Report of the
Comptroller and Auditor General of India

लोक सभा पटल में प्रस्तुत की तारीख
Laid on the table of Lok Sabha on

05 अप्रैल 2017

राज्य सभा पटल में प्रस्तुत की तारीख
Laid on the table of Rajay Sabha on

for the year ended March 2016

Union Government (Commercial)
No. 9 of 2017
(Compliance Audit Observations)

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PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 143(6) of Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to the supplementary audit by CAG whose comments supplement the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by CAG.

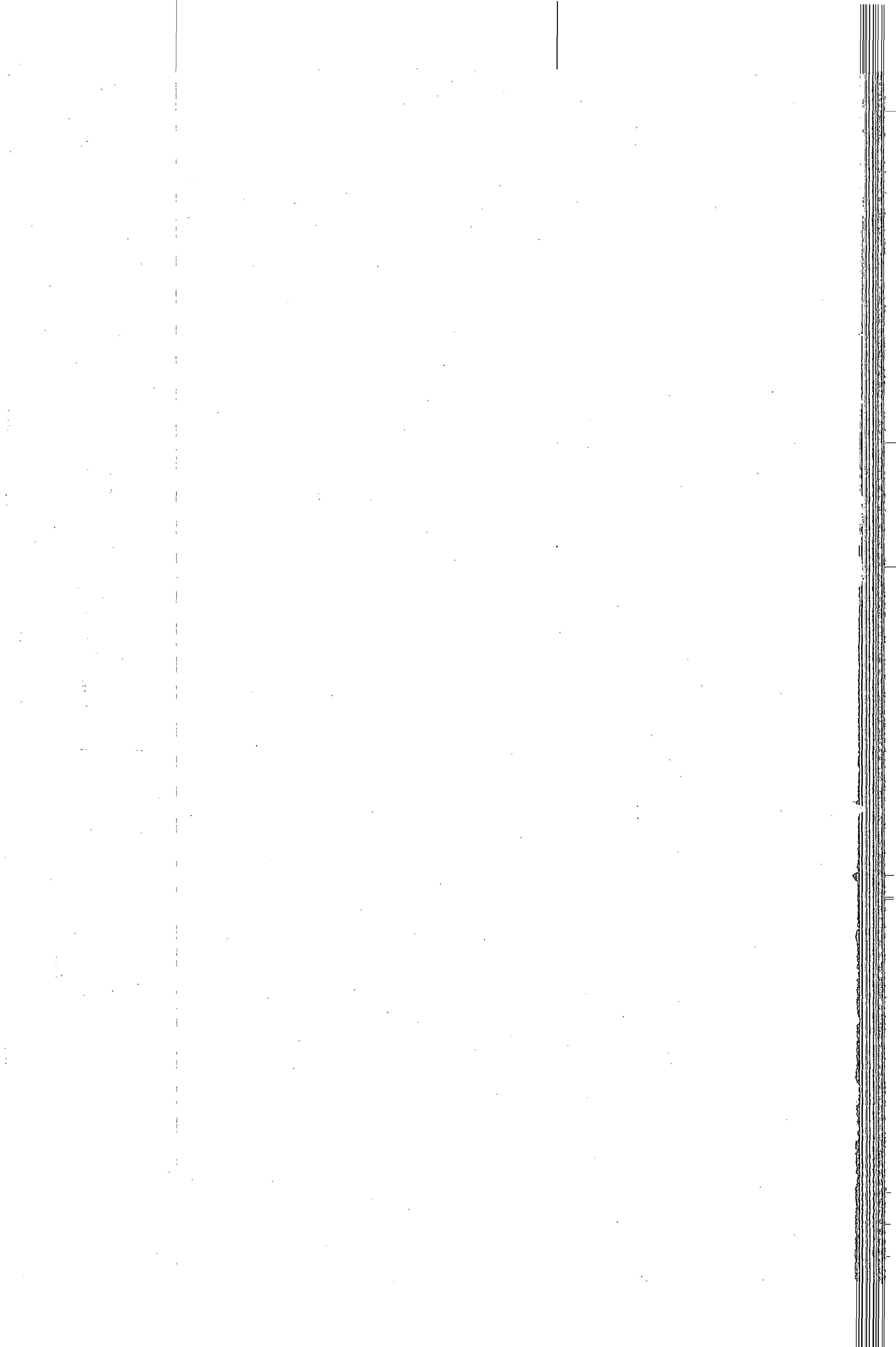
2. The statutes governing some Corporations and Authorities require their accounts to be audited by CAG. In respect of five such Corporations viz. Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation,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

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

4. The Audit Report for the year 31 March 2016 contains 57 individual audit observations relating to 36 CPSEs under control of 17 Ministries/Departments. Instances mentioned in this Report are among those which came to notice in the course of audit during 2015-16 as well as those which came to notice in earlier years. Results of audit of transactions subsequent to March 2016 in a few cases have also been mentioned.

5. All references to 'Companies/Corporations or CPSEs' in this Report may be construed to refer to 'Central Government Companies/Corporations' unless the context suggests otherwise.

6. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



EXECUTIVE SUMMARY

I Introduction

1. This Report includes important audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

2. The Report contains 57 individual observations relating to 36 Central Public Sector Enterprises (CPSEs) under 17 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 37 observations were not received even as this Report was being finalised. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

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

Ministry/Department (CPSEs involved)		Number of paragraphs	Number of paragraphs in respect of which Ministry/Department's reply was awaited
1.	Atomic Energy (NPCIL)	1	1
2.	Civil Aviation (AAI and AIL)	6	3
3.	Coal (BCCL, CIL & its subsidiaries, ECL, NCL, NLC India Ltd. and WCL)	6	1
4.	Ministry of Commerce and Industry (STC)	1	1
5.	Development of North Eastern Region (NEDFI)	1	1
6.	Fertilizers (RCF)	1	1
7.	Finance (Canbank Factors Ltd., IFCI Venture Capital Fund Ltd., NICL and UIICL)	5	3

8.	Heavy Industries and Public Enterprises (BHEL)	1	1
9.	Housing and Urban Poverty Alleviation (HUDCO)	1	1
10.	Petroleum and Natural Gas (GAIL Gas Ltd., GAIL (India) Ltd., HPCL, IOCL, ONGC, ONGC Videsh Ltd.)	10	8
11.	Power (DVC, NHPC and REC)	5	5
12.	Road Transport and Highways (NHAI)	4	2
13.	Scientific and Industrial Research (CEL)	1	1
14.	Shipping (DCI and SCI)	3	1
15.	Steel (MSTC, NMDC and SAIL)	9	6
16.	Textiles (NJMCL)	1	0
17.	Water Resources, River Development and Ganga Rejuvenation (NPCC)	1	1
	Total	**57**	**37**

4. Total financial implication of audit observations is ₹8,375.13 crore.

5. Individual Audit observations in this Report are broadly of the following nature:

- Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹1,613.09 crore in 22 audit paragraphs.
- Non-safeguarding of financial interest of organisations involving ₹3,016.19 crore in 15 audit paragraphs.
- Defective/deficient planning involving ₹3,700.72 crore in 18 audit paragraphs.
- Inadequate/deficient monitoring involving ₹45.13 crore in 02 audit paragraphs.

6. The Report also contains a Chapter on 'Irregularities in payment of entitlements and recoveries & corrections/rectifications by CPSEs at the instance of audit. The Chapter contains four paragraphs viz. (a) undue benefit of ₹64.38 crore extended by four CPSEs to their executives in the form of shift allowances, (b) excess payment of performance related pay of ₹44.12 crore by two CPSEs to their

employees, (c) recoveries of ₹66.28 crore made by thirteen CPSEs at the instance of Audit, and (iv) corrections/rectifications carried out by four CPSEs at the instance of Audit.

II Highlights of some significant paragraphs included in the Report are given below:

HUDCO declined loan to M/s Nagarjuna Oil Corporation Limited in February 2007 since its internal guidelines did not permit sanction of loan to agencies if their previous track record of repayment was not good and concerns existed regarding the long term viability of the project. In July 2007, HUDCO sanctioned a loan to the same borrower/promoter though their earlier concerns remained un-addressed. The promoter failed to bring in required equity and the refinery project did not achieve financial closure, resulting in stoppage of the project in December 2011. Efforts to bring in international and domestic strategic investors also did not fructify. The estimated project cost increased manifold from ₹4,790 crore in February 2007 to ₹18,830 crore in August 2015. The project viability is doubtful at present and HUDCO faces a potential loss of ₹628.47 crore (principal ₹349.88 crore and interest ₹278.59 crore up to 30 June 2016).

(Para 9.1)

Failure in submitting Operational Safety Documents by ONGC Campos Limitada (subsidiary of ONGC Videsh Limited) prior to 90 days of starting of drilling, as required, led to idling of rig for 118 days and consequently a wasteful expenditure of ₹134.73 crore was incurred during June to October 2011.

(Para 10.10)

An audit paragraph on "System of collection and accounting of freight and other charges from agents of The Shipping Corporation of India Limited (SCI)" was included in Report No. 9 of 2007 of the Comptroller and Auditor General of India which highlighted failure of the Company in ensuring opening of separate collection and disbursement accounts by agents, timely submission of voyage accounts and furnishing of bank guarantee. In the Action Taken Notes submitted on this paragraph, the Ministry stated (September 2010/March 2015) that these issues will be addressed through implementation of a new ERP package and the Global Cash Management System. In the context of these assurances, a follow up audit was conducted and it was noticed that Company had not complied with the assurances given by the Ministry.

In violation of the contractual provisions, 57 agents did not open separate disbursement accounts and 39 agents did not open dedicated freight accounts under Global Cash Management System. Two agents (viz. M/s Oceanmasters, Dubai and M/s Escombe Lambert Limited, United Kingdom and Ireland), who were covered under Global Cash Management System did not remit the freight collected by them during the period 2011-14. SCI terminated the agreements with these agents and the amount outstanding from them was ₹9.80 crore and ₹28.60 crore respectively (March 2016). The Company also failed to implement any system to ensure that agents uploaded the voyage disbursement accounts within 35 days as prescribed in the Agency agreement. Though auto closure was introduced, the Company did not levy penalty of ₹30.54 crore in respect of 837 auto closure cases. Further, as against the bank guarantees of ₹43.50 crore

required to be obtained from the agents, an amount of ₹8.92 crore only was available with the Company (March 2016). Even after a lapse of five years since the implementation of SAP ERP system, SCI failed to revise its Agency agreements accordingly.

(Para 14.3)

Weighbridges installed by Steel Authority of India Limited (SAIL) at its Meghahatuburu and Kiriburu Iron Ore Mines remained non-functional because these weighbridges were either not as per Railway specifications or were derecognised by the Railways. SAIL continued to load wagons/ rakes at the mines on estimation basis and the company had to incur expenditure on penalty/idle freight on over/under loading of iron ores amounting to ₹101.97 crore during the period from 2011-12 to 2015-16.

(Para 15.4)

Steel Authority of India Limited approved (January 2008) installation of new Cold Rolling Mill (CRM) complex in Bokaro Steel Plant (BSL) to produce 1.2 million tonne of saleable steel at a total estimated cost of ₹2,524.04 crore. Deficient project management led to delay of six years in completion of CRM project which has not been fully commissioned (December 2016). The delay resulted in additional interest of ₹580 crore as from April 2012 to 31 August 2016 during construction of the project.

Further, the delay in commissioning of Acid Regeneration Plant (ARP) also resulted in avoidable expenditure of ₹10.59 crore on account of payment made to a contractor under O&M contract (during February 2014 to March 2015) for the ARP package.

(Para 15.5)

Bokaro Steel Plant (BSL) and Rourkela Steel Plant (RSP) of Steel Authority of India Limited produce flat saleable steel product in their rolling mills. The process involves production of slabs which are used as input for producing flat steel. The optimum requirement of slabs for continuous operation of downstream rolling mills is 7 to 15 days stock of slabs. Deficient production planning led to accumulation of slab stock causing avoidable stock carrying cost of ₹391 crore.

(Para 15.8)

Steel Authority of India Limited (SAIL or Company) purchases a range of materials for steel making either through domestic sources or through import. Audit examined purchase orders representing 63.19 *per cent* of total procurement value (excluding coal) of the five steel plants and the Corporate Material Management Group of the company covering three years (2012-15).

SAIL made limited use of Open/Global tenders with 24.4 *per cent* of the total value of procurement being made on limited tender basis and another 29 *per cent* on single tender basis. Although annual purchases of the plants up to ₹2 crore were about ₹1,851 crore, there were inadequate controls and no uniform procedures to deal such cases. There was lack of uniformity in purchase processes followed across the steel plants. Instances were noticed of costlier purchases through single tender basis. The Company procured Low

Silica Lime Stone at significantly higher cost and incurred extra expenditure of ₹484.15 crore on purchases made during 2012-16. RSP purchased dolomite from another Public Sector Undertaking (PSU) and incurred extra expenditure of ₹88.04 crore due to dependence on this single source. BSL incurred an avoidable extra expenditure of ₹235 crore by using three time costlier pellets from a PSU as substitute of iron ore lump and sinter. The Company again resorted to avoidable use of pellets and incurred an extra expenditure of ₹25.14 crore. BSL incurred extra expenditure of ₹8.41 crore by opting road transport for dolomite chips instead of cheaper railways freight. The Company did not exploit production facilities of its refractory units to fullest to optimise its cost and ordered materials on other suppliers at higher cost. There were doubts on the credibility of purchases made through reverse auction. The Company had a high holding period of stores and spares as compared to its prescribed policy. The Company's efforts in implementing Public Procurement Policy of Government of India on Micro & Small Enterprises (MSEs) needed to be strengthened.

(Para 15.9)

The State Trading Corporation of India Limited (STC) signed (4 April 2005) a tripartite agreement with M/s. Global Steel Works International Inc. (GSWII) and GSHL (Umbrella Company of GSWII) for supply of raw material to steel plant of GSWII in Philippines. Non-adherence to trading guidelines of STC, fixing of exposure limit at an exorbitantly higher side, ignoring the defunct status of the plant, failure to exercise effective control through collateral management agency over the material lying in the plant of GSWII, failure to sell material on cash and carry basis (as approved by Board of Directors), avoidable conciliation agreement with the party, etc., resulted in blockage of funds amounting to ₹2,101.45 crore including interest of ₹1,129.15 crore and additional trade margin of ₹220.99 crore.

(Para 4.1)

Right of collection of user fee on National Highways developed by National Highways Authority of India (NHAI) under engineering, procurement, and construction (EPC) mode had been entrusted to NHAI by the Government. Audit noticed that NHAI could not realise toll at various toll plazas due to delay in approval and issue of fee notification (₹301.80 crore), delay in start of toll operations (₹204.87 crore), delay in revision of user fee rates (₹141.25 crore) and other procedural lapses in issue of fee notification (₹7.72 crore). Audit further noticed loss of toll revenue due to inefficient bidding process for engagement of toll collecting agencies (₹26.35 crore). NHAI did not adhere to Ministry of Road Transport and Highways (MoRTH) guidelines regarding maintenance of project wise balance sheet and cash flow. The reduced rate of toll user fee being dependent on complete recovery of capital expenditure, MoRTH/NHAI would not be in a position to fix the correct date of commencement of such reduced rate of recovery accurately, in the absence of correct project wise costs.

MoRTH in its reply (17 February 2016) stated that they had taken corrective action for timely processing of cases in MoRTH/NHAI and timely issue of fee notification and hiring of toll collection agencies. MoRTH further stated that recoverable capital cost of all OMT projects was being reviewed by NHAI to comply with MoRTH guidelines. The impact of the above corrective steps taken by MoRTH/NHAI with regard to toll operations would be assessed in future audits.

(Para 12.4)

National Jute Manufactures Corporation Limited was registered under the Companies Act 1956 in June 1980 after Government of India took over the management of six jute mills (June 1980) and vested the same in the Company. The Company had been suffering losses since inception and was referred (August 1992) to Board for Industrial and Financial Reconstruction (BIFR). BIFR declared (June 1993) the Company sick and subsequently, approved its revival scheme in April 2011. The revival scheme envisaged revival of three mills viz. Khardah, Kinnison and RBHM and closure of three other mills viz. Alexandra, National and Union mills and aimed at turnaround of the Company in a time bound manner. Achievement of the targets set out in the scheme was a pre-requisite for successful implementation of the revival scheme. Audit observed that none of the targets set out in the scheme could be achieved by the Company so far. Surplus land and other assets, though identified, could not be disposed which affected the turnaround plan. The Company invested meagre funds in renovation and modernisation of the mills. Repair work was of poor quality. As a result, the productivity of the three running mills remained low and the Company continued to suffer losses.

(Para 16.1)

North Eastern Development Finance Corporation Limited (NEDFI/Company) was incorporated in 1995 for providing financial assistance for accelerating industrial and infrastructure development in the North East Region. NEDFI is categorised as a Non-Banking Financial Company under the administrative control of Ministry of Development of North Eastern Region. Disbursement of loans by the Company decreased from ₹348.73 crore in 2012-13 to ₹302.99 crore in 2015-16, while the Non-Performing Assets (NPAs) increased from 7.24 *per cent* to 17.54 *per cent* during this period. Considering the increasing trend of NPA, the audit was carried out to analyse the causes that led the loan accounts to become NPA.

Audit noticed deficiencies in the due diligence of loan proposals of the borrowers in a significant number of cases. Industry and company specific issues were not given due consideration at the time of appraisal of the projects, which led to financing unviable projects, continuous default by the borrowers and loan accounts eventually becoming NPA. Fresh loans were sanctioned and/or disbursements made even when the borrowers did not repay dues of earlier loans. Loans were sanctioned to companies belonging to a group without considering their overall exposure with the Company as well as with other financial institutions and the track record of member companies in repaying loan instalments in respect of existing loans. Delay in transferring NPA accounts for initiating legal action and delays in filing legal suit was also noticed. This effectively deferred recovery process to the detriment of the interests of the Company.

(Para 5.1)

Damodar Valley Corporation (Corporation) was established in July 1948. It aimed at securing unified development of Damodar river valley falling within the states of Jharkhand (erstwhile Bihar) and West Bengal. The Corporation has four dams located at Tilaiya and Maithon on river Barakar, Panchet on river Damodar and Konar on river Konar and one barrage located at Durgapur on river Damodar. The water is used for generation of hydel power, irrigation and water supply for industrial and municipal purposes.

Audit observed that water resources of the Corporation were not optimally utilised. Storage capacity of the four reservoirs depleted by 22 *per cent* with corresponding reduction in flood storage capacity by 15 *per cent* due to siltation, coupled with absence of an integrated programme for soil conservation. Dams were not operated as per the prescribed guidelines, entailing revenue loss due to lower generation of hydel power. Systemic lapses were noticed in repair and maintenance of dams, particularly inoperative under-sluice gates which affected de-siltation works, apart from causing power generation and revenue loss. Deficiencies in allocation of water for Municipal and Industrial purposes and in monitoring actual drawal of water led to potential revenue loss.

(Para 11.3)

Ministry of Petroleum and Natural Gas (MoPNG) directed (October 2009), Oil & Natural Gas Corporation (ONGC) to procure 23 Immediate Support Vessels (ISVs) from its own funds for operations by Indian Navy for security of offshore assets. The cost of this was to be shared by all companies engaged in Exploration and Production (E&P) of oil, having a foot print in offshore areas. Though ONGC purchased all 23 ISVs at a total cost of ₹349 crore and delivered them to the Navy in July 2015, MoPNG had not finalised the cost sharing mechanism of the ISVs by other private and public sector E&P Operators. This resulted in blocking of funds of ONGC to the tune of ₹136.84 crore relating to share of capital expenditure pertaining to other Operators and loss of interest thereon to the tune of ₹15.39 crore.

(Para 10.9)

Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited did not exclude the delivery charges while communicating Retail Selling Price of Liquefied Petroleum Gas (LPG) to distributors of Rajiv Gandhi Grameen LPG Vitraks (RGGLV). This resulted in additional burden on the RGGLV consumers and undue financial benefits to the RGGLV distributors to the tune of ₹168.04 crore for the period October 2012 to March 2016.

(Para 10.3)

Coal India Limited (CIL) and its subsidiaries failed to apply due diligence for correct fixation of reserve price for sale of G6 grade non-coking coal through e-auction to non-regulated sectors. Though G6 grade was superior to G7 grade of coal, the reserve price of G6 grade was fixed lower than that of the G7 grade on the basis of the notification of CIL. This resulted in avoidable loss of revenue of ₹68.16 crore during the period from April 2012 to September 2015.

(Para 3.2)

Airports Authority of India extended undue benefit by allowing credit facilities violating the terms of contract which resulted in non-recovery of dues. Further, by not issuing notice for vacating advertising sites after the contract period was over, the Authority suffered a loss of revenue amounting to ₹41.68 crore.

(Para 2.1)

National Highways Authority of India extended undue benefit to a concessionaire as it failed to initiate timely steps to encash the Bank Guarantee received as Performance Security or to terminate the agreement which lead to accumulation of dues to the tune of ₹209.20 crore as of August 2016 against which the Performance Security available in the form of Bank Guarantee was only for ₹48.60 crore.

(Para 12.1)

Audit conducted an examination of the Non-Performing Assets accounts of the Canbank Factors Limited as at the end of 2013-14, 2014-15 and 2015-16 on a test check basis. Such examination revealed the following:

- Factoring limits to the tune of ₹35.29 crore were sanctioned/disbursed to clients in excess of their eligibility.

- Factoring limits were sanctioned without considering the limits availed by the clients from other factors/banks which resulted in sanctioning of excess limits to the tune of ₹71 crore.

- Company sanctioned factoring facility to clients even where the sales were to the allied/related parties of these clients. The bills factored pertaining to related/allied parties which became non-performing amounted to ₹2.76 crore.

- As per pre-disbursement conditions attached to the sanction letter, branches were to allow withdrawals to the extent of 25 *per cent* of the fresh Customer Sub-Limits and balance 75 *per cent* was to be released after satisfactory operation/ payment of the first cycle of operations. Contrary to this, in two cases, the Company released ₹12.25 crore as against permitted release of ₹3.55 crore without completion of first cycle of operations.

- Audit noticed that in 4 accounts, the existing sanctioned factoring limits continued despite the Company being aware of adverse financial health, irregular operations and incipient sickness of the Client. An amount of ₹14.88 crore was disbursed in these cases.

(Para 7.1)

As of March 2016, NLC India Limited operated four open cast lignite mines (three at Neyveli in Tamilnadu and one at Barsingsar in Rajasthan) to generate power through five pithead thermal power stations (TPS) having an aggregate capacity of 3240 MW. Operational performance of three power plants viz. TPS-I, TPS-I Expansion & TPS-II and their linked lignite mines during the period from 2011-12 to 2015-16 and that of Barsingsar Thermal Power Station (BTPS) from 2012-13 to 2015-16 was reviewed in Audit which revealed the following:

- BTPS could not achieve full capacity utilisation upto 2015-16. Resultantly, the capacity utilisation of the linked mines during the period from 2012-13 to 2015-16 was below the norms fixed by CERC which resulted in under-recovery of cost of ₹79.78 crore.

- Due to inadequate supply of lignite in TPS-I and TPS-I Expansion during the period from 2011-12 to 2015-16, the plants could not operate at full load which resulted in loss of ₹160.64 crore.
- Under recovery of cost to the tune of ₹1044.57 crore was observed in respect of the above plants of the Company in different period from 2012-13 to 2015-16 due to the cost of generation being more than the norms fixed by Central Electricity Regulatory Commission (CERC). The reasons for higher cost of generation included:
  - Lower achievement of Plant Load Factor and Plant Availability Factor in BTPS and TPS-I.
  - Higher consumption of lignite due to excess Station Heat Rate (SHR) in respect of BTPS.
  - Extra expenditure on Operation & Maintenance of plants.
  - Excess auxiliary power consumption as against the norms fixed by CERC.

(Para 3.5)

Audit of operation and maintenance of the dredgers by Dredging Corporation of India Limited (DCI) for the period from 2010-11 to 2014-15 revealed the following:

- Loss of ₹155.39 crore was incurred in Phase-II Capital Dredging work of Ennore Port Limited on account of failure to conduct pre-bid survey, under-performance of dredgers, improper planning in deployment of dredgers and short billing for the work done.

- In respect of the contract entered into with Cochin Port Trust for the period from 2011-15 for maintenance dredging, excess expenditure to the tune of ₹15.91 crore as against the estimates was incurred due to frequent changes in deployment of dredgers. Further, failure to deploy dredgers of the required capacity and not maintaining depth as per the contract resulted in levy of liquidated damages and penalty to the tune of ₹12.80 crore.

- In respect of a dredging contract with Kandla Port Trust for the period from February 2013 to March 2015, penalty of ₹27.80 crore was paid due to non removal of backlog quantity.

- In January 2011, delivery of a Cutter Suction Dredger, procured at a cost of ₹269.58 crore from Mazagaon Dock Limited, was taken without successful trial run. The physical performance of the dredger was poor with a capacity utilization of only 22 *per cent* till March 2015.

- Due to delay in validation of statutory certificates and sailing of dredgers without ensuring the availability of dry dock slots, the dredgers had to be kept idle thereby resulting in loss of opportunity to earn revenue of ₹18.31 crore.

- During 2010-11 and 2011-12, Dredge XI remained inoperative for 303 days on account of failure to take timely action in rectifying the defects in the auto lube filter

system and not following the Planned Maintenance Schedule which resulted in loss of revenue of ₹97.09 crore.

- The failure of DCI to identify the defects before inviting Flag State Inspection (FSI) resulted in stoppage of dredge XI for 23 days and loss of revenue of ₹5.85 crore.

(Para 14.1)

CHAPTER I: DEPARTMENT OF ATOMIC ENERGY

Nuclear Power Corporation of India Limited

1.1 Extra expenditure on purchase of power from external source due to delay in completion of power supply system

Due to delay in completing transmission lines from generating plant to the township for supply of power, NPCIL continued to purchase electricity from Ajmer Discom at higher rates despite having mandate to distribute electricity from own generation. This resulted in extra expenditure of ₹14.90 crore during December 2012 to March 2016.

Rawatbhata Rajasthan Site (RRS) of Nuclear Power Corporation of India Limited (NPCIL) is a nuclear power generating unit with six operating plants[1] and two ongoing projects. The staff working in the RRS is accommodated in township developed by NPCIL. Earlier, NPCIL was purchasing electricity from the Ajmer Discom for supply to staff quarters in NPCIL colony at RRS and for other common facilities like public lighting, water supply, guest houses etc. But after the Govt. of India notification (08 June 2005) exempted generating companies from obtaining license under the Electricity Act, 2003 for supply of electricity to the housing colonies or townships, NPCIL decided (May 2007) to construct a power supply system from RRS to the township since cost of electricity purchased from the Ajmer Discom was high. A new transmission system was required for this purpose as distance from the plant to the town ship was approximately 10 kilometre and the power requirement was 10 MVA[2]. The proposal for constructing power supply system was approved by the Chairman & Managing Director, NPCIL on 18 May 2007 at an estimated cost of ₹13.13 crore.

For early completion, the work was divided into three parts as detailed below:

Work order No.	Purpose	Awarded to	Date of award	Stipulated date of completion	Date of completion	Delay in days
61957	Supply and installation of electrical system and electrical equipment	M/s Damodhartech International Pvt Ltd	02.02.09	08.02.10	30.11.11	660
61983	Construction of transmission lines		12.03.09	15.12.10	15.11.12	701
62486	Construction of outdoor sub-station	M/s Sterling & Wilsons Pvt Ltd	17.12.10	06.06.12	30.10.15	1241

Audit scrutiny of records revealed that even though the proposal was approved in May 2007, NPCIL took 15 months to float tender for the first work (August 2008). Though, three works were integral part of the entire power supply system, tender for the third work was floated only in May 2010 after a delay of 21 months.

[1] ***Unit 1-Not operating, Unit-2-200 MW and Unit 3 to 6 –220 MW each***

[2] ***Mega Volt Ampere***

Further, completion of work against third work order (work III) was delayed by 1241 days for reasons attributable to both *i.e.*, the Management (507 days) and the Contractor (734 days). The reasons for delay on the part of the Management were inclusion of extra items, delay in finalizing the rates for extra items, delay in testing the substation etc. Even though hindrance register for delay on the part of the Contractor was maintained, no specific reason for the delay was recorded in the register. Work could only be completed during October 2015 against the stipulated time line of June 2012. Moreover, even though the works were completed by October 2015, the line was not energized till March 2016.

RRS purchased 3,98,39,381 KWH power during December 2012 to March 2016 at an average rate of ₹6.48 per kwh from the Ajmer Discom for ₹25.80 crore of which 1,77,18,873 kwh (Upto January 2016) were sold to the residences of staff for which ₹4.99 crore were realised and the remaining energy (2,21,20,508 kwh) was consumed for the common facilities like public lighting, water supply, guest houses etc. in the township.

Audit observed that the self-generated power of RRS was being sold at a rate of ₹2.7412 per kwh. Had the Corporation supplied the electricity from its own generating plants, extra expenditure of ₹14.90 crore[1] during December 2012 to March 2016 towards purchase of electricity from the Ajmer Discom on consumption of 3,98,39,381 kwh could have been avoided.

The Management accepted (May 2016) that there had been considerable delay in completion of all the three packages for the reasons attributable to both NPCIL and as well as the Contractor which was due to inadequate planning and slow progress. However, the Management did not resort to cancellation of the contract stating that there was no wilful default on the part of the Contractor and retender would further delay the work. Further, it was stated that the tendering process during issue of third work order (06 January 2009) was terminated midway for valid reasons and processed for re-tendering on 22 April 2010. It was also stated that the power input to the new substations (work-III) were envisaged from Unit 5&6 (Work-II) for which the provision of 220 KV[2] bays was included in the main plant electrical contract of Rajasthan Atomic Power Project (RAPP) 7&8 which was completed only in December 2014.

The reasons stated by the Management for delay are not acceptable as there was delay of more than a year between cancellation of the tender floated for the third work order (06 January 2009) and retender (22 April 2010) without any justification. Further, power input to the new sub-station (work III) was envisaged from Unit 5&6 which had started commercial operation during 2009-10, but provision of 220 KV bays (work III) was included in the electrical contract of RAPP 7&8. The irrational decision to include a part of the work III in main plant electrical contract of under construction RAPP 7&8 also delayed completion of work III as RAPP 7&8 required numerous statutory clearances which were not foreseen by the Management.

Thus, delays in implementing the works and idling of part of completed works contributed to the extra expenditure of ₹14.90 crore due to purchase of power at a higher rate.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

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[1] ***3,98,39,381 kwh x (₹6.48 per kwh - ₹2.7412 per kwh) = ₹14,89,51,477.68***

[2] ***Kilo Volt***

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1 Lack of appropriate action by AAI led to loss of its revenue and undue benefit to contractor

Airports Authority of India extended undue benefit by allowing credit facilities violating the terms of contract which had resulted in non-recovery of dues. Further, by not issuing notice for vacating advertising sites after the contract period was over, the Authority had suffered a loss of revenue amounting to ₹41.68 crore.

Airports Authority of India (AAI) awarded (October 2007) a license for indoor and outdoor advertisement at Netaji Subhas Chandra Bose International Airport (NSCBI), Kolkata to TDI International India Ltd (TDI) for a period of five years from 19 October 2007 to 18 October 2012. As per the terms of the license, TDI would pay ₹1.26 crore per month (plus applicable taxes) as license fee for the first year, with a 10 *per cent* escalation for each subsequent year. TDI would also submit a security deposit of ₹13.95 crore to AAI against license fee and electricity charges in the form of a Bank Guarantee (BG).

Though the TDI was irregular in payments to AAI and despite dispute between AAI and TDI, the Authority extended credit facility to the TDI and continued to extend the term of the license as indicated below:

- TDI had been irregular with payment of license fee since the beginning and had stopped paying license fee from May 2009. AAI (June 2009) allowed TDI six months' credit facility which was later extended (February 2010) to a year, upto June 2010. At the same time (February 2010), AAI extended the term of the license by six months (upto April 2013). The rationale for extending the term of license, two and a half years before its intended completion date (October 2012) in the face of delayed payments by the licensee was not evident. It is pertinent to note that the formal agreement for the license arrangement was yet to be signed at this stage (February 2010), the contract being actually signed in August 2010.
- In April 2013, TDI initiated arbitration proceedings against AAI, disputing its dues of ₹13.44 crore, citing loss of business, non-availability of sites due to relocation and levy of higher interest rate. The arbitrator was appointed in December 2013. AAI, meanwhile, instead of inviting a fresh tender, continued to extend the agreement with TDI (the agreement was extended in January 2013 and again in March 2014), even as the dispute continued. The extended period of the agreement ended on 18 October 2014. By then, the arbitrator had passed an interim order (August 2014) restraining AAI from invoking BG submitted by TDI. The outstanding dues for the entire contract period (2007 to 2014), as on October 2014, were ₹23.43 crores. The final award of arbitration was still awaited (November 2016).

On 9 October 2014 (just before the end date of the extended agreement on 18 October 2014), TDI informed AAI that they were not agreeable to extend the contract on existing

terms and conditions. AAI, however, continued to negotiate with TDI for extending the contractual period. The negotiations continued for over a year (from October 2014 to December 2015) with no tangible result. In December 2015, AAI issued a notice to TDI to stop display and remove advertisements from AAI sites.

During the interim period of 14 months (from 18 October 2014 when the agreement term formally ended and December 2015 when TDI was asked to stop display), TDI continued to display advertisements on AAI sites to which AAI did not object. No formal agreement was entered into with TDI for use of AAI sites during this period to safeguard the interests of AAI. When AAI (October 2015) raised a claim on TDI for using AAI sites for advertisement post October 2014, TDI (November 2015) refused to honour it, citing the absence of any contractual obligation for the period. The revenue loss to AAI on this account was ₹41.68 crore. Besides, AAI paid ₹4.82 crore in service tax on the bill raised on TDI for the period of October 2014 to December 2015 which could not be recovered when TDI refused to make payments.

Even by December 2015, AAI had not taken appropriate steps for initiating a fresh tender. As such, when AAI issued the notice to TDI for vacating their sites (December 2015), they were un-prepared for a fresh long term arrangement. Hence, AAI resorted to temporary advertisement arrangement which yielded a meagre amount of ₹0.39 crore (over January to July 2016). Compared to the license rates agreed in October 2007, the monthly revenue loss to AAI during this period was ₹0.87 crore[1] .

The Management stated (March 2016) that

- All the due payments for the effective contract period till 18 October 2014 had been realised except those specifically stayed by an Arbitral Tribunal and ₹7 crore which TDI had requested for internal adjustment from other airports, where they had a credit balance.

- AAI had benefitted by retaining the contractor up to 18 October 2014 on already concluded terms and conditions. In the call for tenders for long term concession in January-February 2016, there had been no response.

The Ministry (April 2016) endorsed the views of the Management.

The reply of the Management / Ministry is not acceptable on account of the following:

- As per the Joint Reconciliation statement between AAI and TDI (December 2015), the total outstanding dues for the contract period (17 October 2007 to 18 October 2014) was ₹23.43 crore. The scope for internal adjustment appears to be remote as TDI (in its meeting with AAI on 23 December 2015) had agreed to adjustment of only ₹0.98 crore which was grossly insufficient for the proposed internal adjustment.

- The lack of response to the tender issued in January– February 2016 was on account of the high rates fixed by AAI for the advertising sites which were pointed

[1] ***₹1.26 crore – ₹0.39 crore = ₹0.87 crore***

out at the vendors' meet. Besides, the response to a tender in 2016 cannot be the rationale for extending the contract from October 2012 to October 2014 without resorting to competitive bidding.

- Besides the prospects of recovery of ₹41.68 crore from TDI for the period October 2014 to December 2015 appears to be remote in the absence of a formal contractual agreement during the period. TDI has already rejected the claim citing the lack of legal and contractual basis for raising such claims.

Thus, AAI failed to take appropriate action to protect its own interests and extended continued undue benefits to the TDI. Deferred payment facilities were allowed for a year, contract period was extended even as the licensee initiated a dispute on payment and dues amounting to ₹23.43 crore for the contract period (October 2007 to October 2014) remained un-realised. Even after the contract period ended, AAI did not issue a notice for vacating the sites leading to TDI using these sites for another 14 months (October 2014 to December 2015) resulting in revenue loss of ₹41.68 crore to AAI, as TDI did not acknowledge any dues in the absence of a contractual obligation.

2.2 Loss of revenue due to non-inclusion of land in lease agreement

Airports Authority of India allotted (April 2007), a built up space at Bijwasan, to Delhi International Airport Limited (DIAL) for the purpose of providing dormitory accommodation for CISF personnel deployed at Indira Gandhi International Airport (IGIA), New Delhi. While signing the agreement, AAI did not include in the lease agreement (March 2008), the area of land along with the built up space and the lease rent payable for the same. On it being pointed out by Audit in July 2014, AAI raised (January 2015) invoices for lease rent towards land measuring 19,525 sqm, however, DIAL refused payment on the ground that there was no agreement to charge rent for such land. Thus, AAI sustained loss of ₹28.67 crore.

Airports Authority of India (AAI) handed over (April 2007) built up space measuring 13,067 square meter (sqm) (at Bijwasan in Delhi) to Delhi International Airport Limited (DIAL) for providing dormitory accommodation for Central Industrial Security Force (CISF) personnel deployed at Indira Gandhi International Airport (IGIA), New Delhi. A lease agreement for a period of three years, with effect from April 2007, was signed between AAI and DIAL in March 2008 in respect of the aforesaid built up space. The lease agreement was extended (October 2010) for further period of three years with effect from 04 April 2010. The agreement for the period beyond 03 April 2013 was yet to be signed by DIAL. In the meantime, at the request of DIAL, AAI constructed the second floor of the leased building covering an area of 6,562.54 sqm at a cost of ₹5.43 crore and handed over its possession to DIAL in four phases[1].

Audit noticed that while forwarding the initial lease agreement to DIAL for execution, the Commercial Directorate of AAI had requested (October 2007) the Land Management Department, Northern Region of AAI to identify the land being used exclusively by DIAL and to take further necessary action for charging the rent for the land from DIAL. However, Land Management Department of AAI did not take any action to measure the

[1] ***22.8.2012, 17.10.2012, 19.11.2012 and 17.04.2014***

land. Ultimately, in the joint measurement of the land and building space, carried out by AAI and DIAL, it was revealed that DIAL was using 13,999.50 sqm of built up space (as against 13,067 sqm mentioned in the lease agreement) and 19,525 sqm of unpaved land since April 2007.

On it being pointed out by Audit in July 2014, AAI raised invoices on DIAL amounting to ₹2.27 crore on 30 October 2014 towards lease rent for excess built up space of 932.5 sqm and ₹28.67 crore (excluding service tax) on 10 January 2015 towards lease rent for unpaved land space of 19,525 sqm being used by DIAL since April 2007. DIAL paid the lease rent for excess built up space in November 2014. However, DIAL refused payment for land stating (April 2015) that land had never been part of any rent agreement since inception *i.e.*, April 2007, hence demand for payment of lease rent, either for the past or for the future period, was not acceptable to them.

Audit observed as under:

(i) AAI did not get the area of open land space measured and included in the lease agreement which was signed 11 months after allotment of built up space to DIAL. In the absence of such a clause in the agreement, the amount of lease rent amounting to ₹32.21 crore could not be recovered from DIAL. This has resulted in revenue loss of ₹28.67 crore (excluding service tax of ₹3.54 crore) to AAI (up to 31 March 2015).

(ii) Commercial Manual of AAI {Clause 2(c) of Chapter-2} provides that in case of remote buildings not falling within the airport area and where rentals are likely to be different from the Terminal Buildings, then the commercial rent prevalent in the vicinity of the area should be ascertained by a Committee through market survey. The Manual further provided that rate to be applied should be approved by the Corporate Head Quarters.

Audit noticed that AAI did not conduct any market survey before agreeing for the rate of lease rent with DIAL for the aforesaid built up space. Audit was, therefore, unable to make an assessment whether the rate of lease rent agreed with DIAL was at par with the rate prevalent for a similar commercial property located in the Bijwasan area.

The Management in its reply (December 2014) stated that the space rentals being charged from DIAL for CISF complex at Bijwasan were as per approved rates.

The reply of the Management is not acceptable as due to non-inclusion of a suitable provision in the lease agreement with regard to land measuring 19,525 sqm, AAI sustained revenue loss of ₹28.67 crore.

The matter was reported to the Ministry in August 2016; their reply was awaited (January 2017).

2.3 Idling of civil enclaves due to absence of realistic assessment of their requirement

AAI did not carry out a realistic assessment of the requirement of Civil Enclaves at Jaisalmer, Bhatinda and Bikaner, due to which investment of ₹100.59 crore on creation of facilities at these Civil Enclaves remained idle since their operationalisation. AAI also incurred a recurring loss in the form of depreciation charges amounting to ₹40.06 crore.

Airports Authority of India (AAI) manages 125 airports in the country including 26 Civil Enclaves[1]. Audit test checked upgradation/creation of facilities by AAI at three Civil Enclaves at Jaisalmer, Bhatinda and Bikaner with reference to the policy of Government of India on Airports Infrastructure, 1997 and other relevant guidelines. Ministry of Civil Aviation (MoCA) issued (December 1997) a policy on airports infrastructure. The Policy stated that AAI would invest only in projects with demonstrated economic viability and positive rate of return. Further, wherever Government of India compelled AAI to invest in non-viable projects for the fulfilment of social objectives, the initial capital cost of the project and the recurring annual loss sustained by the AAI on this account would be reimbursed. Further, as per paragraph 7.8 of Report on Committee on Infrastructure (June 2006), if AAI was to take up any project with Internal Rate of Return (IRR) below 8 *per cent*, then AAI could ask the respective State Government to bridge the gap funding. As per the provision of 'Norms and Standards for Determining the Capacity of Airport Terminals 2009' issued by Ministry of Civil Aviation in case of smaller airports and green field airports origin destination surveys and market surveys were required to be conducted for arriving at the traffic forecast.

Audit observed the following:

(a) Civil Enclave, Jaisalmer

AAI maintained a Civil Enclave comprising of old terminal building capable of handling 50 passengers at a time, at Jaisalmer airport of Indian Air Force (IAF). There was no civil apron. Considering that the existing civil enclave was quite away from the Air Force operational area, subjecting passengers to grave security risks and adverse weather conditions and also continued demand from IAF for development of a separate parking apron/enclave in the close vicinity, AAI approved in-principle (July 2001) construction of a new Civil Enclave with a terminal building capacity of 250 passengers, new civil apron, taxiway and other ancillary facilities. The land required for the new enclave, approach road etc. was provided in July 2003, free of cost, by the State Government to AAI. The Board of AAI in its 118 meeting held on 25 February, 2008, approved construction of a New Civil Enclave at Jaisalmer at a cost of ₹81 crore. Accordingly, construction of Civil Enclave was completed in May 2013 at a total cost of ₹63.27 crore. However, since operationalisation, there has been no passenger and flight movements at Civil Enclave, Jaisalmer.

[1] ***A civil enclave is an area allotted for the use of civil aircraft and civil aviation related services at an airport belonging to the Armed Forces.***

(b) Civil Enclave, Bhatinda

In pursuance to the directives issued from the Prime Minister's Office during a meeting held on 05 September, 2007 under the Chairmanship of Principal Secretary to the Prime Minister, development of various airports in Punjab was discussed. AAI agreed to consider the request of State Government of Punjab (GoP) for commencement of civilian flights from Bhatinda airport of IAF, to meet the demand arising from the upcoming refinery. Ministry of Defence issued (February 2008) 'No Objection Certificate' (NOC) to AAI for a maximum of two civil flights. GoP provided (June 2009) around 39 acre of land for construction of Civil Enclave to AAI. Accordingly, AAI approved (November 2010) construction of a low cost terminal at Bhatinda airport of IAF, to accommodate 100 passengers with car park, a civil apron to park two ATR type of aircrafts, taxi track etc. at a total cost of ₹26.15 crore. The work was completed in March 2013 at a total cost of ₹23.66 crore. However, the facilities created were remaining idle since their operationalisation, as passenger and flight movement at Bhatinda had been nil.

(c) Civil Enclave, Bikaner

AAI approved in-principle (March 2009), up-gradation of the small Civil Enclave that existed at Bikaner airport of IAF, with a New Civil Enclave comprising of civil apron, car park, link taxiway etc. at an estimated amount of ₹11 crore. The work was completed and operationalised in May 2014 at a total cost of ₹13.66 crore. However, the facilities created were lying idle as passenger and flight movement had been nil.

Audit further observed that:

(a) AAI did not conduct Origin-Destination survey and Market surveys as stipulated in the 'Norms and Standards for Determining the Capacity of Airport Terminals 2009', to ascertain the growth rate for traffic projections. However, such survey was not conducted for all the three Civil Enclaves even though historical data for the Jaisalmer, Bhatinda and Bikaner Civil Enclaves was not available.

(b) If AAI was to take up any project with IRR below 8 *per cent*, it could ask respective State Government to bridge the gap funding as provided in the report on Committee on Infrastructure (June 2006). However, in case of Jaisalmer, AAI calculated the IRR at 14 *per cent*[1] on the basis of Jodhpur Airport, which is located more than 280 km away. Thus the presumptive IRR calculation deprived AAI from raising a claim on the State Government of Rajasthan for the gap funding as per the above provisions.

In case of Bhatinda and Bikaner, Audit did not find on record any IRR calculations done by AAI to determine the economic viability of the project. As Civil Enclave at Bhatinda was constructed at the request of the State Government of Punjab, AAI was entitled to get reimbursement of initial cost as well as recurring cost incurred by it from GoP, as per provisions of Infrastructure Policy. However, AAI did not approach the GoP for reimbursement of expenses and thus had to bear the entire expenditure out of its own resources.

[1] ***Considering the incremental cash flow at 16 per cent for 2009-14 and 12 per cent for 2015-24***

(c) AAI had no firm commitment from the airlines to start operations from these Civil Enclaves.

The Management in its reply (September 2016) stated that the investment by AAI in these Civil enclaves was justified on strategic, socio-economic and disaster management considerations. The Management further stated that National Civil Aviation Policy-2016 (NCAP), allowed AAI to take up projects which were financially viable with non-zero IRR.

The reply given by the Management was not acceptable as these projects were conceived and completed before adoption of NCAP-2016. Further, the Management contention that these Civil Enclaves were upgraded/constructed for strategic and disaster management considerations is an afterthought, as these reasons were not considered at the approval stages of these projects.

Thus, due to failure to carry out a realistic assessment of the requirement of the above Civil Enclaves by AAI, investment of ₹100.59 crore in creating facilities at these Civil Enclaves remained infructuous (March 2016). AAI also incurred revenue expenditure in the form of depreciation amounting to ₹40.06 crore till March 2016.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

Air India Limited

2.4 Non-realisation of potential rental income

Inordinate delay in taking decision on renting out two properties coupled with delay in granting approval for renovation of a property, resulted in non-realisation of potential rental income of nearly HKD 66.75 lakh (₹4.96 crore).

Air India Limited[1], Hong Kong (Station) has in their possession two residential properties in Hong Kong, one at Woodland Heights {2,486 square feet(sqft.)} and the other at Villa Monte Rosa (2,580 sqft.). The properties were originally used as official residences of Regional Executive Director and Manager posted in Hong Kong. Consequent to withdrawal of the post of Manager, the property at Woodland Heights fell vacant and was let out on a long lease for a period of 9 to 10 years till termination of the lease in May 2009. The other property at Villa Monte Rosa also fell vacant in May 2010 after the post of Regional Executive Director was transferred to Mumbai.

In July 2009, Air India Limited, Mumbai (Headquarters) sought from the Station, a model for revenue generation from the available immovable properties, as part of its financial restructuring plan. Although the Station suggested for renting out one of the properties and selling the other, the Board of Directors decided (October 2009) to dispose off both the properties. As the procedure for disposing off the properties was likely to take time, the Station approached Headquarters in November 2009 to rent out the property at Woodland Heights at least for a period of one year, and again in January 2010 to rent out both the

[1] ***Air India was changed to Air India Limited in 1994; Air India Limited was again changed to National Aviation Company of India Limited (NACIL) in 2007; NACIL was once again changed to Air India Limited in 2010.***

properties[1] at least for a period of one year, after repair/renovations. The Station also stated that the cost of repairs/renovations could be offset with two month's rental income from both the properties. However, Headquarters did not accede to this request.

Based on Headquarters' direction, the Station initiated the process of disposing off the properties in February 2010, by appointing a consultant. In June 2010, the legal representative of a prospective buyer of Woodland Heights pointed out to the Station that the title deeds of the properties were in the name of 'Air India'[2] and were not transferred to 'Air India Limited' when the name of the company was changed in 1994, and thus could not be sold without changing the title deeds. However, the Land Registry Office in Hong Kong was not amenable to a change of name in the title deed as Air India was no more in existence. To resolve the issue, the Station approached several consultants for legal opinion as well as the Consulate General of India Hong Kong, but the issue remained unresolved till date.

After these developments, the Station once again approached Headquarters (May 2011) to rent out the properties at approximately HKD 60,000 to 70,000 per month after renovating them. However, no response was received from Headquarters. It was only in June 2012 after another proposal (June 2012) from the Station and a delay of more than one year, that the proposal to rent out properties in Hong Kong was finally given 'in-principle' approval. In the meanwhile, the Station had rented out the property at Woodland Heights on ad-hoc basis for a period of 6 months from 15 February 2012 at a monthly rent of HKD 65,000 (*i.e.*, ₹4,82,950)[3].

After approval of Headquarters, the property at Woodland Heights was rented out from November 2012 at a monthly rental of HKD 75,000, after carrying out minor repair works. However, the other property at Villa Monte Rosa could not be rented out as the property required major renovation works for which approval of Headquarters was pending. It was only in January 2015 after a lapse of two and half years, that approval was given for renovating the property at Villa Monte Rosa. The renovation was completed in May/June 2015 at a cost of HKD 11.12 lakh (*i.e.*, ₹82.62 lakh). The property was finally rented out in November 2015 at a monthly rent of HKD 88,000 (*i.e.*, ₹6,53,840).

Delays resulted in potential revenue loss in the form of rental income. Had Headquarters given approval for renting out the properties in November 2009 itself on being approached by the Station for the first time, the Station could have realised a revenue of at least HKD 66.75 lakh, *i.e.*, ₹4.96 crore by way of rental income as detailed in **Annexure I**. It would also be pertinent to mention that the Station has incurred an expenditure of HKD 12.48 lakh towards mandatory charges such as property tax, management fee and annual rent for these properties during the period April 2009 to March 2016. Moreover, it was also seen that the Station hired two residential apartments for accommodating India based officers posted in Hong Kong and incurred an expenditure of HKD 31.09 lakh (*i.e.*, ₹2.31 crore) towards rent for the period from April 2009 to March 2016.

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[1] ***As the property at Villa Monte Rosa was likely to fall vacant as the Executive Regional Director was under orders of transfer.***

[2] ***Name of Air India Limited prior to 1994***

[3] ***Rate of Exchange of 1 HKD = ₹7.43 being the average Rate of Exchange of November 2009 and March 2016 has been adopted.***

On being highlighted on earlier occasion (November 2012), the Ministry had stated (May 2014) that the apartment were not put up for rental as the Station was anticipating sorting out the title issue within a few months, while the normal terms of rentals in Hong Kong is two years with one year fixed period.

The reply of the Ministry is not acceptable as the Station had approached Headquarters on various occasions (November 2009, January 2010, May 2011 and June 2012) as mentioned above for renting out the properties for short duration, which was not acceded to by Headquarters. The legal issue regarding title deeds was also noticed as early as June 2010 based on which, the Station once again approached Headquarters in May 2011 for renting out the properties, which was also not acceded to. Moreover, even after 'in-principle' approval of Headquarters for renting out the properties was received in June 2012, the Station could not rent out one of the properties as the approval for renovation of the property was received only in January 2015, after a lapse of two and half years.

The Station, while confirming the facts and figures, stated (June 2016) that the Country Manager was posted to Hong Kong in August 2008 when both the properties were occupied and hence, the Country Manager could not be accommodated in one of these properties. As the apartment rented out for the Country Manager was for a period of three years, the Country Manager could not be shifted to Woodland Heights, when it fell vacant in May 2009. Thereafter, a decision was taken to dispose off the properties in October 2009 and hence no India Based Officer was accommodated in these properties for smooth disposal.

However, the reply does not address the issue of delay in approval for renting out the properties and for renovation of one of the properties, which resulted in revenue loss. The reply also does not indicate the reasons for not accommodating the India Based Officers in these properties, once the legal issue regarding title deeds were noticed in June 2010.

2.5 Short coming in tendering process in renewal of Aviation Insurance resulting in a loss of USD 30,89,959 to Air India Limited

Air India awarded the contract for Aviation Insurance Policies for the year 2009-10 to a consortium led by Reliance General Insurance Company Limited (RGICL). After awarding the contract but before commencement of the Policy an aircraft of AIL caught fire at Mumbai. Considering this as additional risk RGICL demanded additional premium of USD 30,89,959, and deducted the same from the claim relating to subsequent incidence of an aircraft crash at Mangalore. This resulted in additional expenditure of ₹14.40 crore (USD 30,89,959).

Air India Limited (AIL)[1] invited technical bids (March 2009) for renewal of Aviation Insurance Policies for the year 2009-10. In response, two bids were received from: (i) a Consortium of 4 Public Sector Undertaking (PSU) insurance companies, led by The New India Assurance Company Limited (TNIACL)[2] and (ii) Consortium of 4 private insurance companies[3] led by ICICI-Lombard General Insurance Company Limited (ICICI - LGICL).

[1] ***Erstwhile National Aviation Company of India Limited (NACIL)***

[2] ***National Insurance Company Limited (NICL), The Oriental Insurance Company Limited (TOICL) and United India Insurance Company Limited (UIICL)***

[3] ***With three other Companies viz. RGICL, BAGICL & IFFCO-TGICL***

However, on suggestion of the private sector insurance companies[1], AIL invited fresh tender (June 2009) inviting bids on standalone basis to get more competitive rates. Five private insurance companies[2] submitted their bids individually, on standalone basis, whereas the consortium of PSUs under the leadership of TNIACL bid as a consortium which was accepted by AIL. After submission of bids, Reliance General Insurance Company Ltd. (RGICL) requested for an opportunity to quote a joint bid with other three private companies[3], which was allowed (24 June 2009) by AIL.

The three bidders *i.e.*, (i) consortium of private insurance companies led by RGICL, (ii) consortium of PSUs led by TNIACL and (iii) ICICI-LGICL (standalone bidder) were invited (31 July 2009) to submit their commercial/ price bids by the Evaluation Committee. On comparison of rates quoted, the consortium led by RGICL emerged as lowest bidder by quoting a premium of USD 2,42,38,414.69. On 9 September 2009 the aviation insurance policy of AIL for the policy year from 1 October 2009 to 30 September 2010 was awarded to consortium led by RGICL and they confirmed their acceptance on the same date.

In the meanwhile, an incidence of fuel leakage and fire at the engine of AIL's Aircraft VT-ESM occurred on 4 September 2009 at Mumbai Airport. The consortium led by RGCIL vide their letter dated 16 September 2009 raised the issue of new loss based on this incident and subsequently (September 2009) demanded an estimated Additional Premium (AP) of USD 35,00,000, on the ground that they had marketed the risk to reinsurance, based on the information provided by AIL under Clause 11(f) of the tender, taking into consideration the market conditions and strength of AIL, as projected in the AIL's current Insurance booklet and thus the new loss information would constitute a material change in the loss position following submission of their commercial bid and that the reinsurers would want to revise their terms in light of this new information. The consortium led by RGICL, also reported (23 September 2009) that as per the information from market, the loss to the VT-ESM Aircraft was estimated to be in the range of USD 18 million. AIL (24 September 2009) confirmed that the loss was estimated to be in the range of USD 18 to 20 million.

Subsequently (March 2010) RGICL demanded USD 29,10,857 plus applicable taxes, if the loss amount was more than USD 11 million. The AP was not required to be paid in case the loss amount was below USD 11 million. This threshold limit of USD 11 million was fixed by the consortium led by RGCIL after being aware of the estimated loss in the range of USD 18 to 20 million. Further, no basis for determining the limit of USD 11 million was intimated to AIL.

In June 2010 TNIACL, who were the existing insurers of the fleet for the period upto 30 September 2009, settled the claim relating to Aircraft VT-ESM at USD 14.5 million. The claim settlement amount against Aircraft VT-ESM exceeded the thresh hold limit of USD 11 million as set by RGICL. RGICL informed that non-payment of AP by 30 April 2010 would result in cancellation / withdrawal of cover.

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[1] ***RGICL, BAGICL & IFFCO-TGICL***

[2] ***ICICI-LGICL, RGICL, BAGICL, IFFCO-TGICL and HDFC Ergo General Insurance Company Limited (HDFC-EGICL)***

[3] ***(i) BAGICL (ii) IFFCO-TGICL and (iii) HDFC-EGIC***

In May 2010, another aircraft (VT-AXV) crashed at Mangalore. RGICL informed that the markets had made it clear that unless the AP issue was settled, there would be difficulty in making a cash call on the money under the policy from the reinsurance markets to satisfy the hull, passenger and third party claims in respect of crash of aircraft at Mangalore. RGICL informed (12 July 2010) that if the loss AP was not settled, the reinsurers would issue the 'notice of cancellation'. AIL conceded the demand of RGICL and advised (6 August 2010) RGICL to adjust the AP against the balance proceeds of the Hull claim VT-AXV and settle the balance amount. The funds were transferred (12 August 2010) by RGICL after deducting AP of USD 30,89,959.

The recovery of AP by RGICL from the amount of Hull Claim of VT-AXV had thus resulted in excess expenditure of USD 30,89,959[1](Premium USD 28,01,413 + Service Tax USD 2,88,546) to AIL. Besides, though the initial bid (March 2009) did not restrict the bidders to submit the bids on standalone basis, AIL considered the suggestion of the private sector insurance companies and re-tendered to obtain single bids to enhance competition. However, after submission of bids on standalone basis, RGICL was again allowed to submit their bid in consortium. The decision of AIL to accept the financial bids from consortia contradicted the very purpose of re-tendering. AIL also followed a non-transparent mechanism to allow the change in compositions of the bidders, after submission of bids.

The Management in its reply (September 2016) stated:

1. AIL had permitted (15 June 2009) PSU insurance companies to submit their bid as a consortium. During the course of presentation, private insurance companies excluding ICICI - LGICL stated that they would like to form a consortium with RGICL as their leader. With a view to give fair and equal treatment to all bidders and to a have a common level playing field, AIL had agreed to the request of the private insurance companies.

2. RGICL's demand for AP had been protested vehemently by AIL from the beginning. RGICL, however, finally adjusted the premium out of the insurance proceeds paid on account of hull loss and if AIL had not agreed to this, RGICL could have withdrawn the cover since the underwriters had given 7 days cancellation notice which would have grounded the fleet and caused disruption in services, besides bad publicity in India as well as abroad. Further, claims under crash of aircraft at Mangalore would have remained unsettled and legal action initiated against AIL. Since the matter was not settled *in toto*, AIL was not in a position to take any legal steps against RGICL to avoid inconvenience to the suffering families of passengers who had lost their lives.

3. In the event of a major loss between the submission of the bid and the placement, either globally or with the insured, the underwriters had right to revise the bid.

The Ministry of Civil Aviation in its reply (December 2016) further added that:

(i) The reason for re tendering was mainly on account of the arguments put forth by one of the brokers that AIL was not securing best rates in the market; consortium bidding would be advantageous to AIL; and there was no basis of tendering as pointed out by Audit.

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[1] ***USD 30,89,959 x ₹46.7865 per USD as on 12-08-2010 =₹14,45,68,367***

(ii) The incident of VT-ESM occurred on 4 September 2009 which was after the submission of technical and financial bids and the RGICL consortium stated that it was a material fact which has not been taken into account while submitting the bid. Price Protection Clause is not possible under the insurance contracts wherein there is time gap between the submission of bids and the actual payment of the policy. It was further stated that if there is a major event between the date of the submission of the bid and the actual placement of the policy, the underwriters usually reserve the right at the time of submission of the bid to revise their quotes to take into account the major event.

(iii) AIL had two options, one to accept the lower figure of USD 10 million for the VT-ESM claim and not pay any Additional Premium or accept a claim higher than 10 million, when the AP of USD 3.09 million would become payable. As such any settlement of the VT-ESM claim about USD 13.09 million was beneficial to AIL. As AIL got the net settlement of USD 14.5 million, the second option was beneficial and chosen.

The reply is not acceptable in view of the following reasons:

1. The initial bid (March 2009) invited by AIL did not restrict the bidders to submit the bids on standalone basis. The private insurance Companies did not avail the opportunity to submit bids on standalone basis and after submitting bids in consortium, requested AIL to re-invite bids on standalone basis. Further after giving opportunity to submit bids on standalone basis, RGICL again requested for opportunity to submit the bid in consortium. The decision of AIL to accept the financial bids from consortia contradicted the very purpose of re-tendering.

2. The Consortium led by RGICL on 9 September 2009 had confirmed the acceptance of the AIL placement of policy at the Premium rate of USD 2,42,38,414.69. Thus, the acceptance of the offer was binding and legally enforceable contract under the Indian Contract Act, 1872. Therefore, subsequent revision of the terms of payment of the policy amounted to breach of Contract. No legal action against RGICL was initiated by AIL to get back the amount of excess premium paid to the insurer.

3. The Ministry's contention that if there is a major event between the date of the submission of the bid and the actual placement of the policy, the underwriters usually reserve the right at the time of submission of the bid to revise their quotes to take into account the major event should be viewed in the light of the fact that in the note dated 24 March 2010 submitted by the Executive Director (Finance) to the Chairman and Managing Director it has been brought out that the practice in the international market is that, if there is a major catastrophic incidence, like that of World Trade Center, then only AP becomes payable and it applies to all Airlines worldwide. The note also states that this fact has also been confirmed by lead insurance brokers like Wills, JLT and Avon. Besides the impact of the claim/claim history will be considered by reinsurer, at the time of negotiations of subsequent renewal of the policy in 2010-11. The insurance contract is valid, once offer of the insured is accepted as per the provisions of India Contract Act, 1872. As such, the claim of AP was not valid.

4. The consortium led by RGICL, in their letter dated 24 August 2009 had confirmed that as assured by them, that 100 *per cent* claim of AIL would be settled irrespective of failure to pay by insurer/consortium partners. Thus, though the underwriters wanted to

revise their terms in the light of loss to the VT-ESM Aircraft and were not ready to accept the reinsurance, Consortium led by RIGCL was bound to pay the entire claim relating to Hull claim of VT-AXV aircraft at the premium agreed by them at the time of accepting the offer of AIL without charging any additional premium.

Thus, the demand for additional premium was against the spirit of the award of contract by AIL and acceptance thereof and assurance given by the consortium led by RGICL and has resulted in excess expenditure of USD 30,89,959 (₹14.40 crore) to AIL.

2.6 Irregular award of Contract

Award of contract to M/s. IBM India Private Limited, at a cost of ₹155.70 crore, on nomination basis for SAP ERP Implementation, Application Management and Maintenance Services and Supply of Hardware and Software in violation of the conditions applicable for awarding contracts on the basis of Rate Contracts of DGS&D and guidelines issued by the Central Vigilance Commission.

Air India Limited (AIL) proposed (July 2009) to implement System Application Program - Enterprise Resource Planning (SAP-ERP). M/s. SAP India Private Limited (SAP) was selected (September 2010) on nomination basis for the supply of SAP software licenses and based on the recommendation of SAP, M/s. IBM India Private Limited (IBM) was nominated (September 2010) as Implementation Partner for the SAP ERP Project.

SAP submitted their initial financial proposal on 27 September 2010 at a cost of ₹33 crore for SAP Licenses and 22 *per cent* per annum on the license fees, towards SAP Enterprise Support (ES). Again, on 28 September 2010, SAP submitted a fresh proposal for a total estimated project cost of ₹225 crore plus taxes and duties for implementation in 2 years and enterprise support for 5 years. Though IBM was not a partner under the existing Director General of Supplies and Disposal (DGS&D) rate contract, awarded to M/s. Resseaux Tech Private Limited, the proposal was approved (28 September 2010) by the Board of Directors (BOD) of AIL in its 34th Meeting. Further, the Board authorised the Management to finalise the scoping study and conclude the contract within three weeks of issuing the Letter of Intent (LoI) on mutually agreed terms and conditions.

AIL issued (20 October 2010) an LoI on SAP (₹69.30 crore) for supply of SAP software and software support and another LoI on IBM (₹155.70 crore) for SAP Implementation services, SAP Application Management Services, supply of Hardware for ERP Project and supply of software as required for integration/ interfacing for the ERP Project.

On 6 January 2011, an End User License Agreement (EULA) was entered into with SAP for Software Licenses and Enterprise Support and another agreement was entered into with IBM for (a) Supply of Hardware, Software and SAP Implementation and Support and (b) Statement of Work.

On account of the financial constraints faced by the Company, M/s. IBM Global Finance (IGF), offered (November 2010) a financing agreement for the Project (excluding AMCs) amounting to ₹156.63 crore (including Bank Guarantee charges payable by AIL) at interest charges of 7.8 *per cent* (Internal rate of return), in association with Standard

Chartered Bank[1]. The payment was scheduled to be spread over 22 months with an initial moratorium of 3 months.

The Go-Live of the SAP-ERP Project was on 31 January 2013. Out of the total project cost of ₹225 crore, payment amounting to ₹211.43 crore had been made (December 2016) to SAP and IBM.

Audit observed the following deficiencies in the process of award of contract:

- The rate contract was awarded by DGS&D to M/s. Resseaux Tech Private Limited with M/s. Arteria Technologies Private Limited as the consortium partner and SAP India Ltd. as the Original Equipment Manufacturer (OEM). IBM was not a partner under the existing DGS&D rate contract. The contract under the approved DGS&D Rate Contract should have been awarded to M/s. Resseaux Tech Private Limited with M/s. Arteria Technologies Private Limited as the consortium partner and SAP India Ltd. as manufacturer. However in violation of the DGS&D guidelines, and Provisions contained in the Manual[2] on Policies and Procedures for purchase of goods, issued (August 2006) by the Ministry of Finance, Department of Expenditure, Air India awarded the contract for implementation to M/s. IBM on nomination basis on the recommendations of M/s. SAP India Ltd.

- The amount of ₹155 crore payable to IBM was based on (4 October 2010) the man-months computed by IBM under the Implementation Plan (1,392 man-months) and Annual Maintenance Services for a period of 5 years (1,668 man-months). Audit noticed that the estimated project cost submitted to the Board on 28 September 2010 was not supported by a cost analysis carried out by AIL. The actual cost quoted by IBM against their Implementation Plan submitted on 4 October 2010 did not deviate from this estimate. Audit did not receive evidence of the price justification carried out by AIL, except the fact that the rates for man-days were identical to those in the DGS&D rate contract. The requirement of man-days was also not made a part of the agreement with IBM to enforce actual availability of manpower.

[1] ***They provided the Bank Guarantee to AIL***

[2] ***The Manual on Policies and Procedures for purchase of goods and services, issued (August 2006) by the Ministry of Finance, Department of Expenditure, stipulates that if an organisation directly procures DGS&D rate contracted goods from the suppliers, the prices to be paid for such goods shall not exceed those stipulated in the rate contract and other salient terms and conditions of the purchase should be in line with those specified in the rate contract.***

- In contravention of the guidelines[1] of Central Vigilance Commission (CVC), communicated vide office order of July 2007, the additional works (₹1.87 crore) for setting up of SAP ERP Data Centre at New Delhi was also awarded to IBM, on nomination basis.

The Management in its reply (December 2016) stated as follows:

- As per provisions of Material Management Department (MMD) Manual, Material Management Administrative Order (MMAO) 684, if Rate Contract of DGS&D rate is followed there is no need for a tender procedure. The SAP licenses were on Rate Contract of DGS&D and this was duly checked from DGS&D website and confirmed. Further, during the 34th Board Meeting, the need to have the implementation carried out on nomination basis by M/s. IBM was clearly brought out. As regards award of contract to IBM on nomination basis, the reply added that though AIL was not aware of the existence of CVC guidelines, contract to carry out implementation part was awarded to IBM on nomination basis, on account of their experience in SAP implementation with other airlines in India. No cost analysis to assess and justify the reasonableness of the price quoted by SAP and IBM was considered necessary since they were in line with the rates in Rate Contract of DGS&D.

- The entire process for putting in place an ERP system in Air India started with a presentation to the Committee of Secretaries in July 2009. Draft Request for Proposal (RFP) for appointing ERP Consultant was circulated (6 April 2009) and discussed but not issued. Instead the finalised RFP document for implementation of SAP-ERP was released on 23 March 2010. In addition, there were several deliberations before the Group of Ministers; as well as extensive deliberation within Air India before implementation of SAP-ERP was decided in February 2010. SAP India contacted Air India for the first time and enumerated various benefits that ERP implementation would provide to Air India. The hardware from IBM as procured based on the specific recommendation from M/s. SAP India Ltd., as well as the implementation costs claimed by IBM were as per the

[1] ***CVC in its Office Order dated 5 July 2007 had communicated the necessity to resort to tendering process as basic requirements for the award of contract by any government agency, as any other method, especially award of contract on nomination basis, would amount to a breach of Article 14 of the Constitution guaranteeing right to equality, which implies right to equality to all interested parties. As per the Hon'ble Supreme Court judgement [arising out of SLP (Civil) No.10174 of 2006] "The law is well settled that contracts by the State, its corporations, instrumentalities and agencies must be normally granted through public auction/public tender by inviting tenders from eligible persons and the notification of the public auction or inviting tenders should be advertised in well-known dailies having wide circulation in the locality with all relevant details such as date, time and place of auction, subject matter of auction technical specifications , estimated cost, earnest money deposits etc. The award of government contracts through public auction/tender is to ensure transparency in public procurement, to maximize economy and efficiency in government procurement to promote healthy competition among the tenderers, to provide for fair and equitable treatment of all tenders and to eliminate irregularities interference and corrupt practices by the authorities concerned. This is required by Article 14 of the Constitution.***
However, under rare exceptional circumstances such as natural calamities and emergencies declared by the government; where the procurement is possible from a single source only; where the supplier or contractor has exclusive rights in respect of goods or services and no reasonable alternative or substitute exists; where the auction was held on several dates but there were no bidders or the bids offered were too low, etc. this normal rule may be departed from and such contracts may be awarded through private negotiations."

DGS&D rate contracts. There is a categorical assertion by IBM to this effect which were verified by AIL. Within the same overall implementation costs, IBM have also given the hardware and the software to run this hardware. It may be noted that in case IBM had not provided this hardware and the system free of cost, AI would have had to incur additional costs in procuring the same.

- The decision to create a Data Centre at EDP Palam by IBM on nomination basis was discussed with the then Director Finance (DF) and ED-IT and approved in a meeting of Vertical Heads chaired by CMD during an IT Review Meeting held in New Delhi on 1st March, 2011. From the Minutes of Meeting held on 1 March, 2011 it is seen that the ED-Projects (SAP ERP) had highlighted the need to get the Data Centre ready for housing in Computer Centre, the deadline to meet various project timelines being 31 March 2011. In view of the urgency of the ERP Project, CMD advised ED (IT) and DF to process the proposal in this regard and get the work expedited through IBM for creation of the Data Centre to fast track the project clearance. It is not clear from the records available why the Data Centre requirement was not built into the original proposal for procurement/implementation of the SAP-ERP system.

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

- While there is no requirement to invite bids in case the orders are placed on the Rate Contract holder of DGS&D, the fact remains that IBM who were the implementing agency, was not a rate contract holder. Besides, the provisions of Clause 29 of MMAO of Manual of MMD of AIL state that the purchase order should be placed on the DGS&D contracted supplier. The contract was awarded to IBM, who were not such a supplier under the DGS&D Rate Contract.

- Even under the DGS&D Rate Contract awarded to M/s. Resseaux Tech Private Ltd., as per Remarks 3 below item 5 (b) of Schedule A of this contract, estimation of the number of mandays for any project was to be done along with the user department who had the option of choosing the optimum number of professionals in the team. There was no cost analysis of the man-days required and the total estimated project cost, in the submission to the Board at the time of approval in its 34th meeting. The fact that the estimate submitted to the Board without cost analysis did not vary from the final contract amount, is in the opinion of Audit indicative of the absence of detailed analysis of man-days requirement by AIL.

- While envisaging the project, the requirement of Data Centre (₹1.87 crore) was neither contemplated by AIL nor informed by SAP and IBM. Moreover, award of the contract for Data Center, on nomination basis, was not brought to the notice of the Board.

Thus award of contract to M/s IBM at a cost of ₹155.70 crore for implementation of SAP and ₹1.87 crore for data center were in violation of guidelines issued by CVC and terms and conditions of Rate Contract of DGS&D.

The matter was reported to the Ministry in January 2017; their reply was awaited (January 2017).

CHAPTER III: MINISTRY OF COAL

Bharat Coking Coal Limited

3.1 Loss due to non-utilisation of Cenvat credit

Bharat Coking Coal Limited failed to utilise Cenvat credit in respect of Service Tax paid of ₹30.48 crore, for the input services received during the period from 2011-12 to 2014-15 and thereby deprived itself of obtaining the benefit of such credit for a considerable period.

Central Excise duty is an indirect tax levied on goods manufactured or produced in India. Coal became excisable as per a notification of Government of India, Ministry of Finance, Department of Revenue (March 2011). For production of coal, coal companies utilise capital goods, raw materials, input services etc. The Service Tax paid on any of these items is credited into a Cenvat credit account[1] and the accumulated credit may be utilised for payment of duty/tax on coal as per Cenvat credit Rules, 2004. Rule 3(4) of the Cenvat credit Rules, 2004 provides that while paying duty of Excise or Service Tax, the Cenvat credit shall be utilised only to the extent of such credit as is available on the last day of the month or quarter, for payment of duty or tax relating to that month or the quarter, as the case may be.

There was no time limit for utilising Cenvat credit till August 2014. However, Central Board of Excise and Customs vide notification (11 July 2014) stipulated that with effect from 1 September 2014, the manufacturer or the provider of output service is allowed to take Cenvat credit within six months[2] of the date of issue of any of the documents specified in sub-rule (1) of Rule 9, which, inter alia, included invoice issued by a manufacturer or invoice/bill/challan issued by a provider of input service or by an Input Service Distributor (ISD)[3].

Bharat Coking Coal Limited (BCCL), a Miniratna Public Sector Undertaking and a subsidiary of Coal India Limited (CIL) is engaged in mining of coal under different operational areas/units and sale thereof to various consumers. These areas are individually registered with the Central Excise Department for payment of Excise Duty for utilising Cenvat credit on taxes paid for input services received. However, payments to service providers & Service Tax on it were made centrally from Headquarters, Dhanbad, like payment to Central Industrial Security Force (CISF), Central Mine Planning and Design Institute Limited (CMPDIL), MSTC Limited and mjunction[4]. The Service Tax, so paid,

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[1] *Known as 'Availment' of Cenvat credit.*

[2] *Extended to one year from March 2015 vide Notification No. 6/2015-Central Excise (N.T) dated 1 March 2015.*

[3] *Input Service Distributor is the office of the manufacturer of final products or the provider of taxable services for distribution of service tax credit to the manufacturing or service providing units.*

[4] *MSTC Limited and mjunction services limited provide services to BCCL for e-auction of coal.*

was required to be distributed[1] to the concerned areas to utilise Cenvat credit at their end. During 2011-12 to 2014-15, Headquarters of BCCL paid an amount of ₹77.31 crore towards Service Tax for utilising the services of CISF, CMPDIL, MSTC and mjunction. Out of this, BCCL Headquarters was able to distribute and utilise only ₹46.83 crore during the above period. The balance of ₹30.48 crore was finally distributed in September 2016 to BCCL Headquarters. However, BCCL failed in utilising Cenvat credit of ₹30.48 crore pertaining to the period from 2011-12 to 2014-15 till November 2016.

Audit observed (March 2016) that:

- Out of ₹30.48 crore which could not be utilised till November 2016, ₹26.77 crore related to the period 2011-12 and 2012-13. As per Cenvat credit Rules, 2004, for distribution of Service Tax to different areas, BCCL Headquarters was required to be registered as ISD. Though the areas of BCCL started paying Excise Duty on coal with effect from March 2011, BCCL Headquarters applied and obtained registration as ISD only in November 2013. The reason for delayed registration of ISD was that BCCL was non-conversant with the various provisions under Central Excise Act and Rules made there under.

- There was a clear time gap of 51 days between the date of notification (11 July 2014) and date when it became effective (1 September 2014); restricting utilisation of Cenvat credit within the time limit of six months. BCCL failed to utilise the opportunity to take credit of old invoices/bills/challans which were more than six months old during the 51 days allowed.

- Though there was restriction of time limit as per Notifications of July 2014/March 2015 for utilising Cenvat credit, an amount of ₹3.71 crore pertaining to the period 2013-14 and 2014-15 was distributed belatedly in September 2016 and the same remained unutilised till November 2016.

In reply, the Management/Ministry stated (September 2016/December 2016) that:

- The various coal producing areas of BCCL having Central Excise registration started paying Excise Duty on the coal produced by them and availing Cenvat credit, since coal became excisable in March 2011.

- After obtaining ISD registration in November 2013, BCCL started distribution of Service Tax regularly to coal producing areas of BCCL for availing Cenvat credit at their end.

- The Service Tax on eligible inputs pertaining to the invoices paid during the period from April 2013 to October 2013 was distributed to concerned areas of BCCL after due scrutiny of the records. However, in respect of invoices paid during the period 2011-12 and 2012-13, the process of scrutinising the records got delayed as the records were more than three years old.

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[1] ***BCCL adopted the system of paying Excise Duty and availing Cenvat credit centrally from November 2015.***

- Prior to July 2014, there was no rule providing for any restriction on availment of Cenvat credit within a period of six months/one year. The amendment made (July 2014/March 2015) in the Cenvat credit Rules, 2004, provided that the manufacturer or service provider should not take Cenvat credit after six months/one year of date of issue of any documents specified in the Rule 9(1) of Cenvat credit Rules, 2004.

- The above mentioned proviso/amendment in the Cenvat credit Rules only restricted the manufacturer or provider of output service from availing Cenvat credit. However, no such restriction had been imposed upon ISD who was neither a manufacturer nor a service provider. However, since the above view had not been tested in the Court of law, the same could be objected by the department and result in litigation before the appropriate forum.

- There was a scope for availing Cenvat credit in view of the fact that credit could not be denied on procedural grounds when Service Tax paid on goods and services were in principle eligible for credit.

- The Cenvat credit of ₹30.48 crore had already been availed by showing in the relevant returns and distributed to BCCL Headquarters having centralised registration with prior intimation to the jurisdictional authorities of Central Excise Department.

The views of the Management/Ministry are not acceptable in view of the following:

- Though BCCL started paying Excise duty and availing as well as utilising Cenvat credit from March 2011, BCCL Headquarters applied for ISD registration only in November 2013 for distribution of Service Tax, after a lapse of more than two and half years. Even after registration as ISD in November 2013, BCCL failed to utilise Cenvat credit of ₹26.77 crore for the period 2011-12 and 2012-13 before imposition of any restriction (September 2014/March 2015) of time limit for utilising such credit. There was further accumulation of credit of ₹3.71 crore for the years 2013-14 and 2014-15, which also remained unutilised till November 2016.

- Regardless of the restriction of time limit, it would have been a prudent practice to utilise Cenvat credit in time. Deferring the action for taking Cenvat credit for years together highlights imprudent tax management.

- As per clarifications (Circular No. 97 dated 23 August 2007) of Central Board of Excise and Customs, ISD is an office of the manufacturer of final products or the provider of taxable services for distribution of service tax credit to the manufacturing or service providing units. Therefore, all the rules and procedures regarding restriction of time limit as applicable to a manufacturer or an output service provider under Central Excise Act/Rules would also be applicable to ISD.

- BCCL failed to produce any documentary evidence in support of their contentions that the restrictions of time limit for taking Cenvat credit was not applicable to ISD

and the benefit of taking old Cenvat credits would not be denied on procedural grounds. The Management/Ministry itself has also admitted that the subject may become a point of litigation with the Central Excise Department.

Thus, BCCL failed to obtain the benefit of ₹30.48 crore due to non-utilisation of Cenvat credit for the period from 2011-12 to 2014-15.

Coal India Limited & its subsidiaries

3.2 Loss due to incorrect fixation of reserve price of coal under e-auction sale

Coal India Limited and its subsidiaries failed to apply due diligence for correct fixation of reserve price for sale of G6 grade non-coking coal through e-auction to non-regulated sectors. This resulted in avoidable loss of revenue of ₹68.16 crore during the period from April 2012 to September 2015.

Coal India Limited (CIL) produces and sells coking and non-coking coal of various grades, through seven wholly owned coal producing subsidiaries[1]. Coal is sold through Fuel Supply Agreements (FSAs) with customers at prices notified by CIL and through e-auction mode at market driven prices. For e-auction of coal, the subsidiary coal companies declare the quality and quantity of coal to be offered in the auction in advance. A reserve price for each grade of coal is also fixed. A bidder has to bid equal to or above the reserve price for participating in the e-auction process.

CIL notified the prices of non-coking coal based on Gross Calorific Value (GCV), effective 1 January 2012. There were 17 grades of coal (G1 to G17), each grade having a GCV bandwidth. G17 corresponded to the lowest GCV while G1 had the highest GCV. CIL had also informed its coal producing subsidiaries that the reserve price for e-auction to non-regulated sectors[2] for grades having GCV lower than 5,500 Kcal/kg would be 20 *per cent* above the notified price for that grade. The reserve price of higher grades would be the notified price for the relevant grade[3].

The G6 grade had a GCV band ranging from 5,500 to 5,800 Kcal/kg and, hence, the reserve price for G6 grade would be the notified price for the grade. The G7 grade had a GCV band ranging between 5,200 and 5,500 Kcal/kg and, hence, its reserve price would be 20 *per cent* higher than the notified price for the grade.

Audit scrutinised the records regarding fixation of reserve price for G6 and G7 grades in coal producing subsidiaries of CIL over the period April 2012 to March/September 2015 and noticed the following:

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[1] ***Bharat Coking Coal Limited (BCCL), Central Coalfields Limited (CCL), Eastern Coalfields Limited (ECL), Mahanadi Coalfields Limited (MCL), Northern Coalfields Limited (NCL), South Eastern Coalfields Limited (SECL), Western Coalfields Limited (WCL)***

[2] ***Non regulated sectors are sectors other than power, fertiliser and defence***

[3] ***(a) when the midpoint of the GCV range for the colliery/source exceeds 5,500 Kcal/Kg, the notified price of the GCV band corresponding to such midpoint as applicable for non-regulated sectors shall be the reserve price.***

(b) when the midpoint of the GCV range for the colliery/source does not exceed 5,500 Kcal/Kg, the notified price of the GCV band corresponding to such midpoint as applicable for non-regulated sectors plus 20 per cent shall be the reserve price.

- After introduction of GCV based pricing in January 2012, 122 bidding events took place on different dates for which the coal subsidiaries had to fix the reserve price of G6 grade as well as G7 grade non-coking coal. Though G6 grade was superior to G7 grade of coal, the reserve price of G6 grade was fixed lower than that of the G7 grade on the basis of the notification of CIL.

- The difference in pricing of non-coking coal of these two grades was considerable. While the reserve price of G6 grade was in the range of ₹1,960 and ₹2,770, the reserve price of G7 grade was in the range of ₹2,064 and ₹2,940 in different coal subsidiaries. Despite such an anomaly in the reserve price fixation, the matter was not noticed by CIL or its subsidiaries. The reserve price aberration between G6 and G7 grades continued over nearly four years (January 2012 to September 2015).

- The anomaly in fixation of reserve price was pointed out by Audit in January 2015 to Western Coalfields Limited (WCL). In view of the audit observation, WCL management (July 2015) requested CIL to examine the matter. CIL revised (October 2015) the earlier mechanism for fixing reserve price, stressing that in case of anomaly in reserve price between two grades, the reserve price for the higher grade would be the simple average of the reserve price of the immediately succeeding and preceding grades. Thus, as per the revised mechanism, for cases where the reserve price of G6 grade is lower than the G7 grade, the reserve price of G6 grade would be the simple average of the reserve price of G5 and G7 grades.

- Considering the revised reserve price of G6 grade of coal, Audit observed that CIL and its subsidiaries had suffered an avoidable loss of revenue of ₹68.16 crore during April 2012 to September 2015 through lower fixation of reserve price[1], which in turn extended an undue benefit to the e-auction consumers by the same amount as detailed below:

Name of the coal subsidiary	Loss of revenue (₹ in crore)
BCCL	1.85
CCL	2.06
ECL	41.02
SECL[2]	16.85
WCL[3]	6.38
Total:	**68.16**

In reply, WCL, ECL and CCL stated (September/November 2016) that CIL was the deciding authority for pricing of coal, including fixation of reserve price for e-auction for all of its subsidiaries. They stated that the reserve price was modified once the norms were revised by CIL.

[1] ***Audit has considered instances where the bid price of G6 grade coal are lower than the reserve price of G7 grade coal. The difference between the bid price (at which the coal was sold) and the revised reserve price has been considered as a loss to CIL.***

[2] ***For the period from April 2012 to March 2015, based on the data made available to Audit***

[3] ***For the period from April 2012 to March 2015, based on the data made available to Audit***

While pointing out that the guidelines for fixation of e-auction price has already been modified in October 2015, CIL Management stated (January 2017) that:

- The reserve price in respect of coal offered under e-auction was not fixed in isolation but was derived from the basic price of coal notified by CIL from time to time. Reserve price was the floor price from which the bidding process started but coal was actually sold at the bid price, which was guided by several market forces and other parameters. E-auction being a buyer's market, market sentiments played a crucial role and thus the actual bid/sale price fetched on auction of such coal was purely based on the market dynamics.

- While working out the loss, only those cases have been specifically picked up by Audit where the bid price of G6 grade coal was less than the mean of reserve price of G5 and G7 grade coal and notional loss of ₹68.16 crore has been arrived at. The mean reserve price of G5 and G7 grade coal had no direct relation with the G6 grade reserve price.

- Out of the total instances where G6 coal had been sold under e-auction during the said period, in a number of cases G6 grade coal had fetched bid price much higher than the reserve price of G7 grade coal and had fetched an overall weighted average premium of around 39 *per cent* over the weighted average reserve price during the reported period.

- G6 grade coal, if ultimately not sold in e-auction, would have been sold at the notified price applicable for power sector, which was about 25 *per cent* lower than the notified price applicable for non-regulated sector during the reported period.

Replies of the Management are not acceptable as:

- For e-auction of coal, the bid price should necessarily be equal to or above the reserve price. While working out the loss to CIL on account of lower reserve prices of G6 coal, Audit has considered only such cases where the bid price of a higher grade of coal (G6 grade) was less than the reserve price of lower grade (G7 grade). In these cases, the customers have obtained G6 grade of coal at bid prices for which they would not be able to obtain a lower (G7) grade of coal.

- While calculating loss, Audit has used the revised reserve price as per notification of CIL (October 2015) and has considered the difference between the actual bid price and the revised reserve price. For the 122 bids scrutinised by Audit, this worked out to ₹68.16 crore.

- The coal sold to non-regulated sector through e-auction has only been considered by Audit. The contention of the Management that if it was not sold in e-auction, the G6 grade coal would have been sold at lower price to the power sector is a conjecture.

Thus, CIL and its subsidiaries sustained an avoidable loss of revenue of ₹68.16 crore during the period from April 2012 to September 2015 due to their failure in exercising due

diligence regarding fixation of reserve price of non-coking coal for e-auction sale, which also resulted in undue benefit to the e-auction consumers.

The matter was reported to the Ministry in September 2016; their reply was awaited (January 2017).

Eastern Coalfields Limited

3.3 Delayed Payment of Central Excise Duty

Failure to make timely payment of Central Excise duty on Performance Incentive earned by Eastern Coalfields Limited on sale of coal resulted in avoidable loss of ₹17.57 crore towards payment of interest for the financial years 2011-12 to 2013-14.

Eastern Coalfields Limited (ECL), a subsidiary of Coal India Limited (CIL) had entered into Fuel Supply Agreements (FSA) for supply of coal to consumers. As per terms of FSA, ECL has an opportunity to earn 'Performance Incentive' (PI) from the consumer, if supply of coal during the year is in excess of 90 *per cent* of the Annual Contracted Quantity (ACQ) for the year.

As per notification of Ministry of Finance, Government of India dated 1 March 2011, coal became an excisable product attracting levy of Central Excise duty. As per section 4 of the Central Excise Act, 1944 (Act), Central Excise duty was payable on the transaction value. As the transaction value included PI, Excise duty was also to be paid on the PI earned by ECL on sale of coal. In case of non-payment, ECL is liable to pay interest at the rate[1] prescribed under Section 11AA of the Act. The amount of PI is determined based on the quantity of coal supplied during the year against the ACQ and Central Excise duty on such PI should be paid by 31 March of every financial year to avoid payment of interest.

During scrutiny of records relating to payment of Excise duty in coal producing subsidiaries of CIL, Audit observed that ECL inordinately delayed payment of Excise duty on PI (delays ranging between 34 to 993 days) which led to its paying interest for the default. Audit further noticed that ECL obtained clarification from CIL regarding applicability of Excise duty on PI in March 2014,three years after Excise duty became payable on coal. CIL clarified the matter stating that Excise duty was to be paid on the PI, which could then be recovered from customers. ECL started payment of Excise duty on PI w.e.f. March 2014. However, even after the clarification, ECL delayed payment of Excise duty for the period 2011-12 to 2013-14, the delay ranging between one to nine months (payment was made during 31 March 2014 to 8 January 2015). On account of delay in remitting Excise duty, ECL had to make avoidable payment of interest amounting to ₹17.57 crore to Central Excise authorities for the financial years 2011-12 to 2013-14.

While admitting the facts, the Management/Ministry stated (September 2016/January 2017) that:

[1] ***18 per cent per annum with effect from April 2011, to be calculated from the date on which such duty becomes due to the date of actual payment of the amount of Central Excise duty***

- On receipt of guidelines from CIL in March 2014, ECL had discharged its liability for payment of Excise duty on PI, though some of the FSA customers were expressing their strong reservations on applicability of Excise duty on PI.

- ECL had already raised requisite supplementary invoices on the respective FSA customers for interest accrued on delay in payment of Excise duty associated with PI.

The reply of the Management/Ministry is not acceptable in view of the following:

- Coal became excisable in March 2011 and it was imprudent to delay payment of Excise duty on PI for three years. Even clarifications were obtained after three years which led to accumulation of the interest liability.

- Other subsidiaries of CIL also received PI from the customers during the same period and paid Excise duty on it. Operating in the same environment, ECL ought to have followed the practice of its peers in paying Excise duty on PI.

- PI is collected from FSA customers through coal bills. The FSA does not provide for collection of interest from customers on account of delayed payment of Excise duty on PI. Thus, the possibility of collection of interest paid by ECL from its FSA customers appears to be remote.

Thus, due to failure in making timely payment of Central Excise duty on PI, ECL had to bear an avoidable loss of ₹17.57 crore towards payment of interest for the financial years 2011-12 to 2013-14.

Northern Coalfields Limited

3.4 Failure to earn additional revenue

Despite availability of coal and consent of the customer to pay a higher price, NCL did not maximise supply of coal from the specific mine which would earn a risk premium charge of 10 *per cent*. It thereby failed to earn additional revenue of ₹14.28 crore during February 2011 to March 2015.

Northern Coalfields Limited (NCL), a subsidiary of Coal India Limited had been supplying Grade 10 coal[1] to Unit-I-VIII of Renusagar Power Division of M/s. Hindalco Industries Limited (HIL-RPD) from Jhingurdah mine in terms of Fuel Supply Agreement (FSA), executed between the parties in June 2008. As coal reserves of Jhingurdah mine depleted, HIL-RPD represented for supply against the annual contracted quantity (ACQ) of coal from Krishnashila mine. NCL and HIL-RPD agreed to modify (February 2011) the existing FSA through a Memorandum of Understanding (MOU) to incorporate supply of Grade 8 coal from Krishnashila mine in addition to Grade 10 coal of Jhingurdah mine. As per the agreement (February 2011), for supply of coal from Krishnashila mine, HIL-RPD would pay 10 *per cent* over and above the notified basic price of coal as 'risk premium charge'. It was also agreed that both the parties should make best efforts to maximise

[1] ***Coal is graded in 17 grades as per their Gross Calorific Value***

off-take of coal from Krishnashila mine and shift the ACQ to Krishnashila mine at the earliest for normative requirement of 25.47 lakh tonne Grade 8-10 coal as per revised FSA. Thus, as per the modified FSA, supply of coal to HIL-RPD from Krishnashila mine had a distinct commercial advantage for NCL.

Audit observed (March 2015) that:

- NCL supplied 100.40 lakh tonne Grade-8 coal[1] to HIL-RPD during the period from February 2011 to March 2015 under the revised FSA. Of this, 64.61 lakh tonne Grade-8 coal was supplied from Krishnashila mine, 16.61 lakh tonne Grade-8 coal[2] from Jhingurdah mine, 8.97 lakh tonne Grade-8 coal[3] from Bina mine and the balance 10.21 lakh tonne Grade-8 coal[4] from other mines of NCL. Thus, NCL supplied 19.18 lakh tonne from mines other than Krishnashila and Jhingurdah, while the revised FSA contemplated supply from these two mines alone.

- NCL fetched additional revenue ranging between ₹140 and ₹169 per tonne of coal supplied from the Krishnashila mine on account of risk premium charge. For the 19.18 lakh tonne coal supplied from Bina and other mines, NCL did not receive risk premium charge and, hence, revenues for these supplies were lower.

- Both Krishanshila and Bina mines had some common customers[5]. During this period (February 2011 to March 2015), NCL dispatched 91.31 lakh tonne Grade-8 coal from Krishnashila mine and 28.22 lakh tonne Grade-8 coal[6] from Bina mine to these common customers. If NCL had supplied 8.97 lakh tonne Grade-8 coal from Bina mine to common customers instead of supplying it to HIL-RPD, this quantity could have been supplied from the Krishnashila mine to HIL-RPD which would have earned an additional revenue of ₹14.28 crore as 'risk premium charge'.

Audit further observed that in October 2015, the FSA with HIL-RPD was modified through MOU, incorporating provision for supply of full quantity of ACQ only from Krishnashila mine. In 2015-16, NCL supplied most of the coal to HIL-RPD from Krishnashila mine and only an insignificant quantity (0.01056 lakh tonne) of coal was dispatched from Bine mine in March 2016.

The Management/Ministry stated (September/December 2016) that:

- Coal was allocated to HIL-RPD on month to month basis from Bina mine instead of Krishnashila mine mainly keeping in view that coal stock at Bina mine was on fire. Priority was given to liquidate the above coal as early as possible to minimise loss that might arise due to burning of coal and deterioration of coal quality due to prolonged exposure to fire.

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[1] ***68.35 lakh tonne Grade-8 coal + 32.05 lakh tonne Grade-8 coal (equivalent to 36.05 lakh tonne Grade-10 coal x 0.88893)***

[2] ***Equivalent to 18.68 lakh tonne Grade-10 coal x 0.88893***

[3] ***Equivalent to 10.09 lakh tonne Grade-10 coal x 0.88893***

[4] ***3.74 lakh tonne Grade-8 coal of Khadia + 6.47 lakh tonne Grade-8 coal (equivalent to 7.28 lakh tonne Grade-10 coal x 0.88893) of Kakri***

[5] ***OTPS, ATPS-Anpara, KOTA, Lanco-Anpara, RGTPP-Haryana, VSTPP, MJPJ-Jhajra, MIGK-Arawai***

[6] ***Equivalent to 31.74 lakh tonne Grade-10 coal x 0.88893***

- NCL had taken all steps to maximise revenue while supplying quality coal on sustained basis. NCL had earned an additional revenue of ₹ 366.62 crore by offering 9.10 lakh tonne coal through road and rail mode under spot e-auction from Krishnashila mine at an average premium of 99.88 *per cent* over and above the notified price during the period 2010-11 to 2014-15, which was a considerably higher premium as compared to risk premium of 10 *per cent* that NCL was entitled for supplying coal to HIL-RPD from Krishnashila mine.

- Supply of coal to all common customers of Bina and Krishnashila mines were made through rail only as these customers did not lift coal by road due to long distance. Since Coal Handling Plant (CHP) of Bina mine was running at full capacity, common customers could not be transferred to Bina from Krishnashila mine under logistic compulsions. Further, coal was supplied to HIL-RPD through road and there was no common customer for road mode, who could be inter-changed between Bina and Krishnashila mine.

The above reply of the Management/Ministry is not acceptable in view of the following:

- The Management contention that coal from Bina mine had to be liquidated early on account of spontaneous heating and fire is not valid as Audit has merely suggested an interchange of customers between Bina and Krishnashila mines, rather than slower liquidation from Bina mine.

- Audit analysis of the book stock position of coal of Bina mine reveals that there was no significant accumulated stock of coal during 2011-16. The monthly stock position indicates a cyclical movement of coal indicating that the mine was carrying out normal mining operations, rather than liquidating old, on-fire coal stock.

- The audit observation is limited to the coal supply made to HIL-RPD from Bina instead of Krishnashila mine which led to NCL not receiving the 10 *per cent* risk premium charge. Supply from Krishnashila mine would have resulted in additional revenue to NCL over and above the spot e-auction revenue referred to by Management in reply.

- The Management's contention that evacuation of coal to common customers by rail from Bina mine was limited by the saturation of coal handling plant at Bina is not tenable since coal of Bina mine was transferred to Krishnashila siding through dumpers and contractual tippers and dispatched through the railway siding of Krishnashila mine. Thus it was entirely possible to supply coal from Bina mine to the common customers by rail using the railway siding of Krishnashila mine.

Thus, due to non-supply of maximum quantity of coal from the specified mine for which a risk premium charge of 10 *per cent* had been agreed to, NCL could not realise additional revenue of ₹14.28 crore during February 2011 to March 2015.

NLC India Limited

3.5 Operational performance of Power Plants

3.5.1 Introduction

NLC India Limited (Company), which was incorporated in the year 1956, is a public sector undertaking in the energy sector. It operated four open cast lignite mines (three at Neyveli in Tamilnadu and one at Barsingsar in Rajasthan), as of March 2016, to generate power through five pithead thermal power stations (TPS) having an aggregate capacity of 3240 MW. It owned 41,415.90 million tonne of lignite reserves which was 92.87 *per cent* of the total national lignite reserves of 44,594.53 million tonne. The total mining capacity of the Company was 30.6 million tonne per annum (MTPA).

The details of thermal power stations and the mines linked to them as of March 2016 are given below:

Units	Capacity in Megawatt (MW)	Linked Mines	Capacity in MTPA
TPS I TPS I Expansion	600 420	Mine-I & Expansion	10.50
TPS II TPS II Expansion	1470 500	Mine-II & Expansion	15.00
Barsingsar TPS (BTPS)	250	Barsingsar Mines	2.10
Total	**3240**		**27.60**[1]

3.5.2 Financial Performance

The Central Electricity Regulatory Commission (CERC) fixes the tariff for all power stations for a period of five years. The tariff for supply of electricity from a thermal generating station comprises of two parts, namely, capacity charges (for recovery of annual fixed cost) and energy charges (for recovery of primary fuel and limestone cost).

The performance of the Company during the five-year period ended 31 March 2016 is reflected in the following table:

Particulars/Year		2011-12	2012-13	2013-14	2014-15	2015-16
Generation of power (Million Units (MUs))		18789.44	19902.34	19988.65	19729.13	19182.21
Sale of power	MUs	15810.67	16841.51	16956.40	16671.23	16104.00
	Amount (₹ in crore)	4476.23	5069.49	5361.13	5589.87	6258.97
Operating Cost (₹ in crore)		3129.75	3581.01	4011.03	4162.53	4452.35
Profit after Tax (₹ in crore)		1411.33	1459.75	1501.88	1579.68	1204.15
Return on Equity (in *per cent*)		84.12	87.01	89.52	94.16	71.77

[1] ***Excluding mine1A with capacity of 3 MTPA which is meant for sale of lignite.***

The profit of the Company and corresponding Return on Equity showed an upward trend during the period from 2011-12 to 2014-15. However, it reduced by 23.77 *per cent* during 2015-16 as compared to 2014-15 mainly on account of shortfall in power generation due to reduced Operating Plant Load Factor (OPLF) in TPS-I, problems and forced outages/stabilisation issues in Barsingsar Thermal Power Station (BTPS) and increase in Clean Energy Cess. Further, heavy rainfall and floods during the year 2015-16 also added to the shortfall in generation and consequential reduction in profit.

3.5.3 Audit Approach

3.5.3.1 Scope of Audit

Operational performance of three power plants (TPS-I, TPS-I Expansion & TPS-II) of the Company and their linked lignite mines during the period from 2011-12 to 2015-16 and that of BTPS [1] from 2012-13 to 2015-16 was reviewed in Audit. TPS-II Expansion was not reviewed as the plant was commissioned during the year 2015-16. The views expressed by the Management and the replies received were considered while finalising the report.

3.5.3.2 Audit Objectives

The objectives of the audit were to examine whether the Company

- assessed requirement of fuel correctly and consumed the same as per norms,
- utilised plant capacity optimally and efficiently, and
- ensured that the cost of generation of power was within the norms.

3.5.3.3 Audit criteria

The audit criteria included the provisions of

- Memorandum of Understanding entered into by the Company with Ministry of Coal, Government of India (GoI)
- Guidelines of Ministry of Coal for fixation of lignite price
- Regulations of Central Electricity Regulatory Commission (CERC) and its norms for consumption and fixation of tariff

[1] ***commissioned in December 2011/January 2012***

3.5.4 Audit Findings

3.5.4.1 Mining Operations

(I) Under recovery of cost due to underutilisation of linked mine of BTPS

BTPS (2 x 125 MW), which was envisaged to be commissioned with full capacity in June 2009, was actually commissioned in December 2011/January 2012. It was seen in audit that the plant could not achieve full capacity utilisation upto 2015-16. Due to this, the capacity utilisation of the linked mines during the period from 2012-13 to 2015-16 also ranged between 58 *per cent* to 74 *per cent* only as against the norms fixed by CERC for capacity utilisation at 85 *per cent* (up to 2013-14) and 78 *per cent* (from 2014-15) for recovery of full cost of operation of mine through tariff. This resulted in under-recovery of cost to the tune of ₹79.78 crore for the period from 2012-13 to 2015-16.

The Company stated (March 2016) that new Circulating Fluidised–bed Combustion (CFBC) technology took time for the plant to get fully stabilised and that the performance of the unit would improve by 2016-17. The Ministry stated (May 2016) that the stabilisation period was not sufficient as various problems were faced in the operations and had to be rectified.

The reply of the Company and the Ministry has to be seen in the light of the fact that CERC had taken into consideration the stabilisation period and had fixed the norms, accordingly. Non-achievement of the same resulted in under recovery of cost.

(II) Inadequate supply of lignite in TPS-I and TPS-I Expansion

Test check of records relating to production and consumption of lignite linked with power generation in respect of TPS-I and TPS-I Expansion, for the period from 2011-12 to 2015-16, revealed that there was loss of generation every year due to inadequate supply of lignite either due to rains or due to electrical and mechanical breakdown of lignite handling equipment, even though sufficient quantity was available at site. Due to this, the plant could not operate at full load at different periods. This resulted in loss of generation of 660.45 million units (MUs) amounting to ₹160.64 crore from 2011-12 to 2015-16.

The Company stated (May 2016) that the inadequate supply of lignite was only during rainy season and action was being taken to have dry stock for a minimum of 03 to 04 days.

The reply was not acceptable since out of 660.45 MUs pointed out above, loss of generation to the tune of 397.26 MUs occurred during non-rainy days, which was clearly avoidable. The Company failed to take precautionary measures to avoid stoppage of equipment due to mechanical/electrical failures during the non-rainy days. Further, it also failed to ensure availability of adequate quantity of lignite during rainy days.

3.5.4.2 Operation of Plants

(I) Excess cost of generation over norm

The actual cost of generation of the power stations of Company vis-à-vis the norms fixed by CERC during the period under review was as under:

(₹ per unit)

Year	TPS-I		TPS-IE		TPS-II (Stage I&II)		BTPS	
	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual
2011-12	2.954	2.945	2.607	2.519	2.499/2.476	2.356	Not applicable	
2012-13	3.192	3.118	2.633	2.733	2.610/2.557	2.526	3.331	3.354
2013-14	3.423	3.376	2.808	2.759	2.727/2.690	2.623	3.150	3.219
2014-15	4.171	5.380	2.874	2.865	2.785/2.750	2.779	3.193	3.084
2015-16	3.98	5.139	3.73	3.13	3.17/3.16	3.32	2.890	3.25

It was noted that there was under recovery of cost in all the above stations in one or more years under review. The excess cost absorbed by the stations where there was under-recovery, as worked out in Audit, was as under:

Unit	Year	Excess cost (₹ per unit)	Gross generation (MUs)	Excess cost absorbed (₹ in crore)
1	2	3	4	$5=3x4*10^6/10^7$
TPS-I	2014-15	1.209	3631.05	438.99
	2015-16	1.159	3160.98	366.36
TPS-I Expansion	2012-13	0.10	3319.77	33.20
TPS-II	2015-16	0.14	10583.15	148.16
BTPS	2012-13	0.023	1280.85	2.95
	2013-14	0.069	1438.24	9.92
	2015-16	0.35	1285.29	44.99
Total				1044.57

While examining the reasons for under-recovery of costs in respect of the above stations, which have been brought out in the ensuing paragraphs, it was observed that there was scope for improvement in other plants as well even though the cost recovered in those plants was above the CERC norms:

a) Non-achievement of Plant Load Factor and Plant Availability Factor

- CERC fixes norms for both Plant Load Factor (PLF)[1] and Plant Availability Factor (PAF)[2] in respect the power stations for recovery of energy charges and fixed charges from the beneficiaries. Scrutiny of these norms and the actuals for the power stations covered under review revealed that both these norms could not be

[1] ***PLF refers to the ratio between the actual generation and the maximum possible generation at installed capacity.***

[2] ***PAF means the ratio of actual hours operated to maximum possible hours available during a certain period.***

maintained in case of BTPS during the period from 2012-13 to 2015-16 as detailed in the following table:

	PLF				PAF			
	2012-13	2013-14	2014-15	2015-16	2012-13	2013-14	2014-15	2015-16
Norm	85	85	85	85	75	75	80	80
Actual	58.49	65.67	63.05	58.54	58.77	67.05	63.48	58.92

Achievement of lower PLF and PAF resulted in generation loss of 2012.17 MUs and under recovery of capacity charges of ₹306.91 crore.

The Company appointed a Committee in December 2014 for suggesting remedial course of action which recommended (June 2015) certain modifications in the Plant. These works, however, were yet to be completed (August 2016).

The Company stated (March 2016) that CFBC technology adopted in BTPS was a new technology. Since, BTPS was in initial stages of operation there were more number of breakdowns, causing more outages.

The reply is to be viewed against the fact that CERC took into consideration the stabilisation period and had fixed the PAF at a lower level of 75 *per cent* upto 2013-14 and thereafter, 80 *per cent*.

- Similarly, the PLF of TPS-I during 2014-15 and 2015-16 which was at 69.08 *per cent* and 59.98 *per cent,* respectively, was lower than the CERC norm of 75 *per cent.* The PAF achieved during 2014-15 was 67.74 *per cent* against the CERC norm of 72 *per cent.* Similarly during 2015-16, PAF achieved was 58.92 *per cent* as against the CERC norm of 72 *per cent.* The Company stated (May 2016) that there were frequent outages due to aging of the Plant and frequent breakdowns and all positive steps are being taken to improve the performance level.

The reply was not acceptable as CERC, while fixing the norms, considers the age of Plant and the achievement in case of TPS-I was lower than these norms.

b) Higher consumption of lignite due to excess Station Heat Rate (SHR)

CERC fixed the Station Heat Rate (SHR)[1] of 2,596.56 Kcal/unit in respect of BTPS. The actual SHR achieved by the plant during the years from 2012-13 to 2014-15 was, however, higher than these norms. This resulted in excess consumption of lignite to the tune of 64,274 metric tonne (MT) during these years, as detailed in the following table:

[1] ***Station Heat Rate (SHR) of a power plant is the amount of chemical energy that should be supplied to produce one unit of electrical energy.***

Year	CERC norms (Kcal/ unit)	Actual SHR (Kcal/unit)	Difference (Kcal/ unit)	Gross generation (MU)	GCV of lignite (kcal/kg)	Excess lignite consumption (MT)
1	2	4	5	6	7	8=(5)x(6)/ 7x1,000
2012-13	2,596.56	2,616	19.44	1,280.850	2,668	9,333
2013-14	2,596.56	2,696	99.44	1,438.211	2,614	54,711
2014-15	2,596.56	2,597	0.44	1,380.710	2,647	230
					Total	64,274

It was observed that the SHR exceeded the norm on account of low boiler efficiency. Against the designed efficiency of 81.81 *per cent* for the boiler, the efficiency achieved ranged between 78.39 *per cent* and 80.75 *per cent*, during the above years.

The Company stated (May 2016) that the performance of the plant would improve after August 2016 when the corrective measures will be implemented fully and the SHR will be brought down. The reply confirmed the fact that the plant was commissioned with inherent defects which led to higher SHR.

c) Extra expenditure on Operation & Maintenance of plants

CERC fixed norms for annual Operation & Maintenance (O&M) expenses per MW to be incurred by a thermal station. The actual O&M expenses as against the norm for the past five-year period ended 31 March 2016 were as detailed below:

(₹ in lakh/MW)

Year	TPS-I		TPS-IE		TPS-II		BTPS	
	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual
2011-12	30.18	39.32	20.34	23.73	20.34	26.59	NA	NA
2012-13	31.90	41.82	21.51	25.34	21.51	28.26	28.36	28.17
2013-14	33.73	46.92	22.74	27.45	22.74	31.85	29.98	30.30
2014-15	38.12	46.41	23.90	28.89	23.90	31.26	29.10	34.76
2015-16	40.52	44.14	25.40	30.97	25.40	30.55	30.94	30.88

All the power stations, except BTPS in 2012-13 and 2015-16, had incurred O&M expenditure in excess of the norms up to 2015-16 mainly due to increase in wages and salaries. Test check of O&M expenditure for two years (2013-14 and 2014-15) at BTPS in Audit indicated that the manpower deployed was more than that envisaged in the Feasibility Report of the power station, *i.e.*, the actual deployment in the managerial cadre was 76 as against 10 and in executive cadre it was 106 as against 35.

The Company/ Ministry admitted (May 2016) the audit observation and stated that efforts are being made to balance the manpower strength in future projects by optimising the man power deployment.

d) *Auxiliary power consumption*

The norms for auxiliary power consumption[1] as fixed by the CERC and actual consumption for the period 2011-12 to 2015-16 by the four plants of the Company are shown below:

(in percentage of gross generation)

Year	TPS-I		TPS-IE		TPS-II (Stage I&II)		BTPS	
	Norm	Actual	Norm	Actual	Norm	Actual	Norm	Actual
2011-12	12.00	11.97	9.50	7.65	10.00	9.64	11.50	11.72
2012-13	12.00	11.55	9.50	8.56	10.00	9.66	11.50	12.68
2013-14	12.00	11.42	9.50	8.46	10.00	9.61	11.50	12.60
2014-15	12.00	12.07	8.50	8.21	10.00	9.60	11.50	13.51
2015-16	12.00	12.15	8.50	8.20	10.00	9.79	11.50	13.94

It is evident from the data that the auxiliary power consumption was above the norms in TPS-I in 2014-15 and 2015-16, even though the norms itself were fixed on the higher side as it was an outlived plant. Though BTPS was a new plant being commissioned in 2011-12, the auxiliary power consumption exceeded the norms in all the years. As CERC had fixed a higher percentage (by 1.5 *per cent* to 02 *per cent*) of auxiliary consumption in respect of BTPS compared to other plants (TPS IE and TPS II), the power station should have controlled the consumption within this extended limit. The loss absorbed by TPS-I and BTPS during 2011-12 to 2015-16 due to excess auxiliary consumption of 97.33 MUs led to excess expenditure of ₹12.72 crore as detailed below:

Unit	Year	CERC norms (*per cent*)	Actual (*per cent*)	Gross generation (MU)	Excess over CERC norms (in MU)	Energy charges adopted (₹/unit)	Excess expenditure absorbed (₹ in crore)
1	2	3	4	5	6=(4-3)x5	7	8=[6 x 7]x $10^6/10^7$
TPS-I	2014-15	12.00	12.07	3631.05	2.54	2.648	0.67
	2015-16	12.00	12.15	3160.98	4.74	2.884	1.36
BTPS	2012-13	11.50	12.68	1280.85	15.11	1.039	1.57
	2013-14	11.50	12.60	1438.24	15.82	1.133	1.79
	2014-15	11.50	13.51	1380.71	27.75	1.212	3.36
	2015-16	11.50	13.94	1285.567	31.37	1.267	3.97
	Total				97.33		12.72

The Company / Ministry accepted the audit observation and stated (May 2016) that the auxiliary consumption in BTPS would reduce with the implementation of the recommended measures to improve the performance. It further stated that the position was expected to improve from 2016-17. It mentioned that in case of TPS-I, the generation level during 2014-15 was low due to dislodgement of HP heater, extension of overhaul

[1] ***Energy consumed by a power station for operation of its equipment and common services is referred to as "Auxiliary consumption".***

period on account of replacement of LP turbine journal bearing and shut down of one unit due to governing problem.

3.5.4.3 Non-compliance with Public Liability Insurance Act, 1991

As per the Public Liability Insurance Act, 1991, a person who owned, or had control over handling of any hazardous substance, should take out, before he started handling any hazardous substance, one or more insurance policies thereby he was insured against liability to give relief for death or injury to any person (other than workman) or damage to any property resulting from an accident while handling such hazardous substance. It was further provided in the Act that, every owner, apart from the amount of premium, should also pay to the insurer its contribution in Relief Fund which was established under the Act. A notification issued by Ministry of Environment and Forest (MoEF) in March 1992, required that owners handling certain chemicals including Chlorine above the threshold limit of 10 tonne, should take out such insurance policy. In July 2015, MoEF also emphasized to the Company that all the plants/isolated facilities, etc. handling hazardous chemicals may subscribe to Public Liability Policies and the same be renewed in time.

It was observed that the four plants which were reviewed in Audit, handled 29.3 tonne of Chlorine which was above the threshold limit as prescribed under the Public Liability Insurance Act. However, contrary to the provisions of the Public Liability Insurance Act, 1991, the Company neither obtained the Public Liability Policy nor made any contribution to the Relief Fund.

The Ministry stated (May 2016) that the fact that the total of three power stations put together exceed the threshold limit may not hold good as the three power stations were spread over a distance of more than 10 kms. However, initiatives would be taken to subscribe for the policy.

The reply was not acceptable as the Act did not consider distance between the plants as criteria but required every person handling hazardous substance to obtain the Public Liability Policy in case the quantity handled exceeded the specified threshold limits.

Conclusion

The Company did not achieve the norms fixed by Ministry of Coal for recovery of operational cost of mines in respect of BTPS. Loss of generation on account of inadequate supply of lignite, non-achievement of PLF and PAF and higher SHR as against the norms was observed. Besides, the Company incurred extra expenditure on account of higher auxiliary consumption and higher Operation & Maintenance cost as against the norms. Further, contrary to the provisions of the Public Liability Insurance Act, 1991, the Company did not obtain the Public Liability Insurance policy.

Recommendations

The Company may:

- ***initiate steps to improve the efficiency of the power stations to avoid under-utilisation of mine and consequential loss due to under-recovery.***

- ***plan to utilise the available quantity of lignite to the maximum and maintain adequate stock as per the requirement of the power station to avoid loss of generation.***

- ***take steps to ensure cost of generation, Plant Load Factor, Plant Availability Factor, Station Heat Rate, auxiliary consumption and operation & maintenance expenditure are kept within CERC norms.***

- ***obtain Public Liability Insurance policy as per the provisions of Public Liability Insurance Act 1991.***

Western Coalfields Limited

3.6 Non-recovery of Transportation Charges from the Customer

Despite a provision in the Coal Supply Agreement with Maharashtra State Power Generation Company Limited, regarding collection of transportation charges for supply of coal beyond the distance of three kilometres from the pithead to the delivery point, Western Coalfields Limited failed to recover the same suffering a loss of revenue to the tune of ₹16.62 crore during the period from 2010-11 to 2015-16.

Western Coalfields Limited (WCL), a subsidiary of Coal India Limited (CIL) and Maharashtra State Power Generation Company Limited (MAHAGENCO) entered into a Coal Supply Agreement (CSA) in November 2009 for supply of Annual Contracted Quantity of 227.01 lakh MT coal per year from the mines of WCL. The agreement, *inter alia*, provided that where coal was transported by the seller beyond the distance of three kilometres (km) from pithead [1] to the delivery point, the purchaser had to pay transportation charges, as notified by CIL/seller from time to time.

Audit observed that during the period from 2010-11 to 2015-16, WCL supplied 35.22 lakh MT coal to Chandrapur Thermal Power Station of MAHAGENCO from its Padmapur Open Cast Mine (POCM). The coal was transported a distance of 3.340 km from pithead to delivery point:

- a distance of 0.400 km from pithead to stockyard through departmental means.
- a distance of 2.525 km from stockyard to Coal Handling Plant (CHP) through road transport contracted out.

[1] ***Pithead as defined in the coal supply agreement, in case of an opencast coal mine, shall mean the exit point of coal on surface (mouth/entry of main access trench or an auxiliary access trench).***

- a distance of 0.415 km from CHP to MGR[1] loading point through conveyor belt for loading into the railway wagon of the customer.

Despite distance between pithead and delivery point being more than 3 km, WCL did not recover transportation charges from MAHAGENCO suffering a loss of revenue to the tune of ₹16.62 crore[2] during the period from 2010-11 to 2015-16.

The Management stated (August 2016) that:

- The total surface distance from pithead to POCM CHP was 2.525 km by road and the distance from POCM CHP to MGR delivery point was 0.415 km through conveyor belt. Since the total surface distance of coal transportation was less than 3 km, the surface transportation charge was not applicable.

- The pithead in open cast mine was only an entry into the deeper working of the mine and there existed continuous traffic of various departmental vehicles and other heavy earth moving machineries like dumper, dozer, truck etc. To avoid any untoward incidents on pithead site, pithead stock was separated from the access trench/entry and pithead was considered as the POCM stockyard of the mine for the sake of safety. Hence, the distance from pithead to POCM stockyard was considered as zero km.

- The length of the conveyor belt might not be considered for the calculation of surface transportation charges as the belt was a part/component of CHP for which crushing and handling charges were already claimed. Hence, recovery of other charges besides crushing and handling charges did not arise.

The Ministry endorsed (December 2016), the reply of the Management.

The contention of the Management/ Ministry is not acceptable in view of the following:

- The distance between the pithead to POCM stockyard was 0.400 km and the Management contention that the distance should be considered as zero is factually incorrect. Audit also noticed that in other projects in the Nagpur area, WCL duly considers the distance between pithead and stockyard for recovering transport charges from customers. The decision of WCL management to exempt transportation charges to MAHAGENCO was neither in line with the provisions contained in the CSA nor price notification of CIL.

- While coal could be stocked for operational convenience or safety considerations, the agreement provides that the distance from pithead to delivery point has to be considered for recovering the transport charges from the customer.

- Price notification of CIL provides separately for recovery of crushing charges which is in no way related to the length of the conveyor belt of the CHP. Thus, the

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[1] ***Merry-Go-Round***

[2] ***Worked out considering the surface transport rates notified by CIL; @₹44 per tonne for April 2010 to November 2013 and @ ₹57 per tonne for the balance period.***

length of 0.415 km conveyor belt used for transfer of crushed coal from the CHP to delivery point needs to be considered for recovery of transportation charges.

Thus, by not considering the distance from pithead to stockyard for supply of coal to MAHAGENCO, WCL failed to recover transportation charges from the customer and thereby suffered a loss of revenue to the tune of ₹16.62 crore during the period from 2010-11 to 2015-16. As no corrective action has yet been taken, the loss of revenue has continued.

CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

The State Trading Corporation of India Limited

4.1 Imprudent financing decisions resulted in non-realisation of dues

STC signed (4 April 2005) a tripartite agreement with M/s. Global Steel Works International Inc. (GSWII) and GSHL (Umbrella Company of GSWII) for supply of raw material to steel plant of GSWII in Philippines. Non-adherence to trading guidelines of STC, fixing of exposure limit at an exorbitantly higher side, ignoring the defunct status of the plant, failure to exercise effective control through collateral management agency over the material lying in the plant of GSWII, failure to sell material on cash and carry basis (as approved by Board of Directors), avoidable conciliation agreement with the party, etc. resulted in blockage of funds amounting to ₹2,101.45 crore (including interest of ₹1,129.15 crore and additional trade margin of ₹220.99 crore as on 31 January 2017).

The State Trading Corporation of India Limited (STC) received a request (20 December 2003) from M/s Global Infrastructure Holdings Limited (GIHL)[1], now known as Global Steel Holdings Limited (GSHL), for participation in procurement of raw materials for their various units in Philippines and Bosnia, and subsequent sale on cash and carry basis. The proposal of GSHL envisaged that STC would procure raw material required for various plants of GIHL by opening letters of credit in favour of raw material suppliers. Thereafter, STC would have physical custody/collateral management of the material through a reputed Collateral Management Agency or any other agency nominated by STC. The material was to be released by STC to GSHL/its subsidiary in respective locations on "cash and carry basis". Subsidiary of GSHL in Philippines, namely, Global Steel Works International Inc (GSWII) operated two distinct and independent production systems (i) production of Cold Rolled (CR) Coils from Hot Rolled (HR) Coils and (ii) production of HR Coils/CR Coils from slabs.

STC obtained expert opinion from M/s Ernst & Young (E&Y), specialist in Corporate Advisory and Risk Management Services, on the risk perception of the proposed transaction considering its structure, securities offered, effect of price fluctuations etc. E&Y opined (January 2005) that STC did not face any perceptible risk as long as the net realisable value of the stock of raw material upon sale in the domestic/overseas market did not fall by more than 14 *per cent* of its Cost, Insurance and Freight (CIF) value at the time of its purchase.

The Committee of Management (COM) of STC deliberated the proposal at its 225 meeting held on 07 January, 2005 and recommended that proposal be placed before Board of Directors (BoD) of STC for approval since the same was beneficial to STC. BoD accorded in-principle approval (27 January 2005) to the third country transactions with GSHL and its subsidiary in Philippines, namely Global Steel Works International Inc. (GSWII).

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[1] ***The holding company of Ispat Group***

Accordingly, STC signed (4 April 2005) a tripartite sale and purchase agreement (Agreement) valid for one year with M/s. Global Steel Works International Inc. (GSWII, subsequently renamed as M/s Global Steel Philippines Inc. GSPI) and GSHL (Umbrella Company of GSWII). STC also signed (26 August 2005), a Collateral Management Agreement (CMA) for one year with Ace Audit Control and Expertise, Geneva (ACE) selected on nomination basis for collateral management of raw materials. The contract of ACE was extended further up to 30 June, 2007. Subsequently, STC appointed Central Warehousing Corporation (CWC) as CMA with effect from 01 July 2007. Trading margin of STC was 1.25 *per cent* of the value of Letter of Credit (LC) plus the expenses for opening of LC. This amount was to be paid by GSWII at the time of sale/lifting of material/expiry of usance period, whichever is earlier.

GSPI halted processing of raw material and sale of finished goods in September 2008 due to substantial fall in prices of raw materials and finished goods. STC received ₹1460.59 crore against the amount of ₹2135.91 crore financed till October 2008. The fall in prices resulted in a gap of about USD 37 million between the current value of stock and the amount funded by STC. When the Philippines plant started production again in May 2009, BoD of STC approved (May 2009) a proposal for supply of low price steel raw material to GSPI with the stipulation that GSPI would pay USD 50 per MT over and above the cost of raw material supplied to them by STC to clear the outstanding dues. To facilitate liquidation (sale) of stock of GSPI, STC also approved (July/September 2009) financing for another company M/s Topworth Steels and Power Private Limited, Mumbai[1], amounting to ₹300 crore for import of finished goods from GSPI only. STC further opened (May 2010) four LCs valuing USD 34.53 million (equivalent to ₹158.84 crore (approx.) @ ₹45.84 per USD) in favour of M/s Ispat Industries Ltd. (Ispat), a subsidiary of GSHL[2], to import the finished goods from GSPI. Due to irregular realisation of dues, the outstanding against GSPI increased to ₹903 crore (March 2010). GSPI finally closed its production plant around April –May 2010.

STC asked GSPI/GSHL to clear all the outstanding dues within a mutually agreed timeframe. GSPI committed (July 2010) to remit all outstanding dues in installments. However, Audit observed that the three cheques worth USD five million each given by GSPI were dishonored (15 November 2010). On occurrence of default, STC issued legal notices under section 138 of Negotiable Instrument Act against the Chairman, Directors and Principal Officers of GSHL. In March 2011, GSPI/GSHL informed STC that they had decided to induct a strategic investor and /or dilute its shareholding in GSPI with the plant having approximate value of USD 800 million and capacity of 2.4 million MT. As per proposed arrangement STC was to have unconditional first charge on the proceeds as a secured creditor to the extent of claims on GSHL/GSPI. GSPI/GSHL handed over 20 cheques by June 2011 for USD 168 million payable at Bank of India, Singapore and one cheque for USD 85 million drawn on Barclays Private Bank, London in lieu of the cheques returned unpaid, which could not be encashed because GSHL had requested STC to grant them more time for payments due to them. On the pretext of strategic sale of the plant GSHL/GSPI sought further time. STC rejected (14 July 2011) the request of GSHL/GSPI and asked them to make payment of entire amount outstanding to STC

[1] ***The original contract (August 2007) was for procurement of raw material for Topworth being actual user/consumer***

[2] ***Till 2010-11 as it was acquired subsequently by M/s JSW Ispat Steel Limited from M/s GSHL***

within five days. GSHL/GSPI offered (06 September 2011) to initiate conciliation process to determine the mode of payment, timeframe, schedule, quantification of the interest amount and the mode of securing the payment. STC agreed to the said offer and both the parties *i.e.*, STC and GSPI/GSHL nominated their respective Conciliators. Subsequently, Conciliation award / Settlement agreements entered on 15 November 2011, according to which GSHL agreed to pay total amount of USD 355.82 million in the following manner:

- USD 38 million within 90 days from the date of the settlement/agreement/award.

- Remaining balance of USD 317.82 million on or before 180 days from the date of the signing of the settlement/agreement/award.

It was also agreed that the settlement agreement would become enforceable and investments of GSHL would be executable immediately on expiry of 90 days, if first instalment was not paid by GSHL/GSPI, from the date of settlement agreement.

Chairman, GSHL/GSPI requested STC (26 April 2012) for further extension of time up to December 2012. Considering the inability to make the payment of the second instalment by the party, STC agreed to accept the request of GSHL/GSPI as a last and final opportunity to them. On 17 May 2012 'Further Settlement Agreement' with regard to the extension of time for payment of 2nd instalment of USD 317.82 million together with interest thereon, was entered into under the Settlement Agreement dated 15 November 2011 as under:

- GSHL/GSPI to pay USD 100 million within 90 days from 13 May 2012, *i.e.*, the date of payment of last instalment under the Settlement Agreement dated 15 November 2011.

- Remaining balance of USD 317.82 million for the extended period on or before 180 days from 13 May 2012.

It was further agreed that the settlement agreement would become enforceable and executable immediately on expiry of 90 days, if the first instalment was not paid by GSHL/GSPI, from the date of settlement agreement.

GSHL/ GSPI did not honour the 'Further Settlement Agreement' too. STC filed execution petition in August 2014 in the High Court of Delhi. The Court dismissed (9 March 2015) the petition on the ground of jurisdiction of the court with liberty to STC to approach the appropriate Court for enforcement of the Award. Eventually, STC moved to Supreme Court of India and their special leave petition No.14585/2015 is presently pending in Court. STC also filed a criminal complaint under the Indian Penal Code (6 June 2015) for dilution of their shares/ investments/assets by subsidiary/associates/affiliates of GSHL/GSPI. However, subsequent to 'Settlement Agreement' (15 November 2011) and 'Further Settlement Agreement' (17 May 2012), STC received cumulative payments of ₹821.13 crore (till 31 January 2017) from GSPI/GSHL. The total outstanding dues recoverable from GSPI/GSHL rose to ₹2,101.45 crore (including interest of ₹1,129.15 crore and additional trade margin of ₹220.99 crore as on 31 January 2017).

Audit observed that:

- STC allowed (September 2005) GSPI the facility of supply its finished products in lieu of the price of raw material released, in contravention of clause 1 of the Tripartite Agreement, to facilitate procurement of raw materials only. This exchange of raw material for finished products of GSPI resulted in accumulation of stock of ₹990.65 crore (March 2011) including finished goods.

- The Management failed to dispose of the stock under Clause 13 'Risk Sale' of tripartite agreement which stipulated that, in the eventuality of GSPI failing to take delivery within the prescribed period, STC shall have the right to dispose off the balance material, if any, to any other party at the risk and cost of GSPI after giving 15 days prior notice to GSPI. Instead of effecting the Risk Sale due to persistent defaults in payment, STC entered (15 November 2011 and 17 May 2012) conciliation agreements with GSHL/GSPI which were not honored by GSPI/GSHL.

- STC did not conduct the inspection of stock required to be carried out every 45 days and annual physical valuation of the stocks by third party in accordance with Trading Guidelines. No record of the status of the stock as on date (March 2016) was shown to audit.

- Despite the fact that Plant was under closure, STC increased its exposure from ₹25 crore (mentioned by GSHL in their proposal of December 2003), to ₹241.54 crore in October 2005 and then to ₹925.47 crore in February 2008, exposing STC to significant risk.

- STC opened LCs on behalf of GSPI/GSHL for 180 days usance period in violation of Clause 3.3 of the tripartite agreement for opening of LCs for 120 days basis.

- As against 20 *per cent* to 25 *per cent* of Earnest Money Deposit (EMD) rate stipulated in trading guidelines of STC, the Company fixed EMD at 10 *per cent* of value of LC opened on behalf of GSPI. Further, despite shortfall of ₹179.45 crore[1] in the value of stocks (October 2008 to May 2009) STC did not obtain additional EMD from GSPI to secure its financial interests.

- STC had established (May 2010) four LCs valuing USD 34.53 million, on behalf of Ispat for import of material from the plant of GSPI at Philippines. GSPI encashed all four LCs without effecting the supply of material to Ispat. GSPI informed (27 June 2011) STC that due to unavoidable circumstances the material could not be transferred / shifted to Ispat, hence the value of LCs negotiated by GSPI may be debited by STC to their account. GSPI acknowledged full responsibility and assured to pay the amount to STC along with all the charges and interest till the date of actual payment. STC objected the above action of GSPI

[1] ***USD 37 million @ ₹48.50 per dollar***

and informed (1 July 2011) GSPI that STC reserves its right to initiate appropriate legal action as deemed fit for the criminal conspiracy between GSPI and Ispat. While agreeing to the conciliation agreement (November 2011), STC admitted the request of GSPI. Audit however, did not find on record any legal action taken by STC in the matter.

- Despite the fact that GSPI/GSHL did not adhere to the first conciliation agreement (November 2011), Management entered into 'Further Settlement Agreement' (17 May 2012), instead of executing the assets of GSHL/GSPI under provisions of first Conciliation Agreement. STC filed execution petition No. 198662/2012 on 13 December 2012 which was withdrawn due to objections raised by the Registry. STC took 20 months' time to file amended execution petition in August 2014 which was disposed off (9 March 2015) by the High Court of Delhi.

- STC incurred an expenditure of ₹8.44 crore (March 2016) regarding legal expenses in these cases.

The Management replied (September 2015) that:

(a) Decision of the Management was not based solely on the opinion of E&Y which was only a preliminary paper, non-binding and hence not completely adopted by the Management.

(b) The change from cash & carry system to conversion system was covered by clauses 4.1.1. and 4.1.2 of the provisions of the tripartite agreement.

(c) Decision not to sell the material at the risk and cost of the party, although provided in the tripartite agreement, was on commercial considerations and also due to the legal implications involved.

(d) STC in no way has compromised the position of availability of stock by entering into conciliation proceedings with GSHL/GSPI, since the stock continue to be pledged with STC and the Company could always take recourse to sale of stock if debtor failed to pay the outstanding dues to STC as determined in conciliation proceedings.

(e) Physical verification of stocks could not be undertaken due to closure of plant and the same has been shown as unsecured in the books of account, on the advice of Statutory Auditors.

The reply was not acceptable in view of the following:

(a) The opinion given by E&Y was an important consideration submitted to the BoD for approval of this proposal. In this connection the BoD of STC had directed the Management in its 557th meeting held on 15 May 2009, to examine the reasons for not putting into practice the risk analysis carried out by E&Y. BoD had also expressed that prompt action should have been taken immediately upon the ceiling of 14 *per cent* being breached.

(b) Clause 4.1.1 and 4.1.2 of tripartite agreement referred in the reply stipulated release of material on cash and carry only and did not permit conversion basis.

(c) STC should have assessed the legal implications of not having its presence as a legal entity in Philippines, at the stage of approval of the business model itself. Failure to do so hampered capability of the Company to invoke 'Risk Sale' clause in the tripartite agreement.

(d) In the absence of physical verification of stock the pledge deed in favour of STC is of no use. The information on stock of raw material in the custody of GSPI was not furnished to Audit.

Thus, due to defective implementation of the terms of the agreement, STC could not realise its dues of ₹2,101.45 crore (as on 31 January 2017) including interest of ₹1,129.15 crore and additional trade margin of ₹220.99 crore from GSHL/GSPI.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

CHAPTER V: MINISTRY OF DEVELOPMENT OF NORTH EASTERN REGION

North Eastern Development Finance Corporation Limited

5.1 Review of Non-Performing Assets

Inadequate due diligence during appraisal of projects led to NEDFI financing unviable projects. Loans were sanctioned to companies belonging to a group without considering the track record of other group companies in repaying existing loans. Fresh loans were often sanctioned and/or disbursements made even when the borrowers did not repay dues of earlier loans. The borrowers subsequently defaulted on repayments and the loan accounts eventually became Non-Performing Assets. Delay in transferring NPA accounts for initiating legal action and delays in filing legal suit was also noticed.

5.1.1 Introduction

North Eastern Development Finance Corporation Limited (NEDFI/Company) was incorporated in 1995 for providing financial assistance for accelerating industrial and infrastructure development in the North East Region. NEDFI is categorised as a Non-Banking Financial Company (NBFC) under the administrative control of Ministry of Development of North Eastern Region (DoNER). Disbursement of loans by the Company decreased from ₹348.73 crore in 2012-13 to ₹302.99 crore in 2015-16, while the Non-Performing Assets (NPAs) increased from 7.24 *per cent*[1] to 17.54 *per cent* during this period. Considering the increasing trend of NPA, the audit was carried out to analyse the causes that led the loan accounts to become NPAs.

5.1.2 Audit objectives and scope

The audit objectives were to assess whether (i) adequate due diligence was carried out prior to the sanction and disbursement of loans, and (ii) effective steps were initiated for timely recovery of dues. Audit covered scrutiny of records relating to 26 NPAs relating to Project Finance Department, having a total outstanding amount of ₹201.45 crore (more than ₹1crore in each case). Audit also scrutinised 22 out of 93 legal cases pending/settled. This audit covers the period from 2012-13 to 2015-16.

5.1.3 Audit findings

5.1.3.1 Loan Sanctioned to Individual Firms

(I) MAXIM Infrastructure and Real Estate

The Company sanctioned (September 2010) a loan of ₹22.24 crore to M/s Maxim Infrastructure & Real Estate Private Limited (MAXIM) for construction of two five-star hotels, one each in Guwahati and Shillong, at ₹238.86 crore. The Company disbursed the

[1] *as a percentage of total loan outstanding*

loan between January 2012 and September 2015. The basis of the sanction was an Memorandum of Understanding (MoU) between MAXIM and M/s Marriot Hotels India Private Limited (Marriot) signed in July 2010 which, *inter alia,* provided for five separate agreements including one for ascertaining the requirements for operation of the hotels. The Company sanctioned the loan before these agreements were finalised without clarity regarding the actual project configuration, cost, viability, means of finance, etc. despite knowing that the promoters had no experience in hospitality sector. The agreements finalised in February 2011 provided for additional rooms in the hotels (34 additional rooms in Guwahati hotel and 44 additional rooms in Shillong hotel) for achieving project viability. This increased the project cost to ₹396.17 crore and MAXIM had to arrange for additional funds of ₹157.31 crore (equity ₹61.87 crore and debt ₹95.44 crore). Since MAXIM failed to bring in additional equity, it could not arrange for additional debt funds. Audit further observed that though MAXIM informed the Company regarding this change in April 2013, the Company continued disbursing further instalments of ₹8.48 crore between April 2013 and September 2015. Due to continuous default, the loan account became NPA in March 2016 and the outstanding stood at ₹25.30 crore (August 2016).The construction of the hotels was not completed (November 2016).

NEDFI stated (November 2016) that lack of experience of the promoters in hospitality business would not have affected the success of the project since the project was conceived engaging experienced consultants. Though the project underwent important changes, lenders in the consortium decided to continue the disbursement to help project implementation.

The reply is not acceptable. The loan was sanctioned (September 2010) before conclusion of agreements between MAXIM and M/s Marriot, hence uncertainty regarding actual project configuration, cost, viability, means of finance, etc. prevailed at the time of sanction of the loan. The agreements were finalised in February 2011 before disbursement of loan commenced in January 2012. The Company, however did not follow-up the changes in the project and continued disbursement of the loan even with the knowledge that the financial closure for the enhanced project cost had not been achieved.

(II) Meghmallar Estate and Services Private Limited

The Company sanctioned (November 2008) a loan of ₹18.20 crore to M/s Meghmallar Estates & Services Private Limited (MESPL) for construction of three[1] residential complexes at Guwahati (one each at Lokhara, Tarun Nagar and Satgaon). The loan was disbursed between February 2009 and June 2012.

As per the loan policy of NEDFI, the previous experience with the promoter(s) and/ or their group ought to be considered while arriving at credit worthiness of a proposal. Audit observed that one of the promoters of MESPL was a Director of an entity[2] whose loan account with the Company had turned NPA at the time of sanction of this loan. This vital information, though available with the Company was not considered during due diligence for sanction of the loan. Though MESPL did not pay the dues towards principal, the loan account was not included under NPA.

[1] ***Lokhra - ₹4.20 crore, Tarun Nagar - ₹10 crore and Satgaon - ₹4 crore***
[2] ***M/s Luit Valley Food Processing Private Limited***

Audit noticed that the Company sanctioned and disbursed (March 2014 to December 2014) an additional loan of ₹3 crore for funding cost escalation of Tarun Nagar project. MESPL used the additional loan amount to adjust the interest dues upto December 2014. It was also seen that ₹2.40 crore meant for Satgaon project was diverted by MESPL to Tarun Nagar project. In fact, after an initial expenditure of ₹1.6 crore, no further work was carried out for Satgaon project. Thus, the entire loan (₹21.20 crore) was utilised for construction of two projects instead of three.

Immediately after the account was classified NPA (June 2015), the Company granted extension of Tarun Nagar project implementation till April 2019. The Company also agreed for one-time repayment of principal in April 2019 and monthly payment of interest. The interest, however, was not repaid as per schedule and the account remained NPA. The total outstanding stood at ₹26.43 crore (August 2016).

NEDFI stated (November 2016) that

(i) The promoter of MESPL stepped into the management of the related entity in February 2008 after the death of the main promoter and liquidated the loan account of that related entity with the Company.

(ii) Diversion of loan meant for Satgaon project, utilisation of sales proceeds from Lakhora project without any repayment and sanction of additional loan were made to tide over the liquidity crunch and to facilitate the completion of Tarun Nagar project.

(iii) The loan was rescheduled since the project could not continue due to reasons not attributable to the borrower.

The reply is not acceptable. The promoter of MESPL was part of the management of the related entity as Director since September 2004. Therefore, this fact should have been considered in the due diligence. Rescheduling effectively extended recovery of interest on the loan till April 2019 and principal beyond that. In order to facilitate completion of the project, the Company extended undue concessions which were detrimental to its interests.

(III) Kakoti Engineering Works

The Company sanctioned (November 2010/October 2012) two loans of ₹11 crore and ₹12 crore to M/s Kakoti Engineering Works (KEW) for procuring gas gensets for supply of power to Oil and Natural Gas Corporation Limited (ONGC). The loans were sanctioned on the basis of the contract between KEW and ONGC. Later (March 2014), the Company sanctioned another loan of ₹3 crore to adjust the dues of previous loans.

Audit observed that the contract between KEW and ONGC did not have any condition binding ONGC to a for committed off-take of power. The loan, however, was sanctioned on the premise that ONGC would draw designed capacity of the gensets throughout the tenure of contract. In actual operation, off-take of power by ONGC was low resulting in lower capacity utilisation of gensets (below 40 *per cent*) and lower revenue, which affected repayment of loan dues. The Company also sanctioned a second loan to KEW which was used to adjust overdue interest of previous loan. The loan account became NPA (September 2014) and the outstanding stood at ₹28.68 crore (August 2016).

NEDFI stated (November 2016) that initially the project was running well with ONGC drawing the designed power. Lower utilisation of gensets affected the revenue of KEW and that legal action had been initiated for recovery of dues.

The reply is silent on why the Company did not consider that ONGC had not committed to a specific offtake in their agreement with the borrower at the time of loan sanction. Further, sanctioning additional loan to clear overdue amounts of earlier loan was imprudent.

(IV) Ghosh Brother Auto Sales Private Limited

The Company sanctioned (June 2011) a loan of ₹5.50 crore to M/s Ghosh Brothers Auto Sales Private Limited (GBAS) for setting up Honda cars dealership and workshop at Dibrugarh, Assam. The loan was disbursed between August 2011 and March 2012, and the dealership started functioning in 2012. The loan was sanctioned based on an annual capacity of 1200 cars with 30 *per cent* capacity utilisation in the first year, progressively increasing to 60 *per cent* in the fourth year. GBAS could not achieve the projected sales and no payment was made against the principal due since October 2013.

Audit observed that the loan appraisal note indicated that an average annual sale of Honda cars in Guwahati, the main business centre of North Eastern Region (NER) was 1272 cars (*i.e.*, 106 cars per month). Considering an annual sale of 1200 Honda cars in Dibrugarh was unrealistic in this context. Audit also observed that the Company, instead of declaring the account NPA, rescheduled (March 2014) the loan with repayment from April 2015. This was not as per norms for re-scheduling loans laid down by RBI[1]. GBAS failed to adhere to the conditions of reschedule, yet the Company did not exercise the right to reverse it and take action for recovery. The account was classified (June 2015) NPA and the total outstanding stood at ₹6.36 crore (August 2016).

NEDFI stated (November 2016) that installed capacity was finalised based on discussion with the borrower taking into account the sales in other showrooms of the borrower, expected demand on account of increased industrial/commercial activity in Dibrugarh and sales from upper Assam and from parts of Arunachal Pradesh and Nagaland. Slowdown in automobile industry, however, resulted in lower capacity utilisation and the loan was rescheduled as per RBI norms. Since the unit could not revive itself, legal action was taken in May 2016.

The reply is not acceptable. Fixing installed capacity based on information of other locations was not a judicious approach and in this case as an un-realistic one. No market study was carried out to ascertain the expected sales from the target geographical areas realistically. Further, no rescheduling of loan should be done for un-viable projects as per RBI guidelines. As un-viability of the project was established, the project should not have been re-scheduled.

[1] ***The RBI guidelines (para 4.1.4 of Master Circular – Systemically important NBFC Prudential Norms), laid down that 'no account will be taken up for restructuring by the NBFCs unless the financial viability is established and there is a reasonable certainty of repayment from the borrower as per the terms of restructuring package'.***

(V) P Das and Company

The Company sanctioned (February 2010) a loan of ₹4.50 crore to M/s P Das and Company (PDC) for execution of civil works of a power project of Assam Power Generation Company Limited (APGCL) at a contract price of ₹27.20 crore. As per the terms and conditions of the loan, PDC opened an escrow account with IDBI Bank. All proceeds of the contract were to be deposited in this account.

Audit observed that the above contract price was based on 2007 price level. As against an estimated cost of ₹44 crore, PDC bid the contract for ₹39 crore, while the second lowest quote was ₹70 crore. The borrower won the contract in July 2007, but it could not carry out the works due to withdrawal (2008) of JV partner responsible for the electrical and mechanical components. Another party was brought in (August 2008) for these works at ₹19.88 crore against ₹11.80 crore estimated by the first party. The civil cost at 2007 rates were also not revised by the borrower. The Company did not consider the viability of the borrower's quote in the context of cost escalation before sanctioning the loan in 2010 when these events were known. The Company made the first disbursement of ₹2.50 crore in December 2010. The second disbursement of ₹2 crore was made in October 2011, despite being informed (May 2011) that the technical information in bid documents was erroneous and there had been a resultant increased volume of work. Since PDC could not execute the works, APGCL terminated (August 2012) the contract. It was also observed that PDC had received ₹3.42 crore directly from APGCL without routing the same through escrow account, while no repayment of principal was made. The account became NPA in March 2014, but legal action was initiated only in April 2016. The total outstanding stood at ₹6.76 crore (August 2016).

NEDFI stated (November 2016) that the loan was sanctioned on the merit of the proposal and past credentials of the borrower. Out of the amount directly received, the borrower paid ₹1.46 crore and balance amount used for project expenses. The project execution failed due to technical as well as inherent local problems causing cost escalation, which APGCL did not agree to. Legal action was initiated since time given to the borrower to arrive at a settlement with APGCL and Government of Assam did not fructify.

The reply is not acceptable. The loan was processed in 2010 when the un-viability of the project on account of low quoted price (at 2007 price level) should have been considered. The local law and order issues were known even before sanction of the loan. By obtaining contract payments directly, without paying Company dues, the borrower defeated the purpose of escrow account which ought to have been objected to by the Company.

(VI) Assam Paper Mill

The Company sanctioned (February 2005, a loan of ₹2.40 crore to M/s Assam Paper Mills Private Limited (APM) for setting up a kraft paper manufacturing unit. Subsequently, the Company sanctioned (March 2007) another loan of ₹2.34 crore for enhancing the capacity of the plant from 15 tonne to 50 tonne per day.

Audit observed that since there was lack of continuous power supply, APM installed two diesel generators and the same could not be operated on a sustainable basis due to higher fuel cost which affected the viability of the project. Despite being aware of this, the

Company sanctioned the second loan. The capacity enhancement proved detrimental to the overall project and APL registered huge losses from operation, leading to closure of the factory since October 2012. The loan account became NPA in September 2013 and the total outstanding stood at ₹4.85 crore (August 2016).

NEDFI stated (November 2016) that the project was implemented well and production of kraft paper was started. Non-availability of continuous power supply led to huge losses and affected the viability of the unit. The Company initiated legal action and the Debt Recovery Tribunal gave (September 2016) judgment in its favour. The dues are yet to be recovered.

However, the fact remains that the second loan was sanctioned knowing that continuous power supply to operate the plant even with original capacity was not available.

(VII) Wokha Coal Mines

The Company sanctioned (March 2010) a term loan of ₹1.45 crore and working capital loan of ₹0.40 crore to M/s Wokha Coal Mines (WCM) for the development of a coal mine.

Audit observed that the Detailed Project Report (DPR) estimated availability of coal without full information on the sub-surface[1]. Therefore, the availability of coal seam[2] and coal as envisaged in the DPR was subject to change. The project was considered viable on the basis of limited drilling and field study. The DPR itself indicated that in order to get more accurate and reliable data about availability of coal, more drilling and field study was required. These doubts regarding the viability of the project was not considered by the Company while sanctioning the loan. WCM could not mine good quality and adequate quantity of coal which affected the revenue generation of the project. Due to continuous default, the loan account became (March 2014) NPA and the total outstanding stood at ₹2.23 crore (August 2016).

NEDFI stated (November 2016) that the loan was sanctioned based on the DPR prepared by experts and the promoters had, on various occasions, informed that they found rich coal seam. The borrower was paying instalments even after the account became NPA, but could not regularise the account. Therefore, it took necessary legal action for recovery of dues.

The reply is not acceptable. The DPR did not conclusively indicate that sufficient quantity and good quality of coal was available for viable operation of the mine. Instead, it suggested more drilling and field study in order to arrive at a more accurate data while stating that the quality and quantity of coal envisaged in the report was subject to change depending upon surface conditions. The sanction of loan under these conditions was thus, imprudent.

[1] ***Earth material (as rock) near but not exposed at the surface of the ground.***
[2] ***A stratum of ore or coal thick enough to be mined with profit.***

5.1.3.2 Loans Sanctioned to Group of Companies

As per the credit appraisal standards laid down in the Loan Policy of NEDFI, 'previous experience with promoter (s) and/ or their group' should be considered while deciding credit worthiness of a proposal. Audit noticed that this standard was not adhered to in case of loans to group companies as discussed below:

(I) UD Group of Companies

The Company sanctioned and disbursed working capital loans to M/s Abhi Coke Limited (ACL), M/s Victor & Company (VC) and M/s Satyam Contractors Limited (SCL) and a term loan to M/s JSB Cement (JSB) belonging to UD Group of Companies.

Audit observed that working capital loan of ₹5 crore to ACL was sanctioned in August 2010 and disbursed by September 2010. Although, ACL was irregular in payment of interest dues, the Company disbursed working capital loans of ₹1.90 crore to VC (December 2010) and ₹3.80 crore to SCL (August 2011). Despite default by VC and SCL, the Company again sanctioned (March 2011) a term loan of ₹15 crore to JSB and disbursed the same between August 2011 and January 2012. JSB also defaulted in repayment of dues.

The sanction and disbursement of loan to a member company of the group, when another member company in the same group had defaulted, was not prudent. During 2013-14, ACL transferred ₹4.40 crore to JUD Cement (another group company of UD Group), and during 2012-13 and 2013-14, VC transferred ₹2.18 crore to JUD Cement and ₹0.48 crore to ACL. The transfer of funds among group companies, without liquidating their dues tantamounts to wilful default on the part of the borrower, as per RBI guidelines applicable to NBFCs. The loan accounts of all the borrowers became NPA between March 2013 and September 2014.VC liquidated its dues by August 2015. The dues from ACL, JSB and SCL amounting to ₹33.43[1] crore remained outstanding (August 2016).

NEDFI stated (November 2016) that at the time of sanction of the loan to JSB, loan accounts of ACL, SCL and VC were standard. At the time of transfer of funds, the Company did not have any control over the operations of bank accounts of group companies. When the matter came to notice, it directed the borrower to revert the funds thus transferred.

The reply is not acceptable. The loan accounts of both VC and SCL were in default for eight months between January and August 2011, but these were not classified as NPA. Similarly, in the case of ACL, the payments were irregular and no payment was made between January 2011 and January 2012 (except one payment in June 2011 to facilitate the disbursal of the loan to JSB in August 2011). Repeated intra group transfer of funds while not servicing the outstanding loans, points to inaction of the Company.

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[1] ***ACL ₹5.58 crore, JSB ₹24.05 crore and SCL ₹3.80 crore***

(II) Sandeep Bhagat Group of Companies

The Company sanctioned (September 2011) a loan of ₹7 crore to M/s Shree Sai Prakash Alloys Private Limited (SSPL), a group company of Sandeep Bhagat Group of Companies, for its TMT Bar and Billet manufacturing unit. The loan was disbursed in January 2012. SSPL had defaulted on repayments. Till March 2013, only one payment had been made (in May 2012) after which the repayment was irregular. In March 2013, the Company approved deferment of principal repayment from April 2014 onwards due to adverse market conditions. The Company sanctioned (March 2014), a loan of ₹5 crore to another company in the group, *viz.*, M/s Shree Sai Rolling Mills (SRM), for its TMT Bar manufacturing unit. The sanction of loan to SRM was not prudent since SSPL engaged in similar business had been in default and the Company had already approved deferment of repayment of SSPL loan in view of adverse market conditions. SRM also did not repay any amount towards its due. Due to continuous default, the loan accounts of both SSPL and SRM became NPA (June 2015) and the total outstanding stood at ₹9.62 crore (August 2016).

NEDFI stated (November 2016) that at the time of sanction of the loan to SRM, loan account of SSPL was standard. The group suffered mainly due to downturn in steel industry and defaulted in repayment.

The reply is not acceptable. The loan account of SSPL remained standard due to postponement of the repayment of principal allowed by the Company. The sanction of the loan to SRM while postponing loan repayment of SSPL was imprudent.

(III) Sanyeeji Group of Companies

The Company sanctioned (February 2011) a loan of ₹17.50 crore to M/s Shree Sanyeeji Ispat Limited (SSIL), a member of Sanyeeji Group of Companies, for liquidation of an existing cash credit account with IDBI ₹13.50 crore) and for meeting working capital requirement (₹4 crore) of its TMT Bar unit. The loan was disbursed by March 2011.

Audit observed that despite the fact that SSIL was irregular in repayment of dues, the Company sanctioned (September 2011) another loan of ₹15 crore to M/s Shree Sanyeeji Rolling Mills (SSRM), another member company in the Group, for its TMT Bar unit. SSRM was also irregular in payment of its dues; yet the Company sanctioned and disbursed (March 2014) another loan of ₹6 crore to SSIL, ignoring that the irregular repayment pattern of the group companies and the fact that the total outstanding of the Group with different financial institutions was ₹150.82 crore at that time. It was also observed that SSIL sold (January 2013) a piece of land for ₹19 crore. This land was given as collateral security against the first loan of ₹17.50 crore. But, instead of adjusting the entire amount towards dues, the company accepted (January 2013) ₹10 crore only. The loan accounts of both SSIL and SSRM became NPA (June/September 2015) due to continuous non-payment of dues and the outstanding stood at ₹26.20 crore (August 2016).

NEDFI stated (November 2016) that considering the good business relation with the Group, it found an opportunity to enhance its business and sanctioned the first loan. Subsequent loans were sanctioned to meet operational requirements of respective units, considering their good repayment record. The entire proceeds from sale of land was not

adjusted against repayment to maintain business relations with the borrowers. The borrowers defaulted due to slowdown in steel industry and initiated legal action for recovery of dues.

The reply is not acceptable. Downturn in the steel industry was a known fact since 2009. The Company continued to sanction loans to SSIL and SSRM, though they were not regular in repaying loan instalments. The Management reply that the Group enjoyed good repayment record was, therefore, factually incorrect. The second and third loan was sanctioned without taking into account the overall credit exposure of the Group with other financial institutions. Further, non-adjustment of entire sale proceeds against outstanding dues was not a prudent practice for safeguarding the Company's financial interest.

(IV) Santosh Jaiswal Group of Companies

Brahmaputra TMT Bars Private Limited (BTMT), Brahmaputra Tubular Private Limited (BTPL) and Brahmaputra Iron and Steel Company Private Limited (BISCON) under Santosh Jaiswal Group availed five loans amounting to ₹54.70 crore between March 2010 and October 2013.

Audit observed that since these borrowers were not regular in repayment of their dues, the loan accounts became NPA in December 2013. The Company sanctioned (March 2014) another loan of ₹5 crore to BTPL for financing a project. On request of the borrower, the Company disbursed ₹4.56 crore on this loan and adjusted the same towards the overdue principal (₹2.04 crore) and interest (₹2.52 crore) of earlier loans given to BTPL, BTMT and BISCON. No further disbursement was made against this loan. Thus the new loan was sanctioned to avoid NPA status of the other loan accounts of the group. The borrowers did not repay any further amount towards the overdue principal. Subsequently, all the six loan accounts became NPA in September 2014 and total outstanding stood at ₹58.91 crore (August 2016).

NEDFI stated (November 2016) that at the time of sanction of ₹4.56 crore to BTPL, the loan accounts of BTPL and BTMT were standard. This loan was sanctioned against subsidy receivable, which was expected in 2015-16. The slowdown in iron and steel industry affected the borrowers also, which led to default in servicing the loans.

The reply is not acceptable as all the five loans had become NPA in December 2013 since repayments against these loans were pending for more than 90 days at that time. Slowdown of iron and steel industry was a known fact at the time of sanction of the sixth loan, and in effect the last loan was used to adjust overdue payments from earlier loans.

5.1.3.3 Legal actions for recovery of dues

The loan policy of the Company provided for taking legal action for recovery of dues in respect of NPA accounts where regularisation through usual follow up was not possible. It also provided 30 days from the date of receipt of cases from Departments concerned for filing legal suits.

Audit observed that NPA cases were referred to Legal Department after 14 months to 81 months (as noticed in 22 out of 93 NPA cases pending on 31 March 2016). There was a

delay ranging from 3 months to 52 months in filing legal suits by the Legal Department (over and above the prescribed 30 days). These delays were crucial since in a number of cases, the outstanding amount accumulated to a considerable extent and often exceeded the value of securities held by the Company against such loans. Such delays have led to a situation where recovery of entire dues even after disposing the available securities have become doubtful.

While agreeing on the need for timely legal action, NEDFI stated (November 2016) that legal action was the last resort and the defaulters were given time for liquidation of dues before initiating such action. As a development finance institution, its efforts was to help the entrepreneur and explore all options for revival, unless there was strong reason to believe that the borrower was defaulting wilfully.

The reply is not acceptable. Audit noticed huge delays both in transfer of cases and in filing legal suits, which cannot be treated as reasonable. Though the intention of helping the entrepreneur is appreciated, such efforts should not affect the prospects of recovering the entire dues within reasonable time.

Conclusion

Deficiencies in the due diligence of loan proposals of the borrowers were noticed in a significant number of cases. Industry and company specific issues were not given due consideration at the time of appraisal of the projects, which led to financing unviable projects, continuous default by the borrowers and loan accounts eventually becoming NPA. Fresh loans were sanctioned and/or disbursements made even when the borrowers did not repay dues of earlier loans. Loans were sanctioned to companies belonging to a group without considering their overall exposure with the Company as well as with other financial institutions and the track record of member companies in repaying loan instalments in respect of existing loans. Delay in transferring NPA accounts for initiating legal action and delays in filing legal suit was also noticed. This effectively deferred recovery process to the detriment of the Company interests.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

CHAPTER VI: DEPARTMENT OF FERTILIZERS

Rashtriya Chemicals and Fertilizers Limited

6.1 Failure to safeguard the interests of RCF

Failure to adhere to the terms and conditions of tender coupled with supply of raw materials to contractors in excess of their requirements resulted in blockage of ₹4.85 crore.

Rashtriya Chemicals and Fertilizers Limited (RCF) entered (April 2011) into a contract with M/s. Devyani Phosphates Private Ltd. (DPPL) for manufacture of Single Super Phosphate (SSP). RCF would provide rock phosphate, sulphuric acid and bags to DPPL. DPPL would manufacture SSP and deliver it to RCF. RCF would claim subsidy from Government of India (GoI) for the SSP produced.

As per the general terms and conditions of the tender issued by RCF, the successful bidder was to provide security deposit in the form of bank guarantee valuing ₹1 crore and also obtain "no charge" certificate from all lenders. Audit noticed that though these conditions were not satisfied by DPPL, the contract was signed with them by relaxing the conditions in the following manner:

- The Board of Directors (Board) of RCF (July 2011) waived the requirement of submission of bank guarantee of ₹1 crore despite the poor financial condition of DPPL. Subsequently, in May 2012, DPPL agreed for deduction of 20 *per cent* from its running bills and to convert EMD[1] of ₹4 lakh into security deposit. By April 2013, RCF had accumulated a security deposit of ₹94.06 lakh.
- DPPL has informed RCF (July 2011) that properties of DPPL were fully mortgaged with State Bank of Bikaner and Jaipur (SBBJ), the lender to DPPL and that the bank had already given notice under SARFAESI Act for recovery of its dues. The Board of RCF directed that an agreement be signed with SBBJ securing the material supplied by RCF and the finished goods of RCF. Accordingly, a tripartite agreement was signed between DPPL, SBBJ and RCF on the basis of which a "No Objection Certificate" was obtained from SBBJ.

RCF started supplying materials to DPPL from September 2011. The closing stock at DPPL was to be reconciled by RCF on a monthly basis. During reconciliation in October 2012, RCF observed that the closing stock of rock phosphate (raw material supplied by RCF) reported by DPPL did not tally with the physical closing stock.

Audit observed that even after noticing this discrepancy, RCF continued to supply rock phosphate to DPPL during November 2012 to January 2013. It was seen that the opening balance of rock phosphate in November 2012 was 5,232.72 Metric Tonne (MT) while the average monthly consumption of rock phosphate had been 1,382.91 MT over the past year (November 2011 to November 2012). As such, the opening stock of rock phosphate available in November 2012 was sufficient for average consumption of more than three

[1] *EMD: Earnest Money Deposit*

months. Additional supply of 5,459.45 MT rock phosphate during November 2012 to January 2013 was beyond the actual requirement.

RCF issued a notice for termination of the contract with DPPL in January 2013 and the contract was finally terminated in April 2013. Though DPPL did not issue any rock phosphate after issue of notice in January 2013, there remained a balance stock of rock phosphate at the time of termination of the contract (April 2013). DPPL did not return the balance stock to RCF, the unreturned stock being 4,568 MT valuing ₹4.85 crore.

RCF has claimed an insurance for the stock not returned and the matter regarding recovery of this amount is presently under dispute. The blockage of ₹4.85 crore could have been avoided by RCF, had additional supplies of rock phosphate not been sent to DPPL over November 2012 to January 2013.

The Management stated (September 2016) the following:

(i) RCF became aware of the distressed financial conditions of DPPL only in July 2011 when the same was brought to the notice of the Company by DPPL. The Board had agreed for a temporary waiver of bank guarantee and the bank guarantee value was deducted from running bills enabling collection of a large chunk of the bank guarantee till termination of the contract. The production commenced only after entering into a tripartite agreement with the bank to ensure safety of RCF material.

(ii) The safety of the material supplied to DPPL was ensured by dedicating the entire unit of DPPL to RCF over the contract period. The safety of RCF material was also ensured by way of insurance of the material supplied. The rock phosphate misappropriated by DPPL is covered under insurance and claim has already been lodged.

The reply of the Management is not acceptable in view of the following:

(i) After being made aware that DPPL was in financial distress, significant relaxations vis-à-vis tender conditions were made by the RCF Board for entering into the contract with DPPL which were not in the interests of RCF.

(ii) Though the entire unit of DPPL was dedicated to RCF for manufacture of SSP, it did not ensure safety of the rock phosphate supplies and there remained a considerable un-returned stock of rock phosphate with DPPL.

(iii) After discrepancies in stock were noticed in the closing stock of rock phosphate with DPPL (October 2012), further release of rock phosphate should have been strictly as per production requirement. Failure to do so resulted in excess supply of rock phosphate to DPPL, which was not returned by them at the time of termination of contract.

Thus, failure to adhere to the terms and conditions of tender/contractual provisions and supply of raw materials to the contractors far in excess of the requirements resulted in blockage of ₹4.85 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

CHAPTER VII: MINISTRY OF FINANCE

Canbank Factors Limited

7.1 Non-Performing Assets

7.1.1 Introduction

Canbank Factors Limited, Bangalore (Company) was incorporated in 1991 under the Companies Act, 1956, with 70 *per cent* equity held by Canara Bank, 20 *per cent* by SIDBI and 10 *per cent* by Andhra Bank. It was registered with Reserve Bank of India as a Non-Banking Financial Company (NBFC) with the status of 'Non Deposit Taking – Category B company' in 1997 and registered as 'NBFC–Factor' in terms of the Factoring Regulation Act, 2011. The Company has 13 branches[1] across the country.

Factoring is a financial arrangement, wherein a financial institution (Factor) purchases the accounts receivable of a seller (Client) of goods and services, and pays up to 80 *per cent* to 90 *per cent* of the due amount to the Client immediately. The Client assigns the accounts receivable to the Factor, who pays the remaining amount to the Client when the buyer (Customer) actually makes the payment for the transactions. The factor charges interest (discount charges) and service charges. Thus, Factoring provides assistance in the form of working capital for the Client, by immediately converting part of credit sales into cash. Factoring service in India is offered with recourse, *i.e.*, with the right of the Factor to claim bad debts from Client in the event of default by Customer.

The three major activities of the Company include

1. Factoring (Discounting of Sales Bill)
2. Reverse Factoring[2] (Discounting of Purchase Bill) backed by Bills of Exchange/ Hundi or Undertaking Cum Indemnity Bond (UCIB)
3. Invoice Discounting[3] of Sale/ Purchase Bills backed by Letter of Credit (IDLC).

The amount of funds disbursed by the Factor to Clients against bills factored at any point of time is called Funds in Use (FIU). If a factored bill remains outstanding for payment by the Customer for more than 180 days past the due date, as per RBI norms, it is classified as a Non Performing Asset (NPA). The status of FIU and NPA at the end of each year during the period from 2013-14 to 2015-16 was as follows-

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[1] ***Bengaluru, Chennai, Hyderabad, Coimbatore, Hosur, Mumbai, Pune, Delhi, Ludhiana, Ahmedabad, Indore, Chandigarh and Bhubaneswar.***

[2] ***Reverse factoring or Purchase bill factoring means factoring the purchase bills of the clients and making payment to their suppliers on behalf the client. On due date, the client will make the payment to the factor.***

[3] ***Invoice Bill discounting is a method of lending advance against bills of exchange and mostly against security, whereas factoring is an outright purchase of trade debts after providing for returns, allowances and discounts***

(₹ in crore)

Year	Funds-in-Use	Amount of NPAs	Percentage of NPA to FIU	Provision for NPA	Revenue from Operations	Profit Before Tax
2013-14	698.35	129.96	18.61	65.19	80.36	16.07
2014-15	859.89	133.65	15.54	47.16	88.57	22.84
2015-16	793.80	214.51	27.02	80.21	97.20	3.22

NPAs have increased by ₹80.86 crore during 2015-16, representing an increase of about 60 *per cent*, as compared to previous year due to addition of as many as 20 accounts during the year. Similarly, the provisions for NPAs have increased during the year 2015-16 by ₹33.05 crore, with resultant impact on profitability of the company.

7.1.2 Audit Scope, Sample and Methodology

Audit involved examination of Non-Performing Assets (NPA) accounts of the Company as at the end of 2013-14, 2014-15 and 2015-16. There were 73[1] such NPA accounts, out of which Audit selected those accounts which were valued at more than ₹1 crore each. Such criteria resulted in selection of 45 NPA accounts (**Annexure III**), which represented 62 *per cent* of all NPA accounts by number and 95 *per cent* by value. Relevant records at the Registered Office at Bengaluru and four branches (Bengaluru, Hyderabad, Mumbai and Delhi), out of 13 branches of the Company, were examined during May 2016 to September 2016.

7.1.3 Audit Objectives

The objectives of audit were to assess whether

- Adequate due diligence was exercised in verification of business activities of applicants before approval of financing;
- Financing was in compliance with extant Rules and instructions and review of accounts was effective; and
- Mechanism for recovery from NPA accounts was transparent and effective

7.1.4 Audit Criteria

The criteria adopted for examination of issues relating to the Audit objectives were:

(i) Manual of Instructions framed by the company

(ii) Agenda and Minutes of the Board of Directors

(iii) Sanction files/documents pertaining to factoring services

(iv) Factoring Regulations Act, 2011 and RBI guidelines issued from time to time

[1] ***NPA accounts prevailing as at end of 2013-14, 2014-15 and 2015-16 irrespective of the year in which the account was classified as NPA***

(v) MIS Reports, Internal Circulars

7.1.5 Audit Findings

There are various reasons for an account becoming NPA and no single deviation/deficiency in sanctioning the factoring limits is solely responsible for the account becoming NPA. However, deviation from major norms as noticed in 28 out of 45 cases test checked by audit are given in succeeding paragraphs, in which total amount of NPA was ₹143.40 crore **(Annexure III).**

7.1.5.1 Sanction of factoring limits in excess of prescribed limits

(I) Para 9.4.5 (f) of Manual of Instructions framed by the Company stipulates that in case of the Clients who were enjoying Working Capital limits of ₹1 crore and above from banks, a copy of Credit Monitoring Arrangement (CMA)[1] as submitted to Banker was to be obtained and the exposure of the Company was to be justified based on Maximum Permissible Banking Finance (MBPF), if the exposure was within the purview of MPBF.

Audit noticed that in respect of 5 accounts (**Annexure IV**), the factoring limits were sanctioned/disbursed to Clients in excess of MPBF to the extent of ₹35.29 crore on the grounds of the sound financials of the client, factoring volume and strong customer base, in deviation from provisions of the Manual.

The Management stated (November 2016) that as per clause 9.4.5 (b) of Manual of Instructions, MPBF at 20 *per cent* of the projected accepted turnover was normally calculated taking into account one working capital cycle comprising a period of 90 days. However, when the period of credit sales was beyond 90 days, the working capital cycle would also extend beyond 90 days and the 20 *per cent* norms may not be adequate for the smooth functioning of the unit. Sanctioning Authority could consider the limit in excess of MPBF to fund the elongated/extended working capital cycle, since the exposure would be adjusted towards working capital (WC) liability with the Bank.

The reply was not tenable, as instances quoted by audit fall under Para 9.4.5 (f) of Manual and not under 9.4.5 (b) as quoted by Management. As per para 9.4.5 (f) the exposure was to be justified within the MPBF based on the CMA.

(II) The Manual of Instructions does not provide for seeking of information on the factoring limits already availed of by the clients from other Factors and considering such limits in assessing the MPBF.

Audit noticed that out of 6 cases **(Annexure V)**, in 2 accounts factoring limits were sanctioned without ascertaining the factoring limits already availed by the clients and in 4 accounts, the limits were sanctioned despite being aware of the fact that the clients were already availing factoring facility. This has resulted in sanction of excess factoring limit to the tune of ₹71 crore.

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[1] ***Credit Monitoring Arrangement (CMA) data is provided by client to its bank for getting loan/credit, on the basis of which the bank decides Maximum Permissible Banking Finance limit.***

The Management stated (November 2016) that the fact of enjoying prior factoring limits were discussed in the appraisal note and was taken into account for assessment purpose based on the disclosed financials by the Client and data available in public domain.

The reply was not acceptable, as the Company did not seek disclosure of prior factoring limits availed of by the Client, and did not also adjust such prior sanctioned limits in computing the current limit to be sanctioned, even when it was aware of such prior limits. This inadequacy in internal control resulted in avoidable increase in exposure of the Company to credit risk.

7.1.5.2 Waiver of obtaining Undertaking Letter / Lack of direct communication with customers

(I) Para 6.1 (m) of the Manual of Instructions provides that an Undertaking Letter (UTL) was to be normally obtained from the Customer to make direct payment to the Company for the outstanding debts. Selectively, sanctioning authority may waive the requirement for submission of UTL, depending on the merits of the case and other factors, which were not specified.

Audit noticed that in 8 cases (Annexure III), the Company waived the requirement of obtaining UTL from Customers on the ground that these Customers were Government Organisations, financially sound and reputed Companies.

The Management stated (November 2016) that Manual provides that Sanctioning Authority may waive requirement of obtaining UTL, depending on the merits of the case and other factors. In the absence of UTL, pass sheets of Client Bank accounts and previous payment advice from Customers have to be verified, in order to examine instances, if any, of delays in payments and to ensure the genuineness of transactions.

The reply from the Management was not acceptable as waiver of UTL from customers defeated the operating procedure of the factoring business, as Audit noticed instances of customers making payments directly to the Clients, which in turn were not remitted to Company. It was further observed that some client submitted fake invoices or customers rejected material which was not informed to the Company. This risk could have been reduced if the Company had obtained UTL from the customers.

(II) Audit further observed that there was lack of direct communication and independent cross verification with the customers. As a result in 5 accounts[1] the Company accepted the forged UTL/fake invoices submitted by the client. The customers subsequently denied being party to factoring arrangement, furnishing UTL and receiving the materials. Similarly in 3 cases[2], the Company was unaware of the rejection of materials by the customers. When Company approached for payment on due date, the customers refused payment of rejected materials.

The Management stated (November 2016) that in case of rejection/short supply of goods, it is the bounden duty of the customer to inform the Company immediately about the

[1] ***Srl No.6, 9, 18, 19 and 20 in Annexure III***
[2] ***Srl No.7, 21 and 27 in Annexure III***

rejection, with advice to adjust the dues from them. In such cases, the Company also proportionately reduced the advances to Client.

The reply is silent about the forged agreement/UTL, fake invoices. The reply on rejection of materials is not acceptable as two out of three accounts cited did not have UTL from customers and as such the customer was not bound to inform the company about such rejections.

7.1.5.3 Factoring of invoices on allied/related parties of Clients

Para 7.2 (m) of the Manual of Instructions specified that factoring of invoices was not to be normally considered in respect of sales made by Clients to their allied/related parties.

Audit noticed that in 3 cases (**Annexure III**) Company sanctioned factoring facility where the sales were to the allied/related parties of the Client. In the case of two of these clients, factoring limit was granted without any justification despite being aware of the fact that the customers were allied/related parties. In the other two cases, neither did the Client inform nor did the Company verify the credentials of the customers to examine whether they were allied/related parties of the clients. Upon verification, Audit observed that they were related parties. The bills factored pertaining to related/allied parties which became NPA amounted to ₹2.76 crore.

The Management stated (November 2016) that the Manual did not specifically bar factoring invoices of allied/ group concerns, which could be considered on a selective basis by the Sanctioning Authority. However, the risk was noted and additional control/monitoring measures such as direct interaction with customers, verification of movement of goods and rendering of services, verification of pass sheets of Clients Bank accounts would be adopted, to ensure there was no diversion of the amount due to the Company.

The reply was not acceptable as neither was any justification provided for granting the exemption nor due diligence exercised for verification of credentials of the customers.

7.1.5.4 Disbursement of funds in deviation from the conditions of sanction

As per pre-disbursement conditions attached to the sanction letter, branches were to allow withdrawals to the extent of 25 *per cent* of the fresh Customer Sub-Limits and balance 75 *per cent* was to be released after satisfactory operation/ payment of the first cycle[1].

Audit noticed that in two cases (**Annexure III**), the Company released ₹12.25 crore, as against permitted release of ₹3.55 crore, being 25 *per cent* of sanctioned amount, without completion of first cycle of operations by accepting payment against non-factored invoices.

The Management stated (November 2016) that Sanctioning Authority was empowered to decide the percentage of release at the initial stage or stipulate/ waive the same subsequently, on case to case basis based on merit.

[1] ***90 days period is considered as one working capital cycle***

The reply was not acceptable, as the excess disbursement was made by the branches without specific waiver of the condition by the competent authority prior to the disbursement.

7.1.5.5 Failure to reduce the limits despite clear signs of incipient sickness in Clients

Paras 18.2, 18.3 and 19.3 of the Manual of Instructions provide for Client visits, Customer visits and Mid-term Reviews to be conducted by the Company in order to assess the up to date and potential financial health and to decide on the continuance or otherwise of the factoring arrangements.

Audit noticed that in 4 accounts (**Annexure VI**), the existing sanctioned factoring limits continued despite being aware of adverse financial health, irregular operations and incipient sickness of Client, as was evident from the fact that these clients were declared NPA by their working capital bankers or were referred for Corporate Debt Restructuring Mechanism etc.

The Company did not pro-actively limit and reduce its risk exposure to those Clients displaying clear signs of incipient sickness that subsequently resulted in the accounts turning into NPA accounts. An amount of ₹14.88 crore was disbursed in these cases after being aware of the potential sickness.

The Management stated (November 2016) that in general, even on noticing warnings of incipient sickness, the Company cannot stop factoring operations as such an action would adversely affect the entire exposure and the Client would probably not remit future payments received from other Customers. The Company can only progressively reduce the exposure by stipulating higher margin on realisation and ensure phased reduction of liability.

Audit did not find any evidence of progressive reduction in the exposure of factoring limit in the cases pointed out above.

7.1.5.6 Other issues of interest

(I) Audit observed that in three cases (**Annexure III**) the client had disposed off immovable property provided as collateral security, without the knowledge of the Company, even though they were registered through Equitable Mortgage Transactions. The Management replied that it undertook physical inspection/verification once in three years *i.e.,* at the time of valuation of the mortgage properties. Had the company undertaken physical verification more frequently such instances could have been avoided.

(II) Audit observed that the Company accepted collateral security from one client (**Annexure III**) in the form of Client's own equity shares with market value at ₹16.35 per share (March 2013) with lock-in period up to July 2015. The Company came to know about the lock-in period of shares only after the client became NPA. It tried to sell the shares (April 2014) and the market value of the shares had fallen to ₹0.15 per share (July 2015) due to which the Company could not dispose off the shares. The lack of due

diligence in accepting such Equity Shares meant that the Company was unable to dispose such shares on the date of NPA, which resulted in blockade of funds to the tune of ₹7.98 crore.

The Management stated (November 2016) that since equity shares furnished as collateral security were not actively traded shares, they could not be disposed off immediately.

The reply was not specific as to why the Equity Shares with lock in period were accepted as collateral security.

(III) Para 6.1 (h) of the Manual of Instructions provided that obtaining of Opinion Letter (OPL) from the Bankers of the Client was to be insisted upon and that the opinion was verified to be satisfactory. In case, OPL was not forthcoming, the Company was to satisfy itself on the conduct of the Client through scrutiny of statement of bank accounts (pass sheet or ledger extract of the bank accounts for the previous one year).

Audit noticed that in some cases the Company sanctioned factoring limit without obtaining OPL. In the case of a Client, M/s Varia Engineering Works, the Company sought opinion letter from the bank on 08 October 2014 and sanctioned the factoring limit on the same day without waiting for the OPL. The same was received from the bank on 28 October 2014 stating that the Client account was classified as NPA. However, in the intervening period, the Client drew an amount of ₹5.43 crore, which turned into NPA.

The Management stated (November 2016) that as a matter of policy, obtaining OPL from the Banker to the Client was insisted upon. However, there might be a few practical instances wherein there would be a delay in receiving the OPL by Bankers. When such delays occurred, verification of periodical pass sheets of Client Bank account was stipulated, which all Branches of the Company were complying with.

The reply was not acceptable as the options in lieu of OPL, as specified in the manual, like verification of pass sheets etc was to be exercised only after not receiving OPL from the bank within a reasonable time.

Conclusion

Non-compliance with terms and conditions of Manual of Instructions and lack of adequate and effective due diligence in verification of Client and Customer details resulted in increased exposure of the Company to credit risk. The internal controls which were overlooked by Management included:

- Sanction of factoring limits in excess of prescribed limits as computed as per methodology prescribed by the Company.
- Sanction of factoring limits without adjustment against factoring limits already availed from other Factor Companies.
- Failure to obtain Opinion Letters from Bankers and Undertaking Letters from Customers.
- Sanction of factoring limits in case of related party Customers.

- Disbursement of funds to the Client in deviation from the conditions of sanction.
- Non reduction of limits despite clear signs of incipient sickness in Clients.
- Lack of establishment of direct channel of communication with Customers.

Recommendations

The Company may:

- ***Consider the working capital finance and prior factoring limits already availed of by Clients for assessment of factoring limits to be sanctioned.***
- ***Adopt stricter internal controls to periodically verify the status and value of its Collateral Securities.***
- ***Introduce appropriate internal mechanism to establish direct channel of communication with Customers, and to monitor status of acceptance of invoices and payments made by Customers.***
- ***Reduce risk exposure and factoring limits for Clients in cases where early warning signals of incipient sickness are brought to notice of the Company by third parties.***
- ***Follow instructions given in Manual strictly with option of available deviations being resorted to only in exceptional cases and with appropriate approvals.***

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

IFCI Venture Capital Fund Limited

7.2 Failure to exercise due diligence before sanctioning/disbursing loan led to non-recovery of dues

IFCI Venture Capital Fund Limited failed to exercise due diligence before sanctioning/disbursing loan to M/s Shri Lakshmi Defence Solution Limited which led to non -recovery of dues of ₹14.92 crore.

IFCI Venture Capital Fund Limited (Company/IVCFL) sanctioned (March 2013), a corporate loan of ₹12 crore to M/s Shri Lakshmi Defence Solution Limited (SLDSL). As per the loan agreement (April 2013), the loan was secured with a total security cover equal to 3 times the outstanding loan amount, consisting of 2 times by way of pledge of shares of Shri Lakshmi Cotsyn Limited (holding company of SLDSL) and the balance 1 time by way of mortgage of commercial land located in Fatehpur (Uttar Pradesh). In addition, personal guarantee of promoters and post-dated cheques by the Company for principal and interest repayment were also obtained as security for the loan. The loan agreement further stipulated that the borrower should top up pledge of equity shares immediately upon

5 *per cent* or more fall in the value, to maintain a security cover of shares of at least twice the outstanding dues at all times during the currency of the loan. The borrower was also required to provide cash margin upon 15 *per cent* or more fall in share price as compared to the price at the time of first pledge. The tenure of the loan was 17 months including moratorium period of 5 months. Accordingly, it was repayable from September 2013 in 12 equal monthly instalments of Rupees one crore each. Interest at the rate of 15 *per cent* per annum was payable monthly on the last day of the month.

Audit observed that:

(i) The loan was sanctioned by the Company despite the fact that the holding company of SLDSL (Shree Lakshmi Cotsyn Limited, whose shares were pledged) had defaulted on repayment of an existing loan to IFCI Limited (parent organisation of the Company). Further, the loan was sanctioned as a general corporate loan and the amount of ₹9 crore was disbursed to IFCI Limited towards repayment of outstanding loan, though there was no provision in the lending policy for sanctioning of loan for repayment of previous loan. Accordingly, the security for the loan (shares of Shri Lakshmi Cotsyn Limited and mortgaged land) was shared (40:60) between IFCI and the Company in proportion of their respective outstanding balances of ₹5.96 crore[1] and ₹9 crore respectively.

(ii) The Executive Committee of Board of Directors was also not apprised of the fact that the purpose of the loan was changed from general corporate purpose to repayment of a previous loan.

(iii) The Company accepted the shares of M/s Lakshmi Cotsyn Ltd despite being aware that the trading volume per day was 8500 shares only against the required trading volume of 2.79 lakh shares per day (83,62,984/30 days) to liquidate the shares in open market as prescribed in the lending policy of the Company for the year 2012-13.

(iv) The security of 83,62,984 equity shares valuing ₹30.65 crore available with IFCI reduced by more than 5 *per cent* on 8 May 2013 and 15 *per cent* on 11 May 2013 but SLDSL failed to provide top-up/cash margin as per terms of the agreement. Accordingly, IFCI, on behalf of the company sold the pledged shares as under:

Period of sale	Number of shares sold	Range of share prices during the period of sale (₹)	Amount remitted by IFCI to the Company
31 May 2013 to 14 June 2013	16,216 shares (60 *per cent* of 27,028 shares)	18.01 to 23.63	₹3.11 lakh
December 2013; September 2014 to February 2015	15,95,478 shares (60 *per cent* of 26,59,130 shares)	12.40 to 13.54; 2.32 to 11.03	₹55.43 lakh

[1] ***₹14.96 crore (total outstanding to IFCI) – ₹9.00 crore (disbursed by IVCFL)***

Though there was a continuous default in payment of interest and principal from June 2013 and September 2013 respectively, the Company did not sell the shares during July 2013 to November 2013 and from January 2014 to August 2014 during which period the share price[1] ranged from ₹33.13 to ₹12.30 and from ₹23.44 to ₹11.07 respectively.

Audit further observed that the post-dated cheques deposited (October 2013) by the Company were also dishonoured and therefore the Company filed (November 2013/April 2014) a complaint u/s 138 of Negotiable Instruments Act. Personal guarantee of the promoters and Corporate Guarantee of the group company were also invoked (December 2013). Pursuant to non-payment of outstanding dues, a recovery suit was filed (April 2014) before Debt Recovery Tribunal-I, Delhi which is still sub-judice. Subsequently, IFCI Limited took (June 2014) possession of mortgaged land under SARFAESI[2] Act and put it to auction (August 2014), at a reserve price of ₹12.15 crore but no bids were received. Six subsequent auctions held from February 2015 to February 2016 with reduced reserve prices from ₹ 8.10 crore to ₹4.78 crore also failed, as no bids were received. Total outstanding dues amounting to ₹14.92 crore including interest of ₹5.92 crore remained unrecovered as on March 2016.

The Management, while not commenting on the issue of not selling the shares, stated (July 2016/ September 2016) that buyers were not evincing interest in the property due to sluggishness and slowdown in the market. The Management further stated (January 2017) that the loan was sanctioned as a general corporate loan but on the specific request (April 2013) of SLDSL, the disbursement of ₹9 crore was made to IFCI instead of to SLDSL.

The reply is not acceptable since the loan should not have been disbursed for repayment of a previous loan (holding Company) as there was no enabling provision in the lending policy to that effect. Thus, the Company failed to exercise due diligence before sanctioning/disbursing loan to M/s Shri Lakshmi Defence Solution Limited, which led to non-recovery of dues of ₹14.92 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

National Insurance Company Limited

7.3 Loss of Premium in respect of Group Mediclaim Insurance Policies

National Insurance Company Limited suffered a loss of revenue of ₹89.29 crore due to non-collection of additional premium on account of adverse claim ratio experienced in Group Mediclaim Insurance Policies issued to Kolkata Police during July 2012 to August 2016, violating specific directions of the Ministry.

In July 2005, National Insurance Company Limited (NICL), a public sector general insurance company, entered into a Memorandum of Understanding (MOU) with Kolkata Police for health insurance of police personnel and their dependent family members under

[1] *Source for share price is http://www.bseindia.com/markets/equity*

[2] *Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002*

Group Mediclaim Policy (GMP). The MOU stated that if the claim ratio of the health insurance policy exceeded 70 *per cent* at any time during the currency of the policy, the renewal premium would be loaded on "70 *per cent* as if basis" and NICL would have the unilateral authority of inserting all necessary conditions to ensure restriction of claims. The 70 *per cent* claim ratio was subsequently relaxed to 85 *per cent* in June 2010.

To address the continued losses suffered by public sector general insurance companies in the group health insurance portfolio, Department of Financial Services, Ministry of Finance, issued guidelines (May/July 2012) which stressed that group health insurance policies should be appropriately priced, duly considering the burning cost[1], management expenses, medical inflation etc. to ensure that the Combined Ratio[2] should be less than 95 *per cent* and that policies not conforming to this ratio ought not be renewed. In July 2012, it was reiterated that these guidelines were mandatory and no discretion in this regard was available to the companies.

Audit observed that since inception (July 2005) of the GMP of Kolkata Police, NICL experienced alarmingly high ICR[3], ranging between 181 *per cent* and 398 *per cent* during 2011-12 to 2015-16. Despite the MOU providing for loading of premium in case of adverse claim ratio and strict instructions of the Ministry to check loss making group health policies, NICL continued to renew the GMP of Kolkata Police without charging appropriate additional premium. Even if NICL acted upon the specific instructions (May/July 2012) of the Ministry to keep the loss ratio within 95 *per cent*, it would have collected additional premium[4] of ₹89.29 crore during July 2012 to August 2016 and avoided loss of revenue of the same amount during this period.

While accepting the facts of the case, the Management stated (August 2016) that:

- The guidelines of the Ministry were issued as an advisory to the companies for implementing loss control measures, to make the overall health insurance sector sustainable over the years in future. The guidelines were applicable to corporate bodies to control the ICR of their group health policies and were not directed at group health policies meant for weaker sections of society, government employees engaged in occupation for maintaining essential services, security and protection of citizens at large etc.

- The PSU insurance companies had an obligation in social and rural sectors to serve the citizens by coming out with policies catering specifically to their needs, sometimes ignoring the actual outgo involved. For pricing such socially beneficial product, NICL had consciously not attempted to recover the entire outgo. Kolkata Police, engaged in providing security and maintaining law and order, deserved to be treated as a special group and not as a corporate body.

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[1] ***The ratio of incurred losses within a specified amount in excess of the theoretical amount of premium it would take only to cover losses.***

[2] ***Incurred Claim plus Management Expenses plus Agents'/Brokers' commission plus Third Party Agency (TPA) commission and any other expenses***

[3] ***273% in 2005-06, 190% in 2006-07, 163% in 2007-08, 193% in 2008-09, 182% in 2009-10, 202% in 2010-11, 363% in 2011-12, 393% in 2012-13, 398% in 2013-14, 315% in 2014-15 and 181% in 2015-16***

[4] ***Based on the claim experience of the expired policies***

- NICL had taken some serious and effective loss control measures in addition to substantial increase in premium amount during the last few years to control the outgo and ICR was progressively reduced to 181 *per cent* in 2015-16.

- As worked out by Management, the short collection of premium from July 2012 to August 2016 was ₹81.12 crore, the under-collection for the period September 2015 to August 2016 being ₹13.24 crore on "stop loss basis"[1] against ₹21.40 crore computed by Audit.

The above contentions of the Management are not acceptable in view of the following:

- The guidelines of the Ministry were mandatory and not advisory and did not allow for discretion of NICL in loading the premium of group health insurance policies appropriately. Moreover, it did not exclude any category of group health insurance policy.

- The contention of the Management that Kolkata Police has been considered as a special group in view of its social obligation and the Company has consciously not attempted to recover additional premium to counter its loss is not borne out by the terms of the MOU signed for the health insurance policy. In fact, NICL failed to adhere to the terms and conditions of the MOU, agreed upon by Kolkata Police, for collection of additional premium. The ICR of 181 *per cent* in 2015-16 was nearly double the mandated level of 95 *per cent* and as such, additional premium should have been collected for compliance of repeated directives of the Ministry.

- The under-collection of ₹13.24 crore in 2015-16 worked out by Management is not acceptable as it has been worked out on the basis that the maximum claim would be limited to ₹23 crore on stop loss basis. However, the stop loss clause would be effective only from 2016-17 for adjusting the excess claim outgo of 2015-16. The under-collection of premium of ₹21.40 crore in 2015-16 is computed by Audit on the basis of actual claim outgo incurred by NICL during 2014-15.

Loss to NICL due to non-charging of additional premium despite adverse claim ratio in respect of Group Mediclaim Policies issued during 1998 and 2003 to Kolkata Police Family Welfare Centre was highlighted in Audit Report No. 3 of 2005 (Para 9.2.1). In response, NICL had not renewed the policy 2003-04 onwards and had assured that such instances would not recur. The Ministry had then agreed that there has been a lapse on the part of NICL in not loading the premium on renewal, based on the past experience.

Thus, NICL failed to apply underwriting prudence and learn lessons from past experience besides violating directions of the Ministry regarding collection of premium for group health insurance policies. Non collection of additional premium despite adverse claim ratio led to loss of ₹89.29 crore to NICL (during July 2012 to August 2016) in underwriting GMP issued to Kolkata Police.

[1] ***The clause to restrict the ICR to a certain per cent of premium***

The Ministry stated (January 2017) that NICL is committed to ensure that the GMP issued to Kolkata Police would be managed in a manner so as to keep the ICR within the limit prescribed by the Government.

United India Insurance Company Limited

7.4 Absence of monitoring mechanism for assessment and prompt recovery of reinsurance claims

Due to absence of monitoring mechanism, United India Insurance Company Limited, failed to assess and promptly recover claims amounting to ₹10.79 crore from the reinsurer.

United India Insurance Company Limited (UIIC) had been arranging an excess of loss[1] cover from General Insurance Corporation of India (GIC Re) to protect its net retained account[2] from motor third party claims and claims under Workmen Compensation Employers Liability policies. This reinsurance cover ensured that claims settled beyond the specified limits would be reimbursed by the reinsurer when claimed by the Company, irrespective of the time limit. The reinsurance department of the Company used Integrated Reinsurance System (IRS) for ceding the premium and recovery of claims from the reinsurers. The input data for IRS flowed from CORE (Comprehensive Online Real-time Environment) System, a software operated at office level for underwriting policies and claim management. Lists of claims above the specified limit settled by offices of UIIC across India were being generated by the Reinsurance Department at Head Office of the Company on the basis of which recovery invoices were being raised on GIC Re.

Audit observed that neither IRS nor CORE had a mechanism to extract the cumulative amount of claims paid to different claimants against a policy in a single event/accident. It was also noticed that a system of periodical reconciliation of claims recoverable from reinsurers was absent. Due to this, in many cases, claim amount paid beyond the limits specified under the excess of loss cover, was not raised on GIC Re. Audit retrieved the data relating to motor claims lodged with the reinsurers from the IT systems of UIIC and found that in 22 policies, claims amounting to ₹10.79 crore which were settled during the period 2012-2016 and which were in excess of the limit under the reinsurance arrangement, were not raised on GIC Re as of March 2016.

The Management informed (August 2016) that recovery of the above amount had been raised now with GIC Re and the same was being followed up. It further stated that the delay in raising the recovery happened due to migration from Genisys (earlier software used by operating offices) to CORE.

The reply needs to be viewed in the light of the fact that UIIC neither had any mechanism to get the details immediately on settlement of claims through its IT Systems nor did it have a system of periodical reconciliation of claims recoverable from reinsurers. This resulted in non-identification/delayed identification of claims to be filed with the

[1] ***An agreement which indemnifies the reinsured against all or a portion of the amount of loss in excess of the re-insured's specified loss retention.***

[2] ***The amount of loss the reinsured wishes to retain for its own account.***

reinsurers. Recovery on GIC Re was raised in August 2016 only after the same was brought to the notice of UIIC by Audit and it was yet to be effected (December 2016).

Thus, lack of inbuilt monitoring system resulted in delay in recovery of claims amounting to ₹10.79 crore from GIC Re.

The Ministry endorsed (January 2017) the reply of the Management and confirmed that action was initiated for recovery.

7.5 Implementation of CORE Insurance Solution

7.5.1 Introduction

United India Insurance Company Limited (Company), Chennai, is one of the general insurance companies in operation since February 1938. The Company was nationalised in 1972. As on 31 March 2016, the Company had 29 regions and 2051 operating offices under its control with a gross premium collection of ₹12,250.36 crore during the year 2015-16.

7.5.2 Computerisation in UIIC

The Company implemented General Insurance System (Genisys) between 2000 and 2002. Genisys was developed by CMC Ltd and it was an operating office level application used for underwriting policies and settlement of claims. Later, in October 2003, the Company implemented Genisys Enterprise Module (GEM) for consolidation of operating office level data.

In May 2006, Government of India (GOI) initiated the National e-Governance Plan (NeGP), comprising 27 Mission Mode Projects (MMPs) which included insurance sector. The main objectives of the Insurance MMP were to perform business activities through electronic mode, create a database of policyholders, agents, brokers, surveyors etc., and to facilitate information sharing and interfacing with Government and Regulator. In line with the NeGP the Company conceptualised (January 2007) implementation of Comprehensive Online Real-time System (CORE) with the following main objectives:

- Launch new and highly differentiated products faster in a de-tariff scenario.
- Tap alternate business distribution channels like portals, payment gateways, etc.
- Make available centralised real-time data for Decision Support System.
- Have relatively low IT related workload at operating offices.
- Create ability to group specialists and people with similar financial powers, irrespective of physical location to centralize large business accounts and claim.
- Formulate integrated document management system to achieve reduction in processing time.

- Achieve seamless integration with auxiliary modules such as Customer Relationship Management (CRM), Human Resource Management (HRM), etc.

7.5.3 Audit objectives, scope, criteria and methodology

The objective of audit was to ensure that

(i) Planning, implementation and migration of legacy data was done effectively and as per the timelines;

(ii) Business rules of the Company have been effectively mapped and controls are in place; and

(iii) CORE insurance solutions have been efficiently integrated with SAP financials, HR, Investment and Reinsurance.

During the audit, transactions for the period 2011-12 to 2015-16 were covered. Audit adopted Corporate Rules, Government regulations, IRDA guidelines and best practices for system controls as the criteria for examination.

The centralised database of the company was accessed and exception reports were generated using SQL queries. The data generated were test checked with the records maintained at operating offices in three Regional Offices (Hyderabad, Kochi and Chennai).

7.5.4 Organisation structure of IT department

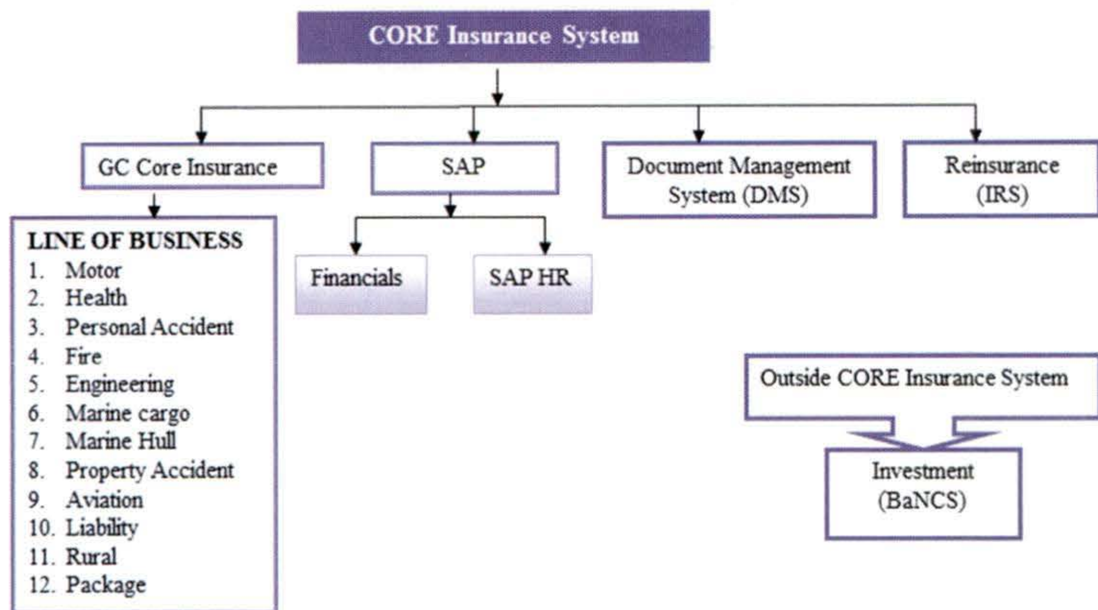
The Information Technology Department is headed by General Manager (GM) who reports to the Chairman cum Managing Director (CMD). The GM is assisted by DGM (IT) and is in turn supported by Chief Managers and Managers.

The CORE insurance system is maintained by staff of Hewlett-Packard (HP) and the legacy system (Genisys and GEM) is maintained by staff from CMC Limited.

7.5.5 CORE Insurance Solution

The CORE Insurance solution covered the insurance module having 12 line of business (LoB), Financials, Accounts, Human Resource Management and Document Management System.

The CORE Insurance solutions was planned for implementation with Sirius for Insurance (S4i) for Insurance Module (later substituted with Insurance package of CMC Limited). SAP-ERP was planned for finance, accounts and HR management and NewGen's solution for the Document Management System.



After following a system of pre-qualification and inviting tenders from seven consortia, out of which six submitted their bids, the contract was finally awarded (June 2007) to Hewlett-Packard (HP) India Services Limited for design and development of CORE Insurance Solution at a cost of ₹122.78 crore. The contract included procurement of required Hardware (₹24.39 crore), System Software and Database Management Systems (₹35.07 crore), Application Software Systems *viz.* S4i, SAP, DMS and customisation, data migration and implementation and maintenance of system (₹63.32 crore). HP had entered into a contract with Sirius for Insurance for design, development and customisation of S4i insurance system.

The CORE System's insurance application has been hosted in HP Integrity superdome Servers running with UNIX with database in Oracle 10gR2. The SAP application servers are in Windows 2003 and SAP database in MS-SQL servers.

7.5.6 Audit Findings

7.5.6.1 Implementation of the System

(I) Delay in implementation of CORE Insurance Solution

The tenure of the agreement entered (October 2007) into with HP was seven years which included two years for design, development and implementation and five years for post implementation maintenance. Initially, the implementation was scheduled to be completed by September 2009 with S4i insurance software. As Sirius for Insurance delayed customizing the product, HP recommended (December 2010) its substitution by CMC's 'Genisys Configurator' for insurance module. The Board of the Company approved (January 2011) the recommendation without any additional payment to HP. As per the revised implementation schedules/milestones, the product was to be delivered in March 2011 with final roll out by March 2013.

It was observed that:

- Even after lapse of 36 months since the revised timelines, the implementation was not completed (March 2016) due to initial selection of inappropriate software, delay in data migration etc. and testing etc. as discussed in subsequent paragraphs.

- The contract with HP, which expired in September 2014, was neither signed off nor extended though the implementation was not completed.

- The Company entered into (February 2015) another contract with HP for annual maintenance of the Hardware and the CORE Insurance solution for a period of three years at a contract price of ₹91.49 crore which was 74.52 *per cent* of the original contract value.

- Implementation of Document Management System (DMS) for which an amount of ₹5.30 crore has been spent, had not proceeded beyond the proof of concept stage.

The Management stated (December 2015) that the S4i Software was not commensurate with the expectations and was therefore, substituted with CMC's software. Consequent customisation, testing etc. delayed the implementation. Further, changes in business requirements and de-tariffing during the roll out period also delayed the process.

The reply is to be viewed against the fact that changes in business requirements were continuous process and not an unexpected event. Further, one of the objectives of implementation of CORE was to launch new and highly differentiated products faster in the de-tariff scenario, which was not done.

(II) Payment of Technical Support Charges

The Company had an agreement with CMC Ltd for carrying out maintenance of the legacy systems (Genisys and GEM) which was renewed in July 2009 for a period three years. The agreement provided for deployment of 72 persons at a cost of ₹ one lakh per man month. The contract was renewed again in July 2012 for a further period of three years involving deployment of 82 persons at a cost of ₹1.20 lakh per man month.

As per the contract with HP, the implementation of CORE Insurance system should have been completed by September 2009. The delay in implementation of CORE Insurance system had resulted in continuation of Genisys and GEM. The Company did not fix any cut-off date for discontinuance of legacy system which resulted in continuing their services and consequent avoidable expenditure on maintenance charges amounting to ₹59.09 crore for the period from January 2010 to March 2016.

The Management stated (December 2015) that it was inevitable to run Genisys & GEM parallel during the transition period. The fact remains that though switch over from Genisys to CORE is stated to be in transition, the old system continued for a long period due to delay in implementation of CORE insurance system. This led to continuance of payment towards maintenance charges for legacy system which were avoidable.

(III) Data Migration - Finalisation of contract without firming up the number of offices

The Company, without firming up the number of offices to be covered under the data migration, entered into a contract with HP for data migration for 20 offices. However, a 'change order document' was issued (September 2009) to HP for supply of technical resources to support Company's team for data migration and to carry out roll out tasks at a cost of ₹7,122 per man day for the remaining offices and also utilised the technical support of CMC Ltd. for the said work.

Data migration work for all offices should have been a part of Request for Proposal (RFP). Failure of the Company in not including the work for other offices in the RFP resulted in the Company foregoing the advantage of competitive price. The total payment made for this work was ₹27.51 crore[1].

The Management stated (December 2015) that considering the complications involved, technical assistance was required for migrating data for the remaining offices beyond the 20 pilot offices. Further, two migrations happened due to change of Insurance software. Increase in data due to spreading the rollout over a period of time, creation of about 700 new offices and correction of rejected data had also contributed to the cost escalation.

The Company could have foreseen the complications involved in data migration, had it conducted a feasibility study.

7.5.6.2 System design and validation deficiencies

(I) Incomplete mapping of business rules and deficient system controls

Audit noticed lack of validation and input controls, system design and control deficiencies, non-integration issues which resulted in short collection of premium, assumption of higher risk, lack of audit trail, doubtful integrity of data, non-compliance with the provisions of India Motor Tariff 2002, various IRDA Regulations and Guidelines, Company's internal circulars etc. as discussed below

(a) Absence of system module to calculate premium short collected due to revision in tariff resulted in short-collection of premium of ₹7.18 crore

Insurance Regulatory Development Authority (IRDA) has been notifying the Motor Third Party (TP) premium every year with effect from 1 April. On receipt of notification from IRDA, the company issues a circular to all Regions for charging the revised premium for the risk commencing from 1 April. However, absence of system module to calculate short collection of premium due to revision in tariff, resulted in short collection of premium to the tune of ₹7.18 crore (1,75,774 policies) during the period covered.

The Management replied that whenever a claim is registered, the system prompts the recovery of difference in TP Premium.

[1] ***₹10.30 crore to CMC and ₹17.21 crore to HP***

The reply cannot be accepted as the revised TP premium has to be collected in all cases and not only on policies where claim was reported. Even though the revised TP premium was updated at the later stage, the system should have a provision to extract such short collection and enable the operating offices to recover the short collection.

(b) Grant of No Claim Bonus to ineligible motor policies – ₹2.48 crore

According to General Regulation 27 of India Motor Tariff, the insured becomes entitled to No Claim Bonus (NCB) only at the renewal of a policy after the expiry of the full duration of twelve months without any claim. However, the system allowed renewal of policies with NCB irrespective of claims in the previous year due to lack of input controls. Audit observed that NCB was allowed to 12785 motor policies where claims were reported in the previous year as against the provision resulting in short collection of premium of ₹2.48 crore.

Even though Management had agreed to take corrective action (December 2015), it was noticed that NCB was allowed even in respect of policies issued subsequently and the short collection of premium went up to ₹2.68 crore (March 2016) in 13891 policies.

(c) Granting personal accident cover to policies issued to Companies / Firms / Body Corporate

As per General Regulation 36 of India Motor Tariff, compulsory personal accident (PA) cover cannot be granted where a vehicle is owned by a Company, a Partnership firm or a similar Body Corporate or where the owner driver does not hold an effective driving licence. In all such cases, where compulsory PA cover cannot be granted, the additional premium for the compulsory PA cover for the owner-driver should not be charged and the compulsory PA cover provision in the policy should also be deleted. Thus, when a policy is issued to a Company or a partnership firm, the system, by default should not grant compulsory PA cover. However, scrutiny of records indicated that in respect of 75478 policies issued during 2011 – 2015, compulsory PA cover was given for vehicles owned by Companies. Lack of input control, thus resulted in violation of provisions of India Motor Tariff leading to assumption of higher risk by the Company.

The Management accepted the observation and agreed to take corrective action. However, it was observed that no action was taken till March 2016 as the number of such policies went up to 98751.

(d) Procurement of business by agents with expired licenses

According to Regulation 8 (ii) (a) of IRDA (Licensing of Insurance Agents) Regulations, 2000, no insurance agent shall solicit or procure insurance business without holding a valid licence. However, due to lack of validation controls, system allowed booking of business from agents whose licence had already expired. Data analysis revealed that during the period from 2011-12 to 2014-15, 2,77,121 policies were booked through agents whose licences had expired. The commission of ₹8.71 crore payable to such agents was outstanding since 2012.

It was replied that the agency commission in respect of the agents whose licences had lapsed was not released till the licences were renewed. This was not acceptable as the acceptance of business against lapsed licence of an agent itself was a violation of the Regulations. Further verification revealed that 61,705 policies were procured during 2015-16 from agents who licenses had not been renewed upto March 2016.

(e) Appointment of surveyors with expired licenses

Similarly, due to inadequate validation control, system allowed appointment of surveyors for assessment of loss even after the expiry of their license period. During 2011-12 to 2014-15, in respect of 72630 claims, surveyors whose license had expired were appointed to conduct survey which was against the provisions of IRDA Regulations, 2000. The Management replied that survey fee would not be released unless licence is renewed. The reply is not acceptable as the validity period of surveyor license was only five years and appointment of surveyors after the expiry of licence period is violation of IRDA regulations. Further, verification upto March 2016 revealed that 2,248 claims were assigned to such surveyor during 2015-16 also.

(f) Absence of date range validation controls

It was observed that for the period from 2011-12 to 2014-15:

- in respect of 2,035 Motor claims, the date of registration of the claim was prior to date of loss.
- in 384 claims, the date of loss was after the expiry of the policy period and
- in respect of 65 claims, the date of loss was prior to commencement of the policy period.

All these instances indicate lack of validation controls in the system design. Management accepted the observation, and agreed to examine the issue

Further analysis of data (March 2016) revealed that in respect of 364 claims the date of claim registration was prior to date of loss, in 972 claims, the date of loss was after the expiry of the policy period and in respect of 47 claims the date of loss was prior to commencement of the policy period.

(g) Issuance of policies for invalid periods due to inadequate validation controls

Instances of issuance of policies covering risk for the period 2045-2046 and 2105-2106 were observed. Management replied (December 2015) that action would be taken to bring in a limit up to which advance renewals could be initiated. However, audit observed (March 2016) that action was yet to be taken as the system continued to issue policies for such invalid periods.

(h) Lack of input controls/validation controls in recording identity of vehicle

For the period from 2011-12 to 2014-15, in respect of 31,389 motor policies the registration number was captured as 'NEW' at the time of renewal. Further, in respect of 11,24,674 policies, the engine number was captured as chassis number and in 8,780 policies, the registration number was shown against the details of engine/ chassis number. Thus, data integrity in the system was not ensured. The Management agreed (December 2015) to put in adequate validation controls. Further, analysis (March 2016) revealed that the registration number was captured as new at the time of renewal in 41,724 policies and in respect of 14,08,280 policies engine number was captured as chassis number and in 13,659 policies the registration number was captured against engine/chassis number.

(i) Design deficiency in ratification of marine policies underwritten by Regions

Marine policies (589 policies) were issued (2011 to 2015) below the rate of 0.01 *per cent* without the concurrence of Head office (HO) in contravention of HO guidelines due to inadequate mapping of business rules. Management replied that marine policies are referred to HO when the basic Marine rate plus Strike, Riot and Civil Commotion (SRCC) rate is less than 0.01 *per cent.* The reply is not acceptable as "File and use" guidelines of IRDA require HO approval when the basic rate is less than 0.01 *per cent.* Further analysis (March 2016) revealed that 703 such policies were issued without HO approval.

(j) Absence of input controls in underwriting Marine Open policy

The system allowed underwriting of marine policies with NIL deductibles as against the minimum of 0.5 *per cent* of consignment value as per Head Office circular. The Management replied that issue will be taken up with the vendor for correction in system design.

(k) Absence of input control - Marine Hull Policies

The system accepted (i) deductibles more than the sum insured (ii) NIL deductibles and (iii) any amount as deductible, contrary to the amount/rate specified in the HO circular. Management replied that correctness of the deductible logic would be verified and appropriate action will be taken.

(l) Allowance of staff discount on Mediguard Policies to non-employees

The company uses CORE Insurance solution for its business operation and SAP (HCM) for administrative purpose. CORE insurance solution was not integrated with employee master of SAP (HCM) resulting in grant of staff discount even to non-employees in Mediguard Policies. Management replied that (i) Validation control would be possible only after integration with SAP (HCM) and (ii) Operating offices have been advised to collect the difference in premium wherever the error has been observed. The reply is not acceptable as instances of such loss would continue as long as the design deficiency continued.

(II) Lack of validation control in management of cover note

A cover note is a temporary document, issued by authorised officers, for assumption of risk, pending issuance of policy. As per Rule 142(2) of Central Motor Vehicle Rule, 1989, cover note is valid for a period of 60 days from the date of issue and the insurer shall issue policy before the expiry of such period. Cover note is a contractual document evidencing the liability of the company in respect of risks covered under it. Any deficiency in the system regarding the use of cover notes would have larger legal and financial implications to the Company.

Audit analysed the data regarding the cover notes from the data base and noticed that:

- Out of 17,20,758 cover notes utilised, only 56,805 cover notes were tagged with policies. For the remaining cover notes, there was no audit trail in system to ascertain whether policies were issued subsequently within the time limit.

- The Company notified loss of 199 cover notes through intranet during the period 2012-2015. However, the analysis of database showed loss of only 10 cover notes during the period.

Failure of the system to tag the cover notes with the policies issued subjects the cover notes to the risk of fraudulent use. This may take the form of misappropriation of funds and settlement of claims without policy document in case any claim was reported as in such cases the premium would have already been received by the agents legally binding the Company to settle claim. The system followed by the Company was, thus, deficient.

The Management stated (December 2015) that the operating offices would be appropriately instructed to initiate action for better administrative control. However, further analyses of database (March 2016) revealed that only 62,973 cover notes were tagged with policies out of 17,32,760 cover notes. The system design needs to be modified to match cover notes with policy issued.

(III) Un-reconciled balances in Scroll in GENISYS and CORE system

Scroll account is a suspense head where premia received are kept in suspense till the issue of policy. After issuance of policy, the amount kept under scroll would be transferred to Premium account, otherwise refunded to the customers. Any amount kept in scroll account at the end of financial year would be shown in the financial statements as liability representing policy holder's fund.

The reasons for amounts remaining as balances in scroll are mainly on account of (a) amount received and policy issued for part amount leaving a balance (b) amount received but policy not issued and (c) duplicate entries for a receipt of single premium.

Audit observed (August 2015) that ₹102.70 crore (9,04,391 records) was pending as at August 2015 in scroll account. The Management stated (December 2015) that operating offices were advised to account for unutilised scroll balances.

Further, a direction under 143(5) of Companies Act 2013 was issued to statutory auditors and it was replied that transaction wise details are available and there is no impact on the Accounts.

The reply of the Management and Statutory Auditors are to be viewed against the fact that fraudulent use of scroll balances by issue of back dated policies and consequent payment on claim of ₹2.20 crore was reported in a Divisional Office, Latur. This substantiates the risk of vulnerability of the system. Further analysis of database revealed that the balance outstanding as at March 2016 was ₹34.79 crore since 2011. Hence, proper reconciliation has to be done to avoid such fraudulent use of available balances.

(IV) Pending help desk calls

The issues/problems faced by the field offices on CORE insurance solution are reported online to HP support team and a ticket is raised for each call. Analysis of data in audit indicated that 10,481 help desk calls were pending (June 2015) unattended. This included call of critical nature (528), high priority (104) average priority (5,921) made during the period between July 2014 and June 2015. The earlier contract with HP did not have penalty clause for delay in attending to help desk calls.

The Management stated (December 2015) that the new agreement with HP defines severity levels 1 to 4 for Helpdesk calls, as well as the turnaround times for each severity level and penalties have been stipulated for non-compliance of the turnaround times.

However, irrespective of incorporating severity levels, turnaround time and penalties in the revised agreement, the fact remains that 9,231 help desk calls were pending as on March 2016. The number of pending calls is an indicator of inadequate help desk support or weak system controls.

(V) Integration with other system modules

The Company intended to implement CORE Insurance solution with an objective of providing centralized application software for General Insurance operations covering quote generation, proposal form, policy underwriting, claim management, reinsurance, accounts, various analysis and operational reports, all other Statutory and non-statutory statements etc.

Audit noticed that

- Finance and Accounts department of Company had to continue using the erstwhile e-format system for consolidation of financial data and preparation of annual financial statements due to delay in implementing SAP (Financials) even after spending ₹10.67 crore.

- Reinsurance department was still using the legacy Integrated Reinsurance Software (IRS) since the re-insurance module of CORE Insurance system was not rolled out.

- CORE Insurance solution design did not cover non- MACT (Motor Accident Claims Tribunal) cases. These details were still maintained manually at operating offices and the consolidated details submitted to IRDA periodically

Thus, the basic objective of having an integrated Comprehensive Online Real-time System remained largely unfulfilled even after seven years of initialisation of the project.

The Management stated (December 2015) that Reinsurance was integrated with CORE system and necessary reports were being generated from of the system and also stated that bringing data into a centralised system had thrown up challenges and resulted in delay in implementation and stabilisation.

The reply is to be seen against the fact that the reinsurance department still continue to use the erstwhile IRS (Integrated Re-insurance System) and the shortcomings stated in the paragraph still continued (March 2016).

7.5.6.2 Network Security issues

(I) Information Security Management System (ISMS) Policy not in conformity with current standards

The Government of India had issued (July 2006) guidelines to prepare Information Security plan as per ISO 27001 and other guidelines and standards as appropriate. The Company's present Information Security Management System (ISMS) policy was based on ISO 27001:2005 The Company was yet to update its ISMS policy in accordance with ISO standards (March 2016).

(II) Scope of ISMS

As per instructions (July 2006) of Ministry of Finance, Government of India, insurance PSUs were required to classify organisational units as most critical, moderately critical and less critical based on the criticality of functions/services and the likely impact in the event of an attack. This was to ensure better security management. Audit observed (March 2016) that the Company did not carry out any such classification.

(III) Vulnerable system security

It was observed that the Company's website (https://uiic.co.in) was defaced on 27 March 2015 by Tunisian hackers. The IT team of the Company analysed and found that malicious content had been injected in the server which caused the defacement. Further analysis by the Company indicated that this had been done by compromising vulnerable ports which had been left open during website maintenance.

The Management replied (December 2015) that appropriate action had been taken after the event to prevent any unauthorised access. However, it was observed that several security lapses were reported later also in the quarterly security checks conducted by external security consultants.

The Management decided in March 2011 that the scope of their ISMS would also be extended to cover Regional Offices, large corporate and brokers cell (LCBs), Service hubs, Divisional offices, Branch offices and Micro offices in a phased manner. However, these locations, were not brought under the scope of ISMS.

The Management stated (December 2015) that such classification was an ongoing exercise which would be implemented. However, Audit observed (March 2016) that steps were not initiated to cover above locations.

Conclusion

The implementation of CORE Insurance system was delayed by 7 years due to initial wrong choice of S4i application, lack of planning for data migration at the tender stage and consequent delay in data migration.

Critical modules like SAP Financials, Human Resource Module, Reinsurance Module have not been fully implemented and integrated with CORE Insurance system. The Company's finance and accounts department continue using the erstwhile e-format software (March 2016) and Reinsurance department continued using legacy system (IRS) for its operation, the implementation of Document Management System did not proceed beyond proof of concept stage.

Design deficiencies, deficient systems control, inadequate User Acceptance Testing and migration issues of data had resulted in loss of revenue, incorrect reporting and security issues.

These issues resulted in non-achievement of the basic objectives of having a centralised integrated real-time data for Decision Support System.

Recommendations

It is recommended that:

- ***implementation of CORE system needs to be expedited and the legacy GENISYS be retired at the earliest.***
- ***a review of modules implemented with reference to present business rules, guidelines be carried out to avoid loss of revenue and ensure compliance with Government regulation and IRDA guidelines.***
- ***the Information Security Policy may be implemented in line with ISO standards and the integrity and security of the system, application, data and network be monitored to minimise vulnerabilities.***

The matter was reported to the Ministry in January 2016; their reply was awaited (January 2017).

CHAPTER VIII: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

8.1 Violation of CVC and internal guidelines resulted in avoidable expenditure

BHEL questioned the technical acceptability of the vendor after opening the price bids in violation of CVC guidelines and procurement policy of BHEL and ignored repeated positive feedbacks regarding the vendor and the machine leading to delay, price bid becoming invalid and re-tender. Eventually, in the re-tender, BHEL incurred an avoidable expenditure of ₹5.57 crore.

Heavy Electrical Equipment Plant (HEEP) Haridwar, a unit of Bharat Heavy Electricals Limited (BHEL), invited (May 2009) a tender for procuring Computer Numeric Control (CNC) Lathe machine. After evaluation of the offers received, five bidders were found (February 2010) technically acceptable. Reverse auction was then conducted in which all five bidders participated. The L1 bidder[1] quoted a price of ₹6.87 crore for the machine (19 February 2010).

At this stage, HEEP, BHEL decided (27 February 2010) to verify the relevant facts pertaining to the machine through BHEL's office in Shanghai in view of the huge price difference between L1 and L2; L2 having quoted nearly double the L1 price (at ₹12.84 crore). The China office of BHEL confirmed from an earlier customer, an existing user of the machine, visited two factories of the L1 bidder and reverted with satisfactory reports. HEEP, BHEL also independently obtained feedback from previous customers who stated that the machine was satisfactory. HEEP, BHEL, however, was not satisfied and decided to depute a technical team to China for physical verification at end users of the machinery. The vendor meanwhile extended the validity of the offer twice (from 31 May 2010 to 15 July 2010) and also issued an invitation for visit of the technical team of BHEL between 05 and 24 July 2010. But, as internal administrative formalities for arranging visa and other logistics could not be arranged in time, BHEL sought a further extension of offer validity till 31 August 2010 and requested for revised invitation from 22 July to 21 August 2010. The vendor refused further extension stating that they had been holding on to their quote for about one year and could not offer the machine at the same price any further.

A re-tender for the procurement was issued on 20 August 2010. The erstwhile L1 bidder was not allowed to participate in the tender as it had refused to extend bid validity in the previous enquiry. The L2 bidder in the previous enquiry emerged as the lowest bidder in the re-tender and the procurement contract was awarded to this vendor in March 2011 for ₹12.44 crore.

Audit observed that as per BHEL's internal guidelines, *viz.,* Corporate Purchase Policy 1998 and Tendering System for Procurement of Materials/Services 2011, technical cum commercial offer shall be opened first, discussed and finalised and only then price bid of technically acceptable vendor shall be opened. CVC guideline on 'Transparency in

[1] ***M/s Tianshui Spark Machine Tool Company Limited, China***

Tendering System' (December 2004) also stressed that in order to maintain transparency and fairness, it would be appropriate that organisations evolve a practice of finalizing the acceptability of the bidding firms in respect of qualifying criteria before or during holding technical negotiations with him. CVC guidelines on 'Irregularities in the award of contracts' (September 2003) also emphasize that pre-qualification criteria, performance criteria and evaluation criteria should be incorporated in the bid documents in clear and unambiguous terms and price bids opened only of those vendors who were technically qualified. The verification process initiated by BHEL, post evaluation of the tender ought to have been adequately addressed prior to or during the process of assessing technical competency of vendors. The decision to ascertain the performance credentials of the proposed machinery after opening the price bids of technically acceptable vendors was contrary to the CVC guidelines as well as the procurement policy of BHEL.

The Management stated (June/December 2015) that though technical evaluation was completed on the basis of documents submitted by the bidder, due to considerable price difference between the L1 and L2 vendors and owing to it being the first procurement from the vendor, it was prudent on their part to inspect and confirm the operational performance of machinery to be supplied. Even though the China office of BHEL had recommended that an order be placed on the L1 vendor, physical inspection of the operational performance of the machine could not be witnessed and it was felt prudent not to take a decision until it was physically witnessed. The efforts to complete the inspection, however, did not materialize since the vendor did not extend the offer validity. BHEL also stated that the lowest price cannot always be the only criterion for placement of an order.

The reply is not acceptable as the decision to ascertain performance credentials of the machine after opening price bids violated CVC guidelines and procurement policy of BHEL. Besides, BHEL did not consider the positive feedback regarding performance of the machine and the credentials of the vendor received both from its Shanghai office and independently from clients of the vendor. BHEL also failed to carry out inspection of the operational performance of proposed machinery even after the validity period of the tender was extended twice.

Thus, by questioning technical acceptability of the machine after opening the price bid in violation of Corporate Purchase Policy 1998, Tendering System for Procurement of Materials/Services 2011 as well as guidelines issued by CVC despite positive feedback received regarding the credentials of the vendor, the machine and its functioning, BHEL incurred avoidable expenditure of ₹5.57 crore (₹12.44 crore *minus* ₹6.87 crore).

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

CHAPTER IX: MINISTRY OF HOUSING AND URBAN POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

9.1 Sanction of loan violating internal guidelines

Sanction of loan to a financially weak borrower/promoter who had defaulted in servicing loans from other financial institutions, in contravention of internal guidelines of HUDCO, resulted in sub-standard loan asset and potential loss of ₹628.47 crore.

Housing and Urban Development Corporation Limited (HUDCO) sanctioned (July 2007) a loan of ₹350 crore to Nagarjuna Oil Corporation Limited (NOCL) for setting up a refinery. The loan was sanctioned under a consortium arrangement. The loan instalments were disbursed between December 2008 and March 2013. NOCL defaulted on servicing the loan even as the loan was being disbursed. The loan became a Non Performing Asset (NPA) in January 2013.

It was noticed that the refinery project of NOCL did not achieve financial closure. In December 2011, the project activities stopped due to paucity of funds. The project cost increased nearly four times from ₹4,790 crore (February 2007) to ₹18,830 crore (August 2015). Efforts to bring in strategic investors both from India (including Public Sector Oil Companies) and abroad have not succeeded. In this context, the future viability of the project is doubtful and HUDCO faces a potential loss as there is remote possibility of recovery of principal and interest amounting to ₹628.47 crore (principal ₹349.88 crore and interest ₹278.59 crore up to 30 June 2016).

Audit observed that the loan to NOCL was sanctioned by HUDCO deviating from its internal guidelines as elaborated below:

- A proposal for sanctioning loan to NOCL was considered (February 2007) by the Board of HUDCO. The Board expressed a set of concerns regarding the promoters and project:

(i) track record of promoters was not sound and they had entered into Corporate Debt Restructuring,

(ii) UTI Bank, Karur Vysya Bank and EXIM Bank had confirmed that loan given to NOCL was sub-standard/NPA in their books,

(iii) the name of the borrowing agency's director was on the RBI's list of defaulters

(iv) UTI Bank had filed an application with Debt Recovery Tribunal against NOCL and promoters.

After deliberations, the Board declined the loan. It was stressed that as per HUDCO's guidelines, no loan was given to agencies if their previous track record of repayment was

not good. Besides, the Board also expressed concern regarding the long term viability of the project as the basic refinery plant being imported for the project was old, having been constructed in 1970.

- The same proposal was re-submitted to the Board in June/July 2007. The Board approved the loan even though some of the concerns raised earlier (February 2007) remained un-addressed. The loan given to NOCL by UTI Bank remained substandard/ NPA in their books. The application with Debt Recovery Tribunal against NOCL was pending at the time of HUDCO sanctioning the loan. Besides, the concerns regarding long term viability of the refinery project remained un-addressed. As such, much of the conditions for declining the loan in February 2007 remained valid at the time of sanctioning the loan in July 2007. The loan to NOCL was sanctioned in July 2007 against the internal guidelines of HUDCO on loan sanctioning.

The Management stated (December 2016) that clarifications with respect to the observations of the Board were sought from the lead lender and the same were furnished to the Board along with the revised note in July 2007. The settlement of UTI Bank loan account was fixed as pre-disbursement condition. The lead lender confirmed (November 2008) that NOCL had settled the dues of UTI Bank following which, the first instalment of the loan was released to NOCL. Hence, there was no violation of internal guidelines.

The reply is not acceptable. As per the internal guidelines, if an agency was in default of servicing their existing lenders, loan would not be given to such agency. In line with this guideline and considering the uncertainty regarding the long term viability of the refinery project, the Board had declined loan to NOCL in February 2007. In fact, the proposal to the Board (February 2007) was to sanction the loan to NOCL with pre-disbursement conditions for all concerns which the Board had declined. Much of these concerns remained valid when the loan was sanctioned in July 2007 with pre-disbursement conditions. The future events of default in loan servicing and loan account being sub-standard confirmed that the apprehensions of the Board (February 2007) regarding financial soundness of the promoters was indeed valid.

Thus, sanction of loan to a financially weak borrower/promoter who was already in default vis-à-vis loans taken from other financial institutions, in contravention to internal guidelines of HUDCO, resulted in sub-standard loan asset and potential loss of ₹628.47 crore.

The matter was reported to the Ministry in January 2017; their reply was awaited (January 2017).

CHAPTER X: MINISTRY OF PETROLEUM AND NATURAL GAS

GAIL Gas Limited

10.1 Implementation of City Gas Distribution Projects by GAIL Gas Limited

10.1.1 Introduction

GAIL Gas Limited (the Company) was incorporated in May 2008 by GAIL (India) Limited, as its wholly owned subsidiary, with the objective of downstream distribution and marketing of Natural Gas (NG) including implementation of City Gas Distribution (CGD) projects across India. CGD network supplies Compressed Natural Gas (CNG) predominantly used as auto-fuel and Piped Natural Gas (PNG) used in domestic, commercial and industrial sectors.

In India, available NG can be broadly classified into two categories *viz.* (i) Domestic NG and (ii) Imported Re-gasified Liquefied Natural Gas (R-LNG). Keeping in view the shortage of NG in the country, domestic NG is allocated to various sectors based on the Policy Guidelines issued by the Government of India (GOI) from time to time. In case of imported gas, the gas/oil marketing entities are free to import LNG and sell the R-LNG to customers. With a view to develop CGD sector in the country and promote CNG vehicles and PNG in households, Ministry of Petroleum and Natural Gas (MoPNG) decided (February 2014) to raise the share of domestic NG to 100 *per cent* requirement of CNG and PNG.

Petroleum and Natural Gas Regulatory Board (PNGRB) was constituted under PNGRB Act in 2006 to regulate the refining, processing, storage, transportation, distribution, marketing & sale of petroleum, petroleum products and NG so as to ensure uninterrupted and adequate supply of petroleum, petroleum products and NG in all parts of the country. As per the mandate, PNGRB invites bids from entities interested in laying, building, operating or expanding a CGD network for any specified Geographical Area[1] (GA). The Act also enables PNGRB to accept authorisation of GAs given by MoPNG to the entities which were already running CGD business before incorporation of PNGRB.

As on March 2016, PNGRB had awarded authorisations for 74 GAs to 31 entities. Out of these five GAs *viz.* Bengaluru (Karnataka), Dewas (Madhya Pradesh), Kota (Rajasthan), Meerut (Uttar Pradesh) and Sonipat (Haryana) had been awarded to the Company. Further, two GAs *viz.* Haridwar (Uttarakhand) and North Goa (Goa) had been awarded to the consortium of GAIL Gas Limited and Bharat Petroleum Corporation Limited (BPCL) with equal stake. In addition, Firozabad TTZ GA, (Taj Trapezium Zone[2]) was accepted by PNGRB (September 2011) which was authorised by MoPNG.

[1] ***Geographical area is specified area for a city or local natural gas distribution network authorized under PNGRB regulations***

[2] ***GOI declared Taj Trapezium Zone, covering an area of about 10,400 sq. km. (including Satellite towns like Mathura, Firozabad, Hathras, Bharatpur, etc.) as a controlled development zone so as to protect Taj Mahal from pollution.***

10.1.2 Audit Objectives and Scope

Audit was conducted to assess whether:

- CGD Projects were planned in an effective manner;
- The implementation of CGD projects was done timely and in an effectively manner; and
- Billing and recovery of charges were made in an efficient and effective manner.

Audit examined the records of the Company available at its Corporate Office, NOIDA with respect to five authorized GAs *viz.* Dewas, Kota, Meerut, Sonipat and Firozabad (TTZ). Audit covered the implementation of CGD projects and operational performance of the Company in these GAs for the period from April 2013 to March 2016.

Bengaluru, Haridwar and North Goa GAs have been awarded to the Company in February and July 2015 and June 2016 respectively. As work for these projects were at an early stage and the Company was having an exclusivity[1] period of five years to complete the Minimum Work Program (MWP) targets, these GAs have not been covered under this Audit.

10.1.3 Audit criteria and methodology:

The audit criteria included provisions of:

- Policy of MoPNG on allocation of NG to CGD Sector;
- Regulations and Guidelines governing development of CGD Network issued by PNGRB;
- Policy of the Company on establishment of CNG retail outlet, Pricing, Uniform Pricing Mechanism in TTZ area;
- Memorandum of Understanding (MoU) signed with GAIL;
- Management Information System Reports and CGD Project execution reports submitted to PNGRB; and
- Agenda and Minutes of meetings of the Board of Directors and Committee of Directors.

10.1.4 Audit Findings

10.1.4.1 Planning & Execution of CGD Projects

(I) Targets vis-à-vis achievement for development of CGD network

PNGRB authorized GAs *viz.* Dewas, Kota, Meerut and Sonipat in 2009 and Firozabad (TTZ) in 2011 to the Company for creating the infrastructure and its operationalisation.

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[1] ***Period of exemption allowed by PNGRB from the purview of common carrier or contract carrier***

As per the authorisation orders, the Company was required to accomplish the MWP as committed by it in the bid documents, within a period of five years from the date of respective authorisation orders in the four GAs and in three year exclusivity period in Firozabad (TTZ) GA. The Company furnished Performance Bank Guarantee for ₹45.88 crore in four GAs and ₹3 crore for Firozabad (TTZ) GA to PNGRB for timely commissioning of the projects and for meeting the service obligations during the operating phase of the projects.

Audit observed that the Company had not accomplished the targets set by PNGRB in any of the GAs except laying of steel pipeline in four GAs. Details of actual achievement *vis-a-vis* targets set by PNGRB as on March 2016 is as under:

Geographical Area	Steel pipeline (in LKM)			Number of CNG stations			Infrastructure creation for Domestic connections			
							Number of connections			Achievement (in %age) (Created vis a vis Targeted)
	Target	Actual	Achievement (in %age)	Target	Actual	Achievement (in %age)	Target	Created	Connected	
Dewas	320	375	117	2	1	50	40000	15687	1032	39.22
Kota	343	355	103	6	4	67	100000	15805	192	15.81
Meerut	644	719	112	5	4	80	125000	23572	3659	18.86
Sonipat	329	396	120	3	4	133	60000	32000	4234	53.33
TTZ	522	98.4	19	7	2	29	24000	200	200	0.83
Total	**2158**	**1939.4**	**89.87**	**23**	**15**	**65.22**	**349000**	**87264**	**9317**	**25.00**

The Company had been able to complete the targeted laying of steel pipeline in all the GAs except in Firozabad (TTZ) where only 19 *per cent* progress had been achieved. However, even after a lapse of 5-7 years from the date of authorisation, the company failed to install targeted number of CNG stations in Dewas, Kota, Meerut and Firozabad (TTZ) GAs and commission the targeted number of domestic PNG connections in all GAs.

Consequent to non-achievement of targets for setting up of CNG stations and creation of infrastructure for domestic connections, PNGRB encashed (2013) Bank Guarantee to the extent of ₹3.54 crore in respect of four GAs.

While accepting the facts, the Management stated (October 2016) that encashment of Bank Guarantee by PNGRB had been challenged in the Honorable High Court of Delhi by the Company and the Honorable High Court had ordered to maintain status quo.

The Management's reply was not tenable as status quo orders were for TTZ GA only. PNGRB had already forfeited PBGs in respect of other four GAs.

(II) Non-development of CGD infrastructure in Geographical Areas

CGD network consists of City Gate Station[1] (CGS), steel pipeline and MDPE[2] pipeline network, online compressors for compressing of NG into CNG, CNG dispensing stations, allied equipment etc.

The Company failed to complete the Minimum Work Programme for setting up of CNG stations and infrastructure creation for domestic PNG connections. The position of the CGD network development as on March 2016 was as under:

Particulars		Dewas	Kota	Meerut	Sonipat	Firozabad
Date of Authorisation		June 2009	June 2009	June 2009	June 2009	September 2011
Exclusivity Period		June 2014	June 2014	June 2014	June 2014	September 2014
CNG online stations	Target	2	6	5	3	5
	Actual	1	4	4	4[3]	2
Targeted domestic connections		40,000	1,00,000	1,25,000	60,000	24,000
Actual Infrastructure creation for domestic connections		15,687	15,805	23,572	32,000	NA
No. of domestic connections	Awarded	4,675	5,113	13,250	6,775	4,000
	Connected	1,032	192	3,659	4,234	200

Audit observed that non achievement of MWP was mainly due to poor contract management, shortcomings in planning & execution and deficiencies in monitoring. It was observed that:

(i) There was delay in awarding the contracts. The projects were authorized in June 2009/September 2011 but the contracts were awarded only in June 2010/November 2012.

(ii) The contracts were awarded for less number of domestic connections against the targets in all GAs.

(iii) Either necessary permission for laying MDPE pipelines were not obtained from the concerned agencies (Kota) or contractors were not allowed to lay the pipeline where permissions were available (Firozabad).

(iv) No action was initiated against the contractors for slow work execution and breach of contractual obligations in all GAs.

(v) No inspections were carried out by the Company during execution of work and payments were made on the certification of Project Management Consultant in all GAs.

[1] ***Point where custody transfer of natural gas from natural gas pipeline to the CGD network takes place.***
[2] ***Medium Density Polyethylene***
[3] ***Based on market demand additional station was installed.***

(vi) The work orders were unauthorizedly sub-contracted by the contractors (in Dewas and Meerut). These contracts were subsequently terminated and the works remaining to be executed were not re-awarded.

(vii) Though after a fire accident in Meerut CGD in January 2012, Vigilance Department of GAIL (India) Limited had conducted surprise checks and noticed irregularities in the execution of project like absence of sand padding around pipeline, inadequate depth of pipeline, non-installation of casing and warning mat etc., no corrective actions were taken.

The Management stated (October 2016) that the contractors were responsible for obtaining necessary permission/approvals from the concerned agencies and there were instances of denial/delays in granting of permissions by the statutory authorities and obtaining of land from the land allotting agencies or issue of stoppage of work which was beyond the control of the company.

The Management's reply is not acceptable as there was delay in awarding contracts and there was inadequate supervision/inspection during execution of work by the contractors.

(III) Operational loss due to setting up of CNG stations outside authorized GAs

The Company commissioned three CNG stations in Panvel (October 2010), Vijaypur (January 2011) and Dibiyapur (December 2013) outside its authorized GAs. As such, GOI did not allocate domestic gas for these stations despite efforts by the Company upon declaration of the domestic PNG and CNG as priority sectors. Resultantly, the Company had been running these stations on costlier imported R-LNG. Due to competition with alternate fuel prices the Company had sold CNG at a price lower than the R-LNG cost in contravention of its pricing policy which resulted in operational loss of ₹8 crore during the period 2011-12 to 2015-16. The Company (April 2015) transferred the Panvel CNG station to Mahanagar Gas Limited (MGL) as it had allocation of domestic NG for its CGD project in Mumbai GA.

The Management stated (October 2016) that investment made for these stations cannot be kept idle. Accordingly, the CNG pricing had been done on Long Term R-LNG price.

The Management's reply is not acceptable as the Pricing Policy of the Company clearly stated that at any instance the selling price should not be below the cost price.

(IV) Setting up of CNG station without necessary permissions

The Company decided (2008) to set up a CNG station at BPCL Jubilee Retail Outlet (RO), Mathura adjacent to NH-2 *viz.* Delhi-Mathura-Agra corridor along with laying of 4" spur pipeline across NH-2 for catering supply of gas to this station and envisaged completion of work by December 2008. The Company sought (August 2008) permission from National Highways Authority of India (NHAI) to lay pipeline along NH-2. However, NHAI refused (June 2009) to grant permission on the plea that BPCL was running RO in Mathura for the last few years without permission from Ministry of Shipping Road Transport & Highways and a notice was issued to de-energize the RO. As such, the Company could not lay the steel pipeline.

Pending receipt of permission from NHAI, the Company procured (November 2008) the major equipment required for setting up of the CNG station *viz.* compressor, dispenser, cascade etc. at a value of ₹1.94 crore. The erection and completion of installation of the equipment at the above said CNG station was completed in 2009. But the Company was unable to commission and start the business from this CNG station due to non-laying of steel pipeline.

The work for laying and construction of 4" spur dedicated pipeline for the said CNG station and associated terminal works adjacent to Mathura Refinery was also awarded (December 2008) with a completion schedule of 30 days. Accordingly, the contractor commenced the work like terminal piping and lowering of land for laying pipeline across NH-2. However, the work could not be completed since formal permission from the NHAI was not obtained.

The Company incurred an expenditure of ₹4.05 crore (September 2016) towards establishment expenditure including cost of CNG equipment without deriving any benefit from it. Besides business loss, the risk of deterioration of such machinery cannot be ruled out since the CNG compressor and other machinery are lying idle.

The Management stated (October 2016) that the CNG station on Delhi-Mathura-Agra Highway was to be commissioned by December 2008, therefore it had procured compressor and other equipment. Further, laying of steel pipeline from Mathura Refinery was initiated well in advance and work order was placed in December 2008 to commission the CNG station at the earliest.

The Management's reply is not tenable as the Company had without obtaining NHAI permission, initiated process of procurement of major equipment. The CNG station was not commissioned since steel pipeline from Mathura Refinery to CNG station was not laid. The Company could get in-principle approval from NHAI and permission to lay the pipeline inside Mathura refinery only in February 2016 and April 2016 respectively.

10.1.4.2 Marketing of CNG and PNG

(I) Pricing of PNG and CNG

According to PNGRB regulations[1], in the CGD network the network tariff[2] (NT) for transportation of natural gas and the compression charges (CC) for CNG shall be fixed as per the bid submitted for laying, building, operating or expanding of CGD network over the economic life of the project and shall be recovered from all categories of customers of PNG and CNG. It was observed that apart from gas cost, NT and CC, the Company recovered various other charges from its consumers as discussed below:

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[1] ***Notification G S R 196 (E) dated 19 March 2008.***

[2] ***Network Tariff means the weighted average unit rate of tariff (excluding statutory taxes and levies) in rupees per million British Thermal Units (₹/MMBTU) for all the categories of consumers of natural gas in a CGD Network.***

(a) Recovery of distribution charges, dealers' commission, non-gas cost etc.

Segment-wise details of distribution charges, dealers' commission, non-gas cost[1] etc. charges recovered by the Company during the period 2013-14 to 2015-16 were:

(₹ in crore)

Particulars	Segment				Total
	CNG	Industrial PNG	Commercial PNG	Domestic PNG	
Selling and Distribution expenses	1.69	11.66	0.09	0.10	13.54
Dealers' Commission	10.63	0	0	0	10.63
Non-gas cost	25.82	0	0	0.60	26.42
Premium @ 20 *per cent*	0	0	0.56	0	0.56
Total	**38.14**	**11.66**	**0.65**	**0.70**	**51.15**

The Management stated (October 2016) that pricing had been done considering the approved pricing policy, market dynamics and business strategy of the Company and the entities were free to decide the price.

The Management reply was not acceptable as the PNGRB regulations provide for recovery of NT and CC only.

(b) Recovery of marketing margin and legal expenses in TTZ region

i. The Company signed (May 2009) a Gas Sales Agreement with GAIL for supply of R-LNG. As per agreement, GAIL shall charge Contract Price along with charges for Re-gasification, Trunk Line Transmission, Other Transmission along with Other Charges and Duties and Taxes from the Company.

   GAIL had never charged marketing margin as 'Other charges' from the Company but w.e.f. January 2016, the Company, had started charging marketing margin @₹11.82/MMBTU[2] from its TTZ customers on behalf of GAIL. The Company unauthorizedly recovered an amount of ₹0.65 crore for the period from January 2016 to March 2016.

ii. The Company, in contravention of PNGRB Regulations, had included (March 2014 onwards) an amount of ₹0.10 per SCM as legal expenses in the price of Industrial PNG in TTZ region under the head of 'other charges' and had unauthorizedly recovered an amount of ₹9.32 crore during March 2014 to March 2016.

The Management replied (October 2016) that GAIL was in the process of taking approval for levying of Marketing Margin and may raise the demand. Further, the commercial terms and conditions of an agreement which were solely between two parties were out of the purview of MoPNG/PNGRB.

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[1] ***Non-gas cost includes various charges like power and fuel surcharge, consumables stores & spares, repair & maintenance, administrative, production selling & distribution overheads, interest and financing charges***

[2] ***Million Metric British Thermal Unit***

The Management accepted that GAIL was in the process of taking approval for levying of marketing margin on LT-RLNG, thus, recovery of marketing margin was unjustified.

(II) Billing and other Marketing Activities

(a) Non-adherence to the PNGRB Regulations on Security Deposit

(i) Non-recovery of interest-free Security Deposit from domestic PNG consumers

Regulation 14(1) of PNGRB Regulations, 2008 states that entities may take an interest-free refundable Security Deposit (SD) from domestic PNG customers towards security of the equipment and facilities including the labour cost of installation in the customer's premises for an amount not exceeding ₹5,000 for a single connection. Accordingly, Board of Directors of the Company approved (May 2010) the "Term Sheet for Domestic Registration" and "Housing Society Domestic PNG Agreement" to be signed with the domestic PNG consumers and approved an interest free refundable security deposit of ₹5000 per domestic connection.

The Company had failed to comply with the PNGRB Regulations and had either not recovered or short-recovered security deposit of ₹33 lakh from eight *per cent* of its domestic PNG customers, as under:

Amount of interest-free SD Not recovered/short recovered	Number of customers (as on August 2016)						Total Non/short charged SD amount (in ₹)
	Dewas	Kota	Meerut	Sonipat	Firozabad	Total	
₹ 0	28	0	200	219	0	447	22,35,000
Less than ₹ 500	1	0	1	0	0	2	9,000
₹ 500 to 1000	102	1	3	154	0	260	10,40,000
₹ 1001 to 2000	3	0	0	0	0	3	9,000
₹ 2001 to 3000	2	0	0	0	0	2	4,000
₹ 3001 to 4000	0	0	0	0	0	0	0
₹ 4001 to 4999	3	0	0	9	0	12	0
₹ 5000	948	186	3,553	4,024	121	8,832	0
Total	1,087	187	3,757	4,406	121	9,558	32,97,000

The Management replied (October 2016) that they were reconciling the data and if there was any need for recovery on account of short charge, the same would be recovered.

(ii) Unauthorised recovery of Security Deposit and application fee

PNGRB Regulation authorised the entities to recover an amount not exceeding ₹5,000 as interest-free refundable SD per connection from its domestic PNG consumers. However, the Company had charged an additional amount of ₹300 as application money (non-refundable) and ₹500 as bill payment SD (refundable) from its domestic PNG

consumers in all GAs. The Company, thus, in contravention of PNGRB Regulations had unauthorisedly recovered an amount of ₹1.20 crore[1].

The Management replied (October 2016) that in order to ascertain seriousness of PNG customers, it had been collecting non-refundable application fee. Further, PNGRB does not prohibit collection of payment security towards gas consumption and hence MoPNG/PNGRB permission was not required for collection of ₹500 on this account.

The Management's reply is not acceptable as there was no provision in PNGRB Regulations for collection of application money or payment security charges from the customers.

(b) Deficient billing mechanism

The Company had been suffering financial loss on account of blocking of funds due to failure to raise bills on time and non-payment by the consumers. It had been observed that

i. Bi-monthly bill were to be raised on the customer on the basis of actual meter reading. However, there was considerable delay in the generation of invoices ranging from six months to four years due to non-implementation of an evolving system for meter reading, bill generation and cash collection.

ii. The Company had to raise six invoices per consumer per year. However, average invoicing per year during 2013-14 was 2.9, in 2014-15 it was 1.3 and in 2015-16 it was only 2.8.

iii. There are variations between the number of connected and billed customers. As on March 2016, of the 9,317 PNG consumers only 8,482 consumers were billed.

iv. In case a customer fails to pay two consecutive bills, gas supply was to be discontinued without any notice and supply to be resumed only after clearance of all the outstanding bills with applicable interest. However, company continued supply of PNG even to customers having outstanding balances for more than one year in approximately 1,000 cases.

v. Company had been accepting bill payments from its consumers only through cheques whereas its approved Term Sheet provided for other alternate payment solutions like RTGS / ECS, Mobile app payment, Cash payment / collection center/ kiosk.

The Management stated (October 2016) that the Company was in process of floating tender for data verification of domestic customers and recovery of dues. It was also stated that in case of outstanding dues, the Company cannot disconnect the customers due to uncertainty of outstanding amount. Further, implementation of on line payment gateway to start collection of payment through net banking or credit card was in an advanced stage.

[1] ***₹71,76,900 (₹300 x 23,923 no. of consumers) as application fee and ₹47.79 lakh (₹500 x 9,558 no. of consumers) as additional security deposit from all consumers to whom gas connectivity was provided.***

10.1.4.3 Other topics of interest

(I) Non-adherence to PNGRB Regulations for maintaining separate books of accounts

As per Regulation 14 (5) & (6) of PNGRB Regulations, 2008 the authorized entity had to maintain separate books of accounts including detailed activity-based costing records to segregate direct, indirect and common costs along with the basis of allocation and the revenues earned in respect of purchase, transportation, compression, marketing etc of NG and CNG.

It was observed that the Company had maintained city-wise (Business Area wise) books of accounts for each GA under the ERP system and CNG cost records as per Cost Accounting Record Rules under Companies Act, 2013. However, no segregation had been made for domestic, commercial, industrial and CNG segments and all the costs and revenue involved had been clubbed under a single head. Thus, segment wise expenses, revenue and profit/loss could not be determined/ascertained.

Management while accepting the audit finding stated (October 2016) that it had been using SAP as the ERP system for accounting purposes. However, maintaining separate books of accounts for different activities as desired was not possible in the present accounting system of SAP.

(II) Idle expenditure on laying of HDPE[1] duct

The Company identified laying of OFC[2]/Duct along with CGD network for any future potential business as one of the primary objectives. Accordingly, the Company, while awarding (2010) the work of laying of MDPE pipeline network to the contractors in Dewas, Kota, Meerut and Sonipat GAs included procurement and laying of 40 MM HDPE duct for a total length of 239.82 km in their scope of work.

The Contractor however, could lay only 177.74 km of HDPE duct out of the total required length of 239.82 km, as the laying of MDPE pipeline network in the respective GAs had not been completed. Thus, the Company's objective of earning potential business could not be achieved. As a result, the expenditure of ₹1.39 crore incurred on laying of HDPE duct remained idle.

Particulars	Dewas	Kota	Meerut	Sonipat	Total
Total length of HDPE duct laid (in Km)	61.477	23.83	50.161	42.27	177.738
Expenditure incurred (in ₹)	57,16,266	42,83,842	39,39,584	0	1,39,39,692

The Management stated (October 2016) that there was no financial loss to the Company since the supply of duct was in the scope of the contract and in case same was not

[1] ***High Density Polyethylene***
[2] ***Optical Fiber Cable***

commissioned in totality, no payment would be made to the contractor while making the final settlement of bills.

Reply is not acceptable as the contract did not contain any such provision for non-payment or adjustment of payment made for completed works in case of non-commissioning of work in totality.

Conclusion

Audit of "Implementation of City Gas Distribution Projects by GAIL Gas Limited" revealed:

(i) Failure of the Company to execute CGD infrastructure projects in various GAs as per PNGRB milestones which resulted in encashment of PBG by PNGRB and operational loss;

(ii) Failure to obtain permissions from statutory authorities led to delay in CGD projects;

(iii) Unauthorised recovery of different charges from the customers;

(iv) System lapses in billing/collection mechanism.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

GAIL (India) Limited

10.2 Irregular payment of special monetary appreciation

GAIL (India) Limited paid Special Monetary Appreciation of ₹16.56 crore to its executives in violation of DPE guidelines.

Department of Public Enterprises (DPE) had issued (November 1997) instruction to all Central Public Sector Enterprises (CPSE) stating that the employees of CPSEs would not be paid bonus, *ex-gratia*, honorarium, reward and special incentives, etc. unless the amount was authorized under a duly approved incentive scheme. Further in November 2008, DPE has laid down guidelines for payment of Performance Related Pay (PRP).

These guidelines were violated by GAIL (India) Limited (the Company) which made payment of special monetary appreciation to executives amounting to ₹16.56 crore during 2015-16 on completion of Petrochemical Expansion Project at Pata (UP).

This was granted to all executives of the Company recognizing their significant contribution in achieving key milestones irrespective of whether they were actually engaged in execution of the Petrochemical Expansion project or not, including employees on secondment/deputation to Joint Ventures/Subsidiaries and their Joint Ventures/other organisations/Government Departments. The amount so paid was in addition to the payment made under the PRP Scheme.

Recommendation to the Board justified payment of special monetary appreciation on the following grounds also:

(i) The Company could not earn incremental profits during Financial Year 2014-15 resulting in lower entitlement for PRP.

(ii) The grading of the Company as 'Very Good' instead of 'Excellent' in MoU grading leading to lower PRP.

The Management stated (October 2016) that special monetary appreciation for completion of the petrochemical project was allowed to the executives in recognition of the extra efforts made by them and also to keep their morale high for achieving significant business milestones. Further, it was not linked to PRP which is disbursed after due deliberation and approval of Nomination and Remuneration Committee (NRC) in accordance with the approved PRP Scheme of the Company based on different parameters such as Financial Performance, overall MoU rating of the Company, individual performance rating, grade wise applicable percentage ceiling and annualized basic pay etc. Payment of special monetary appreciation to executives was in the form of one time token appreciation for recognizing the efforts made by them, and as such not being a regular payment, the same was allowed with the due deliberation and approval of Board of Directors.

Reply of the Management is not acceptable because as per the DPE guidelines, payment of special incentive could be made only under a duly approved scheme. Further, special monetary appreciation is in the nature of PRP and any payment over and above the PRP as per DPE guidelines issued in November 2008 was not admissible.

Thus, payment of ₹16.56 crore towards special monetary appreciation to its executives was irregular.

The Ministry of Petroleum and Natural Gas accepted (February 2017) the audit observation and advised GAIL to take corrective action.

Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited

10.3 Additional burden on RGGLV consumers due to incorrect declaration of Retail Selling Price of LPG

The Companies did not exclude the delivery charges while communicating Retail Selling Price of LPG to its RGGLV distributors, which resulted in additional burden on the consumers and undue financial benefits to the distributors to the tune of ₹168.04 crore.

The Rajiv Gandhi Gramin LPG Vitrak (RGGLV) scheme was launched (6 August 2009) by Ministry of Petroleum & Natural Gas (MoP&NG) with the aim to set up Liquefied Petroleum Gas (LPG) distribution agencies in order to increase rural penetration of LPG. As per the scheme, the LPG distributors (Vitraks) were to operate at rural locations with a potential of 600 refill sales per month. The Vitraks would supply LPG cylinders (weighing

14.2 Kg) to rural consumers on Cash and Carry basis at the Retail Selling Price (RSP)[1]. The RSP for LPG cylinders was revised by MoP&NG from time to time and communicated to the Vitraks by the respective Oil Marketing Companies.

As per the RGGLV scheme, the Vitraks were eligible for distributors' commission for refilling of LPG cylinders. The distributors' commission includes two components - the establishment cost and delivery charges which were revised by MOPNG from time to time. MOP&NG increased (5 October 2012) the distributors' commission to ₹37.25 per cylinder which comprised of an establishment cost of ₹22.25 per cylinder and delivery charges of ₹15 per cylinder. It was also clarified that delivery charges would not be collected from consumers who collect the cylinders directly from distributors' premises. As RGGLV consumers collected the cylinders directly from the Vitrak's premises, on cash and carry basis, delivery charges were not payable by them.

Audit observed that while communicating the RSP to its Vitraks for RGGLV scheme, Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) did not exclude the delivery charges component from the distributers' commission. As a result, the Vitraks collected delivery charges as part of their commission though they did not deliver the LPG cylinders to the rural customers. Thus, the Vitraks of the Companies enjoyed an undue benefit of ₹168.04 crore[2] on delivery charges over the period October 2012 to March 2016.

HPCL (August 2016) and BPCL (January 2017) stated that as per the scheme dated 6 August 2009, LPG cylinders would be supplied to the RGGLV customers on cash and carry basis with no rebate. Accordingly, full commission was being passed on to the RGGLV's distributors.

Replies of HPCL and BPCL are not acceptable as MOPNG had clarified (5 October 2012) that consumers who collect the cylinders directly from distributors' premises would not be charged the delivery charges. The quantum of the delivery charges was also clearly specified. Such delivery charges were payable by LPG customers in lieu of the service provided by distributors by delivering cylinders at the consumer's premises. As RGGLV consumers did not receive this service and had to collect their LPG cylinders from the premises of the RGGLV distributors, the question for payment of delivery charges by such customers did not arise.

Thus, by allowing Vitraks of RGGLV scheme to charge the entire distributors' commission, including the delivery charges from rural customers who did not avail of delivery services, HPCL and BPCL gave undue financial benefits to its Vitraks and imposed additional burden on the RGGLV consumers to the tune of ₹168.04 crore. The undue benefit to the Vitraks and burden on the rural LPG customers is still continuing.

The para was issued to the Ministry for HPCL in August 2016 and for BPCL in February 2017. Replies are awaited.

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[1] ***RSP is the price, OMCs sells the regulated products to the consumers which was decided by the MoP & NG and includes all taxes as well as distributors' commission.***

[2] ***₹88.81 crore in respect of HPCL and ₹79.23 crore in respect of BPCL.***

Indian Oil Corporation Limited

10.4 Inability to operate newly constructed Liquefied Petroleum Gas Bottling Plant due to lack of Environmental Clearance

Indian Oil Corporation Limited could not operate a Liquefied Petroleum Gas Bottling Plant since its completion in November 2014, as it failed to obtain prior Environmental Clearance for the Project. Consequently, investment of ₹75.58 crore was lying idle and the envisaged savings of ₹14.48 crore per annum could not be realised.

In September 2006, Ministry of Environment and Forests (MoEF) had notified that projects involving isolated storage and handling of hazardous chemicals (above notified threshold storage limits) fall under Category 'B' and such projects would require prior Environmental Clearance (EC) from the State/Union Territory Environment Impact Assessment Authority (SEIAA). Further, any project specified under Category B, if located within 10 km from the boundary of protected areas notified under Wild Life (Protection) Act, 1972, would be treated as Category 'A', which would require prior Environmental Clearance (EC) from MoEF. Manufacture, Storage and Import of Hazardous Chemical (MSIHC) Rules, 1989 issued by MoEF provided for threshold storage limit of 50 tonne for flammable gases and LPG being a flammable gas falls under that category. Thus, any storage beyond the prescribed threshold limit of 50 tonne of LPG gas required prior EC.

Indian Oil Corporation Limited (IOCL) approved (June 2011) construction of a 60 TMTPA capacity Liquefied Petroleum Gas (LPG) Bottling Plant, with a storage capacity of 1,800 MT, at an estimated cost of ₹74.58 crore, at Tirunelveli, on land taken (September 2011) on lease for 99 years from State Industrial Promotion Corporation of Tamil Nadu. Besides catering to the packed LPG requirements of Tirunelveli, it was envisaged that the project would result in a saving of ₹14.48 crore per annum in logistics cost.

M/s. Environmental Technical Service Pvt. Ltd. (ETSPL), whom IOCL had appointed (August 2011) for conducting Hazard and Operability Study, Risk Assessment Study, Environment Impact Assessment, preparation of disaster management plan and providing assistance to IOCL in obtaining approvals from statutory bodies, opined (December 2011) that the project did not require EC from the State or the MoEF. However, in January 2012, IOCL, while giving the details of the Project to MoEF and Tamilnadu Pollution Control Board (TNPCB), sought clarification as to whether prior EC was required. Without receiving any clarifications in this regard, IOCL requested (February 2012) TNPCB to issue 'Consent to Establish' order, which was issued (September 2012) by TNPCB subject to various conditions, including obtaining necessary clearances from Department of Fire and Safety, Explosives, Forests, etc. IOCL commenced the construction of the project and completed the project in November 2014 at a cost of ₹75.58 crore.

In December 2014, IOCL submitted an application to Petroleum and Explosives Safety Organisation (PESO), Ministry of Commerce and Industry, for grant of license for storing of LPG at the plant. PESO sought (April 2015) a copy of EC for processing its

application. IOCL took up (April 2015) the issue of applicability of EC with MoEF. It was clarified (April 2015) by MoEF that the EC was required for the project as it was listed under Category 'B' of the MoEF notification issued in September 2006. Thereafter, when IOCL applied (September 2015) to SEIAA for the EC, it was informed (October 2015) by SEIAA that the project would be classified under Category 'A' as the same was located within 5 km of a Deer Sanctuary (notified on October 2013) and that the EC needed to be processed by MoEF. The Expert Appraisal Committee (Industry-2) of MoEF, while processing the EC application of IOCL, observed (February 2016) that the project violated the provisions of Environment (Protection) Act, 1986 and MoEF Notification, 2006. In addition, it also observed that the project required clearance from National Board for Wild Life (NBWL). As clearance certificates were yet to be received from the statutory bodies, IOCL could not operate the plant despite lapse of more than two years since construction. Further, TNPCB had also initiated (May 2016) legal action against IOCL under Environmental (Protection) Act, 1986.

The Management stated (September 2016) that prior EC was not taken as per the advice of environment consultant. In addition, it stated that TNPCB had granted 'Consent to Operate' the plant in June 2015 and license from PESO had also been received in June 2015.

The reply needs to be weighed against the facts that when IOCL sought clarifications (January 2012) from MoEF and TNPCB as to whether prior EC was required, the argument that, prior EC was not taken solely based on the consultant's opinion, is contradictory. In fact, IOCL should have followed up with the above authorities and obtained necessary clarifications in the matter prior to construction of the project. Further, the plant could not be operated even though TNPCB issued 'Consent to Operate', as the EC was yet to be obtained. The license granted by PESO was also subject to IOCL obtaining other statutory clearances which IOCL failed to secure.

Thus, due to non-compliance with statutory requirement, IOCL could not operate (January 2017) the plant constructed at a cost of ₹75.58 crore. Consequently, the envisaged savings of ₹14.48 crore per annum in logistics costs could not also be realised.

The matter was reported to the Ministry in September 2016; their reply was awaited (January 2017).

10.5 Idle investment of ₹15.30 crore

Despite being aware of the fact that suitable crude would not be available, the Company installed LPG production facility which could not be used since commissioning, resulting in idle investment of ₹15.30 crore.

The Bongaigaon Refinery (BGR) of Indian Oil Corporation Limited (Company) implemented Motor Spirit Quality (MSQ) improvement project to produce Motor Spirit as per Euro-III specifications. The MSQ improvement project included installation of Light Naptha Isomerisation Unit, Purification section and a LPG recovery unit to be implemented in phase-IIA and phase-IIB of the Project. Phase-IIA of the improvement project was commissioned in September 2011. Liquefied Petroleum Gas (LPG) Recovery Section forming part of Phase-IIB envisaged retrieval of LPG from LPG Recovery Unit

by absorption and stripping process at low temperature and high pressure. One refrigeration unit was necessary to maintain the required low temperature. Accordingly, the Company placed (February 2009) an order on Kirloskar Pneumatic Company Ltd. for supply, erection and commissioning of refrigeration package. The refrigeration unit was commissioned in December 2011 at a total cost of ₹15.30 crore.

The refrigeration unit operated for only 55 days and the LPG recovery unit produced only 77.8 MT of LPG during the year 2011-12. The production of LPG has been stopped since then due to negative margin. Subsequent cost benefit analysis of producing LPG from MSQ improvement project also indicated that the LPG production was unviable and there was no production of LPG from LPG Recovery Unit during the period from 2012-13 to 2015-16.

Audit observed that the crude mix pattern proposed in the Feasibility Report (2008) for MSQ project consisted of Assam crude and Ravva crude which had higher LPG potential. Management, however, was aware even in 2006 that the availability of Ravva crude to the refinery was declining and that other crudes had to be processed. The availability of Ravva crude to BGR stopped in June 2012. After commissioning of MSQ improvement project and refrigeration package, Ravva crude was not processed at the Refinery and imported crude was supplied to the Refinery from 2012-13 in order to maximize the corporate gross refining margin. The imported crude, however, had lower LPG potential. It was, therefore, un-economical to operate the LPG recovery section of MSQ Project in view of the negative contribution from this operation. This resulted in idling of LPG recovery section immediately after commissioning.

The Management stated (November 2015) that:-

- Exact information as to when Ravva crude would not be available was not known at the time of project formulation.
- The price of Ravva crude in comparison with other crudes increased over the years, making it uneconomical for processing at BGR.
- A new Modification programme was being implemented to utilize the idle facility by 2016-17.

The Ministry (August 2016) while explaining reasons for under-utilisation of LPG production facility endorsed the views of the Management and stated that a modification scheme is under implementation for effective utilisation of the idle facility.

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

- The Company was aware from 2006 that the availability of Ravva crude to the refinery would decline.
- The price of imported crude also rose during that period along with increase in the cost of Ravva Crude.

- Additional LPG from the modified system might be available after another period of 17 months but the viability of the system would be assessed in future. In the meanwhile, LPG recovery facility is lying idle for more than fifty six months. (September 2016).

Thus, despite knowing the fact that the suitable crude would not be available for viable operation of LPG recovery unit, management took the decision to install LPG production facility which resulted in idle investment of ₹15.30 crore.

Oil and Natural Gas Corporation Limited

10.6 Extra expenditure of ₹18.52 crore on pipeline replacement project due to shortcomings in the Bid Evaluation Criteria

Oil and Natural Gas Corporation Limited (Company) had to close the tender for replacement of five trunk pipe lines Project due to lack of clarity in the Bid Evaluation Criteria of tender. The tender was subsequently re-invited and the contract was awarded at a higher cost resulting in extra expenditure of ₹18.52 crore.

Oil and Natural Gas Corporation Limited (ONGC) invited (October 2010) bids for replacement of five trunk pipe lines[1] (project) of Assam Asset. Price bids were opened in March 2011. However, the tender was cancelled as the lowest bidder (L1) failed to submit Performance Bank Guarantee.

Tender for the project was re-invited by ONGC in August 2012, against which, seven bids were received. Out of the seven bids received, four bids were technically qualified. Out of the three bids that did not qualify, the bid submitted by consortium led by M/s Sai Rama[2] was not accepted for want of required experience. The price bids of four technically qualified bidders were opened (March 2013) and the bid submitted by consortium of M/s IOT Infrastructure & Energy Services Limited, Mumbai and M/s ACE Energy Infrastructure Ltd, Mumbai was found to be the lowest (L1) at the quoted price of ₹149.43 crore. The Tender Committee (TC) of ONGC recommended (10 April 2013) awarding the contract to the consortium led by M/s IOT Infrastructure & Energy Services Limited, Mumbai.

Meanwhile a representation was received (April 2013), from consortium of M/s Sai Rama, against disqualification of their bid. The case was referred to Independent External Monitors (IEMs) who opined (August 2013) that considering the experience of all of the consortium partners, the bid of M/s Sai Rama, did not constitute a violation of the qualifying criteria, and suggested reconsideration of the case. Tender Committee (TC) noted (22 August 2013) the opinion of IEM and stated that more clarity was needed in the Technical Bid Evaluation Criteria (BEC) and recommended that the Executive Purchase

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[1] ***Central Tank Farm (CTF), Geleki to CTF-Jorhat, CTF Geleki to Dekhow Junction Point (DJP), Gas Compression Facility (GCP) Geleki to DJP, Group Gathering Station (GGS)-I Rudrasagar (RDS) to DJP and GCP RDS to DJP***

[2] ***Joint Venture of M/s Sai Rama Engineering Enterprises, Hyderabad and M/s Megha Engineering and Infrastructure Ltd., Hyderabad and M/s Gazstroy, Moscow***

Committee (EPC), to re-invite the tender. The EPC in its deliberations (24 September 2013) stated that clarity was required in the Technical BEC. EPC also noted that the validity of the offers submitted by the four qualified bidders had expired and thus, approved the recommendations to re-invite the tender.

Fresh Notice Inviting Tender (NIT) was published (June 2014) with minor changes in the length of the existing pipelines and addition of one 4" pipeline (estimated cost of ₹5.17 crore), against which, six bidders submitted (September 2014) their bids. Of the six bids received, four bids were technically qualified. The bid of M/s Sai Rama did not qualify again for want of required experience. Price bids of four technically qualified bidders were opened (5 December 2014) and the bid submitted by consortium of M/s OIL-IOT Infra & Energy Services Limited, Mumbai with negotiated price of ₹211.58 crore emerged as the lowest bid. Meanwhile, M/s Sai Rama again, represented (15 December 2014) to IEMs, against rejection of their bid. IEMs, in the light of completion of a pipeline project awarded to M/s Sai Rama in an earlier tender, recommended (07 January 2015) to review the decision to reject the bid of M/s Sai Rama.

The TC (January 2015), however, differed from the recommendations of IEM and recommended retendering of the job. Therefore, the matter was referred to Legal section of ONGC, which opined (23 February 2015) that it would be inappropriate to open the bid of the bidder who did not fulfil the technical criteria and it would create legal complication if challenged in court. However, in view of the delay in implementation of project, Director (Onshore) of ONGC agreed with the views of IEM and suggested opening the tender of M/s. Sai Rama Engineering Enterprises, which was agreed (April 2015) to by the EPC. The bid of M/s Sai Rama, at an overall price of ₹177.88 crore, was the lowest. After negotiations, the contract was awarded (10 April 2015) to consortium led by M/s Sai Rama at the lump-sum value of ₹173.28 crore.

Thus due to lack of clarity in the technical BEC of the earlier tender, ONGC had to re-invite the same which resulted in approximate additional project cost of ₹18.52 crore {₹173.28 crore – (₹149.43 crore + ₹5.33 crore[1])}.

The Management replied (October 2015) that Joint Venture of M/s Sai Rama Engineering Enterprises, represented to the nominated IEM against his disqualification. IEM opined (August 2013) that the bid submitted by the petitioner was not exactly in violation of the qualifying criteria.TC deliberated (22 August 2013) the opinion of IEM and was of the view that more clarity was needed in the Technical BEC to avoid present scenario and recommended re-invitation of tender. In view of requirement of clarity in the Technical BEC to avoid recurrence of present scenario as well as considering that the validity of all qualified bids had expired, the EPC (24 September 2013) decided to re-invite the tender. The tender was re-invited (June 2014) after incorporating appropriate changes in the technical BEC.

The Management reply substantiates the fact that the tender had to be re-invited due to deficiencies in the BEC/tender criteria of the earlier tender. Thus due to lack of clarity in

[1] ***After taking into consideration the cost of ₹5.33 crore quoted by M/s. Sai Rama, towards additional 4" pipeline from Well at Kasomari Gaon (KSAB) to T point Borhalla Khorghat, scope of which was included subsequently while issuing the revised tender.***

Bid Evaluation Criteria, ONGC had to re-invite tenders, which resulted in additional cost of ₹18.52 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

10.7 Supply of gas without security resulted in non-recovery of dues

ONGC failed to ensure the submission of valid Letter of Credit as security for the required amount as per the Gas Supply Agreement and continued the gas supply to a private customer without security resulting in non-recovery of ₹7.36 crore.

Oil and Natural Gas Corporation Limited (Ankleshwar Asset[1]) entered into a Gas Supply Agreement (GSA) with M/s Siddhi Vinayak Power Generation and Distributors Private Limited (the buyer) on 11 January 2013 for supply of 90,000 SCMD[2] gas.

As per Article 13.12 of the GSA, before commencement of gas supply, the buyer was required to submit irrevocable, revolving, and without recourse Letter of Credit (LC) from any nationalized/scheduled commercial bank of equivalent to the value of 60 days of gas supply. Further, as per Article 13.14 of the GSA, the buyer was required to ensure the validity of the LC by getting extension duly issued by the banker at least one month before the expiry of the validity of existing LC. In case of failure by the buyer to do so, ONGC had the right to invoke the LC and keep the amount as deposit till the LC was renewed. Further ONGC also had the right to stop the supply of gas for not keeping the LC valid. In terms of Article 6.01 of the GSA, ONGC had the right to stop gas supplies without prejudice to its rights to recover the price of minimum guaranteed off-take (MGO).

Audit observed that ONGC failed to recover ₹5.54 crore towards gas supply and MGO charges for the month of March 2015 and April 2015 and interest on delayed payment of the gas bills amounting to ₹1.82 crore as on 31 March 2016, due to the following reasons.

1. The buyer had submitted four LCs for ₹6.87 crore (3 LCs worth ₹4.72 crore issued by Andhra Bank[3] and one for ₹2.15 crore issued by Punjab National Bank) during January/March 2014 valid till July/September 2014. The three LCs issued by Andhra Bank for ₹4.72 crore were submitted for encashment by ONGC on 11 July 2014. However, the LCs were not honored by the bank, stating that the said LCs had been reversed and closed. The buyer had not renewed the validity of the three LCs issued by the Andhra Bank. Instead, the buyer submitted (19 August 2014) Bank Guarantee (BG) worth ₹4.72 crore as security in lieu of LC. However, ONGC returned (21 August 2014) the BG stating that as per the GSA only irrevocable, revolving and without recourse LC was acceptable and BG could not be accepted as security deposit. It was requested to renew the LCs. However the LCs were not renewed by the party.

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[1] ***Asset is an entity entrusted with development and production of hydrocarbon***

[2] ***Standard Cubic Meters per Day (SCMD)***

[3] ***LC dated 01 March 2014 for ₹2.20 crore dated 05 March 2014 for ₹1.00 crore and dated 11 March 2014 for ₹1.52 crore with expiry date 30 September 2014***

2. The LC issued by the Punjab National Bank (PNB) for ₹2.15 crore was renewed by the buyer, till 20 July 2015. Thus ONGC had an opportunity to encash the LC issued by PNB and secure payment of ₹2.15 crore. However, ONGC failed to encash the same during its validity period.

3. ONGC intimated the buyer only on 11 December 2014 and 16 January 2015, to renew the LCs for revised amount ₹7.77 crore[1]. ONGC also intimated that in case of failure to do so, the supply of gas would be stopped as per the terms of the GSA. However, the supply of gas was continued, even though the buyer did not renew the LCs. ONGC served (5 February 2015) notice under Article 13 of the GSA and requested to submit the LCs for ₹7.77 crore and to clear the outstanding dues. However, the buyer did not renew the LCs for the required amount and did not also pay for the gas supply for the month of March 2015. The Company stopped supply of gas with effect from 24 April 2015. The buyer did not pay the amount of ₹5.54 crore[2] towards supply of gas and MGO charges for the period from March to April 2015. ONGC terminated the GSA in February 2016.

Thus, ONGC failed to ensure renewal of valid LCs issued by Andhra Bank and also failed to encash the LC issued by PNB during its validity period, despite the buyer having reversed and closed the LCs issued by Andhra Bank. ONGC did not use its right to stop the gas supplies for not keeping the LCs valid and continued the supply of gas. Subsequently, though it stopped the gas supply to the buyer and terminated the GSA, ONGC had not so far (December 2016) initiated legal action to recover its dues towards supply of gas to the buyer.

The Management stated (December, 2016) that:

1. LC(s) amounting to ₹4.72 crore submitted by the consumer were presented on 11 July 2014 well within the validity for encashment but were not honoured by Andhra Bank. Andhra Bank informed that the said LCs were closed by the consumer.

2. The consumer submitted a Bank Guarantee of ₹4.72 crore and requested it be accepted it as security deposit. Subsequently it was decided to return the BG since as per GSA only revolving LC is to be accepted as security deposit. A meeting was held with the consumer on 22 September 2014. As discussed in the meeting, the BG was returned to the consumer after an undertaking was given by the consumer to provide the required LC towards security deposit within 7 days' time and if it failed to do so then gas supply would be stopped by ONGC. Based on the assurance given by the consumer, the gas supply was continued.

3. There was lapse in encashment of LC issued by PNB.

The reply of Management is not acceptable due to the following:

1. ONGC accepted the LC for ₹4.72 crore issued by Andhra Bank with validity period of seven months *i.e.,* upto 30 September 2014 which was in contravention

[1] ***Equivalent to price of 60 days of gas supply of relevant period***

[2] ***₹5.26 crore towards gas supply and ₹0.28 crore towards MGO charges***

of Article 13.12 of GSA which stipulated that the LC should be valid for a period of one year. Supply of gas to the consumer should have commenced only after receipt of LC with one year validity period towards payment of security. Further, consumer closed the LC for ₹4.72 crore before expiry of LC validity which the Management was not aware of.

2. Though LCs issued by Andhra Bank had been reversed and closed by the buyer, ONGC failed to encash the LC issued by PNB for an amount of ₹2.15 crore even though the same was renewed till 20 July 2015. The Management has accepted that the failure to encash the LC issued by PNB was a lapse on their part.

3. The supply of gas was continued on assurance from the buyer (22 September 2014) to submit the LC within 7 days. Although, the Company had the right under GSA to stop gas supply in case of failure to submit valid LC, ONGC continued to supply gas from 1 October 2014 to 24 April 2015 without valid LC.

Thus, by not adhering to the contractual provisions prescribed in GSA, ONGC failed to receive the payment of gas supplied to the consumer resulting in non-recovery of ₹7.36 crore[1].

The matter was reported to the Ministry in September 2016; their reply was awaited (January 2017).

10.8 Delay in repair of critical HP flare tip led to extra expenditure of ₹16.11 crore due to replacement of repairable HP flare tip

ONGC observed (June 2014) burning of gas below the High Pressure (HP) flare tip (MNF1[2]) at distributor cross arms. The same was intimated to Original Equipment Manufacturer (OEM) and was inspected after four months (October 2014). The flare tip could have been repaired if ONGC had taken up the matter immediately after the incident. Due to delay in reporting the incident, ONGC had to replace the flare tip resulting in an extra expenditure of ₹16.11 crore.

Contract for construction of Mumbai High North (MHN) Process platform and Living Quarters was awarded to M/s Larsen and Toubro Hydrocarbon Engineering Limited (LTHE), Mumbai on 31 July 2009. The HP flare tip[3] for the platform was supplied by M/s Callidus Technologies LLC and was commissioned in October, 2012.

During June 2014, ONGC observed gas burning below the HP flare tip (MNF1) at distributor cross arms. The matter was taken up with the contractor, M/s LTHE on 1 July, 2014 for remedial action. Since warranty of the flare tip had expired, LTHE in turn suggested taking up the issue directly with M/s Callidus, the original equipment

[1] *₹5.26 crore towards Gas supply, ₹0.28 crore towards the MGO charges and ₹1.82 crore towards interest on the outstanding amount*

[2] *Mumbai North Flare 1*

[3] *A flare tip is used for the disposal of waste combustible gases and consists basically of a high grade alloy tube. Usually it is mounted on the top of a steel stack so that the heat of combustion and its products will not cause danger to life and property on the ground.*

manufacturer (OEM). However ONGC did not intimate the OEM and again (September 2014) informed M/s LTHE that the flare tip had tilted to one side due to the fire at tip bottom. In response, M/s LTHE informed (25 September 2014) that representative of M/s Callidus would be mobilised in the first week of October 2014. During October 2014, the representative of M/s Callidus inspected and reported that the damages were repairable at the time when detected but had worsened over time and hence needed to be replaced. The flare tip vendor, M/s Callidus, submitted its final report on 28 January 2015.

Considering the urgency of replacement, Company requested M/s LTHE with sub-vendor, M/s Callidus to carry out the replacement during pre-monsoon 2016. The contract was awarded to M/s LTHE on 16 December 2015 for a total lumpsum price of USD 2,404,575 (₹16.11 crore) including service tax but excluding taxes & duties. The flare tip has been replaced on 30 November 2016 after 29 months delay from the incidence took place in June 2014.

The Management replied (October 2016) that burning of gas was observed below the MNP HP flare tip on 26 June 2014 and the matter was taken up with Contractor M/s LTHE immediately on 1 July 2014 for remedial action. After continuous persuasion, OEM representative visited MNP on 10 October, 2014. Hence, the delay in inspection of flare tip was due to delayed response from LTHE and OEM.

The reply of Management is not justifiable since ONGC did not take up the issue immediately with the OEM, despite LTHE's request (July 2014) to do so. During September 2014, ONGC again contacted LTHE when the flare tip had tilted. Thus, due to delay in intimation of the incidence of burning of gas below the HP flare tip, ONGC was compelled to replace the same resulting in an extra expenditure of ₹16.11 crore to the Company.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

10.9 Failure to obtain the share of cost of Immediate Support Vessels purchased by ONGC for security of offshore assets from private Exploration and Production (E&P) operators

Ministry of Petroleum and Natural Gas (MoPNG) directed (October 2009) Oil & Natural Gas Corporation to procure 23 Immediate Support Vessels from its own funds for operations by Indian Navy relating to security of offshore assets. The cost of this was to be shared by all companies engaged in Exploration and Production of oil, having a foot print in offshore areas. Though ONGC purchased all 23 ISVs at a total cost of ₹349 crore and delivered them to the Navy in July 2015, MoPNG had not finalised the cost sharing mechanism of the ISVs by other private and public sector Exploration and Production (E&P) Operators. This resulted in blocking of funds of ONGC to the tune of ₹136.84 crore relating to share of Capital expenditure pertaining to other Operators and loss of interest thereon to the tune of ₹15.39 crore.

In a meeting held on 10 September 2007, between Ministry of Petroleum and Natural Gas (MoPNG) and private and public sector companies engaged in exploration and production

of petroleum products, on security of offshore installations in the Exclusive Economic Zone of the country, it was decided that cost of security of offshore assets would be shared by all exploration and production (E&P) companies having a foot print in offshore areas. The Cabinet Committee on Security (CCS) approved (February 2009) early procurement of Immediate Support Vessels (ISVs) required for offshore security. MoPNG directed (October 2009) ONGC to procure all the 23 ISVs from its own fund for operations by the Navy. MoPNG also directed (June 2011) Director General of Hydrocarbons (DGH) to take up the issue with Private Operators for effective implementation of cost sharing of ISVs among the Operators.

Though, various meetings were held (January 2014, July 2014, and December 2014) between DGH and representatives of E&P Operators [1], to discuss the cost sharing mechanism of ISVs to be procured by ONGC, no progress relating to finalising cost sharing mechanism relating to ISVs purchased by ONGC was made. Subsequently, DGH also suggested (March 2015) a formula for cost sharing, taking into consideration, protection of physical offshore assets, oil and gas production and insured value of the asset. However, the E&P operators in the private sector expressed (03 June 2015) their reservations and disagreement on participating in the cost sharing mechanism of ISVs, stating that it was the sovereign duty of a nation to provide security to all its assets.

DGH therefore, proposed (December 2015) to MoPNG, that, being sovereign responsibility of the State, Government may consider paying Capital Expenditure (CAPEX) of the ISVs through Oil Industry Development Board (OIDB) funds as a onetime measure. However, no further decision was taken on the same by MoPNG.

Meanwhile, as directed by MoPNG, ONGC purchased and delivered all 23 ISVs registered as warships to Navy (July 2015). As on 30 June 2015, the total cost of procurement of 23 ISVs amounted to ₹349 crore.

Subsequently, the private operators (in the meeting dated 2 February 2016), agreed in principle with the Ministry to share the CAPEX cost of ISVs. It was further agreed that DGH would, in consultation with the operators, develop an agreeable formula for sharing of CAPEX. It was also decided that RIL would act as a coordinator for ISVs in East Coast and all stakeholders would share the CAPEX and operating expenditure (OPEX) of ISVs. However the private E&P operators still maintained (March 2016) that there was no agreement amongst the stakeholders on the need for deployment of ISVs and in the absence of agreement, issue of sharing of cost incurred by ONGC unilaterally did not arise.

In the subsequent meeting of DGH (10 August 2016) with private oil and Gas Operators issue of sharing only OPEX on East Coast was discussed. DGH did not raise the matter relating to sharing of CAPEX with the private operators. The coordinator M/s. RIL also addressed (October 2016) only the issue of sharing of OPEX relating to the ISVs. No further decision was taken by MoPNG as well as DGH with regards to sharing of CAPEX of ISVs purchased by ONGC and handed over to the Navy for security of offshore assets of all the public and private operators operating in Indian Exclusive Economic Zone.

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[1] ***Reliance Industries Limited (RIL), Gujarat State Petroleum Corporation (GSPC) and Cairn India Limited (E&P operators from producing offshore assets)***

The Management stated (November 2016) that the procurement was done as per the directives of MoPNG and E&P operator's share of ISV costs could only be decided and recovered after the DGH firms up the mechanism of cost sharing. The Management reply had to be viewed against the fact that the private E&P operators expressed inability to share the cost of ISVs citing the sovereign duty of the Government.

Thus, even after a period of seven years from the date of its directions (October 2009) to ONGC to procure 23 ISVs, MoPNG could not finalise the reimbursement of capital cost of ISVs either through sharing mechanism with the other E&P operators or through OIDB funds. This resulted in blocking of ONGC funds to the tune of ₹136.84 crore without any reimbursement from the other Operators/ MoPNG towards the CAPEX cost of ISVs related to other operators for providing security to installations, other than that of ONGC and loss of interest of ₹15.39 crore (@7.5[1] *per cent* per anum) thereon for a period of one and half years (from July 2015, date of handing over of ISVs to Navy).

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

ONGC Videsh Limited

10.10 Wasteful expenditure on idling of rig

ONGC Campos Limitada (subsidiary of ONGC Videsh Limited) failed to submit Operational Safety Documents prior to 90 days of starting of drilling, as required. This led to idling of rig for 118 days and consequent wasteful expenditure of ₹134.73 crore.

ONGC Videsh Limited (the Company) through its subsidiary, ONGC Campos Limitada (OCL) acquired Block BM-S-73, Brazil and entered (2008) into the concession agreement with the Brazilian Oil and Gas Regulator (ANP[2]), for the exploration, development and production of oil and natural Gas. The concession agreement gave OCL a 100 *per cent* interest in the block. OCL, after retaining 43.50 *per cent* farmed out participation interest of 43.50 *per cent* and 13 *per cent* respectively to Petrobras and Ecopetrol in January 2010 and accordingly entered (May 2010) into a Joint Operating Agreement (JAO). According to the JAO, OCL was appointed as the Operator with day to day responsibility for conducting operations on behalf of the members of the consortium. Non-operators were obliged to pay cash calls issued by the operator for the expenses incurred without prejudice to their rights to later contest the charge and indemnify the operator against any loss or damage, even if caused by the Operator's own fault except, for gross negligence or wilful misconduct.

OCL was required[3] to submit Operational Safety Documents (OSD) 90 days before drilling operations were to start. However, OCL did not submit OSD as required and started drilling activity of exploratory well after obtaining (April 2011) environmental

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[1] ***The rate at which ONGC had invested (July 2016) its surplus funds in mutual funds.***

[2] ***Agentia Nacional do Petroleo, Gas Natural e Biocombustiveis, the 'ANP' –Brazilian Oil and Gas Regulator***

[3] ***As per Resolution No. 43/2007 of the Brazilian Oil and Gas regulator (ANP)***

clearance from Environment Regulatory Authority of Brazil (IBAMA[1]). ANP suspended drilling operations with effect from 24 June 2011 for non-submission of OSD. OCL submitted OSD on 19 July 2011 and after inspection of rig, ANP lifted the suspension on 19 October 2011.

In the meantime, IBAMA withdrew (September 2011) the drilling license on the grounds that the Individual Emergency Plan submitted by OCL failed to deal with level three oil spill. The drilling licence was restored on 9 November 2011 on submission (October-November 2011) of several documents containing the information which was requested by IBAMA. The drilling operations again started on 9 November 2011. In the process, the rig remained idle for 118 days (24 June to 19 October 2011) on suspension of drilling operations by ANP and for 19 days (20 October to 8 November 2011) on account of withdrawal of drilling license by IBAMA. Drilling was completed on 25 November 2011 but no oil was found in the well. The consortium members agreed (January 2012) to relinquish the concession agreement.

As per terms of the JAO, OCL issued (May 2011) cash call No. 1 in Brazilian currency (BRL) 121.71 million[2] for the expenditure incurred[3] and the same was paid by the consortium members. Cash call 2 for BRL 45.09 million[4] was issued (August 2011) and paid by all the consortium members. Subsequent cash calls (3 and 4 amounting to BRL 50.70 million) were also paid (December 2011/February 2012) by Petrobras (BRL 22.05 million) and Ecopetrol (BRL 6.59 million) under protest and with express reservation of their rights to contest it as it related to the Non-productive period. However, demand made under cash call 5 in July 2012 for Petrobras's share of BRL 49.58 million and Ecopetrol's share of BRL 14.82 million was refused by them on the plea that the cash call contained costs related to the non-productive operative period caused by suspension of drilling activities due to negligence of the operator which should be exclusively borne by the operator. Further, the consortium members demanded reimbursement of the non-productive period cost included in cash calls 2 to 4.

OCL made several efforts through negotiation meetings with consortium members/supplier of rig from July 2012 to settle their dues. The negotiation failed and, therefore arbitration proceedings were initiated (November 2013) by OCL. During arbitration proceedings, OCL stated in its defence that it was not aware of the substances of the requirements of the notification issued by ANP and possible implication of failing to comply with those requirements. Petrobras stated that OCL ignored its communication forwarding the copy of ANP Resolution twice (together with an English translation) to comply with those requirements and accordingly drilling was suspended due to negligence of OCL.

International court of Arbitration pronounced (December 2015) that ANP's suspension of the drilling operations should be attributed to OCL's gross negligence and therefore OCL should bear the cost of USD 51.59 million equivalent to ₹238.46 crore being idle

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[1] ***Instituto Brasilerio do Meio Ambiente e dos Recursos Natuaris Renovaveis - Environment Regulatory Authority of Brazil***

[2] ***Share of OCL, Petrobas and Ecopetrol was BRL 52.94 million, BRL 52.94 million and BRL 15.82 million respectively***

[3] ***Drilling and General & Administrative expenses***

[4] ***share of OCL –BRL 19.62 million, Petrobras - BRL 19.61 million and Ecopetrol BRL 5.86 million***

rig charges (USD 16.82 million) and other expenses (USD 34.77 million) incurred from 24 June to 19 October 2011. This included ₹ 103.73 crore share of OCL and ₹134.73 crore share of Petrobras and Ecopetrol together. The Court also added that the cost incurred during the period of suspension of drilling activities by IBAMA *i.e.,* from 20 October to 8 November 2011 should be shared by all the consortium members according to their share of participation interest as it was not attributed to OCL's gross negligence. On accepting the award, OCL settled the dispute with consortium members on 10 March 2016. This resulted in wasteful expenditure of ₹134.73 crore being idle rig charges and other expenses which could not be passed on to other members of consortium.

The Management stated (September 2015) that all compliances as per checklist available on ANP website were complied with by OCL. The Management also stated that OCL had several meetings with ANP and got a verbal message conveying that the entire requirement was complied with.

The reply of the Management is not acceptable as it was duly considered by the International Court of Arbitration and the Company was held responsible for suspension of drilling operations due to non-submission of OSD before starting of drilling operations. OCL, instead of having relied on the verbal confirmation regarding compliances of all requirements, should have adequately safeguard its interests by promptly acting on the communication of Petrobras to comply with regulatory requirements as per ANP Regulations.

Thus, due to gross negligence, OCL failed to submit Operational Safety documents 90 days before starting of drilling which resulted in idling of the rig for 118 days with consequential wasteful expenditure of ₹134.73 crore.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

CHAPTER XI: MINISTRY OF POWER

Damodar Valley Corporation

11.1 Incorrect decision for payment of ex-gratia to the employees

The Corporation incurred extra expenditure of ₹31.38 crore due to its incorrect decision for payment of ex-gratia to its employees despite poor performance and incurring loss.

Damodar Valley Corporation (Corporation) grants ex-gratia to its employees who are not eligible for bonus as per provisions of Bonus Act, 1965. The employees who are eligible for bonus are also paid ex-gratia to the extent of difference between the admissible and the ex-gratia amount declared for the year.

As per CERC[1] regulations, the payment of ex-gratia is linked to the efficient operation and high performance level of generating station and is payable only in case the plant achieves or over achieves its normative operational levels. Such payment of ex-gratia would not be part of O&M[2] expenditure recoverable from the customers. CERC also stated (April 2014) that such expenses on manpower should be funded through the incentives and profit earned by the generating stations on account of better plant performance.

Audit observed that, during the period 2013-14 and 2014-15, the Corporation could achieve APAF[3] to the extent of 55.56 *per cent* and 46.56 *per cent* during the year 2013-14 and 2014-15 respectively against the normative APAF of 85 *per cent*[4] as fixed by the CERC. There was shortfall of 5,852 MKwH[5] and 4,506 MKwH in power generation during the same period (2013-14 and 2014-15) against de-rated capacity. The Corporation also suffered losses during the year 2013-14 and 2014-15 to the tune of ₹995.43 crore and ₹1,333.56 crore respectively. Thus, the Corporation could not meet the efficiency criteria and high performance level for payment of ex-gratia. Despite this, the Corporation paid ex-gratia of ₹31.38 crore for the years 2013-14 and 2014-15 to its employees which was not correct.

The Management contended (September 2016) that the expenditure incurred on payment of ex-gratia is recoverable under Operation & Maintenance Expenses through tariff under the CERC Regulation.

The contention of the Management is not acceptable as Para No. 29.22 of Statement of Reasons of CERC (Terms and Conditions of Tariff) Regulations, 2014 stated that ex-gratia and other incentives should not be considered while determining O&M

[1] ***Central Electricity Regulatory Commission***
[2] ***Operation & Maintenance***
[3] ***Annual Plant Availability Factor***
[4] ***85 per cent for all thermal generating stations of the Corporation except BTPS (75 per cent), CTPS (75 per cent) and DTPS (74 per cent).***
[5] ***Million Kilowatt Hour***

expenditure norms. It was noticed that while sanctioning the ex-gratia to its employees for the year 2013-14, the Corporation indicated that payment of ex-gratia was dependent on the performance of the Corporation and should not be a precedent for the future grant of bonus/ ex-gratia.

Thus, the decision of the Corporation to pay ex-gratia to its employees, who were not eligible for payment of bonus/ex-gratia as per the payment of Bonus Act, 1965, despite poor performance and incurring losses was not appropriate and led to Corporation incurring extra expenditure of ₹31.38 crore.

The matter was reported to the Ministry in September 2016; their reply was awaited (January 2017).

11.2 Loss due to delay in rectification of defect

Due to delay in rectification of defects in Unit 1 of Tilaiya Hydel Power Station, the Corporation could not generate 19.39 million units of power leading to loss of ₹8.60 crore towards under-recovery of capacity charges.

Tilaiya Hydel Power Station (THPS) of Damodar Valley Corporation (Corporation) is situated on the River Barakar and comprises of two units with a generation capacity of 2 MW[1] each. The generation of power at THPS is done on the basis of water level of Tilaiya reservoir[2] and as per instructions of the Manager Reservoir Operations, Maithon. Both the units of THPS had been operational till January 2013. On 31 January 2013, the operation of Unit I had to be stopped on account of water leakage from guide vane[3] of Unit I, which caused water and lubrication oil to mix.

Audit noticed that the unit could not attend to the above defect due to lack of skilled manpower. It was also observed that a monthly statement on Generation, Outage and Availability of units was regularly sent by the Unit to the higher management which indicated that Unit I had been shut-down. Yet, no remedial action was taken either by the Unit or the higher management for rectification of the defect and operation of Unit I.

The incident was finally reported formally only on 9 July 2014, 17 months after shut-down of the unit. The departmental estimate for rectification of the defect was made in September 2014 and the work order for ₹0.04 crore was issued in October 2014 on limited tender basis. The rectification work was completed in November 2014 and the generation of power from unit I commenced in the same month. The defect was rectified after nearly two years (21 months) since its detection. For this entire period (31 January 2013 to 21 November 2014), Unit I remained under shut-down. As a result, the Corporation could not generate 19.39 MU[4]of power resulting in under-recovery of capacity charges allowed as per Tariff Regulations to the tune of ₹8.60 crore **(Annexure VII).**

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[1] *Mega Watt*

[2] *Guide curve during monsoon period (June to October) and 1200 feet during non-monsoon period.*

[3] *Guide Vane, a component of Francis turbine used in hydel power plants, is used to convert the pressure energy of water into momentum energy.*

[4] *Million Unit*

The Management stated (July 2016 and August 2016) that

- Maintenance works have not been undertaken since commissioning of the units leading to forced outages/ shutdown of units. Corrective measures have already been taken to set right future problems through preventive maintenance, planned maintenance etc.

- During the period of shut-down of unit I (31 January 2013 to 21 November 2014), the crest gate was opened from 16 August 2014 to 25 October 2014 only and, hence, the loss of generation would be around ₹1.38 crore, much lower than the estimation of audit.

The reply of the Management is not acceptable in view of the following:

- While the Management assurance regarding early corrective action in future is noted by Audit, the inordinate delay of nearly two years in rectifying a defect in unit I has been highlighted.

- The crest gate is opened whenever the water level crosses 1,213 feet (369.73 meters) while the hydel power generation requires water to be above guide curve level (1,190 to 1,210 feet) during monsoon period (June to October) and 1,182 feet during non-monsoon period as per Regulation Manual for Damodar Valley Reservoirs. Audit noticed that even after the operation of Unit 2, there was sufficient water, as per the manual, for generation of power in both the Units (I and II) simultaneously for 418 days (during June 2013 to November 2014). Audit has considered the actual available water for hydel power generation over the period of shut-down of Unit I which worked out to a loss of ₹8.60 crore.

Thus, due to delay in rectification of defect in Unit 1 of THPS, the Corporation could not generate 19.39 MU of power resulting in loss towards under-recovery of capacity charges amounting to ₹8.60 crore.

The para was issued the Ministry in September 2016. Reply is awaited (January 2017).

11.3 Water Resource Management

Water resources of the Corporation were not optimally utilized. Storage capacity of the four reservoirs depleted by 22 *per cent* with corresponding reduction in flood storage capacity by 15 *per cent* due to siltation, coupled with absence of an integrated programme for soil conservation. Dams were not operated as per the prescribed guidelines, entailing revenue loss due to lower generation of hydel power. Systemic lapses were noticed in repair and maintenance of dams, particularly inoperative under-sluice gates which affected de-siltation works, apart from causing power generation and revenue loss. Deficiencies in allocation of water for Municipal and Industrial purposes and in monitoring actual drawal of water led to potential revenue loss.

11.3.1 Introduction

Damodar Valley Corporation (Corporation/DVC) was established in July 1948. It aimed at securing unified development of Damodar river valley falling within the states of Jharkhand (erstwhile Bihar) and West Bengal. The Corporation has four dams located at Tilaiya and Maithon on river Barakar, Panchet on river Damodar and Konar on river Konar and one barrage located at Durgapur on river Damodar. The water is used for generation of hydel power, irrigation and water supply for industrial and municipal purposes. The operation of reservoirs and release of water are guided by the instructions of Damodar Valley Reservoirs Regulation Committee[1] (DVRRC).

A performance audit on Water Resources Management was conducted for the period 2002-07 and audit findings were included in the Annual Report of the Corporation for the year 2006-07. Systemic lapses in maintenance of dams and barrage, renovation and modernisation of hydel units, survey of dams, soil conservation etc. were highlighted in the performance report. In this backdrop, the present audit was carried out to assess the extent of remedial measures taken by the Corporation to address the deficiencies highlighted in the earlier performance audit.

11.3.2 Audit objectives and scope

The audit objectives were to assess whether: (i) adequate steps were taken to arrest the depletion in storage capacity of the reservoirs by effective de-siltation and soil conservation measures; (ii) operation and maintenance of dams and reservoirs were effective and carried out in line with prescribed guidelines; and (iii) the water resources were managed economically and efficiently. This audit covers the period from 2011-12 to 2015-16.

11.3.3 Implementation of the plan

The original plan (1945) for flood control and development of water resources along the river Damodar and its tributaries envisaged creation of total storage capacity[2] of 46.82 lakh acre feet (acft) with seven storage dams[3]with flood storage capacity[4] of 29.15 lakh acft. Storage capacity of 29.01 lakh acft was built through four dams at Tilaiya (1953), Konar (1955), Maithon (1957) and Panchet (1959) with corresponding flood storage capacity of 15.10 lakh acft. The effective total storage and flood storage capacities were limited to 24.56 lakh acft and 10.65 lakh acft respectively, considering the actual land acquired at Maithon and Panchet. Apart from the above, Government of Jharkhand (GoJ) constructed (1981) a storage dam at Tenughat without creation of flood storage capacity. No further capacity addition had been materialized since then. A Detailed Project Report

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[1] ***DVRRC comprises of representatives of Central Water Commission, the Corporation, Government of West Bengal and Government of Jharkhand***

[2] ***It is the level corresponding to the storage which includes both inactive and active storages including flood storage, if provided for. In fact, this is the highest reservoir level that can be maintained without spillway discharge or without passing water downstream through sluice ways.***

[3] ***Tilaiya, Konar, Maithon, Panchet, Bokaro, Balpahari and Aiyar (Tenughat)***

[4] ***It is the capacity of a reservoir required to be maintained to absorb foreseeable flood inflows to the reservoirs, so far as they would cause excess of acceptable discharge spillway opening.***

(DPR) was prepared (March 2012) through Central Water Commission (CWC) for Balpahari dam. Construction of the dam was still pending (October 2016).

11.3.4 Audit findings

11.3.4.1 Loss of storage capacity of reservoirs

Erosion of soil from upstream leads to siltation and decreases storage capacity as well as power generation and irrigation potential. Due to siltation, the storage capacity of the reservoirs reduced from 24.56 lakh acft to 19.06 lakh acft, with corresponding reduction of flood storage capacity to 9.06 lakh acft. The reduction in the total storage capacity ranged from 4 *per cent* to 28 *per cent*[1] in the four dams of Maithon, Panchet, Konar and Tilaya with a 7 *per cent* to 31 *per cent*[2] reduction in flood zone. DVC has not taken effective and integrated soil conservation measures to arrest siltation (discussed in Paragraph 11.3.4.3) and failed to operate the under-sluice gates for flushing (discussed in Paragraph 11.3.4.4 (II)). This adversely affected the ability of the reservoirs to store optimum quantity of water and flood control, and to generate maximum revenue from power generation (discussed in Paragraph 11.3.4.6 (I)(a)) and irrigation activities.

DVC stated (October 2016) that all the intended objectives such as flood control, generation of hydel power, irrigation potential were obviously impacted due to siltation. But, the reply was silent on the reasons for not paying required attention to maintain the live storage capacity of the dams persistently over the years.

11.3.4.2 Survey of reservoirs

Survey of reservoirs at regular intervals is essential for realistic assessment of siltation rate as well as quantum of silt deposition and consequential loss of storage capacity. This facilitates appropriate corrective action to arrest silt deposition. As per CWC, such surveys are to be conducted every five years. Audit observed that the Corporation neither adhered to the time schedule for conducting the surveys nor framed any guidelines in this regard. Maithon and Panchet reservoirs were last surveyed in 2002 and 2011 respectively, while no survey has been taken up in Konar and Tilaya reservoirs after 1997. In the absence of regular surveys, the actual storage capacity in each reservoir at present was not known.

DVC stated (October 2016) that the work for determination of extent of silt in different reservoirs was ascertained (2010) engaging M/s WAPCOS using projection method. The difference in the projected and the last survey data varied within +/- 5 *per cent*, which did not make considerable impact on the operational parameters.

The reply is to be viewed against the fact that assessment of silt through projection method was not prescribed by CWC and systematic survey of reservoirs could only provide the actual extent of silt deposit.

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[1] ***Maithon-28 per cent, Panchet-22 per cent, Konar-26 per cent and Tilaya-4 per cent***

[2] ***Maithon-13 per cent, Panchet-17 per cent, Konar-31 per cent and Tilaya-7 per cent***

11.3.4.3 Soil conservation

Sedimentation in the reservoir reduces its storage capacity and with adequate measures of soil and water conservation, siltation in the reservoir could be controlled. Soil Conservation Department (SCD) of DVC is responsible for undertaking soil conservation work in the valley area. The Corporation has a total command area of 24.24 lakh hectares. This includes upper catchment area of 17.51 lakh hectares, of which 11.47 lakh hectares was identified as a problem area[1]. Audit observed that only 3.05 lakh hectares (27 *per cent* of the problem area) was treated by the Corporation up to 2010-11. Thereafter, no soil conservation measures were taken.

IIT Kharagpur was engaged (June 2007) for assessing the progress of soil conservation work carried out and to formulate strategies to implement soil conservation measures in scientific manner to prolong the life of reservoirs. The report indicated that the sedimentation rate would have been decreased by 69, 34, 27 and 1.12 *per cent* in respect of Maithon, Panchet, Tilaiya, and Konar dams, respectively, had effective soil conservation measures been adopted. However, the Corporation did not take steps for treatment of the problem area in line with the recommendations of IIT Kharagpur in a time bound manner.

DVC stated (October 2016) that discontinuation of financial assistance from Government of India as well as non-acceptance of DVC as an implementing agency under State Government from Centrally sponsored scheme forced withdrawal of soil conservation works in the problem area. Continuous efforts to obtain financial assistance under micro-management scheme for taking up systematic soil conservation works has not yielded any results. The reply is to be viewed against the fact that DVC was statutorily responsible for soil conservation measures, lack of which had depleted the storage capacity of dams.

11.3.4.4 Operation of dams

(I) Reservoir levels above guide curves

DVRRC prescribed guide curves[2] for the reservoirs to ensure effective flood moderation together with optimal utilisation of water. Audit observed that the Corporation had not been adhering to the guide curves during the monsoon season and had been maintaining reservoir levels above the guide curves. As a result, water had to be released through crest gates[3] on 197 days (67 days for Maithon and 130 days for Panchet accounting for 9.34 *per cent* and 17.76 *per cent* of monsoon days) during 2011-15. As per flood warning services, any release of water in excess of 9,000 cusec in case of Maithon dam and 14,000 cusec in case of Panchet dam during the period from June to October was considered part of flood control operation. Flood release during this period was up to 35,939 cusec from Maithon and up to 83,393 cusec from Panchet. Had the Corporation maintained the guide curves and released the excess water as and when the water levels exceeded guide curves, flood release quantum would have been lower which would have reduced the intensity of

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[1] ***Problem area means area highly prone to soil erosion and scarcity of water***

[2] ***Daily water level to be maintained in the reservoir during monsoon season***

[3] ***A gate on the crest of a spillway to control overflow or reservoir water level***

flood during the monsoon season as the downstream area of the dam also received rain water during that time.

DVC stated (October 2016) that the reservoir levels were kept above the guide curves for the period under review as decided by an apex Technical Committee in the greater interest of the people of West Bengal (lower valley). Therefore, DVC alone cannot be held responsible for the situation.

The Management contention is not acceptable as guide curves were prescribed by DVRRC to ensure effective flood moderation together with optimal utilisation of water, which ought to have been adhered to.

(II) Leakage of under-sluice gates

Under-sluice gates of the dams are meant for release of water at the dead storage levels and these are required to be operated before every monsoon season to flush out the silt to control siltation in the reservoirs. Audit observed that all five under-sluice gates of Maithon dam and all ten under-sluice gates of Panchet dam were non-functional since long, due to lack of repair and maintenance. Leakage of water through these gates resulted in continuous flow of water downstream without the water being used for hydel power generation. Audit estimated the quantum of water leakage through under-sluice gates of both the dams[1] during the non-monsoon seasons from April 2011 to March 2016 which would have led to loss of power generation of 20.72 MU valuing ₹8.35 crore (₹7.36 crore for Maithon and ₹0.99 crore for Panchet).

While accepting the non-operation of under-sluice gates, DVC stated (October 2016) that rehabilitation work of the same would be taken up under Dam Rehabilitation and Improvement Project and was likely to be completed in 2018. The progress in this regard would be reviewed in future audits.

(III) Non-optimal use of water at Tilaiya

As per DVRRC manual, water from Tilaiya reservoir was to be released to the Minimum Draw Down Level (MDDL) of 363.32 meters by the end of January in each year in order to augment the storage position of Maithon reservoir in the downstream. This would facilitate increase in power generation from Maithon. Audit observed that this was not done since the under-sluice gates were inoperative and water from Tilaiya reservoir was released only through hydel units during non-monsoon seasons. As a result, water levels of Tilaiya reservoir were always maintained higher than the prescribed MDDL of 363.32 meters at January end during 2011-12 to 2015-16, while the water level in Maithon reservoir remained lower than the live storage level. Thus, water from Tilaiya reservoir was not optimally utilised.

DVC stated (October 2016) that the DVRRC manual was last revised in 2002 and over time, several consumers have been allocated water from Tilaiya reservoir, which required extra water (8,000 acft above the MDDL). Hence, the water levels in the Tilaiya reservoir were kept above the MDDL.

[1] ***Taking the daily reservoir level along with the daily inflow and outflow of water***

The reply needs to be viewed against the fact that the water levels at the end of January during the years under review ranged from 31,885 acft to 95,631 acft above MDDL, which was much beyond the additional 8,000 acft above MDDL required by committed consumers. Failure to regulate water according to DVRRC manual, therefore, defeated the stated objective of capacity utilisation at Maithon.

11.3.4.5 Maintenance of dams

Dam Safety Cell (DSC) is the apex committee in DVC for carrying out maintenance and inspection of dams and funds were earmarked in annual budget for meeting expenditure on maintenance of the dams. Audit observed that the budget allocations were not fully utilized for maintenance of dams during the period under review. No manual stipulating a comprehensive framework for different types of maintenance of the dams was in place and maintenance works were carried out as and when required. As a result, no plan was prepared even for annual preventive maintenance of the dams. There was also no Emergency Action Plan in place, despite being mandated by specific guidelines issued (July 2012) by the National Committee on Dam Safety (NCDS).

Audit further observed that the Corporation carried out physical inspection of dams during pre-monsoon and post-monsoon season based on a checklist prepared by DSC. However, the inspection reports and the checklists were not regularly submitted in the annual pre and post-monsoon meetings on dam safety held for discussing the same. In addition, some of the findings of the inspection reports were not adequately acted upon though repeatedly discussed in these meetings. DVRRC, therefore, expressed concern that no concrete action had been initiated by the Corporation on maintenance and repair of the crest gates and under-sluice gates, despite repeated instructions. DVRRC also commented that the Corporation failed to realize the gravity of the situation as de-siltation exercise got affected due to non-operation of the under-sluice gates which ultimately resulted in reduction of storage capacity of the reservoirs.

While accepting the audit observations, DVC stated (October 2016) that Dam Safety Review Panel (DSRP) has been constituted in 2012 and dam safety review would be carried out by DSRP every ten years. DSRP inspected all the dams and submitted a report in 2014 and as per their recommendation, repair and maintenance work for resolving the issues pointed out above have been taken up under Dam Rehabilitation and Improvement Project and are likely to be completed in 2018.

11.3.4.6 Utilisation of water

As per DVRRC manual, the water stored in the reservoirs are used for hydel power generation, irrigation (Kharif, Rabi and Boro) and Municipal and Industrial (M&I) purposes. Audit examined the utilisation of water and observed the following:

(I) Hydel power generation

The Corporation has three hydel power stations at Maithon (2 x 20 MW and 1 x 23.2 MW), Panchet (2 x 40 MW) and Tilaiya (2 x 2 MW) with total installed capacity of 147.2 MW.

(a) Avoidable outages during monsoon season leading to generation loss

As per the operating guideline, hydel power units are required to be ready for generation during the monsoon season (June to October) as water is available in abundance during this period. Maintenance schedule of the hydel power units are, therefore, planned for optimal utilisation of such units during monsoon season. Audit, however, observed that the hydel power units of Maithon and Panchet were not available for generation on account of outages (scheduled as well as forced) for 2084 hours and 1384 hours respectively from June 2011 to July 2015. As a result, the water available in the reservoirs could not be utilised for power generation during this time. A total of 8.65 lakh acft (2.61 lakh acft for Maithon and 6.04 lakh acft for Panchet) water had to be released through crest gates, which resulted in generation loss of 42.99 Million Unit (MU) (Maithon 10.40 MU and Panchet 32.59 MU) valuing ₹19.22 crore (₹4.33 crore for Maithon and ₹14.89 crore for Panchet).

The Management confirmed (October 2016) the outages of the units and release of water through crest gates during monsoon periods. However, Management did not agree that there was loss of generation on the plea that the outages were unavoidable.

The contention of Management is not acceptable as outages of Maithon hydel during monsoon seasons were due to scheduled maintenance which could have been avoided with better planning. Forced outages occurred in Maithon due to non-rectification of problems in Generation Turbine and touch screen of Unit 2 though the same had been detected earlier. Similarly, forced outages of Panchet during monsoon seasons occurred due to non-rectification of water cooler leakage (Unit 1) as well as problems in intake gates (Unit 2) which had been identified earlier but not rectified.

(b) Delayed rectification of known fault led to generation loss

Residual Life Assessment Study(RLA) of Unit 1 of Panchet carried out (August 2007) through M/s NHPC, *inter-alia,* revealed deterioration of stator winding insulation due to ageing, thermal stress and load cycling, and recommended urgent rectification to avoid major breakdown of the unit. Audit observed that no rectification work for resolution of this problem was carried out over the next five years. The stator failed in September 2012 and the fault was rectified in October 2013. Due to stator fault, Unit 1 of Panchet was completely taken out of generation from November 2012 to September 2013 leading to release of 7.77 lakh acft of water through crest gates, which resulted in generation loss of 60.45 MU valuing ₹26.17 crore.

DVC stated (October 2016) that renovation works suggested in RLA could not be taken up due to acute financial crunch and the unit was maintained through rigorous opportunity/ preventive/breakdown maintenance. It was also informed that presently, the renovation of the unit was in an advanced stage.

The reply is not acceptable. The rectification of stator suggested in RLA could have been carried out pending renovation works to avoid major breakdown of the unit. The same rectification was, in fact, carried out after failure of the stator which entailed avoidable generation and revenue losses.

(c) Avoidable liability due to lower power generation

As per section 86 of Electricity Act 2003, DVC, being a distribution licensee, has to fulfil Renewable Purchase Obligation (RPO) targets fixed by Jharkhand State Electricity Regulatory Commission (JSERC) since July 2010. The RPO was to be met either through purchase/generation of renewable power or through purchasing Renewable Energy Certificates (REC) from power exchanges. The power generation from Maithon and Tilaiya hydel units qualified for meeting the non-solar RPO target fixed by JSERC. Audit observed that during 2011-12 to 2014-15, Corporation had a shortfall of 422 MU in meeting RPO targets and had to procure REC for the same. This shortfall could have been bridged to the extent of 10.39 MU, had there been no outages in Maithon (as discussed in para 11.3.4.6 (I) (a)) for which the Corporation had to bear an additional liability to procure REC for ₹1.56 crore (₹15 lakh per MU).

DVC stated (October 2016) that hydro projects upto 25 MW only qualified for RPO and Maithon hydro project having capacity of 63.2 MW was beyond the purview of RPO.

The reply is not acceptable as DVC itself while furnishing tariff petition, had included generation from individual units (2 x 20 MW and 1 x 23.2 MW) of Maithon for meeting RPO targets, which was approved by JSERC.

(II) Water for irrigation

The water rates for Kharif, Rabi and Boro irrigation in West Bengal were ₹15 per acre, ₹20 per acre and ₹50 per acre respectively. These rates were fixed in 1977 and are lower compared to the rates charged by many other States. Audit observed that though an agenda for revision of water rates for irrigation was placed (March 2011) in DVRRC meeting, it could not be considered in DVRRC and DVC was asked to approach their Board for appropriate action. However, the Corporation did not take effective steps to pursue the matter (September 2016) for revising the water rates. It is pertinent to note that the Corporation incurred ₹237.04 crore towards supply of water for irrigation during the last five years up to 2015-16 while it earned a revenue of ₹48.64 crore only. Thus, there was under recovery of ₹188.41 crore from irrigation.

DVC stated (October 2016) that Government of West Bengal (GoWB) was approached for revision of irrigation rates in 2011 and the matter for revision of rates would be taken up further in line with DVC Act.

However, no effective steps was taken since 2011 even though there had been considerable under recovery from irrigation.

(III) Water for Municipal and Industrial purposes

(a) DVRRC, on the basis of information obtained from the Corporation, allocated 435 million gallon per day (MGPD) and 470 MGPD of water to the Municipal and Industrial (M&I) consumers of West Bengal and Jharkhand respectively. Audit observed that the actual drawal of water by these consumers during 2013-14 to 2015-16 was far below the allocated quantity and ranged from 7 *per cent* to 12 *per cent* for Jharkhand and 35 *per cent* to 53 *per cent* for West Bengal. No action was taken by the Corporation to re-allocate the

water to prospective M&I consumers in West Bengal and Jharkhand based on actual drawal by the users despite increasing demand for water. As a result, the Corporation lost an opportunity to generate revenue of ₹389.34 crore[1] for water not drawn by existing consumers. Audit further observed that no penal clause was available in the agreement with existing consumers for less drawal of allotted quantity of water in order to protect the opportunity loss suffered by the Corporation. It was also noticed that though the agreements stipulated installation of meter to measure actual drawal of water, 81 *per cent* of existing consumers had been drawing water without having any meter. This meant that the water consumption bills raised by the Corporation were not realistic.

DVC stated (October 2016) that reconciled water account has been finalized and the same would be placed in the next DVRRC meeting. It also added that suitable system would be installed for better monitoring of water drawn by the consumers.

(b) Durgapur barrage was constructed in 1955 on river Damodar to divert the water to irrigation canals and Water Supply Canal (WSC). One harbour pond was also created, upstream of the barrage, to facilitate diversion of water smoothly into the irrigation canals and WSC. The demand of water for M&I uses was also being met from WSC. Audit observed that over several years of operation, the capacity of the harbour pond and WSC was depleted due to siltation. The situation further aggravated after a flash flood in September 2009 when the harbour pond became almost defunct and water was supplied to the WSC directly from barrage pond. This also restricted uninterrupted water supply to the M&I consumers from WSC. The Corporation, however, did not take any effective action to restore the original capacity of WSC and harbour pond by carrying out de-siltation work.

DVC stated (October 2016) that since the operation and maintenance of Durgapur barrage along with its network of canals was handed over to the GoWB in 1964, the de-siltation of the barrage was not under DVC. The reply is not acceptable. Operation and maintenance of Durgapur barrage along with its network of canals was handed over to GoWB, but that of WSC and harbour pond has been with DVC. Since the Durgapur barrage, irrigation canals and WSC are situated downstream of the harbour pond, its maintenance is essential to store optimal quantum of water and protect revenue earning potential of DVC.

Conclusion

Water resources of the Corporation were not optimally utilized. Storage capacity of the four reservoirs depleted by 22 *per cent* with corresponding reduction in flood storage capacity by 15 *per cent* due to siltation, coupled with absence of an integrated programme for soil conservation. Dams were not operated as per the prescribed guidelines, entailing revenue loss due to lower generation of hydel power. Systemic lapses were noticed in repair and maintenance of dams, particularly inoperative under-sluice gates which affected de-siltation works, apart from causing power generation and revenue loss. Deficiencies in allocation of water for Municipal and Industrial purposes and in monitoring actual drawal of water led to potential revenue loss.

[1] ***Considering the lower rate of ₹1.15/ KL applicable for municipal purposes.***

Recommendations

The following recommendations are suggested for resolving the deficiencies noticed in audit. The Corporation may:

- ***Take necessary steps to complete the repair and maintenance works of dams and reservoirs in a time bound manner to avoid release of water through crest gate and resultant generation loss.***
- ***Initiate survey of reservoirs, de-siltation and soil conservation measures in a time bound manner to ensure that the storage capacity of the reservoirs are restored.***
- ***Prepare annual maintenance schedule in advance and carry out the maintenance works during the non-monsoon season, to avoid generation loss during the monsoon season.***
- ***Carry out operation of dams in line with the guidelines issued by DVRRC including maintenance of guide curves and release of water.***
- ***Take up the issue of revising rates applicable for sale of water for irrigation and to municipal and industrial consumers. Meters may be installed for accurate measurement of use of water by respective consumers.***

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

NHPC Limited

11.4 Violation of CVC guidelines resulted in undue benefit to contractor

Failure of NHPC Limited to recover interest free down payment in a time bound manner led to violation of CVC guidelines and resulted in extension of undue benefit of ₹6.99 crore to the contractor.

As per guidelines issued (10 April 2007) by Central Vigilance Commission (CVC), interest free mobilisation advances, if extended to contractors, should be recovered in a time bound manner without linking the same with the progress of work. This was to ensure that even if the contractor was not executing the work or executing it at a slow pace, the recovery of advance could commence and scope for misuse of such advance could be reduced. CVC guidelines further stipulated that part Bank Guarantee should be taken in as many numbers as the proposed recovery instalments and should be equivalent to the amount of each instalment. This would ensure that at any point of time, even if the contractor's money on account of work done was not available, recovery of advance could be ensured.

NHPC Limited awarded (22 January 2009) a contract for execution of Kishanganga Hydro Electric Project to M/s Kishanganga Consortium on turnkey basis at ₹2,919.07 crore. As per terms and conditions of Electro-Mechanical (EM) and Hydro Mechanical (HM) packages, the Contractor was entitled for an interest free down payment equivalent to five

per cent of FOB and ex-work component of the contract price. Accordingly, NHPC Limited released ₹27.42 crore[1] as interest free down payment to the contractor between December 2009 and January 2010.

Audit noticed that no specific time schedule was stipulated for recovery of interest free down payment. Instead, the recovery was linked to the progress payments (linked to the progress of work) in contravention of the CVC guidelines.

The Contractor was to commence supply from May 2010 and July 2011 for HM and EM packages. The work was delayed and the actual supply commenced from May 2013 and January 2013 for HM and EM packages respectively. Consequently, the Contractor submitted first Running Account bill in January 2013 against scheduled submission in January 2011[2]. Thus, the interest free down payment remained with the Contractor for an additional two years, which resulted in extension of undue benefit of ₹6.99 crore[3] to the Contractor. Moreover, since the recovery was linked with the progress of work, down payment has not yet been fully recovered (October 2016) even after six years.

The Management stated (July 2016) that in case of supply contracts, payments were due on delivery of equipment, which took two years or more from contract signing date. The payments made to the contract were not an advance but down payment against Bank Guarantee to meet cash flow requirement for initial purchase of material/plant. Such down payments were not recovered, but adjusted at the time of partial shipment or balance amount was paid progressively in stages on achieving intermediate milestones.

The reply is not acceptable. Interest free down payments released to meet cash flow requirement for initial purchase of material/plant is essentially an interest free advance. As per CVC guidelines, such interest free down payment/advance should have been recovered in a time bound manner without being linking to the progress of work. With the delay in progress of work, the recovery of the down payment/advance was postponed.

Thus, failure of NHPC Limited to recover interest free down payment/advance in a time bound manner and linking such recovery to progress of work in violation of CVC guidelines resulted in extension of undue benefit of ₹6.99 crore to the Contractor.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

Rural Electrification Corporation Limited

11.5 Injudicious investment of REC

Decision of REC to invest in Universal Commodity Exchange Limited without adequate due diligence regarding market potential for upside, performance of existing players, exit options resulted in eventual loss of ₹16 crore.

[1] ***Includes ₹18.70 crore and Euro 13,03,985 @ ₹66.88 per Euro (i.e., ₹8.72 crore)***

[2] ***As per the contract, the first bill was to be presented 24 months after the date of order to commence. As the order to commence was dated January 2009, the first bill was expected in January 2011.***

[3] ***₹27.42 crore x 12.75 per cent (being the State Bank Advance Rate (SBAR) applied in interest bearing advances for the same contract) x 2 years***

Rural Electrification Corporation Limited (REC) decided (December 2011) to invest ₹16 crore in Universal Commodity Exchange Limited (UCX) by way of equity participation. The proposal was accepted on the rationale that (i) it would provide for knowledge transfer in terms of market scenario, trends etc. and help in credit appraisal of borrowers and (ii) the valuation of existing commodity exchanges were high, which, in turn, would lead to high valuation for UCX also.

The Board of Directors (Board), while approving the proposal (16 December 2011) observed that the market share projection of 40 *per cent* after five years for a new entity appeared too ambitious and possibility of upside and exit options needed more careful study and analysis. Management, initiated an internal note to the Chairman and Managing Director (CMD), reiterating the facts that had already been presented to the Board. No further study of these aspects were initiated, neither did the Management revert to the Board on the subject. Instead, the Management went ahead with the investment in UCX.

Audit noticed that there were five national commodity exchanges and performance of only two of them were presented to the Board. While commenting on their performance it was indicated that both exchanges had earned profits. However, the fact that one of these exchanges had suffered operational losses and the profit was on account of income received from other sources was not highlighted. One of the other national commodity exchanges too incurred losses from operation which was not brought out. The annual reports of Forward Markets Commission (FMC) during 2009-10 and 2010-11 indicated that commodity exchange market was dominated by a single player, Multi Commodity Exchange, with over 82 *per cent* market share. Another exchange, National Commodity and Derivatives Exchange had over 12 *per cent* market share leaving the other three exchanges competing for the balance 6 *per cent* share. In this context, the assumption that UCX would acquire 5 *per cent* market share in the first year, increasing to 40 *per cent* over five years was unduly optimistic, which was not critically analysed as desired by the Board.

UCX commenced operation on 19 April 2013 and was suspended on 16 July 2014. During 2013-14, the first and only year of its operation, UCX registered a market share of only 0.72 *per cent*. The suspension of operation of UCX was on account of depletion of funds in the Settlement Guarantee Fund (SGF), investment of SGF in liquid assets, lack of active participation of clients on the exchange platform, non-compliance of instructions/ guidelines issued by the regulator (FMC) as well as mismanagement and siphoning of funds by the promoter – director in collusion with his associate entities resulting in erosion of capital of UCX. Being a 16 *per cent* equity stakeholder in UCX, REC was represented on its Board through a nominee director. An internal guideline of REC provided that the nominee director should report upon the operation of UCX. Audit noticed, however, that nothing was reported to REC till July 2014 by which time, the entire share capital of UCX had eroded and operation of the exchange was suspended. It was seen that REC (February 2016) had made a 100 *per cent* provision against its investment in UCX in the books of accounts. Thus, the injudicious decision of equity investment in UCX, coupled with lack of close monitoring of its performance, resulted in loss of ₹16 crore to REC.

The Management stated (September/November 2016) that the investment in UCX was purely an investment decision based on due diligence by senior committee of directors and feasibility studies by Price Waterhouse Coopers where it was offered shares at face value while other potential investors were ready to invest at a premium. The possibility of upside and exit options were duly considered and deliberated subsequent to the Board meeting and the decision was taken accordingly. As the nominee director was a non-executive director, he was not involved in day to day operations and could not have been known of the misdeeds of the promoter-director. The nominee director could, at best, exercise his business judgement over matters/agenda put up to the Board. Further, REC filed First Information Report (FIR) with Economic Offence Wing on 03 August 2016 with a copy to the Commissioner of Police, Mumbai against the promoter-director.

The reply is to be viewed against the fact that the upside and exit options as well as rationale for expected market share of 40 *per cent* within five years were not analysed as desired by the Board. The potential investors stated to be willing for investment in UCX at premium never actually invested in UCX. The existing guideline for feedback by nominee director was not effective as the first feedback was received only in July 2014 by which time the entire share capital of UCX had been eroded. Though REC came to know of the misdeeds of promoter-director in July 2014, the FIR was filed only in August 2016.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

CHAPTER XII: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

12.1 Undue benefit to the concessionaire resulted in accumulation of dues

National Highways Authority of India extended undue benefit to a concessionaire by not ensuring timely recovery of concession fee and damages, which resulted in accumulation of dues to the tune of ₹209.20 crore.

National Highways Authority of India (NHAI) entered (December 2012) into an Operate, Maintain and Transfer (OMT) agreement with M/s MEP Hyderabad Bangalore Toll Road Limited (concessionaire) for the stretch from Km 211.000 to Km 462.164 on NH-07. This included construction of 'Project Facilities'[1] and operation and maintenance of the project highway for a period of nine years from 1 February 2013 *i.e.*, the scheduled Commercial Operation Date (COD).

The agreement provided for payment of concession fee of ₹96.30 crore for the first year, with an escalation of 10 *per cent* every subsequent year, payable in twelve equal monthly installments, within three days of the close of every month. The Concessionaire was required to furnish Performance Security in the form of a Bank Guarantee amounting to ₹48.60 crore which could be encashed by NHAI in case of Concessionaire Default or failure to meet any 'Condition Precedent'.

The agreement also provided for levy of damages on the Concessionaire at different rates for delay in achieving the COD, failure to provide Bank Guarantee and execution of Escrow Agreement, delay in completion of 'Project Facilities' and for failure in maintaining the project highway in conformity with the requirements of the OMT agreement. Further, in case of non-completion of the project facilities within scheduled period, failure to furnish performance bank guarantee or failure to make payments to the authority within specified time, NHAI was also at liberty to terminate the agreement.

Audit observed that:

- the COD which was shifted from 1 February 2013 to 5 March 2013, due to reasons attributable to NHAI, could be achieved by the concessionaire only on 16 May 2013 for which NHAI levied (October 2014 and March 2016) damages amounting to ₹5.68 crore on the concessionaire.
- the concessionaire also failed to construct the Project Facilities within the specified time schedule for which NHAI levied (April 2016) damages of ₹133.60 crore as per the agreement.

[1] ***Construction of three Toll Plazas, three Traffic Aid Posts, three Medical Aid Posts and Street Lights***

- there was shortfall in payment of concession fee by the concessionaire in almost every month beginning from May 2013 and as of August 2016, there was short payment of ₹31.40 crore in concession fee to NHAI.
- as of April 2016, NHAI levied an amount of ₹14.09 crore as damages for breach of maintenance obligations.

The total dues recoverable from concessionaire on account of the above as of August 2016 worked out to ₹209.20 crore including interest amount of ₹24.43 crore[1].

Audit further noted that:

- in August 2015, instead of effecting recovery of the then outstanding dues from the Escrow Account, NHAI had accepted post dated cheques (PDCs) amounting to ₹28.91 crore from the concessionaire, drawn on a bank other than the Bank in which Escrow Account was opened. Out of this, only ₹19.91 crore were realised by NHAI. The remaining cheques of ₹9.00 crore were dishonored due to instructions on stoppage of payment by the concessionaire. Reasons for such irregular acceptance of post-dated cheques instead of effecting recovery through Escrow Account were not found on record. Further, NHAI did not initiate any action against the concessionaire as per provisions of Negotiable Instruments Act, 1881 for the cheques that were dishonored.
- instead of depositing the entire toll collection of ₹425.01 crore (May 2013 to July 2016) in the Escrow Account as per the terms of Concession Agreement and, thereafter, getting the same appropriated in terms of the agreement, the Concessionaire deposited only ₹388.74 crore leading to a shortfall of ₹36.27 crore.
- the Escrow Account was not operated in accordance with the priority of payments specified in the Escrow Agreement. Though the dues to NHAI were to be paid on priority compared to repayment of loan and interest by the concessionaire, Audit noticed that toll fees collected and available in the Escrow Account were being used for repayment of loan and interest on such loan relating to the Project before payment of NHAI dues. This reflected absence of effective monitoring of Escrow Account by NHAI, which resulted in accumulation of huge amount of dues.

The Management stated (April 2016) that directions had been issued (February 2016) to the concerned field office to effect recovery of damages of ₹5.68 crore levied for delay in achieving the conditions precedent and COD. As regards recovery of other damages, it was informed that the same were under consideration of a committee constituted by NHAI, since the concessionaire had claimed certain amounts on account of Force Majeure conditions. It further informed that Bank Guarantee was not encashed and post-dated cheques were accepted in August 2015 as a special case and reasons for non-encashment of Bank Guarantee despite dishonor of these cheques were being ascertained from the concerned office (Regional Office (RO) and Project Implementation Unit (PIU), Ananthpur of NHAI).

[1] ***As computed by NHAI in terms of the agreement***

The reply of NHAI was not acceptable due to the following:

- The recovery of damages of ₹5.68 crore had not been effected as of November 2016 i.e. even after 42 months of achievement of COD.
- As regards claims made by the concessionaire on account of Force Majeure conditions, PIU Ananthpur of NHAI had recommended (May 2016) to its RO to reimburse an amount of ₹0.51 crore to the concessionaire. The said amount would not have a significant impact on the total outstanding amount of ₹209.20 crore recoverable from the concessionaire.
- Acceptance of postdated cheques drawn on another bank account and inaction as per law despite clear intention by the concessionaire not to pay the dues by stopping payment, was irregular.
- NHAI should have monitored the payments being deposited in the Escrow Account to ensure that the same was operated in accordance with the concession agreement. NHAI should have also ensured that the priority of payment prescribed in Escrow Agreement was complied with, to ensure recovery of its dues.

Thus, despite non-compliance with the terms and conditions of OMT agreement, NHAI extended undue benefit to the concessionaire as it failed to initiate timely steps to encash the Bank Guarantee received as Performance Security or to terminate the agreement which led to accumulation of dues to the tune of ₹209.20 crore as of August 2016 against which the Performance Security in the form of Bank Guarantee was only for ₹48.60 crore.

The matter was reported to the Ministry in July 2016; their reply was awaited (January 2017).

12.2 Loss of revenue on account of failure to charge user fee since completion of the project

National Highways Authority of India failed to charge user fee on the four lane highway from Kalmassery Junction on NH 47 to Bolgatty Island which was completed in April 2015. Consequently, it had to suffer revenue loss of ₹19.04 crore.

National Highways Authority of India (NHAI) decided (October 2005) to construct a 4 lane National Highway measuring 17.121 KM, connecting the Cochin Port and National Highway 47 from Kalmasery Junction on NH 47 to Bolgatty Island, to facilitate the connectivity to the International Container Transhipment Terminal (ICTT), Cochin. The work for construction was awarded (May 2007) to a contractor at a cost of ₹329.46 crore, which was later revised (November 2009) to ₹571.26 crore after inclusion of certain additional works. During the construction of the highway, the local public of Mulavukad, an area falling near the alignment of the new highway, had represented (January 2012) for providing a service road parallel to the new highway, upto the ICTT road. However, as there was no provision for the same in the Feasibility Report and Detailed Project Report, the demand was not heeded by NHAI.

The project was finally completed in April 2015. Notification authorizing NHAI to collect fees prescribed therein was issued by Ministry of Road Transport and Highways on 22 May 2015. In July 2015, NHAI entered into an agreement with a tolling agent for a period of six months for collection of user fee at the Toll Plaza, with the obligation to remit ₹3.76 crore on a daily basis to NHAI from 6 August 2015. However, collection of user fee could not be started due to protests from the local public demanding construction of service road. In March 2016, NHAI agreed for construction of the service road at its expense, through Government of Kerala at a cost of ₹24.71 crore. Meanwhile, as the earlier contract for tolling had expired, NHAI awarded (May 2016) the contract for tolling to another agent with a daily remittance of ₹5.62 lakh for a period of three months. However, the second agent also could not collect the user fee due to obstruction by the local public.

Audit observed that a provision for payment of lower amount of user fee from the locals on a monthly basis was made in the toll notification issued (22 May 2015) by the Ministry of Road Transports and Highways. Besides, NHAI would be spending a considerable amount on the construction of the service road. Despite this, it failed to collect the user fee which resulted in non-realisation of revenue of ₹19.04 crore[1] till October 2016.

NHAI stated (August 2016) that the demand for the service road for Mulvukad area started in the year 2013. The provision for providing service road was not included in the scope of the project since the road was intended for connection to the ICTT. It further stated that it did not expect heavy protest from the local public while proposing collection of toll in August 2015 and it had made all efforts to resolve the issues.

The fact remains that despite investing a considerable amount in construction of the highway as well as committing a significant expenditure on construction of service road which was not originally envisaged in the Feasibility Report and Detailed Project Report, NHAI failed to collect user fee resulting in loss of revenue to the tune of ₹19.04 crore upto October 2016.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

12.3 Incorrect revenue projection in financial analysis

Incorrect financial analysis of the project led to significant under-projection of revenue in the approved project, vis-à-vis its actual revenue potential.

In February 2010, PPPAC[2] approved a project for six-laning the Dankuni Kharagpur section of NH-6 (km 17.600 to km 129.000) to be executed as a BOT[3] (Toll) project on Design, Build, Finance, Operate and Transfer pattern. NHAI had earlier appointed a consultant to develop a feasibility study for the project. The feasibility study report, on which the project was designed, had estimated the total project cost as ₹1396.18 crore and found the project viable with a concession period of 25 years at 15 *per cent* equity IRR[4].

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[1] ***as worked out by NHAI for the period from 6 August 2015 to 31 October 2016***
[2] ***Public Private Partnership Appraisal Committee***
[3] ***Build, operate, transfer***
[4] ***Internal rate of return***

As per the project design, it was expected to generate a premium of ₹48.30 crore per annum to be increased annually by 5 *per cent*. Following PPPAC approval, NHAI issued an RFP[1] for the project (March 2010) specifying the total project cost as ₹1396.18 crore and a concession period of 25 years. The project was awarded (February 2011) to M/s Ashoka Buildcon Limited, at a premium of ₹126.06 crore per annum, to be increased annually by five percent. A concession agreement was signed on 20 June 2011 with the SPV[2] formed for the purpose, M/s Ashoka Dhankuni-Kharagpur Tollway Limited. A supplementary concession agreement was signed on 9 March 2012 to correct the mismatch between the RFP and concession agreement regarding the length allocated to each toll plaza for collection of fees.

Audit noticed that the projections of revenue earnings of the concessionaire from the project were significantly understated in the project design that was approved:

(i) The road stretch to be developed under the project had two toll plazas, toll plaza-I at km 35.250 and toll plaza-II at km 112.245. The traffic at toll plaza-I (48,098 PCU[3] in 2011, projected to reach 1,55,427 in 2035) was much higher compared to toll plaza-II (27,010 PCU in 2011 projected to reach 87,445 PCU in 2035). The project, as bid out and awarded to the concessionaire (as per the RFP document and the concession agreement), provided that Rupnarayan bridge was to be tolled at toll plaza-I. The project, as earlier approved however, indicated that the toll for Rupnarayan bridge would be collected at toll plaza-II. Owing to the much higher traffic at toll plaza-I compared to toll plaza-II, the actual revenue that the concessionaire would generate from the project would be much higher compared to the revenue projections of the approved project design. Audit worked out the under-projection of toll income in the financial analysis of the approved project to be ₹3,945.56 crore, considering a concession period of 25 years.

(ii) At the time of project design, the stretch of NH-6 from km 17.600 to km 129.00 was already under toll operation being an existing four lane highway. Hence the traffic survey conducted in 2008 for working out the traffic (and hence revenue) projections for the project was based on actual traffic at the existing toll plazas. Being based on actual traffic, there was no case for considering traffic leakage in this projection. The financial analysis of the project, however, considered traffic leakage; - 20 *per cent* for cars and 10 *per cent* for other vehicles. This led to under-projection of toll revenue which worked out to ₹1546.99 crore over the concession period.

(iii) The financial analysis considered routine maintenance cost also for years of periodic maintenance (periodic maintenance was carried out once in five years). Consideration of routine maintenance cost in the year of periodic maintenance was not justified as in those years, routine maintenance would not be required. This led to over-projection of expenditure on routine maintenance by ₹55.43 crore over the concession period.

[1] ***Request for proposal***
[2] ***Special purpose vehicle***
[3] ***Passenger car unit***

(iv) The financial analysis did not consider MAT[1] credit that would be available to the concessionaire while working out the project financials. This led to over-projection of expenditure towards actual income tax payable by ₹182.07 crore over the concession period.

Thus, revenue was under-projected and expenditure was over-projected in the financial analysis of the project which formed the basis for its appraisal and approval. The financial analysis considered a concession period of 25 years in which the concessionaire would repay the loan component of the project cost (₹1396.18 crore) and derive a 15 *per cent* IRR. It was determined that with these project parameters, NHAI was likely to obtain a premium of ₹48.30 crore when the project is bid out. Audit re-worked the project financials correcting the expenditure and revenue projections, and observed that the concessionaire would be able to repay the loan in 14 years by when the equity investment would generate a 15 *per cent* IRR with offering a premium of more than ₹48.30 crore. Thus, by correcting the income and expenditure of the project, a concession period of 14 years would be sufficient to generate the same financials projected for a concession period of 25 years in the approved project design. The cash flow over the next 11 years of the concession period (of 25 years), was worked out by Audit to be ₹8,689.77 crore with an NPV[2] of ₹858.16 crore. Thus, the project was appraised and approved based on incorrect financial projections.

The Management stated (December 2016) that:

- The highest premium was determined with competitive bidding as ₹126.06 crore with five percent annual increase which was not considered in audit.
- Tolling of Roopnarayan bridge was initially considered at toll plaza-II and was subsequently decided for toll collection at toll plaza-I. This fact had been disclosed in the RFP and was known to the bidders before bidding and thus no undue benefit was given to the successful bidder.
- Traffic leakage was projected in the toll income after considering factors like exempted vehicle, reduction in traffic due to toll and discounts due to passes etc. as per toll policy (5 December 2008) of the Government of India. Operation and Maintenance expenses were considered as per the then prevailing norms/ information and discussion with the technical consultant. MAT credit was taken into consideration for the initial years.

The Ministry also endorsed (December 2016), the views of the Management.

The Management's/Ministry's contention is not acceptable in view of the following:

➢ That the premium earned for the project was higher than the projection does not address the fact that the project design, appraisal and approval was flawed on account of significant under-projection of revenues.

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[1] ***Minimum alternate tax***

[2] ***Net present value discounted @12 per cent per annum***

- As the traffic projection was made based on actual traffic survey at the already existing toll plazas, traffic leakage ought not have been considered. Management itself subsequently decided not to consider traffic leakage for stretches already under toll operation. In the year of periodic maintenance, routine maintenance is not required which has also been subsequently decided by the Management. MAT credit was not taken into consideration as evident from the financial analysis.

Thus, the incorrect financial analysis of the project led to significant under-projection of revenue in the approved project vis-à-vis its actual revenue potential.

12.4 Toll Operations in NHAI

12.4.1 Introduction

National Highways Authority of India (NHAI) was established in 1988 by an Act of Parliament (*i.e.*, The National Highways Authority of India Act, 1988). It has been entrusted with the role of development, maintenance and management of National Highways (NHs) in India. Central Government is empowered under the National Highways Act 1956 to levy fee (Section 7) and make rules (Section 9) for the rates at which the fee is to be levied for services rendered in relation to the use of ferries, permanent bridges, temporary bridges and tunnels on any national highway and the use of sections of any national highway and the manner in which the fee shall be collected, by issue of notification in the official gazette. In the year 1997, Government decided that all 4-lane highways would be tolled. Accordingly, Government published The National Highways (Fees for the use of national highways section and permanent bridge---Public Funded Project) Rules, 1997 which were subsequently superseded by National Highways Fee (Determination of Rates and Collection) Rules, 2008. By virtue of section 16 (2) K of the National Highways Authority of India Act, 1988, NHAI may collect user fee on behalf of the Central Government for services or benefits rendered under section 7 of the National Highways Act, 1956.

12.4.2 Mode of toll collection

NHAI collects toll on roads developed on engineering, procurement, and construction (EPC) mode and also on Build, Operate & Transfer (BOT) Annuity mode through toll collecting agencies. Initially, Directorate General Resettlement (DGR) agencies were engaged for toll collection. Later on, toll collection work has been carried out by engaging concessionaires on operate, maintain & transfer (OMT) basis and by engaging other agencies (other than DGR agencies) through tendering process. In case of collection of toll through DGR contracts and other agencies engaged through bidding, the toll is retained by NHAI besides maintenance obligation of respective National Highways. Under OMT, toll collection rights and maintenance obligation rests with the concessionaire in return for a lump sum amount paid to the NHAI in the form of a concession fee.

12.4.3 Audit Objectives

Audit examined the toll operations in NHAI to assess:

a) whether toll collection was started promptly on completed stretch of road;

b) whether bidding process for engaging toll collection agencies was efficient; and

c) whether toll collected was deposited promptly into Consolidated Fund of India.

12.4.4 Scope of Audit

There were 82 stretches of National Highways (NHs) which NHAI has developed under EPC mode. In the States of Jammu & Kashmir, Punjab, Uttar Pradesh, Rajasthan and Madhya Pradesh, out of the above, Audit selected 27 stretches (comprising of 37 projects) for conducting the thematic audit. NHAI had set up 23 toll plazas on 36 projects (one project, *i.e.*, Agra Bypass, was under construction) as on 31 March, 2016. Names of stretches/projects/toll plazas and the States where these are located are given in **Annexure-VIII** to this Report.

12.4.5 Audit Findings

12.4.5.1 Realisation of user fee

Government of India (GoI), vide notifications issued from time to time, entrusted different sections of National Highways (NHs) to NHAI for development and up-gradation. Subsequently, NHAI awarded contracts for construction of NHs. As per Rule 3(2) of National Highways Fee (Determination of Rates and Collection) Rules 2008, applicable from 05 December 2008, NHAI was required to commence collection of user fee within 45 days from the date of completion of the section of National Highway, permanent bridge, bypass or tunnel as the case may be, constructed through a public funded project. Further, sub-Rule 6(b) of the amendment to the aforesaid Rules {vide G.S.R. 15(E) dated 12 January, 2011} stipulated that after recovery of capital cost through user fee realised, in respect of a public funded project, the fee leviable would be reduced to 40 *per cent* of the user fee for such section of National Highways, bridge, tunnel or bypass, as the case may be, to be revised annually in accordance with the rules.

(I) Non-realisation of user fee due to delay in handing over of a part of project to OMT Concessionaire

NHAI signed (16 May 2013) a concession agreement (CA) for toll collection of Jhansi-Lakhnadon Section (packages C-3 to C-9) km 99.005 to km 415.089 (length 316.084 km) under OMT contract at a concession fee of ₹38.00 crore per annum. Article 21.1.3 of CA provided that concession fee would be discounted on pro-rata basis for incomplete length of the project highway, till its handing over to the concessionaire by NHAI on per day basis.

The stretch, except the incomplete length of 38.272 km of package C-8, was handed over to the concessionaire on 06 October, 2013. The stretch was incomplete due to slow progress of work by the EPC contractor. The concessionaire had thus paid concession fee on pro-rata basis from 06 October 2013 for the completed section (at 85.90 *per cent* of the concession fee) till the date of handing over of the remaining stretch. NHAI handed over the balance stretch of 38.272 km on 26 February 2015 to the concessionaire.

Thus, due to non-handing over of 38.272 km of road to OMT concessionaire, NHAI failed to realize the premium of ₹7.72 crore for the period from October 2013 to February 2015.

MoRTH in its reply (17 February 2016) accepted the delay in completion of the C-8 package and stated that the supervision Consultant M/s. Renardet S.A. Consulting had recommended liquidated damages of ₹21.9 crore to be recovered from the contractor M/s. Ssangyong Construction Co. Ltd. as per the terms of the contract. Management further stated that the recommendations of the consultant for imposition of LD were under the consideration of NHAI.

(II) Non-realisation of user fee due to delay in issue of toll fee notification

With a view to commence the toll collection within 45 days from the date of completion of the project, NHAI vide circular dated 16 September 2002 asserted need for advance planning for levy of user fee and required that action was to be initiated for issue of fee notification at least 120 days prior to the likely date of completion of project so that all work relating to approval of fee notification could be completed on or before the completion of the project.

Audit observed that in respect of 12 toll plazas (out of a total of 23 toll plazas established for collection of toll which were test checked) there was delay in issue of fee notifications after completion of the projects. The delay ranged from nine days (Rithola toll plaza) to more than 43 months (Chittoura toll plaza). The delays were attributable to various reasons such as delay in initiating the proposal for approval of draft fee notifications[1] (especially in case of Titarpani toll plaza where more than one year was taken by RO Bhopal), delays in movement of files between MoRTH and NHAI[2], procedural delays[3] and misplacement of records for toll collection of Chittorgarh Bypass at Rithola toll plaza. In respect of two toll plazas[4] reasons of delay were not on record. Audit further noticed that MoRTH / NHAI took inordinate time, ranging between more than two months and nine months, in preparing Hindi version of fee notifications in respect of four toll plazas[5], which was avoidable, as NHAI has separate Hindi Division at its Corporate Office and MoRTH and Government printing press are also located in the same city *i.e.*, Delhi.

Audit has worked out an amount of ₹301.80 crore **(Annexure-IX),** on the basis of bid amount quoted by the successful bidder, which NHAI could not realise due to reasons stated above. Consequently, realisation of the Project Cost of the respective road stretches would also be delayed.

MoRTH replied (17 February 2016) that delays in Toll notification were mainly due to procedural delays in MoRTH and Ministry of Law in vetting the notification and time taken on the part of NHAI in furnishing clarifications on queries raised by MoRTH and Ministry of Law for issue of notification. MoRTH stated further that they had taken corrective steps like dispensing with the vetting of each and every notification by Ministry of Law and introduction of monthly review meetings of JS (Toll) with CGM (CO) NHAI.

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[1] ***Malthone, Mehar, Titarpani and Thandikhui toll plaza***
[2] ***Ahmedpur and Mandev Nagar toll plaza***
[3] ***Choukadi, Chittoura and Muzaina Hatim toll plaza***
[4] ***Nawabaganj and Anantram toll plaza***
[5] ***Mandaw Nagar, Anantram, salemgarh and Chittaura toll plaza***

Impact of above corrective steps taken by MoRTH would be assessed by Audit in future audits.

(III) Non-realisation of user fee due to delayed start of toll plaza

There were delays ranging from three days (Rithola toll plaza) to 549 days (Thandikhui toll plaza) in commencement of toll operations in respect of 15 out of the 23 toll plazas, even after issuance of fee notifications. Reasons for delay in commencing of toll operation were delay in appointment of toll collecting agencies[1], delay in construction and providing basic utilities[2], lack of State Government support [3] and procedural delays[4]. Further, the reasons of delay in appointment of toll collection agencies were mainly due to re-invitation of bids, delay in selection of toll agency, non-submission and delay in submission of bank guarantee. Audit has worked out an amount of ₹204.87 crore (**Annexure-X**), on the basis of bid amount quoted by the successful bidder, which NHAI could not realise due to reasons stated above. Consequently, realisation of the Project Cost of the respective road stretches would also be delayed.

MoRTH in it reply (17 February 2016) accepted the delays brought out in the Audit observation and stated that various improvements had been made in bidding system for expeditious finalisation of bids for engagement of contractor for user fee collection. These were: (i) the bidding was made simpler by pre-qualifying the bidders and eliminating repeated submission of documents in physical form and after pre-qualification only financial bid was submitted on e-portal by pre-qualified bidders, (ii) time schedule of 12 days had been prescribed for completion of activities from Letter of Award to take over of toll plaza, (iii) to take care of exigencies, a system of obtaining e-quotations (7 days for submission) from pre-qualified bidders had been introduced, (iv) to take care of delays in construction of permanent toll plaza, a new format of e-quotation had also been introduced wherein the selected bidder first made temporary arrangement for tolling and then collected toll latest by 30 days from Letter of Award (LoA).

Impact of above corrective steps taken by MoRTH would be assessed by Audit in future audits.

(IV) Short recovery of toll revenue due to delay in revision of user fee

National Highways Fee (Determination of Rates and Collection) Rules, 2008 came into force prospectively from the date of its publication (*i.e.*, 5 December 2008) in the official Gazette. These fee rules permit increase in base rate from ₹0.40 to ₹0.65 per km, charging of 1.5 times toll rates for the length of Bypass, tunnel, bridge portion, inclusion of new category of vehicle *i.e.*, oversized vehicle and annual fee revision in case of public funded projects.

Audit observed that, existing toll collection contracts elapsed between January 2009 and May 2009 in case of the three toll plazas (Paduna 1 February 2009, Daffi 18 May 2009

[1] ***Ronahi, Mandaw Nagar, Muzaina Hatim, Malthone, Mehar, Chittoura and Titarpani toll plaza***
[2] ***Ahmedpur, Choukadi and Salemgarh toll plaza***
[3] ***Chollang, Rajbagh and Thendikhui toll plaza***
[4] ***Rithola toll plaza***

and Anantram 10 May 2009), NHAI was required to send fresh fee notification proposals for these toll plazas to MoRTH, based on Fee Rules 2008. However, Audit observed that:

(a) In the case of Paduna and Anantram toll plazas, NHAI delayed submission of the proposals for revision in toll rates, to MoRTH, due to which fee notifications for toll rates as per NH Fee Rules 2008 could be published only in the month of December 2012 and July 2012, respectively. Thus, despite elapse of existing toll contracts in respect of Paduna and Anantram toll plazas on 1 February, 2009 and 10 May 2009, respectively, NHAI continued collecting toll at the pre-revised rates as per NH Fee Rules, 1997 and letter of award for collection of toll as per NH Fee Rules, 2008 were issued on 22 February 2013 for Paduna and 30 January, 2013 for Anantram. Audit worked out the differential amount of ₹85.70[1] crore (₹30.22 crore for Paduna and ₹55.48 crore for Anantram) up to the date of publication of fee notification under revised NH Fee Rules 2008.

(b) In the case of Daffi toll plaza, no fresh notification as per Fee Rule 2008 was published till the project was handed over (12 September 2011) to the concessionaire on BOT basis. Audit worked out loss of toll revenue of ₹55.55 crore[2] for the period from 18 May 2009 to 11 September 2011 due to non-issuance of toll fee notification.

MoRTH in it reply (17 February 2016) stated that the amendment to NH Fee Rules 2008 for transition from 1997 fee rules to 2008 fee rules was published on 12 October 2011. Therefore, considering the delay from publication of original Fee Rules 2008 (05 December 2008), might not be appropriate and immediately after the amendment was published, the cases were submitted to Ministry.

The reply of MoRTH was not acceptable as the amendment dated 12 October 2011 in NH Fee Rules 2008 referred to in the reply was only in respect of agreements and contracts that existed at the time of introduction of NH Fee Rules 2008 and which were still continuing on the date of the aforesaid amendment dated 12 October 2011. As contracts in respect of Paduna, Daffi and Anantram toll plazas had lapsed in 2009, NHAI should have initiated fresh proposals for fee notification as per NH Fee Rules 2008 prevailing at that time, which was however not done as brought out above. This resulted in loss of ₹141.25 crore to public exchequer.

12.4.5.2 Bidding process

NHAI is required to commence collection of user fee within 45 days from the date of completion of the section of NH. NHAI estimates the annual potential collection (APC) of the stretch proposed for tolling on the basis of prevailing Fee Rules and the traffic survey conducted for seven consecutive days and 24 hours of each day. Based on the APC, NHAI invited bids from the prospective bidders. There were two kinds of bids invited for engagement of toll collection agency namely regular bid (for one year) and short term bid

[1] ***Based on the amount of bid quoted by the highest bidder as per NH Fee Rules 2008 (₹47.07 crore per annum for Paduna and ₹45.98 crore per annum for Anantram) and that quoted by the same bidder as per NH Fee Rules 1997 (₹36.81 crore per annum for Paduna and ₹28.51 crore per annum for Anantram).***

[2] ***Loss worked out by comparing toll actually collected by NHAI during the period as per NH Fee Rules 1997 and that collected by BOT concessionaire i.e., M/s Soma Isolux Varanasi Aurangabad Tollway Pvt. Ltd., under NH Fee Rules 2008).***

(for three months). Based on the bids received, the work of toll collection was awarded to the highest bidder by NHAI.

(I) Loss of toll revenue due to lack of transparency in bidding process

NHAI completed the Chittorgarh bypass in October 2009 and toll collection started from 28 December 2009 on the basis of Fee Rules 2008. NHAI invited (21 October 2011) bids, for engaging new toll collection agency as the annual contract with previous toll agency viz. M/s Sangam (India) Ltd at Rithola toll plaza was due to expire on 10 December, 2011. Considering that after expiry of the present tolling contract the user fee was to be collected on the basis of Fee Rules 2008 (for which NHAI's proposal for amendment in Rules was pending in the MoRTH at the time of NIT), LOA for a period of one year was issued (29 December 2011) to the successful bidder M/s Virender Kumar Vyas at an amount of ₹ 27.13 crore per annum (0.74 *per cent* above the APC mentioned in NIT), who started toll collection with effect from 10 March 2012. As MoRTH did not notify amendment in Fee Rules 2008, NHAI asked M/s Virender Kumar to revise the amount of toll remittance from ₹27.13 crore per annum to ₹39.23 crore per annum as per prevailing Fee Rules 2008. However, M/s Virender Kumar offered (February 2012) NHAI an amount of ₹31.35 crore per annum till amended Fee Rules were notified. Based on the negotiation with M/s Virender Kumar, NHAI agreed for an amount of ₹33.65 crore per annum without inviting fresh bids.

As the above contract was to lapse on 9 March 2013, NHAI invited (24 December 2012) fresh bids, through e-bidding, for toll collection for a period of one year at APC of ₹44.55 crore per annum (increased by 36.05 *per cent*). Only one bid was received in physical form. However, as the bidder failed to upload the financial bid, it was not considered. NHAI again invited (22 February 2013) short notice bid for three months period and awarded the contract to the existing toll collecting agency at highest quoted price of ₹11.12 lakh per day for a period of three months or till regular arrangement was made, whichever was earlier. Simultaneously, NHAI invited (28 March 2013) regular bid, for a period of one year, at APC of ₹48.06 crore per annum. The only bid received from M/s Ridhi Sidhi for ₹51.04 crore per annum was accepted and an agreement for a period of one year from 5 June 2013 to 4 June 2014 was entered into (3 June 2013) with the party, accordingly.

Audit observed that due to lack of transparency in the bidding process and inviting the bid on the basis of parameters which were not approved and did not exist at the time of inviting the bids, the NHAI sustained loss of revenue of ₹15.22 crore[1].

MoRTH in its reply (17 February 2016) stated that the work was awarded to the highest bidder following competitive, transparent bidding process (total 4 e-quotations) for the intervening period from 28 March, 2013 to 04 June, 2013, at a remittance of ₹40.59 crore, whereas, the audit has considered a remittance of ₹33.65 crore for this period which was not correct. Further, this remittance was only for a short period of about 3 months (*i.e.*, 1/4th of a year), while in calculating the loss, the audit has considered this remittance with

[1] ***{₹51.04 crore less 10 per cent of ₹51.04 crore (towards growth in traffic and user fee) – ₹33.65 crore}*452/365***

full one year remittance of ₹51.04 crore in subsequent regular bid. Moreover, comparison of two bids of different durations (viz. short period v/s 1 year) which were opened on different dates (viz. short period bid in March 2013 and 1 year bid in May 2013) might not be appropriate.

The reply was not acceptable, as Audit compared only regular contracts of M/s Virender Kumar and M/s Ridhi Sidhi which were entered into a duration of one year. Moreover, the amount of the contract entered into with M/s Ridhi Sidhi for subsequent period had been reduced by 10 *per cent* to accommodate increase in traffic/user fee over the previous period.

(II) Loss of toll remittance due to incorrect details in bid document

NHAI commenced toll operation for the completed length of 31.500 km, out of total length of 50.873 km of Agra to Makhanpur section, at Tundla toll plaza since April 2009 as per toll notification dated 31 March, 2009. NHAI invited bids (23 October, 2012) for collection of user fee only for a length of 31.500 km *i.e.*, from km 219.00 to km 250.50 with an APC of ₹28.23 crore per annum. NHAI awarded (12 February, 2013) the contract for a period of one year, to M/s Ayushajay Construction Pvt. Ltd. (being the highest bidder) at a toll remittance of ₹39.60 crore per annum for a length of 31.500 km. After, completion of Road Over Bridge (ROB) in February 2013, a revised fee notification for the entire stretch of 50.873 km was published on 7 February 2013. The toll collection started from 14 February 2013. Before completion of a period of one year, NHAI invited bids on 30 December 2013 for collection of user fee for the same length of 31.500 km again, on the basis of APC of ₹47.75 crore per annum. Out of two bids received, the bid of M/s MEP Infrastructure Developers Pvt. Ltd. at ₹45 crore, being the highest, was accepted and contract was awarded to them. However, NHAI published the rate of user fee to be collected at Tundla toll plaza for the total length of 50.873 km from km 199.600 to km 250.500 of Agra to Makhanpur section of NH-2 in two newspapers on 30 March 2014 without considering the fact that contract for toll collection was awarded only for 31.500 km.

MoRTH in its reply (17 February 2016) stated that there was a typographical error in tenders in mentioning the section as from km 219.000 to km 250.500 instead of km 199.660 to km 250.500 and in the RFP rate of user fee was mentioned for the length of 50.873 km. Accordingly both toll agencies collected the user fee rate for the entire length of 50.873 km, and hence, there was no revenue loss to exchequer.

Reply of the MoRTH was not acceptable as APC of ₹28.49 crore was assessed by a survey agency M/s S-4 International on the basis of a length of 31.500 km (from km 219.000 to km 250.533) for a traffic census for a period of seven days from 4 November 2012 to 10 November 2012. Accordingly, APC for entire length of 50.873 km proportionately worked out to ₹50.15 crore for the year 2013-14 and ₹55.17 crore for the year 2014-15. Against this, NHAI realized toll remittance of ₹41.83 crore and ₹49.08 crore (approx.) respectively. Tenders were invited and agreements were entered with toll collecting agencies for a length of 31.500 km. Against this, toll agencies actually collected toll for a length of 50.873 km and this resulted in undue financial benefit of ₹11.13 crore (approx.) to the toll agencies during the years 2013-14 and 2014-15.

12.4.5.3 Undue burden on road users

(I) Undue levy of user fee at Salemgarh toll plaza on undeveloped road

A fee notification was published (22 May 2012) for tolling at Salemgarh toll plaza (km 357.000) for a total length of 46 km from Kasia to UP/Bihar Border from km 320.800 to km 366.800. Accordingly, NHAI started toll operation on 16 December 2012 for a length of 46 km. Audit scrutiny of records revealed that the above length of 46 km included a section of 5.885 km (from km 360.915 to km 366.800 under Project Implementation Unit (PIU) Muzaffarpur) which had not been developed so far (December 2014). Thus, collection of toll of ₹6.23 crore by NHAI from road users for the period from 16 December 2012 to 05 August 2015 was unjustified and avoidable.

MoRTH accepted (17 February 2016) the audit observation and stated that toll collection for this section was stopped on 05 August, 2015. Further MoRTH / NHAI stated that as the user fee had been deposited into Consolidated Fund of India (CFI) it has not resulted in undue favour to any private concessionaire.

The fact remained that the road users were unduly charged for undeveloped section of toll road.

(II) Non-compliance with guidelines issued by MoRTH for calculation of capital cost of road projects

Government introduced a new sub rule 6(b) in NH Fee Rules 2008 vide Gazette notification dated 12 January 2011 which stipulated reduction in user fee to 40 *per cent* after recovery of the capital cost of the projects. MoRTH issued guidelines (OM dated 24 January 2013) on the method of working of capital cost after two years from the date of introduction of new fee rule. As per the guidelines, capital cost inter alia included interest during construction period (IDC), land acquisition cost comprising of cost of land acquired for the project during 10 years preceding the start of the project, cost of rehabilitation and resettlement, shifting of utilities, tree cutting and compensatory afforestation and amount spent on major maintenance costs to enhance the durability of the highways. Guidelines further provided that since various components of the cost of the project occur at different points of time, those would be all brought to the date of completion of the project by indexing each with wholesale price index (WPI) for the intervening period. Expenditure incurred before the year 2005 was considered as incurred during the year 2005. Net revenue collection from the project after deducting the operation cost would be discounted at 12 *per cent* to arrive at their present value as on the date of completion of the project.

Scrutiny of records revealed that NHAI did not comply with MoRTH guidelines while working out the capital cost incorporated in fee notifications. NHAI did not prepare project wise balance sheet and cash flow at the end of each year as suggested in the Guidelines. Further, amount of IDC was not appropriated to the project costs. Non-appropriation of accumulated amount of IDC to the respective projects was ₹11316.44 crore as on 31 March, 2016. Non-appropriation of accumulated IDC has also been pointed out in the Comptroller and Auditor General's report on audit of the annual accounts of

NHAI for the years 2012-13, 2013-14 and 2014-15. Audit noticed in four PIUs[1] the cost of the various components of the project cost were not indexed with WPI till the date of completion of the projects. Thus reduced rate of toll user fee being dependent on complete recovery of capital expenditure, MoRTH / NHAI would not be in a position to fix the correct date of commencement of such reduced rate of recovery accurately in respect of a particular road stretch, in the absence of correct project wise costs.

MoRTH stated (May 2016) that the recoverable capital cost of all the Operate, Maintain and Transfer (OMT) projects (including projects under four PIUs mentioned in the audit observation) were being reviewed by NHAI to comply with the MoRTH guidelines referred to.

12.4.5.4 Collection of user fee without issue of fee notification by MoRTH

Construction of Varanasi-Ramnagar-Mughalsarai (VRM) bypass was completed by the State Government of Uttar Pradesh in May 1999 and toll collection started from 25 July 1999. In terms of the GoI order dated 4 February 1999 VRM Bypass along with the stretch from Kanpur to Barwa Adda of NH-2 in the states of Uttar Pradesh/Bihar was entrusted to NHAI for development. State Government handed over the stretch to NHAI on 30 September 2000 and NHAI started collecting toll from the same day without issue of any fee notification by the MoRTH. As per Rule 3(2) of Fee Rules 1997, the rates of fees and the period of collection would be decided and specified by notification in the Official Gazette by the Central Government. Scrutiny of records revealed that NHAI did not send any proposal to Ministry for issue of fee notification, permitting collection of user fee on VRM bypass. Audit considered that collection of user fee of ₹16.02 crore by NHAI on VRM bypass from 30 September 2000 to 17 May 2008 without issue of any fee notification by the GoI, being in contravention of the Fee Rules 1997, was irregular.

MoRTH while accepting the audit observation stated (17 February 2016) that State PWD and NHAI were executing agencies of MoRTH and MoRTH might swap NH entrusted to them. Ministry further stated that in this case as the toll collection was already in operation by State PWD and the same was taken over by NHAI, a small amendment replacing State PWD with NHAI, was required to be got published, which was not done.

Though Ministry has admitted the audit observation, however, reply did not indicate whether any action would be taken to regularise the above irregularity.

12.4.5.5 Delay in remittance of amount of toll

As per instructions of MoRTH, the amount of toll collections should be deposited by NHAI into the Consolidated Fund of India (CFI) within three days of its collection/receipt in account of PIUs. Accordingly, NHAI directed (25 April 2012) PIUs to remit toll collection from toll plazas on the same day through Real Time Gross Settlement (RTGS) into toll account of NHAI headquarters. PIUs also issued instructions to the banks to transfer the balance of toll amount to NHAI Headquarters' toll account on the same date. Deficiencies noticed in this context during audit are discussed as under:

[1] *Agra, Gorakhpur, Lucknow and Narsinghpur*

(I) Delay in remittance of user fee to Headquarters toll account

In a test check of records made available to Audit in respect of seven PIUs of NHAI, Audit noticed 152 instances of delay in the transfer of toll amount to Headquarters' toll account in respect of 11 toll plazas[1] **(Annexure-XI).** The delay ranged from 3 days (Chaukadi toll plaza) to 33 days (Titarpani toll plaza).

MoRTH in its reply (17 February 2016) accepted the delay in case of PIU-Lucknow and Agra and stated that the concerned banks had been instructed to remit the toll collection amounts to Consolidated Fund of India (CFI) as per the standing orders issued to the banks in line with NHAI OM dated 25 April, 2012.

(II) Delay in deposit of user fee in the CFI by NHAI

(a) 'Para H' of preamble of the contracts, entered by NHAI with toll collecting agencies provided that contractors were required to deposit the amount of user fee latest by Tuesday of every week. In five PIUs[2] the toll collecting agencies did not remit the toll collected during the last month of tenure of the agreement to NHAI bank account, as such NHAI recovered the outstanding amount from performance security of the toll collecting agencies. Audit noticed that NHAI did not deposit the toll amount so recovered by adjusting performance security, into CFI within the stipulated period of three days. In six instances, NHAI deposited a sum of ₹13.66 crore in CFI with a delay of five months (Ahemadpur toll plaza) to eight months (Tundla toll plaza) from the last date of the contract **(Annexure-XII).**

(b) Audit noticed that toll collection amount of more than ₹10 crore (highest amount of ₹15.63 crore as on 31 October 2013) was lying in the accounts of Regional Office (RO), Lucknow during the period from 2 September 2013 to 14 December 2013 and 18 June 2014 to 30 July 2014. This was the amount recovered through encashment of performance securities of the contractors towards short deposit of toll remittance. Non-remittance of the same to NHAI headquarters for onward transfer to the CFI was in violation of instructions issued by MoRTH/ NHAI.

MoRTH in its reply (17 February 2016) stated that remittance of encashed performance security due to any default of contractor was not a remittance received from contractor and could not be insisted upon for immediate deposit as mentioned above.

The above contention of MoRTH is not acceptable because possible default in deposit of user fee collected by contractor was secured through obtaining performance security from the contractor and, hence, the forfeited amount of performance security should have been deposited in CFI without delay.

(III) Short recovery of damages due to delay in deposit of user fee collected

Toll collection agency of Tundla toll plaza and Paduna toll plaza, viz. M/s MEP Infrastructure Developers Private Limited, was irregular in depositing the user fee with

[1] ***Tundla, Rithola, Paduna, Chaukadi, Mandawnagar, Muzaina hatim, Salemgarh, Nawabganj, Ronahi, Ahmadpur and Titarpani***

[2] ***PIU Jalandhar, Agra, Lucknow, Udaipur and Narsinghpur***

NHAI since inception *i.e.*, from March 2014 and July 2014, respectively. In case of Tundla toll plaza, Authority encashed performance security of ₹3.75 crore in June 2014 and the toll agency replenished the performance security for an amount of ₹3.01 crore only from 7 August 2014 to 14 October 2014. Due to delay in remittance of the user fee, NHAI levied penalty and recovered ₹23.58 lakh from the toll agency (up to December 2014). In case of Paduna toll plaza, Audit noticed that in spite of notice issued (02 January 2015) for termination by NHAI, the tolling agency did not remit the toll as per agreement terms. However, NHAI did not initiate legal action against the defaulting toll agency though a sum of ₹13.67 crore of toll amount collected by the toll agency in the two toll plazas was outstanding (March 2015).

MoRTH intimated (16 May 2016) Audit that the outstanding amount along with penalty had been recovered from the toll agency except an amount of ₹0.74 crore in respect of Paduna toll plaza.

Conclusion

Right of collection of user fee on NHs developed by NHAI under EPC mode had been entrusted to NHAI by the Government. Audit noticed that NHAI could not realise toll at various toll plazas due to delay in approval and issue of fee notification (₹301.80 crore), delay in start of toll operations (₹204.87 crore), delay in revision of user fee rates (₹141.25 crore) and other procedural lapses in issue of fee notification (₹7.72 crore). Audit further noticed loss of toll revenue due to inefficient bidding process for engagement of toll collecting agencies (₹26.35 crore). NHAI did not adhere to MoRTH guidelines regarding maintenance of project wise balance sheet and cash flow. The reduced rate of toll user fee being dependent on complete recovery of capital expenditure, MoRTH / NHAI would not be in a position to fix the correct date of commencement of such reduced rate of recovery accurately, in the absence of correct project wise costs.

MoRTH in its reply (17 February 2016) stated that they had taken corrective action for timely processing of cases in MoRTH / NHAI and timely issue of fee notification and hiring of toll collection agencies. MoRTH further stated that recoverable capital cost of all OMT projects was being reviewed by NHAI to comply with MoRTH guidelines. The impact of the above corrective steps taken by MoRTH / NHAI with regard to toll operations would be assessed in future audits.

CHAPTER XIII: DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH

Central Electronics Limited

13.1 Infructuous expenditure of ₹20.21 crore on Integrated Security System at Old Delhi Railway Station

Central Electronics Limited awarded (February 2008) a contract on nomination basis to M/s Kline Technical Consulting, USA for installing security system to address terrorist threats at Old Delhi Railway Station. The security system was installed in December 2010 without four key equipment valuing ₹1.91 crore which were not delivered by the contractor. CEL did not prepare closure report and the project remained non-operative even after lapse of more than six years. This resulted in infructuous expenditure of ₹20.21 crore.

The Central Vigilance Commission (CVC) guidelines (July 2007), while referring to Supreme Court of India judgment[1] stated that tendering process or public auction is a basic requirement for award of contract by any Government agency as any other method, especially award of contract on nomination basis would amount to a breach of Article 14 of the Constitution; Right to Equality, which implies right to equality to all interested parties. However, in rare and exceptional cases, for instance during natural calamities and emergencies declared by the Government; where the procurement is possible from a single source only; where the supplier or contractor has exclusive rights in respect of the goods or services and no reasonable alternative or substitute exists, where the auction was held on several dates but there were no bidders or the bids offered were too low, etc., this normal rule may be departed from and such contracts may be awarded through private negotiations. The aforesaid guidelines of CVC had further laid down that mere post facto approval of the Board, rather than the inevitability of the situation, was not sufficient to award the contracts on nomination basis.

Central Electronics Limited (CEL) submitted (March 2007) a proposal to Technology Development Board[2] (TDB) of Government of India for a Security System Project called as "Secure and acquire technology and pilot demonstration for public area security system to address terrorist threats in India". In January 2008 TDB sanctioned ₹24 crore to CEL for the project. CEL awarded (February 2008) the contract on nomination basis in violation of CVC Guidelines to a vendor namely M/s KTC (Kline Technical Consulting) USA. This vendor was short listed out of five firms which had made a presentation to CEL on the project. The CEL awarded the contract on nomination basis without inviting

[1] ***Nagar Nigam, Meerut Vs Al Faheem Meat Export Private Limited [arising out of SLP (Civil) No. 10174 of 2006]***

[2] ***The GoI constituted the TDB in September 1996, under the Technology Development Board Act, 1995, as a statutory body, to promote and for commercialisation of indigenous technology and adaptation of imported technology for wider application.***

open competitive bids though several firms were available as is evident from the presentation made by five firms.

The project was initially to be installed at the New Delhi Railway Station, however, later its location was changed to Old Delhi Railway Station platform No 1 (earlier platform No 18) for frisking of passengers of the "Samjhauta Express". As per the terms of the payment, M/s KTC was to be paid an amount of ₹21.75 crore (₹11.01 crore[1] towards supply of security equipment and ₹10.74 crore towards technology cost, engineering support, training & licensing). The project was scheduled to be completed within 12 months from the date of sanction of assistance by TDB. M/s KTC sub-contracted the work (May 2008), with approval of CEL, relating to supply of equipment to another agency namely M/s Inspek Technology System (ITS), USA.

Audit observed that a Purchase Order (PO) was placed (March 2010) on M/s KTC for supply of 11 items valuing ₹3.86 crore. M/s KTC raised an invoice (September 2010) valuing ₹3.61 crore towards supply of these items. However, State Bank of Mysore Delhi (letter of credit issuing bank) which examined the documents presented to ensure compliance with the terms and conditions stipulated in the letter of credit for delivery of goods, intimated CEL (November 2010) that M/s KTC had not submitted vital documents supporting actual delivery details of the equipment like airway bill, country of origin certificate, insurance policies etc. However, CEL ignored these important facts and went ahead to release payment of ₹3.26 crore to M/s KTC. This payment included four[2] items valuing ₹1.91 crore which were to be delivered directly at Old Delhi Railway Station. However, CEL found (September 2011) that these four items valuing ₹1.91 crore were neither available at the site nor was any documentary evidence available to establish that these four equipment had actually been delivered by M/s KTC at Old Delhi Railway Station. Apparently, Security System Project was installed in December 2010 without availability of four key equipment *viz.*, Forensic inspection system, High volume portal, Mm W Detector and HH Wands (Metal and Gamma) valuing ₹1.91 crore. Audit also noticed that payment of ₹76.72 lakh was made for items supplied from Indian sources which was not warranted; no justification was available for making these payments in foreign exchange. Incidentally no closure report was prepared by CEL for the project for submission to TDB (November 2016).

It was also observed in audit that the maintenance of installed equipment after November 2011, was not carried out resulting in non-functioning of many equipment. Though, many equipment were not available at site and were reported stolen, CEL did not take any action for lodging FIR, and also it did not renew the insurance policy after July 2012. On this project CEL has incurred a total expenditure of ₹20.21 crore till March 2015. Further, CEL awarded (March 2016) work orders of ₹0.60 crore for revival / limited restoration of the Surveillance System at Old Delhi railway Station. However, the system has still (January 2017) not been handed over to railway even after lapse of more than six years of implementation as it is dysfunctional and has resulted in expenditure of ₹20.21 crore becoming infructuous.

[1] ***1USD=₹45 (as per PO No. 33512 dated 8 August 2008, USD 24,46,666 = ₹11.01 crore)***

[2] ***Forensic inspection system, high volume portal, Mm W Detector and HH Wands (Metal and Gamma).***

CEL ignored the prescribed guidelines and established system of control in award of contract and its execution wherein, it not only awarded tender to M/s KTC on nomination basis, in violation of CVC guidelines, it also made payments to the firm worth ₹1.91 crore for equipment which were not delivered and had not filed FIR for the stolen equipment.

The Management stated (January 2017) that Board of Directors (BOD) approved (February 2008) memorandum of Understanding (MOU) and agreement with KTC, therefore, requisite approval was taken in advance and no *post facto* approval was required. M/s KTC had not submitted the required documents as per letter of credit and deficiency was pointed out by bank, which were waived off on the recommendations of the then Project-in-charge. In this case charges were proved in departmental enquiry and dues of Project in charge were withheld (October 2016). M/s KTC failed to submit various information/documents. There was no violation of CVC guidelines and CEL had withheld ₹2.39 crore which was sufficient for any recovery from M/s KTC.

The reply of the Management is not acceptable as CEL did not invite open tender for competitive bidding in violation of CVC guideline. Further, the Management accepted that no documentary evidence was available to establish that four key equipment were actually supplied by M/s KTC. Though the management had taken action against the then Project-in-charge by withholding his dues, the project was non-operative and was still not handed over (January 2017) to Railways even after lapse of six years of implementation. This resulted in not only an amount of ₹20.21 crore becoming infructuous including a fraudulent payment of ₹1.91 crore but also in a failure to fulfil the stated objective of technology demonstration at Old Delhi Railway Station to address terrorist threats.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

CHAPTER XIV: MINISTRY OF SHIPPING

Dredging Corporation of India

14.1 Operation and Maintenance of Dredgers

14.1.1 Introduction

Dredging Corporation of India Limited (DCI), incorporated in March 1976 is a 'Mini Ratna' Company and is the only Public Sector Undertaking in the field of dredging in India. It is headquartered at Vishakhapatnam. It provides dredging services to create new or additional depths and maintain desired depths in shipping channels of Major and Minor Ports, Indian Navy, fishing harbors and other maritime organisations. DCI's services are put to use for Port development, Reclamation of low lying areas, Beach nourishment, Environmental Protection, Tourism, Flood Control, Irrigation etc.

As of 31 March 2016, DCI possessed 16 dredgers. These included three Cutter Suction Dredgers (CSD)[1] for capital dredging, twelve Trailer Suction Hopper Dredgers (TSHD)[2] for maintenance dredging and one Backhoe Dredger[3] for dredging in tidal areas, ports and alongside jetties.

14.1.2 Audit Objectives

The objectives of the Audit were to assess whether:

a. Dredging assignments were effectively planned and executed in an efficient and economic manner; and

b. Dredgers were properly maintained so as to ensure their optimum utilisation.

14.1.3 Audit Criteria

Audit criteria was derived from the following:

- Five year Corporate Plans for the period 2009-13 and 2014-18;
- Agenda and minutes of the meetings of the Board of Directors;
- Guidelines and directives issued by Government of India (GoI) from time to time;
- Planning documents regarding deployment of dredgers
- Dry dock policy and other manuals/policies laid down by DCI for operation and maintenance of dredgers.

[1] ***Seven to forty years old with total pumping capacity of 5,000 cum/hr***

[2] ***Two to forty one years old with hopper capacity of 66,970 cum***

[3] ***Five years old with pumping capacity of 370 cum/hr***

14.1.4 Scope of Audit and Sample Size

Audit covered the operation and maintenance of the dredgers during the period from 2010-11 to 2014-15. A total of 59 contracts valuing ₹3511 crore which represented 95 *per cent* of the total value of the contracts entered during the period 2010-11 to 2014-15, were selected for review as below:

(₹ in crore)

Particulars	Total Contracts	Value (₹ in crore)	No. of contracts selected	Value (₹ in crore)	Percentage of selection in terms of value of contract
1.	2.	3.	4.	5.	6 = (5/3)*100.
Operation of Dredgers	24	3402	21	3265	96
Maintenance of Dredgers	32	277	20	226	82
Purchase of spares	45	26	18	20	73
Total	**101**	**3705**	**59**	**3511**	**95**

14.1.5 Audit Findings

14.1.5.1 Operation of Dredgers

(I) Submission of price bids below estimated cost

For securing dredging contracts, the Marketing Department of DCI prepared the cost estimates considering dredging site plan/conditions, tender conditions, deployment of suitable dredgers, operating costs, overheads and profit margin ranging from 15 *per cent* to 30 *per cent*. These cost estimates were placed before higher management to decide the final price to be quoted.

Audit observed that out of twenty one dredging contracts selected in audit, ten contracts were secured through tenders. In six such contracts, DCI had quoted price below the cost estimates (including margin) prepared by Marketing Department. In fact, in the following three cases, the quoted prices were below the operational cost:

S. No.	Port	Period of Contract	Estimated Cost without margin (₹ in crore)	Price Bid and Awarded value (₹ in crore)	Percentage variation ((5-4)/4)*100
1.	2.	3.	4.	5.	6.
1.	Cochin Port Trust	2011-12 to 2013-14	132.54 145.83 156.37	104.40 105.30 109.80	-21 -28 -30
2.	Kandla Port Trust	2012-13 and 2013-14	314.75	295.02	-6
3.	Ennore Port Limited	2010-11	206.95	170.99	-17

It was also noticed that DCI was not working out the actual cost incurred for each project/contract. Hence, it was not able to take measures to control costs and improve margins. Audit was, thus, not able to evaluate the performance of the projects undertaken by DCI.

DCI stated (September 2015) that profitability of the projects was being monitored through ERP system from 2015-16 onwards. DCI/Ministry of Shipping (MoS) further stated (March/April 2016) that the price bids were finalized at a lower rate to be competitive and to keep the dredgers in operation so as to earn some contribution over the marginal cost. DCI, however, assured that with the implementation of ERP system, project-wise cost data would be available from 2016-17 onwards.

The reply of DCI/MoS needs to be viewed against the fact that in three out of the above six cases, the quotations were submitted even below the estimated operational cost, which was not justified. Since DCI was in the dredging business for the last four decades, till the time of implementation of ERP, it should have instituted a system of maintaining project-wise cost data to monitor and control the actual costs and improve the margins.

(II) Loss in the contract relating to Ennore Port Limited

Phase-II capital dredging (9.5 million cum) work was awarded to DCI (December 2010) by Ennore Port Limited (EPL) at a contract price ₹170.99 crore and was to be completed within 18 months *i.e.*, before 6 June 2012. However, DCI completed the project only in April 2014 with a delay of 23 months after incurring expenditure of ₹327.72 crore. The revenue realised from EPL was ₹172.33 crore. The overall loss sustained in the contract as worked out by audit, was ₹155.39 crore. In this regard, audit observed the following:

(a) Failure to conduct pre-bid survey and underperformance of dredgers

DCI did not conduct pre-bid survey prior to bidding to ascertain the site conditions, thereby encountering hard strata during execution resulting in dredging at lower pace. Further, DCI dredgers underperformed during the execution. As against the initial planning to deploy three dredgers, DCI had off-loaded (November 2012) 3 million cum to International Sea Port Dredging Limited (ISDL) for contract price of ₹34.80 crore. ISDL actually dredged 3.45 million cum in 41 days for which DCI paid ₹39.41 crore. On the other hand, DCI dredged 7.48 million cum in 661 dredging days. This resulted in loss of ₹131.23 crore.

DCI stated (September 2015) that ISDL executed the soft material whereas DCI tackled very stiff material. MoS endorsed (March 2016) the reply of DCI. DCI/MoS further stated (April 2016) that due to shortage of time, DCI had to rely on the borehole data provided with bid documents by the respective Ports, which generally varies during the execution of the dredging work. Dredgers available with DCI were not capable for dredging at EPL due to different nature of soil and to take-up the capital dredging works. The capacity of the sub-contractor's dredger was higher and cannot be compared with dredgers of DCI.

The reply is not acceptable because the quantum of hard strata was only 1.19 million cum and EPL allowed a higher rate of ₹225 per cum for the hard strata. The fact remained that failure to conduct pre-bid survey coupled with under-performance of own dredgers resulted in loss of ₹131.23 crore.

(b) Improper planning of deployment of dredgers

Against the plan to deploy three dredgers (Dredge XVII, VIII and Aquarius), DCI actually deployed seven dredgers on rotation during the period from February 2011 to April 2014 and incurred total mobilisation/demobilisation expenditure of ₹29.56 crore against the contract price of ₹13.32 crore. Improper planning in deployment of dredgers resulted in additional avoidable expenditure of ₹16.24 crore.

DCI stated (September 2015) that due to dry dock plans and commitments to various other ports, there was change in the deployment schedule. MoS endorsed (March 2016) the reply of DCI.

Reply of DCI/MoS needs to be viewed in the light of the fact that schedules of planned dry docks and commitments to various other ports were well known to DCI. Even then, DCI did not visualise the mobilisation and demobilisation expenditure correctly, while submitting the bids.

(c) Short billing for the work done

Short billing of ₹7.92 crore[1] was observed in Ennore Port Limited (EPL) project for dredging done by Dredge-XV totalling 0.80 million cum in-situ quantity *i.e.*, 0.66 million cum at Outer Approach Channel (OAC) and 0.14 million cum at General Cargo Berth (GCB) during 25 July 2011 to 27 August 2011. Reasons for these were also not on records.

DCI stated (September 2015) that work was done at the request of EPL at GCB which was out of the scope of work and the production was very less due to hard bottom. Before suitable dredger was deployed, there was heavy siltation in OAC area due to monsoon and hence, no claim was preferred. MoS in its reply (March 2016) endorsed the reply of DCI. DCI/MoS further stated (April 2016) that the post dredging survey, though conducted, the same was not made official, since the Port might recover money on grounds of reduction of depths.

Reply is not tenable as Dredge-XV was deployed 25 days after withdrawal of Dredge-XVII. DCI's contention that siltation of 0.80 million cum in a period of 25 days was not logical in view of the fact that when dredging in the same area was carried out in November 2012 *i.e.*, after 15 months, the actual siltation was 0.93 million cum only.

(III) Excess expenditure in dredging at Cochin Port

(a) Mobilisation/demobilisation charges incurred in excess of estimates

DCI had entered (December 2011) into a contract with Cochin Port Trust (CoPT) for three years *i.e.*, 2011-14 for maintenance dredging at a value of ₹319.50 crore. As per the contract DCI was required to deploy two dredgers. DCI had estimated mobilisation/ de-mobilisation charges to the tune of ₹7.50 crore. The contract was extended by one year in April 2014 at a contract price of ₹172.10 crore. However, while extending the contract for 2014-15 (April 2014), no mobilisation and demobilisation charges were estimated.

[1] ***0.80 million cum x ₹ 99 per cum as per the contract***

However, due to frequent changes in deployment of dredgers, DCI incurred total expenditure of ₹23.41 crore on mobilisation/demobilisation against the estimate of ₹7.50 crore resulting in excess expenditure of ₹15.91 crore.

DCI / MoS in its reply (March / April 2016) stated that dry-docking of dredgers cannot be avoided in long term projects and the dredgers need to be shuffled as per the dry dock plan.

The reply of the MoS needs to be viewed in the light of the fact that schedules of planned dry docks and commitments to Ports were known to DCI, as it was a continuous process and deployment of dredgers could be assessed in advance. Therefore, the cost of redeployment/replacement of dredgers should have been considered on a realistic basis while submitting the price bids for mobilisation/demobilisation charges.

(b) Liquidated damages paid for failure in maintaining depth

The contracts with CoPT were depth based lump sum contracts and DCI was required to maintain desired depths in the navigational channel. Failure to maintain desired depth would attract liquidated damages (LD) at the prescribed percentages. Despite deploying more dredgers than those envisaged in the contract, DCI failed to maintain the desired depth due to which from 2011 to 2015, CoPT deducted ₹8.44 crore towards LD.

DCI did not offer any remarks. MoS stated (March 2016) that actual deployment plan will vary as per actual dredging requirement/scope of work at a particular project to meet project time lines and to avoid penalties.

The fact remained that though more dredgers were deployed as against that envisaged in the contract, DCI failed to achieve the desired depths and incurred liquidated damages of ₹8.44 crore.

(c) Penalty for not deploying dredgers of capacity specified in contract

During the period from 2011 to 2015, DCI was required to deploy TSHDs at CoPT with a total hopper capacity of 12,000 cum for minimum period of 25 days in a month during 16 May to 30 September of each year and of a hopper capacity of 10,000 cum for 20 days in a month during the remaining period. Failure to deploy dredgers of required capacity would attract penalty at prescribed rates. Audit observed that CoPT recovered penalty of ₹6.76 crore for the failure to deploy required capacity dredgers. It was further seen that the actual penalty payable was ₹4.36 crore and ₹2.40 crore was paid in excess due to incorrect calculation by the Port.

DCI stated (September 2015) that unanticipated breakdowns and extended dry docks had caused deviation from initial deployment plan and that it would lodge a claim for recovery of excess penalty. MoS stated (March 2016) that actual deployment plan would vary as per actual dredging requirement/scope of work at a particular project to meet project time lines and to avoid penalties.

The fact remains that failure to ensure deployment of two dredgers at any point of time with required minimum hopper capacity resulted in penalty of ₹4.36 crore. Further, DCI

failed to identify the error in calculations at the time of settlement of bill and to take it up immediately with CoPT for recovery of the same.

(IV) Penalty for non removal of backlog quantity in Kandla Port

Kandla Port Trust (KPT) awarded (December 2012) a lump-sum dredging contract of ₹295.02 crore for dredging the navigational channels starting from February 2013 to March 2015. As per the pre-dredging survey after the award of contract, DCI was required to clear 33.21 lakh cum of backlog quantity before the end of the contract for which ₹210 per cum was payable, separately. However, if DCI failed to clear the backlog quantity, penalty at the rate of ₹300 per cum was recoverable by KPT. At the end of the contract, DCI could clear 23.94 lakh cum of backlog quantity leaving a balance of 9.27 lakh cum. Consequently, KPT recovered ₹27.80 crore for the shortfall.

DCI stated (September 2015) that the quantum of backlog was not specified in the tender and not declared by KPT and efforts were on to clear the backlog quantity. MoS in its reply (March 2016) stated that the matter was being pursued with KPT for an amicable settlement. If required, action for arbitration would be initiated. In April 2016, MoS informed that the matter finally was referred to Intra-Ministerial committee for settlement.

(V) Poor performance of newly purchased Dredge XVIII

Dredge XVIII, a CSD, was procured (March 2010) by DCI from Mazagaon Dock Limited (MDL) at a cost of ₹269.58 crore. The delivery was subject to successful trial run. However, in January 2011, the vessel was accepted without successful trial run. Audit observed that the performance of the dredger was poor with a capacity utilisation of only 22 *per cent* till March 2015. It remained inoperative from December 2012 to July 2014. Thereafter, it remained in dry dock till December 2015 and an expenditure of ₹34.21 crore was incurred on dry dock repair during the said period. The dredger remained inoperative for the period from December 2015 to May 2016. In May 2016, it was deployed to take up dredging at Mormugao Port Trust (MGPT) but again it failed to commence work immediately. It started dredging on 18 August 2016 but on 24 August 2016, it again broke down and was yet to be put into operation (December 2016). Thus, taking over CSD without proving its dredging capabilities was not in the best interests of DCI.

While accepting (September 2015) the audit observation, DCI stated that it had encashed the performance bank guarantee of ₹27.37 crore. However, the matter was under Arbitration.

14.1.5.2 Maintenance of dredgers

(I) Idling of dredgers

The following cases of idling of dredgers due to sailing of vessels without ensuring dry-dock slots and expiry of statutory certificates were observed in Audit which resulted in significant loss of revenue:

(a) Docking survey of Dredge XIV in Haldia was due by February 2011 and on the request of DCI which was made in December 2010, Hindustan Shipyard Limited (HSL) allotted dry-dock slot for February 2011. However, instead of utilizing this slot, DCI obtained (January 2011) extension of certificates up to 30 April 2011 from Directorate General of Shipping. Another slot was obtained from HSL in April 2011 but the same was also not utilized and the dredger was deployed for operations at Paradip from 3 April 2011 to 29 April 2011. DCI once again requested (4 May 2011) HSL for dry dock slot in the first week of May 2011, but HSL allotted slot from 23 May 2011. Meanwhile, validity of certificates expired by 30 April 2011 and the dredger was kept idle before it was dry docked on 23 May 2011. Defective planning resulted in idling dredger for 22 days and opportunity to earn revenue of ₹4.14 crore (at the rate of ₹18.81 lakh per day) was lost.

(b) Statutory certificates of Dredge IX were originally valid upto April 2011 and the dredger was to be dry docked in May 2011 for which a slot had been allotted by HSL in March 2011. DCI, however, did not utilize this slot and got the certificates extended from DGS upto 30 June 2011 and the dredger continued to work at Haldia. On 27 June 2011, the dredger sailed from Haldia and reached Visakhapatnam on 29 June 2011. It was observed in audit that HSL, on 27 June 2011, had already intimated through fax about non-availability of dry dock slot and advised to postpone stemming of the dredger to first week of August 2011 and due to which the dredger was not dry-docked. At this point of time, DCI again obtained (7 July 2011) an extension of certificates from DGS upto 31 August 2011. The dredger, however, had to remain idle for 26 days *i.e.*, from 7 July 2011 to 1 August 2011 after which it started working at Visakhapatnam.

Thereafter, in September 2011, DCI placed a work order on HSL for dry docking against which it was allotted slot from 22 October 2011. Consequently, the dredger, again remained idle for a period of 51 days *i.e.*, from 1 September 2011 to 21 October 2011.

Thus, due to failure of DCI to utilize the slot of May 2011 and get the certificates revalidated and sailing the dredger for dry docking without ensuring availability of dry-dock slots resulted in idling of the Dredge IX for a period of 77 days resulting in loss of revenue of ₹11.27 crore (at the rate of ₹14.64 lakh per day).

(c) Without confirmation of availability of dry dock slots from Cochin Shipyard Limited (CSL), Dredge VIII sailed (23 May 2012) from CoPT to CSL for undertaking dry dock repairs. It reached CSL on 23 May 2012, but was allotted the slot from 11 June 2012. Due to this, the dredger remained idle for 19 days resulting in loss of opportunity to earn revenue of ₹2.90 crore (at the rate of ₹15.28 lakh per day).

DCI / MoS stated (September 2015/April 2016) that though dry dock repairs were planned in time, due to operational requirement and contractual commitments, dry-docking schedules were deferred. DCI stated (September 2015) that vessels had to sail out from the Port prior to the expiry date of Statutory Certificates. Hence it had no option but to sail. MoS endorsed (March 2016) DCI's reply.

The reply is not acceptable as DCI should have planned dry docking of the dredgers before expiry of the Classification Certificates which were mandatory for operation of dredgers and should have ensured that the dredgers sailed for dry-docking only against the confirmed availability of slot.

(II) Major damages to Dredge XI

Dredge XI operating at Kochi was stopped on 16 July 2010 due to low lube oil pressure and metal particles found in the crankcase. Investigation by the Engineer of Original Equipment Manufacturer (OEM) revealed that crankshaft was bent out of the specified tolerance and recommended replacement with new crankshaft. Deputy General Manager (Tech) of DCI attributed the damage of crank shaft to (i) over running of bearings (ii) Auto Lube Oil flush system not being in use and filter clogging indicator not being monitored to effect timely filter changes etc. The Executive Committee of DCI also reported that the failure of the crankshaft was mainly due to lack of timely action and not following the Planned Maintenance Schedule (PMS). The Board of Directors (BoD) of DCI, while according approval for estimated expenditure of ₹14.99 crore for repairs of Dredge XI expressed its serious concern over the non-monitoring of the PMS. Afloat repairs were awarded to CSL and repair works were carried out during 26 October 2010 to 25 August 2011 at a cost of ₹13.53 crore.

Audit observed that:

- The auto flush system in Dredge XI was not in use for more than 5 years (since 2005) and DCI made no efforts to carry out the repairs during previous dry-docks of the dredger taken up in July 2006 and in February 2009.

- Dredge XV had also suffered damage in its crankshaft during 2009 for similar reasons. The Original Equipment Manufacturer in its investigation report indicated that due to negligence of maintenance of filter elements of Automatic LO filters, the bearings and the crankshaft were damaged. With this experience and to avoid recurrence of similar failures, DCI immediately took note of it and circulated (22 June 2009) instructions to all CEOs of the dredgers and advised to check auto clean filter elements and to maintain the Lube Oil filters in good condition in their dredgers in future.

- In fact, possibility of damage to Dredge XI was anticipated by General Manager (Technical) who cautioned the dredge officer through email on 22 January 2010 that in case the lube oil system was not in order, the dredge engines were likely to be damaged.

In spite of previous recurrence/advance warning, no timely action was taken to maintain the lube oil filters in good condition resulting in damage to the crankshaft of Dredge XI due to which the dredger was to be under afloat repairs at CSL for 303 days which resulted in loss of opportunity to earn revenue of ₹97.09 crore[1].

DCI /MoS while confirming the audit observation (September 2015/April 2016) stated that failure of Dredge XI engine was only due to failure of main bearings and there was no relation with damage of Dredge XV main engines.

The fact was that in both the cases, common reason for failure of crank shaft was the failure to maintain the auto lube oil filter systems, causing metal particles to have

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[1] ***156 days i.e., from 26 October 2010 to 31 March 2011 at the rate of ₹14.02 lakh per day totalling ₹21.87 crore and 147 days i.e., from 1 April 2011 to 25 August 2011 at the rate of ₹51.17 lakh per day amounting totalling ₹75.22 crore***

encountered the crank shaft. No remedial measures were initiated to ensure auto lube oil filters were in working condition, even though BoD advised to maintain the auto lube oil filter system properly for all the dredgers. Thus, failure to rectify the defective auto lube oil filter system in time and non-monitoring of PMS schedule had resulted in major damage to Dredge XI.

(III) Detention of Dredge XI

During the Flag State Inspection (FSI)[1] of Dredge XI, Mercantile Marine Department (MMD) of Directorate General of Shipping, highlighted (18 February 2014) 38 deficiencies out of which 8 were reported as detainable. Consequently, the dredger was detained from 18 February 2014. DCI complied with the deficiencies on 12 March 2014 and the dredger resumed work from 13 March 2014. Audit observed that the detainable deficiencies[2] were easily identifiable and should have been rectified by DCI before inviting MMD for inspection. Thus, defective planning resulted in stoppage of dredger for 23 days with loss of opportunity to earn revenue of ₹5.85 crore (at the rate of ₹25.44 lakh per day).

DCI stated (September 2015) that date of inspection of the dredger was deferred at the request of MMD and after short notice the inspection was carried out by MMD. MoS did not offer any remarks.

The reply of DCI is not acceptable. MMD had inspected the dredger on 18 February 2014 as against the request of DCI to conduct the inspection on 30 January 2014. Since, FSI is an annual exercise, DCI should have complied with requirements by rectifying deficiencies before inviting MMD for inspection.

Conclusion

Due to delays in execution of dredging contracts within the stipulated time period, DCI had to sustain loss on account of recovery of liquidated damages by the Ports. Defective planning in mobilisation/de-mobilisation of dredgers was observed, which resulted in avoidable expenditure and consequent reduction of margins. DCI lost the opportunity to earn considerable amount of revenue due to failure to revalidate statutory certificates of the dredgers. Further, acceptance of dredger without successful trial run and failure in following the Planned Maintenance Schedules resulted in their non-utilisation for a considerable period.

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[1] ***The flag State of a trading ship is the State under whose laws a ship is registered or licensed. The flag State has the authority and responsibility to enforce regulations over ships registered under its flag. It is also responsible for the conduct of the ship towards safety and environment protection. Flag State Inspection (FSI) of Indian flag ships are conducted by the Mercantile Marine Department of the Directorate General of Shipping.***

[2] ***Like no batteries in walkie-talkies, incomplete log book, expiry of MOB marker, no audible alarm for navigation light panel, accumulated oil leaking, bilges covered with oil/water/sludge, non working of steering flat emergency talk system etc.***

Recommendations

DCI should aim for enhancement of its dredging capability through better planning, efficient deployment and supervision so as to ensure completion of work within the stipulated period. It may also ensure revalidation of statutory certificates in time so as to avoid their idling. Delivery of dredgers should be taken after successful trial runs. Further, DCI may ensure that the Planned Maintenance Schedule is strictly adhered to so as to avoid sudden breakdowns.

The Shipping Corporation of India Limited

14.2 Loss due to failure to restore interest payment clause

Failure of the Management to restore the interest payment clause deleted by SBI while renewing the bank guarantees resulted in loss of interest of ₹19.24 crore

The Shipping Corporation of India Limited (SCI) entered (October 2007) into a contract with M/s. Bharati Shipyard Limited (BSL), Mumbai for construction of one 80 Tonne Anchor Handling Tug-cum-Supply Vessel (Hull No.395) at a price of USD 22.32 million. SCI was to make stage payments as per the payment schedule incorporated in the contract against unconditional, irrevocable refundment guarantee issued by the State Bank of India or reputed international banks acceptable to SCI plus interest at seven per cent per annum.

SCI paid ₹82.17 crore (between October 2007 and September 2010) in five instalments to BSL for Hull No.395 as advance payments against four bank guarantees issued by State Bank of India (₹60.83 crore) and one bank guarantee issued by Andhra Bank (₹21.34 crore).

As per the shipbuilding contract, Hull No.395 was scheduled to be delivered on 15 August 2010, which was extended upto 30 September 2013. The bank guarantees were also extended till November 2013. However, even after the extended delivery date, BSL could not deliver Hull No.395. SCI, therefore, rescinded the contract on 1 October 2013 and invoked (17 October 2013) the bank guarantees.

On invoking the bank guarantee, Andhra Bank paid (29 October 2013) ₹28.46 crore including interest. However, SBI paid (23 December 2013) only the principal amount of ₹60.83 crore. Interest amounting to ₹19.24 crore[1] was not paid. SCI took up the matter (April 2014) with SBI for payment of interest, but SBI informed (August 2015) that no interest was payable on the bank guarantee as the extended bank guarantee did not provide for payment of such interest. SCI took up (March 2016) the matter with Department of Financial Services (DFS) through Ministry of Shipping. DFS / SBI intimated (May 2016) that as per the legal opinion of the Law Department of the bank and opinion obtained from an external Senior Counsel, the claims honoured by the bank were in order and interest was not payable. The Company is pursuing with SBI to resolve the issue but no further progress has been made (September 2016).

Audit observed that the original bank guarantees issued by SBI provided for payment of interest at the rate of seven per cent per annum. However, when the bank guarantees were

[1] ***At the rate of seven per cent per annum as per the contractual terms from the date of issue of bank guarantee to 23 December 2013***

extended, SBI removed the clause relating to payment of interest. The amended bank guarantees, thus did not have clause for paying interest to SCI. This amended guarantee agreement was accepted by SCI and it did not take up the matter of restoring the interest payment clause in the amended bank guarantees with SBI. The loss could have been avoided had the Company taken up the matter with SBI when the bank guarantees were renewed without clause relating to payment of interest.

The Management stated (September 2016) that (i) SCI has never consented whatsoever for any deletion/omission of clause in the bank guarantee to SBI; (ii) the shipbuilding contract clearly provided for obtaining express consent; (iii) the original bank guarantee issued by SBI had the interest clause as enumerated in the contract and subsequent renewals of the shipbuilding contract were only to be a mere extension of date to cover the delay in the delivery of the vessel; (iv) covering letters accompanied with all the extended bank guarantees issued by SBI clearly stated that all terms and conditions appearing in the original guarantee shall apply to the extension and shall be read with the original guarantee and citing the amendment details that have been carried out in the guarantee with all other terms and conditions remaining the same and SBI was liable to pay the interest as there has been a delay and consequential cancellation of the shipbuilding contract.

The reply of Management is not acceptable as:

(i) It was pointed out (August 2016) by SBI that the deletion of interest portion was not by mistake but was a deliberate omission done with the implied consent of SCI as SCI accepted the extended/amended guarantees without raising any objection or dispute;

(ii) The shipbuilding contract was between SCI and BSL, SBI was not a party to the shipbuilding contract and it was the responsibility of SCI to ensure that appropriate interest clause was included in the guarantee agreement to secure its own interest;

(iii) Amended bank guarantees did not contain a clause relating to payment of interest and the omission was not taken up by SCI in time with SBI for restoring the same.

The Ministry of Shipping stated (February 2017) that (i) the original bank guarantee issued by SBI had the interest clause and the subsequent renewals of the bank guarantees in accordance with the ship building contract were only to be a mere extension of date to cover the delay in the delivery of the vessel and the contention of SBI that deletion of interest clause portion was a deliberate omission done with implied consent of SCI is not valid; (ii) Notice of assignment of refund guarantor provided that no variation or amendment or release or waiver shall be effective unless the assignee agreed to it; (iii) SCI does not accept that there has been an omission of the clause relating to payment of interest and even if there has been an omission, the same is of a clerical nature which does not have any legal sanctity and cannot change the character of the document; and (iv) In view of limitation period coming to an end, SCI has moved the Bombay High Court for recovery of the deficit amount, which is awaiting listing.

The reply of the Ministry is not acceptable as the extended/amended bank guarantees did not contain provision for payment of interest and SCI failed to notice the absence of the interest payment clause in the extended/amended bank guarantees which could have avoided unwanted dispute and legal complications.

Thus, failure of the Management to ensure restoration of the interest payment clause deleted by SBI while renewing the bank guarantees resulted in loss of interest of ₹19.24 crore.

14.3 Management of Agency Agreements

14.3.1 Introduction

The Shipping Corporation of India Limited (SCI/Company) was formed in October 1961 by amalgamating Eastern Shipping Corporation and Western Shipping Corporation. The Company's operations are divided into four major segments viz. (a) Liner segment; (b) Bulk segment; (c) Technical and offshore services segment; and (d) Others segment. As on 31 March 2016, the Company's fleet consisted of 69 vessels with 5.89 million dead weight tonnage. The Company operated through a network of 78 agents at various Indian and foreign ports. The duties and responsibilities of the agents were prescribed in the Model Agency Agreement, which was last revised by the Company during the year 2008. As per this agreement, the agents carry out marketing functions, book cargo on behalf of SCI and also collect freight for Liner division.

14.3.2 Audit objectives and scope

An audit paragraph on "System of collection and accounting of freight and other charges from agents of SCI" was included in Report No. 9 of 2007 of the Comptroller and Auditor General of India. This highlighted the ineffectiveness of the Company in ensuring compliance with the terms of agreement with agents regarding opening of separate collection and disbursement accounts, timely submission of voyage accounts and furnishing of bank guarantee. In the Action Taken Notes submitted on this paragraph, the Ministry had stated (September 2010) that implementation of a new ERP package would reduce delay in submission of voyage account and that bank guarantees were being collected. Ministry had also stated (March 2015) that Global Cash Management System had been introduced since 2007, which would ensure opening of separate collection and disbursement accounts.

In the context of these assurances, a follow up audit was conducted to assess (i) the extent of compliance with the provisions of Agency agreement, (ii) the system of obtaining bank guarantee from agents, and (iii) the system of performance evaluation of agents. A period of five years from 2011-12 to 2015-16 was covered in audit.

14.3.3 Audit findings

14.3.3.1 Non-compliance with the provisions of Agency agreement

(I) Non-maintenance of separate disbursement account and separate freight account

As per Articles 11 (a) and (c) of the Agency agreements, the agents had to maintain a separate disbursement account for funds remitted by SCI to them for attending to vessels. The agents were also to open a separate account for crediting the freight and all other dues payable to SCI. The Article (b) of the agreement stipulated that the agents would furnish a copy of the bank's statement of the disbursement account for the previous month to SCI.

In 2007, the Company introduced a Global Cash Management System (GCMS) which envisaged opening of freight collection accounts and disbursement accounts by the agents at all major ports in the name of SCI and operation of a central pooling account for automatic sweeping of funds from the freight accounts.

Audit observed that:

(i) Out of 78 agents, only 21 agents opened separate disbursement accounts and out of 66 freight collecting agents, only 27 agents opened separate freight accounts under GCMS.

(ii) Two agents (viz. M/s Oceanmasters, Dubai and M/s Escombe Lambert Limited, United Kingdom and Ireland), who were covered under GCMS did not remit the freight collected by them during the period 2011-14. SCI terminated the agreements with these agents in March 2015 and October 2014 respectively. However, these agents are yet to remit the entire freight to SCI, the amount outstanding as on 31 March 2016 from these two agents being ₹9.80 crore and ₹28.60 crore respectively.

(iii) Fifty seven agents did not open separate disbursement and freight collection accounts under GCMS. They also did not furnish bank statements of their disbursement accounts every month, for the previous month, as mandated by the Agency agreement. Further, 39 agents did not open separate freight accounts. These agents collected freight in their own names and transferred it to SCI at a later date. It was noticed that the Company had done away with audit of the accounts of these agents by Certified Public Accountants, which was in vogue till the year 2008.

Thus, the Company failed to ensure that GCMS served its intended objective of efficient fund management. The Company also failed to ensure that agents comply with their obligations regarding disbursement and freight collection accounts under the Agency agreements signed with them.

The Management stated (February/April 2016) that there were locations where the freight account could not be opened due to local laws of the country. However, the freight was normally remitted by the agents to the account nominated by the Company. It was also informed that due to huge delay in settlement of freight accounts, the agency agreements with both M/s Oceanmasters and M/s Escombe Lambert Limited were terminated.

The reply of the Management needs to be viewed against the fact that collection of freight in their own accounts by the agents and subsequent transfer to SCI at a later date defeated the very purpose of introducing GCMS. It also entailed loss of interest for the time taken in remitting the freight collected.

(II) Delay in submission of final disbursement account

The Company introduced (February 2011) Systems, Applications and Products in data processing (SAP) through which the proforma disbursement accounts submitted by agents were processed and advance payments were made to them.

As per Article 11 (g) of Agency agreement, the agent shall forward a complete voyage disbursement account for each ship of SCI handled by the agent within 35 days of sailing of the vessel. After approval of the account by SCI, advance given to the agent was to be adjusted against actual expenditure. The Company had the right to levy penalty upto USD100 for each day of delay in uploading the accounts.

Audit observed that there was no system in place to ensure that the agents uploaded the voyage disbursement accounts within the prescribed time. Further, the Company did not levy any penalty for delay in uploading the accounts.

The Management stated (February/April 2016) that a particular voyage account could be cleared only after the entire invoice lines of that voyage were cleared. As a result, there were backlogs. Further, the Company had introduced (December 2014) auto closure of accounts within three months from the date of sailing of the vessel.

The reply is not acceptable as a time limit of 35 days was provided to an agency as per agency agreements for submitting the accounts, beyond which penalty was leviable. Auto closure after 90 days would imply allowing an additional 55 days to the agency for which a penalty of upto USD 5,500 (USD 100 per day X 55 days) could be levied as per the agency agreements. As per the data furnished by the Company, there were 837 auto closures from December 2014 onwards for which no penalty has been levied. Thus, the Company failed to levy penalty of upto ₹30.54 crore in these cases for delay of agents, beyond the stipulated 35 days, in submitting accounts to the Company.

(III) Non-conduct of special audit

As per Articles 11 (h) and (l) of the Agency agreement, the Company had the right to carry out special audit at its sole discretion for which the agent was to fully co-operate. Further, the Company had the right to inspect the books of accounts and relevant records at the agent's premises.

Audit observed that the Company did not conduct special audit of any of its agents till the year 2014. During July 2014, the Company deputed teams of its officials for inspection of three agents viz. M/s Escombe Lambert Limited (agents at United Kingdom and Ireland), M/s Karl Geuther& Company (agent at Antwerp, Germany) and M/s Muller Agencies (agent at Rotterdam, The Netherlands). However, all the three agents denied complete access of their books and bank accounts to the teams deputed by the Company in violation of the provisions of Agency agreement. Based on the limited records made available, the teams noted several deficiencies such as incorrect invoicing to shippers, delays in invoicing, substantial differences between revenue collected from shippers and the revenue passed on to SCI, etc. On the basis of these findings, the agency agreement with M/s Escombe Lambert Limited was terminated (October 2014) while no action was taken in other two cases.

While accepting the audit observation, the Management stated (February 2016) that a tender had been floated to entrust the audit of agents to independent auditors. Accordingly, the Company has appointed (October 2016) independent auditors for audit of books of accounts maintained by the Agents.

14.3.3.2 Non-obtaining of adequate bank guarantees from agents

The procedure for appointment of agents (April 2006) provided that bank guarantees be obtained from agents on the basis of estimated volume of disbursements to them. Further, the Company decided (January 2010) that the bank guarantee should cover the risks involved in delay in collection and deposit of freight by the agents over and above the normal credit period allowed to them. Accordingly, the quantum of bank guarantee should be based on previous one year's average outstanding amount beyond the credit period allowed to agents.

In case of 12 major agents[1], Audit observed that:

(i) While working out the amount of bank guarantee to be obtained from agents during the year 2015-16, the Company considered the outstanding amount as trade receivables from the agent *minus* trade payables to the agent. These trade payables included certain amounts (aggregating to ₹69.12 crore) which were to be disallowed to the agents. This resulted in under-estimation of the bank guarantee amount by ₹69.12 crore.

(ii) The amount of bank guarantees actually available with the Company did not bear any relation even with the amounts incorrectly worked out by the Management. As against the bank guarantees of ₹43.50 crore required to be obtained from the agents, an amount of ₹8.92 crore only was available with the Company as on 31 March 2016.

The Management stated (February 2016/ September 2016) that bank guarantee was a deterrent and only partially mitigated the risk. Further, the bank guarantees were obtained from those agents where there was business and continuous exposure.

The reply is not acceptable. By under-estimation of bank guarantee amount and obtaining even lower bank guarantee, the Company failed to protect its financial interests, as intended by the decision taken in January 2010.

14.3.3.3 Non-monitoring of performance of agents

The Audit Committee of the Company directed (March 2004) the Management to evolve a system for performance evaluation of the agents for submission to the Board of Directors. The performance evaluation was to be based on factors such as (i) marketing/ solicitation of cargo, (ii) freight collection/reconciliation, (iii) financial and accounting matters, (iv) husbanding including handling floating staff members, and (v) spare parts and repairs coordination. The purpose of performance evaluation was to induct excellence into the professional conduct of agency management, to serve as a tool of Management Information System, to consider giving bonus to outstanding agents and to decide on the continuity/ termination of the below average agents.

Further, the Board directed (August 2008) that the performance evaluation of agents should also contain analysis in respect of (a) variation in the business/ revenue generated

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[1] ***Ameaster Shipping and Trading Company, Cesare Fremura SRL, De Keyser Thorton NV, Far Eastern Services PTE Limited, Far Eastern Services SDN BHD, Hesco Agencies Limited, Marti Shipping Agency SA, MorskaAgencia Gdynia SP, Muller Liner Agencies BV, Seaster Shipping Lines, Champion Agencies China Limited and General Maritime Private Limited***

over the previous year, (b) variation in the performance over the previous evaluation period, (c) extent of outstanding to/from SCI, and (d) specific issues/ specific achievements, etc.

Audit observed that:

(i) Performance evaluation of agents for the periods upto June 2012 only had been submitted to the Board of Directors. After completion of the performance evaluation, the agents were informed about their ranking, scores and deficiencies observed and were advised to improve thereupon.

(ii) Though the evaluation for the periods upto December 2013 was carried out, it was not submitted to the Board for want of information relating to agents. The evaluation for subsequent periods was not carried out by the Company (March 2016).

(iii) The Company did not include many critical parameters in the performance evaluation of agents, such as delay in freight remittance, delay in submission of accounts, duplication/overcharging of claims and resultant disallowances, non-reconciliation of port deposits, etc.

While accepting the audit observation on non-availability of complete information, the Management stated (December 2015/ September 2016) there was a need to redesign the process of performance evaluation which was also a reason for not presenting the evaluation to the Board.

The reply is not acceptable as the need for redesigning the performance evaluation process cannot be taken as a ground to dispense with the existing system. Till the system was redesigned, the Company should have carried out and submitted the performance evaluation report as per the existing system.

14.3.3.4 Non-revision of model Agency agreement

After the introduction (February 2011) of SAP ERP system, some of the requirements under the financial and accounting clauses of the existing Agency agreement had become redundant. It was, therefore, imperative that the Company review the Agency agreement to remove such redundancies. The Standing Committee of the Company had also decided (February 2015) to review all the clauses of the Agency agreement. So far, even after lapse of five years from the implementation of SAP ERP system, the final decision in this matter was yet to be taken by the Management (September 2016).

Conclusion

The Company did not enforce maintenance of separate disbursement and freight collection accounts, timely submission of final disbursement accounts and conduct of special audits of agents despite enabling provisions in the Agency agreements. Besides, the Company failed to protect its own interest by obtaining lower bank guarantees from the agents than mandated by its own policy. There was a backlog in performance evaluation of agents with Company not submitting performance evaluation of the agents to the Board since June 2012. The existing model Agency agreement had also not been reviewed to address redundancies in the agreement on account of SAP implementation.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

CHAPTER XV: MINISTRY OF STEEL

MSTC Limited

15.1 Failure to safeguard financial interest of MSTC

The Company failed to safeguard its financial interest while entering into an agreement financing material for a defaulting party and subsequently extended the agreement leading to non-recovery of ₹19.92 crore.

MSTC Limited (Company) entered into an agreement with Krishna Coke (India) Private Limited (KCIPL) in April 2010 (17 April 2010) for facilitating import / procurement of coking coal, hard coking coal and low ash metallurgical coke. The agreement was initially valid upto April 2011 and was subsequently extended to April 2012 and later to April 2014.

As per the agreement, procurement of the material was to be financed by the Company. The agreement also included a Custodian who was to be responsible for supervision of discharging/unloading/stacking and delivery of the material. The Custodian would deliver the material to KCIPL after receiving authorisation from MSTC and would send weekly/ monthly reports of opening balance, receipts, deliveries and closing balance to MSTC and the KCIPL. As per the agreement, the stock was to be maintained at the premises of KCIPL. It was provided that MSTC and the Custodian would not bear responsibility for any shortage of stock. The entire loss in such cases of stock shortage would be borne by KCIPL.

Audit noticed that three consignments of coking coal (quantity of 18,817 MT) were financed by MMTC during April to June 2012 under the agreement which were stocked in the premises of KCIPL in custody of a Custodian[1]. Out of this, only 1,000 MT was lifted by KCIPL in 2012-13. A volumetric assessment of the pledged stock kept at the premises of KCIPL was carried out (February 2014) by a third party inspection agency. The inspection revealed a shortage of 76 *per cent* of the material (13,604.15 MT). KCIPL did not accept the assessment and stated (March 2014) that out of the above stock, 4,400 MT of coking coal was lying at Paradip Port Trust (PPT) which had not been considered for assessment. PPT, however, confirmed (April 2014) that KCIPL had already lifted the said coking coal during June 2011 to February 2012.

KCIPL did not pay for the shortage of material. MSTC filed a petition for winding up KCIPL in the Cuttack High Court in May 2014. KCIPL subsequently denied (March 2015) responsibility for shortage of material stating the material had been lying at the bonded warehouse of MSTC and the Custodian would not have delivered any material without authorisation from MSTC. Audit noticed that MSTC has already provided for the

[1] ***The Custodian for the agreement was M/s Transafe Services Limited for September 2011 to June 2013 and M/s Ferro Scrap Nigam Limited for July 2013 onwards***

shortage in stock as doubtful of recovery in their books of accounts, the amount provided for in Financial Year 2014-15 being ₹19.92 crore. Meanwhile, UCO Bank, a secured creditor of KCIPL, took over possession of the factory premises in April 2016. MSTC requested (June 2016) the UCO Bank for allowing their representatives to safeguard the pledged stock in the factory premises which has not been agreed to by the bank.

In this connection, Audit noted the following:

(i) The agreement signed with KCIPL in April 2010 and its subsequent extension in April 2012, violated the internal guidelines of the Company. As per Risk Management Policy, 2008 of the Company, earnings before depreciation and tax of a party should be at least five percent of turnover before entering into an agreement with such a party which would involve financial exposure of the Company. It was noticed that though KCIPL did not fulfil this condition over 2008-09 to 2011-12, the Company entered into an agreement in April 2010 and extended it in April 2012. It was also noticed that the external credit rating[1] of KCIPL indicated high risk of default. Besides, KCIPL had been slow in lifting the material and had been defaulting in payment since inception.

(ii) The Company had earlier entered into an agreement with KCIPL in May 2008. Even while considering this agreement, the Finance Division of the Company had expressed its apprehensions in view of the poor financial position of KCIPL. In that agreement (February 2008), the material was stocked at the port and not in the premises of KCIPL to protect the interests of the Company. The agreement entered with KCIPL in April 2010 (extended subsequently upto April 2014) however, provided for stocking the material in the premises of KCIPL which proved detrimental to the Company's interests. It was also seen that the Finance Division of the Company had opined in April 2012 that business with KCIPL should not be continued as their past performance was un-satisfactory. Management however, ignored all these factors and extended the contract with KCIPL which finally led to non-recovery of ₹19.92 crore.

(iii) Successive custodians had neither maintained the stock register nor sent the weekly/monthly reports regarding the pledged stocks regularly which paved the way for eventual shortage of material. The agreement with the Custodian did not have any penalty clause for non-compliance of agreement terms and thus, no action could be taken against the Custodian for their negligence.

The Management in reply stated (September 2016) that:

(i) Though the lifting pattern of KCIPL was slow, it had lifted the entire material within March 2012 procured prior to that date and prior to renewal of agreement (April 2012).

(ii) The service of M/s Transafe was terminated due to their negligence in performing Custodian duties and M/s Ferro Scrap Nigam Limited (FSNL) was brought in. The

[1] ***CRISIL credit rating of KCIPL was 'B'. Credit rating of 'B' is considered to have high risk of default regarding timely servicing of financial obligations***

stock register was subsequently updated by FSNL. Further, as per the tripartite agreement, neither MSTC nor FSNL (Custodian) was responsible for shortage of material which was solely to be borne by the customer.

(iii) Legal steps have been taken to recover the dues from KCIPL.

The Ministry while endorsing the views of the Management stated (December 2016) that the agreement was renewed due to compulsion for recovery of earlier dues as there was unpaid stock in transit amounting to ₹9.43 crore.

Reply of the Ministry is not tenable in view of the following:-

- The Company had experienced problems in lifting of material by KCIPL in an earlier agreement signed in May 2008. Against that agreement, KCIPL had taken more than three years for lifting the material financed by the Company. As such, the subsequent agreement with KCIPL in April 2010 and its further extension in April 2012 in the face of adverse finances and credit rating of KCIPL was ill-advised. Further, there was no compulsion for financing of unpaid stock if MSTC wanted to discontinue its business with KCIPL.

- The loss on account of shortage of material had to be borne entirely by the Company in absence of suitable clause in the agreement fixing responsibility of the Custodian in the event of shortage of stock in their custody.

- Though the Company has taken legal steps, it is seen that the secured creditor, UCO Bank has already taken possession of the factory premises of KCIPL. The approximate value of the 'property and plant' of KCIPL was ₹17 crore while the charge of UCO Bank was for ₹14.49 crore as on 30 June 2015 plus interest cost and incidental charges thereon. In this context, the likelihood of the Company, being an unsecured creditor, recovering its outstanding dues seems remote.

Thus, the Company failed to safeguard its financial interest while entering into an agreement financing material for a defaulting party and subsequently extended the agreement leading to non-recovery of ₹19.92 crore.

NMDC Limited

15.2 Avoidable expenditure towards interest on delayed payment of royalty

Failure to compute and pay royalty correctly on iron ore removed from the mines during the period from 2009-10 to 2011-12 led to payment of ₹34.34 crore to Government of Karnataka in March 2016 by NMDC Limited.

NMDC Limited (NMDC), engaged in mining and sale of iron ore, owns an iron ore mine at Donimalai in the Bellary district, Karnataka with an installed capacity of seven million tonne per annum. The sale of iron ore till 2011-12 was on the basis of prices fixed by the Company on quarterly basis. Subsequently, sales were carried out by the Monitoring Committee appointed by Hon'ble Supreme Court of India. The Monitoring Committee

had been conducting e-auction and the sales proceeds realised by it were disbursed to NMDC after payment of statutory dues to the respective departments.

The Company was required to pay royalty as per Mines and Minerals (Development and Regulation) Act, 1957, on iron ore removed from the mine. Mineral Concession Rules, 1960 placed responsibility on the mine-owner to compute the royalty payable for the quantity of mineral produced/dispatched in a month based on the average sale price of iron ore declared by Indian Bureau of Mines (IBM) for that month. Further, these Rules also provided that any amount due to the State Government, including royalty, would attract interest at the rate of 24 *per cent* per annum from the 60th day of expiry of the date fixed by that Government for payment of such royalty. Karnataka (Prevention of Illegal Mining, Transportation and Storage of Minerals) Rules, 2011 required every miner to obtain a valid Mineral Dispatch permit from the Department of Mines and Geology (DMG), Government of Karnataka and pay the required royalty before dispatch of ore from mining area.

Audit noticed that NMDC paid royalty to DMG on a provisional basis based on the estimated quantity of dispatches. Since the royalty payable was to be computed for the actual quantity dispatched as per the price declared for that month by IBM at a later date, NMDC was expected to monitor the royalty actually paid and royalty payable and pay any differential amount due to DMG. The Company, however, relied on DMG to raise demands for such differential amounts, if any to be paid, at the end of each financial year. No demands, however, were raised by DMG immediately after the end of financial years from 2007-08 to 2011-12. However, in January 2013, a demand was raised by DMG, Hospet seeking payment of differential royalty of ₹34.85 crore for the above period, with specific mention that the demand was subject to further scrutiny and approval by Director, DMG, Bangalore. NMDC paid this amount on 19 January 2013. DMG, Hospet, at the request of NMDC, issued (March 2013) a 'No Dues Certificate' as well, based on the existing demands raised and payments made. In February 2016, DMG raised another demand of ₹40.52 crore towards differential royalty for the period 2009-10 to 2011-12 which included interest on the arrears upto 2014-15 amounting to ₹34.34 crore, computed at the rate of 24 *per cent* per annum. The above amount was deducted (March 2016) by the Monitoring Committee from the sales proceeds payable to NMDC and remitted to DMG.

The Management stated (September 2016) that NMDC had been paying the differential amount of royalty every year on receipt of demand notice from DMG. It had issued (January 2013) a demand notice in the past for the year 2007-08 to 2011-12. The same was duly paid in January 2013 itself and 'No Dues Certificate' had been issued (March 2014) by the DMG. After issuance of this certificate, raising of fresh demand by DMG for differential royalty amount together with interest, was not correct.

The Ministry reiterated (December 2016), the views of the Management.

The replies are not acceptable as the responsibility of computing and remitting the royalty payable was on the mine owner. Hence, reliance on demand notice from DMG to pay any differential royalty, lacked justification. Further, in the earlier demand notice pertaining to the period from 2007 to 2012, it had been mentioned by DMG that the demand was subject to further scrutiny and approval by DMG, Head Office, Bangalore. The 'No Dues

Certificate' was issued by the Branch Office of DMG, at the request of the Company, specifically for the purpose of renewal of a mining lease, on the basis of the previous demand raised and payments made. Further, the demand notice issued by DMG in February 2016 clearly stated that the NMDC, as the mine owner, was responsible for remitting the differential royalty amount and that the demand amount had been computed using monthly and annual reports submitted by the mine contractor. Hence, the Company could not term the issue of fresh demand notice along with interest as incorrect.

Thus, failure on the part of NMDC to compute the royalty correctly and pay the same on a timely basis during the period from 2009-10 to 2011-12, resulted in avoidable payment of interest amounting to ₹34.34 crore in March 2016.

Steel Authority of India Limited

15.3 Loss of ₹11.25 crore due to failure of BSL/SAIL to effectively manage imported coal

Failure of Bokaro Steel Plant in effectively managing imported coking coal led to an avoidable loss of ₹11.25 crore.

Steel Authority of India Limited (SAIL or Company) imports 85 *per cent* of its coking coal requirement for its integrated steel plants. Imported coking coal is received at the ports and transported by railway wagons to the Company's steel plants where it is unloaded, stored and utilised.

Bokaro Steel Plant (BSL) has earmarked two rotary tipplers for unloading coking coal from railway wagons. These tipplers were originally designed to accommodate tipple box type wagons only and were upgraded in April-June 2011 to accommodate high axle wagons. Indian Railways had started using high axle wagons in its rakes since 2008-09. In absence of appropriate tipplers, imported coking coal received in BSL during 2008-11 in high axle wagons had to be evacuated in the open empty yard.

Audit observed that BSL management left 13,204 tonne of this coking coal costing ₹14.21 crore unattended at this open area for 5-6 years until it faced space constraints and decided (January 2016) to shift the material. It was then found that of this, coal weighing 2,288 tonne worth ₹2.61 crore (₹11,407.82[1] x 2,288 tonne) was lost/ unaccounted and the remaining 10,916 tonne had lost its coking properties/fluidity and was unfit for use as coking coal. It was therefore decided (July 2016) to transfer the 10,916 tonne of coal to Bokaro Power Supply Company Pvt. Ltd. (BPSCL)[2] for generation of power (where lower grade coal without coking properties can be used). The transfer price to BPSCL was ₹3,489 per tonne which resulted in loss of ₹8.64 crore[3].

The Management of BSL replied (30 November 2016) that due to space constraints at silo and lesser use of coking coal, coal parked in open area could not be transferred to

[1] ***Weighted average cost of imported coal for the years from 2008-09 to 2010-11***

[2] ***a Joint Venture Company of Steel Authority of India Ltd.(SAIL) and Damodar Valley Corporation (DVC) engaged in power and steam generation and supplies power and steam (at various pressures) to SAIL's Bokaro Steel Plant (BSL)***

[3] ***(₹11,407.82- ₹3,489) x 10,916 tonne***

storage/used. Further, 2,288 tonne of coal had not been lost but seems to have got mixed with the Coal Dust Injection (CDI) coal kept beside this coal in the yard.

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

(i) Import and consumption of coal is a continuous process with BSL consuming 25 lakh tonne imported coal annually. The coal parked in the open area could have been utilised before the coal received in subsequent rakes which would have prevented its loss of coking properties and diminution in value.

(ii) The contention that 2,288 tonne of coal would have mixed with CDI coal is also farfetched as CDI coal was stacked about 200 meters apart from the imported coking coal and was separated by a shed. Moreover, physical verification of CDI coal does not indicate excess stock to account for lost imported coking coal.

Thus, failure of BSL in effectively managing the imported coking coal led to the Company suffering an avoidable loss of ₹11.25 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

15.4 Avoidable expenditure of penalty/ idle freight

The Management failed to install weigh bridges at MIOM and KIOM and incurred avoidable expenditure on payment of penalty/ idle freight to Railways, amounting to ₹101.97 crore (during the period 2011-12 to 2015-16).

Iron ore mined at Kiriburu Iron Ore Mines (KIOM) and Meghahatuburu Iron Ore Mines (MIOM), Jharkhand is crushed and screened at the mines. Following this, stock piles of iron ore lumps and fines are dispatched to steel plants through railway rakes/wagons. Audit noticed that these wagons were loaded at the mines on estimation basis by SAIL. Subsequently, Railways undertook weighment of the loaded wagons at Vimalgarh (Railway weighment) and such weighment determined whether the wagons had been over-loaded or under-loaded by SAIL at the mines. In case the wagons were over-loaded at the mines, Railways charged SAIL penalty while in case the wagons were under-loaded, SAIL had to bear financial loss in the form of idle freight.

SAIL decided (July/August 2007) to install weigh bridges at its own sidings at MIOM and KIOM so that the quantity being loaded on each wagon could be weighed to avoid payment of penalty/idle freight to Railways. In December 2009, SAIL installed an Electronic in-motion Weigh Bridge (EIMWB) at the cost of ₹0.52 crore at MIOM. Audit, however, noticed that this EIMWB could not be used since its installation was not as per Railway specifications. In September 2010, SAIL completed a Static Electronic Rail Weigh Bridge (SERWB) at a cost of ₹0.15 crore at KIOM. Audit noticed that the SERWB also could not be utilised as Railways derecognised it, effective 1 April 2011, vide Railways circular dated 11 November 2009. Thus, both weighbridges installed by SAIL at MIOM and KIOM remained non-functional and SAIL continued to load wagons/ rakes at the mines on estimation basis.

Over 2011-12 to 2015-16, SAIL paid penalty of ₹18.57 crore to Railways for over-loading wagons. During the same period, SAIL paid ₹83.40 crore for idle freight on account of under-loading of the wagons. Thus, SAIL incurred expenditure of ₹101.97 crore on penalty/ idle freight during 2011-12 to 2015-16 which could have been avoided with proper weighment at the two mines before loading the wagons.

The Management agreed (December 2016) that installation of weigh bridges helps to minimise the over/ under-loading through corrective action as weighment can be done at the loading point itself. The Management stated that weigh bridge was installed at MIOM considering the available space, terrain and accessibility for smooth weighment of rakes. It was at time of commissioning of the weigh bridge that Railways pointed out that the distance of EIMWB from the nearest turning point was inadequate for operation. The Management also stated that SERWB was envisaged and completed before Railways de-recognised the same.

The Management's acceptance of the fact that over/ under loading could be minimised by installing weighbridges at loading point, thereby reducing penalty/ idle freight paid to Railways need to be viewed against SAIL's continued loading of wagons on estimation basis. Besides, EIMWB installed at MIOM (December 2009) failed to comply with specifications issued by Railways (regarding the required distance from the nearest turning point) as early as 2005, even before SAIL decided to install the weighbridge which ought to have been factored in its design. The Management contention that SERWB was completed before it was de-recognised by Railways is also not acceptable as the Railways circular de-recognising it was issued in November 2009 while SERWB was completed only in September 2010. It is also noticed that the Management has not taken any alternative measures in the last six years (since SERWB was completed in September 2010) to control its losses on account of over/under-loading of wagons at the mines.

Thus, the Management failed to install weigh bridges at MIOM and KIOM which led to continued avoidable expenditure on penalty/ idle freight. During 2011-12 to 2015-16, this avoidable expenditure amounted to ₹101.97 crore. Besides, the expenditure on construction of weigh bridges, amounting to ₹0.67 crore (₹0.52 crore and ₹0.15 crore on EIMWB and SERWB respectively) became infructuous as they could not be utilised.

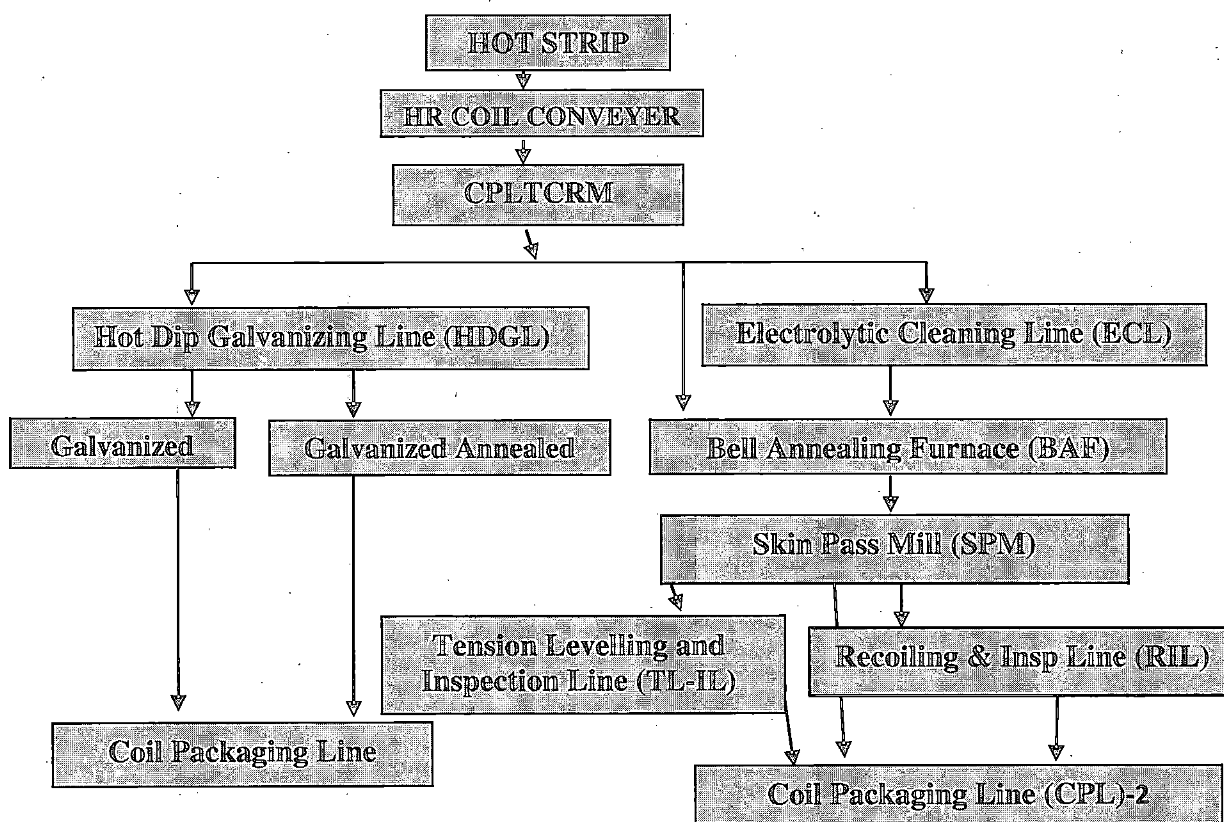
The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).

15.5 Deficient project management of CRM complex in BSL/SAIL

Deficient project management led to delay of six years in completion of Cold Rolling Mill project which could not be fully commissioned (December 2016) even after spending ₹1,655 crore on main technical packages. Besides the delay, additional interest during construction of ₹580 crore had to be incurred from April 2012 to 31 August 2016.

Steel Authority of India Limited (Company) approved (January 2008) installation of new Cold Rolling Mill (CRM) complex in Bokaro Steel Plant (BSL) to produce 1.2 million tonne of saleable steel. Total ordered cost of 28 CRM contracts was ₹2,524.04 crore and envisaged annual gross margin was ₹650 crore. The new CRM complex consisted of a

number of packages including HRCC[1] upstream, CPLTCRM[2] which was the main unit, and other technological/associated packages (TAPs) downstream. CPLTCRM was ordered in February 2008 and was to be commissioned by December 2010. All the other upstream and downstream units were to be awarded and commissioned within this timeline. Full commissioning of CRM complex has been delayed by six years (December 2016). The process flow of the main TAPs of CRM complex is depicted below:



Audit examined contracts for civil works, main technological/associated packages, namely HRCC, CPLTCRM, HDGL-ECL, BAF, SPM, RIL-TL-IL, CPL, and Acid Regeneration Plant (ARP) and observed the following:

1. Being part of the CRM complex, HRCC, CPLTCRM and TAPs had to be synchronized and awarded in such a manner that they were all commissioned by December 2010. The award and completion of civil work contract also had to be synchronized with the award and completion of TAPs as civil work was largely dependent on construction drawings to be provided by TAP contractors. Audit noticed that the Company awarded (April 2008) a single civil work contract for the CRM complex which was scheduled to be completed by April 2010. While some packages including CPLTCRM, HDGL-ECL, BAF, SPM, CPL and ARP were ordered in February 2008 to June 2008, two main technological packages, namely HRCC (upstream package), RIL-TL-IL, and four other associate packages namely, Roll Shop, Transfer cars, Water Supply System, and Effluent treatment and disposal System were ordered in 2010, by

[1] ***Hot Roll Coil Conveyer (HRCC)***

[2] ***Coupled Picking Line and Tandem Cold Rolling Mill (CPLTCRM)***

which time the civil work contract was scheduled to have been completed. The civil work contract could finally be completed in July 2015 after a delay of five years. BSL had acknowledged that these delays were attributable to them and not to the civil work contractor. In fact, the civil work contract was extended for 30 months (01 April 2011 to 30 September 2013) due to late issue of drawings for the packages that were ordered late. Thus, the late ordering of some TAPs resulted in consequential delays in completion of civil work contract, adversely affected the timely completion of the other linked TAPs and delayed the entire project.

2. Non-synchronisation of award of contracts for TAPs and civil work meant that some packages were completed and waiting to be commissioned because linked upstream or downstream units were not ready:

(i) Bell Annealing Furnace (BAF) and Skin Pass Mill (SPM) were completed at a cost of ₹218 crore and preliminary acceptance certificates for the two packages were issued in July 2014 and January 2013 respectively. These, however, could not be fully commissioned as the linked units (Recoiling and Inspection line and Tension Levelling and Inspection line, Hydrogen Plant) were not complete. BAF and SPM are yet to be fully commissioned (December 2016).

(ii) CPLTCRM, the main CRM unit was commissioned in July 2015 after incurring ₹763 crore but due to non-completion of linked units, it was operated below 20 *per cent* capacity in 2015-16. Its limited output was used directly in BAF and SPM (both yet to be fully commissioned).

(iii) Acid Regeneration Plant (ARP) was completed in September 2010 and its preliminary acceptance certificate was issued in January 2011. A sum of ₹53 crore was paid upto March 2012 for the ARP. But it could not be commissioned in absence of CPLTCRM which was provide the input (waste pickle liquor and rinse water) required for operating it. ARP was finally commissioned along with CPLTCRM in July 2015. However, as CPLTCRM was operated at a low capacity (20 *per cent* capacity), the capacity of ARP was also underutilized.

(iv) Audit noticed that SAIL paid (20 March 2014) ₹10.59 crore to the ARP contractor under an Operations and Maintenance (O&M) Contract (20 March 2014) for the period February 2014 to March 2015, *i.e.*, after preliminary acceptance and prior to commissioning activities. Clause 8 of Special Conditions of the ARP contract provided that O&M period would commence from the date of commissioning of the facilities. This payment for O&M made before the equipment was commissioned was necessitated on account of the huge delay of three years from completion to commissioning. Since the upstream CPLTCRM unit and other associated units was not available on time, the O&M expenditure incurred before its commissioning period was avoidable.

3. As per the implementation schedule, equipment supply was to start after completion of civil work. But due to delay in completion of civil works, BSL received 96, 77, 99 and 100 *per cent* supply of equipment for CPLTCRM, HDGL-ECL, BAF and SPM packages for which BSL paid ₹532 crore, ₹313 crore, ₹114 crore and ₹81 crore respectively upto March 2012 but could not erect them, pending civil construction.

The Management of BSL replied (November/December 2016) that:

(i) Notices inviting tenders (NITs) were issued in time but contractor selection process took some time which delayed award of TAPs.

(ii) Though major equipment were erected, the same could not be started as some utility packages were not available due to late ordering and due to delays in making working site available as related civil work could not be completed due to non-availability of drawings.

(iii) The preliminary acceptance certificate for ARP was issued on 31 January 2011 but it could not be commissioned till February 2014. Therefore re-assessment of readiness of equipment, drives, control mechanism and pipelines became essential before starting the pre-commissioning activities of ARP. Thus, engagement of trained manpower through O&M Contract in February 2014 became necessary to carry out the preparatory jobs.

Reply of Management is not acceptable in view of the following:

(i) NITs for some TAPs were issued after award of civil contract. NIT for HRCC and TL-IL were issued in September 2008, Transfer Cars in August 2009, Water Supply System in March 2009, Effluent Treatment Plant in July 2009. The delay in award of the packages contributed to the delay in completion of the civil works contract.

(ii) Since civil work was largely dependent on construction drawings to be provided by TAP contractors, the award of related TAPs should have been synchronized with the award of civil contract.

Besides, Management has accepted that delay in commissioning of ARP and the consequent time lag before its commissioning necessitated re-assessment of readiness of equipment and consequent expenditure under the O&M Contract.

Thus, deficient project management led to delay of six years in completion of CRM project which has yet not been fully commissioned (December 2016). SAIL has already spent ₹1655 crore on main TAPs. The delay has added ₹580 crore to interest during construction of the project which is significant considering the envisaged annual gross margin of ₹650 crore from the completed project. The delay in commissioning of ARP also resulted in avoidable expenditure of ₹10.59 crore on account of payment made to contractor under O&M contract (during 4 February 2014 to 26 March 2015) for the ARP package.

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

15.6 Unauthorised supply of power to a contractor cost ₹22.83 crore to RSP/SAIL

Deficiency in Gas Supply Agreement attributable to lapses on the part of Rourkela Steel Plant's management, resulted in an avoidable expenditure of ₹22.83 crore.

Rourkela Steel Plant (RSP) of Steel Authority of India Limited entered into a gas supply agreement (GSA) with M/s Linde India Limited (LIL)[1] in January 2009 for setting up an Oxygen Plant on Build, Own and Operate (BOO) basis. As per terms of the GSA, RSP was to supply power free of charge to LIL from its power sub-station up to commissioning of the Air Separation Units (ASUs) in the Oxygen Plant and on chargeable basis thereafter.

Audit observed that the terms of GSA regarding supply of power by RSP to LIL were in violation of Orissa Electricity Regulatory Commission (OERC) regulations. RSP had an agreement with Western Electricity Supply Company of Odisha Limited (WESCO) for supply of power, which did not provide for sale or transfer of power. Regulation 105 and 106 of OERC Distribution (Conditions of Supply) Code 2004, *inter-alia*, provides that no consumer shall sell or transfer power to any person or premises unless the agreement so provides and that no consumer shall make use of power for a purpose, other than the one for which agreement has been executed. Supply of power to LIL under the BOO agreement from RSP power sub-station was, thus, in violation of OERC regulations.

In April 2014, WESCO issued a notice to RSP for immediate disconnection of power supply to LIL, pointing out that the supply of power to LIL was un-authorized under OERC regulations and punishable under section 126 of Electricity Act, 2003. WESCO, LIL and RSP subsequently agreed (6 August 2014) to a negotiated settlement. As penalty for unauthorized supply of power to LIL, up to the date of commissioning of first ASU totalling 55 million units (January 2014), RSP would pay ₹10.45 crore to WESCO, being the differential of highest tariff rate of ₹6.90/kwh over the EHT tariff @ ₹5/kwh applicable to RSP. This payment (21 August 2014) of penalty was avoidable had RSP not violated the OERC regulations.

A tripartite agreement between WESCO, RSP and LIL was to be signed by 21 August 2014 to enable LIL to be treated as a deemed customer w.e.f. 6 January 2014 and billed directly from 1 August 2014. Audit noticed that RSP and LIL did not comply with the formalities within the stipulated time. The tripartite agreement could be signed only on 20 July 2015 and under the settlement, RSP had to pay a penalty of ₹12.38 crore in the form of demand charges over and above the charges already paid for the period January 2014 to June 2015 in regular electricity bills.

RSP Management stated (January 2016) that the lapse was inadvertent. SAIL Management replied (October 2016) that had LIL taken a separate power connection in its own name, it would have paid General Purpose Tariff (*i.e.*, ₹6.90 per unit) for use of power up to commissioning stage. As RSP was to provide free power to LIL during this period, the differential amount of ₹10.45 crore over EHT rate was paid by RSP. SAIL Management also stated (October 2016) that it has recovered demand charge component of ₹13.34 crore

[1] ***Formerly known as M/s BOC India Limited till 17 February 2013***

which was more than ₹12.38 crore paid to WESCO. The Ministry has re-iterated (February 2017) the views of the Management.

The reply of the Management/Ministry is not acceptable in view of the following:

(i) RSP has a separate department for electricity and power and OERC regulations ought to have been known to them.

(ii) Had LIL taken a direct power connection from WESCO, it would have paid the rate applicable to power intensive HT category ranging between ₹4.00 and ₹5.05 per unit depending upon load factor, and not ₹6.90 per unit. In fact, after taking power connection directly from WESCO with effect from July 2015, LIL is paying HT rates. Due to violation of OERC Regulations by RSP, WESCO charged higher rate as penalty.

(iii) RSP paid the demand charges totaling ₹69.22 crore to WESCO in regular electricity bills including LIL consumption during January 2014 to June 2015 against which ₹13.34 crore were recovered from LIL. The penalty of ₹12.38 crore paid (July to November 2015) by RSP was over and above the amount of ₹69.22 crore paid as regular bills and could have been avoided if RSP had not violated OERC regulations and, subsequently, not delayed implementation of settlement dated 6 August 2014 with WESCO.

Thus, deficiency in GSA attributable to lapses on the part of RSP management resulted in avoidable expenditure of ₹22.83 crore.

15.7 Loss on account of payment of penalty in Bokaro Steel Plant/SAIL

Failure to synchronise the ordering for two oxygen projects with Blast Furnace upgradation project, resulted in excess capacity of oxygen plant beyond actual requirement and payment of ₹32.96 crore as penalty to contractor due to failure to draw the guaranteed minimum oxygen.

Bokaro Steel Plant (BSL) projected (2004) an increase in its hot metal producing capacity from 4.585 million tonne (MT) in 2004-05 to 6.5 MT by 2011-12. Oxygen is a prime requirement for production of hot metal in blast furnaces (BF). With increase in hot metal production, oxygen requirement would also increase. BSL decided to raise its oxygen capacity from the existing 1,300 tonne per day (TPD) to 2,825 TPD through the following means:

- The in-house oxygen production capacity of 1,300 TPD to be augmented to 1,575 TPD by installing an Air Turbo Compressor (ATC) and Oxygen Turbo Compressor (OTC).
- A new 1,250 TPD Oxygen plant was to be set up on a Build, Own, and Operate (BOO) basis.

Audit noticed that three blast furnaces of BSL were to be upgraded for planned increase in hot metal producing capacity. However, up-gradation of only one BF had been taken up in December 2007. Subsequently, up-gradation of the other BFs were not taken up in view of sluggish demand.

Oxygen capacity was, however, augmented without synchronising it with BF demand. Both contracts for in-house up-gradation as well as setting up of new oxygen plant were placed in May 2006. The scheduled completion of installing ATC and OTC in the in-house oxygen plant was December 2007 while the BOO project was to be completed by April 2008. The BOO project was completed in December 2008. Thus, by December 2008, the oxygen capacity of BSL was 2,550 TPD[1] even though its demand was poor on account of non-upgradation of the BFs.

The agreement for building the oxygen plant on BOO mode provided for minimum guaranteed off-take of oxygen from the plant by BSL, failing which BSL had to pay a penalty. Due to excess availability of oxygen, BSL was unable to draw the minimum guaranteed oxygen from BOO plant and paid penalty of ₹32.96 crore (April 2008 to September 2016).

Meanwhile, Audit noticed that the preliminary acceptance certificate for ATC and OTC had been issued in July 2011, though ATC is yet to be commissioned. Thus, the desired augmentation of in-house capacity is yet to be realised. With its commissioning, the excess availability of oxygen would only increase. In fact, BSL stopped operation of some of the Air Separation Units in the existing oxygen plant so that the oxygen from the BOO plant could be fully utilized.

Thus, failure to synchronise the augmentation of oxygen capacity with upgradation of BFs, resulted in excess capacity of oxygen and consequent loss on account of payment of penalty as well as non-operation of in-house facility.

The Management stated (November 2016) that oxygen consuming projects (*i.e.*, BF upgradation) related to already installed assets was taken up in a phased manner without hampering production, whereas oxygen producing projects (BOO and ATC/OTC) was regarding installation of new facility. Addition in oxygen capacity was ordered based on projected upgradation of three BFs which was deferred due to market conditions and resulted in idle oxygen capacity.

Reply of Management is not acceptable as the ordering and completion of oxygen projects should have been synchronised with BF upgradation. Upgradation of one BF was ordered as late as December 2007 with scheduled completion date as August 2009. Much before the completion of the BF up-gradation, by April 2008, the entire augmentation of oxygen capacity necessary for catering to up-gradation of three BFs was to be completed. This mismatch and lack of synchronisation led to over-capacity of oxygen plants in BSL and subsequent payment of penalty on failure to draw minimum guaranteed oxygen from the BOO plant.

[1] ***In house oxygen plant capacity of 1300 TPD + BOO plant capacity of 1,250 TPD = 2,550 TPD***

The matter was reported to the Ministry in November 2016; their reply was awaited (January 2017).

15.8 Deficient production planning resulted in avoidable stock carrying cost in Bokaro Steel Plant and Rourkela Steel Plant of SAIL

Deficient production planning led to excess production of slabs, which resulted in accumulation of slab stock and avoidable stock carrying cost of ₹391 crore.

Bokaro Steel Plant (BSL) and Rourkela Steel Plant (RSP) of Steel Authority of India Limited (Company) produce flat saleable steel product in their rolling mills. The process involves production of slabs in steel melting shops upstream, which are used as input for producing flat steel in downstream rolling mills.

A review of the inventory records of the Company over four years from 2012-13 to 2015-16 revealed excess stock of slab produced by the upstream units as detailed below:

- The optimum requirement of slabs for continuous operation of downstream rolling mills is 7 to 15 days stock of slabs. But both BSL and RSP held significantly higher slab stocks. Against the normal slab stock level[1] of 1.07 - 1.45 lakh tonne at BSL (2012-16), the average monthly closing stock levels stood at 8.53 lakh tonne in 2015-16. Likewise, at RSP, against the normal slab stock level of 0.86 - 0.97 lakh tonne, the average monthly closing stock levels was 5.30 lakh tonne in 2015-16. Thus, the stock levels in BSL and RSP were much higher than the optimum requirement.

- The accumulation of slab stock led to higher stock carrying cost. The variable stock carrying cost works out to ₹150 per tonne per month, not considering the space and logistic constraints in storing the slabs. The accumulation of slab stock led to avoidable stock carrying cost of ₹391 crore[2].

BSL Management (30 November 2016) and RSP Management (19 December 2016) replied that in an inter-related, integrated steel producing process, production of semi-finished products in coke oven batteries and blast furnaces in upstream may not be abruptly intervened with to match with steel producing downstream processing capacity. It was also stated that the production level may be regulated over a period of time protecting health of equipment and sustaining economy of operation. It was assured that corrective action had been taken and the slab stock has since reduced.

The replies of the Managements are not acceptable in view of the following:

(i) The build-up of slab stock had occurred over a period of four years, 2012-13 to 2015-16. The average monthly slab stock in BSL increased from 1.85 lakh tonne in 2012-13 (which was already 30 *per cent* higher than the optimum requirement) to 8.53 lakh tonne in 2015-16, nearly eight times the requirement. In RSP, the slab

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[1] ***Calculated at 15 days' consumption level***

[2] ***Stock carrying cost has been worked out considering the monthly average excess slab stock carried (over 15 days' stock) for each year (during the period 2012-13 to 2015-16) @ ₹150 per tonne per month***

stock was within the optimum limit in 2012-13 but increased to 5.30 lakh tonne in 2015-16, over five times the optimum requirement.

(ii) It was seen that the Company failed to sell its stock of slabs, the actual sale quantum being consistently lower than the plan:

Year	Plan for sale (lakh tonne)	Actual sale (lakh tonne)
2012-13	3.55	0.51
2013-14	10.85	1.90
2014-15	12.86	3.43
2015-16	7.38	3.28

It was seen that the Company made efforts to sell the slabs at below total cost (August 2015) and below variable cost (November 2015) but it did not lead to liquidation of accumulated slab stock. The accumulated slab stock in BSL and RSP stood at 15.4 lakh tonne valuing ₹3,639 crore as on 31 March 2016. The consistently increasing stock, coupled with the poor response to efforts at selling it, ought to have triggered appropriate steps by BSL and RSP management for regulating the slab production.

(iii) Audit noticed that BSL and RSP management belatedly started regulating production from upstream facilities in April-August 2016. Even with these efforts, the slab stock stood at 10.33 lakh tonne (7.99 lakh tonne in BSL and 2.34 lakh tonne in RSP) as on 30 November 2016.

Thus, deficient production planning and failure to effectively regulate production of slabs resulted in accumulation of slab stocks and avoidable stock carrying cost of ₹391 crore.

The matter was reported to the Ministry in December 2016; their reply was awaited (January 2017).

15.9 Material Management

15.9.1 Introduction

Steel Authority of India Limited (SAIL or Company) manufactures steel products for which iron ore is the main input material, requirement of which is fully met internally. Coking coal, limestone, dolomite, pellets, ferro-alloys, low silica limestone, and stores and spares are either procured domestically or are imported. Materials Management Departments (MMDs) in plants are responsible for procurement and management of all material except coal.

The audit objective was to assess whether procurement contracts of SAIL (excluding coal) were concluded and managed in a transparent, competitive, and fair manner. In the course of audit, 1370 Purchase Orders (POs) valuing ₹14,220.11 crore pertaining to five steel plants [1] covering the period 2012-15 were scrutinised. All POs above ₹10 crore, 10 *per cent* POs between ₹1crore and ₹10 crore, and one *per cent* POs below ₹1 crore

[1] ***BSL-Bokaro Steel Plant, BSP-Bhilai Steel Plant, DSP-Durgapur Steel Plant, ISP-IISCO Steel Plant, RSP-Rourkela Steel Plant***

were studied. This represents 63.19 *per cent* of total procurement value (excluding coal) of the five plants and the Corporate Material Management Group covering three years (2012-15).

15.9.2 Audit findings

15.9.2.1 Limited use of open and global tenders

Open and global tenders result in competitive prices discovered in a transparent manner while limited/single tenders restrict competition. Purchase/Contract Procedure 2009 (PCP) of SAIL also stipulates that Single Tender Enquiry (STE) should be issued only as an exception. Audit however noticed that 81 per cent of the Purchase Orders (PO) issued by SAIL during 2012-15 were on Limited Tender Enquiry (LTE) accounting for 24.4 *per cent* of the total value of procurement made during the period. Another 29 *per cent* of purchases (by procurement value) during the same period were issued on single tender basis. The use of open and global tenders decreased from 1,067 POs valuing ₹3,189 crore in 2012-13 to 696 POs valuing ₹2,767 crore in 2014-15.

Audit also observed that although annual purchases of MMDs of the plants up to ₹2 crore were about ₹1,851 crore, there were inadequate controls and no uniform procedures to deal such cases. For example, there was no purchase committee in Rourkela Steel Plant (RSP) to oversee purchases of less than ₹2 crore, while Bokaro Steel Limited (BSL) had a purchase committee mechanism for all purchases.

The Management stated (March/ November 2016) that limited tenders were issued in cases involving low value procurements to avoid cost of advertising the tenders. It further stated that it was a technical necessity to procure material on STE basis and that selection of vendors is done as per PCP.

Reply of the Management is not tenable in view of the fact that there was lack of uniformity in processes followed by different steel plants of the Company. There were 47 products that were procured by some steel plants through limited or open tender, while the same were procured through single tender by other plants. Four products were ordered as proprietary items in one plant but other plants procured them through limited tender. Audit also observed that Company did not fix the threshold limit beyond which open tenders became mandatory. Further, the PCP did not prescribe the oversight of tender committee or any other uniform, independent control over purchases below ₹2 crore.

(I) Procurement on single tender basis

(a) Extra expenditure of ₹484.15 crore on purchase of costlier Low Silica Lime Stone (LSLS)

The Company entered (June 2008) into an MoU for ten years with M/s. Rajasthan State Mines and Minerals Ltd (RSMML) for supply of LSLS at a negotiated price on single source basis. At the same time, the Company procured LSLS through imports, the cost of which was lower than the price agreed with RSMML. The Company did not consider the reasonableness of purchase price agreed with RSMML, in the face of cheaper imports nor did it insist on import parity while signing the long term agreement with RSMML. During

2012-16, Company imported 35.45 lakh tonne of LSLS at a landed cost ranging between ₹2,232 per tonne and ₹2,403 per tonne whereas RSMML supplied 41.14 lakh tonne at a cost of ₹3,249 to ₹3,632 per tonne. The Company thus incurred extra expenditure of ₹484.15 crore on purchases made from RSMML during 2012-13 to 2015-16.

The Management stated (November 2016) that purchases from two major geographically distributed sources was to ensure continuity of supplies and that they are gradually increasing import of LSLS every year. It was also stated that there were constraints in importing LSLS like stacking at ports, availability of rakes etc.

Reply of the Management is not acceptable as only the shortfall in supply from RSMML was being met through imports. In view of the significantly lower import price, the Company should have endeavored to obtain import parity prices for future purchases from RSSML.

(b) Pellets ordered on a single source leading to avoidable extra expenditure of ₹235 crore.

BSL has been using a burden[1] consisting of sinter[2] and iron ore lump (IOL) in Blast Furnaces (BFs) for production of hot metal (HM). Pellets[3] could be used in BFs as a substitute of sinter as well as IOL. The Company is self-sufficient in supply of IOL and iron ore fines (IOF) from its captive mines and also has in-house sinter producing plants. The Company, however, does not have the facility to produce pellets from IOF.

BSL estimated increase in production of HM, from 42.50 lakh tonne in 2009-10 to 47 lakh tonne during 2010-11, and 47.50 lakh tonne in 2011-12. Based on this, the plant estimated a shortfall in sinter availability in 2011-12 and to achieve the planned production, placed an order for supply of pellets for the period 2011-13, on single source basis from Kudremukh Iron Ore Company Ltd (KIOCL).

Audit noticed the following in this regard:

(i) BSL failed to ensure the envisaged level of production (47.5 lakh tonne) and could achieve HM production of 40.12 lakh tonne in 2011-12 and 41.26 lakh tonne in 2012-13 by using 3,70,627 tonne pellets. The Company short closed the contract for pellets after procuring 40 *per cent* of the proposed quantity.

(ii) KIOCL pellets were procured at a cost of ₹360.68 crore, average cost being ₹8,688.52[4] per tonne, which was much higher than the weighted cost of sinter produced in-house at ₹3,031 per tonne as well as outsourced sinter @ ₹4,463 per tonne. KIOCL pellets were costly due to long distance multiple freights and handlings on transport of

[1] ***Burden- A group of iron bearing material comprising of Iron ore lump, Sinter and Pellet charged into a blast furnace of a steel plant.***

[2] ***Sinter – It is a small agglomeration of iron ore fines, coke breeze, small sized limestone and dolomite and other steel plant waste materials that contain some iron. Sinter is produced at Sintering Plant and used as a raw material in Blast Furnace of a steel plant.***

[3] ***Pellet- Pellets are agglomeration of Iron ore fines which can be fed into a blast furnace as part of steel making process.***

[4] ***₹360.68 crore paid for 4,15,117 tonne of pellet.***

IOF from the Company's captive mines in eastern India to KIOCL plant in Mangalore and converted pellets to BSL plant. In fact, the average cost of to and fro freight and handling of IOF and pellets was ₹4,571 per tonne, which alone was higher than the cost of sinter. The use of such costly pellets was not justified by the outcome.

(iii) It was noticed that the Management did not explore the possibility of procuring pellets or sinter from the suppliers located nearby, though there were pellet suppliers and converters in Jharkhand, West Bengal and Odisha.

By procurement of pellets, the Company incurred avoidable extra expenditure of ₹234.85 crore [1] compared with the cost of in-house sinter, as the produced quantity of HM remained lower than the projections, which could be met through the available quantity of sinter and IOL.

The Management/Ministry stated (October 2014/January 2015) that they had envisaged a shortfall in sinter considering 47.5 lakh tonne of planned HM production, which was achievable considering production capacity of 48.35 lakh tonne from five BFs. There was a technological need to raise the burden of sinter together with pellets to 70 *per cent* to improve the health and efficiency of BFs.

The Management's reply is not acceptable on account of the following:

(i) The efficiency of the BFs did not improve with use of pellets in the burden. The additional contribution of ₹3400 for each tonne of pellet use envisaged by BSL did not materialize. In fact, the fuel consumption was higher during the period when pellets were used and HM production per tonne of burden decreased from 0.616 in 2010-11 to 0.603 in 2012-13.

(ii) The estimated production of HM during 2010-12 was unrealistic. In subsequent years the estimate was decreased to 44 lakh tonne in 2012-13 and 43.50 lakh tonne in 2013-14 and 2014-15. The actual production of HM ranged between 40.66 lakh tonne (2009-10) to 42.53 lakh tonne (2014-15).

(iii) BSL was using IOL and sinter in the ratio of 33:67 (2008-09) and 38:62 (2010-11) with no pellets in the Blast Furnace burden. The composition of prepared burden was changed to include 10-15 *per cent* of pellets, reducing IOL to 20-25 *per cent*. Pellets, thus, were mainly used to replace the internally available IOL even though the justification for its procurement was cited as shortage of sinter.

(iv) Director (Finance), SAIL had observed (August 2012) that the envisaged contribution from the use of pellets may not be achievable and cautioned against the use of pellets on regular basis. But BSL management continued to buy KIOCL pellets till November 2012 when it short-closed the arrangement with KIOCL after procuring 4,15,117 tonne of pellets against 10 lakh tonne initially planned. BSL reverted to use of burden consisting of IOL and sinter in 2013-14.

[1] ***[Per tonne average cost of pellets (₹8,688.52) – Per tonne weighted average cost of in-house sinter during 2011-13 (₹3031)] X 4,15,117 tonne of pellets purchased = ₹234.85 crore***

(c) Extra expenditure of ₹25.14 crore at RSP and BSL due to further purchase of pellets

By November 2012, BSL was aware of the fact that desired benefits were not derived through use of pellets. Another steel plant, BSP, also procured (December 2012) pellets on trial basis from M/s. KIOCL and concluded (March 2013) that cost of HM production increased with the use of pellets and that the trial of pellets for 52 days had contributed to a loss of ₹16 crore.

Despite this, BSL again purchased (December 2014- February 2015) 28,929 tonne of pellets. In January 2015, it was decided to stop further use of pellets citing techno-economical non-viability. RSP also purchased (2013-15) 43,347 tonne of pellets and intermittently used only 35,272 tonne. Due to use of pellets as a costly substitute of IOL or sinter available in-house, the Company incurred an extra expenditure of ₹25.14 crore (over 2013-15).

The Management stated (November 2016) that in BSL there was shortage of IOL due to Court verdict for suspension of mining and there was less sinter production during November 2014 to January 2015 warranting purchase of pellets.

The reply is not acceptable as the Court verdict came in May 2014 but proposal for procurement of pellets was moved in April 2014. Besides, BSL produced more sinter in 2014-15 than the last four years and 3.98 lakh tonnes higher than the previous year (2013-14).

(d) Dependence on single source for dolomite led to extra expenditure of ₹88.04 crore

RSP centrally procured (January 2008) blast furnace (BF) grade dolomite from M/s Bisra Stone Lime Company Ltd. (BSLC) at an annually negotiated price under a 10 year MoU on single source basis. As per the MoU, the price was to be finalized every year mutually between SAIL and BSLC. Audit observed that there were other suppliers for BF grade Dolomite but RSP did not invite open tenders to discover the price or assess the reasonableness of annual price escalation sought by BSLC. The basic price of ₹355 per tonne for dolomite lump negotiated with BSLC in February 2008 increased to ₹520 per tonne for 2011-12 and ₹659 per tonne for 2015-16.

Audit further observed that the annual requirement of BF grade dolomite was 10.50 lakh tonne (2008-09) to 15.70 lakh tonne (2017-18) while BSLC's dolomite production was between 6 lakh tonne (2004-05) to 8.30 lakh tonne (2007-08). RSP did not factor the dolomite production potential of BSLC while entering into a long-term arrangement. As a result, SAIL plants had to use 35 *per cent* to 78 *per cent* costlier grade of dolomite lump as substitute for BF grade, BSLC being unable to supply the ordered quantity. During four years period 2012-16 alone, BSL, RSP, and DSP together substituted BF grade dolomite lump with 12.62 lakh tonne of costlier grade dolomite and incurred extra expenditure of ₹88.04 crore.

The Management stated (November 2016) that long term agreement with BSLC was a strategic tie-up for raw material security. Reasonable efforts had been made in deciding

the annual prices in line with market trends based on the price of SMS[1] Grade Dolomite which is procured through competitive bidding. Management further stated that the MoU provided that in case BSLC failed to supply the annual quantity as per MoU, the backlog would be supplied in next quarter without price variation.

Reply of the Management is not tenable as price of SMS grade dolomite cannot be benchmarked to the price of BF grade dolomite and fair price could be discovered only through open tender which had not been done. Due to linking of a regularly used material with a single source, Company had to incur extra expenditure of ₹88.04 crore due to substitution of higher grade dolomite.

(II) Inadequacies in limited (LTE), global (GTE) and Open tender enquiry (OTE)

The Company uses limited tender enquiry (LTE) from the vendors registered with the MMD. SAIL does not advertise periodically to reach out to a wider population of potential vendors, nationally and globally, to update their vendor database and align it with latest requirements. Instead, vendor database registration is a voluntary activity in which prospective vendors approach the MMDs for registration. In BSL, DSP, RSP and ISP, for 26, 22, 37 and 25 *per cent* of total material groups respectively, there were only one to two registered vendors. Further, despite the fact that steel plants have similar production process, raw materials and stores and spares required in production stream, each plant has a standalone vendor database which was not synchronized with that of other plants. Audit noticed the following in this regard:

(a) There were proven Small Scale Industries (SSI) vendors for extension rods that were regularly procured by the plants. RSP, however, selected some of them on LTE basis, thus restricting competition. In September 2013, RSP purchased 6,075 pieces of extension rods at the rate of ₹2,065 per piece on LTE basis where bids were solicited from five of the proven vendors. Three months later, RSP issued another LTE to seven proven vendors (other than the five mentioned above) and lowest price obtained was ₹1,350.68 per piece which was 65 *per cent* lower.

The Management stated (March 2016) that LTE was issued to seven vendors to develop alternate sources and trial prices cannot be compared to prices from proven sources.

The reply is not tenable as RSP classified both set of vendors as proven registered vendors in 2013 for extension rods and they were also approved as techno-commercially suitable vendors.

(b) RSP received four offers in open tender for procurement of 10,000 tonne lam/hard coke. All four were found techno-commercially suitable by Technical Evaluation Committee (TEC) and Commercial Evaluation Committee (CEC). Tender Committee (TC) headed by Executive Director (MMD) accepted evaluation of TEC and CEC and recommended (February 2012) that reverse auction be conducted to discover L1 vendor with concurrence of Finance and Accounts Department. Within a week, the TC revised (3 March 2012) its recommendations and technically disqualified all four vendors and ordered re-tender despite the fact that the materials was needed urgently. In re-tender, only

[1] ***Steel Melting Shop***

one of the vendors of the first tender participated, and was cleared by TC as techno-commercially suitable. RSP ordered (May 2012), 9,157.494 tonne materials at a negotiated basic price of ₹22,225 per tonne from this sole vendor. RSP incurred extra expenditure of ₹2.82 crore on the procurement when compared to the price paid by BSP for procuring the same materials at the same time (in March 2012) at a basic price of ₹19,149 per tonne.

The Management stated (November 2016) that after a further review of tenders, TC found that all the offers were technically unsuitable and, therefore, recommended the tender for scraping.

Reply of the Management is not acceptable as all four vendors including M/s VISA Steel Ltd to whom RSP awarded the contract in re-tender had either supplied earlier or were found techno-commercially suitable in separate tenders of other plants of the Company for supply of lam coke.

(c) Low silica dolomite and dolomite chips are regularly procured through global/ open tender from Bhutan. While low silica dolomite is transported to plants by railways, dolomite chips are transported by road in trucks. The average rail freight during the last four years (2011-15) was ₹1,033 per tonne against average road freight of ₹1,454 per tonne; road freight being more expensive by ₹421 per tonne. Thus, BSL incurred extra expenditure of ₹9.57 crore during this period by opting for road transport of dolomite chips.

Management, while citing logistic constraints, pointed (November 2016) to the risk of accumulating inventory as the ordered supply could be less than full rail rake quantity. It was also stated that ex-BSL landed cost of low silica dolomite transported by railways is more expensive than the landed cost of dolomite chips.

Reply of Management is not tenable as BSL had not conducted a cost benefit analysis of road and railways freight. There was no facility for handling of dolomite chips by rail. Basic price of dolomite chips and low silica dolomite was ₹650 per tonne and ₹995 per tonne respectively, and therefore their landed cost, ex BSL, is not comparable for freight purpose. BSL uses about 34,000 tonne of dolomite chips on a regular basis, and, therefore, there is a strong case for addressing logistic constraints.

(d) BSP buys Ferro Alloys for all plants through an open tender where price was decided based on landed cost net of Cenvat (LCNC). Participating vendors furnish price break-up of all the elements of LCNC like basic price, excise duty, sales tax, freight etc. LCNC price for different plants may be different based on freight differences (depending upon origin and destination of materials), entry tax, sales tax etc. However, the basic price of the product (ex-origin of supply) should be same for a vendor in respect of all the steel plants. Audit observed the following discrepancies in the price finalisation process:

- Basic price per tonne for the L-1 vendor in respect of the same tender for the same procurement cycle across steel plants varied, the difference ranging between ₹307 per tonne to ₹3,833 per tonne.

- The freight rate per tonne was fixed without considering the distance between origin and destination of goods to be supplied. M/s Maithan quoted the same freight charge of ₹1,500 per tonne for 52 km, 772 km and 975 Km. For 386 km, the same vendor quoted ₹3,000 per tonne and ₹1,200 per tonne. M/s Nilkanth Ferro quoted freight at ₹700 per tonne for 107 km but only ₹375 per tonne for 109 km.

The Management stated (November 2016) that Ferro Alloys were procured on LCNC basis against open tender and that there is no standard parameter or price index for freight by road in our country.

Reply of the Management should be seen in the light of the fact that these were high value purchases and during the three years ending March 2015, BSP entered into contracts valuing ₹2,438.61 crore for Ferro Alloys. These discrepancies should have been highlighted by BSP to the vendors for proper calculation of L-1 rate.

(e) To improve transparency and tackle corruption in procurement functions, Government of India issued (30 November 2011) instructions for the CPSEs to publish tender enquiries, corrigenda thereon, and details of bid awards on the Central Public Procurement Portal (CPP portal) using e-publishing module. The Company has not implemented this.

The Management stated (November 2016) that it publishes tender enquiries on the Company's website. However, the instructions mandated publishing tender enquiries on CPP portal even when they are posted on Company's own website.

(III) Adequate efforts were not made to develop additional sources of materials

(a) SAIL purchased Slab Caster Tundish Refractories valuing ₹114.56 crore on single source basis during 2012-15 and paid for price increases, as demanded by the vendor.

(b) All steel plants individually purchased ceramic welding materials on single source valuing ₹36.81 crore despite presence of another vendor who satisfactorily demonstrated his material.

(c) BSL purchased (2012-2015) electrodes, a non-patented material, on STE basis for ₹5.84 crore despite availability of sufficient number of vendors. Similar practice was followed in other plants.

(d) BSP procured zero leak door (ZLD) valuing ₹12.56 crore for Coke oven batteries 3, 4 and 8 from M/s Simplex on proprietary basis. For Coke oven batteries 5 and 6, they procured ZLD from M/s. BEC on proprietary basis. This was being done for 10 years without making efforts to standardise the requirement.

(e) ISP issued (2011-2015) 217 POs for materials valuing ₹31.49 crore on proprietary basis citing non-availability of drawings of the new Coke Oven Batteries, 11 which were commissioned in October 2013. Clause 2.4 of the contractual terms between ISP and the OEM envisaged submission of drawings by the contractor, lack of which led to the proprietary purchases.

The Management stated (November 2016) that they regularly review the database of vendors and that trial orders were issued to develop new sources. Management also stated that it was a technical necessity to procure material through STE/ proprietary route.

The reply is to be seen against the fact that there were no annual and long-term work plan and targets for reducing the share of proprietary purchases. In fact, purchases from single/proprietary sources were resorted to without determining presence of sufficient vendors through open tenders.

15.9.2.2 Internal production facilities not fully exploited

The Company did not develop internal capacity as seen in the following cases:

(I) Procurement of Silica bricks

Silica Bricks are used for rebuilding/repair of Coke Oven Batteries and repair of stove of Blast furnace. The SAIL Refractories Unit (SRU) has limited capacity (approx. 4,000 tonne) of producing silica bricks and the Company has been procuring the balance requirement externally. Audit observed that although the company's expansion plan to double its crude steel capacity started in 2006, it did not envisage commensurate expansion and modernisation of SRUs and continued to buy from private vendors on a single source basis. A committee constituted by SAIL to identify areas where SAIL does not have enough production capacity, suggested that SRU capacity be augmented to meet the Company's regular requirement, but no action was taken on this suggestion. BSL alone procured 24,567 tonne of silica bricks in 2011-14 valuing ₹87 crore, on single source basis which was costlier than that produced internally. Per tonne variable cost of silica brick in SRUs in 2012-13, 2013-14 and 2014-15 was ₹23,442, ₹28,265 and ₹22,597 against the purchase price of BSL which ranged from ₹33,700 per tonne to ₹37,710 per tonne during this period.

The Management stated (November 2016) that steps for upgradation / modernisation of SRU, have since been initiated.

(II) Procurement of Trough and Runner Castable

BSL decided (2012) to purchase Trough and Runner Castable, as SRU was taking inordinate time for its production due to lack of mechanisation. The purchase decision was taken as mechanisation was not possible within a short term. Audit observed that BSL took more than two years to place the order for castable for ₹26.43 crore. The time gap of two years ought to have been sufficient for SRU to complete the desired mechanisation.

The Management in its reply (November 2016) accepted the audit observation.

15.9.2.3 Post contract Management

(I) High value Ferro Niobium procured without in-house testing of materials

SAIL procured ferro niobium valuing ₹336.89 crore through global tender during 2012-15. Materials were accepted by BSP on the basis of pre-shipment Third Party

Inspection Certificate as to quantity and quality ordered. Though BSP was entitled to test the materials to cross check the results of pre-shipping tests, it did not test the materials received at its end. Such high value procurement, without confirming whether the materials met the desired technological parameters, was imprudent.

The Management stated (March 2016) that standard procedures for sampling were being revised to include testing by accredited third party agency or testing facility available in sister plants.

(II) Irregular increase in freight

BSP finalised an MoU with Almora Magnesite Ltd (AML) on single source basis and procured 8,078.58 tonne of dead burnt magnesite during December 2011 to March 2013. The supplier requested for upward revision of freight rate stating that restrictions were imposed on overloading of trucks and, consequently, trucks that were earlier carrying upto 35 tonne could now lift only 15 tonne. BSP increased transport cost by ₹706.78 per tonne effective from December 2011 despite the fact that MoU barred any change in freight charges except due to increase/decrease in diesel cost. BSP thus gave undue benefits of ₹1.22 crore on purchase of 17,263 tonne of dead burnt magnesite during December 2011 to March 2015 to the vendor.

The Management stated (March/ November 2016) that AML was the only source for supply and that AML had submitted proof of actual payment of freight at ₹3400 per tonne against which freight increase of ₹2801 per tonne was approved.

Reply of Management is not tenable as the increase in freight allowed in 2011 became a permanent feature which was factored in subsequent MoUs signed for three years despite the fact that the average load per truck reverted back to 29-34 tonne.

15.9.2.4 Non disposal of Non-Moving and Surplus stores

SAIL had non-moving stores and spares worth ₹193.80 crore, lying for over five years as on 31 March 2016. This included ₹34.60 crore worth of material that the plants had declared surplus for disposal and/or use among other plants. The following discrepancies were noticed in this regard:

a) BSL procured (October 2011 to March 2014) eight different types of material valuing ₹3.17 crore as an urgent or annual requirement but did not use them (November 2016). BSP procured (February 2010 to April 2012) seven items valuing ₹14.59 crore but did not use them (November 2016). These included high value items like turbine rotor assembly of ₹8.35 crore purchased through single tender in 2012 and a blade rotor valuing ₹3.98 crore purchased on STE (Proprietary) in 2010. Thus, procurement of these items on an urgent basis were not justified.

b) In view of proposed closure of various units of old ISP plant, a committee proposed (February 2012) to take appropriate steps to cancel the POs for stores and spares ordered up to 2011-12. ISP however continued to order materials during the years 2012-13 and 2013-14 valuing ₹4.64 crore for its units which were formally shut down in April 2014. These materials have not been utilized till December 2015.

The Management stated (March 2016) that they had taken steps to reduce the inventory.

Audit however, noticed that non-moving stores and spares of ₹193.80 crore constituted a significant 7.6 *per cent* of total inventory of stores and spares as on 31 March 2016. Moreover, against the Company's policy of restricting holding period of stores and spares to a maximum of five months, actual holding period during 2012-15 was 13 to 14 months.

15.9.2.5 Inadequacy in reverse auction conducted on online portal of Mjunction

SAIL hired Mjunction to conduct Reverse Auction (RA) on its portal to discover prices for material to be procured by steel plants of the Company. RA bidding reports of Mjunction show four instances (two cases in BSL and two cases in DSP) where two bidders (in each instance) used the same IP address to participate in the bidding. Audit observed that this would be possible only when both bidders were using the same server which was unlikely. The Company should have enquired into these cases before validating the outcome of RAs. Audit also observed that in case of BSL, the same two bidders had participated in two different bids. These bidders had the same Excise registration number; documents submitted by these bidders to Mjunction bore the name and signature of the same person; and annual reports of the bidders showed that both were under the same management. The procurement process made against these two cases valuing ₹29.56 crore appear to be vitiated.

The Management accepted (November 2016) the audit observation and noted it for future action.

15.9.2.6 Public Procurement Policy for MSEs not implemented

Public Procurement (PP) Policy for Micro and Small Enterprises (MSEs) 2012 stipulated that the Central Public Sector Enterprises (CPSEs) shall procure minimum 20 *per cent* of their annual procurement value from MSEs and four *per cent* thereof should be from MSEs owned by Scheduled Caste (SC) and Scheduled Tribes (ST). The Company failed to meet the targets specified and placed POs on MSEs to the extent of 16 *per cent*, 14 *per cent* and 12 *per cent* of the value of procurement during 2012-15. BSP and ISP fared poorly as they placed POs valuing only 9 *per cent* and 8 *per cent* of the total procurement value on MSEs respectively. Despite lapse of three years, the Company was unable to map SC/ST suppliers to monitor implementation of PP policy.

The Management stated (March 2016) that proprietary items, items sourced from PSEs, imports are excluded for calculation of the percentage orders on MSEs.

The reply of Management is not acceptable as the PP Policy does not make provision for exclusion. Except RSP, the four steel plants of SAIL failed to achieve the 20 *per cent* procurement target, even after excluding cases where no tendering was resorted. It was also noticed BSP, RSP and ISP did not meet the procurement target in 2015-16 also. Besides, no plant fulfilled the criteria of four per cent procurement from SC/ST MSEs during 2012-16.

Conclusion

SAIL made limited use of Open/Global tenders with 24.4 *per cent* of the total value of procurement being made on limited tender basis and another 29 *per cent* on single tender basis. There was lack of uniformity in purchase processes followed across the steel plants. Instances were noticed of costlier purchases through single tender basis. Internal production facilities were not fully exploited and expanded. There were doubts on the credibility of purchases made through reverse auction. The Company had a high holding period of stores and spares compared to its prescribed policy. The Company's efforts in implementing Public Procurement Policy of Government of India on MSEs needed to be strengthened.

These issues were reported to the Ministry of Steel in August 2016; their reply is awaited (January 2017).

CHAPTER XVI: MINISTRY OF TEXTILES

National Jute Manufactures Corporation Limited

16.1 Implementation of revival scheme

16.1.1 Introduction

National Jute Manufactures Corporation Limited (the Company) was registered under the Companies Act 1956 in June 1980 after Government of India (GoI) took over the management of six jute mills[1] (June 1980) and vested the same in the Company. The Company had been suffering losses since inception and was referred (August 1992) to Board for Industrial and Financial Reconstruction (BIFR). BIFR declared (June 1993) the Company sick and subsequently, approved its revival scheme in April 2011.

The approved BIFR scheme envisaged (a) revival of three mills viz. Khardah, Kinnison and RBHM and closure of the other three mills viz. Alexandra, National and Union mills; (b)financial restructuring as approved by Cabinet Committee on Economic Affairs (CCEA); (c) Liquidation of all loans and arrears of statutory dues; (d) sale of surplus land and other assets; (e) payment to pressing creditors;(f) reliefs and concessions from various institutions/authorities and (g) payment of Voluntary Retirement Scheme (VRS) to employees.

The approved scheme of financial restructuring was for ₹1,562.98 crore including cash loss of ₹141.45 crore. Source of finance was considered as interest free GoI loan of ₹1,551.26 crore and ₹11.72 crore towards adjustment of Government of West Bengal (GoWB) dues. As per the scheme, the company was to start making operating profit from the fourth year of operation.

16.1.2 Audit Findings

16.1.2.1 Sale of surplus land and other assets

It was envisaged in the BIFR scheme that an amount of ₹284.78 crore would be realised from sale of surplus assets (land and plant and machinery). Surplus assets were to be sold by forming an Asset Sale Committee. For sale of land, such committee was to include representative of the concerned State Government where the land is located.

Audit observed that only three meetings of Asset Sale Committee have been held in February 2012, May 2014 and June 2014 but there was no representative from the Government of West Bengal (GoWB) and Government of Bihar (GoB) on the Committee. GoWB nominated its representative to the committee in September 2014 who stated that conversion of land from industrial use to commercial use was not permissible under West

[1] *(a) National Company Limited, (b) Alexandra Jute Mills Limited, (c) Union Jute Company Limited, (d) Khardah Company Limited, (e) The Kinnison Jute Mills Company Limited, and (f) RBHM Jute Mills Pvt. Limited*

Bengal State policy/guidelines. Audit also noticed that the land of Alexandra Jute Mill was not mutated in the name of the Company (March 2016).

The Management (March 2015)/ Ministry (January 2016) stated that collection of municipal tax in the name of the company was sufficient evidence to establish ownership of the Company and a consultant had been engaged for advising the company for alternative use of the land. The consultants' report was under examination at the Ministry.

The reply of the Management/ Ministry needs to be viewed in light of the fact that no land can be sold until mutation is done in the name of the seller to establish its ownership. Even after more than five years after approval of BIFR scheme, there has not been much progress towards disposal of surplus land.

16.1.2.2 Payment towards VRS

The Company paid ₹42.75 crore to 163 officers under VRS after approval of the revival scheme. However, basic records (*i.e.*, service book, personal files, salary registers, leave records etc.) relating to the officers (who opted for VRS) were not made available to audit by the Management despite repeated reminders. In the absence of basic data, accuracy of the VRS payments (including arrears of salaries) could not be ascertained in audit. However, the following irregularities were noticed in audit from the examination of calculation sheets of VRS and salary arrears:

- The Company made excess payments due to incorrect fixation of basic pay in violation of Department of Public Enterprises (DPE) norms. The quantum of such excess payments could not be ascertained in the absence of records.

- The Company paid ₹0.23 crore towards arrear LTC/LTA to 204 officers who either opted for VRS or superannuated after April 2010 in respect of two block years 2001-03 & 2003-05 @ ₹5,600 per block year which was irregular.

- The Company followed CCS (Leave) Rules, 1972. Though annual leave encashment was not allowed under these rules, the Company paid ₹3.44 crore to 205 officers towards 40 *per cent* annual leave encashment. The Company also allowed encashment of casual leave for nine days each to 163 officers who opted for VRS which was in violation of CCS (Leave) Rules and DPE guidelines, which resulted in irregular payment of ₹0.23 crore. Audit noticed that the Company had irregularly also allowed commutation of half pay leave on retirement.

- Management considered City Compensatory Allowance of ₹300 per month for each officer who opted for VRS in addition to basic pay and DA for payment of leave encashment which was not admissible under CCS (Leave) rules.

- The Company had paid arrear interim relief to the officers for the period from September 1998 to January 1999 (five months). However, the same were not adjusted/ recovered while working out the final payment.

- The Company paid ₹1.33 crore towards interest on employees' contribution to PF in respect of 205 officers which was irregular in the absence of any specific approval for the same.

The Ministry (January 2016) accepted these observations and stated that the Company has been asked to verify the claims and ensure that they are as per the prescribed norms/rules and take appropriate remedial action.

16.1.2.3 Revival of the three mills

(I) Capital expenditure & renovation

In the approved revival scheme, an amount of ₹191.23 crore was allocated for capital expenditure for three mills (Khardah, Kinnison and RBHM) which included (a) civil, electrical & other repair works (₹41.10 crore), (b) Renovation, replacement & overhauling etc. (₹24.14 crore), (c) Cost of new machinery/ projects (₹110.87 crore) and (d) Computerisation (₹4 crore). However, the Company has incurred only ₹9.14 crore towards capital expenditure up to March 2016.

In the absence of envisaged capital investment, the capacity utilisation at these mills remained low. Audit observed that despite availability of detailed capital investment plan and requisite funds for the same, Management did not take effective action for actual investment. This has resulted in increasing repair and maintenance as well as power & fuel cost per MT of finished product when compared to the per MT cost envisaged in the BIFR scheme.

The Ministry, while accepting the audit observation, stated (January 2016) that initially Management was hesitant to invest funds for modernisation of plant and machinery. However, some machinery was procured subsequently on the basis of recommendation of Modernisation Committee.

The Ministry's contention may be viewed against the fact that as on March 2016, expenditure incurred towards modernisation of plant and machinery was less than five *per cent* of amount earmarked in the BIFR scheme.

(II) Repair and Maintenance

The Company appointed (August 2010) M/s Engineers & Architect India (P) Ltd. as a consultant for assessment of existing condition of civil and other infrastructure and monitoring of repair and construction work. The consultant prepared a Detailed Project Report estimating a requirement of ₹41.91 crore for civil work in the three mills.

The Company awarded the repair work to M/s Panchdeep Construction Limited for Khardah and Kinnison mills at a cost of ₹15.60 crore and ₹15.99 crore respectively and awarded the work for RBHM unit to M/s Roy & Das construction at a cost of ₹6.92 crore in June 2011. The Company incurred ₹21.55 crore for such repair works till March 2014.

There were repeated complaints about quantity and quality of civil works undertaken in three jute mills. The company engaged (June 2013) M/s Texpro (India), a firm of

engineers, for undertaking detailed technical and financial evaluation of civil repair/renovation work at Khardah Jute mill and preliminary examination at Kinnison Jute mill. M/s Texpro in its evaluation report stated that quality of work was poor and there was no effective supervision either by the consultant or management. Based on the evaluation report, it was decided that a joint survey of Khardah mill would be carried out by the contractor, consultant and Company officials for common understanding of the defects to be rectified. However, such joint survey has not been carried out yet. Detailed technical/financial evaluation of the repair work was also not carried out in Kinnison Jute Mills.

Audit observed that despite knowledge of poor quality of repair work done by the contractors, Management did not take any action to carry out the rectification work by the contractor.

The Ministry, while accepting the audit observation stated (January 2016) that the Company has been asked to verify the claims and ensure that those are as per the prescribed norms/rules and accordingly take appropriate remedial action.

(III) Production performance

As per the revival scheme, product mix was to consist of 50 *per cent* Sacking, 40 *per cent* Hessian and 10 *per cent* Yarn. Audit observed that the company had produced 100 *per cent* sacking instead. The revival scheme had targeted production of 73,500 MT by 2015-16. Audit observed that the actual production was only 6,861 MT, barely 9 *per cent* of the target. It had also been envisaged that with modernisation of machines, productivity would improve, reducing the number of workers per MT. As against projected reduction in number of workers from 78 per MT in 2011-12 to 50 per MT in 2013-14, the actual number of workers ranged from 81 per MT in 2011-12 to 79 workers per MT in 2013-14[1]. Thus, there was a huge shortfall in achievement of both targeted production and productivity.

The Management, while accepting the above, stated (March 2015) that productivity of labour came down because of engagement of labour much above industry norms under the influence of various extraneous and unforeseeable factors. Ministry also endorsed (January 2016) the above reply of the Management.

(IV) Financial performance

As per revival scheme, sales were to increase from ₹25.30 crore in 2011-12 to ₹404.25 crore in 2015-16. The company was to generate gross profit from the year 2014-15 after achieving the production target of 63500 MT per annum and net profit after tax in the year 2014-15 through profit from sale of surplus land/asset.

Achievement of sales target was comparatively good in the first year (2011-12) since the target was set based on projection of 100 working days whereas actual number of working days was 242. Thereafter, on account of low production, the Company could not match the sales as well as profit target specified in the revival scheme. The gap between the

[1] ***Productivity after 2013-14 could not be measured as the production was done through job contracts.***

targeted sales volume and actual sales volume widened with each passing year as tabulated below:-

Performance of the company after revival

Year	Particulars	Production (in MT)	Sales (₹ in crore)	Net profit after Tax (₹ in crore)	Net profit after Tax without considering Interest Income (₹ in crore)
2011-12	BIFR Projection	4,600.00	25.30	(50.12)	(50.12)
	Actual	4,886.00	15.76	(38.12)	(52.14)
	Over (Under) Performance	286.00	(9.54)	12.00	(2.02)
	% Over (Shortfall)	6%	(38%)	24%	(4%)
2012-13	BIFR Projection	29,000.00	159.50	(58.01)	(58.01)
	Actual	9,824.00	49.73	(16.00)	(32.73)
	Over (Under) Performance	(19,176.00)	(109.77)	42.01	25.28
	% Over (Shortfall)	(66%)	(69%)	72%	44%
2013-14	BIFR Projection	47,000.00	258.50	15.28	15.28
	Actual	10,958.00	58.12	(6.55)	(24.17)
	Over (Under) Performance	(36,042.00)	(200.38)	(21.83)	(39.45)
	% Shortfall	(77%)	(78%)	(143%)	258%
2014-15	BIFR Projection	63,500.00	349.25	54.77	54.76
	Actual	6,313.30	37.70	(48.59)	(20.23)
	Over (Under) Performance	(57,186.70)	(311.55)	(103.36)	(74.99)
	% Shortfall	(90%)	(89%)	(189%)	(137%)
2015-16	BIFR Projection	73,500.00	404.25	56.40	56.40
	Actual	6,860.89	44.82	(20.96)	(40.74)
	Over (Under) Performance	(66,639.11)	(359.43)	(77.36)	(97.14)
	% Shortfall	(91%)	(89%)	(137%)	(172%)

The Management stated (March 2015) that the actual financial performance was showing improvement over the years. Ministry also endorsed (January 2016) the above reply of the Management.

The contention of the Management/ Ministry is not acceptable as the Company failed to achieve its targets and continued to incur losses as against anticipated profits from 2013-14. Besides, the operating results of the Company would be worse, if the interest income is excluded as can be seen from the table above.

Conclusion

The revival scheme aimed at turnaround of the Company in a time bound manner. Achievement of the targets set out in the scheme was pre-requisite for successful implementation of the revival scheme. Audit observed that none of the targets set out in the scheme could be achieved by the Company so far. Surplus land and other assets, though identified, could not be disposed which affected the turnaround plan. The Company invested meagre funds in renovation and modernisation of the mills. Repair work was of poor quality. As a result, the productivity of the three running mills remained low and the Company continued to suffer losses.

CHAPTER XVII- MINISTRY OF WATER RESOURCES, RIVER DEVELOPMENT AND GANGA REJUVENATION

National Projects Construction Corporation Limited

17.1 Irregularities in execution of work of construction of road and fencing along the Indo-Bangladesh Border

Inordinate delay caused substantial increase in the estimates during February 2007 to August 2010 for construction of Road and fencing along the Indo-Bangladesh Border in Tripura. Besides, payment of *ad hoc* advance to three contractors without approval of the competent authority and waiver of interest on these advances resulted in undue financial benefit of ₹28.02 crore. The project is yet to be completed despite lapse of nine years.

National Projects Construction Corporation Limited (NPCC) entered (17 March 2006) into a Memorandum of Understanding (MoU) with the Ministry of Home Affairs (MHA) for construction of Road and fencing along the Indo-Bangladesh Border (IBB) in the State of Tripura. The objective of the fencing work was to curb infiltration, smuggling and other anti-national activities from across IBB. As per provisions of the MoU, NPCC would carry out survey of stretches for the project and prepare a comprehensive estimate as per Central Public Works Department (CPWD) norms. The approved cost of the work would be as per estimates scrutinized by the Technical Committee (TC), chaired by DG (CPWD) (TC) and approved by High Level Empowered Committee (HLEC), MHA.

Technical Committee (20 November 2006) found inadequacies in the preliminary project estimates submitted by NPCC and, therefore, it only accorded provisional approval to the estimates with the condition that deviation in quantities of various items with final estimates would be submitted by NPCC to the Border Financing Report[1] (BFR) cell after executing 15 *per cent* of the work for final adjustment and approval. However, in view of the urgency and importance of work HLEC decided (February 2007) that instead of provisional approval, it should be treated as approval based on rough estimates and NPCC was directed to submit the precise estimates of quantities based on detailed survey/data/actual construction after 25 *per cent* of work was over. Further, after completion of work, final cost with complete supporting details was needed to be submitted to TC for clearance.

NPCC submitted following Revised Estimates (RE) (August 2010) for these two works by reporting progress of work as 25 *per cent* as under:

[1] ***BFR cell consist of Technical personnel under ADG (BDR) which scrutinize all proposals before placing in TC.***

Type of work	Original sanctions (₹ in crore) (February 2007)	Revised estimates (₹ in crore) (August 2010)	Increase (in *per cent*)	Initial target date of completion	Revised target date of completion
Work-I Border Pillar no. 2283 to 2300-66.45 Kilometre	131.24 crore	386.62 crore	195	December 2009	March 2019
Work-II Border Pillar No. 2270 to 2283- 69 Kilometre	144.65 crore	589.75 crore	308		

As is evident from the above table, the cost of work-I and work-II sharply rose by 195 *per cent* and 308 *per cent* respectively during the period from February 2007 to August 2010. The apparent reasons for increase in cost were largely attributed by NPCC to increase in quantity of earthwork and change in soil classification from "soft soil" to "soft rock" in work-I. However, there was no detailed justification as to how the soil classification had changed from "soft soil" in the preliminary survey to "soft rock" in the revised estimates. Audit observed that in the preliminary estimates only provision for earthwork for hard/dense soil in excavation was found and there was no mention of any other type of soil or rock in the Preliminary Estimates for earthwork in work no. I & II. However, at the time of submission of Revised Estimates, a new item for "soft rock' was mentioned under earth work in work-I and additional provision of extra lift in excavation of earth work was claimed at an additional cost factor of 1.62 over and above the REs cost of escalations in work-II.

These estimates were examined/discussed in various TC and HLEC meetings where none of the committees could authenticate the quantities actually executed by NPCC. HLEC also found further deficiencies in documentation which were as follows:

- NPCC did not submit the hard copies of level books containing ground levels recorded and test checked (with date) with respect to original bench marks before start of work;
- Records for bench marks or dead-man at site could not be seen at site by inspection teams/committee;
- Soft copies of raw data of Total Station Survey were not provided by NPCC;
- Records relating to establishing soil classification were not maintained; and
- There existed variance between the Original Ground Level (OGL) and final level work considered at the time of submission of RE (August 2010).

As these works related to construction of roads and fencing along IBB which could not be delayed and keeping in view that OGL could not be verified, the TC concurred (19 January 2016) and HLEC accorded (04 February 2016) the approval of only ₹282.84 crore against the requested REs of ₹338.86 crore for construction of road and fencing along IBB in Tripura for work-I. Further, against the requested revised estimate for works-II of ₹589.75 crore, only ₹238.74 crore was finally approved by HLEC (August 2016).

HLEC, further directed that no further revision in the cost estimates shall be entertained. Moreover, due to such reduction in the revised estimates, the Secretary, Border Management, MHA also enquired about the technical capability of NPCC, from CPWD, to take up such projects in future.

Due to non-maintenance of authentic and proper records, NPCC was unable to sustain its claims with TC/HLEC. Further, inconsistent assessment of soil conditions and earthwork excavation involved indicated deficiencies in the technical processes adopted by NPCC. However, NPCC initiated no action for submission of faulty estimates by NPCC Silchar. These deficiencies not only led to cost escalation and inordinate delays but also caused non-achievement of the security objective of curbing infiltration, smuggling and other anti-national activities as the project is still not complete (October 2016) even after nine years of start of the work.

Besides submission of faulty estimates and cost and time escalations cases of granting of inadmissible *ad hoc* advance to the contractor and waiver of interest were noticed. The findings are as below:

(a) Inadmissible payment of ad hoc advance of ₹15.40 crore to the contractors due to over reporting of executed work

NPCC, Silchar (14 October 2012) sent a proposal to its Corporate Office, New Delhi for approval for payment of advance of ₹87.42 crore to three contractors [1] based on 50 *per cent* of work done by them to facilitate these contractors to accelerate the work. The proposal was sanctioned (22 October 2012) but without any approval of the Board of Directors (BODs), citing that it was a special case. Accordingly, the then Ex-Zonal Manager of NPCC, Silchar signed and issued sanction letters on 23 October 2012 to the three contractors. However, records indicated that the then Ex-Zonal manager was on tour to New Delhi from 19 October 2012 to 26 October 2012; the reasons for issuing the sanction letter while on outstation tour could not be found on record. Audit noticed that the advance of ₹82.87 crore was paid to the contractors based on the value of work executed upto October 2012 *i.e.*, ₹174.84 crore which was incorrect as the value of actual work completed was only ₹142.34 crore[2]. NPCC Silchar had in fact over reported the fencing and road work by 36 Kilometre (Km) and 103 km respectively in the State of Tripura, while giving advance to the contractors. This resulted in payment of inadmissible advance of ₹ 15.40 crore and loss of interest of ₹ 5.13 crore thereon for the period from December 2012 to 2015-16. Further, NPCC, Silchar again paid (June 2015 to August 2015) interest free *ad hoc* advance of ₹60.00 crore to M/s. Costal Projects Ltd. based on 50 *per cent* of work done *in spite* of the fact that the contracts entered with the contractors had no provision for payment of interest free *ad hoc* advance. The contract only provided for payment of mobilisation advance that too limited to 10 *per cent* of the contract value against bank guarantee and with interest of 10 *per cent*. Therefore, payments of *ad hoc* advances to the contractors on the basis of 50 *per cent* of work executed without charging interest was not justified. Moreover, no approval was obtained from the MHA/BOD before granting such advances.

[1] ***M/s. Krishna Reddy, M/s. Costal Projects Ltd and M/s. Prasad & Co***

[2] ***₹174.84 crore-₹32.50 crore***

(b) Un-justified waiver of interest amounting to ₹16.57 crore on the ad hoc advance given to the contractors

NPCC, Silchar released ₹82.87 crore as *adhoc* advance in October/December 2012 to three contractors with a condition that if the executed work was not sanctioned by the MHA within six months from the date of payment, NPCC will charge prevailing bank interest (at the rate of 10 *per cent*) from the date of payment of advance over the amount paid to the contractors.

Since October/ December 2012, total amount of interest recoverable from three contractors on the advance of ₹82.87 crore as on 31 March 2016 was ₹28.02 crore. However, an amount of ₹16.57 crore (April 2014 to March 2016) was waived off by the Chairman *cum* Managing Director (CMD), NPCC without the approval of BOD and the MHA in March 2016 even when the letter sanctioning advance to the contractor did contain an explicit clause for charging 10 *per cent* interest. For the remaining amount of ₹11.44 crore (upto March 2014), it was mentioned in the note sheet approved by CMD that specific action was to be taken, however, details of the kind of action to be taken was not spelt out.

The decision of waiving off interest of ₹16.57 crore and payment of further interest free advance of ₹60 crore by NPCC without the approval of its BOD and the MHA was imprudent and irregular as the terms of the contract had no provision for giving *ad hoc* advances to the contractors.

The Zonal Management (Silchar) stated (19 July 2016 / 23 January 2017) that advance was paid against the extra work executed and for timely completion of work with the approval of competent authority i.e. Corporate Office against submission of 110 *per cent* bank guarantee by the contractors and that the *ad hoc* advance amounting to ₹82.87 crore had already been adjusted from the Running Account bills during May 2016. It further stated that as per condition of the contract there was no provision for charging interest, therefore, interest w.e.f. 01 April 2014 was waived off with the approval of competent authority.

The Ministry endorsed (January 2017); the views of the Management.

The Management reply is not acceptable as the letter sanctioning advance to the contractors did contain provision for charging interest at the rate of 10 *per cent.* Moreover, none of these proposals to either give advance or waive off the interest had the approval of the BOD of NPCC.

Thus, submission of faulty estimates, granting of *ad hoc* advance to the contractors without approval of BOD / the MHA and waiver of interest, has not only delayed the project and escalated the cost, but NPCC had also passed on undue favours to the contractors to the tune of ₹28.02 crore.

CHAPTER XVIII- IRREGULARITIES IN PAYMENT OF ENTITLEMENTS, RECOVERIES AND CORRECTIONS/RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

NLC India Limited and Rashtriya Ispat Nigam Limited

18.1 Excess payment of Performance Related Pay to the employees

NLC India Limited and Rashtriya Ispat Nigam Limited made excess payment of Performance Related Pay for the years 2012-13 and 2013-14 to its employees by considering income from non-core activities in computation of Profit Before Tax in violation of the guidelines issued by Department of Public Enterprises.

In November 2008, Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises approved revised pay scales of Board level and below Board level Executives and Non-unionised Supervisors of CPSEs. The implementation guidelines of the notification dealt with admissibility, quantum and procedure for determination of Variable Pay/Performance Related Pay (PRP). As per these guidelines, 60 *per cent* of the PRP would be given with the ceiling of 3 *per cent* of Profit Before Tax (PBT) and 40 *per cent* of PRP would come from 10 *per cent* of incremental profit over the previous year. The total PRP, however, would be limited to 5 *per cent* of the year's PBT. DPE, vide its OMs dated 02.11.2010, 18.09.2013 and 02.09.2014, clarified that PRP should be distributed based on profit accruing from core business activities of the CPSEs only. DPE directed (September 2014) to make these directions applicable from 2012-2013 onwards.

Audit observed that NLC India Limited (NLC) and Rashtriya Ispat Nigam Limited (RINL) did not follow the guidelines of DPE in determining the PBT for the current year, as well as for computing the incremental profit for arriving at the amount distributable as PRP. Both Companies did not deduct the income earned from non-core activities. NLC included interest on Bonds, interest received from employees towards various advances, surcharge received from customers for delayed payment, profit on sale of assets, interest on mobilisation advances, scrap sales, guest house rent, canteen sales etc. while computing the PBT for the purpose of PRP. Similarly, RINL included interest on deposits, interest received from employees towards various advances, sale of scrap, insurance claims, commissions etc. while computing the PBT for PRP. This resulted in excess payment of PRP to the employees amounting to ₹26.75 crore in case of NLC and ₹17.37 crore in case of RINL for the years 2012-13 and 2013-14.

The Management of NLC replied (October 2016) that power dues from DISCOMS/State Electricity Boards were converted into SLR power bonds in the year 2006 which were considered as long term investment and any income on delayed payment of power dues was treated as business income only. It asserted that other categories of dues like interest collected from employees on advances, surcharge collected from DISCOMS/State Electricity Boards for delayed payment of their dues, guest house rent, bus collection, canteen sales, penalties and liquidated damages, revenue from sale of scrap and profit on

sale of assets were treated as business income only. The Ministry of Coal endorsed (December 2016) the reply of NLC.

The Management of RINL stated (October 2016) that DPE had stipulated that only idle cash/bank balances were not to be considered for PRP. It further mentioned that as prudent financial management, the funds were continued in deposits wherever interest earnings were more than the borrowing costs to minimize interest burden on the Company and it did not represent parking of surplus funds. Other income also comprised of liquidated damages, recoveries towards material shortage and reversal of provisions/expenditure booked in previous years, which were part of core business activity. Hence, there was no violation of DPE guidelines.

Reply of NLC and RINL were not acceptable since the OMs issued by DPE cited above clearly stated that profit arising from the core business activities should only be considered for calculating the PBT. Hence, interest earned on SLR Bonds or on other deposit, not being a part of the core business activity of these Companies, should have been excluded while computing the PBT. Similarly, income from other non-core activities like guest house rent, bus collection, canteen sales, surcharge collected from DISCOMS/State Electricity Board etc. should also have been excluded. The other items pointed out by RINL like liquidated damages, recoveries towards material shortage and reversal of provisions/expenditure booked in previous years were considered by Audit as part of PBT while computing the excess payment of PRP by RINL.

Thus, due to violation of DPE guidelines, NLC and RINL made excess payment towards PRP to its employees, amounting to ₹44.12 crore for the year 2012-13 and 2013-14.

The matter was reported to the Ministries in October 2016; their reply was awaited (January 2017).

GAIL (India) Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and Steel Authority of India Limited

18.2 Undue benefit extended to the executives in the form of shift allowance

GAIL (India) Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited and Steel Authority of India Limited extended undue benefit to the executives by paying shift allowance amounting to ₹64.38 crore in violation of DPE guidelines.

Government of India formulated the policy for revision of pay and allowances of Board level and below Board level executives as well as non-unionised supervisors in Central Public Sector Enterprises (CPSEs) with effect from 1 January 2007 vide DPE O.M.1 dated 26 November 2008. The said OM inter-alia provided that the Board of Directors of the CPSEs would decide on the allowances and perks admissible to the different categories of executives subject to a maximum ceiling of 50 *per cent* of the basic pay. CPSEs may follow 'Cafeteria Approach' allowing the executives to choose from a set of perks and allowances. Only four allowances *viz* North East allowance, Allowances for underground mines, Special Allowance for serving in difficult and far flung areas as approved by the Ministry and Non practicing allowance for Medical Practitioners were kept outside the

purview of ceiling of 50 *per cent* of basic pay. It was also directed that infrastructure facilities created by CPSEs like hospitals, colleges, schools, clubs etc. should be monetized on the basis of recurring expenditure on maintaining and running the infrastructure for the purpose of computing the perks and allowances.

A. While reviewing perks and allowances under 'Cafeteria Approach' GAIL (India) Limited (the Company) decided (2011) to increase available entitlement for the executives from 47 *per cent* (in 2010) to 49 *per cent* of their basic pay w.e.f. 1 April 2011 after considering one *per cent* of the basic pay for monetized value of the infrastructure facilities.

Audit observed that the Company has been paying shift allowance to its executives and keeping the same outside the purview of ceiling of 50 *per cent* of basic pay. During 2010-11 to 2015-16, shift allowance of ₹11.03 crore was paid to executives of the Company.

The Company stated (November 2016) that shift working being an essential aspect of round the clock plant operations, shift duty allowance was an integral element of the compensation of such employees who are deployed in shifts. It was also a requirement under Factories Act, 1948. Shift duty allowance was being allowed since beginning considering the very nature of duties involved in hydrocarbon industry. If shift duty allowance was stopped, there would be serious industrial relations issue and the employees would be de-motivated. There would ultimately be loss to the Company and Nation as a whole considering the hydrocarbon sector which was very sensitive. In principal, shift duty engagement also involved hardship at the working station and needed to be viewed like special allowance to employees who work at difficult and far flung locations which was kept outside the 50 *per cent* ceiling. The expenses on shift duty were actually of the nature of operational expenses and there was no merit in considering them within the perks & allowances of the concerned employee. Further, such operational expenses would not be part of an individual's perks ceiling of 50 *per cent* of Basic Pay as it would otherwise deplete employees own perks which in any case was receivable by him in normal course if posted in general work-schedule *i.e.*, other than shift. Also, if these employees were given a choice to choose from a set of perks and allowances under the cafeteria approach that include shift allowance, then no employee would choose shift allowance as it would lead to hardship by way of rotating shift duty.

The reply is not justifiable as DPE had categorically stated (June 2013) that except four allowances as mentioned in DPE OM [1] dated 26 November 2008, no further allowance/benefit/perks was admissible outside the 50 *per cent* ceiling of basic pay under Cafeteria Approach. As regards the apprehension expressed by the Management that operations would suffer if executives did not choose shift allowance, it needs to be appreciated that in a cafeteria approach with the executives given the freedom to choose the allowance, enforcement of duties cannot be linked to choice of a particular allowance in preference to others. Further, Factories Act does not contemplate payment of shift allowance for shift duties.

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[1] ***Department of Public Enterprises office Memorandum No.2(70)08-DPE(WC)-GL-XVI/08 dated 26 November 2008***

Thus, payment of ₹11.03 crore made by the Company towards shift allowance was in violation of DPE guidelines and therefore, irregular.

Ministry of Petroleum and Natural Gas accepted (February 2017) the audit observation and advised GAIL (India) Limited to take remedial action.

B. Audit observed that Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) are paying shift allowance[1] to its executives and keeping the same outside the purview of ceiling of 50 *per cent* of basic pay. During 2010-11 to 2016-17 (up to June 2016) BPCL paid ₹22.17 crore and HPCL paid ₹20.70 crore paid respectively to their executives.

The Management (BPCL) stated (March 2016) that the rotating shift duty is a contingent and need based requirement for employees working in round-the-clock operating refineries/bottling plants/installations etc. and is paid specifically for those job groups of employees who work in 8 hour shifts, at times for as long as 16 hours in double shifts. Thus, this allowance is not paid universally to all employees but is similar to the Underground Mining Allowance or Non-Practicing Allowance which are permitted under DPE Guidelines. If compensation for this is discontinued, no Officer will be willing to work in continuous shifts/ night working and the Oil Industry will be seriously jeopardized.

The Management HPCL stated (March 2016) that rotating shift duty involves inconvenience to the employees/Officers manning the same as it requires working and sleeping at times other than natural cycle of any human being and affects the employees' health and work-life balance. Accordingly, this allowance cannot be considered as Perks & Allowances since they are paid only to certain class of employees working in shifts. Also, DPE's various OMs governing perks and allowances do not envisage inclusion of this kind of amount paid for hazardous situation under the ambit of perks and allowances.

The reply is not acceptable as shift allowance is meant to ensure continuous round the clock production and is not meant to compensate for hazardous nature of duties performed by any employee. As regards the apprehension expressed by BPCL Management that the operations will be jeopardized if shift allowance is not paid to Officers, it needs to be appreciated that enforcement of essential duties cannot be linked to payment of a particular allowance. Moreover, DPE in this regard had categorically stated (June 2012 and June 2013) that except four allowances as mentioned in DPE OM dated 26 November 2008, no further allowance/benefit/perks was admissible outside the 50 *per cent* ceiling of basic pay under Cafeteria Approach.

Thus, payment of ₹42.87[2]crore made by the Companies towards shift allowance was in violation of DPE guidelines and therefore, irregular.

[1] ***Shift allowance was being paid @ ₹130 and ₹200 for morning/evening shift and night shift, respectively, for A and B grades and @ ₹155 and ₹225 for morning/evening shift and night shift, respectively, for C and above grades in respect of HPCL and BPCL.***

[2] ***₹22.17 crore + ₹20.70 crore***

The matter was reported to the Ministry of Petroleum and Natural Gas in October 2016; their reply was awaited (January 2017).

C. Steel Authority of India Limited (Company) decided (October 2009) to implement the said DPE OM with effect from 5 October 2009. Audit observed that while implementing Cafeteria Approach for payment of perks and allowances to the executives, the Company chose to pay night shift allowances outside the purview of ceiling of 50 *per cent* of basic pay prescribed under the Cafeteria Approach. Payment of night shift allowances thus was in violation of the said DPE OM which permitted payment of only the above referred four allowances outside the ceiling of 50 *per cent* of basic pay.

The Company stated (November 2016) that the night shift allowance paid earlier had been discontinued and the executives were now (since October 2012) being reimbursed incidental expenses on certification basis for performing their night shift duties as per organisational requirements which may be treated outside the Cafeteria Approach. The Company also stated that the working conditions were really tough and this reimbursement was introduced to ensure availability of executives for continuous production. Further, the Company opposed equating such reimbursement of incidental expenditure to the four allowances kept outside purview of cafeteria approach as allowances were linked to percentage of basic pay whereas the reimbursement was of a fixed amount.

The Management reply is not tenable as steel plants of the Company operate on three shifts basis to ensure round the clock production. All three shift duties are performed in the same operational setup and surroundings. The allocation of eight hourly shift duties are normal organisational requirement. DPE vide OMs dated 01 June 2011, 29 June 2012 and 11 June 2013 reiterated that no other allowances or perks outside the 50 *per cent* ceiling except the four allowances originally referred in the DPE OM dated 26 November 2008 are permissible. During the period from 05.10.2009 to 31.03.2016, irregular benefits of ₹ 10.48 crore on account of night shift allowance/reimbursement of incidental expenses for performing night shift, was paid to executives of the Company.

The matter was reported to the Ministry of Steel in September 2016; their reply was awaited (January 2017).

Airports Authority of India, Bharat Heavy Electricals Limited, Mangalore Refinery and Petrochemicals Limited, National Insurance Company Limited, National Projects Construction Corporation Limited, Northern Coalfields Limited, NLC India Limited, Oil India Limited, Rashtriya Chemicals and Fertilizers Limited, SJVN Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and Western Coalfields Limited

18.3 Recoveries at the instance of audit

In 20 cases pertaining to 13 CPSEs, audit pointed out that an amount of ₹86.97 crore was due for recovery. The management of CPSEs had recovered an amount of ₹66.28 crore (76 *per cent*) during the period 2015-16 as detailed in **Appendix-I.**

Balmer Lawrie & Company Limited, National Fertilizers Limited, National Payments Corporation of India Limited and Oil & Natural Gas Corporation Limited

18.4 Corrections/rectifications at the instance of audit

During test check, cases relating to violation of rules/regulations and non-compliance of guidelines were observed and brought to the notice of the management. Details of the cases where corrective action was taken or changes were made by the management in their rules/regulations etc. at the instance of audit are given in **Appendix-II.**

CHAPTER XIX

Follow-up on Audit Reports (Commercial)

Audit Reports of the Comptroller and Auditor General (CAG) of India represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of Central Public Sector Enterprises (CPSEs). It is, therefore, necessary that appropriate and timely response is elicited from the executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on various paragraphs/appraisals contained in the Audit Reports (Commercial) of the CAG of India as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- Setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);

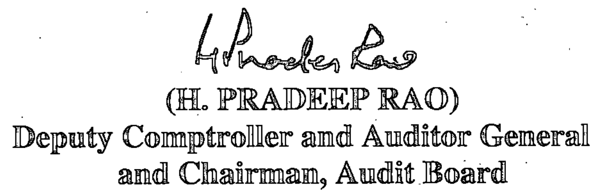
- Setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and

- Submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the CAG of India presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the

concerned Ministries for submission of ATNs on various Reports (Commercial) of the CAG of India.

A review in Audit revealed that despite reminders, the remedial/corrective ATNs on 32 transaction audit/compliance audit paragraphs/ performance audit reports contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in Appendix-III, were not received by Audit for vetting.



New Delhi
Dated: 14 March 2017

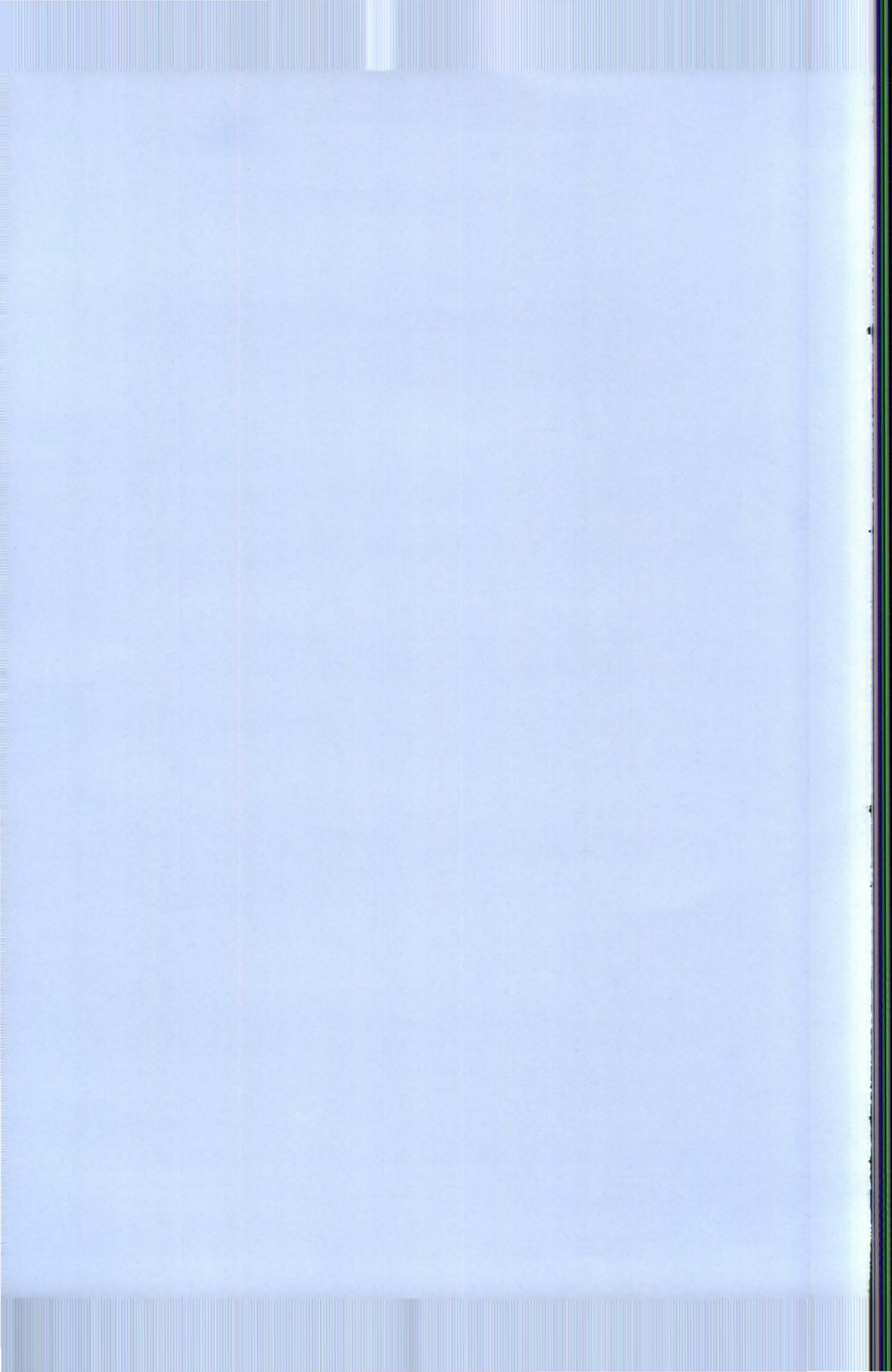
(H. PRADEEP RAO)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

Countersigned

New Delhi
Dated: 14 March 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

APPENDICES
&
ANNEXURES



Appendix-I

(Referred to in Para 18.3)

Recoveries at the instance of Audit during 2015-16

(Amount ₹ in lakh)

Name of Ministry/Department	Name of the CPSE	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Chemicals and Fertilisers	Rashtriya Chemicals & Fertilisers Limited	Non recovery of Property Tax from tenants as per agreement	19.37	25.07
Civil Aviation	Airports Authority of India	Non-sharing of amount collected as scrap realisation of demolition of terminals 2B and 2C by Mumbai International Airport Limited	2296.97	2148.00
Coal	NLC India Limited	Non Recovery of Guarantee charges from M/s TAQA Neyveli Power Company Pvt. Ltd., Chennai, as per FSA	383.72	383.72
Coal	Northern Coalfields Limited	Excess payment to Forest Department	1874.29	232.17*
Coal	Western Coalfields Limited	Non-revision of License Fee	404.00	104.00
Finance	The Oriental Insurance Company Limited	Short deduction of Income Tax on Leave Encashment paid to employees at the time of retirement	5.65	5.02
Finance	The New India Assurance Co. Limited	Non realization of dues from various co-insurance Companies	13.96	5.28
Finance	National Insurance Company Limited	Extension of undue discount resulting in short collection of premium	30.59	42.82
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Non clarity in the contract terms on variation claim of wages resulted in	210.42	210.42

		non-raising/ receipt of claim even after lapse of 21 months from the date of supply		
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Non-claiming of CST from M/s Hinduja National Power Corporation	32.80	21.61
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Excess payment of royalty of ₹4.07 crore and corresponding research and development cess of ₹0.20 crore to M/s. Alstom, in contravention of License and Technical Assistance Agreement.	427.00	427.00
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Lack of internal control system resulted in non-claiming of supply price to the tune of ₹16.93 lakh for the items delivered by the Spares department	16.93	5.69
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Lack of internal control resulted in non-claiming of supply price to the tune of ₹29.61 lakh for the items delivered by the Spares department.	29.61	4.33
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Non recovery of freight charges from the vendor	6.74	7.81
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Excess payment of VAT in respect of intra-state supplies for supply of structurals.	2.61	2.61
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Limited	Non Payment of VAT by BHEL, Trichy for the dispatches made by the vendors located within the state of the project site	145.00 (up to March 2014)	225.87 (up to December 2015)
Petroleum and Natural Gas	Mangalore Refinery and Petrochemicals Limited	Re-fixation of pay with deduction of pay and stagnation pay	16.85	16.85
Petroleum & Natural	Oil India Limited	Excess payment to contractor due to	518.00	465.00

Gas		application of incorrect rate for finalization of bills		
Power	SJVN Limited	Irregular reimbursement of recovered cess to contractor	1631.00	1663.77
Water Resources, River Development and Ganga Rejuvenation	National Projects Construction Corporation Limited	Non-recovery from the contractor	631.00	631.00
		TOTAL	8696.51	6628.04

* In addition, an amount of ₹321.33 lakh was recovered till October 2015 and has already been included in Audit Report No.15 of 2016 (Vol.I)

Appendix-II
(Referred to in Para 18.4)
Corrections/Rectifications at the instance of Audit

Name of Ministry/Department	Name of the CPSE	Audit observations/suggestions in brief	Action taken by the Management
Chemicals and Fertilisers	National Fertilisers Limited	National Fertilisers Limited made encashment of half pay leave in deviation from DPE guidelines resulting in irregular payment of ₹9.48 crore for the period April 2012 to March 2016	Company has changed its leave rules w.e.f. May 2016
Finance	National Payments Corporation of India Limited	Audit has objected to the 45 days limit for the usage of RuPay cards for availing Personal Accident Insurance Claim	NPCI changed the condition regarding the usage of the RuPay cards from 45 days to 90 days for availing Personal Accident Insurance Claim effective from 25 November 2015
Petroleum and Natural Gas	Balmer Lawrie & Company Limited	Due to non-compliance of formalities for availing a higher deduction under section 35 (2AB) of the Income Tax Act for its Research and Development expenses, Balmer Lawrie & Company Limited made an avoidable excess corporate tax payment of Rs 6.32 crore for the assessment years from 2010-11 to 2013-14	On being pointed out by Audit (February 2013 and February 2014), Management applied (March 2014) to the Department of Scientific and Industrial Research in form 3CK for obtaining approval for claiming tax deduction @ 200 *per cent* u/s 35 (2AB) of the Income tax Act, 1961 and approval was received from the financial year 2013-14.
Petroleum and Natural Gas	Oil and Natural Gas Corporation Limited	The Western Onshore Basin (WON Basin) of Oil and Natural Gas Corporation (ONGC) initiated (May 2014) a proposal for hiring of Integrated Seismic Job Service and Shot Hole Drilling Service contracts for seismic data acquisition in	The Management stated (October 2016) that in view of experience gained, ground electronics are now being issued to the contractor only after submission of Performance

		areas of Mehsana. The letter of award (LOA) was issued to M/s Patel Engineering and Services, Vadodara (contractor) on 09.12.2014. As per the Clause 6 of the LOA, the Contractor was required to submit performance security of ₹ 1.46 crore within 15 days from the date of LOA i.e. on or before 24 December 2014. However, the same was not submitted by the contractor. Further, as per Clause 7.3.1 of tender, ONGC issued ground equipment at the beginning of mobilization period to Contractor. On termination (24 June 2015) of the contract, the Contractor was required to return the equipment and to bear loss/damage, if any, to the equipment. However, the contractor did not return the equipment valuing ₹ 5.58 crore and some equipment was handed over to ONGC in damaged condition for which repairing cost was estimated at ₹ 63.36 lakh.	Bank Guarantee within stipulated time frame as per the provisions of the contract to avoid recurrence of such incidents in future.
Petroleum and Natural Gas	Oil and Natural Gas Corporation Limited	The Western Onshore Basin (WON Basin) of Oil and Natural Gas Corporation (ONGC) initiated (May 2014) a proposal for hiring of Integrated Seismic Job Service and Shot Hole Drilling Service contracts for seismic data acquisition in areas of Mehsana. The letter of award (LOA) was issued to M/s Patel Engineering and Services, Vadodara (contractor) on 09 December 2014. As per the Clause 6 of the LOA, the Contractor	The Management stated (October 2016) that in view of experience gained, ground electronics are now being issued to the contractor only after submission of Performance Bank Guarantee within stipulated time frame as per the provisions of the contract to avoid recurrence of such incidents in future.

		was required to submit performance security of ₹ 1.46 crore within 15 days from the date of LOA but the same was not submitted by the contractor. ONGC issued ground equipment at the beginning of mobilization period to Contractor. On termination (24 June 2015) of the contract, the Contractor was required to return the equipment and to bear loss/damage, if any, to the equipment. However, the contractor did not return the equipment valuing ₹5.58 crore and some equipment was handed over to ONGC in damaged condition for which repairing cost was estimated at ₹63.36 lakh.	

Appendix-III

(Referred to in Chapter XIX)

Statement showing the details of Audit Reports upto to 2016 (Commercial) for which Action Taken Notes are pending

No. & year of Report	Name of Report	Para No.
Department of Atomic Energy		
21 of 2015	Compliance Audit	Paras 1.1, 1.2 and 1.3
Ministry of Civil Aviation		
21 of 2015	Compliance Audit	Paras 2.1, 2.2, 2.6 and 2.8
13 of 2013	Compliance Audit	Paras 3.1 and 3.3
Ministry of Coal		
21 of 2015	Compliance Audit	Paras 3.2 and 3.4
Ministry of Development of North Eastern Region		
21 of 2015	Compliance Audit	Para 6.1
13 of 2014	Compliance Audit	Para 8.1
Department of Fertilizers		
13 of 2014	Compliance Audit	Paras 2.2
13 of 2013	Compliance Audit	Paras 8.1
Ministry of Finance (Department of Financial Services-Insurance Division)		
21 of 2015	Compliance Audit	Para 7.3
13 of 2013	Compliance Audit	Paras 9.2 (2 companies)
Ministry of Heavy Industries and Public Enterprises		
13 of 2014	Compliance Audit	Para 13.2
Ministry of Mines		
13 of 2014	Compliance Audit	Para 13.1
Ministry of Petroleum and Natural Gas		
6 of 2015	Performance Audit on Supply and Infrastructure Development for Natural Gas	Entire Report

21 of 2015	Compliance Audit	Paras 3.1 and 8.1 (4 companies)
13 of 2014	Compliance Audit	Paras 11.4 and 13.1
Ministry of Shipping		
13 of 2014	Compliance Audit	Para 16.3
Ministry of Steel		
21 of 2015	Compliance Audit	Para 5.4
13 of 2013	Compliance Audit	Para 14.3
Ministry of Water Resources, River Development and Ganga Rejuvenation		
21 of 2015	Compliance Audit	Para 7.1

Annexure-I
(Referred to in Para 2.4)
Statement showing loss of potential revenue from rental income from the Air India properties in Hong Kong

Property details	Vacant since	Date on which approval sought for renting out	Time assumed for renovation work	Date from which actually rented out	Period of avoidable vacancy	Period of occupancy in between	Effective avoidable vacancy period	Revenue loss @ HKD 75000 per month	Revenue loss equivalent in Indian Rupee at 1HKD=₹7.43
Woodland Heights	May 2009	November 2009	3 months (Dec 2009 - Feb 2010)	November 2012	March 2010 to October 2012 32 months	15 Feb 12 to 15 Aug 12 on ad-hoc basis 6 months	26 months	19,50,000	1,44,88,500
Villa Monte Rosa	May 2010	January 2010	3 months (May 2010 – July 2010)	November 2015	August 2010 to October 2015 63 months	Nil	63 months	47,25,000	3,51,06,750
Total								**66,75,000**	**4,95,95,250**

Although the Villa Monte Rosa was let out at a rental of HKD 88000 per month, the monthly rental of HKD 75000 has been assumed for both the properties based on the rent at which the property at Woodland Heights was let out from November 2012.

Annexure-II
(As referred to in Para 7.1.2)

Sample selection for Audit of Non-performing assets

SL. No.	Clients Name	Month of NPA	Branch	Asset Classification	NPA (₹ in Crore)
1	Ashapura Garments Ltd	Jun-15	Mumbai	Sub-Standard[1]	24.00
2	Arch Pharmalabs Ltd	Nov-13	Mumbai	Doubtful[2] -2	17.71
3	Shashi distilleries pvt ltd.	Mar-15	Bangalore	Sub-Standard	17.97
4	Innoventive Industries Ltd	Apr-14	Pune	Doubtful-1	14.26
5	Rallison Electricals Pvt Ltd	Nov-11	Delhi	Doubtful - 3	13.20
6	Neo Corp International LTD	Mar-16	Indore	Sub-Standard	13.04
7	Aegan Batteries LTD	Jan-16	Hosur	Sub-Standard	10.74
8	Ankur Drugs & Pharma Ltd.	May-11	Mumbai	Loss	8.91
9	VKS Projects Ltd	Mar-14	Mumbai	Doubtful-1	7.98
10	Arvind Remedies LTD	Apr-15	Chennai	Sub-Standard	7.61
11	Rajat PharmaChem Ltd.	Feb-09	Mumbai	Loss	7.22
12	Accord Industries	Jun-15	Ahmedabad	Sub-Standard	6.80
13	Uniword telecom Ltd.	Aug-10	Delhi	Loss	6.23
14	Varia Engineering Works PVT LTD	May-15	Ahmedabad	Sub-Standard	5.23
15	Jupiter Bioscience Ltd	Sep-11	Hyderabad	Doubtful - 3	4.95
16	Avon Organics Ltd	Mar-14	Mumbai	Doubtful-1	4.83
17	Ramalinga Fabrics Pvt Ltd	Sep-12	Coimbatore	Doubtful-2	4.07
18	Pioneer Alloy Castings Ltd	Jul-11	Chennai	Doubtful - 3	4.05
19	ICOMM Tele Ltd	Nov-12	Hyderabad	Doubtful -2	3.98
20	Bharat Logitrans Ltd.	Jan-09	Delhi	Doubtful - 3	3.85
21	DF Forgings LTD	Nov-15	Bangalore	Sub-Standard	3.63
22	Supreme Tex Mart LTD	Sep-15	Ludhiana	Sub-Standard	3.44
23	Priyadarshini Spinning Mills	May-12	Hyderabad	Doubtful - 2	3.21
24	Anus Laboratories Ltd	Nov-12	Hyderabad	Doubtful -2	2.91
25	Raagam Mines Pvt Ltd	Nov-15	Hyderabad	Sub-Standard	3.19
26	R S Electricals Ltd	Dec-15	Delhi	Sub-Standard	2.59
27	Delta Fashions Ltd.	Apr-11	Mumbai	Doubtful - 3	2.50
28	Paper Prints (I) Pvt Ltd.	Aug-09	Mumbai	Loss	2.49
29	Sri Balaji Foundries Pvt.Ltd.	Jul-08	Bangalore	Doubtful - 3	2.45
30	G S Oils Ltd	Dec-12	Hyderabad	Doubtful -2	2.44
31	Multi Flex Lami Print Ltd	Mar-14	Mumbai	Doubtful-1	2.23
32	Unibios Labarotaries Ltd	Nov-14	Mumbai	Doubtful-1	2.14

[1] An asset which has been classified as NPA for a period not exceeding 18 months

[2] An asset which remains a sub-standard asset for a period exceeding 18 months.

SL. No.	Clients Name	Month of NPA	Branch	Asset Classification	NPA (₹ in Crore)
33	Amar Remedies Ltd	Nov-13	Mumbai	Doubtful -2	2.14
34	BSPN Industries Pvt Ltd	Mar-14	Hyderabad	Sub-Standard	2.00
35	Fast Flying Fashions India (P) Ltd.	Aug-12	Coimbatore	Doubtful-2	1.93
36	Karnataka Bank/Classic Cottage International	Apr-07	Bangalore	Doubtful - 3	1.90
37	Calyx Chemicals & Pharmaceuticals Ltd	Jun-15	Mumbai	Sub-Standard	1.86
38	Mindlogicx Infratec Limited	Mar-15	Bangalore	Sub-Standard	1.65
39	Prasad Impex Pvt Ltd	Feb-16	Mumbai	Sub-Standard	2.08
40	Unijules Lifesciences Ltd	Nov-13	Mumbai	Doubtful -2	1.62
41	RJ Spinning Mills India Pvt Ltd	Oct-13	Coimbatore	Sub-Standard	1.52
42	RGC Construction (P) Ltd.	Jan-09	Hyderabad	Loss	1.50
43	Central Electricals and Electronics	Mar-16	Mumbai	Sub-Standard	1.35
44	Carline Pressings PvtLtd	Oct-12	Pune	Loss	1.21
45	S R Steels	Jun-15	Ludhiana	Sub-Standard	1.05

Annexure-III
(As referred to in Para 7.1.5)
Deviations noticed in the NPA accounts

SL. No.	CLIENT NAME	Date of Sanction	Date of last Renewal	Month of NPA	NPA Amount (₹ in crore)	Deviations noticed in the NPA accounts							
						Sanction in excess of MPBF	Sanction of limits without considering limits already availed from other factoring companies	Waiver of UTL/lack of direct communication with customers		Factoring on Allied/ related parties	Disbursement of funds in deviation to sanction terms	Non reduction of limits despite clear signs of incipient sickness	Other issues
1	Ashapura Garments Ltd	Dec-06	Apr-14	Jun-15	24.00		Yes						
2	Arch Pharmalabs Ltd	May-03	March-12	Nov-13	17.71		Yes						
3	Innoventive Industries Ltd	Sep-05	Jul-13	Apr-14	14.26	Yes	Yes					Yes	
4	Aegan Batteries LTD	Aug-14		Jan-16	10.69	Yes					Yes		
5	VKS Projects Ltd	Apr-13		Mar-14	7.98								Yes
6	Arvind Remedies LTD	Nov-07	Jul-14	Apr-15	7.61			Yes	Yes				
7	Accord Industries	Nov-11	Jan-14	Jun-15	6.80				Yes				
8	Uniword telecom Ltd.	Oct-07	Oct-08	Aug-10	OTS[3]			Yes					
9	Varia Engineering Works	Sep-14		May-15	5.08				Yes		Yes		Yes
10	Jupiter Bioscinece Ltd	Sep-06	Jul-10	Sep-11	4.24			Yes					Yes
11	Avon Organics Ltd	Sep-10	May-12	Mar-14	4.83							Yes	

[3] *Amount recovered under OTS was ₹1.60 crore against the book liability of ₹7.69 crore.*

SL. No.	CLIENT NAME	Date of Sanction	Date of last Renewal	Month of NPA	NPA Amount (₹ in crore)	Deviations noticed in the NPA accounts							
						Sanction in excess of MPBF	Sanction of limits without considering limits already availed from other factoring companies	Waiver of UTL/lack of direct communication with customers		Factoring on Allied/ related parties	Disbursement of funds in deviation to sanction terms	Non reduction of limits despite clear signs of incipient sickness	Other issues
12	Ramalinga Fabrics Pvt Ltd	Jun-11		Sep-12	4.07								Yes
13	ICOMM Tele Ltd	May-12		Nov-12	4.26			Yes					
14	DF Forgins LTD	Mar-14		Nov-15	3.63					Yes			
15	Supreme Tex Mart LTD	Feb-13	Aug-14	Sep-15	3.44	Yes							
16	Anus Laboratories Ltd	Apr-02	Mar-12	Nov-12	2.91			Yes					
17	Raagam Mines Pvt Ltd	Oct-14		Nov-15	2.87	Yes							
18	Paper Prints (I) Pvt Ltd.	Feb-08		Aug-09	2.49			Yes	Yes				
19	Sri Balaji Foundries Pvt.Ltd.	Jan-08		Aug-08	2.44				Yes				Yes
20	G S Oils Ltd	Jul-06	Oct-11	Dec-12	2.44				Yes				
21	Multi Flex Lami Print Ltd	Apr-13		Mar-14	2.41		Yes		Yes				
22	Amar Remedies Ltd	May-12		Nov-13	2.14		Yes					Yes	
23	Fast Flying Fashions India (P)	Dec-10		Aug-12	1.93	Yes							
24	Calyx Chemicals & Pharmaceuticals Ltd	Aug-02	Jul-13	Jun-15	1.70							Yes	

SL. No.	CLIENT NAME	Date of Sanction	Date of last Renewal	Month of NPA	NPA Amount (₹ in crore)	Deviations noticed in the NPA accounts							
						Sanction in excess of MPBF	Sanction of limits without considering limits already availed from other factoring companies	Waiver of UTL/lack of direct communication with customers		Factoring on Allied/ related parties	Disbursement of funds in deviation to sanction terms	Non reduction of limits despite clear signs of incipient sickness	Other issues
25	RJ Spinning Mills India Pvt Ltd	Sep-10	Nov-11	Oct-13	OTS[4]					Yes			
26	RGC Construction (P) Ltd.	Dec-05	Dec-07	Jan-09	1.50			Yes	Yes				
27	Central Electricals and Electronics	May-15		Mar-16	0.76			Yes		Yes			
28	Carline Pressings Pvt Ltd	Oct-02	Mar-12	Oct-12	1.21		Yes						
	TOTAL				**143.40**	**5**	**6**	**8**	**8**	**3**	**2**	**4**	**5**

[4] *Amount recovered under OTS was ₹1.80 crore against the book liability of ₹2.07 crore*

Annexure IV

(As referred to in Para 7.1.5.1(I))

Cases where factoring limits were sanctioned/disbursed to Clients in excess of Maximum Permissible Banking Finance (MPBF)

(₹ in Crore)

Sl. No.	Name of the Client	Type of Factoring Facility	Date of first sanction	Date of last Renewal	Date of NPA	Assessed MPBF	Working Capital Limits sanctioned/ availed	Limits actually Sanctioned	Excess Limits sanctioned beyond MPBF	FIU as on Date of NPA
1	Fast Flying Fashions	SBF	Dec 2010	Nil	Aug-2012	0.70	0.70	2.00	2.00	1.93
2	Raagam Mines Pvt Ltd	SBF	Oct-2014	Nil	Nov-2015	1.21	0.00	4.00	2.79	3.19
3	Supreme Tex Mart LTD	SBF	Feb-2013	Aug-2014	Sep-2015	180.00	183.19	5.00	5.00	3.48
4	Aegan Batteries LTD	SBF	Aug-2014	Nil	Jan-2016	29.00	29.17	10.00	10.00	11.72
5	Innoventive Industries Ltd	SBF	Sep-2005	Jul-2013	Apr-2014	300.00	450.00	15.50	15.50	14.52
				Total					**35.29**	**34.84**

Annexure V

(As referred to in Para 7.1.5.1 (II))

Cases where factoring limits were sanctioned without ascertaining the factoring limits already availed by the clients

(₹ in crore)

Sl. No.	Name of the Client	Date of fresh sanctio n	Date of last sanction/ renewal	Whether factoring already availed is known or not	Projected Turnover	MPBF as per TO method	Assessed MPBF as per CMA	Factoring limit already availed	Working Capital Limits from Banks	Total limits availed	PP Limits sanctione d by the company	Excess financing by the company	Date of NPA	FIU as on Date of NPA
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11 (9+10)**	**13**	**14**	**15**	**16**
1	Amar Remedies	May-12	No renewal	No	690.14	138.03	160.00	16.00	159.00	175.00	8.00	8.00	Nov-13	2.24
2	Multi Flex Lami Print Ltd	Apr-13	No renewal	Yes	240.90	48.18	72.00	25.00	65.61	90.61	5.00	5.00	Mar-14	2.41
3	Carline Pressings	Oct-02	Mar-12	Yes	42.28	8.46	NA	2.50	9.96	12.46	1.50	1.50	Oct-12	1.36
4	Innoventive	Sep-05	Jul-13	Yes	989.33	197.87	300.00	164.89	450.00	614.89	15.50	15.50	Apr-14	14.52
5	Ashapura Garments	Dec-06	Apr-14	Yes	800.60	160.12	201.00	28.50	199.96	228.46	23.00	23.00	Jun-15	24.00
6	Arch Pharmalabs	May-03	Mar-12	No	1484.75	296.95	NA	---	691.50	691.50	18.00	18.00	Nov-13	17.76
	Total										**71.00**	**71.00**		**62.29**

Annexure VI

(As referred to in Para 7.1.5.5)

Cases where factoring limits continued despite incipient sickness of Client

(₹ in crore)

Sl. No	Name of the Client	Type of Factoring Facility	Last PP Limit sanctioned	Date on which Incipient sickness was identified	Amount of Payments released after sickness	Date of NPA	FIU as on Date of NPA	Remarks
1	Avon Organics Ltd	PBD	5	Jul-13	4.77	Mar-2014	5.08	Working Capital Banker of the Client was classified as NPA in July 2013
2	Amar Remedies Ltd	SBF	8	Jan-13	2.97	Nov-2013	2.24	Working Capital Banker of the Client was classified as NPA in December 2012
3	Calyx Chemicals & Pharmaceuticals Ltd	PBD	2.5	Dec-13	1.84	Jun-2015	2.04	Client referred itself to CDR in January 2014 / February 2014. Canara bank informed about the irregularities in the account on 05.02.2013
4	Innoventive Industries Ltd	SBF	15.5	Sep-13	5.3	Apr-2014	14.52	Client referred itself to CDR in October 2013. Factoring was permitted despite this and amounts against factored invoices credited to Working Capital Bankers
					14.88		23.88	

Annexure VII
(Referred to in Para 11.2)
Statement showing loss of generation

Month	Possible Generation Hours (Hours)	Stoppage due to external factors (Hours)	Net Possible Generation Hours (Hours)	Possible Generation (KWH)	Possible Generation (MU)	Rate per KWH (₹ per KWH)	Loss of (₹ in crore)
(A)	(B)	(C)	(D)=(B-C)	(E)=(D*2*1000)	(F)=(E/10^6)	(G)	(H)=(E*G)
Jun-13	720.00		720.00	14,40,000.00	1.44	4.37	0.63
Jul-13	120.00		120.00	2,40,000.00	0.24	4.37	0.11
Nov-13	720.00		720.00	14,40,000.00	1.44	4.37	0.63
Dec-13	744.00	100.00	644.00	12,88,000.00	1.29	4.37	0.56
Jan-14	744.00	13.75	730.25	14,60,500.00	1.46	4.37	0.64
Feb-14	672.00	1.75	670.25	13,40,500.00	1.34	4.37	0.59
Mar-14	744.00	75.42	668.58	13,37,166.67	1.34	4.37	0.58
Apr-14	720.00	4.17	715.83	14,31,666.67	1.43	4.47	0.64
May-14	744.00		744.00	14,88,000.00	1.49	4.47	0.67
Jun-14	720.00		720.00	14,40,000.00	1.44	4.47	0.644
Jul-14	744.00		744.00	14,88,000.00	1.49	4.47	0.67
Aug-14	744.00	69.75	674.25	13,48,500.00	1.35	4.47	0.60
Sep-14	720.00	69.75	650.25	13,00,500.00	1.30	4.47	0.58
Oct-14	744.00		744.00	14,88,000.00	1.49	4.47	0.67
Nov-14	432.00		432.00	8,64,000.00	0.86	4.47	0.39
Total	10,032.00	334.58	9,697.42	193,94,833.33	19.39		8.60

Annexure VIII

(Referred to in Para 12.4.4)

Statement showing the detail of 27 stretches covering 37 projects and 23 toll plazas

Sl. no.	Name of stretch	Name of project	Name of toll plaza	State
1	Lucknow Kanpur (Km11.000 to Km 59.000)	1. EW-2 2. EW-8 3. EW-9	Nawabganj	Uttar Pradesh
2	Lucknow Ranimau (Km 8.250 to Km 70.000)	1. LMNHP-EW-II-WB-1 2. LMNHP-EW-II-WB-2	Ahmedpur, (Km53.000)	Uttar Pradesh
3	Ranimau-Faizabad (Km 70.00 to Km 135.00)	1. LMNHP-EW-II-WB-2 2. LMNHP-EW-III-WB-3	Ronahi (Km107.000)	Uttar Pradesh
4	Ayodhya- Basti (Km 135.00 to Km 190.0)	1. Package LMNHP-4 2. Package LMNHP-5	Choukadi, (Km 163.000)	Uttar Pradesh
5	Ayodhya- Basti (Km 190.00 to Km 252.86)	1.Package LMNHP-5 2.Package LMNHP-6	Mandaw Nagar (Km 198.000)	Uttar Pradesh
6	Gorakhpur Kasia (Km279.80 to Km 320.80)	1.Package LMNHP-7 2.Package LMNHP-8	Muzaina Hatim (Km 307.000)	Uttar Pradesh
7	Kasia UP Border (Km320.80 to Km366.80)	LMNHP-8	Salemgarh (Km 357.000)	Uttar Pradesh
8	Varanasi Mohania (Km 317 to Km 319, Km 319 to Km 21.000 and Km21.000 to Km 46.000)	Varanasi-Mohania	Daffi (Km 12.000)	Uttar Pradesh
9	Tundla- Makanpur	Agra Makanpur	Tundla	Uttar Pradesh
10	Jallandhar-Mukerian (Km 4.230 to Km 70.000)	1.Jallandhar- Bhogpur / 2.Bhogpur-Mukerian	Chollang (Km 34.500)	Punjab
11	Mukerian-Madhopur (Km 70.000 to Km 117.750/ Km 4.000 to Km 16.350)	1.Mukerian –Pathankot 2.Pathankot-Madhopur	Harsh Manesar (Km84.500)	Punjab
12	Madhopur-Vijaypur (Km 16.350 to Km 80.00)	1.Madhopur-Kunjwani 2.Kunjwani-Vijaypur	Rajbagh (Km43.600)	Punjab
13	Vijaypur-Jammu/Jammu bypass (Km 80.00 to Km 97.200/ Km00.000 to Km 15.000)	Vijaypur-Jammu/Jammu bypass	Thandikui (Km 88.300)	Jammu & Kashmir

14	Swaroopganj- Pindwara (Km 249.700 to Km 264.000 of NH-14 and Km 0.00 to Km57.00 of NH-76)	1.Swaroopganj- Bekaria 2.Bekaria- Gogunda	Malhera (Km11.200)	Rajasthan
15	Poindwara –Udaipur (Km 57.000 to 104.724)	1.Bekaria- Gogunda 2.Gogunda to Udaipur	Gogunda (64.200)	Rajasthan
16	Chittorgarh Bypass (Km 159.0 to Km 168.50)	Chittorgarh Bypass	Rithola	Rajasthan
17	Agra bypass	Agra bypass	No tolling as the stretch is under construction	Uttar Pradesh
18	Jhansi- Lakhnadon (Km99.05 to Km 160.000)	1.Jhansi- Lakhnadon (C-3) 2.Jhansi- Lakhnadon (C-4)	Malthone (Km142.319)	Madhya Pradesh
19	Jhansi- Lakhnadon (Km 160.0 to Km 219.49)	1. Jhansi- Lakhnadon (C4) 2. Jhansi- Lakhnadon (C5)	Mehar (Km 187.000)	Madhya Pradesh
20	Jhansi- Lakhnadon	Jhansi- Lakhnadon (C-6)	No tolling	Madhya Pradesh
21	Jhansi- Lakhnadon (Km 262.739 to Km 309.0)	Jhansi- Lakhnadon (C-7)	Titarpani (Km294.500)	Madhya Pradesh
22	Jhansi- Lakhnadon	Jhansi- Lakhnadon (C-8)	No tolling	Madhya Pradesh
23	Jhansi- Lakhnadon	Jhansi- Lakhnadon (C-9)	Khamaria	Madhya Pradesh
24	Lucknow-Bypass	Lucknow-Bypass	No toll plaza	Uttar Pradesh
25	Ashapur-Tharivan (Km 38.00 to Km 94.020)	Ashapur-Tharivan	Chittora toll plaza (Km71.000)	Uttar Pradesh
26	Etawah-Sikandra (Km 321.00 to Km 393.0)	Etawah-Sikandra	Anantram toll plaza	Uttar Pradesh
27	Udaipur-Kherwara	Udaipur-Kherwara	Paduna toll plaza	Rajasthan

Annexure – IX
(Referred in Para 12.4.5.1 (II))
Statement showing the non realisation of user fee due to delay in issue of toll fee notification

Sl. No	Name of the stretch	Name of Toll Plaza	Actual date of completion of stretch/ Scheduled date for publication of toll fee notification	Scheduled date of start of toll fee collection	Actual date of publication of toll fee notification	Delay in days	Amount of non realization of toll (₹ in crore)	Reasons
1	Lucknow Kanpur	Nawabganj	February 2006	1 April 2006	18 March 2009	35 months and 18 days	57.59	NHAI provided one file relating to the toll fee notification of the stretch starting from 2011, thus audit could not recognize the reason for delay in toll notification for 35 months and 18 days.
2	Lucknow Ranimau	Ahmedpur	Sept 2011	15 November 2011	14 December 2012	13 months	42.04	Proposal were sent four times to MoRTH and the same were returned, finally after forwarding proposal fifth time the notification was published with a delay of 24 months from date of initiation of first proposal.
3	Ayodhya-Basti	Choukadi	31 December 2011	15 February 2012	1 March 2012	15 days	1.25	Toll fee notification for the entire length of 55 km was notified on 1 March 2012 with a delay of 13 months from date of initiation of first proposal.
4	Ayodhya-Basti	Mandaw Nagar	31 December 2011	15 February 2012	6 August 2012	172 days	17.62	NHAI submitted proposals five times for publication of toll fee notification. Finally Fee notification was approved by the Minister of MoRTH on 17 November 2011. However, the same was published on 6 August 2012 with a delay of 9 months from date of approval of fee notification as the MoRTH/NHAI took nine months in preparation of

								Hindi version of fee notification. Thus, toll fee notification for the entire length of 62.86 km was notified with a delay of 18 months from date of initiation of first proposal
5	Gorakhpur Kasia	Muzaina Hatim	7 May 2012	21 June 2012	3 January 2013	196 days	13.05	Reason was non fulfillment of criteria of 60 km of distance from other toll plaza and queries raised by the MoRTH Finally toll fee notification for the entire length of 41.00 km was notified on 3 January 2013 with a delay of 13 months from date of initiation of first proposal.
6	Chittorgar h Bypass	Rithola	October 2009	15 December 2009	24 December 2009	9 days	0.79	NHAI submitted the proposal for issue of toll fee notification for toll collection at Rithola toll plaza of Chittorgarh by pass on 22.9.2009 and further replied by NHAI on 15.10.2009 on the query raised by MoRTH. Proposal was cleared by the Finance wing of MoRTH on 3.11 2009, but the file was misplaced in MoRTH. The file was recreated and cleared the same by Finance wing of MoRTH again on 26.11.2009. Minister, MoRTH approved the proposal on 30.11.2009 and published the fee notification on 24.12.2009.
7	Jhansi-Lakhnado n (C-3)/ Jhansi-Lakhnado n (C-4)	Malthone	28 March 2012	12 May 2012	21 February 2013	284 days	5.20	The main reasons for delay in issue of toll notification was delay in submitting the proposal of fee notification by Regional office, Bhopal to NHAI, Hqrs. and further delay of 134 days (19.08.2012 - 31.12.2012) for submitting the proposal to MoRTH.

8	Jhansi-Lakhnadon (C-4)/ Jhansi-Lakhnadon (C-5)	Mehar	31. October 2012	15 December 2012	21 February 2013	68 days	1.21	The proposal for fee notification was moved by RO, Bhopal on 18.08.2012 with a delay of 47 days (120-73 days (from 31.10.2012-18.08.2012)) and the fee notification was issued on 21.02.2013
9	Jhansi-Lakhnadon (C-7)	Titarpani	5 December 2009	19 January 2010	14 December 2011	693 days	8.16	The proposal for fee notification was moved by RO, Bhopal on 18 January 2011 with a delay of more then a year for which no reasons were found on record. Further it took one more year to complete/ resolve the procedural work, inter-ministerial consultation and the reservation of Ministry of Law as to whether Central Government could levy toll on a partially completed stretch 46.261 (from km 262.739 to km 309.000) as the stretch of section entrusted to NHAI was from km 131.695 to km 405.000 a length of total about 273 Km.
10	Vijaypur-Jammu/Jammu bypass	Thandikhui	August 2012	15 October 2012	27 September 2013	346 days	24.37	Due to delay in submission of the wanted information by the PIU
11	Ashapur-Thariwan (Fatehpur-Khaga)	Chittaura	24 May 2008	23. June 2008	8 February 2012	43 Months and 16 days	123.17	Fee notification was approved by Minister, MoRTH on 14 January 2011 with concurrence of Ministry of Law and Justice on 7 February 2011. However, the fee notification was not published due to amendment dated 12 January 2011 in the Fee Rules 2008. MoRTH, revised the draft fee notification in line with the amendments

								and same was approved by the Minister MoRTH on 7 April 2011. However, at this time, Ministry of Law raised objection (13.07.2011) on the issue of tolling on partially completed stretch and matter was sent back to NHAI on 22 July 2011. NHAI clarified (30 August 2011) that Fee Rule 2008 did not bind to levy fee only on completion of entire/whole length of NH. However, MoRTH approved the proposal for tolling for section from km 38.000 to km 94.020, on 24 November 2011 on the basis of new model of fee notification. Further it took one month in finalisation of Hindi version of fee notification. The fee notification of the stretch was issued on 08 February 2012.
12	Etawah-Sikandara	Anantram	12 November 2007	12 December 2007	18 March 2008	97 days	7.35	Reason for delay could not be ascertained in the absence of related records in the file.
						Total	**301.80**	

Annexure X
(Referred in Para 12.4.5.1 (III))
Statement showing delay in start of toll operation

Sl. No	Name of the Package	Name of Toll Plaza	Actual date of Completion of project/ Scheduled date for publication of toll fee Notification	Scheduled date of start of toll collection as per fee notification	Actual date of publication of toll fee notification	Actual date of start of toll collection	Delay in days	Amount non realized (₹ in crore)	Reasons
1	2	3	4	5	6	7	8	9	10
1	Lucknow Ranimau	Ahmedpur	Sept 2011	15 November 2011	14 December 2012	1 January 2013	16 days (7-6)	1.76	Due to delay in submission of performance security by the toll collecting agency.
2	Lucknow Ranimau	Ronahi	Sept 2011	15 November 2011	8 July 2011	9 October 2012	327 days (7-5)	36.48	Due to shortcomings in bidding process, bids were re-invited by NHAI.
3	Ayodhya-Basti	Choukadi	31 December 2011	15 February 2012	1 March 2012	16 October 2012	226 days (7-6)	20.52	Reasons for delay in starting of toll plaza were that no minimum basic infrastructure for toll collection was installed on toll plaza by NHAI as required in bid documents. No dividers, toll booth or barriers sign boards and electric D.G. set etc. were provided by NHAI in time.
4	Ayodhya-Basti	Mandaw Nagar	31 December 2011	15 February 2012	6 August 2012	31 October 2012	84 days (7-6)	8.82	NHAI invited the bids for appointment of user fee collecting agency on 14 November 2011 with a delay of 10 months from the date initiation of fee notification

									proposal. However, the same was cancelled as NHAI noticed shortcomings in e-auction process. NHAI re-invited the bid in April 2012 and selected M/s Surya International (P) Ltd but he refused to sign agreement. Finally through limited bidding toll was started on 31 October 2012.
5	Gorakhpur Kasia	Muzaina Hatim	7 May 2012	21 June 2012	3 January 2013	19 January 2013	14 days (7-6)	0.93	NHAI invited the bids for appointment of user fee collecting agency on 23.5.2012. Agency was selected on 26.9.2012.
6	Kasia UP Border	Salemgarh	7 May 2012	21 June 2012	22 May 2012	16 December 2012	177 days (7-5)	8.96	NHAI failed to start the toll in time due to delay in construction of toll plaza and tolling was started from 16 December 2012. Reasons for delay in construction of toll plaza was not available on record
7	Bhogpur-Mukerian	Chollang	30 January 2014	16 March 2014	27 September 2013	21 March 2014 (7-5)	4 days	0.44	OMT agency did not start the toll operation since other adjoining toll plaza could not start toll in state of J & K.
8	Kunjwani Vijaypur	Rajbagh	May 2014	15 July 2014	27 September 2013	Not started till 31 March 2015 (7-5)	259 days	21.66	OMT agency as well as NHAI did not start the toll plaza for want of State Government support even after the matter was raised at the level of Chief Secretary and Chief Minister of the state of Jammu and Kashmir. State Government wanted to merge the toll plaza with the State Government toll plaza at Lakhanpur km 16.400. However, NHAI did not accept the proposal of the State Government. NHAI failed to start toll collection even after issue of separate fee notification for this toll plaza on 4.3.2014.

9	Vijaypur-Jammu/Jammu bypass	Thendikhui	31 August 2012	15 October 2012	27 September 2013	Not started till 31 March 2015 (7-6)	549 days	40.33	Same as above
10	Chittorgarh Bypass	Rithola	31 October 2009	15 December 2009	24 December 2009	28 December 2009	3 days	0.26	NHAI submitted the proposal for issue of toll fee notification for toll collection at Rithola toll plaza of Chittorgarh bypass on 22.9.2009 and further replied by NHAI on 15.10.2009 on the query raised by MoRTH. Proposal was cleared by the Finance wing of MoRTH on 3.11.2009, but the file was misplaced in MoRTH. The file was recreated and the same was cleared by Finance wing of MoRTH again on 26.11.2009. Minister, MoRTH approved the proposal on 31.11.2009 and published the fee notification on 24.12.2009.
11	Jhansi-Lakhnadon (C-3)/ Jhansi-Lakhnadon (C-4)	Malthone	28 March 2012	12 May 2012	21 February 2013	17 April 2013	53days	0.98	Toll collection agency M/s Pratyush Shukla was awarded work of toll collection on 07.03.2013, however, due to non-submission of Bank Guarantee (BG) by the agency, NHAI selected a toll collecting agency through limited bidding and started the toll collection from 17.04.2013.
12	Jhansi-Lakhnadon (C-4)/ Jhansi-Lakhnadon (C-5)	Mehar	31 October 2012	15 December 2012	21 February2013	14 April 2013 (7-6)	50 days	0.90	Toll collection agency M/s Mahesh Chandra was awarded the work of toll collection with annual remittance of ₹9.72 crore on 07.03.2013. However, the same did not materialize due to non-submission of bank guarantee by the agency. The NHAI thereafter

									through limited bidding selected a toll collection agency and started the tolling from 14.04.2013 onwards.
13	Jhansi-Lakhnadon (C-7)	Titarpani	5 December 2009	19 January 2010	14 December 2011	4 March.2012	79 days	1.00	Competent authority approved the toll collecting agency on 23.11.2011, but Letter of Award was issued on 28.02.2012.
14	Ashapur-Thariwan	Chittaura	24 May 2008	23 June 2008	8 February 2012	14 April 2013	428 days	49.69	After failure of e-auction called vide NIT dated 14.11.2011, two new NITs were published on 02.04.2012 & 10.10.2012, to which only a single bid and zero bids, respectively, were received. NHAI selected M/s Surya International Pvt. Ltd. for toll collection from 14.04.2013 vide NIT published in December 2012.
15	Varanasi-Mohania	Daffi	12 October 2007	11 November 2007	7 September 2007	18 May 2008	187 days	12.14	NA
							Total	**204.87**	

Annexure-XI

(Referred in Para 12.4.5.5 (I))

Statement showing details of delay in remittance of toll to NHAI Headquarter Toll Account

Name of PIU	Name of the toll plaza	Number of instances for delay in deposition	Delay in days
Agra	Tundla	70	3-11
Udaipur	Rithola	2	8
	Paduna	11	4-8
Gorakhpur	Chaukadi	3	3-6
	Mandaw Nagar	12	3-7
	Muzaina Hatim	11	3-8
	Salemgarh	6	5-8
Lucknow	Nawabganj Ahemadpur Ronahi	31	3-11
Narsinghpur	Titarpani	6	3-33
Total		152	

Annexure –XII

(Referred in Para 12.4.5.5 (II) (a))

Statement showing the detail of delay in deposit of toll collection amount in Consolidated Fund of India (CFI) by NHAI

S. no.	Name of PIU/toll plaza	Name of toll plaza	Date/period of collection	Date of deposit in CFI	Amount (₹in crore)	Delay in deposit in CFI	Account from which dues adjusted
1	Jalandhar	Harsa Manesar	15.2.2013	10.10.2013	0.26	8 months	Cash deposit
2	Jalandhar	Harsa Manesar	04.02.2014 to 14.03.2014	Not available	2.23	Not available	Performance security
3	Agra	Tundla	13.3.2013	20.11.2013	1.68	8 months	--Do--
4	Lucknow	Amhadpur	May-13	Oct-13	2.97	5 months	--Do--
5	Udaipur	Paduna	Jul-14	Jan-15	5.00	7 months	yet to recover
6	Narshigpur	Titarpani	September 2012 to April 2013	12.02.2013 to 28.05.2013	1.52	5 month and 8 months.	Cash deposited in two instalments
	Total				**13.66**		