relating to the finished products supplied by the Agent. As a result, by the time transaction with the Agent were discontinued (April 1993), a total quantity of 700.669 tonnes of billets valuing Rs.69.73 lakhs was lying with the Agent, which in fact should have been returned to the Company as per agreement.

It was observed that the Company made no efforts subsequently to obtain the balance from the Agent. As the balance material was not returned, the Company raised (March 1994) an invoice for Rs.66.72 lakhs covering 670 tonnes (as against 700.669 tonnes) treating it as a sale to the Agent. The Company while requesting (June 1994) the Bank to invoke the BGs also enclosed these invoices. As a result of treating the transaction as a sale, the Bank refused (July 1994) to invoke the BGs stating that their liability was confined to the goods sent for conversion and not for sale to the Agent and the BGs did not cover an "unpaid seller".

Before the Bank Guarantee could be encashed the Agent filed a suit in the Court restraining the Company from invoking the Bank Guarantee and obtained injunction orders. The Company filed (April 1995) a suit for vacation of the injunction order. Further developments have not been received (September 1995).

The Management stated (June 1995) that it is for the Branch Manager to reconcile the stock lying with the Agent on monthly basis and as he did not do such reconciliation, he was placed under suspension.

Thus, due to unregulated issue of materials to the Agent, incorrect treatment of the value of unreturned billets as sale, belated and incorrect invoking of the BGs, the Company failed to recover an amount of Rs.69.73 lakhs (January 1995). The Company made a provision of Rs.67.00 lakhs in the Account for 1994-95, as doubtful recovery.

The matter was referred to the Ministry in February 1995, but their reply has not been received (January 1996)

STEEL AUTHORITY OF INDIA LIMITED

12.3.1 Avoidable expenditure on reclamation of Furnace equipment

A proposal to install two old large Bell and Hopper in Blast Furnace (BF) No.4 and 5 - one during May-September 1984 and the other during May-August 1985 after reclamation of the same was submitted by the user department of the Bhilai Steel Plant/SAIL in November 1983. The Purchase Department of the Plant placed an order on a firm of Calcutta in November 1985 for reclamation of two sets of old large Bell and Hopper at Rs.46.48 lakhs. The two sets were to be reclaimed within 14 to 16 months from the date of placement of order.

While first set of reclaimed large Bell and Hopper received in November, 1988 was installed in BF-6 in April 1989, the 2nd set (the order for which was cancelled in March 1991 but subsequently revived in December 1991) received in March, 1992 costing Rs.23.24 lakhs could not be installed in any of the Furnaces due to introduction of Bell Less Top Charging System in BFs. The 2nd set was declared obsolete and recommended for disposal in March 1993. The equipment was finally sold in May 1993 by tender for Rs.1.94 lakhs. The first set reclaimed large Bell and Hopper installed in BF-6 in April 1989 was also taken off during June 1990 to November 1990 and scrapped.

The Ministry stated (May 1995) that the order was cancelled in March 1991 in view of changing of top equipments for BF-5 by Bell Less Top Charging System but it was subsequently revived in December 1991 on the ground that there was no spare Bell and Hopper available; no alternative action was taken for procurement of Bell and Hopper and there were indications that capital repairs of BF-5 planned for April 1992 might have to be postponed due to delay in supply of BLT equipments.

The Ministry contention regarding revival of order after cancellation is not tenable in asmuch as the decision to revive the order on the above grounds was taken after it was informed by the supplier in December 1991 that the Bell and Hopper set was ready for inspection after necessary repairs and rectification and the set which was stated to be required to avoid stock out situation was actually received in March 1992 i.e. a few days before the BF-5 was shut-down for capital repairs.

Revival of the order after cancellation resulted in avoidable expenditure of Rs.21.30 lakhs.

12.3.2 Payment of compensation due to export of degraded CR Coils

The Company (SAIL) entered into a contract on 22 October 1993 with a firm of Singapore for export of 8950 Metric tonnes of Prime Cold Rolled Steel (CR) Coils to USA at a FOB price (Visakhapatnam Port) of U.S.$ 350.75 per metric tonne. The terms and conditions of the contract provided that the meterials would be inspected for quality by the authorised Surveyor in India during production in addition to the usual pre-shipment inspection at the load-port. The cost of this quality inspection was to be borne by the buyer and seller equally.

The terms and conditions of the contract further provided that payment for supply of material would be released through Letter of Credit on furnishing-

(i) Mills Test Certificate issued by Bokaro Steel Plant, and

(ii) Pre-shipment inspection certificates issued by the Inspection Agency certifying that:-

(a) The materials were inspected during production for quality inspection;

(b) The material were inspected at the loading port prior to loading; and

(c) The materials were loaded on board the vessel without apparent damage and were found to be in good order.

The Company shipped 8811.500 metric tonnes of CR Coils on 28 January 1994 as per terms and conditions of the contract and received payment through Letter of Credit on 23 February 1994 after furnishing the required certificates.

Immediately after the vessel reached destination on 31 March 1994,it was reported by the firm of Singapore that all the coils were covered by heavy rust and outer wrappers were broken and loose. Subsequently, the firm reported on 19 April 1994 that the total quantity had been rejected due to serious quality problem like oil canning, centre buckling, waviness, holes in some coils as well as overall rust due to insufficient and inconsistent oiling and discrepancies in coil weight. The Company also deputed a team of its officers to inspect the material abroad and to arrive at a solution. After inspection, the team confirmed that almost in all the coils oiling was inadequate and was not spread uniformly throughout the length and width of the coils. The team also signed minutes of the discussion in USA to the effect that either SAIL should take the materials back or absorb the price difference of the defective quantity, which was estimated at 25% of the total value (U.S $ 3090633.63) of the supply.

After exploring various alternatives of disposal and compensation by way of discount at different levels it was finally agreed between SAIL and the firm of Singapore that:

(a) The firm would dispose of the materials at their discretion to the customers for appropriate application after suitable reclassification, and

(b) SAIL would pay compensation amounting to Rs.273.83 lakhs, (US $ 872338.50) by offering a discount of $ 99 per mt on quantity of actual shipment (being

28.23 % of FOB value of shipment) in full and final settlement of the claim lodged by the firm on the quality aspects of the shipment.

After approval of the Board, the payment of Rs.273.83 lakhs was made on 2 September 1994. While approving the proposal for compensation, SAIL Board observed (July 1994) that responsibility for export of defective material should be fixed, but no responsibility for the said lapse could be fixed.

The Ministry stated (June 1995) that it was true that the material had been inspected by M/s SGS India Limited, an agency appointed for inspection by the buyer, during production of quality as also during loading and therefore, SAIL was contractually not bound to discuss/settle any compensation issue. It added that in the fast processing line at CRM, sometimes inspecting agency finds it difficult to locate defects through naked eye, which got detected while uncoiling the coils at the customers' end. In view of this, it was difficult to fix responsibility. The Ministry has also expressed a deep concern to SAIL and in response SAIL has drawn up comprehensive guidelines for export of quality and defect free material which were put up in the Meeting of Board of Directors held on 26 September 1994.

Thus, the Company had to pay compensation of Rs.273.83 lakhs in foreign exchange due to the following lapses:-

(i) Though there was a stipulation in the contract for inspection of the materials for quality, during production the material was offered for inspection only after final processing and inspection was confirmed to chemical composition, packing, marking, weight etc.

(ii) Non-compliance with the contractual conditions regarding quality of materials and their loading on board the vessel.

12.3.3 Infructuous expenditure due to improper scrutiny and finalisation of agreement

The Board of Directors of the Company approved (May 1991) the proposal for installation of 3rd Bell Less Top Charging System in Blast Furnace-I of Bokaro Steel Plant (BSL) at an estimated cost of Rs.24.69 crores including foreign exchange component of Rs.9.35 crores for importing equipments and spares for the system. Accordingly, a team of officers from SAIL visited Luxembourg in April 1991 for negotiation and finalisation of agreement with the foreign supplier. It was agreed that the total contract price for supply and supervision of erection, start-up, testing and commissioning of Bell Less Top Charging System at BSL would be 148.88 million Belgian Francs (Rs.14.02 crores approximately).

A formal agreement to this effect was signed on 21st May 1991. At that stage, it was mutually agreed upon to delete some of the items from the scope of supply of foreign supplier which would be procured by SAIL indigenously. However, the corresponding value of the five electrical and hydraulic items amounting to 4.257 million Belgian Francs (Rs.40.09 lakhs approximately) was not reduced from the total contract price before signing of agreement. The matter was taken up by Plant Management (October 1991) with the foreign supplier for reduction in the contracted price.However, the supplier refused (October 1991) to reduce the price on the plea that the agreement had already been signed by both the parties.

The Ministry admitted (May 1995) that equipments valuing Rs.6.11 lakh (appx.) for which the supplier was paid were procured indigeneously. It added that the supplier had agreed to supply these equipments free of cost. The Ministry however, contended that three items namely pressure equalising valve and pressure release valve valuing Rs.34 lakhs approximately were within the scope of supply of foreign supplier and these equipments were supplied by them.

The contention of the Ministry is not tenable as in the

1988 agreement for BLT-2 there was a provision for supply of two sets each of five equipments namely pressure equalising valve, check valves, pressure release valve, motor for rotation and motor for tilting. However, during negotiation for BLT-3 agreement in 1991, it was mutually agreement upon to supply one set each. But the corresponding values were not deducted from the total contracted price. Further, the equipments agreed to be supplied free of cost have also not yet been supplied (August 1995).

12.3.4 Blocking of funds due to acceptance of cheques beyond prescribed ceiling limit

Against free sale notice dated 22 January 1990, SAIL offered Plates and Hot Rolled Sheets valuing Rs.26.47 lakhs to two parties of Chandigarh who lifted the materials worth Rs.26.50 lakhs after making payments by cheques as indicated below, although the parties were given cheque facilities upto Rs.5 lakhs each only:-

Name of the party	Cheque No.& Date.	Amount
"A"	300574 dt.7.2.90	Rs.5.00 lakhs
	300575 dt.7.2.90	Rs.7.50 lakhs
"B"	575728 dt.8.2.90	Rs.7.00 lakhs
	575729 dt.8.2.90	Rs.7.00 lakhs
	Total:	Rs.26.50 lakhs

The cheques given by the parties were sent for collection on 12 February 1990 and were returned by the Banker unpaid with the remarks "payment stopped/countermanded by the drawer". The Company filed suits against both the firms in February 1990 which are still pending (November 1995). The parties have been blacklisted by SAIL.

The Management in its initial reply stated (April 1991) that the cheques were accepted beyond the limit of Rs.5 lakhs due to oversight and in good faith. It further added that the required disciplinary action against the concerned employee had been taken. The Ministry while endorsing the views of Management (February 1995) stated that internal control system was also reviewed and further strengthened by incorporating in-built checks in the computer system for acceptance of cheques within the approved limits.

Thus, failure to observe rules and regulations for acceptance of cheques, resulted in blocking of Rs.26.50 lakhs with consequential loss of interest of Rs.26.57 lakhs upto November 1995 besides drawing the Company into unwarranted litigation.

CHAPTER 13

MINISTRY OF SURFACE TRANSPORT

DREDGING CORPORATION OF INDIA LIMITED

13.1 Defective Agreement and Planning in execution of work

The Company was awarded in October 1991 the work of dredging at River Tapi and reclamation of a site at Hazira, for a private Company. The work of reclamation of 20 LM3 was to be executed at Rs.53 per LM3 in two phases 6.5 LM3 in Phase I and 13.5 LM3 in phase II. The entire work was to be completed by September 1993.

Though the Company estimated a profit of Rs.123.00 lakhs on the work by engaging Dredger VII, it however, foreclosed the work after dredging 10.01 lakh M3 (January 1994) due to difference with the employer regarding the execution of work. The Company incurred a loss of Rs.732 lakhs due to execution of only a part of the work (10.01 lakhs M3) over a longer period (532 days) engaging for a part of the period a different Dredger "Aquarius" whose operation expenses were higher..

The One man Committee appointed (February 1994) by the Board of Directors of the Company to examine the reasons for the unsatisfactory execution of the work etc.had identified the following deficiencies (September 1994):-

1) Defect/inadequacies in terms and conditions of the contract, which worked out to the disadvantage of the Company,

2) Lack of detailed study before quoting for the project,

3) Lack of detailed planning before and during execution of work,

4) Inadequacies of equipment like pipeline, ball and sockets, anchor handling equipment,

5) Delay in resource mobilisation as well as deployment.

The following observation are made in audit:

a) The three main conditions governing the contract as amended were i) bunds including overflow wiers and drains for the reclamation areas would be constructed by the Employer at his cost in consultation with the Contractor (ii) the contractor had to maintain the bunds and (iii) any idle time/down time due to breach of bund caused by any reasons whatsoever would be to the account of the Contractor.

b) The Company had, not, however, ensured before taking up reclamation work, that the bunds were constructed to the required specification and to its satisfaction. Infact, even before the work was taken up (December 1991) by the Company, 2,700 Meters length of bunds had already been constructed by the Employer. Further, when the Employer asked for the technical specifications of the bunds yet to be constructed, the Company was not in a position to produce the suitable design. When the design was however, subsequently furnished in April 1993, it was rejected by the Employer. By that time, major portion of the reclamation work had already been completed (9.06 LM3).

c) Further, the Employer had constructed flimsy bunds with available loose soil and the bunds started breaking right from the commencement of work. It was noticed that 5.26 LM3 of dredged material, costing Rs.278.68 lakhs, had escaped due to breaches in the bunds and the dredger remained idle for 709 hours (Idle time charges amounting to Rs.83.48 lakhs). The Company's claim for a part of the quantity that had escaped (0.24 LM3) was rejected by the Employer (February 1992) on the ground that it was not covered by the contract.

d) The Company had also not ascertained in their surveys, before accepting the contract, whether 20 LM3 could be accommodated in the area to be reclaimed at one stretch. The exact location of the area was neither indicated, nor physically inspected. Further, the Employer was changing the reclamation areas according to his choice, and to the disadvantage of the Company.*

e) With a view to expedite completion of the work, CSD Aquarius was deployed in April 1992. However, the contract was not modified suitably, providing for deployment of "Aquarius" and payment of mobilisation charges. On the plea that the contract had not been modified, the Employer declined to pay the Mobilisation charges of Rs.60 lakhs as claimed by the Company. Though the CSD "Aquarius" was deployed, the essential auxiliary equipments for operation of the Dredger were not mobilized and the dredger had to manage with equipment of insufficient capacity.

The Ministry stated (June 1995) that the entire area of reclamation was not in the possession of the employer and due to non-availability of the required reclamation area the contract was foreclosed.

The reply of the Ministry is not tenable as the Company had not safeguarded its interest by incorporating a suitable clause providing for payment of idle charges in the event of dredger remaining idle due to non-availability of reclamation area.

Thus, due to defects in the terms and conditions of the agreement and lack of planning in execution of work, the company incurred a loss of Rs.732 lakhs.

CHAPTER 14

MINISTRY OF TEXTILES

BIRD JUTE & EXPORTS LIMITED

14.1 Injudicious investment on Composite Lamination Plant

As a part of its modernisation and diversification programme, the Company decided to set up a composite lamination plant (CLP) at an estimated cost of Rs.72.00 lakhs to produce jute re-enforced plastic sheets which were intended to be substitute of Ply Wood Chests. The project was divided (in 1990-91) into two phases-production of jute reinforced sheets for garments, tea, fruits, etc. in the first phase and production of industrial laminates, decorative laminates in the second phase. The Govt. of India approved the scheme and sanctioned a sum of Rs.72.00 lakhs in March 1989.

The project cost was revised to Rs. 138.00 lakhs due to inclusion of cost of electrical installations (Rs. 37.00 lakhs) and escalation (Rs.29.00 lakhs) and ratified by the Board of Directors in December 1989. The company, however, received an additional sum of Rs. 23.00 lakhs in December 1991.

The first phase of the project was completed at a cost of Rs.96.87 lakhs and trial run conducted in January 1992. Although the second phase of the plant was yet to be completed, commercial production of first phase commenced from November 1993. As against an anticipated production of 113280 and 169920 laminated sheets in the first and the second year respectively, only 2300 numbers of sheets were produced upto June 1994. Thereafter production was stopped due to absence of demand for the product in the market.

It was observed that although CLP was installed to produce a relatively new product, the company neither conducted any market survey to assess the demand nor undertook in advance any sales promotion activities.

The project continued to remain idle and the Board of Directors decided in September 1994 to suspend operation.

Thus, due to lack of proper planning, study of market demand, the expenditure of Rs.96.87 lakhs proved to be infructuous.

The Management confirmed the above factual position.

The matter was referred to the Ministry in August 1995, but their reply has not been received, so far (January 1996).

ELGIN MILLS COMPANY LIMITED

14.2 Marketing Lapses

The Company despatched (October/November, 1988) goods worth Rs.1.46 lakhs to its Indenting Agent in Calcutta. Again in March 1990, goods worth Rs.0.64 lakh was despatched to the same Indenting Agent. The goods were despatched through two transport companies and the related documents were forwarded through Bank. These documents were not retired by the Indenting Agent at the destination and were returned unpaid by the bank. The goods of the companies were, however, neither returned by the transporters nor the payment was received by the company from its Indenting Agent. Despite these, the Company despatched goods worth Rs.18.04 lakhs between April 1990 to June 1991. In these cases also the related documents forwarded through the Bank were not retired by the consignee at the destination and the same were returned unpaid by the Bank. The Company demanded back the consignment from the transporters but the same were not returned.

The Company issued legal notices to both the transporters in January,1991 and January, 1993 to restore the goods. In September 1991 one of the transporters gave 11 post-dated cheques valuing Rs.2.96 lakhs to the Company in lieu of settlement of the claims. The cheques were, however, dishonoured by the Bank on presentation.

A meeting was held between the indenting Agent and the Company on 22 April 1992 to settle the issue. The Indenting Agent accepted the liability of Rs. 23.43 lakhs and Rs.9.02 lakhs on account of interest and bank charges. The Agent agreed to pay Rs.2 lakhs immediately and the balances in 3 equal instalments from October 1992. No payments has, however, been received by the Company (November 1995).

The Company filed a civil suit in the Court of the Civil Judge, Kanpur on 9 July 1993 for recovery of Rs.27.95 lakhs towards the value of the consignment along with interest and other charges from the indenting agent and both the transporters .

Had the Company taken action to stop supplies to the Indenting Agent on receipt of un-retired documents returned by the bank in respect of the first consignment of Rs.1.46 lakhs in January/February 1989, the subsequent losses sufferred by the Company could have been avoided.

The Ministry stated in February 1995 that serious efforts were made for recovery but since no payments were received by the Company a civil suit for recovery was filed.

BRITISH INDIA CORPORATION LIMITED

14.3 Non realisation of sale proceeds

Cawnpore Woollen Mills (a unit of BIC Limited) appointed on 19 June 1985 a sales representative for Delhi for the period from 19 June 1985 to 31 March 1986. The sales representative was to purchase and stock on its own account the goods manufactured by the Mills and to sale and promote the Company's products in Delhi. In accordance with the agreement dated 25 December 1985 security deposit of Rs.5 lakhs was fixed. However, it was noticed that there was no justification or rationale on record for fixing Rs.5 lakhs as security deposit to transact goods worth Rs.1.25 crores per year.

The Sales Representative, however, defaulted in making payment of Rs.16.14 lakhs on due dates in the very first year of its appointment. The total outstanding as on 31 march 1986,was Rs.28.67 lakhs. During the Sales Representatives appraisal meeting held on 6 March 1986, the decision regarding renewal of this sales Agent was deferred in view of the substantial outstandings in his account. The Sales Representative, thereafter, reduced the outstanding to Rs.5.30 lakhs and in May 1986 the Chairman & Managing Director approved renewal of his agency upto March 1987 subject to the condition that the entire outstanding was to be cleared by 30 June 1986. However, the Company continued business with the party upto 1990-91. As on 31.3.1987, Rs.20.90 lakhs was outstanding. The amount outstanding against the party went up to Rs. 68.29 lakhs, Rs.65.73 lakhs, Rs.75.81 lakhs and Rs. 67.75 lakhs as on 31st March 1988,1989,1990 and 1991 respectively which was more than 13 to 15 times of the security deposit of Rs. 5 lakhs.The total amount outstanding as on 7 March 1994 worked out to Rs. 118.70 lakhs (including interest of Rs. 48.24 lakhs).

In terms of the agreement the matter was referred to the Arbitrator (January 1994).

The Arbitrator awarded (17 August 1994) an amount of Rs. 118.70 lakhs to BIC (as claimed) with interest @ 9% per annum from the date of commencement of the arbitration proceedings (i.e 20 January, 1994) upto the date of award and thereafter @ 6% per annum to the date of payment or the date of decree whichever was earlier. The award has been filed (15 september, 1994) before the civil Judge, Kanpur for making a rule of the Court.

The notices sent by the Court could not be served on the party.

The Management stated (February 1995):

"It is true that supply to the party was continued despite outstandings. This continued supply, was for two reasons-in the interest of marketing of products of the Company-Sales performance of the party being quite good and to realise outstanding by continuing the business with the party".

The reply of the Management is not tenable as the continued business with the party when heavy amounts were not paid by him resulted in blocking of funds for long periods and the chance of realisation of these dues appeared dim.

The Ministry confirmed (July 1995) the facts and figures.

CHAPTER 15

MINISTRY OF WATER RESOURCES

WATER AND POWER CONSULTANCY SERVICES (INDIA) LIMITED

15.1 Excess Payment of lease Rent/ House Rent Allowance

Department of Public Enterprises issued instructions in March 1992 that the facility of leased accommodation was to be provided to the Chief Executives, full time functional Directors and key Officials/Executives not below the rank of General Managers. Employees who were not entitled to the leased accommodation were to receive HRA at the rate of 10% to 30% of basic pay depending upon their place of posting. The highest rate of 30% was applicable to the employees posted at Delhi and Bombay. Despite this instruction, the Company extended the facility of leased accommodation to 43 ineligible officers. The Company also paid HRA to its employees at a flat rate of 30% of basic pay irrespective of their place of posting in contravention of the Government directives. As a result, the Company incurred an extra expenditure of Rs.6.06 lakhs towards payment for leased accommodation (Rs.2.12 lakhs) from April 1992 to June 1994 and HRA (Rs.3.94 lakhs) from April 1992 to August 1995.

The Ministry stated (October 1995) that the Company had been directed to recover the excess payment made for providing leased accommodation and House Rent Allowance.

However, the recovery of excess payment of Rs.6.06 lakhs has not been effected uptil January 1996.

CHAPTER 16

FOLLOW UP ON AUDIT REPORTS (COMMERCIAL)

The Lok Sabha Secretariat (CPU Branch) 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 Reports of the C&AG of India (Commercial) laid on the Table of both House of Parliament. Such notes were required to be submitted even for Paragraphs/appraisals which were not selected by the Committee on Public Undertakings for detailed examination.

A review has revealed that inspite of repeated reminders, the remedial/corrective action taken notes have not been submitted on the several paragraphs/appraisals contained in the last five year's Audit Reports(Commercial) relating to PSUs under the administrative control of Ministries, as detailed in Appendix (January 1996).

(B.P.MATHUR)
Deputy Comptroller & Auditor General-cum-Chairman, Audit Board.

New Delhi

08 MAR 1996

Countersigned

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

New Delhi

- 8 MAR 1996

APPENDIX

APPENDIX

STATEMENT SHOWING THE DETAILS OF AUDIT REPORTS FOR WHICH ACTION TAKEN NOTES ARE PENDING

No. & Year of Report.	Name of Report	Para No., if any.
(1)	(2)	(3)
MINISTRY OF AGRICULTURE		
1 No.3 of 1995	Audit Observations	Para 1.1
DEPARTMENT OF ATOMIC ENERGY		
1.No.2 of 1995	Comments on Accounts	Paras 2.1.1 & 2.2.1
DEPARTMENT OF CHEMICALS AND PETRO-CHEMICALS		
1.No.5 of 1990	Resume Report	Section-I-7,9,55,63,65, 75,134, 150,151 and 166 Section-II-B-6 Section- II-C-14 & 15
2.No. 7 of 1990	Audit Observations	Paras 2.1 and 2.2
3.No.2 of 1991	Resume Report	Section-I-C- 5,16,20,25 & 46 Section-II- 5, 6, 65, 69,70, 73, 90, 96, 108, 157,165, 172 and 190.
4.No.3 of 1991	Audit Observations	Para 22
5.No.2 of 1993	Comments on Accounts	Paras 1.2.3, 1.3.4, 1.3.5, 1.3.6, 1.3.8, 1.4.3, 2.1.4, 2.3.1, 2.4.3, 2.5.2 and 2.5.3.
6.No3 of 1993	Audit Observations	Para 2.2
7.No.2 of 1994	Comments on Accounts	Paras 1.2.4 to 1.2.8, 1.3.7,1.3.8, 2.1.2, 2.1.3 and 2.5.1
8.No 3 of 1994	Audit Observations	Paras 1.1 to 1.2 & 1.5 to 1.6
9.No.2 of 1995	Comments on Accounts	Paras 1.2.5 to 1.2.7,

		1.3.5 to 1.3.7, 2.1.2 to 2.1.6, 2.2.4 to 2.2.6, 2.3.6 to 2.3.12, 2.4.1 to 2.4.5, 2.5.1, 2.6.2 to 2.6.4 and 2.7.1
10.No.3 of 1995	Audit Observations	Para 2.1 to 2.6

DEPARTMENT OF CIVIL AVIATION

1.No.5 of 1990	Resume Report	Section-I-138
2.No.7 of 1990	Audit Observations	Para 14
3.No.3 of 1991	Audit Observations	Para 4
4.No.8 of 1991	Operational performance of Vayudoot Limited	
5.No 3 of 1993	Audit Observations	Paras 3.7 to 3.8, 3.10 and 3.13
6.No.2 of 1994	Comments on Accounts	Paras 1.2.2, 1.2.3. & 1.3.2 to 1.3.4
7.No 3 of 1994	Audit Observations	Paras 2.1, 2.2, 2.6 & 2.7
8.No.2 of 1995	Comments on Accounts	paras 1.2.2 to 1.2.3, 2.2.3 and 2.6.5
9. No.3 of 1995	Audit Observations	Paras 3.1 to 3.3
10.No.12 of 1995	Air India Ltd	

MINISTRY OF CIVIL SUPPLIES, CONSUMER AFFAIR AND PUBLIC DISTRIBUTION

1.No.5 of 1990	Resume Report	Section-I- 73
2.No.7 of 1990	Audit Observations	Paras 15.1 and 15.2
3.No.2 of 1991	Resume Report	Section-II-81
4.No.3 of 1991	Audit Observations	Para 17
5.No.2 of 1993	Comments on Accounts	Para 2.5.11
6.No.3 of 1993	Audit Observation	Para 4.1

7.No.2 of 1994	Comments on Accounts	Paras 2.3.5 & 2.7.4
8. No.2 of 1995	Comments on Accounts	Para 2.1.14, 2.3.18, 2.4.15, 2.5.5 and 2.7.8

MINISTRY OF COAL

1.No.2 of 1991	Resume Report	Section-II-10,33,37,41, 49,150,153,176 and 195.
2.No.3 of 1991	Audit Observations	Paras 21
3.No.3 of 1993	Audit Observations	Paras 5.1 to 5.11
4.No.2 of 1994	Comments on Accounts	Paras 1.2.9, 1.3.5, 1.3.6, 2.1.4 & 2.4.1.
5.No.3 of 1994	Audit Observations	Paras 3.1 to 3.12
6. No.2 of 1995	Comments on Accounts	Paras 1.2.8, 1.2.9, 1.3.2 to 1.3.4, 2.1.9 to 2.1.11, 2.2.8 to 2.2.10, 2.3.1 to 2.3.5 , 2.4.7 to 2.4.12., 2.6.6 and 2.7.2
7. No.3 of 1995	Audit Observations	Paras 4.1 to 4.11
8.No.10 of 1995	Central Coalfields Ltd	

MINISTRY OF COMMERCE

1.No.7 of 1990	Audit Observations	Para 23
2.No.3 of 1993	Audit Observations	Para 6.3
3.No.3 of 1994	Audit Observations	Paras 4.2 & 4.6
4. No.2 of 1995	Comments on Accounts	Paras 1.2.11 & 1.3.8
5. No.3 of 1995	Audit Observations	paras 5.1 to 5.8,5.10 and 5.11

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

1.No. 2 of 1995	Comments on Accounts.	Para 1.2.15, 1.3.13,1.3.15 to 1.3.16, 2.1.13 & 2.3.15 to 2.3.16.

2.No. 2 of 1995	Audit Observations	Paras7.3,7.5 & 7.7 to 7.10

DEPARTMENT OF ELECTRONICS

1.No.5 of 1990	Resume Report	Section-I-44 & 146
2.No.2 of 1991	Resume Report	Section-II-40,52 & 170
3.No.11 of 1991	CMC Limited	
4.No.2 of 1993	Comments on Accounts	Paras 1.3.11, 1.4.8, 1.4.9 & 2.4.12
5.No.3 of 1993	Audit Observations	Para 8.1
6.No.2 of 1994	Comments on Accounts	Para 1.3.15
7.No.3 of 1994	Audit Observations	Para 7.1
8.No.2 of 1995	Comments on Accounts	Paras 1.3.17
9.No.3 of 1995	Audit Observations	Paras 8.1 & 8.2
10.No.9 of 1995	ET&T Ltd	

MINISTRY OF ENVIRONMENT & FOREST

1.No.5 of 1990	Resume Report	Section-I- 2
2.No.2 of 1991	Resume Report	Section-II- 1

DEPARTMENT OF FERTILIZERS

1.No.3 of 1991	Audit Observations	Para 6
2.No.2 of 1995	Comments on Accounts	Paras2.1.17,2.3.17 & 2.5.4

MINISTRY OF FINANCE(INSURANCE DIVISION)

1.No.5 of 1990	Resume Report	Section-I-115, 116, 135 and 173 Section-II-C-1

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2.No.2 of 1991	Resume Report	Section-II-130, 149, 155, 189 and 197
3.No.3 of 1991	Audit Observations	Paras 1.1, 1.2, 1.3, 2.1, 2.2 and 2,3
4.No.2 of 1993	Comments on Accounts	Paras 2.1.13 to 2.1.16
5.No.3 of 1993	Audit Observations	Paras 10.1 to 10.9
6.No.2 of 1994	Comments on Accounts	Paras 2.1.7 to 2.1.10, 2.2.1 to 2.2.4 & 2.3.1 to 2.3.4
7.No.3 of 1994	Audit Observations	Paras 9.1 to 9.5
8.No.2 of 1995	Comments on Accounts	Paras 2.1.19 to 2.1.21, 2.2.15 to 2.2.17, 2.7.6 and 2.7.7
9.No.3 of 1995	Audit Observations	Paras 9.1 to 9.13
MINISTRY OF FOOD		
1.No.4 of 1994	Central Warehousing Corporation	
MINISTRY OF FOOD PROCESSING		
1.No.2 of 1995	Comments on Accounts	Paras 1.2.23, 2.2.14,2.3.19 & 2.7.9
2.No.3 of 1995	Audit Observations	Paras 11.1
3.No.13 of 1995	Modern Food Industries (India) Ltd	
MINISTRY OF HEALTH & FAMILY WELFARE		
1.No.2 of 1991	Resume Report	Section-II-88 &93
DEPARTMENT OF HEAVY INDUSTRY.		
1.No.5 of 1990	Resume Report	i) Section-I-13, 16, 23, 30,58,66,87, 95, 121, 122, 125, 142 & 152. ii) Section-II-B- 5 iii) Section II-C-4.

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2.No.2 of 1991	Resume Report.	i) Section-I-B- 2. ii)Section-I-C-6,7,8,18, 26,47 and 49. iii)Section-II-3,9,22,27, 28,30,32,103,118,136,168, 175 and 181.
3.No.3 of 1991	Audit Observations.	Para 15 .
4.No.13 of 1991	Bharat Opthalmic Glass Ltd.	
5.No.2 of 1993	Comments on Accounts	Paras 1.2.6, 1.2.9, 1.3.20, 1.3.25 1.3.26, 1.4.16 to 1.4.17,2.1.18 2.1.20 to 2.1.21,2.3.7 2.5.17 and 2.5.23.
6.No.3 of 1993	Audit observations	Paras 12.4 to 12.8 and 12.12 to 12.13
7.No.2 of 1994	Comments on Accounts	Paras 1.2.16 to 1.2.21, 1.3.20 to 1.3.25,1.3.27 to 1.3.29,2.1.11,2.1.12, 2.3.8 to 2.3.11,2.4.5 to 2.4.6,2.4.8,2.4.9,2.5.3, 2.5.4, 2.6.2 to 2.6.3 and 2.7.5
8.No.3 of 1994	Audit observations	Paras 11.1 to 11.12
9.No.2 of 1995	Comments on Accounts	Paras 1.2.24 to 1.2.25, 1.2.27,1.2.30,1.3.21 to 1.3.25,1.3.27,1.3.29 to 1.3.31,1.3.33 to 1.3.35 2.1.22 to 2.1.25,2.2.18 2.2.21,2.2.30,2.3.20, to 2.3.24,2.4.16 to 2.4.20 2.5.6 to 2.5.7,2.6.9 to 2.6.11,2.6.13,2.6.15 and 2.7.11
10. No.3 of 1995	Audit observations	Paras 12.1 to 12.16,12.18 and 12.19
11. No.4 of 1995	BHEL	
12. No.7 of 1995	IL Kota	
13. No.8 of 1995	HMT Ltd.	

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MINISTRY OF HOME AFFAIRS

1.No.5 of 1990	Resume Report	Section-I- 32
2.No.2 of 1991	Resume Report	Section-II-38 and 39
3.No.2 of 1993	Comments on Accounts	Paras 1.2.7 and 1.4.14

MINISTRY OF MINES

1.No.7 of 1991	Hindustan Zinc Limited	
2.No.3 of 1993	Audit Observations	Para 14.3
3.No.2 of 1994	Comments on Accounts	Paras 2.4.10 & 2.6.5
4.No.3 of 1994	Audit Observations	Paras 12.2 to 12.4
5.No.2 of 1995	Comments on Accounts	Paras 2.1.28 to 2.1.30,2.2.22 to 2.2.24,2.3.28 to 2.3.30,2.4.22 to 2.4.25,2.5.9,2.5.10 and 2.6.17.
6.No.3 of 1995	Audit Observations	Paras 13.1 to 13.5

DEPARTMENT OF PETROLEUM AND NATURAL GAS

1.No.5 of 1990	Resume Report	Section-I-4, 5, 6, 38, 46, 50, 67, 74, 79, 80 & 136
		Section-II-C- 2 & 17
2.No.7 of 1990	Audit Observations	Paras 4,5.1, 5.2 & 5.3,
3.No.2 of 1991	Resume Report	Section-I-C-4,17 & 27 Section-II-4, 19, 23, 25,54, 59, 75, 94, 95, 101 & 156
4.No.3 of 1991	Audit Observations	Paras 8.1 & 8.3
5.No.18 of 1991	Inventory Control in ONGC.	

6.No 2 of 1993	Comments on Accounts	Paras 1.2.10, 1.2.12, 1.2.13,1.3.29, 1.3.30, 1.4.30,2.4.28 to 2.4.31, 2.5.26 to 2.5.28 and 2.6.3
7.No.3 of 1993	Audit Observations	Paras 16.1, 16.4, 16.5, 16.7, 16.9 to 16.11, 16.19 &16.21
8.No 2 of 1994	Comments on Accounts	Paras 1.2.23 to 1.2.26, 1.3.34 to 1.3.40, 2.1.13, 2.3.12 & 2.4.11 to 2.4.13
9.No.3 of 1994	Audit Observations	Paras 13.1 to 13.6 & 13.8 to 13.18
10.No 2 of 1995	Comments on Accounts	Paras 1.2.31 to 1.2.39,1.3.38 to 1.3.41,2.1.31,2.2.26, 2.2.27,2.3.31 to 2.3.33,2.4.26 to 2.4.30,2.5.11 to 2.5.13 and 2.7.12.
11.No.3 of 1995	Audit Observations	Paras 14.1 to 14.32

MINISTRY OF POWER

1.No.2 of 1995	Comments on Accounts	Paras 1.3.44 & 2.7.13
2.No.3 of 1995	Audit Observations	Para 15.1

MINISTRY OF RAILWAYS

1.No.5 of 1990	Resume Report	Section-I-81 & 144 Section-II-C-18
2.No.2 of 1991	Resume Report	Section-II-97 & 163
3.No.2 of 1993	Comments on Accounts	Paras 1.2.16, 1.2.17, 1.4.34,2.5.29 and 2.5.30
4.No.2 of 1994	Comments on Accounts	Paras 1.2.28 & 1.3.44
5.No.3 of 1994	Audit Observations	Para 15.1

6.No.2 of 1995	Comments on Accounts	Paras 1.2.45 to 1.2.47,1.3.45,1.3.46, 2.1.33 to 2.1.36, 2.2.29,2.3.34,2.4.33, 2.6.18 and 2.7.15
7.No.3 of 1995	Audit Observations	Paras 16.1 to 16.6

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH

1.No.5 of 1990	Resume Report	Section-I-35
2.No.2 of 1991	Resume Report	Section-II-35 and 135
3.No.14 of 1992	Central Electronics Ltd.	
4.No.2 of 1994	Comments on Accounts	Para 1.3.45

MINISTRY OF STEEL

1.No.5 of 1990	Resume Report	Section-I-77,84, 99 & 145 Section-II-B- 4 & 7
2.No.7 of 1990	Audit Observation	Paras 11 & 12
3.No.2 of 1991	Resume Report	Section-I-B -5,7 & 8 Section-I-C-22 Section-II-89, 92, 109, 173 & 193
4.No.2 of 1993	Comments on Accounts	Paras 1.4.36, 2.4.32, 2.4.34 & 2.5.32
5.No.2 of 1994	Comments on Accounts	Paras 1.2.30,1.3.50 to 1.3.51,2.1.14, 2.1.15, 2.4.14 to 2.4.16, 2.5.5, 2.5.6,2.7.6 and 2.7.9
6.No.3 of 1994	Audit Observations	Paras 16.5 and 16.9
7.No.2 of 1995	Comments on Accounts	Paras 1.2.48, 1.2.49, 1.3.47 to 1.3.50,1.3.52 to 1.3.56,2.1.37,2.2.31,

		2.2.32,2.3.35 to 2.3.36, 2.3.39,2.4.34,2.4.36 to 2.4.37,2.6.20 and 2.7.16 2.7.18.
8.No.3 of 1995	Audit Observations	Paras 17.1 to 17.18

MINISTRY OF SURFACE TRANSPORT

1.No.5 of 1990	Resume Report	Section-I-36
2.No.2 of 1991	Resume Report	Section-I-C-10 & 21 Section-II-36 & 86
3.No.2 of 1994	Comments on Accounts	Para 1.3.53
4.No.3 of 1994	Audit Observations	Para 17.2
5.No.2 of 1995	Comments on Accounts	Paras 1.2.50, 1.3.57 to 1.3.58,2.2.33 and 2.3.40
6.No.3 of 1995	Audit Observations	Paras 18.1 to 18.2,18.4 & 18.5

DEPARTMENT OF TELECOMMUNICATION

1.No.5 of 1990	Resume Report	Section-I-72, 82, 90, 156 and 169 Section-II-C-21
2.No.2 of 1991	Resume Report	Section-I-C-28 Section-II-80, 99, 107 & 182
3.No.8 of 1992	Hindustan Teleprinters Ltd.	
4.No.12 of 1992	Indian Telephone Industries Ltd.	
5.No.2 of 1993	Comments on Accounts	Paras 1.4.4, 2.5.7, 2.5.8 and 2.6.1
6.No.3 of 1993	Audit Observations	Paras 22.1 to 22.2.
7.No.2 of 1994	Comments on Accounts	Paras 1.3.9 & 2.7.2
8.No.3 of 1994	Audit Observations	Paras 5.1 to 5.5
9.No.2 of 1995	Comments on Accounts	Paras 1.2.13 & 1.2.14, 1.3.9 to 1.3.11, 2.1.2,

		2.3.13 and 2.5.3
10.No.3 of 1995	Audit Observations	Paras 6.2 to 6.4

MINISTRY OF TEXTILES

1.No.5 of 1990	Resume Report	Section-I-8, 10, 28, 34, 54, 89, 113 & 118 Section-II-C-19
2.No.7 of 1990	Audit Observations	Para 21
3.No.2 of 1991	Resume Report	Section-I-C-37 & 42 Section-II-29,31,34, 44,62,126,183 and 184
4.No.3 of 1991	Audit Observations	Para 28
5.No.5 of 1991	HHEC Limited	
6.No.2 of 1993	Comments on Accounts	Paras 1.4.43 to 1.4.50, 2.1.24 to 2.1.27, 2.3.15 to 2.3.16, 2.4.37, 2.5.34 to 2.5.40 and 2.6.7
7.No.3 of 1993	Audit Observations	Paras 23.1 to 23.5
8.No.2 of 1994	Comments on Accounts	Paras 1.2.32 to 1.2.33 2.1.17 to 2.1.19,2.4.17 2.4.18 and 2.5.7
9.No.3 of 1994	Audit Observations	Para 18.1
10.No.2 of 1995	Comments on Accounts	Paras 1.2.51,1.3.59 to 1.3.66, 2.1.38 to 2.1.40 2.2.34, 2.2.35,2.4.38 to 2.5.15,2.6.21, 2.6.22, 2.7.19 and 2.7.20
11.No.3 of 1995	Audit Observations	Paras 19.1 to 19.2

DEPARTMENT OF TOURISM

1.No.5 of 1990	Resume Report	Section-I- 83
2.No.2 of 1991	Resume Report	Section-II- 100

3.No.3 of 1991	Audit Observations	Para 24
4.No.2 of 1993	Comments on Accounts	Paras 1.3.2 and 2.1.5.
5.No.3 of 1994	Audit Observations	Paras 2.3 to 2.5
6.No.2 of 1995	Comments on Accounts	Paras 2.1.41,2.2.36, 2.4.41, 2.5.16 and 2.7.21
7.No.3 of 1995	Audit Observations	Paras 3.4

MINISTRY OF URBAN DEVELOPMENT

1.No.5 of 1990	Resume Report	Section-I-69 Section II-C-12 and 25
2.No.2 of 1991	Resume Report	Section-I-C-34 Section II-77 and 123
3.No.3 of 1995	Audit Observations	Paras 20.1

MINISTRY OF WATER RESOURCES

1.No.5 of 1990	Resume Report	Section-I-123 and 172
2.No.2 of 1991	Resume Report	Section-I-C-38 Section-II-134 and 194
3.No.2 of 1994	Comments on Accounts	Paras 1.2.35 & 1.3.62
4.No.3 of 1995	Audit Observations	Paras 21.1

DEPARTMENT OF WELFARE

1.No.2 of 1995	Comments on Accounts	Para 2.2.37 and 2.6.23

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